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

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

Further to the *Guidelines for the Operation of Non-Interest Financial Institutions' Instruments by the Central Bank of Nigeria*, released in December, 2012 the Central Bank of Nigeria (or the Bank) notes the positive developments in the financial markets environment and the need to strengthen the policy arena.

Consequently, the Bank hereby releases the *Framework for the Operationalisation of the Central Bank of Nigeria Non-Interest Asset Backed Securities*. Thus, non-interest banks and other authorised dealers in the non-interest banking window at the CBN are required to note for guidance accordingly.

Thank you.

Yours faithfully,

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



Central Bank of Nigeria

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

JUNE 2022

FRAMEWORK FOR THE OPERATIONALISATION OF THE 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 line with non-interest principles.

- VII. The investor shall enter into a unilateral binding undertaking to sell the nominal value 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. Eligibility for Auction

Licensed Non-Interest Banks, Deposit Money Banks with non-interest banking window and any other authorised financial institution, as may be approved by the CBN from time to time.

1.4. 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

1.4.1. Auction Timing

Auctions shall take place on any approved business day, at a time as may be determined by the Bank.

1.4.2. Auction Amount

The amount at every auction may be determined 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.

1.4.3. Allotment

Allotment shall be based on general market practice.

1.4.4. 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 Agency (Wakala) charges / fees.

1.4.5. 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 by the Bank at the beginning of each auction.

1.4.6. 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 ₦100,000,000 and integral multiples of ₦1,000,000 in excess thereof, 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, 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 email. Alternatively, the institution shall submit a paper bid to the Financial Markets Department of the CBN in Abuja, or its liaison office in Lagos within the auction period.

1.4.7. Processing of Bids

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

1.4.8. Auction Results

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

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

1.4.9. Settlement

Settlement shall be on a T+0 basis.

On the settlement date, 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 Attributes of the CNI-ABS

The CNI-ABS shall have the following attributes and as provided in the Revised Guidelines for the Operation of Non-Interest Financial Institutions' Instruments by the Central Bank of Nigeria:

- I. It shall be a tradable instrument
- II. Its rate shall be determined by the returns on the underlying asset
- III. Its maturity shall be on any day of the week and shall be matched with the coupon payment date of the underlying asset
- IV. It shall qualify as a liquid asset for the eligible institution's assets
- V. Returns received during the period but before maturity of an issue shall be held in trust in a non-interest yielding account with the CBN
- VI. 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
- VII. The CBN shall charge Agency (Wakala) fees (in line with the provisions of the Guidelines for the Operation of Non-Interest Financial Institutions' Instruments by the Central Bank of Nigeria on CNI-ABS), 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 terms

- **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.
- **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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