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**EXPOSURE DRAFT OF THE FRAMEWORK FOR THE OPERATIONALISATION OF
THE CENTRAL BANK OF NIGERIA NON-INTEREST ASSET BACKED SECURITIES**

The Central Bank of Nigeria (CBN) developed the CBN Non-Interest Asset Backed Securities (CNI-ABS) as part of its “Guidelines for the Operation of Non-Interest Financial Institutions’ Instruments by the Central Bank of Nigeria” of December 2012.

The increased investments in Sukuk issued by multilateral organisations and the rising participation of non-interest financial institutions at the CBN windows has made it mandatory that the CNI-ABS be operationalised. Accordingly, the CBN hereby, issues the attached draft framework for stakeholders’ observations and comments. The exposure draft may also be downloaded from the CBN website, www.cbn.gov.ng.

Kindly ensure that we receive your comments by Friday, January 8, 2021. A soft copy should be forwarded to FMD-SLPO@cbn.gov.ng.

Thank you.

Yours faithfully,

A handwritten signature in black ink, appearing to be 'A. Sere-Ejembi', with a horizontal line extending to the right.

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

DRAFT FRAMEWORK FOR THE OPERATIONALISATION OF CENTRAL BANK OF NIGERIA NON-INTEREST ASSET BACKED SECURITIES

1.1. Objective

The Central Bank of Nigeria (CBN or the Bank) developed the CBN Non-Interest Asset Backed Securities (CNI-ABS) to deepen the Nigerian financial markets, increase financial inclusion and provide a liquidity management instrument that is compliant with the principles of non-interest finance in Nigeria.

1.2. Structure

- i. Full or partial conversion (into local currency) of the value of CBN investments in Islamic Development Bank (IsDB) and / or International Islamic Liquidity Management Corporation (IILM) sukuk, or any other sukuk from multilateral organisations where Nigeria is a member.
- ii. Securitisation of (i) above based on the maturity profile of the underlying security which shall serve as the issue account, for auction purposes.
- iii. Auction of the securitised assets to eligible institutions.
- iv. Transfer / allotment of auction amount to eligible institutions based on their subscription.
- v. Transfer of earnings received related to the securitised assets to eligible institutions based on their holdings, less all amounts outstanding. This shall be net of applicable charges as may be approved from time to time.
- vi. The assets shall meet the condition of tradability in shariah.

- vii. The investor shall enter into a unilateral binding undertaking to sell the nominal to the CBN at maturity.
- viii. Upon exercise of (vii) above, the asset becomes exclusively owned by the CBN, who reserves the right to hold or reissue it to the market.

1.3. Governance Structure

The governance of the CNI-ABS shall be in accordance with the provisions of the CBN Act 2007 as amended, BOFIA 2020 as amended and relevant circulars and guidelines of the CBN.

1.4. Eligibility for Auction

Interested Non-Interest Financial Institutions (NIFIs) and any other institution, as may be approved by the CBN from time to time.

1.5. Calendar and Notices

The CBN shall issue calendar / notices of auctions, as it may determine from time to time. The CBN shall publish the calendar / notices ahead of every auction via appropriate media, inviting interested eligible institutions to bid.

The auction notice shall include the following:

- a. type of auction (e.g. Dutch system)
- b. tenors of securities being auctioned
- c. amounts for each tenor
- d. auction date
- e. bidding period

- f. channel by which the bids should be communicated to the CBN
- g. result announcement time
- h. issue / settlement date for the successful bids
- i. the minimum amount for subscription, and multiples thereafter
- j. CBN's right to reject any bid

1.5.1. Auction Timing

The auction shall take place on any weekday as may be decided from time to time by the CBN. The auction shall hold within any period of time as may be approved by the Bank from time to time.

1.5.2. Auction Amount

The amount at every auction shall be predetermined by the securitised amounts outstanding in the issue account or as may be decided by the CBN.

The CBN may, as much as possible, offer the amounts reflected in the issuance calendar / notice. However, it reserves the right to vary the amount offered, depending on the bid amount or any other justifiable reason.

1.5.3. Auction Limit

Bidders shall **not be** allowed to submit multiple bids. To ensure that all NIFIs are given fair opportunity, no institution with its affiliated entities as a group may be allotted more than 25 per cent of the auction amount. This would not be applicable in situations of limited / few subscribers, where allotment shall be on a whole or pro rata basis.

Where the volume of bids exceeds the auction amount, allotment shall be on a pro rata basis, in order to maintain the maximum allocation for an auction.

1.5.4. Auction Rate

The bid applications shall not carry any rate. All successful bids shall be satisfied at a rate of return corresponding to the earnings on the underlying security. The rate of return shall be based on tenor and amount invested, and shall be subject to applicable (Wakala) charges/fees.

1.5.5. Exchange Rate

A single exchange rate shall apply (based on Wa'd) for issuing, maturity and return of each issue relative to the underlying asset and shall be determined at the beginning of each auction.

1.5.6. Submission of Bids

Bids shall be sent in the bidder's name via appropriate media as announced in the auction notice. The minimum bid amount 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.

The auction notice shall state that the bidding platform shall be opened within a period of time, as may be approved by the Bank from time to time. Auction duration shall be adhered to as much as possible, however, in the event of force majeure, a contingency submission arrangement shall be put in place by the CBN.

Where there is a difficulty in sending bids by a certain time as may be decided by the Bank from time to time , the affected institution shall contact the CBN designated staff (Auction Administrator) via mail and copy the CBN ITD Service Centre. Alternatively, the institution shall submit a paper bid to FMD in Abuja, or its liaison office in CBN Lagos within the auction period. The CBN shall advise the institution of this contingency approach via a circular.

The affected institution shall execute an indemnity with the CBN, and the designated FMD staff (Auction Administrators) would be required to input the details of the bid on behalf of the affected institution.

1.5.7. Processing of Bids

The CBN may reject any defective bid, i.e. any bid that does not comply with the auction rules.

Bids shall be sorted in ascending order. In the event of undersubscription, the total subscription shall be allotted as the total auction amount.

1.5.8. Auction Results

Auction results shall be announced to all market participants / CBN counterparties at the same time through electronic media.

The published results shall include the following details:

- a. total allotment
- b. tenor
- c. maturity date

- d. amount offered
- e. total subscription
- f. any other relevant information

1.5.9. Settlement

Settlement shall be on a T+0 basis. Auction shall take place on any approved business day, while cash settlement and securities allotment shall take place on the next business day.

On the settlement day, the CBN shall:

- debit the operating accounts of all successful institutions at the auction
- Credit CBN designated account with the value
- Debit CNI-ABS issue account
- Credit the institution's securities account.

The CBN shall be the depository of the securities.

2.0 Features of the CNI-ABS

The CNI-ABS shall have the following features:

- It shall be a tradable instrument
- Its rate shall be determined by the returns on the underlying asset
- Its maturity shall be on any day of the week and shall be matched with the coupon payment date of the underlying asset
- It shall qualify as a liquid asset for the eligible institution's assets
- Returns received during the period but before maturity of an issue shall be held in trust in an account that does not yield any interest to the CBN

- Where an issue matures before receipt of coupon by the CBN, the Bank shall pay the accrued return as advance / loan at zero interest rate in anticipation of expected return
- The CBN shall charge Wakala fee (in line with the section of the Guidelines for the Operation of Non-Interest Financial Institutions' Instruments by the Central Bank of Nigeria on CNI-ABS, and subject to review by the Bank from time to time) as follows:
 - 10.00 per cent of the underlying return for 1 to 30 days investment;
 - 7.50 per cent for 31 to 90 days;
 - 5.00 per cent for 91 to 180 days; and
 - 2.50 per cent for 181 to 365 days

Glossary of Islamic finance terms

- **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.*
- **Wakala:** *this is an agency contract, where a principal appoints an agent to perform a specific task on its behalf.*