

CBN SCOPE, CONDITIONS & MINIMUM STANDARDS FOR
MERCHANT BANKS REGULATIONS No. 02, 2010



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CBN SCOPE, CONDITIONS & MINIMUM STANDARDS FOR
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Following the recent repeal of the Universal Banking Guidelines, and the imminent exchange of Universal Banking Licences by banks for licenses permissible under the *Banks and Other Financial Institutions Act Cap. B3 Laws of the Federation of Nigeria 2004*, the Central Bank of Nigeria in pursuance of one of its objects to promote a sound financial system in Nigeria has deemed it necessary to expound upon licensing conditions for Merchant Banks, with the aim of providing clarity to the market on the terms on which merchant banking business may be conducted.

Introduction

In exercise of its powers under *Section 57(1) Banks and Other Financial Institutions Act Cap. B3 Laws of the Federation of Nigeria 2004*, and other enabling powers in that regard, the Governor of the CBN hereby issues the following guidelines with respect to the grant of licenses, authorisations and scope of operations for Merchant Banks.

Part 1 – Commencement

- 1 These Regulations shall come into force on 4th October, 2010.

Commencement

Part 2 – Licensing of Merchant Banks

- 2 As from the date hereof a merchant banking licence may be issued by the Governor upon such terms and conditions authorising the operation of a Merchant Bank, as may be specified from time to time.

*Application for
Merchant
Banking License*

3 A merchant banking license shall confer on the licensee, the authority to undertake the following banking business activities and no other:

*Permitted
Activities for
Merchant
Banks*

- a) Take deposits from any natural or legal person, in an amount not below the sum of [One Hundred Million Naira] [~~N~~100,000,000.00] per tranche, or such other minimum amount as may be prescribed by the CBN from time to time;
- b) Provide finance and credit facilities to non-retail customers;
- c) Deal in foreign exchange and provide foreign exchange services, subject to the requirements of the *Foreign Exchange (Monitoring & Miscellaneous Provisions, etc) Act Cap. F35 Laws of the Federation of Nigeria 2004, or any other laws__and* CBN Regulations made pursuant thereto;
- d) Act as issuing house, or otherwise manage, arrange or coordinate the issuance of securities, for or on behalf of any person, subject to the provisions of BOFIA;
- e) provide underwriting services with respect to equity issuance of securities, subject to the provisions of BOFIA, and prior notification in writing to the CBN;
- f) Provide treasury management services including the provision of money market, fixed income, and foreign exchange investment on behalf of clients;
- g) Provide financial, consultancy and advisory services relating to corporate and investment matters, for a fee;
- h) Provide asset management services, including fund and portfolio management services, act as a dealer of

securities for its own account, and for the account of its clients, or otherwise make or manage investments on behalf of clients;

- i) Engage in proprietary trading, such as investing in debt instruments of any person and investing in equity or hybrid-equity instruments, subject to the provisions of BOFIA and such rules, regulations, circulars and guidelines that may be prescribed by the CBN from time to time;
- j) engage in the trading of fixed income securities, where duly licensed to act as a Primary Dealer/ Market Maker to trade in securities such as Federal Government bonds, treasury bills, treasury certificates and such other debt certificates as may be prescribed by the CBN from time to time;
- k) Provide custodial services;
- l) Issue, discount and rediscount negotiable instruments;
- m) Provide debt factoring services; and
- n) Such other activities as may be prescribed in writing by the CBN from time to time.

4 No Merchant Bank shall be permitted to carry out the following business activities:

- a) accept any deposit withdrawable by cheques;
- b) grant retail loans or engage in any form of retail banking;
- c) hold for more than six months any equity interest acquired in a company while managing an equity issue, subject to the provision of BOFIA;
- d) Provide Insurance underwriting services, Loss adjusting services, Re-insurance services, and such other insurance related services; and

*Prohibited
Activities for
Merchant Banks*

- e) Any other business activities that may be restricted by the CBN from time to time.

Part 3 – Minimum Standards for Merchant Banks

*Minimum
Standards for
Merchant Banks*

5 A Merchant Bank shall:

- a) maintain a minimum paid-up share capital of [Fifteen Billion Naira] [15,000,000,000.00] or such other amount as may be prescribed by the CBN from time to time.
- b) comply with all prudential guidelines and regulations issued by the CBN on the required level of capital adequacy, liquidity and cash reserve.
- c) observe all applicable corporate governance standards as may be prescribed by the CBN and other financial service sector regulatory authorities in Nigeria.
- d) design, comply with and implement an internal control framework and reports in accordance with the standard that the CBN may prescribe from time to time;
- e) through its Board of Directors report on the implementation and effectiveness of its internal control framework to the CBN within four months after the end of its financial year;
- f) design, comply with and implement a risk management framework which ensures that the Merchant Bank has an appropriate reporting structure, quality, procedure and technology to effectively and adequately identify, measure, monitor and report risks to the CBN, in accordance with any guidelines, circulars or regulations as prescribed by the CBN from time to time; and

g) without prejudice to the standards prescribed from time to time by the Nigerian Accounting Standards Board, be required to maintain its books and financial statements in accordance with the IFRS accounting standards, subject to the provisions of Section 28 of BOFIA.

6 In these Regulations, save as otherwise defined hereunder terms used in BOFIA shall have same meaning here, and the following terms shall have the meanings ascribed to them thus:

Interpretation

“**bank**” means an entity licensed to engage in banking business by the CBN pursuant to BOFIA.

“**BOFIA**” means the Banks and Other Financial Institutions Act, Cap B3, Laws of the Federation of Nigeria, 2004.

“**CBN**” means the Central Bank of Nigeria.

“**IFRS**” means the International Financial Reporting Standards as prescribed by the International Accounting Standards Board on the manner in which specific transactions by companies and organisations may be reported in compiling financial statements.

“**Nigerian GAAP**” means generally accepted accounting principles and practices in Nigeria applied on a consistent basis

“**Universal Banking Guidelines**” means the *Guidelines For the Practice of Universal Banking in Nigeria* issued by the CBN on 22 December, 2000 with reference number BSD/DO/CIR/VOL.1/10/2000.

“Universal Banking Licence” means a banking licence issued by the CBN pursuant to the Universal Banking Guidelines.

- 7 These Regulations may be cited as the CBN Scope, Conditions & Minimum Standards for Merchant Banks Regulations No. 02, 2010.

Made at Abuja this 7th day of September, 2010

SANUSI LAMIDO SANUSI

Governor, Central Bank of Nigeria