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**TO: ALL LICENSED NON-INTEREST BANKS AND DEPOSIT MONEY BANKS
WITH NON-INTEREST BANKING WINDOWS**

**REVISED GUIDELINES FOR THE OPERATION OF NON-INTEREST FINANCIAL
INSTITUTIONS' INSTRUMENTS BY THE CENTRAL BANK OF NIGERIA, 2022**

The licensing of non-interest banks (NIBs) and non-interest banking windows (NIBWs) of deposit money banks (DMBs) by the Central Bank of Nigeria (CBN) necessitated the formulation of non-interest financial instruments to complement those in the conventional banking system. Thus in December 2012 and August 2017, the CBN issued circulars:

- a. Guidelines for the Operation of Non-Interest Financial Instruments by the Central Bank of Nigeria; and
- b. Introduction of Two New Instruments – “Funding for Liquidity Facility” and “Intra-Day Facility” for Non-Interest Banks

In view of contemporary developments and policy review, a revised guideline is hereby attached: “Revised Guidelines for the Operation of Non-Interest Financial Institutions’ Instruments by the Central Bank of Nigeria, 2022,” to replace the above stated Circulars and Guidelines, henceforth. Consequently, all non-interest banks and other relevant stakeholders are required to note and comply accordingly.

Thank you.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Angela Sere-Ejembi'.

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



Central Bank of Nigeria

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

JUNE 2022

Revised 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 and financial inclusion 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 developed a number of non-interest bearing instruments to be accessed at its (CBN) window by authorised NIFIs in order to facilitate liquidity management, assist in effective monetary policy implementation and deepen the financial system.

In December 2012, 3 liquidity management instruments were introduced via the *Guidelines for the Operation of Non-Interest Financial Institutions' Instruments by the Central Bank of Nigeria*, a 4th is hereby introduced in the Revised Guidelines

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

Furthermore, while in August 2017 we introduced two lender of last resort instruments to be accessed at our window by NIFIs via a Circular on *(Introduction of Two New Instruments – “Funding for Liquidity Facility” and “Intra-Day Facility” for Non-Interest Banks)*, namely:

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

As part of efforts to streamline while responding to contemporary developments in the market, industry trends, and stakeholder views, in addition to enhancing accessibility, we undertook a review of the existing 2012 Guidelines and 2017 Circular, and in the process, merged all five instruments into one document, and also introduced a sixth instrument. These Revised Guidelines are issued by the CBN pursuant to the provisions of the Central Bank of Nigeria Act, 2007 (CBN Act) and the Banks and Other Financial Institutions Act, 2020 (BOFIA) as updated, revised and replaced from time to time. The Revised Guidelines shall provide a uniform set of rules for authorised financial institutions in accessing the non-interest financial instruments offered by the CBN.

The Revised Guidelines replace the existing *Guidelines for the Operation of Non-Interest Financial Institutions' Instruments by the Central Bank of Nigeria* of 2012 and the *Introduction of Two New Instruments – “Funding for Liquidity Facility” and “Intra-Day Facility” for Non-Interest Banks* Circular of 2017. The Revised Guidelines should be read in conjunction with the provisions of the CBN Act, BOFIA, as well as written directives, notices, circulars and guidelines that the CBN may issue from time to time. Any part of these Guidelines and its Appendices may, from time to time, be varied, added upon or revoked at the discretion of the CBN.

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:

1) Participation and Eligibility

Only licensed Non-Interest Banks (NIBs), Deposit Money Banks (DMBs) 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) Any two (2) authorised representatives of the institution shall be required to initiate and consummate transactions on behalf of the institution.
- b) The approved 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 each transaction shall be in the format as prescribed by the Bank, which includes, but not limited to, letters, e-mails, Real Time Gross Settlement (RTGS), and Scripless Securities Settlement System (S4).

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 of their respective institutions.

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, 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 right and or 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.

XII) Dispute Resolution

Any dispute that arises out of the operations and / or implementation of these Guidelines shall be referred to the Director, Financial Markets Department within 48 hours of the occurrence of the dispute for consideration and resolution. The Director shall initiate a resolution of the matter within 72 hours of receipt of communication and the decision communicated to the concerned party(ies), accordingly.

3. CBN Non-Interest Financial Instruments

The Non-Interest Financial Instruments at the Central Bank of Nigeria shall comprise the following, subject to review by the Bank from time to time:

3.1 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

- 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, between the hour of 9:00am and 6:30pm.
- C. The tenor for the placement of surplus funds shall be on overnight, 3-day and 7-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 being mandated by the participating institution after 2:59pm on the day of maturity, thereby, necessitating the Bank to effect the rollover on the same term(s) 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 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

- A. 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.
- B. If the authorised financial institution gets a Note of value “A” and tenor “N,” it will be entitled, within a period “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 “1” or “2.” 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 in 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 as set from time to time.
- E. The Note is not discountable, but transferrable at par.
- F. The minimum amount of this Note shall be ₦100,000,000, and the unit value shall be ₦1,000,000 with different tenors of 30, 60, 90 180 and 360 days.

- G. Notwithstanding the terms stated above, an investor with liquidity needs may request for premature termination of its CNIN investment, subject to approval by the Bank. Upon approval, the investor shall forgo any benefit that may have accrued to the original terms.
- H. 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 Sukuk and any other NIFI instrument(s) and asset(s) issued by multilateral organisations in which Nigeria is a member.

Features

- A. This instrument shall serve to deepen the money market.
- B. The securities shall be denominated in naira.
- C. The securitised asset(s) shall be denominated in the United States' Dollar, or any other reserve currency as may be approved and invested in by the Bank.
- D. The tenor of the CNI-ABS shall be based on the tenor of the underlying asset(s).
- E. The return on this instrument shall be net of the agency fee charged by the CBN as may be determined 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 ₦100,000,000 and integral multiples of ₦1,000,000 in excess thereof and subject to periodic review by the Bank.
- H. The instrument shall be tradable in the secondary market.

IV) The CBN Non-Interest Special Bills

CBN Non-Interest Special Bills (CNI-SB) shall be considered an interest-free loan drawn from the Cash Reserve Requirement (CRR) account of the eligible authorised financial institution (lender) by the CBN (borrower). In order to conform with the principles of non-interest banking, it entitles the lender to subsequently borrow 10 per cent of the matured bill, within 30 days after the maturity of the instrument for a period equivalent to one-third (1/3) of the original tenor.

Features

- A. Tenor to be determined by the CBN.
- B. Issued and redeemed at par.
- C. Transferrable only at par amongst non-interest banks, conventional banks with non-interest windows and non-interest model non-bank financial institutions.
- D. Allows holders to access the CBN non-interest window within 30 days after the maturity of the instrument, subject to established liquidity needs from the maturity day to the request day.
- E. Entitles the holder access to an interest-free loan of 10 per cent of the face value of the matured instrument for a period equivalent to 1/3 of the original tenor.
- F. Shall not be eligible for CBN discount window operations.
- G. Qualifies as a liquid asset in the computation of liquidity ratio.

3.2 Lender of Last Resort Instruments

I) Intra-day Facility (IDF)

Intra-day Facility provides for liquidity shortfalls within stipulated periods during the business day and the avoidance of gridlocks on the settlement system.

Features:

- A. CBN to provide an Intra-day Facility for settlement on the same business day.

- B. Authorised financial institution shall provide eligible securities as collateral for the facility.
- C. The value of collateral to be a minimum of 120 per cent, but subject to the tenor of pledged securities and the associated haircut(s) as may be revised or approved by the Bank from time to time.
- 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 between 9:00am and 5:00pm.
- F. Repayment of the IDF shall be between the hours of 9:00am and 6:30pm, each business day.
- G. At termination, the transaction unwinds with the CBN receiving back its funding and returning the collateral securities to the authorised financial institution.
- H. Authorised financial institutions are at liberty to request conversion of IDF to Funding for Liquidity Facility (FfLF) on or before the expiration of the operating hours for the IDF. However, automatic conversion of IDF to FfLF by the system for lack of cash shall attract a penal rate as may be prescribed by the Bank from time to time.
- I. The transaction shall be interest-free.

II) Funding for Liquidity Facility (FfLF)

Funding for Liquidity Facility is an overnight facility available to authorised financial institutions, to bridge short-term liquidity gaps.

Features:

- A. CBN to provide a liquidity facility on an overnight basis only, which will be terminated on the next business day.
- B. Authorised financial institution to provide eligible securities to the CBN as collateral for the facility.
- C. The value of collateral to be a minimum of 120 per cent, but subject to the tenor of pledged securities and the associated haircut(s) as may be revised or approved by the Bank from time to time.
- 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 opening hours for FfLF shall be between 5:00pm to 6:30pm, and terminated on commencement of next business day.
- F. At maturity, the transaction unwinds, the CBN receives back its funding latest 6:30pm, and returns the collateral to the authorised financial institution.
- 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 collateral execution will be applied.
- H. At default, the pledged collateral would be executed. The net value of the pledged securities would be returned to the authorised financial institution after the loan amount and fine has been deducted.
- I. The Bank shall apply a discretionary charge or fee in line with its monetary policy direction.

4. Governance Structure

I. 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 Financial Policy and Regulations Department (FPRD), Banking Supervision Department (BSD), Consumer Protection Department (CPD), Banking Services Department (BKSD), Payments System Management Department (PSMD), Reserve Management Department (RED), Monetary Policy Department (MPD), Risk Management Department (RMD), Legal Services Department (LSD), Governors' Department and Development Finance Department. The Structured Liquidity Product Office of FMD shall serve as the Secretariat for the NIFI-PDC.

The NIFI-PDC shall meet at least once a quarter, with additional meetings at the discretion of the Chairman.

II. 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 FPRD, BSD, CPD, BKSD, PSMD, RED,

MPD, RMD and LSD. The Structured Liquidity Product Office of FMD shall serve as the Secretariat for the MSC.

The MSC shall meet at least once a quarter, with additional meetings at the discretion of the Chairman.

Appendix I: Glossary of terms

- **Hibah:** a gift or a donation.
- **Sukuk:** often referred to as a bond compliant with non-interest principles, is a certificate or note which evidences ownership interest in an asset.
- **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 non-interest principles, 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 non-interest 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.

**Financial Markets Department
Central Bank of Nigeria, Abuja
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