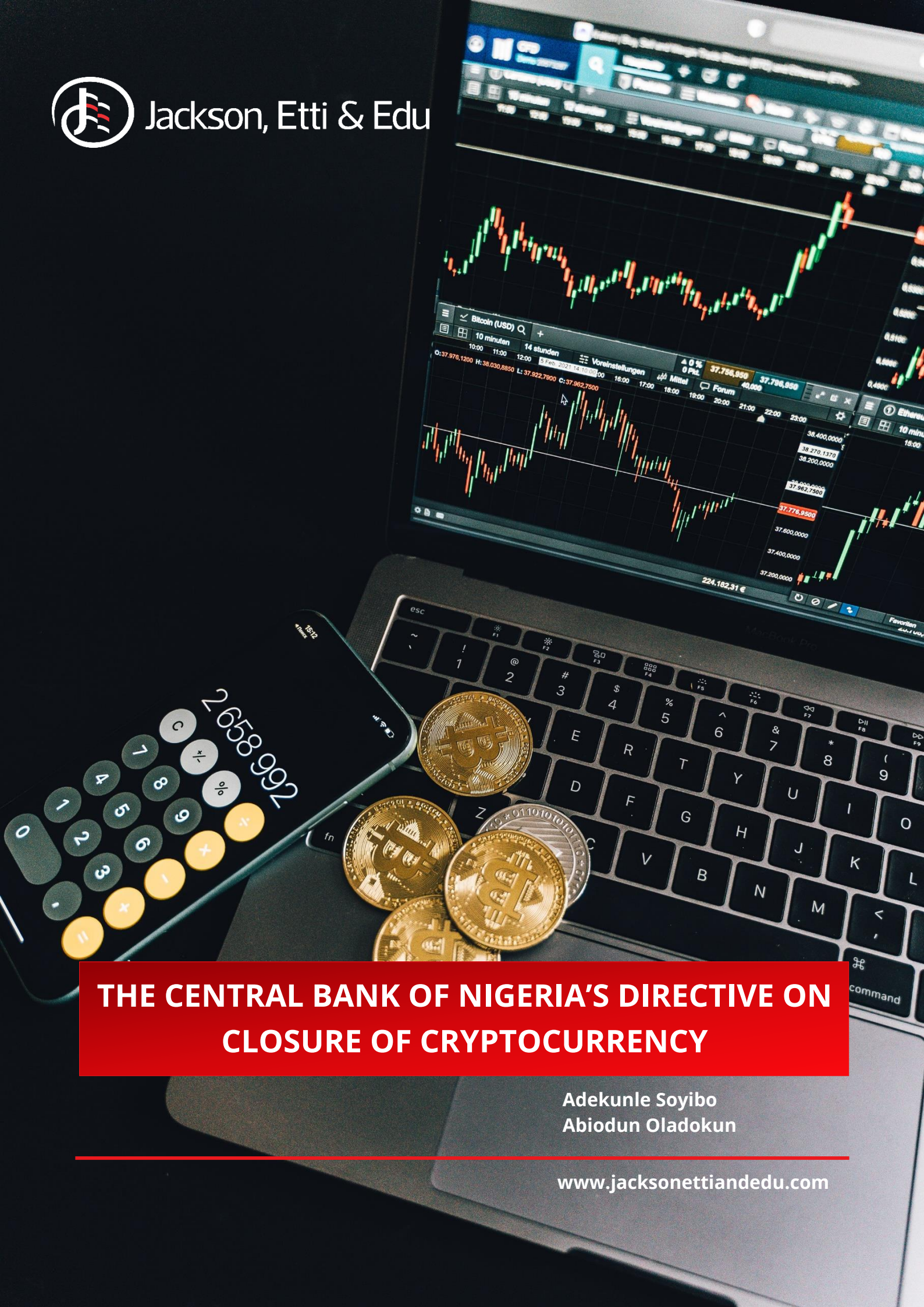




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THE CENTRAL BANK OF NIGERIA'S DIRECTIVE ON CLOSURE OF CRYPTOCURRENCY

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Introduction

The Central Bank of Nigeria has directed Deposit Money Banks, Non-bank Financial Institutions, and Other Financial Institutions to close all accounts of persons and entities operating cryptocurrency exchanges within their system. This is the third major action in the last four years undertaken by the Central Bank of Nigeria regarding transactions in virtual currencies. Despite this directive and other similar actions undertaken in various jurisdictions globally, the cryptocurrency/digital currency market remains fast growing and ubiquitous across the world, making national and regional governments grapple with their regulation.¹ The most popular cryptocurrencies are Bitcoin, Ripple, Ethereum, and Litecoin. They dominate the cryptocurrency market and are highly popular among traders and investors.² A report indicated that seventeen million bitcoins have been created with an aggregate value of \$137 Billion in 2018.³ These assets raise questions about their utilisation as a means of legal exchange, the risks of loss of investment, and the opportunity to create illegal activities like money laundering and terrorism. Therefore, warnings have been issued in various countries to caution the public that digital currencies are not legal tender and that investors risk losing their entire investment. Some countries also have expanded their anti-money laundering, counter-terrorism, and organised crime legislation to include cryptocurrency markets.⁴ In some countries, dealings in cryptocurrencies such as bitcoin have been prohibited.⁵

Nigeria is not left out of the cryptocurrency market. Several high net worth individuals have used cryptocurrency to navigate currency fluctuation and hedge their portfolio of investments. Some reports indicate that, apart from the United States, Nigeria has traded the largest volume of bitcoins worldwide, which is valued at \$566 million.⁶ Like other countries, the Central Bank of Nigeria and the Securities and Exchange Commission have also issued warnings concerning the risks related to cryptocurrencies.

¹ The Library of Congress, Global Legal Research Center, *The Regulation of Cryptocurrency Around the World* (2018) p.1

² See [Major Cryptocurrencies: Live Rates & Trading Tips \(dailyfx.com\)](https://www.dailyfx.com/major-cryptocurrencies-live-rates-trading-tips) accessed on 8.02.2021.

³ The World Bank Group, *Cryptocurrencies and Blockchain* (2018) World Bank ECA Economic Update p.25

⁴ The Library of Congress, Global Legal Research Center, *The Regulation of Cryptocurrency Around the World* (2018) p.1

⁵ Ibid p.4

⁶ See [Nigeria is No.2 bitcoin market after the US on Paxful — Quartz Africa \(qz.com\)](https://www.quartz.com/story/2018/02/01-nigeria-bitcoin-market/) accessed on 8.02.2021.



The Central Bank of Nigeria's Directive

The Central Bank of Nigeria (CBN), in its directive dated 5th February, 2021 required Deposit Money Banks (DMBs), Non-Bank Financial Institutions (NBFIs), and Other Financial Institutions (OFIs) to identify persons and/or entities transacting in or operating cryptocurrency exchanges within their system and to ensure that such accounts are closed immediately. This directive finds its roots in an earlier CBN circular **ref FPR/DIR/GEN/CIR/06/010** dated 12th January 2017 to DMBs and OFIs on virtual currency operations in Nigeria. In this initial 2017 circular, the CBN drew the attention of DMBs and OFIs to the risks associated with cryptocurrencies and required them to take the following actions pending substantive regulation and decision of the CBN: -

- (a.) ensure they do not use, hold, trade, or transact in any way in virtual currencies;
- (b.) ensure that existing customer and virtual currency exchangers have effective AML/CFT controls;
- (c.) where banks are not satisfied with the controls put in place by virtual currency exchangers/ customers, the relationship should be discontinued;
- (d.) all suspicious transactions of a customer should be reported to the Nigerian Financial Intelligence Unit.

On 28th February 2020, the CBN issued a press statement reiterating that virtual currencies are not licensed or regulated by the CBN and are not legal tender in Nigeria. The press statement also indicated that dealers or investors in any kind of cryptocurrency are not protected by law in Nigeria and that consumers may lose their investment.

Following the issuance of the CBN directive, some cryptocurrency exchange platforms in Nigeria have suspended deposit services while withdrawal services continue to be processed even though they may take a longer time to be processed. The implication of the directive is the likely increase in Peer-to-Peer (P2P) retail transactions. These would be done through Peer-to-peer exchange platforms where people can trade cryptocurrency directly on their own terms.



The Future of Cryptocurrency in Nigeria

- a. Despite the regulatory stance towards digital and virtual currencies globally, there are compelling indications that there is a future for digital and virtual currencies. A very limited number of jurisdictions have accepted cryptocurrency as a means of payment along with their national currency⁷, while some other countries are in the process of establishing national or regional cryptocurrency.⁸ The International Monetary Fund in August 2020 published a cryptocurrency explainer suggesting that cryptocurrency could “completely change the way we sell, buy, save, invest and pay our bills” and that it “could be the next step in the evolution of money”⁹. Most recently, the Nigerian Securities and Exchange Commission (SEC), in its Statement on Digital Assets and their Classification and Treatment released on 14th September 2020, made it clear that for the sake of investor’s protection, public interest, and market integrity/transparency, the SEC will begin to regulate crypto token or crypto-coin investments when the character of the investments qualifies as securities transactions. This opens an opportunity for issuance of regulated digital assets in Nigeria, and therefore stakeholders in the digital currency space and government may be encouraged to create avenues for engagement to create digital assets that will provide more transparency from a regulatory and investment perspective.

Contributors

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⁷ Ibid p.3

⁸ Ibid

⁹ Cryptocurrencies Explainer Video released via the International Monetary Fund Twitter Handle on 25th August, 2020

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