



CENTRAL BANK OF NIGERIA

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Monday, December 10, 2012

**TO: ALL LICENSED NON-INTEREST FINANCIAL INSTITUTIONS AND
DEPOSIT MONEY BANKS WITH NON-INTEREST BANKING WINDOW**

**GUIDELINES FOR THE OPERATION OF NON-INTEREST FINANCIAL
INSTRUMENTS BY THE CENTRAL BANK OF NIGERIA**

Following the take-off of operations by Non-Interest Financial Institutions (NIFIs) and Non-Interest Banking Window (NIBW) by deposit money banks (DMBs), the Central Bank of Nigeria (CBN) has introduced applicable instruments to facilitate their liquidity management and access to the CBN window.

To give effect to this development, Guidelines for the Operation of the Instruments have been formulated and hereby released for the information of and compliance by all licensed NIFIs and DMBs with NIBWs.

Thank you.

A handwritten signature in black ink, appearing to read 'E. U. Ukeje', written over a dotted line.

E. U. UKEJE

Director, Financial Markets Department



Central Bank of Nigeria

**GUIDELINES FOR THE OPERATION OF NON-
INTEREST FINANCIAL INSTITUTIONS INSTRUMENTS
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December 2012

Guidelines for the Operation of Non-Interest Financial Institutions Instruments by the Central Bank of Nigeria

1. Introduction

The licensing of Non-Interest Financial Institutions (NIFIs) by the Central Bank of Nigeria (the Bank) to complement the existing conventional banking system has, no doubt, expanded the scope and diversity of banking services in the Nigerian financial system. The aim of this development is to attend to the growing need for innovative financial services, enhancement of financial inclusion and acceleration of economic activities, growth and development. Towards realizing the full potentials of the NIFIs and non-interest bearing financial operations, the Bank has developed a number of non-interest bearing instruments to be accessed at its (CBN) window by the NIFIs in order to facilitate liquidity management and assist in effective monetary policy implementation.

Details of modalities for the application of these instruments are as outlined here below.

2. General Requirements and Terms of Operations

The following general requirements and terms of operations of the non-interest bearing instruments shall apply, in addition to the specific provisions or features of each instrument as specified therein or as may be reviewed by the Bank from time to time. Participants are, therefore, required to note the provisions in the individual instruments alongside these general requirements.

i) Participation and Eligibility

Only licensed non-interest banks (NIBs), deposit money banks with non-interest banking window and any other authorised dealer as may be approved by the CBN shall be eligible to participate in the window. Participation shall be voluntary.

ii) Request for Admission

Interested participant(s) in the non-interest bearing instruments shall apply for admission into the window. The application shall be addressed to:

*The Director, Financial Markets Department,
Central Bank of Nigeria,
Corporate Headquarters,
Central Business District,
PMB 0187,
Garki, Abuja, Federal Capital Territory*

iii) Submission of Mandate

- a) Two (2) representatives of the authorized institution shall be required to initiate and consummate transactions on behalf of the institution.
- b) The institutions shall provide the details of their representatives who have been authorized to initiate and conduct business in the instruments on their behalf. These shall include passport photograph, name, position held in the institution, specimen signature, contact telephone number and any other information that may be required from time to time by the Bank.

iv) Mode of Submission of Transaction Deals

The submission of transaction shall be in the format as prescribed by the Bank.

v) Operational Account

The operational account for participants in the non-interest bearing instruments shall be the account authorised by the Bank.

This account shall be used for the purposes of settlements.

vi) Limit of Authority

The authorized representatives of the participating institution shall have authority to initiate transactions and their actions shall be deemed as having been authorised by their Management.

vii) Charges or Fees

The Bank shall not apply any charges in the operation of these instruments, except in certain circumstances as may be determined by the Bank from time to time.

viii) Announcement

The Bank, in the course of operation of the instruments shall make appropriate announcement(s) to participating institutions through any media, which shall include, but not limited to Reuters Information System, Bloomberg, facsimile, telephone, electronic mail and circular.

ix) Exemption

The Bank shall not be responsible for, among other things, technical or any other failures that may prevent a participating institution from receiving an announcement, participating in an operation, errors or omissions arising from mandate on transaction deals, except for its own delays and/or errors or omissions.

x) Alteration in Conduct and Procedure

The Bank shall reserve the right to amend any of the provisions contained here-in in order to achieve monetary policy objectives and for the sustenance of financial stability.

xi) Suspension and Disqualification from Participation

The Bank shall reserve the discretion to suspend or disqualify any participant in the non-interest banking window when in its (the Bank's) opinion it is desirable to do so with or without any explanation.

In like manner, the Bank may re-admit a suspended or disqualified participant when in its (the Bank's) opinion it is desirable to do so with or without any explanation, and may specify certain conditions for compliance before such re-admission.

3. CBN Non-Interest Banking Window

The Non-Interest Banking Window (NIBW) at the Central Bank of Nigeria shall, in the meantime, offer the following non-interest bearing instruments and their features are stated here below.

i) CBN Safe-Custody Account (CSCA)

This instrument is based on a contract of safe-custody of funds (*Wadiyah*) between a depositing financial institution and the CBN, with the CBN as the custodian.

Features

The features are as follows:

- a) The CSCA allows participating institutions to place their surplus funds with the Bank based on the concept of safe-custody (*Wadiyah*) only.
- b) Participating institutions shall be allowed to place their funds during the working day between the hour of 3.00 pm and 3.30 pm.
- c) The tenor for the placement of surplus funds shall be on overnight, three-day and seven-day basis, subject to a roll-over on maturity for the same term, either by the participating institution or the Bank.
- d) Roll-over of the funds placed shall be deemed as mandated by the participating institution after 2.59p.m on the day of maturity, thereby, necessitating the Bank to effect the roll-over on the term initially undertaken by the participating institution.
- e) The acceptor of funds, that is, the CBN, shall act as the custodian for the funds placed or deposited by the participating institution.
- f) The Bank (or the acceptor) shall have no obligation to make or offer any return, reward or gift (*Hibah*) to the account or funds placed or deposited by the participating institution, nor shall participating institutions demand or expect any return, reward or gift on the funds placed or deposited.
- g) Where, the Bank decides to give a return, reward or gift for the funds placed or deposited by the participating institution, the Bank shall be free to exercise the discretion to do so, and on its (the Bank's) own terms.
- h) The determination of any return, reward or gift for any account or funds placed or deposited by any participating institution may include, but not limited to, an assessment of any or a combination of the following factors:
 - i) The prevailing monetary policy stance;
 - ii) The prevailing liquidity conditions in the banking system;

- iii) Market Support Committee (MSC) decisions and advisory;
- iv) The size of the funds or deposit(s),
- v) The prevailing conventional banking conditions, such as the money market indicators, and,
- vi) The alternative investment options.
- i) The giving of a return, reward or gift shall not be a stipulated condition for the contract nor shall it be a standardized custom.
- j) The giving of return, reward or gift, and, the amount will be decided by the Committee of Governors (COG) on recommendation from the Director, Financial Markets Department or his representative.

ii) **CBN Non-Interest Note (CNIN)**

This is a financial paper issued by the CBN evidencing an interest-free loan instrument between an authorised financial institution (lender) and the CBN (borrower), which entitles the authorised non-interest financial institution to raise a corresponding interest free loan from the CBN.

Features

The features are as follows:

- a) An investment in the CNIN shall evidence an interest-free loan received from an authorised financial institution, and entitles the authorised financial institution to an interest-free loan from the CBN after the maturity of the first loan.
- b) The CBN shall determine the amount (**A**) and tenor (**N**) of the first loan, and announce details of its offer to borrow to participating financial institutions.
- c) If the authorised financial institution gets a Note of value **A** and tenor **N**, it will be entitled after maturity at a period **t** to qualify for a loan of an amount **A x C** for a period **N x 1/C**, where **C** is a factor that can assume the value of 2, if the amount required is double the amount of the first loan (i.e. **2 x A**) and the period **N** will be half of the period of the first loan (i.e. **N/2**).
- d) The determination of the value of **A** and **N** shall be based on the liquidity conditions of the economy, while **t** shall not be more than 12 months.
- e) The exercise of the right to the interest-free loan from the CBN shall be limited to holders of this Note that have liquidity needs.
- f) The Note is not discountable, but transferrable at par.
- g) The minimum amount of this Note shall be N1, 000,000 with different tenors of 30, 60, 91 and 180 days.

- h) These features are without prejudice to other terms and conditions as the Bank is permitted to present on the law.

iii) CBN Non-Interest Asset Backed Securities (CNI-ABS):

This instrument involves the securitisation of CBN's holdings in International Islamic Liquidity Management (IILM) Sukuk and / or Sukuk by multilateral organisations in which Nigeria is a member.

Features

The features are as follows:

- a) This instrument shall serve to deepen the money market and serve as an investment instrument.
- b) The securities shall be denominated in naira.
- c) The securitised assets shall be dollar- or other reserve currency-denominated or as may be approved by the Management of the Bank.
- d) The tenor of the CNI-ABS will be based on the tenor of the underlying assets.
- e) The return will be based on the net returns on the underlying assets and a 10 per cent margin for the CBN.
- f) The instrument shall be tradable in the money market.
- g) The minimum investment for this instrument shall be N50, 000 and integral multiples of N1,000 in excess thereof, and subject to periodic review by the Bank from time to time.
- h) The underlying assets shall be short to medium term to avoid tenor mismatches and must also be tradable in the secondary market.

4. Governance Structure

I. Market Support Committee

There shall be a Market Support Committee (MSC) in the Financial Markets Department (FMD) to act as an advisory body for the management of non-interest bearing instruments.

The membership of the Market Support Committee shall comprise the Director Financial Markets Department as the Chair, Head of all the Offices in the Financial Markets Department and representatives of Financial Policy and Regulation (FPR), Banking Supervision Department (BSD), Consumer Protection Department (CPD), Banking and Payment System (BPS), Reserve Management Department (RED), Monetary

Policy Department (MPD), Risk Management Department (RMD) and Legal Services Department (LSD).

The MSC shall meet quarterly or as directed by the Chairman.

II. NIFI Product Development Committee

There shall be a NIFI Product Development Committee (NIFI-PDC) in the Financial Markets Department that will be responsible for the consideration, initiation and review of non-interest bearing instruments and structures for the orderly development and integration of the market segment into the mainstream financial architecture. The NIFI-PDC shall be chaired by the Director, Financial Markets Department and members drawn from the FPR, BSD, CFP, BPS, GOV, RED, MPD, DFD, RMD and LSD. The NIFI-PDC shall meet monthly or as directed by the Chairman.

Structured Liquidity Product Office (SLPO) shall serve as the Secretariat for these Committees.

***Financial Markets Department
Central Bank of Nigeria, Abuja
Monday, 10th December, 2012***