# CENTRAL BANK OF NIGERIA

# REVISED GUIDELINES FOR FINANCE COMPANIES IN NIGERIA

APRIL 2014

## Glossary of Terms

| Acronym | Definition |
|---|---|
| ALM | Asset and Liability Management |
| BA | Banker's Acceptance |
| BOFIA | Banks and Other Financial Institutions Act |
| CAC | Corporate Affairs Commission |
| CBN | Central Bank of Nigeria |
| CEO | Chief Executive Officer |
| CP | Commercial Paper |
| CRAR | Capital to Risk Assets Ratio |
| CV | Curriculum Vitae |
| ELAN | Equipment Leasing Association of Nigeria |
| FC | Finance Company |
| FSI | Financial Services Industry |
| FHAN | Finance Houses Association of Nigeria |
| KYC | Know Your Customer |
| LPO | Local Purchase Order |
| MSME | Micro, Small and Medium Enterprises |
| NPL | Non-Performing Loans |
| OFISD | Other Financial Institutions Supervision Department |
| SHF | Shareholders' Funds |
| SME | Small and Medium Enterprises |

# Contents

# 1 Introduction

The Finance Company sub-sector was envisioned to operate within the middle tier of the financial system, with a focus on the Micro, Small and Medium Enterprises (MSMEs) segment. The sub-sector was to play complementary roles to banks, bridging financing gaps and meeting the financial needs of its target customers. However, Finance Companies have not demonstrated the necessary capability to thrive in this space which has resulted in a largely underperforming sub-sector - a situation of concern to the Central Bank of Nigeria [hereinafter referred to as "the CBN" or "the Bank"] and other key industry stakeholders.

As part of the initiatives to establish financial stability within the Financial Services Industry and the Finance Company sub-sector in particular, the CBN undertook a review of the Guidelines for Finance Companies. These Revised Guidelines are issued by the CBN in exercise of the powers conferred on it by the Central Bank of Nigeria Act of 2007 [hereinafter referred to as "the CBN Act"] and the Banks and Other Financial Institutions Act of 2004 [hereinafter referred to Act "the BOFIA"]. The Revised Guidelines are to regulate the establishment, operations and other activities of Finance Companies.

The Revised Guidelines replace the existing Guidelines for Finance Companies and should be read in conjunction with the provisions of the CBN Act, the BOFIA, as well as written directives, notices, circulars and guidelines that the CBN may issue from time to time.

# 2 Scope of Permissible Activities for Finance Companies

A Finance Company unless otherwise stated, means a company licensed to carry on Finance Company business. Finance Company Business means the business of providing financial services to individual consumers and to industrial, commercial, or agricultural enterprises.

Operators of a Finance Company shall be permitted to perform, amongst others, the following activities:

| Permissible Services | Description |
|---|---|
| • **Consumer Loans** | • This includes the provision of consumer and business loans to individuals and the Micro, Small and Medium Enterprises (MSMEs). |
| • **Funds Management** | • This entails the management of funds on behalf of customers/ clients based on agreed tenor and rate. |
| • **Asset Finance**<br>- Finance Lease<br>- Hire Purchase | • Finance lease is a lease agreement with the option of purchase by the lessee at the end of the lease period.<br>• Hire purchase involves the acquisition of goods through instalment payments over a given time frame. |
| • **Project Finance** | • The financing of infrastructure/ industrial projects via a loan structure that relies primarily on the project's cash flow for repayment.<br>• This covers the provision of finance for such projects promoted by small scale ventures, public/ private partnerships and concessions. |
| • **Local and International Trade Finance**<br>- LPO Finance<br>- Import and Export Finance | • Local trade finance/ supply finance provides contractors and vendors with the financial support to execute local purchase orders (LPOs) and work orders for their client companies.<br>• International trade finance is designed to facilitate the export and import of goods. |
| • **Debt Factoring** | • The business of purchasing debts/ receivables from clients at a discount and making a profit from their collection. |

| Permissible Services | Description |
|---|---|
| • **Debt Securitization** | • A process by which identified pools of contractual debt/ receivables are transformed into marketable securities e.g. bonds through suitable repackaging of cash-flows that they generate. |
| • **Debt Administration** | • Provision of debt/ loan restructuring services to clients facing cash flow problems. This involves the alteration of the terms of the debt agreement to restore liquidity to the client's business. |
| • **Financial Consultancy** | • Financial consultancy involves offering financial advisory services to clients for a fee and/or commission. |
| • **Loan Syndication** | • A practice in which a Finance Company in conjunction with other finance companies and/or other financial institutions each lend a specified amount of money to a borrower at the same time and for the same purpose. The entities participating in the loan syndication cooperate with each other for the duration of the project, as individual FCs may not be able to afford the huge funds involved. |
| • **Warehouse Receipt Finance** | • This involves a guarantee that a seller will deliver specified quantity and quality of a commodity to a certain warehouse for storage. |
| • **Covered Bonds** | • Covered Bonds are similar in many ways to asset-backed securities created in securitization, but covered bond assets remain on the issuer's consolidated balance sheet. |
| • **Issuing of vouchers, coupons, cards and token stamps** | • This covers services related to payments system. |

The scope of services for Finance Companies will include these and other businesses as the CBN may, from time to time, designate.

**Non-Permissible Activities**

Finance Companies shall not be permitted to carry out the following business activities:

i. Deposit Taking;

ii. Non-financial activities such as trading, construction and project management;

iii. Other financial services such as stock broking, issuing house business, registrars services, e.t.c;

iv. Foreign Exchange transactions except through their correspondent banks/ authorised dealers

Every company desiring to be licensed as a Finance Company shall be on a “stand alone” basis and thus be strictly limited to solely engaging in Finance Company business as defined above.

## 2.1 Regulation of Leasing Business in Nigeria

i. A leasing company is defined as any company or financial institution carrying on, as its principal business, the financing of physical assets supporting productive/ economic activity.

   a. “Leasing” means the business of letting or sub- letting movable property on hire for the purpose of the use of such property by the hirer or any other person in any business whatsoever and where the lessor is the owner of the property regardless of whether the letting is with or without an option to purchase the property (Banks and Other Financial Institutions Act of 2004).

   b. Finance lease is a lease involving rental payment over an obligatory period sufficient in total to amortise the capital outlay of the equipment and also give the lessor some benefits. The lessee also has the option of purchasing the leased equipment at the expiration of the lease agreement.

ii. CBN shall regulate the operations of Finance Companies that render finance and operating lease services to their clients in as much as the finance lease operations could be separated from the operating lease engagement but CBN will not regulate the operations of financial or corporate institutions which render only operating lease services.

iii. Leasing companies outside the financial system that engage in finance lease shall be expected to apply for Finance Company licence and be subjected to the prudential/ regulatory requirements for Finance Companies as defined by the CBN.

iv. A Leasing Company with a valid Finance Company licence shall not be precluded from offering other permissible services defined under the scope of operations for Finance Companies.

v. Self Regulatory Organisations such as the Finance Houses Association of Nigeria (FHAN) and the Equipment Leasing Association of Nigeria (ELAN) shall collaborate with the CBN to identify companies to be licensed and supervised.

# 3 Licensing Requirements

## 3.1 Requirements for the grant of licence

Any company seeking a licence for a Finance Company business in Nigeria shall apply in writing to the Governor of the Central Bank of Nigeria. Such application shall be accompanied by the following:

i. A non-refundable application fee of N100,000 (One hundred thousand naira only) in bank draft, payable to the Central Bank of Nigeria.

ii. *Deposit of the minimum capital of N100 million (One hundred million naira only)* in bank draft made payable to the Central Bank of Nigeria. The capital thus deposited together with the accrued interest will be released to the promoters on the grant of the final licence.

iii. Satisfactory, verifiable and acceptable evidence of payment by the proposed shareholders of the minimum capital of N100 million.

iv. Detailed business plan or feasibility study, including:
   a. The objectives and aims of the proposed Finance Company.
   b. The need for the services of the Finance Company.
   c. The special services that the Finance Company intends to provide.
   d. A five-year financial projection for the operation of the Finance Company, indicating its expected growth and profitability.
   e. The branch expansion programme [if any] within the first five (5) years.
   f. The proposed training programme for staff and management succession.
   g. Details of the assumptions upon which the financial projection has been made.
   h. The organizational structure of the Finance Company, setting out in detail, the functions and responsibilities of the top management team.
   i. The conclusions based on the assumptions made in the feasibility report.

v. A copy of the draft Memorandum and Articles of Association. The objectives of the Company as disclosed in its Memorandum and Articles of Association should agree with the services listed under the scope of permissible operations for Finance Companies.

vi. A letter of intent to subscribe to the Finance Company, signed by each subscriber.

vii. A copy of the list of proposed shareholders in tabular form, showing their business and residential addresses [not post office addresses] and the names and addresses of their bankers.

viii. Names and curriculum vitae (CV) of each of the proposed members of the Board of directors including other directorships held. The CVs must be personally signed and dated. The promoters would also be required to submit the names and curriculum vitae of the proposed management team.

ix. Thereafter, the Governor of the CBN may grant a licence to a Finance Company. The Bank may at any time vary or revoke any condition of a licence or impose additional conditions.

x. Where a licence is granted subject to additional conditions, the Finance Company shall comply with those conditions to the satisfaction of the CBN within such period as the CBN may deem appropriate in the circumstances. Any Finance Company that fails to comply with such conditions shall be guilty of an offence under BOFIA, 1991 [as amended].

xi. No proposed Finance Company shall incorporate/register its name with the Corporate Affairs Commission until a written approval has been communicated to the promoters by the CBN, a copy of which shall be presented to the Corporate Affairs Commission.

xii. Licences shall be renewed within the first quarter of each year at a non-refundable fee to be stipulated by the Bank from time to time, subject to the operations of the Finance Company being satisfactory to the Bank. Failure to renew a licence would attract severe sanctions, including revocation.

## 3.2 Other financial requirements

The other financial requirements, which may be varied whenever the Central Bank of Nigeria considers them necessary, are as follows:

| | | | |
|---|---|---|---|
| i. | Non-refundable Licensing fee | - | N250,000 |
| ii. | Non-refundable Annual Licensing Renewal fee (Payable within the first quarter of each calendar year) | - | N20,000 |
| iii. | Change of Name fee | - | N20,000 |

## 3.3 Conditions Precedent to the Commencement of Operations

i. The promoters of a Finance Company shall submit the following documents to the Central Bank of Nigeria before such Finance Company is permitted to commence operations:

   a. A copy of the shareholders' register in which the equity interest of each shareholder is properly reflected [together with the original for sighting].
   b. A copy of the share certificate issued to each shareholder.
   c. A certified true copy of Form C02 [Return of Allotments] filed with the Corporate Affairs Commission.
   d. A certified true copy of Form C07 [Particulars of Directors], and written confirmation that the Board of Directors approved by the Central Bank of Nigeria has been installed.
   e. A certified true copy of the Memorandum and Articles of Association filed with the Corporate Affairs Commission.
   f. The opening statement of affairs audited by an approved firm of accountants practising in Nigeria.
   g. A certified true copy of the certificate of incorporation of the company [together with the original for sighting purposes only].
   h. A copy each of the letters of offer and acceptance of employment by management staff and a written confirmation that the Management team approved by the Central Bank of Nigeria has been put in place.
   i. A letter of undertaking to comply with all the rules and regulations guiding the operations of Finance Companies.
   j. Evidence of registration with the Finance Company's association umbrella body.

ii. The Finance Company shall inform the Central Bank of Nigeria of the location and address of its Head Office.

iii. The Finance Company shall be informed in writing by the Central Bank of Nigeria that it may commence business after physical inspection of its premises.

iv. The Finance Company shall inform the Central Bank of Nigeria in writing of the date of commencement of business.

# 4 Sources of Funds

The sources of funds of a Finance Company shall consist of the following:

i. Shareholders' Funds

ii. Borrowings:
   a. Borrowings from members of the public
   b. Inter-corporate borrowings
   c. Borrowings from banks and other financial institutions

iii. Securities
   a. Commercial papers
   b. Debentures / investment notes

iv. SME Funds:
   a. Finance Companies can access SME funds subject to compliance with minimum prudential norms, as defined by the CBN
   b. Finance Companies may assist clients access SME funds through vehicles such as the SME Credit Guarantee Scheme, MSME Development Fund and the Nigerian Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) funds (for clients in the Agric value-chain business)
   c. In addition to the specific requirements defined for the SME funds, these funds may only be accessed for asset finance, working capital and export finance transactions

v. Foreign funding arrangements:
   a. FCs shall be allowed to raise funds from foreign investors or parties subject to CBN approval

# 5 Rendition of Returns

## 5.1 Periodic Returns (Quarterly)

In compliance with the provisions of section 58[2]b of BOFIA 25, 1991 [as amended] the following quarterly returns are to be submitted by every Finance Company:

i. Statement of Financial Position

ii. Schedule of Other Assets

iii. Schedule of Other Liabilities

iv. Statement of Profit or Loss

v. Schedule of Investments

vi. Schedule of balances held with banks

vii. Returns on Borrowings from other Finance Companies

viii. Returns on Borrowings from other financial institutions

ix. Returns on Borrowings from individuals and non-financial institutions

x. Returns on credits to other Finance Companies

xi. Returns on credits to other financial institutions

xii. Returns on credits to individuals/non-financial institutions

xiii. Returns on other credits

xiv. Returns on credits to affiliates

xv. Returns on non-performing credits

xvi. Returns on off-balance sheet engagements

xvii. Returns on non-performing other assets

xviii. Returns on credits, off-balance sheet engagements, assets and liabilities along the defined scope of services

xix. Other returns as may be specified by the Central Bank of Nigeria

All quarterly returns must reach the Director of Other Financial Institutions Supervision Department (OFISD) not later than the 14th day of the month immediately following the end of the quarter. The Managing Director/Chief Executive

Officer and the Chief Accountant [or its equivalent] of the Finance Company shall sign and attach to every return made to the Central Bank of Nigeria a declaration of authenticity of its contents.

## 5.2 Submission and publication of Audited Financial Statements

Every Finance Company shall submit its audited financial statements and the abridged version of the accounts to the Director of Other Financial Institutions Supervision Department for approval not later than four (4) months after the end of the company's financial year.

The Report on the Accounts from the External Auditors should be forwarded to the Director, Other Financial Institutions Supervision Department (OFISD) not later than three months after the end of the accounting year. After approval, the Finance Company shall publish the accounts in at least one national daily newspaper. Every published account shall disclose in detail the penalties paid as a result of the contravention of BOFIA 25, 1991 [as amended] and any policy guidelines in force during the year in question and the auditor's report shall reflect such contraventions.

Any company that fails to comply with any of the above requirements will be liable to a fine of N5,000 per day.

## 5.3 Penalties for late or false/ inaccurate returns or other information

i. For lateness in submitting a return/furnishing any information required, the penalty, shall be a fine of N5,000 for each day during which such failure occurs. Persistent failure/refusal to render returns in the prescribed form may be a ground for the revocation of a Finance Company's licence.

ii. Where the Bank considers it necessary, it may appoint a firm of qualified accountants to prepare proper books of account or render accurate returns, as the case may be, for the Finance Company concerned and the cost of preparing the account or rendering the returns shall be borne by the Finance Company.

iii. If any Director or Officer of a Finance Company fails to take all reasonable steps to ensure that proper books of accounts are kept with respect to all transactions by the company at its Head Office and/or at its branches, the Central Bank of Nigeria may impose on him a fine not exceeding N20,000. If any default in this respect is caused by the wilful act of any Director or Officer of the Finance Company, the Central Bank of Nigeria may impose on him a fine not exceeding N100,000 or cause the removal of such Director or Officer in order to protect the integrity of the financial system. In addition, the Bank may impose on the Finance Company such other penalties as are deemed appropriate.

# 6 Prudential Requirements

## 6.1 Capital Funds Adequacy

The minimum Capital/Risk Weighted Assets Ratio for each Finance Company shall be 12.5%. Furthermore, a Finance Company is expected to maintain a ratio of not more than 1:10 between its capital funds and net credits. When the above ratio falls below the prescribed level, the Finance Company may not do any or all of the following until the required ratio is restored:

i. Grant credits and make investment.

ii. Pay dividend to shareholders.

iii. Borrow from the investing public.

In addition, the Finance Company may be required to submit within a specified period, a recapitalization plan acceptable to the Central Bank of Nigeria. Failure to comply with the above may constitute a ground for the revocation of the licence of the Finance Company or such other penalties as may be deemed appropriate. Finance Companies are enjoined to ensure that their shareholders' funds do not fall below the required minimum paid-up capital.

## 6.2 Maintenance of capital funds

Transfer to Statutory Reserve from profit after tax shall be at a minimum of 15% until the Reserve Fund equals the Paid-up Capital and a minimum of 10% thereafter. The Central Bank of Nigeria may vary from time to time the proportion of net profit transferable to Statutory Reserves. No accretion shall be made to the reserve fund until:

i. All preliminary and pre-operational expenses have been written off;

ii. Adequate provision has been made for loan loss/assets deterioration;

iii. All identifiable losses have been fully provided for.

## 6.3 Payment of dividend

No dividend shall be paid until after:

i. All accumulated losses have been fully absorbed and written off.

ii. All preliminary and pre-operational expenses have been written off.

iii. Capital Adequacy ratio has been met.

iv. All matured obligations have been met.

**6.4 Limit of lending to a single borrower**

The maximum loan by a Finance Company to any person or corporate organization or maximum investment in any venture by a Finance Company shall be 20% of the Finance Company's shareholders' funds unimpaired by losses.

Any contravention will attract a penalty of N100,000 on the Finance Company and a fine of N10,000 on the directors/managers who failed to comply.

**6.5 Borrowing limits**

The minimum amount which a Finance Company can borrow from any one person, is N50,000, and shall be N2,000,000 for corporate borrowings (subject to a maximum limit for all outstanding borrowings which should not be more than 10 times the shareholders' funds unimpaired by losses). For contravention of this requirement, the Governor may impose relevant penalties on the Finance Company.

**6.6 Provision for classified assets**

Each Finance Company shall review at least once every quarter its loans and advances and other investments and make appropriate provisions for loan losses or assets deterioration in accordance with the Central Bank of Nigeria Prudential Guidelines for Licensed Banks. Every Finance Company must send to the Other Financial Institutions Supervision Department every quarter a schedule of loans/ investments showing the provisions made for losses or deterioration in the quality of the loans/investments.

**6.7 Ratio of non-performing loans to total gross loans**

The maximum ratio of non-performing loans to total gross loans for Finance Companies shall not at any point in time exceed 10%. This ratio may be reviewed by the CBN from time to time.

**6.8 Contingent items**

The concept, use and treatment of Bankers Acceptances [BAs] and Commercial Papers [CPs] as specified in Circular BSD/PA/4/97 dated 12/8/97 to banks and discount houses shall apply to Finance Companies.

### 6.9 Limit of investment in fixed assets

The maximum amount which a Finance Company can invest in fixed assets is 20% of its shareholders' funds unimpaired by losses. In the same vein, the financial assets of a Finance Company shall not be less than 75% of total assets. Also, at least 75% of income shall come from the principal activities of a Finance Company. Any contravention, will attract a penalty not exceeding N200,000 or suspension of any licence issued.

### 6.10 Revaluation of fixed assets

Prior approval of the Central Bank of Nigeria must be obtained by any Finance Company before the recognition of the revaluation surplus on fixed assets in its books, taking into consideration the following:

i. The basis of the underlying fixed assets valuations must be stated, and the valuation made by qualified professional valuers whose identity and qualifications are stated.

ii. The difference between the market and the historic values of the eligible fixed assets being revalued is to be discounted by 55%;

iii. Revaluation of fixed assets is applicable only to assets. [own premises only].

iv. The revaluation of Fixed Assets (owned premises only) is permissible within a minimum period of 5 years after the date of the purchase of the asset or the last revaluation.

### 6.11 Requirements for increase in share capital

All increases in share capital in any form must be approved by the Central Bank of Nigeria. Application in respect of this must be supported by the following:

i. Evidence of payment of stamp duty.

ii. Board Resolution authorizing the increase.

iii. Corporate Affairs Commission [CAC] registration of the increase.

iv. Form C02 showing the additional capital.

v. Share certificate issued to shareholders.

vi. Photocopy of share register showing the entries of allotment.

vii. Evidence of payment for the new allotment of shares by the shareholders [photocopies of cheques lodged should be attached]. No cash payment is allowed.

viii. Statements of accounts from banks reflecting the cheque lodged and cleared.

ix. Vouchers showing evidence of internal transfer or payment for the right issues allotted.

x. Letters to shareholders conveying allotment of shares.

xi. Any other information that may be required or stipulated by the Central Bank of Nigeria.

# 7 Risk Management

## 7.1 Enterprise Risk Management

All Finance Companies shall be required to develop an Enterprise Risk Management Framework which will serve as a guide in the identification of risks and articulation of control measures to mitigate/ eliminate the risks identified. The Enterprise Risk Management Framework should be approved by the Board of Directors and should cover the different forms of risks to which a Finance Company may be exposed. Such risks include:

i. Credit Risk;

ii. Operational Risk;

iii. Market Risk; and

iv. Compliance Risk.

A credit administration manual shall be developed as part of the Enterprise Risk Management Framework to guide the assessment and processing of loan requests. The policy should, inter alia cover loan administration, disbursement and appropriate monitoring mechanisms. The credit administration policies should be reviewed at least every three years.

## 7.2 Internal Controls

Every Finance Company shall have an Internal Audit Unit which shall ensure that the operations of the company conform with the law as well as to its internal rules and regulations. Every fraud or attempted fraud must be promptly reported to the Director, Other Financial Institutions Supervision Department. Also a quarterly report on Frauds and Forgeries affecting the company and any default in meeting any obligation to lenders or investors shall be submitted to the Director, Other Financial Institutions Supervision Department. Where no frauds/ forgeries and defaults occurred during the quarter, a Nil return shall be forwarded. The report shall be made along with the quarterly returns on assets and liabilities. Failure to comply with this requirement will attract a fine of N25,000 per quarter.

### 7.2.1 Appointment of Auditor

Every Finance Company shall appoint an auditor to be approved by the Bank whose duties shall be to make to the shareholders a report on the annual financial statements of the company and every such report shall contain true and fair statements as to the matters and such other information as may be prescribed from time to time by the Central Bank of Nigeria.

## 7.3 Basic Information on Borrowers

Finance Companies shall take reasonable steps to verify the customers' financial situation and verify that their customers maintain sound financial practices:

i. Finance Companies may request for the customer's statement of accounts and any other information to ascertain the customers' financial position.

ii. Finance Companies shall consult at least two (2) licensed credit bureaux to obtain credit information on borrowers.

iii. Finance Companies shall maintain a database of their customers and generate quarterly risk management reports to be submitted to the CBN

## 7.4 Disclosure of interest by Directors and Officers of Finance Companies

Every Director and officer of a Finance Company, who has any personal interest, whether directly or indirectly, in an advance, loan or credit facility or proposed advance, loan or credit facility from the Finance Company in which he is serving, shall promptly declare the nature of his interest to the Board of Directors of the Finance Company and the declaration shall be circulated to all the directors.

Every Director or officer of a Finance Company who holds any office or possesses any property whereby, whether directly or indirectly, duties or interests might be created in conflict with his duties or interest as a Director or Officer of the Finance Company, shall declare at a meeting of the Board of Directors of the Finance Company, the fact and the nature, character and extent of such interests. Any Director or Officer who contravenes either of these regulations shall be liable to a fine of N100,000 or removal from office.

# 8 Supervision and Compliance

The CBN shall conduct periodic on-site and off-site supervision of Finance Companies:

i. On-site supervision: Finance Companies shall be inspected comprehensively on an annual basis. Risk and compliance based supervision will be adopted in the examination of Finance Companies.

ii. Off-site supervision: Quarterly computerized off-site surveillance through the review of statutory returns filed by Finance Companies.

iii. Failure of any Finance Company to submit statutory returns after six (6) months shall lead to a revocation of its license.

# 9 Corporate Governance

## 9.1 Compliance with the provisions of the Code of Corporate Governance and the Approved Persons Regime

Finance Companies must demonstrate compliance with the CBN Code of Corporate Governance and show evidence of a competent, independent, unimpaired and uncompromised Board as stipulated in:

i. The CBN Prudential Guidelines for Licensed Banks (2010) – Section 4 (Corporate Governance); and

ii. The CBN Circular on Approved Persons' Regime for Financial Institutions (2011).

Finance Companies shall be required to disclose the following information on its public website, in its annual and periodic reports, and in returns to the CBN:

i. Process for ensuring the integrity of its financial and non-financial reports.

ii. Policy for handling related-party transactions.

iii. Process for nominating board members and key executives.

iv. Capacity building/ trainings conducted for Directors.

v. Policy for ensuring that the audit committee possesses skills and expert knowledge in modern financial reporting, accounting and auditing.

vi. Policy on potential conflicts of interest.

vii. Policy on internal lending to officers, employees directors or controlling shareholders.

The Chairman and the Chief Executive Officer shall attest to the corporate governance report on behalf of the board.

## 9.2 Structure of the Board of Directors of Finance Companies

The structure of the Board of Directors of Finance Companies shall be as follows:

i. The Board shall have a minimum of five and maximum of nine directors, with more than fifty percent of the board of directors comprising of non-executive directors.

ii. The Board shall have a minimum of one (1) and a maximum of two (2) independent directors.

iii. The maximum tenure of two terms of four (4) years each for independent directors.

iv. The tenure of the CEO and directors of Finance Companies shall be limited to a maximum of two (2) terms of five (5) years each. However, the CBN recognises the need for proper transition and shall define proper transition guidelines and timelines for implementation.

v. The Board shall lay down a code of conduct for all Board members and senior management staff.

vi. All Board members and senior management personnel shall affirm compliance with the code on an annual basis.

vii. To qualify for the position of a director in a Finance Company, it is required that the person(s) must not be current employees or directors of banks or other financial institutions, except the Finance Company is promoted by the banks or other financial institutions and are representing the interest of such institutions.

viii. However, in circumstances where current directors or employees of banks or other financial institutions are proposed for the position of director, the consent of their employers must be given in writing to the CBN.

ix. The appointment of new directors must be preceded by CBN's approval.

## 9.3 Management requirements

The following minimum qualifications and experience are mandatory for officers who may occupy the top management positions in the Finance Company:

i. Managing Director/Chief Executive:

a. A minimum of first degree or its equivalent in any discipline (additional qualification in any business related discipline may be an advantage); and

b. A minimum of 8 years post-qualification experience out of which, at least, 5 must have been in the financial services industry and at least, 3 at the senior management level.

ii. Departmental Head:

a. A minimum of first degree or its equivalent in any discipline (additional qualification in any business related discipline may be an advantage); and

b. A minimum of 5 years post-qualification experience out of which, at least, 4 must have been in the financial services industry and at least, 2 at the senior management level.

iii. Support staff - shall be qualified and be of proven ability.

iv. A person with any other qualifications or experience that may be considered adequate by the Central Bank of Nigeria can hold any of positions [i], [ii] and [iii] above within the organization.

## 9.4 Appointment or replacement of Principal Officers

The appointment or replacement of the Chief Executive Officer or any of the Principal Officers of any Finance Company must be cleared with the Central Bank of Nigeria before such appointments are made. Where the turnover of principal and senior officers is considered to be unduly high or where the reason for leaving by an officer suggests an attempt to cover up a fraud or other illegal activity, or punish the officer for attempting to prevent illegal activities, the Central Bank of Nigeria shall cause an investigation to be conducted into the matter and other affairs of the Finance Company as may be considered necessary. The report of such investigation or special examination shall determine the penalty to be imposed on the Finance Company concerned.

# 10 Other Regulatory Requirements

## 10.1 Opening/ closing of branches of Finance Companies

Prior approval of the Central Bank of Nigeria is required for the opening and closing of branches. If in contravention, the Finance Company shall be made to pay a fine not exceeding N200,000 and the closing/reopening of the branch as the case may be and in addition, a fine of N10,000 for each day during which the offence continues.

## 10.2 Restructuring and Reorganization of Finance Companies

Except with the prior consent of the Governor, no Finance Company shall enter into an agreement or arrangement:

i. which results in a change in the control of the Finance Company;

ii. for the sale, disposal or transfer of the whole or any part of the business of the Finance Company;

iii. for the amalgamation or merger of the Finance Company with any other company.

iv. for the reconstruction of the Finance Company;

v. to employ a management agent or to transfer its business to any such agent.

## 10.3 Schemes of Arrangement

No Finance Company shall enter into any “Scheme of Arrangement” with its creditors/ investors without obtaining the prior approval of the Central Bank of Nigeria. Any Finance Company that is unable to meet its obligations to its creditors or investors must submit its proposals to restore liquidity or viability and for eventual settlement of its outstanding obligations to the Director, Other Financial Institutions Supervision Department for consideration and approval. Failure to comply with this will attract a penalty of N2,500 for each day during which the contravention exists.

## 10.4 Display of Licence

A copy of a Finance Company’s licence shall be displayed in a conspicuous position at its Head Office as well as in the branches. In contravention, the Finance Company shall be penalized in line with Section 60[i] of BOFIA as amended.

## 10.5 Display of Interest Rates

Every Finance Company shall display on a daily basis in a conspicuous place at its Head Office and branches, its rates of interest. Interest rates shall be quoted on a monthly basis.

## 10.6 Conditions for revocation of Licence

The grounds for revoking a licence granted to a Finance Company may be any or all of the following:

i. Submission of false information/data during and/or after the processing of the application for licence.

ii. Engaging in functions/ activities outside the scope of its licence as specified in Section 1 of these Revised Guidelines.

iii. Persistent failure to comply with request for information/data in the form required/ specified by Central Bank of Nigeria.

iv. Engaging in activities prejudicial to the Nigerian economy.

v. Failure to redeem matured obligations to customers.

vi. Unauthorized shop closure.

vii. Failure to comply with any directive issued by Central Bank of Nigeria.

viii. Failure to renew operating licence within the stipulated period.

ix. Any other act[s] which in the opinion of Central Bank of Nigeria constitute[s] a violation or a serious default.

## 10.7 Know Your Customer (KYC) and Anti-Money Laundering Measures

All Finance Companies shall be required to comply with the principles and procedures of "Know Your Customer" and other relevant circulars and guidelines as issued by the CBN. Finance Companies shall also be required to comply with the Anti-money Laundering and Counter-Financing of Terrorism Act and relevant circulars as issued by the CBN.

i. Finance Companies shall define KYC policies incorporating the following key elements of:

   a. Customer Acceptance Policy
   b. Customer Identification Procedures
   c. Risk profiling and transaction monitoring data

ii. Finance Companies shall submit KYC returns to the CBN on a quarterly basis.

## 10.8 Other prohibitions

In addition to other non-permissible activities, no Finance Company shall:

i. Give any credit facility or enter into any other transaction against the security of its own shares or the shares of its holding company;

ii. Pay any dividend on its shares without Central Bank of Nigeria's prior approval in writing;

iii. Engage in any business other than those for which it was licensed;

iv. Remit either in whole or in part the debts owed to it by its directors/officers or waive interest thereon without the prior approval of the Central Bank of Nigeria, in writing.

## 10.9 Competition, consumer protection and operational rules

Finance Companies shall be required to have a Code of ethical conduct, which shall:

i. Establish standards for the appropriate treatment of customers to promote transparent pricing;

ii. Establish guidelines for ethical staff behaviour, mechanisms for redress of grievances and measures to ensure the privacy of client data; and

iii. To ensure the protection of customers, aggrieved parties shall complain to the Consumer and Financial Protection Department of the CBN for adequate issues handling/ resolution.

# 11 Industry Support Initiatives

## 11.1 Access to SME Funds

i. Finance Companies shall be permitted to participate in accessing and disbursing funds to SMEs via the relevant vehicles/ intervention funds set up by the CBN, Government or other relevant bodies/ agencies e.g. SME Credit Guarantee Scheme, MSME Development Fund, and the Nigerian Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) funds e.t.c.

ii. To help SMEs access these intervention funds, Finance Companies need to build capacity to assist SMEs through financial consultancy to enable the customers meet the required criteria set by the managing agent(s) for such funds.

iii. Finance Companies shall serve as intermediaries to the fund and may assist with monitoring and collection.

## 11.2 Capacity Building Programmes

i. The CBN shall continue to provide support towards capacity building in the Finance Company sub-sector.

   a. A report shall be prepared and submitted to the CBN on an annual basis, detailing the utilisation of funds provided by the CBN to support capacity building within the Finance Company sub-sector.

   b. Finance Companies shall have annual budgets for staff capacity building as part of their yearly budgets.

   c. Implementation of the capacity building budget shall be monitored by the CBN on a periodic basis.

# 12 Transitional Provisions

The deadline for compliance with the provisions of the Revised Guidelines shall be 30th September 2015. The list of valid licences shall be published by the Central Bank of Nigeria from time to time.

**PENALTIES FOR VARIOUS OFFENCES**

| S/N | OFFENCES | PENALTIES |
|---|---|---|
| 1 | Operating without a valid licence | Outright closure of the institution and prosecution of the individuals behind the institution. |
| 2 | Engaging in activities outside the approved business. | A fine of N10,000 for each day of the default with a maximum of N1 million .In addition , the institution should forfeit the estimated profit |
| 3 | Failure to attain the prescribed minimum paid-up share capital within the time allowed | Revocation of licence |
| 4 | Failure to obtain the approval of the CBN for the appointment of new Directors and top management staff | A fine of N20,000 payable, by the institution, for each of the Directors or top management staff so appointed. In addition, the appointee should cease to function in that position. |
| 5 | Late rendition of prudential returns | A fine of N5,000 for each day of the default |
| 6 | Late submission of audited annual accounts | A fine of N5,000 for each day during which default occurs |
| 7 | Non-submission of audited annual accounts to CBN after 12 months of end year | A fine of N1,500,000 for the accounting year concerned. |
| 8 | Submission of false/Inaccurate information to the CBN/NDIC | For the Institution, a fine of N500,000. For individuals, a fine not exceeding N100,000. All the Officers involved should be sanctioned |
| 9 | Non-rendition of regulatory returns for more than 6 quarters consecutively | Revocation of licence. |
| 10 | Failure to publish annual accounts. | A fine of N100,000 for non publication and thereafter published in a newspaper |
| 11 | Failure to disclose contraventions and penalties in the audited annual accounts | A fine of N100,000 for non-disclosure and thereafter publish in a newspaper disclosing the contraventions |
| 12 | Failure to maintain proper books of accounts and records. | A fine of N50,000 for each Director andN20,000 each for the officers involved |
| 13 | Failure to provide any information required by the CBN in the prescribed manner | In the case of the institution, a fine not more than N100,000.<br>In the case of individuals, a fine not more than N50,000 in addition to other disciplinary action deemed necessary by the CBN |
| 14 | Failure to report dismissed staff to the CBN/NDIC | A fine of N25,000 payable by the institution. |
| 15 | Failure to report fraud and forgeries to CBN/NDIC. | A fine of N100,000 payable by the institution. |
| 16 | (a)Opening of branch without | A fine of N 200,000 and the closure of such branch |

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| | the approval of the CBN.<br>(b) Closing of branch without the approval of the CBN. | A fine of N200,000 and in addition the branch should be re-opened |
| 17 | Investment of more than 20% of shareholders' fund in fixed assets | A fine not exceeding N200,000 in addition to an immediate injection of funds by the shareholders to reduce the percentage of investment in fixed assets to a maximum 20%. |
| 18 | Revaluation of fixed assets without CBN approval. | Reversal to the previous value and letter of warning. |
| 19 | Change in ownership, take over or amalgamation without CBN approval. | A fine of not less than N500,000. |
| 20 | Contravention of the single obligor limit without CBN approval | A fine of not less than N100,000 for the institution and a fine of N10,000 for the approving officer |
| 21 | Failure to pay annual licence renewal fees within 12 months | Revocation of licence |
| 22 | Late payment of annual licence renewal fees | A fine of 25% of the renewal fee. |
| 23 | Change of name without the approval of the CBN. | A fine of N100,000 and an immediate reversal to the formal name. |
| 24 | Non-display of operating licence and the interest rate in a conspicuous location in the Head-Office/Branches/Cash centres | A fine of N20,000 and the immediate display of the licence/interest rate. |
| 25 | (i) Persistent failure/refusal to render the required returns in the<br>prescribed form for a period of twelvemonths.<br>(ii) Persistent failure to comply with any other requirement of the monetary policy guidelines, provisions of the Banks and Other financial Institutions Act (BOFIA) 1991 as amended, as well as other circulars issued by the CBN for a period of twelve months.<br>(iii) Engaging in activities prejudicial to the Nigerian economy.<br>(iv) Any other act which in the opinion<br>of the CBN constitutes a | Revocation of licence.<br>Revocation of licence<br>Revocation of licence<br>Revocation of licence |

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| | serious offence. | |
| 26 | Failure to convene a special meeting of the Board of Directors for the presentation of an Examination Report within four weeks and failure to convey the reaction of the Directors to the CBN within two weeks of the presentation | A fine of N25,000 for each week during which the offence continues. |
| 27 | Failure to implement the recommendations contained in the examination report | A fine of N1000 for each day of the default |
| 28 | Change of External Auditors without the approval of the CBN | A warning letter to the Board. In addition the External Auditor should be re-instated |
| 29 | Failure to report Director related credits to the CBN/NDIC | A fine of N50,000 |
| 30 | Granting unsecured credits aboveN100,000 | A fine of N10,000 and in addition the approving officers should be sanctioned |
| 31 | Failure by Directors to complete the code of conduct forms | Removal of the Director from Office |
| 32 | Non-compliance with the code of conduct by the Directors | Removal of the Director from Office |
| 33 | Holding AGM without approved accounts | A fine of N500,000. |
| 34 | Failure to service credit facility granted to Directors and their relations | A fine of N10,000 for the Director, repayment of the facility plus the accrued interest and suspension of the Director from the membership of the Board until the payment is finally redeemed |