



CENTRAL BANK OF NIGERIA

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EXPOSURE DRAFT OF THE REVIEW OF THE GUIDELINES FOR THE OPERATION OF NON-INTEREST FINANCIAL INSTITUTIONS' INSTRUMENTS BY THE CENTRAL BANK OF NIGERIA

The licensing of Non-Interest Financial Institutions (NIFIs) by the Central Bank of Nigeria necessitated the creation of NIFI instruments to complement those existing in the conventional banking system. In December 2012, the Bank introduced the guidelines for three (3) liquidity management instruments. In addition, the Bank introduced guidelines for two (2) lender of last resort instruments in August 2017.

As participation by NIFIs in the instruments increased, the need arose to review the guidelines to make them more effective in addressing contemporary developments in the industry. Furthermore, during the review, the two guidelines; liquidity management and lender of last resort instruments were merged into a single document. Accordingly, the CBN hereby issues the attached draft of the reviewed "Guidelines for the Operation of Non-Interest Financial Institutions' Instruments by the Central Bank of Nigeria" for stakeholders' observations and comments. The exposure draft may be downloaded from the CBN website, www.cbn.gov.ng.

We will be pleased to receive your comments by Friday, January 8, 2021. The soft copy should be forwarded to FMD-SLPO@cbn.gov.ng.

Thank you.

Yours faithfully,

Angela A. Sere-Ejembi (PhD),
Director, Financial Markets Department



Central Bank of Nigeria

DRAFT GUIDELINES FOR THE OPERATION OF NON- INTEREST FINANCIAL INSTITUTIONS' INSTRUMENTS BY THE CENTRAL BANK OF NIGERIA

NOVEMBER 2020

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 (CBN or 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 realising 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, assist in effective monetary policy implementation and deepen the financial system.

In December 2012, the following liquidity management instruments were introduced:

1. CBN Safe Custody (Wadiah) Account (CSCA)
2. CBN Non-Interest Note (CNIN)
3. CBN Non-Interest Asset-Backed Securities (CNI-ABS)

Furthermore, in August 2017, the Bank introduced two lender of last resort instruments to be accessed at its window by NIFIs, namely:

4. Intra-day Facility (IDF)
5. Funding for Liquidity Facility (FfLF)

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 at 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 authorised 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 authorised to initiate and conduct business in the instruments on their behalf. These shall include passport photograph, name, position held in 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 authorised representatives of the participating institution shall have authority to initiate transactions and their actions shall be deemed as having been authorised by Management.

vii) Charges or Fees

The Bank shall, at its discretion, apply 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 media, which shall include but not be 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 herein 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 readmit 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 readmission.

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 stated here below:

Liquidity Management Instruments

i) CBN Safe Custody Account (CSCA)

This instrument is based on a contract of safe custody of funds (Wadiah) between a depositing financial institution and 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 (Wadiah) only.
- b. Participating institutions shall be allowed to place their funds during the working day, within a period that is in line with the CBN discount window operating hours.
- c. The tenor for the placement of surplus funds shall be on overnight, three-day and seven-day basis, subject to rollover on maturity for the same term, either by the participating institution or the Bank.
- d. Rollover of the funds placed shall be deemed as mandated by the participating institution after a time that is in line with the CBN discount window operating hours, on the day of maturity, thereby, necessitating the Bank to effect the rollover 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 be limited to, an assessment of any or 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)

CNIN is a financial paper issued by the CBN evidencing an initial interest-free loan instrument between an authorised financial institution (lender) and the CBN (borrower).

The CNIN, thus, entitles the authorised financial institution to, subsequently, raise a corresponding interest free loan from the CBN, within twelve (12) months after the maturity of the initial interest-free loan. In this subsequent transaction, the CBN becomes the lender and the authorised financial institution is the borrower.

Features

The features are as follows:

- a) (i) The CBN shall announce the amount “A” and tenor “N” of the loan to float, and any other detail(s) of the initial interest-free loan from authorised financial institutions; or
- (ii) Authorised financial institutions may approach the CBN with a proposal containing an amount and tenor for a CNIN transaction. The CBN, may at its discretion, approve or decline the proposal.
- b) If the authorised financial institution gets a Note of value “A” and tenor “N,” it will be entitled, at a period of “t” after maturity, 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” or “1.” In other words, if the amount required by the authorised financial institution in the subsequent loan is double the amount borrowed by the CBN in the initial loan, the tenor N will be half the tenor of the initial loan. Likewise, if the authorised financial institution requires the same amount borrowed by the CBN in the initial loan, the tenor N will be the same as the initial loan. For example, under a CNIN transaction, ABC Bank gives an initial 30-day interest-free loan of ₦2,000,000 to the CBN. This would, consequently, entitle ABC Bank to a ₦4,000,000 interest-free loan for 15 days or a ₦2,000,000 interest-free loan for 30 days from the CBN.

- c) The determination of the value “A” and tenor “N” of the Note shall be based on the liquidity conditions of the economy, while the period of maturity after the initial loan (t) shall not exceed 12 months.
- d) The exercise of the right to an interest-free loan from the CBN shall be limited to authorised financial institutions that have liquidity needs and meet the requirements of the Bank that may be set from time to time.
- e) The Note is not discountable, but transferrable at par.
- f) The minimum amount of this Note shall be ₦1,000,000 with different tenors of 30, 60, 90 and 180 days.
- g) The authorised financial institution is at liberty to take a reciprocal CNIN-loan from the CBN for an amount and tenor not more than it is entitled, thereby forgoing any unused amount or term.
- h) Notwithstanding the terms stated above, an investor with liquidity need may request for premature termination of its CNIN investment subject to approval of the Bank. Upon approval, the investor shall forgo any benefit that may have accrued to the original term.
- i) These features are without prejudice to other terms and conditions as the Bank is permitted to present by 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

- 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 the United States' 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, subject to change as may be approved by the Bank from time to time.
- f) The instrument shall be tradable in the money market.
- g) The minimum investment for the instrument shall be ₦1,000,000 and integral multiples of ₦1,000 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.

Lender of Last Resort Instruments

iv) Intra-day Facility (IDF)

Features:

- a) CBN to provide an Intra-day Facility for settlement on the same business day.
- b) Authorised NIFI shall provide eligible securities as collateral for the facility.
- c) The value of eligible securities shall be a minimum of 110 per cent of the value of the intra-day facility required by the NIFI. For example, if a NIFI wishes to take an

IDF of ₦10 billion, it would be required to provide eligible security collateral worth ₦11 billion (that is, ₦10 billion x 110% = ₦11 billion)

- d) The CBN shall specify acceptable collateral(s) from time to time, which shall include, but not be limited to CBN Safe Custody Account (CSCA) Deposit, CBN Non-Interest Note (CNIN), CBN Non-Interest Asset-Backed Security (CNI-ABS), Sukuk (that has received regulatory treatment by the CBN), Warehouse Receipt(s) as provided in the CBN Act 2007, and any other collateral designated by the CBN that does not contravene the CBN guidelines for NIFI's operations.
- e) The operating hours for the IDF shall be within a period that is in line with the CBN discount window operating hours.
- f) Repayment of the IDF shall be between a period that is in line with the CBN discount window operating hours, each business day.
- g) At termination, the transaction unwinds with the CBN receiving back its funding and returning the collateral securities to the NIFI.
- h) NIFIs are at liberty to request conversion of IDF to FfLF on or before a time that is in line with the CBN discount window operating hours. However, automatic conversion of IDF to FfLF by the system for lack of cash shall attract a penal rate to be determined by the MSC.”
- i) The Market Support Committee (MSC) may approve an administrative charge in relation to the facility as it deems fit (in accordance with section 4 (l) of the Guidelines for the Operation of NIFI Instruments by the CBN). The determination of the administrative charge would be based on the cost borne in providing the facility, including but not limited to:
 - i. Communication / correspondent cost;
 - ii. Printing / Stationary cost; and,

- iii. Any other direct and actual cost(s) that do not contravene the principles of non-interest banking as provided in the CBN guidelines.

v) Funding for Liquidity Facility (FfLF)

Features:

- a) CBN to provide a liquidity facility on an overnight basis only, which will be terminated on the next business day.
- b) Authorised NIFI to provide eligible securities to the CBN as collateral for the facility.
- c) The value of collateral to be a minimum of 110 per cent of the value of the facility. For example, if a NIFI wishes to take a FfLF of ₦10 billion, it would be required to provide eligible security collateral worth ₦12 billion (i.e. ₦10 billion x 110% = ₦12 billion).
- d) The CBN shall specify acceptable collateral(s) from time to time. These shall include, but not be limited to the following securities: CBN Safe Custody Account (CSCA) deposit, CBN Non-Interest Note (CNIN), CBN Non-Interest Asset-Backed Security (CNI-ABS), Sukuk (that has received regulatory treatment by the Bank), Warehouse Receipt(s) as provided in the CBN Act 2007, etc.
- e) The transaction shall be at a zero per cent interest rate.
- f) At maturity, the transaction unwinds, the CBN receives back its funding and returns the collateral to the NIFI.
- g) Where there is a failure to provide adequate funding in the account for the unwinding of the transaction at maturity, a default is hereby established and a fine of 1.50 per cent subject to change as may be approved by the Bank from time to time, on the funds so borrowed shall be charged, and paid to a charity as approved by the CBN.

- h) At default, the pledged collateral would be executed. The net value of the pledged securities would be returned to the NIFI after the loan amount and fine has been deducted.
- i) The Market Support Committee may approve administrative charges in relation to the facility as it deems fit (in accordance with Section 4 (i) of the Guidelines for the Operation of NIFI instruments by the CBN). The determination of the administrative charges may be based on the cost borne in providing the facility.
- j) The NIFI must be either in clearing and have a temporary debit balance and / or have a liquidity problem.

The opening hours for FfLF shall be within a period that is in line with the CBN discount window operating hours and, terminated on commencement of next business day.

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 in the management of non-interest-bearing instruments.

The membership of the Market Support Committee shall comprise the Director, Financial Markets Department as the Chair, Heads of all the Offices in Financial Markets Department and representatives of Financial Policy and Regulation Department (FPRD), Banking Supervision Department (BSD), Consumer Protection Department (CPD), Banking Services Department (BKSD), Payment System Management Department (PSMD), 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. Non-Interest Financial Institution Product Development Committee

There shall be a Non-Interest Financial Institution 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 of 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 FPRD, BSD, CPD, BKSD, PSMD, RED, MPD, RMD, LSD, Governors' Department and Development Finance Department.

The NIFI-PDC shall meet monthly, or as directed by the Chairman

The Structured Liquidity Product Office of FMD shall serve as the Secretariat for the MSC and NIFI-PDC.

**Financial Markets Department
Central Bank of Nigeria, Abuja
Tuesday 25 November 2020**

Glossary of Islamic finance terms

- **Hibah:** a gift or a donation.
- **Sukuk:** A shariah compliant Islamic financial certificate that is similar to a bond in conventional finance. Sukuk issuers sell a certificate to a group of investors, with a contractual promise to buy back at a future date at par value. Sukuk issuers use the funds realised from the sale of certificates to investors to purchase an asset. The group of investors have direct partial ownership interest in the asset. The issuer also makes a contractual promise to buy back the bond at a future date at par value.
- **Wa'd or Wa'ad:** a promise or an obligation issued by one party to another, where a promisor undertakes to a promise to proceed with a contract at an agreed date. Under shariah law, a promise is binding on the promisor/issuer, unless in the instance of unforeseeable circumstances that prevent fulfilment of the promise.
- **Wadiah:** translates to safekeeping, custody, deposit and trust. In Islamic finance, wadiah is a deposit of funds or assets with a non-interest bank. In many cases, non-interest banks charge a fee for safekeeping of funds.
- **Wakala:** this is an agency contract, where a principal appoints an agent to perform a specific task on its behalf.