



# Central Bank of Nigeria

## Rule Book

(A Compendium of Policies and Regulations)

# Volume I

# **Volume One**

## Foreword

Pursuant to the provisions of the Central Bank of Nigeria (CBN) Act, 2007 and other relevant laws, the CBN (or the Bank) issues policies, rules, circulars, guidelines, regulations and frameworks, and disseminates the required information to facilitate the achievement of its mandates.

It therefore, gives me pleasure to present the maiden edition of the **CBN Rule Book**, representing **a compendium of CBN Policies and Regulations**. This publication contains policies, rules, circulars, guidelines, regulations and frameworks issued by the Bank from its inception on July 1, 1959 to end-December, 2018. It will serve as a point of reference to all stakeholders, particularly banks and other financial institutions, to guide their actions and compliance, and for economic agents to anchor their expectations in line with the direction of monetary policy.

Since the global financial crisis of 2007/2009, the CBN, like other major central banks, adopted forward guidance as a major approach in monetary management towards attaining the primary mandate of maintaining monetary and price stability for economic growth and development. A key feature of that process has been the Bank's pursuit of transparency and accountability to all stakeholders, including other regulators, market operators, investors and members of the public. This compendium, therefore, is intended to enhance the motive of facilitating easy access to previous and existing policies and guidelines of the Bank, and to complement other channels that have been in use for the dissemination of all measures and actions taken in the course of time. Even more important is the fact that the compendium builds on the robust financial and economic database already established by the Bank.

The compendium will be issued periodically, going forward, and, it is our sincere hope that it would serve as a useful reference document to all stakeholders. I therefore, assure that the Bank would continue in this effort to make all its policies and guidelines readily available, using various channels to reach all and sundry.

**Godwin I. Emefiele, CON**  
Governor,  
Central Bank of Nigeria  
September 2019

## Preface

The Central Bank of Nigeria plays a pivotal role in the Nigerian economy through the formulation and implementation of monetary policy, as well as the regulation of banks and financial institutions. It also carries out developmental functions by intervening in critical sectors of the economy. As part of its supervisory and regulatory responsibilities, the Bank, from time to time, issues circulars, guidelines and regulations that communicate its policy directions to target financial institutions and other members of the public.

This compendium is intended to enhance ease of access and reference to the required guide for banks and consumers of banks and other financial services. It would also provide investors with information for decision making and serve as a useful historical document, evidencing policy actions necessitated by the prevailing economic conditions and the stage of development.

The compendium, therefore, is structured in Volumes. This Volume One has two Sections. Section I enlists "Trade and Exchange Circulars" from 1986 (Volume 1) to 2011 (Volume 10); "Handbook of Rules and Regulations for Banks and Discount Houses in Nigeria (1997 – 2012)"; "Compendium of Monetary, Credit, Foreign Trade and Exchange Policy Guidelines: Monetary Policy Circulars, Numbers 1 to 40 (1959 – 2015)"; "Compendium of Monetary Policy Communiqués, Numbers 1 to 104 (2001 – 2015)"; and, the "Monetary, Credit, Foreign Trade and Exchange Policy Guidelines for Fiscal Years 2016/2017", and "2018/2019"; all of which had already been published separately and in circulation for reference. It should be noted however, that from July 1959, when the Bank came into operation, to June 1969, there were no formal Circulars on monetary policy, owing to the need to develop internal capacities and establish appropriate structures to support the enacted central banking functions and responsibilities. Section II, on the other hand, comprises two Parts, with the Bank's policies on banking and payment system in Part A, and those on banking supervision in Parts B.

The second edition of the CBN Rule Book is Volume Two that comprises Parts C, D, E and F with guiding policies on consumer protection, currency operations, development finance, financial markets and part of financial policy and regulation, respectively. Volume Three continues the remaining part of policies on financial policy and regulation, in addition to those on monetary policy, other financial institutions supervision, and trade and exchange.

This compendium of **CBN Policies and Regulations**, therefore, serves as the most comprehensive guide to policies, guidelines and circulars issued by the Bank.

**Dr. Okwu J. Nnanna**

Deputy Governor, Economic Policy

## **Acknowledgements**

This maiden compendium of **CBN Policies and Regulations** received the approval of Management at the highest level, by the Governor, Central Bank of Nigeria, Mr. Godwin I. Emefiele, CON, following the recommendation and sponsorship of the Deputy Governor, Economic Policy, Dr. Okwu Joseph Nnanna. I commend Management for the invaluable and unflinching support.

The motivation for this CBN Rule Book was strong and inspiring, to complement other publications of the CBN such as the “Compendium of Monetary, Credit, Foreign Trade and Exchange Policy Guidelines: Monetary Policy Circulars, Numbers 1 to 40 (1959 - 2015)” and “Compendium of ‘Monetary Policy Communiqués, Numbers 1 to 104 (2001 – 2015)”, amongst others, providing invaluable content of policies and directives of the monetary authority for economic and monetary management under the prevailing conditions in each period.

I wish to commend the Directors of Banking Services, Mr. Dipo Fatokun, Banking Supervision, Mr. Abdullahi Ahmed, Consumer Protection, Barr. Kofo Salam-Alada, Development Finance, Dr. Mudashir Olaitan, Financial Policy and regulations, Mr. Kelvin Amugo, Monetary Policy, Mr. Moses K. Tule, Other Financial Institutions Supervision, Mrs. Tokunbo A. Martins, Payments System Management, Mr. Samuel C. Okojere and Trade and Exchange, Mr. Ahmed B. Umar, for their inputs and quality assurance of this publication. I also applaud members of the Secretariat for the Committee, comprising Mr. Demenongu J. Yanfa, Deputy Director, as Project Lead and concept guide, Mrs. Pauline C. Obikaonu, Mrs. Fatimah Sani Bala, Ms. Amina M. Adamu, Abubakar, Aliyu, Mr. Nnamdi Anyene and Ms. Nkiruka Okwubodu, for painstakingly co-ordinating the Project in all the phases it went through. In addition, I appreciate the contributions of other members of the Committee from the stakeholder Departments of the Bank, who participated at various stages, including sourcing and collating the policy circulars and guidelines, as well as structuring the document for Management consideration.

Finally, I am indebted with gratitude to the Management of the Bank for constantly supporting laudable initiatives as this for posterity, and providing the building blocks for a strong, resilient and information-driven activities for the sustenance of economic and financial markets development.

**Dr. (Mrs.) Angela A. Sere-Ejembi**

Director, Financial Markets Department

September 2019

## Table of Contents

					Page
<b>Volume One</b>					1
<b>Section I: Published Rules, Regulations and Guidelines</b>					2
<b>Section II: Part A. Banking and Payment System Circulars, Policies and Guidelines</b>					4
S/N o.	Reference No.	Title	Date Issued	Remark	
1	BPS/DIR/GEN/CIR/05/002	Revised Nigerian Cheque Standard (NCS) and Nigerian Cheque Printers Accreditation Scheme (NICPAS)	18-Sep-2018	New	5
2	BPS/DIR/GEN/CIR/05/011	Regulation on Instant (Inter-Bank) Electronic Transfer Services in Nigeria	13-Sep-2018	New	7
3	BPS/DIR/GEN/CIR/05/010	Nigeria Bankers' Clearing System Rules, May 2018 (Revised)	31-Jul-2018	Review	19
4	BPS/DIR/GEN/CIR/05/009	Shared Agency Network Expansion Fund Initiative: Regulatory Data Rendition Requirements	05-Jul-2018	New	58
5	BPS/DIR/GEN/CIR/05/007	Amendment to the Regulatory Framework for Bank Verification Number Operations and Watch-List for the Nigerian Banking Industry	04-Jul-2018	Review	61
6	BPS/DIR/GEN/CIR/05/008	Compliance with the Cybercrime (Prohibition, Prevention, etc.) Act 2015: Collection and Remittance of Levy for the National	25-Jun-2018	New	62

		Cyber-Security Fund			
7	BPS/DIR/GEN/CIR/05/005	Extension of the regulatory framework for the use of Unstructured Supplementary Service Data (USSD) in the Nigerian Financial System	1-Jun-2018	New	63
8	BPS/DIR/GEN/CIR/05/002	Regulatory framework for the use of Unstructured Supplementary Service Data (USSD) in the Nigerian Financial System	17-Apr-2018	New	64
9	BPS/DIR/CIR/01/006	Regulation for Bill Payments In Nigeria, 2018	14-Mar-2018	New	72
10	BPS/DIR/GEN/CIR/01/007	Regulation for Direct Debit Scheme In Nigeria, 2018 (Revised)	03-Mar-2018	Revised	77
11	BPS/DIR/GEN/CIR/05/001	Re: Sanctions on erring Banks e-Payments Service Providers for infractions of Payments System Rules and Regulations	04-Jan-2018	Revised	96
12	BPS/DIR/CIR/GEN/02/041	Re: Extension of Settlement Banking arrangement to all the clearing sessions	21-Dec-2017	Revised	97
13	BPS/DIR/CIR/GEN/02/039	Extension of Settlement Banking Arrangement to all the clearing sessions	10-Nov-2017	New	98
14	BPS/DIR/GEN/CIR/04/010	Regulatory Framework for BVN Operations & Watch-List for the Nigerian Financial System	18-Oct-2017	New	99

15	BPS/DIR/GEN/CIR/ 04/010	Further clarification on the enforcement of GIFMIS Revenue Reference Numbers	11-Oct-2017	New	112
16	BPSD/DIR/GEN/CIR/ /04/009	Enforcement of GIFMIS Revenue Reference Numbers	25-Sep-2017	New	113
17	BPS/DIR/GEN/CIR/ 04/007	Review of Daily MM Wallet Transaction & Balance Limit & BVN Requirement for Mobile Money Wallet Holders	07-Sep-2017	New	118
18	BPS/PSV/DIR/GEN/ CIR/01/001	Statements of Payment Finality for the Nigerian Payments Schemes	10-Jul-2017	New	119
19	BPS/FPO/DIR/GEN/ CIR/01/099	Unutilized FX returned to the CBN for the SMIS Wholesale and Retail Interventions	23-Jun-2017	New	122
20	BPS/DIR/GEN/CIR/ 04/004	Re: Circular on Nationwide Implementation of The Cash-Less Policy	20-Apr-2017	Review	123
21	BPS/DIR/GEN/CIR/ 04/003	Re: Circular on the Implementation of Interchange Fee	20-Apr-2017	Review	124
22	BPS/DIR/CIR/01/01 3	Guidelines on Securities Settlement in Nigeria	29-Dec-2016	New	125
23	BPS/DIR/GEN/CIR/ 03/004	Implementation of Interchange Fee	1-Nov-2016	New	138
24	BPS/DIR/GEN/CIR/ 03/008	Amendments to the Guidelines on Transaction Switching in Nigeria	17-Oct-2016	New	140
25	BPS/DIR/GEN/CIR/	Prevention of Exposure to	30-Aug-	New	141

	03/006	Banks through Payment Solutions	2016		
26	BPS/DPD/GEN/CIR/01/002	Further extension of BVN for Nigerian Banks' Customers in Diaspora	29-Jul-2016	New	142
27	BPS/DIR/GEN/CIR/03/005	Circular to all Banks and other Financial Institutions	28-Jul-2016	New	143
28	BPS/DPD/GEN/CIR/01/001	BVN Registration of Farmers under the CBN Anchor Borrowers Programme (ABP)	20-Jul-2016	New	144
29	BPS/DIR/GEN/CIR/01/011	Guidelines on Transaction Switching in Nigeria	03-May-2016	New	145
30	BPS/DIR/GEN/CIR/01/012	Guidelines on Operations of Electronic Payment Channels in Nigeria	03-May-2016	New	167
31	BPS/DIR/GEN/CIR/16/003	Re: Clarification on Accounts with BVN Related Issues	24-Feb-2016	Review	204
32	BPS/DIR/GEN/CIR/03/002	Guidelines for the Operation of Treasury Single Account (TSA) by State Governments in Nigeria	09-Feb-2016	New	205
33	BPS/DIR/GEN/CIR/03/001	Extension of BVN for Nigerian Banks' Customers in Diaspora (Revised)	04-Feb-2016	Review	213
34	CBN/GEN/DMB/02/006	Collection and Remittance of Statutory charges on receipts to Nigeria Postal Service under the Stamp Duties Act	15-Jan-2016	New	218
35	BPS/DIR/GEN/WEB/01/003	Guidelines for Banking Operations in the Free	02-Jan-2016	New	220

		Zones in Nigeria			
36	BPS/DIR/GEN/CIR/02/011	Implementation of the Global Mobile Payments Monitoring & Regulation System	04-Nov-2015	New	244
37	BPS/DIR/GEN/CIR/02/033	Extension Of BVN for Nigeria Bank Customers In Diaspora and other Related Matters	02-Nov-2015	New	246
38	BPS/DIR/GEN/05/009	Implementation of e-dividend Mandate Management System (e-DMMS) Portal	14-Sep-2015	New	248
39	BPS/DIR/GEN/05/009	Framework for the Enrolment of Nigerian Banks' Customers in Diaspora for BVN Issuance	18-Aug-2015	New	250
40	BPS/DIR/CIR/08/2015	Accreditation of Cheque Printers for 2015/16	18-Aug-2015	New	252
41	BPS/DIR/GEN/CIR/02/007	Sanctions on Erring Banks/e-Payment Service Providers for Infractions of Payments System Rules and Regulations	29-Jul-2015	New	253
42	BPS/DIR/GEN/CIR/02/006	Re: Nationwide Rollout of Cashless Policy to the Remaining 30 States	13-Jul-2015	Revised	257
43	BPSD/DIR/GEN/CIR/02/005	Implementation of Controls on Naira Denominated Card Transactions Consummated Overseas	06-Jul-2015	New	258
44	BPS/DIR/GEN/CIR/02/008	Extension of the Deadline for Bank Verification	30-Jun-2015	New	259

		Number			
45	BPS/DIR/GEN/CIR/02/004	Establishment of Industry Fraud Desks	11-Jun-2015	New	260
46	BPS/DIR/GEN/05/008	Re: Process for linking the BVN with Customer's Account on the Core Banking Applications by Banks	25-May-2015	Review	263
47	BPS/DIR/GEN/CIR/02/010	Regulatory Framework for Licensing Super-Agents in Nigeria	01-Apr-2015	New	265
48	BPS/DIR/GEN/CIR/02/009	Regulatory Framework for Mobile Money Services in Nigeria	01-Apr-2015	New	275
49	BPS/DIR/GEN/CIR/02/008	Guidelines on Mobile Money Services in Nigeria	01-Apr-2015	New	284
50	BPS/CSO/CON/DIR/01/079	Commencement of Federal Government's Independent Revenue e-collection Scheme under the Treasury Single Account (TSA) Initiative	25-Feb-2015	New	306
51	BPS/DIR/GEN/CIR/02/001	Deposit Money Banks, Switches, Processors, PTSPs and Other Payments System Service Providers	11-Feb-2015	New	307
52	BPS/DIR/GEN/CIR/06/002	Nigerian Issued Card Present Fraud in Non-EMV Environments (Signed copy)	19-Jan-2015	New	310
53	BPS/DIR/GEN/CIR/06/001	Implementation of Two Factor Authentication for Internal Banking Processes	19-Jan-2015	New	312

54	BPS/DIR/GEN/CIR/02/033	The year 2014 Accredited Cheque Printers	04-Dec-2014	New	313
55	BPS/DIR/GEN/CIR/01/014	Implementation of SWIFT Sanction Screening Service	19-Nov-2014	New	314
56	BPS/DIR/GEN/CIR/01/015	Clarification Circular on Bank Verification Number (BVN) Enrollment	21-Oct-2014	New	315
57	BPS/DIR/GEN/CIR/01/012	Electronic Payments Incentives Scheme and Awareness Campaign	18-Sep-2014	New	316
58	BPS/DIR/GEN/CIR/02/033	Go-Live of Bank Verification Number Project	18-Sep-2014	New	317
59	BPS/DIR/CIR/GEN/02/033	Authorized Signatories Verification Portal for the Nigerian Banking Industry	19-Aug-2014	New	318
60	BPS/DIR/GEN/CIR/01/011	Review of Operations of the NIBSS Instant Payment (NIP) System and other E-Payment Options with Similar Features	13-Aug-2014	New	319
61	BPS/DIR/GEN/CIR/01/010	Introduction of Fees on Remote-On-Us ATM Withdrawal Transactions	13-Aug-2014	New	321
62	BPS/DIR/CIR/01/009	Guidelines on International Money Transfer Services in Nigeria	18-Jun-2014	New	322
63	BPS/PSP/DIR/CIR/VOL.1/008	Phase III Nationwide Rollout of Cash-Less Policy to the 30 Remaining States	09-Jun-2014	New	336
64	BPS/DIR/GEN/CIR/01/005	Guidelines for Card Issuance and Usage in	12-May-2014	New	337

		Nigeria			
65	BPS/DIR/GEN/CIR/01/004	Timeline for PCIDSS Certification by all Deposit Money Banks, Switches and Processors	22-Apr-2014	New	350
66	BPS/DIR/GEN/CIR/01/002	Implementation of E-Reference Operations in Nigeria	27-Mar-2014	New	351
67	BPS/PSP/GEN/CIR/05/001	Need to install Anti Skimming Device on all ATM Terminals	05-Mar-2014	New	352
68		Guidelines for Nigerian Banking Industry Electronic Reference Portal Operations		New	353
69	BPS/DIR/CIR/GEN/02/031	Submission of Fraud Report on Electronic Channels using a Common Portal for the Payments Industry	02-Jul-2013	New	361
70	BPS/DIR/GEN/CIR/01/015	Extension of Cash-less Policy to Five States and the FCT	17-May-2013	New	362
71	BPS/DIR/CIR/04/2013	Accreditation of Cheque Printers for 2013/2014	09-May-2013	New	363
72	BPS/DIR/GEN/CIR/01/001	Nationwide Encashment of 3rd Party Cheques above N150,000 over the counter of banks and stoppage of charges on 3rd Party Cheques below N150,000	04-Mar-2013	New	364
73	BPS/PSP/GEN/CW D/03/038	Guidelines for the Regulation of Agent Banking and Agent Banking	08-Feb-2013	New	365

		Relationships in Nigeria			
74	BPS/DIR/GEN/CIR/01/014	Timeline for Interoperability and Interconnectivity	14-Dec-2012	New	391
75	BPS/DIR/CIR/08/2012	Circular to Deposit Money Banks in Respect of the Clearing of Financial Instruments of Liquidated/Legacy Banks	27-Nov-2012	New	392
76	BPS/DIR/GEN/CIR/01/011	Revised Guidelines on Stored Value/Prepaid Card Issuance and Operations	12-Sep-2012	New	393
77	BPS/DIR/GEN/CIR/01/011	Revised Nigeria Bankers' Clearing House Rules	16-Jul-2012	New	398
78	BPS/DIR/GEN/CIR/01/009	Recall of Circular to all Nigerian Deposit Money Banks, Microfinance Banks and Primary Mortgage Banks on the use of the National Identity Number (NIN) for the "Know Your Customer" (KYC) Verification	12-Jun-2012	New	437
79	BPS/DIR/GEN/CIR/01/007	Printing of Security Instruments	24-May-2012	New	438
80	BPS/DIR/CIR/GEN/02/06	Guidelines for Cheque Truncation in Nigeria	04-Apr-2012	New	439
81	BPS/DIR/GEN/CIR/01/004	Industry Policy on Retail Cash Collection and Lodgment (IITP/C/001) as it affects Specialized International Institutions	23-Mar-2012	New	457
82	BPS/DIR/GEN/CIR/	Re: Industry Policy on Retail Cash Collection and	16-Mar-	Review	458

	01/003	Lodgment (IITP/C/001).	2012		
83	BPS/DIR/GEN/CIR/ 01/002	Cash Withdrawal Limit for Primary Mortgage Institutions and Microfinance Banks.	01-Mar-2012	New	460
84	BPS/DIR/CIR/GEN/ 03/001	Non Compliance With CBN Circular on ATM Deployment	20-Feb-2012	New	461
85	BPS/DIR/GEN/CIR/ 01/015	Compliance with commencement date for the implementation of electronic payments in Nigeria	05-Jan-2012	New	462
86	BPS/PSP/GEN/CIR/ 02/004	Circular to All Mobile Scheme Operators	22-Dec-2011	New	463
87	BPS/DIR/CIR/GEN/ 02/031	Penalty for non-compliance with NIBSS format for sending settlement report	25-Nov-2011	New	464
88	BPSD/DIR/CIR/01/0 11	Modalities for Off-Site ATM Operations / Deployment	04-Nov-2011	New	465
89	BPS/DIR/CIR/01/01 2	Accreditation and Re-Accreditation of Cheque Printers	24-Oct-2011	New	467
90	BPS/DIR/CIR/01/00 9	Request for Data On Payment Card	22-Aug-2011	New	470
91	BPS/DIR/GEN/CIR/ 02/014	Guidelines on Point of Sale (PoS) Card Acceptance Services	12-Aug-2011	New	471
92	BPS/DIR/GEN/CIR/ 02/013	Accreditation and Re-Accreditation of Cheque Printers	07-Jul-2011	New	488

93	BPS/DIR/GEN/CIR/ 02/012	Revised Nigerian Direct Debit Scheme	27-Jun-2011	Review	491
94	BPS/DIR/GEN/CIR/ 02/007	Re: Circular on the Need to Combat Card Fraud	23-Feb-2011	Review	520
95	BPS/DIR/CIR/GEN/ 02/003	Penalty for Non Compliance with CBN Circulars and Guidelines on ATM Operations in Nigeria	07-Feb-2011	New	523
96	BPS/DIR/GEN/CIR/ 01/006	Compliance with due Diligence in the Deployment of Point of Sale (PoS) Terminals	19-Oct-2010	New	525
97	BPS/DIR/CIR/2010/ GEN/01/169	The Need to Combat Card Fraud	30-Aug-2010	New	526
98	BPS/DIR/CIR/01/51	Nigeria Uniform Bank Account Number (NUBAN)	19-Aug-2010	New	528
99	BPS/DIR/GEN/CIR/ 01/025B	Nigeria Direct Debit Scheme	09-Jul-2010	New	532
100	BPSD/RTP/GEN/RV P/01/007	Standards and Guidelines on Automated Teller Machine (ATM) Operations in Nigeria	14-May-2010	New	560
101	BOD/DIR/GEN/CIR /01/025	Guidelines on Stored Value Prepaid Card Issuance and Operations	17-Feb-2010	New	568
102	BOD/DIR/CIR/2010 /GEN/01/107	Implementation of Maximum Cap for Cheque Payments	04-Jan-2010	New	571
103	BOD/DIR/CIR/GEN /01/106	Maximum Limit on Cheque Payment	11-Dec-2009	New	573
104	BOD/DIR/CIR/GEN	Harmonisation of Accounts	08-Dec-	New	574

	/01/101		2009		
105	BOD/DIR/CIR/GEN /03/028	Re: Extension of the Deadline for the Removal of Deposit Money Banks' off- site ATMs	27-Aug- 2009	Review	575
106	BOD/DIR/GEN/CIR /03/027	Need to provide adequate narration for Inter-bank Transfers over the CBN Inter- bank Funds Transfer System, CIFTS	30-Jul-2009	New	576
107	BOD/DIR/GEN/SMP /03/025	Re: Deployment of DMBs' Offsite ATMs and Establishment of ATM Consortium	26-Jun- 2009	Review	577
108	BOD/DIR/GEN/SMP /03/024	Dishonouring of Bank Drafts by Issuing Banks	24-Jun- 2009	New	578
109	BOD/RTP/GEN/RVP /01/001	Guidelines on Transaction Switching Services and the Operational Rules of the Nigeria Central Switch	11-Jun- 2009	New	579
110	BOD/RTP/GEN/RVP /01/001B	Operational Rules and Regulations for the Nigeria Central Switch	11-Jun- 2009	New	595
111	BOD/RTP/GEN/RVP /01/002	Regulatory Framework for Mobile Payments Services in Nigeria	11-Jun- 2009	New	614
112	BOD/DIR/GEN/SMP /02/117	Guidelines for Custodianship in Money Market and Other Fixed Income Instruments	21-May- 2009	New	638
113	BOD/DIR/CIR/GEN /01/48	Deployment of Automated Teller Machines (ATMs)	07-Apr- 2009	New	647

114	BOD/DIR/CIR/01/24	Lending Rates on the CBN Window	23-Mar-2009	New	648
115	BOD/DIR/CIR/GEN/01/023	Update on the CBN Lending Windows	16-Mar-2009	New	649
116	BOD/DIR/CIR/GEN/01/23	Extension of Timeline for Migration from Magnetic Stripe to Chip+PIN/EMV	27-Feb-2009	New	652
117	BOD/DIR/CIR/GEN/01/22	Compliance with CIFTS Operating Hours	27-Feb-2009	New	653
118	BOD/DIR/CIR/2008/GEN/3/18	Access to Intra-day Facility	05-Dec-2008	New	654
119	BOD/DIR/CIR/2008/GEN/03/17	Expanded Discount Window Operations	28-Oct-2008	New	655
120	BOD/DIR/CIR/2008/GEN/3/15	Expansion of the Tenor of CBN Repo	08-Oct-2008	New	672
121	BOD/DIR/CIR/2008/GEN/03/011	Harmonisation of Clearing Cycle to Three Working Days	29-Apr-2008	New	673
122	BOD/DIR/CIR/08/03/09	Clearing at the New CBN Currency Centres	01-Apr-2008	New	674
123	BOD/CIR/02/2008/GEN/03/003	Harmonisation of Participants' Codes on the CIFTS Database at CBN and Participants' TAD	02-Jan-2008	New	675
124	BOD/DIR/CIR/2007/GEN/03/002	CBN Classifies FGN Bonds As Liquid Assets	18-Dec-2007	New	676
125	BOD/DIR/CIR/2007/GEN/03/001	Ensuring Timely Remittance of Government Revenue by Deposit Money Banks	27-Nov-2007	New	677

## Part B. Banking Supervision Circulars, Policies and Guidelines

S/N o.	Reference No.	Title	Date Issued	Remark	Page
126	BSD/DIR/GEN/LAB/11/25	Issuance of Risk-Based Cyber-Security Framework and Guidelines for Deposit Money Banks and Payment Service Providers	10-Oct-2018	New	680
127	BSD/DIR/GEN/LAB/11/006	Compliance with the Cybercrime (Prohibition, Prevention, Etc.), Act 2015: Collection and Remittance of Levy for the National Cyber Security Fund	01-Mar-2018	New	748
128	BSD/DIR/GEN/LAB/11/002	Re: Internal Capital Generation and Dividend Payout Ratio	31-Jan-2018	Review	749
129	BSD/DIR/GEN/LAB/10/045	Re: Regulatory Reporting of FGN-Issued Treasury Bills and CBN-Issued OMO Bills	11-Dec-2017	Review	752
130	BSD/DIR/GEN/LAB/10/032	Further Guidance to Banks and Discount Houses on the Implementation of IFRS 9 (Financial Instruments) In Nigeria	06-Sep-2017	New	753
131	BSD/GDB/CON/NIB/01/03	Monitoring the Disbursement of Non-Permissible Income (NPI)	01-Aug-2017	New	754
132	BSD/DIR/GEN/LAB/10/016	Revised Guidelines on Banc-assurance Referral Model	31-Mar-2017	Review	755

133	BSD/DIR/GEN/LAB/ 10/009	Review of the Limit on Foreign Borrowing by Banks	13-Feb- 2017	Review	761
134	BSD/DIR/GEN/LAB/ 10/006	Application of International Standard on Auditing (ISA) 701 (Communicating Key Audit Matters in the Independent Auditors' Report) in the Banking Sector	06-Feb- 2017	New	763
135	BSD/DIR/GEN/IFR/0 9/130	Guidance Note to Banks and Discount Houses on the Implementation of IFRS 9 (Financial Instruments) in Nigeria	20-Dec- 2016	New	764
136	BSD/DIR/GEN/LAB/ 09/044	United Nations Security Council Resolution 2270 (2016)	20-Dec- 2016	New	765
137	BSD/DIR/GEN/LAB/ 09/043	Discontinuation of Prudential Returns Rendition through the Electronic Financial Analysis and Surveillance System (e-FASS)	05-Sep- 2016	New	767
138	BSD/DIR/GEN/LAB/ 09/038	Write-Off of fully provided Non-Performing Loans	28-Jul-2016	New	768
139	BSD/DIR/GEN/LAB/ 09/037	Provisioning for Foreign Currency Loans	27-Jul-2016	New	769
140	BSD/DIR/GEN/LAB/ 09/035	Mandatory Registration and Listing of Commercial Papers	12-Jul-2016	New	770
141	BSD/DIR/GEN/LAB/ 09/033	Review of Operational Guidelines for Blacklisting	28-Jun- 2016	New	771
142	BSD/DIR/GEN/LAB/	The Need for Banks to Build adequate Loan Loss	11-Nov-	New	777

	08/052	Reserve	2015		
143	BSD/DIR/GEN/LAB/ 08/048	Deadline for Transfer of Federal Government Funds to Treasury Single Account	07-Sep- 2015	New	778
144	BSD/DIR/GEN/LAB/ 08/032	Re: Public Sector Revenue Accounts with Deposit Money Banks	30-Jun- 2015	Review	779
145	BSD/DIR/GEN/BAS/ 08/031	<p>Revised Guidance Notes on Basel II Implementation and the Reporting Template for Capital Adequacy Ratio</p> <ul style="list-style-type: none"> <li>- Guidance Notes on Pillar III - Market Discipline</li> <li>- Guidance Notes on Supervisory Review Process</li> <li>- Guidance Notes on the Calculation of Capital Requirement for Operational Risk</li> <li>- Guidance Note on the Calculation of Capital Requirement for Credit Risk – Standardized Approach</li> <li>- Guidance Notes on Regulatory Capital</li> <li>- Guidance Notes on the Calculation of Capital Requirement for Credit Risk</li> <li>- Guidance Notes on Supervisory Review Process</li> </ul>	24-Jun- 2015	New	780

146	BPS/DIR/GEN/CIR/ 02/004	Establishment of Industry Fraud Desks	11-Jun- 2015	New	965
147	BSD/DIR/GEN/LAB/ 08/024	Re: New Cash Reserve Requirement	20-May- 2015	Review	968
148	BSD/DIR/GEN/LAB/ 08/022	Recovery of Delinquent Credit Facilities	22-Apr- 2015	New	969
149	BSD/DIR/GEN/LAB/ 08/013	Currency Substitution and Dollarisation of the Nigerian Economy	17-Apr- 2015	New	970
150	BSD/DIR/GEN/MCF /08/20	Cessation of Rendition of Returns on Micro Credit Fund	14-Apr- 2015	New	972
151	BSD/DIR/GEN/LAB/ 08/017	Reporting Unethical Conduct/Whistle Blowing	02-Apr- 2015	New	973
152	BSD/DIR/GEN/LAB/ 08/016	Need to Implement Measures to Dissuade the Issuance of Dud Cheques in the Nigerian Banking System	31-Mar- 2015	New	974
153	BSD/DIR/GEN/LAB/ 08/014	Guidelines on Banc- assurance Products- Referral Model	16-Mar- 2015	New	976
154	BSD/DIR/GEN/LAB/ 08/009	Re: Cash Reserve Requirement Maintenance Calendar for 2015	11-Feb- 2015	Review	982
155	BSD/DIR/GEN/LAB/ 08/008	Re - Prohibition from Borrowing to Capitalize Banks	05-Feb- 2015	Review	983
156	BSD/DIR/GEN/LAB/ 08/006	Daily Rendition of Net Open Position	28-Jan- 2015	Review	984
157	BSD/DIR/GEN/LAB/ 08/002	Oil and Gas Industry Credit Risk Mitigation	07-Jan- 2015	New	985

158	BSD/DIR/GEN/LAB/ 08/001	Cash Reserve Requirement Maintenance Calendar for 2015	05-Jan- 2015	New	986
159	BSD/DIR/GEN/LAB/ OAG/07/046	Oil and Gas Industry Credit Risk Mitigation	10-Dec- 2014	New	987
160	BSD/DIR/GEN/LAB/ 07/037	Prudential Regulation for the Management of Foreign Exchange Risks of Banks	24-Oct- 2014	New	989
161	BSD/DIR/GEN/LAB/ 07/008	Re: Transfer of all Non- proprietary Assets to Licensed Custodians	11-Mar- 2014	Review	992
162	BSD/DIR/GEN/LAB/ 07/034	Guidelines for Processing Requests from DMBs to Extend New/Additional Credit Facilities to Loan Defaulters and AMCON Obligors	10-Oct- 2014	New	994
163	BSD/DIR/GEN/LAB/ 07/033	Internal Capital Generation and Dividend Payout Ratio	08-Oct- 2014	New	997
164	BSD/DIR/GEN/LAB/ 02/032	Re: Incessant Request for ISPO by Banks to Lend to States, Local Governments and Community Associations	03-Oct- 2014	Review	999
165	BSD/DIR/GEN/LAB/ 07/037	Prudential Regulation for the Management of Foreign Exchange Risks of Banks	24-Oct- 2014	New	1,000
166	BSD/DIR/GEN/LAB/ 07/036	Re: Transfer of all Non- proprietary Assets to Licensed Custodians	23-Oct- 2014	Review	1,004

167	BSD/DIR/CON/LAB/07/026	Framework for the Regulation and Supervision of Domestic Systemically Important Banks (SIBs) in Nigeria	05-Sept-2014	New	1,005
168	BSD/DIR/GEN/LAB/07/021	Exclusion of Non-Distributable Regulatory Reserve and Other Reserves in the Computation of Regulatory Capital of Banks and Discount Houses	05-Aug-2014	New	1,014
169	BSD/DIR/GEN/LAB/07/19	Responsibility of all Banks, Discount Houses, and Development Finance Institutions with Respect to Human Rights under the Nigerian Sustainable Banking Principles (NSBP)	10-Jul-2014	New	1,015
170	BSD/DSIR/GEN/LAB/07/017	Bancassurance and other Non-Permissible Activities	04-Jul-2014	New	1,017
171	BSD/GCA/BAS/CON/01/115	Extension of Parallel Run of Pillar I of Basel II Implementation	02-Jul-2014	New	1,018
172	BSD/DIR/GEN/LAB/07/015	Prohibition of Loan Defaulters from Further Access to Credit Facilities in the Nigerian Banking System	30-Jun-2014	New	1,019
173	BSD/DIR/GEN/LAB/07/014	Guidelines on the Establishment and Rationalization of Branches and Other Outlets for Banks in Nigeria	17-Jun-2014	New	1,021
174	BSD/DIR/GEN/LAB/07/013	Status and Reporting Line of Chief Compliance Officers	23-May-2014	New	1,029

		of Banks			
175	BSD/DIR/GEN/LAB/07/011	Timelines for Rendition of Statutory Returns through the Fina Application to the CBN and NDIC	10-Apr-2014	New	1,031
176	BSD/DIR/GEN/LAB/07/009	Transmutation of Executive Directors to Non-Executive Directors of Deposit Money Banks	13-Mar-2014	New	1,032
177	BSD/DIR/GEN/LAB/07/008	Transfer of all Non-Proprietary Assets to Licensed Custodians	11-Mar-2014	New	1,034
178	BSD/DIR/GEN/LAB/07/004	Re: The Need for the CBN Prior Clearance of Prospective Employees of Banks	05-Feb-2014	Review	1,036
179	BSD/DIR/GEN/LAB/07/001	Cash Reserve Requirement Maintenance Calendar for 2014	03-Jan-2014	New	1,038
180	BSD/DIR/CIR/GEN/LAB/06/053/1	Regulatory Capital Measurement and Management Framework for the Implementation of Basel II/III for the Nigerian Banking System  <ul style="list-style-type: none"> <li>- Guidance Notes on the Calculation of Capital Requirement for Market Risk: Standardized Approach</li> <li>- Guidance Notes on the Calculation of Regulatory Capital</li> </ul>	10-Dec-2013	New	1,040

		<ul style="list-style-type: none"> <li>- Guidance Notes on the Calculation of Capital Requirement for Market Risk: Standardized Approach</li> <li>- Guidance Notes on the Calculation of Capital Requirement for Operational Risk: Basic Indicator Approach (BIA) and the Standardized Approach (TSA)</li> <li>- Guidance Notes on Pillar III: Market Discipline</li> <li>- Guidance Notes on the Calculation of Capital Requirement for Credit Risk: Standardized Approach</li> <li>- Guidance Notes on Supervisory Review Process</li> </ul>			
181	BSD/DIR/GEN/LAB/06/051	Re: Guidelines for the Licensing, Operations and Regulation of Credit Bureaux and Credit Bureaux related Transactions In Nigeria	14-Nov-2013	Review	1,219
182	BSD/DIR/CIR/RFCB/GEN/VOL.1/45	Requirement to Surrender Excess Foreign Currency Banknotes in Possession of Banks to the Central Bank of Nigeria	02-Oct-2013	New	1,236

183	BSD/DIR/GEN/LAB/ 06/040	Reporting of all Credit Facilities of N1 Million and above in the Credit Risk Management System	10-Sep-2013	New	1,237
184	BSD/DIR/GEN/LAB/ 06/039	Re: Review of the Cash Reserve Requirement (CRR) for Deposit Money Banks	05-Sep-2013	Review	1,238
185	BSD/DIR/GEN/LAB/ 06/034	Review of the Cash Reserve Requirement (CRR) for Deposit Money Banks	25-Jul-2013	Review	1,240
186	BSD/DIR/GEN/RRTB /06/027	Regulatory Reporting of FGN-Issued and CBN-Issued Treasury Bills	12-Jun-2013	New	1,243
187	BSD/DIR/GEN/LAB/ 06/025	External Auditors Recommendations in the Management Letters in Banks Audited Financial	30-May-2013	New	1,244
188	BSD/DIR/GEN/LAB/ 06/017	Re: Review of Risk Weights On Certain Industry Exposures in the Computation Of Capital Adequacy	02-Apr-2013	Review	1,246
189	BSD/DIR/GEN/RFS/ 06/016	Re: Letter to Banks on the Recapitalization of Foreign Subsidiaries	28-Mar-2013	New	1,248
190	BSD/DIR/GEN/LAB/ 06/003	Review of Risk Weights on Certain Exposures in the Computation of Capital Adequacy	31-Jan-2013	New	1,250

# VOLUME ONE

## SECTION I

### PUBLISHED RULES, REGULATIONS AND GUIDELINES

*The following is a list of rules, regulations and guidelines of the Central Bank of Nigeria already in circulation and not contained within this compendium*

1. Monetary Policy Department: Monetary, Credit, Foreign Trade and Exchange Policy Guidelines for Fiscal years 2016/2017 [Monetary Policy Circular no.42] January, 2018.
2. Monetary Policy Department: Monetary, Credit, Foreign Trade and Exchange Policy Guidelines for Fiscal years 2016/2017 [Monetary Policy Circulars no.41] January, 2016.
3. Monetary Policy Department: Compendium of Monetary Communiques. Monetary Policy Communiques Number 1 to 104 [2001-2015] December 2015.
4. Monetary Policy Department: The Compendium of Monetary, Credit, Foreign Trade and Exchange Policy Guidelines Monetary Policy Circulars number 1 to 40. (1959-2015). October 2015.
5. Banking Supervision Department: Hand book of Rules and Regulations for Banks and Discount Houses in Nigeria 1997-2012.
6. Trade and Exchange Department: The Compendium of Trade and Exchange Circulars, 2008-2011 volume x, TED/FEM/FPC/GEN/01/001
7. Trade and Exchange Department: The Compendium of Trade and Exchange Circulars, 2005-2007 volume ix, TED/AD/2/2005
8. Trade and Exchange Department: The Compendium of Trade and Exchange Circulars, 2002-2011 volume 1, TED/AD/7/2002

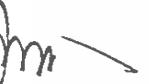
9. Trade and Exchange Department: The Compendium of Trade and Exchange Circulars, 2002-2004, volume viii, TED/AD/2/2002
10. Trade and Exchange Department: The Compendium of Trade and Exchange Circulars, 1997-2001 volume vii, TED/AD/1/97
11. Trade and Exchange Department: The Compendium of Trade and Exchange Circulars, 1993-1996 volume vi, TED/AD/1/93
12. Trade and Exchange Department: The Compendium of Trade and Exchange Circulars, 1990-1992 volume v, TED/AD/1/90
13. Trade and Exchange Department: The Compendium of Trade and Exchange Circulars, 1989 volume iv, TED/AD/1/89
14. Trade and Exchange Department: The Compendium of Trade and Exchange Circulars, 1988 volume iii, FED/AD/1/88
15. Trade and Exchange Department: The Compendium of Trade and Exchange Circulars, 1987 volume ii, FIE/AD/1/87
16. Trade and Exchange Department: The Compendium of Trade and Exchange Circulars, 1986 volume I, ECD/AD/1/86

**SECTION II**  
**PART A: BANKING AND PAYMENTS SYSTEM CIRCULARS, POLICIES AND  
GUIDELINES**

- The implementation of the new scheme (NICPAS) has been in progress since August 2014 and NICPAS for i
- Having been in progress since August 2014 and NICPAS for i
- accommodate current and future needs
- The new scheme (NICPAS) is being implemented in a phased manner
- All cheques issued by the bank from 1st August 2014 onwards
- By 1st August 2014, all cheques issued by the bank will be on the new scheme
- cheque clearing process will be completed by 1st August 2014
- Personalized cheques issued by the bank will be on the new scheme
- A procedure will be in place to ensure that the bank feels that the new scheme is being implemented smoothly
- Membership of the bank will be on the new scheme
- (DMBS), Acc
- invited to be

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Dipo Fatokun  
Director, Bank



BANKING AND PAYMENTS SYSTEM DEPARTMENT

September 13, 2018

Financial Institutions,  
Payments Service

(INTER-BANK)

Standard for the  
issuance of  
in Nigeria.

018.

for cooperation

Banking and Payments System Department

**REGULATION ON INSTANT (INTER-BANK)  
ELECTRONIC FUNDS TRANSFER SERVICES IN NIGERIA**

**JULY, 2018**

## **1.0 Preamble**

In exercise of the powers conferred on the Central Bank of Nigeria (CBN) under Sections 2(d), 33 (1)b) and 47(2) of the CBN Act 2007 to promote sound financial system in Nigeria, issue guidelines, facilitate the development of an efficient and effective payments system in Nigeria, the CBN hereby issues the following rules and regulations for the efficient operation of Instant Electronic Funds Transfer Services in Nigeria.

## **2.0 Scope**

This Regulation covers Instant Electronic Funds Transfer Services in Nigeria on various payment channels and any payment platform that seeks to provide Instant Electronic Funds Transfer Services in Nigeria.

## **3.0 Objectives**

1. setting out the rules for the operation of Instant Electronic Funds Transfer services in Nigeria;
2. prescribing the rights and obligations of the parties to such services;
3. provision of the minimum standards for the operations of the parties to EFT services;
4. stipulate procedures geared towards the enhancement of the soundness of instant EFT services, while adequately protecting the interests of instant EFT customers and operators.

## **4.0 Stakeholders**

Stakeholders of Instant Electronic Funds Transfer Services shall include:

The Central Bank of Nigeria as the Regulator

1. Financial Institutions (FIs)
  - a. Deposit Money Banks
  - b. Other Financial Institutions (OFIs) i.e. licensed Primary Mortgage Banks, Micro-Finance Banks, and Mobile Money Operators
  - c. Development Finance Institutions (DFI)

2. Instant EFT Service Providers
3. Customers (Originator and Beneficiary)
4. Any other stakeholder as may be determined by the CBN from time to time.

## **5.0 Rights and Responsibilities of Stakeholders to Instant EFT**

This section sets out the rights and responsibilities of all stakeholders to Electronic Funds Transfer under this Regulation.

### **5.1 Rights and Responsibilities of Instant EFT Service Provider**

An Instant EFT service provider shall:

1. ensure compliance with the minimum standards issued by the CBN and as amended from time to time;
2. establish and implement operational guidelines specifying in clear terms the responsibilities of each party, operational rules and procedures (including dispute handling) and liabilities of parties in the event of loss of funds arising from negligence of any of the parties;
3. develop and circulate user guides to educate and enlighten other stakeholders on its Instant EFT services;
4. maintain confidentiality of Instant EFT transactions and information obtained in the course of discharging its responsibilities and shall ensure that these responsibilities extend to its employees;
5. provide Name Enquiry support to minimize instances of wrong credits
6. put in place a robust Dispute Resolution System (DRS) for users of its platform;
7. establish adequate security procedures to ensure the safety and security of its information and those of its clients, which shall include physical, transactions, logical, network and enterprise security;
8. submit to the CBN an Enterprise Risk Management framework annually;
9. maintain a business continuity plan which must have received the ISO22301 certification or any other certification as may be prescribed by CBN from time to time;

10. ensure full compliance with relevant provisions of rules, regulations, guidelines, policies and directives issued by the CBN in relation to its operations;
11. provide to the CBN, information on usage, volume and value of transactions and other relevant information, as and when due, and in the format required by the CBN;
12. maintain a robust Anti-fraud management system approved by the CBN or connect to the CBN industry Anti-Fraud system;
13. provide its fraud management returns to NIBSS on daily basis which shall include all instances of fraud and attempted fraud on its network; notify customers at the point of onboarding, details of its operating hours and service support contacts;
14. ensure compliance with AML/CFT regulations, most especially the KYC requirements;
15. Comply with established transaction limits as prescribed by the CBN from time to time.

## **5.2 Rights and Responsibilities of Receiving Sending Party**

A Sending Entity in an Instant EFT transaction shall:

1. provide Name Enquiry support to the customer to minimize instances of wrong credits.;
2. not provide instant EFT services to Walk-in customers without any bank account in Nigeria;
3. fully secure debit against customer account before initiating transfer;
4. provide notification of debit to customer's account, as agreed with the customer;
5. Ensure that EFT messages contain the sender's name, BVN and account number, beneficiary name and account number, narration and other

information specified by customers at the point of initiating a transfer, to aid reconciliation;

6. Ensure that EFT messages contain correct information (channel codes, time stamp, transaction location etc) to facilitate accurate data analytics;
7. Notify customer of the status of Instant EFT as agreed in the terms and conditions of its platform;
8. Refund into customer's account full proceeds of failed transactions returned by the Receiving Entity within 10minutes;
9. refund into customer's account full proceeds of transaction which the Sending Entity is unable to process within one (1) hour after the next settlement closure;
10. Permit transfers from all its service delivery channels – branches, internet banking, mobile banking, ATM/Kiosks, etc;
11. Publicize instant EFT services and the instant EFT FAQ to its customers;'
12. Receive customer complaints regarding EFT problems, and pursue resolution to a logical conclusion, in line with the dispute resolution in clause 10;
13. Provide Funds Transfer receipt to the customer as transaction evidence;
14. Comply with the approved Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT) directive, and transaction value limits as may be set from time to time by the CBN and other relevant regulatory bodies.

### **5.3 Rights and Responsibilities of Receiving Entity**

A Receiving Entity in an Instant EFT transaction shall:

1. provide Name Enquiry support to EFT Service Provider to minimize instances of wrong credits, subject to a Non-Disclosure Agreement, which shall limit the usage to provision of Instant EFT services only;
2. apply Instant EFT proceeds to the customer's account within 60 seconds;
3. ensure that Instant EFT proceeds have been credited to customer's account before confirming to the Sending Entity that transaction was successful;

4. where it is impracticable for the Receiving Entity to credit the customer's account within 60 seconds, due to security, system or other considerations, the Receiving Entity shall notify the Sending Entity, beneficiary and/or the EFT service provider(s) shall be notified of the issue with the assurance that pending credits will be applied as soon as the issue is resolved but not exceeding 24 hours;
5. notify customer of the Instant EFT receipt as agreed in the terms and conditions of its platform;
6. ensure that bank statement of the beneficiary features, in the minimum, the Sender's name and Transaction Narration Information as contained in the inward EFT message, to aid reconciliation by the beneficiary;
7. Provide in the transaction status notification, service support contacts a customer can report to in case of mis-application of credit to a wrong account;
8. upon receipt from a customer of a notification of an erroneous credit and necessary reversal authorization, the Receiving Entity shall reverse the erroneous credit;
9. process all inward instant debit transactions, subject to valid debit mandates;
10. publicize instant EFT services and the instant EFT FAQ to its customers;
11. Comply with the approved Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT) directive, and transaction value limits as may be set from time to time by the CBN and other relevant regulatory bodies.

#### **5.4 Rights and Responsibilities of the Customer**

1. Provide accurate beneficiary account details for every EFT instruction.
2. Report problems arising from EFT transactions promptly to the Sending/Receiving Entity.

3. Whenever a credit has been erroneously applied to the customer's account with the Receiving Entity, the customer shall promptly notify the Receiving Entity and authorize the reversal of such erroneous credit.
4. Where the customer account is unfunded, the customer shall provide funds within 24 hours, failure to provide funds shall be a ground for watch-listing of the customer in the banking industry, Credit Bureau and reporting to law enforcement agencies.

## **6.0 Types of Transaction**

The following transaction types shall be allowed for Instant EFT:

1. One to one – single debit and single credit
2. One to many – single debit and multiple credits
3. Many to one – Multiple debits and single credit

## **7.0 Limitations on Instant Eft Amount**

7.1 The limitations on Instant EFT values shall be set by customer, Sending and Receiving Entities based on individual entity's' risk appetite subject to the single Instant EFT limit per transaction as stipulated by the CBN.

7.2 Sending and Receiving entities shall advise the EFT Service Provider of such limits who would circulate platform limits to all Sending and Receiving entities, to guide platform operations.

## **8.0 Settlement Procedure**

### **8.1 Instant EFT Settlement Cycle**

8.1.1 Instant EFT transactions shall be settled as agreed amongst participants but not later than T+1 basis.

8.1.2 The EFT service provider may operate more than one settlement cycle per day to minimize the settlement risk associated with Deferred Net Settlement system

### **8.2 Instant EFT Settlement Collateral**

Sending and Receiving Parties to EFT transfers shall provide adequate collaterals under CBN approved collateral management system.

## **9.0 Fees and Charges**

Instant EFT service providers and Sending entities shall apply fees and charges in compliance to the approved Guide to Bank Charges. The Receiving entity shall not earn income on funds transferred. However, statutory levies/charges shall apply.

## **10.0 Dispute Resolution**

### **10.1 General**

10.1.1 The Instant EFT Service Provider shall properly document and circulate among Sending and Receiving entities a Dispute Resolution System (DRS) process.

10.1.2 All Instant EFT disputes shall be resolved within 3-working days.

10.1.3 Where the Sending and Receiving entities fail to agree, the aggrieved entity shall report to the Director, Consumer Protection Department, CBN within five (5) working days of the failure to resolve the dispute so as to minimize customer pain

### **10.2 Wrong Transfer Due to Bank Error**

10.2.1 Where a Sending Entity erroneously sends value contrary to customer's instructions due to wrong account number, wrong amount, duplication, etc to a Receiving Entity and requests the reversal in writing within 14 working days of the transaction, the Receiving Entity shall oblige within one (1) business day without recourse to the customer (beneficiary) of the Receiving Entity provided funds are available. An automatic indemnity shall be inferred against the Sending Entity making the reversal request.

10.2.2 Where funds are not available, the Receiving Entity shall immediately notify its customer that the account was wrongly credited and provide proof of such notification to the Sending Entity.

10.2.3 The Receiving Entity shall notify the customer the consequences of not funding the account within 24 hours, which includes watch-listing in the banking industry, Credit Bureau and reporting to law enforcement

agencies. The Receiving Entity shall watch-list the customer if he fails to provide fund within seven (7) days

The Receiving Entity shall refund the transaction as soon as funds are either partially or fully available.

10.2.4 The Receiving Entity shall not use the wrong credit to settle the customer's outstanding indebtedness to it and shall not consider such credit as the property of the customer

### **10.3 Wrong Transfer Due to Fraud**

The provisions of the CBN circular with reference number BPS/DIR/GEN/CIR/02/004 dated 11<sup>th</sup> June, 2015 on the Establishment of Fraud Desks or any amendment thereto shall apply.

### **10.4 Transfer Recall Due to Customer Error**

Where a customer claims to have made a transfer in error, the following provisions shall apply:

10.4.1 Where the beneficiary is known to the complainant, the Sending Entity shall encourage the complainant to contact the beneficiary for an amicable settlement;

10.4.2 where the beneficiary is not known to the complainant or a known beneficiary refused to effect a refund to the complainant, the Sending Entity having received a tenable claim from customer shall notify the Receiving Entity who shall place a lien on the amount in the account of the beneficiary and thereafter obtain the consent of the beneficiary to execute refund;

10.4.3 where the beneficiary does not give consent, the internal auditors of the Sending and Receiving Entities shall mediate between the two customers within 2 weeks of the complaint to resolve the issue, and their decision shall be final. Accordingly, the lien on the amount in the beneficiary's account shall not last more than 2 weeks;

10.4.4 Where the contested beneficiary has utilized the fund such that lien could not be placed, and he/she refuses to fund the beneficiary account to facilitate refund, the Receiving Entity's Internal Auditors shall watch-list the customer's BVN and the Sending Entity may report the incident to law enforcement agencies.

### 10.5 Exceptions Handling

The DRS procedure put in place by the Instant EFT service provider shall make provisions for exception handling where the status of a transaction between the EFT service provider and the Sending or Receiving Entities is indeterminate.

## 11.0 SANCTIONS

S/No	Abuse	Monitoring Mechanism	Sanction
1	A failed NIP transaction not reversed into customer's account within 24 hours	Based on complaints of sender and/or beneficiary.	N10,000.00 per item
2	Delayed application of inward NIP into beneficiary's accounts beyond 4 minutes.	Based on complaints of sender and/or beneficiary.	N10,000.00 per item

The sanctions above and any other prescribed in the Nigeria Bankers' Clearing System Rules or any amendment thereto, shall apply.

## 12.0 Amendments

Any stakeholder to the Instant EFT Service may propose amendments to this Regulation. Such amendment proposals shall be formally forwarded to the office of the Director, Banking and Payments System Department of the CBN for consideration.

## 13.0 Definitions

**13.1 EFT** shall mean Electronic Funds Transfer

**13.2 Instant (Inter-Bank) Eft or Instant Eft or Instant Payment** shall mean Instant EFT Payments system between two distinct entities when delivery from the Sending Entity to the Receiving Entity takes place within 1 minute (60 seconds). A payments system where delivery to the Receiving Entity occurs beyond 1 minute is considered to be an ACH system.

**13.3 Instant (Inter-Bank) Eft Service Provider** shall mean a Nigerian company or Financial Institution licensed by the CBN to carry on the business of facilitating Electronic Funds Transfer services in partnership with Sending and Receiving Entities.

**13.4 Sending Entity** shall mean a Nigerian company or Financial Institution licensed by the CBN to carry on the business of facilitating Electronic Funds Transfer services in Nigeria and who initiates an Instant EFT on behalf of its customers.

**13.5 Receiving Entity** shall mean a Nigerian company or Financial Institution licensed by the CBN to carry on the business of facilitating Electronic Funds Transfer services in Nigeria and who receives the proceeds of Instant EFT on behalf of its customer.

**13.6 Walk-In Customer** shall mean a person that does not have a bank account maintained by the Sending Entity



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**BANKING AND PAYMENT**

**REVISIONS**

**July 31, 2018**

To: All Depositors  
 Mobile Money Operators

**CIRCULAR ON**  
**(REVISED)**

The Central Bank of Nigeria Bankers' Association  
 development of the Nigerian banking system.

Please, note that  
 2018.

Please, be guided

Thank you for your

  
 Dipo Fasokun  
 Director, Bankers' Association

**NIGERIA BANKERS' CLEARING SYSTEM RULES  
(REVISED)**

**May, 2018**

## 1. Preamble

In exercise of the powers conferred on the Central Bank of Nigeria (CBN) under the Sections 2(d), 33 (1)(b) and 47(2) of the CBN Act 2007 to promote sound financial system in Nigeria, issue guidelines, facilitate the development of an efficient and effective payments system in Nigeria, and prescribe rules and regulations for the efficient operation of the clearing and settlement system, the CBN hereby issues the following rules for the operation of the Nigeria Bankers' Clearing System (NBCS).

### 1.1 Objectives

The objectives of the NBCS rules are:

- 1.1.1 To provide for efficient operation of **Automated Clearing System**, speedy and efficient collection of cheques, **ACH instrument**, bills and other payment instruments payable or deliverable to member banks of the NBCS by a system or systems of clearing.
- 1.1.2 To prescribe appropriate standards for the use of the NBCS.
- 1.1.3 To provide a mechanism and framework for the clearing and settlement of payment instruments among member banks.

### 1.2 Commencement

The Nigeria Bankers' Clearing System Rules shall take effect from 1<sup>st</sup> September, 2018. These rules supersede any previous NBCH rules, Cheque Truncation Guidelines, NACS Rules and Clearing & Settlement Guidelines.

## 2. Application For Membership of the NBCS

2.1 Membership of the NBCS shall be restricted to CBN, Deposit Money Banks, and the operator of the NBCS.

2.2 Any bank wishing to become a member of the NBCS shall present an application in writing to the Director, Banking and Payments System Department, CBN which shall contain an undertaking to be bound by these Rules and such other information as may be prescribed by the CBN from time to time.

2.3 Any licensed bank that is not a member of the NBCS may enter into an agency agreement with any member bank of the NBCS for the purpose of accepting cheques and other instruments drawn on it and for collecting cheques drawn on other banks.

2.4 A list of newly approved members shall be communicated to all clearing banks by the CBN / NIBSS.

### **3. Management of Clearing System**

#### **3.1 Establishment, Membership and Operation of the Nigeria Bankers' Clearing System Committee**

3.1.1 There is established a committee to be known as the Nigeria Bankers' Clearing System Committee which shall be responsible for the administration of the NBCS.

3.1.2 The Committee shall comprise representatives of Member Banks.

3.1.3 Each member bank shall nominate its Head of Clearing as a representative to the Committee.

3.1.4 There shall be a Chairman for the Committee to be appointed by the CBN.

3.1.5 The Committee shall meet at a place to be provided by the CBN quarterly to discuss matters relating to the NBCS.

3.1.6 Attendance at meetings of the Committee shall be mandatory and shall be a prerequisite for continued membership of NBCS.

3.1.7 A member bank may be penalized by suspension from participating in clearing activities for such periods as shall be determined by the CBN for non-attendance of two consecutive meetings of the Committee, without a satisfactory reason communicated in writing within five (5) working days before or after any scheduled meeting.

- 3.1.8 Meetings of the Committee shall be presided over by the Chairman. The minutes shall be circulated to all members within one month after the meeting for necessary adoption at the next meeting.
- 3.1.9 Where there is a proposed amendment to these rules, a certified copy of the minutes of the meeting shall be forwarded to the ACH, Cheques & IP Scheme Board through the Office of the Director, Banking & Payments System of CBN for necessary action.
- 3.1.10 The quorum for any meeting of the Committee shall be not less than half of the number of members.
- 3.1.11 A member of the Committee shall have one vote. The decisions of the Committee shall be by a simple majority of members present and voting. In the event of equality of vote, the Chairman shall have a casting vote.
- 3.1.12 The decisions of the Committee shall be binding on all clearing banks. Any party dissatisfied with the decision(s) of the Committee may appeal to the Director, Banking and Payments System Department of CBN.

### **3.2 Stakeholders**

The stakeholders of the NBCS shall include:

- a Central Bank of Nigeria
- b NIBSS
- c Deposit Money Banks
- d Clearing System Committee
- e Other Financial Institutions
- f Payments System Service Providers (PSSP)

## **4. Eligible Financial Instruments**

4.1 Eligible financial instruments for clearing purposes shall include:

- 4.1.1 Paper-based payment instruments such as cheques, managers' cheques, drafts, dividend/interest warrants, debit/credit notes, bankers'

payments. These instruments will be converted to images for clearing purposes;

4.1.2 Electronic payment instruments i.e. ACH instruments that are approved for clearing/settlement in the Clearing System;

4.1.3 Any other instrument that may be approved by the CBN;

4.1.4 For the avoidance of doubt, Direct Debit, either in paper or truncated form, shall no longer be eligible for clearing purposes. .

4.2 Each eligible paper-based payment instrument to be presented for clearing purposes shall not exceed the maximum limit of N10million naira per face value or as may be reviewed by the CBN.

## **5. Duration of Holding Instruments**

5.1 Paper-based Payment Instruments deposited by the customer at any member bank shall be deemed paid by 10pm of the next working day (T+1) except where:

a) It is returned by the paying bank

b) A special caution or an extension of value date request has been received from the paying bank;

5.2 Electronic payment instruments shall clear as follows:

5.2.1 Electronic payment Instruments shall be presented to the clearing system same day if instruction is received from customer at least 2 hours before closure of session available for the financial instrument, unless the relevant service agreement dictates otherwise;

5.2.2 Electronic payment Instruments shall be presented to the clearing system in the next applicable session if instruction is received from customer less than 2 hours before closure of session available for the financial instrument, unless the relevant service agreement dictates otherwise;

- 5.2.3 Where the account details are valid, direct credits shall be applied to the beneficiary's account within 2 hours after the close of the clearing session.
- 5.2.4 Direct debits shall be deemed paid by the same session next clearing day, if not returned.

## **6 Settlement Rules and Procedures**

### **6.1 General**

- 6.1.1 Any bank wishing to become a Settlement Bank shall apply in writing to the Director, Banking and Payments System Department, CBN. The Application shall be approved upon the fulfillment of criteria as may be prescribed by the CBN from time to time.
- 6.1.2 A non-settlement bank shall apply to a Settlement Bank to settle payment instruments on behalf of the non-settlement bank.
- 6.1.3 The relationship between the settlement banks and their respective non- settlement banks shall be governed by an agency agreement entered into between the two parties which shall contain in the minimum obligation set out in Section 6 of this Rules.
- 6.1.4 A Settlement Bank shall, for the duration of the agency agreement, be the sole representative of a Non-Settlement Bank on an exclusive basis for Clearing Settlement provided that a Non-Settlement Bank shall be entitled to participate in clearing sessions through another settlement bank where its Settlement Bank is suspended or otherwise unable to participate in clearing sessions.
- 6.1.5 A Settlement Bank shall be financially accountable for the settlement of its payment instruments and those of its non-settlement banks.
- 6.1.6 A Settlement Bank shall maintain with the CBN the minimum collateral prescribed by the Bank.

- 6.1.7 The agency agreement shall specify clearing collateral to be pledged by the non-settlement bank to the settlement bank. The minimum clearing collateral to be pledged by a non-settlement bank shall be as prescribed by the CBN.
- 6.1.8 Where a non-settlement bank's account with a settlement bank is not adequately funded; an appropriate amount of the collateral shall be immediately rediscounted. The amount of collateral that has been utilized to fund the account shall be replaced within 24 hours, failing which the settlement bank may decline to present or receive clearing instruments on behalf of the non-settlement bank.
- 6.1.8 A Settlement Bank shall give the CBN and a non-settlement bank it represents thirty (30) days' notice before terminating its agency agreement for any other reason apart from 6.1.8 above. Similarly, a non-settlement bank must give the CBN and the Settlement Bank representing it, thirty (30) days' notice before terminating the agency agreement.
- 6.1.9 A Settlement Bank shall maintain credit position in its current account with the Central Bank of Nigeria and pledge to CBN, the required settlement collateral in the form of securities such as NTB and FGN Bonds. The value of such collateral shall be determined from time to time by the CBN.
- 6.1.10 Where a Settlement bank fails to fund its account with the CBN, the CBN may without recourse to the Settlement Bank, re-discount the Settlement bank's securities pledged for purposes of recovering.
- 6.1.11 The Settlement Bank shall provide the Non-Settlement Bank with daily statement of its Settlement Account, showing the net settlement position.

6.1.12 A non-settlement bank shall maintain credit position in its current account with its Settlement Bank and pledge to the Settlement Bank the agreed clearing collateral.

6.1.13 The net settlement positions of a non-settlement bank shall be applied to its settlement bank's account with the CBN

6.1.14 In the event of a Settlement Bank being stripped of its settlement status for reasons other than those stated in section 6.1.11 above by the CBN, the Bank shall grant a maximum of one month notice to that Settlement Bank and its non-settlement banks.

## **6.2 Obligations of Settlement Banks**

6.2.1 A Settlement Bank shall settle for a non-Settlement Bank with which it has an agency settlement agreement.

6.2.2 A Settlement Bank shall post into the account of a non-Settlement bank under it the net settlement position of the non-Settlement Bank.

6.2.3 A non-Settlement bank shall within 24 hours credit its settlement account with the Settlement Bank where the net settlement position is a debit.

6.2.4 Where a non-Settlement bank fails to fund its account with the Settlement Bank, the Settlement Bank may without recourse to the Non-Settlement Bank rediscount the Non-Settlement bank's collateral pledged for purposes of recovering and netting off the debit balance in the Settlement Account.

6.2.5 Settlement Bank shall agree with the Non-Settlement Bank on the settlement exposure limit in respect of payment instruments and how to monitor same.

## **6.3 Obligations of Non-Settlement Banks**

6.3.1 A non-Settlement Bank shall open an account with its Settlement Bank wherein the net clearing position of non-Settlement Banks would be

credited and/or debited as may be appropriate after each clearing session (hereinafter called "the Settlement Account").

- 6.3.2 Non Settlement Banks shall pledge collateral in the sum of an amount not less than N250,000,000.00 (Two hundred and fifty million naira only) or any other sum as may be prescribed by the CBN with Settlement Bank which shall serve as collateral for any debit balance in the Settlement Account. This amount shall be subject to review based on transaction volumes.
- 6.3.3 A Non-Settlement Bank shall indemnify Settlement Bank against any liability or loss whether direct or indirect that may arise as a result of this agreement.
- 6.3.4 A Non-Settlement Bank shall pay an annual Settlement fee to the Settlement Bank as may be agreed between them from time to time.
- 6.3.5 In the event of any shortfall in the collateral arising from a rediscounting, a Non-Settlement Bank shall make up the shortfall in the collateral before the commencement of the next clearing session from the date of re-discounting, in order to bring the aggregate value of the collateral up to the initial value of the collateral.
- 6.3.6 In respect of 6.3.5 above, Non-Settlement Bank shall undertake to bear the cost of re-discounting the collateral pledge necessitated by a need to recover the debit balance in the Settlement Account.
- 6.3.7 Non-Settlement Bank shall agree with the Settlement Bank on the settlement exposure limit in respect of payment instruments and shall keep within the set limit.

#### **6.4 Suspension from the Clearing System**

A member bank shall be suspended from participating in any clearing session on the following reasons:

- 6.4.1 Where the Settlement Account is not adequately funded, an appropriate amount of the clearing collateral shall be immediately

rediscounted. The amount of clearing collateral that has been utilized to fund the account shall be replaced within two (2) business days, failing which the bank shall be suspended from further participation in clearing activities;

6.4.2 Where the collateral so discounted is insufficient, the bank shall be suspended forthwith and further measures shall be taken in accordance with the settlement guideline;

6.4.3 When a bank overdraws its settlement account maintained with CBN for three consecutive working days, notwithstanding the provisions of section 6.4.1

6.4.4 When a non-settlement bank, persistently overdraws its account with its settlement bank and the settlement bank has communicated its intention to stop settling for such a non-settlement bank to the CBN and NIBSS.

6.4.5 Failure to provide the requisite infrastructure to enable electronic exchange of eligible payment instrument.

6.4.6 Failure to maintain adequate collateral with either the CBN in case of a settlement bank or its settlement bank in case of a non-settlement bank in accordance to section 6 of these Rules.

6.4.7 When the bank is suspended by the Management of the CBN in the interest of the system for any other reason not hereto afore mentioned Every suspension shall last until such a time reinstatement is approved by the CBN

## **6.5 Confidentiality of Information**

6.5.1. A settlement bank shall maintain strict confidentiality in respect of any confidential information made available to it pursuant to their settlement agency agreement and may not disclose same except with the express permission of the Non-Settlement Bank or as may be lawfully required.

6.5.2. Settlement Bank shall not use any information provided by Non-Settlement Bank for any purpose other than as permitted or required under the Agency Agreement.

## **7. The Nbc's Cheque Truncation Model**

**7.1** For the purpose of this rule, "cheque" shall include all paper based - payment instruments

### **7.2 Model for truncation**

The overall model for NBCS shall be any of the following:

**7.2.1** Generic model – „Image and Data" model:

Cheque images and MICR data flow from the Presenting Bank through to the Paying Bank.

**7.2.2** Data Capture – „Presenting Bank" model:

The cheque is dematerialised by the bank where the cheque is initially presented. Cheques shall be truncated at the Presenting Bank within prescribed time frame defined by these Rules.

**7.2.3** Data and Image Exchange - Clearing System Model:

The Clearing System acts as an intermediary for data and image flow between the presenting and the paying banks.

### **7.3 Data and Image Archive:**

NIBSS shall be the Central Image Warehousing Agency (CIWA) for storage and certification of cheque images. The paying bank may request for any image from CIWA for the purpose of proof of payment up to a period of 10 years. Such data retrieval shall be provided on online real time basis.

### **7.4 Data Standards**

The prescribed data standards for cheque truncation shall be as advised by NIBSS.

### **7.5 Value Limits on cheque truncation**

All cheques that meet the Nigeria Cheque Standard are eligible for cheque truncation subject to value limits of N10 million each or as may be prescribed by the CBN.

### **7.6 Retention of physical cheque**

The retention period of physical cheques by the presenting bank shall be minimum of five (5) years.

### **7.7 Data Storage**

The operator of the Automated Clearing System shall keep electronic copies of the cheque images for a minimum period of 10 years.

### **7.8 Minimum Storage Standards**

The Cheque front shall be stored in both Grey Scale and Black-and-White format while the reverse side shall be stored in Black-and-White only.

### **7.9 Use of Dedicated Secure Network**

Images and MICR data, duly encrypted & digitally signed by the presenting bank, shall travel over a secured network connecting all the Clearing System Gateways (CSGs) with the Clearing System.

### **7.10 Transmission of Image / Data**

The presenting bank's capture system shall transmit the MICR data and images of the cheques to its Clearing System Interface electronically or through electronic storage media.

### **7.11 Media Based Transmission of Exchange Files**

All data and image files to be exchanged shall be encrypted using Public Key Infrastructure (PKI) that is used during network transmission to create the files for transfer using physical electronic media options.

## 8. Clearing Duration and Return Period

### 8.0 Time limit

The clearing cycle for each category of instruments shall be as stated below and is subject to review by the CBN from time to time, in consultation with clearing banks.

<u>S/N</u>	<u>INSTRUMENT TYPE</u>	<u>CLEARING PERIOD</u>	<u>RETURN PERIOD</u>
1	CHEQUES	T+1	5pm T+1
2	ACH CREDIT	24 HOURS	24 HOURS
3.	ACH DEBIT	24 HOURS	24 HOURS

### 8.1 Return of Payment Instruments

8.1.1 All clearing instruments returned unpaid shall bear the appropriate returned reason code as listed in **Appendix A** annexed hereto.

8.1.2 Where the unpaid instrument is a fraudulent / spurious instrument, the Paying bank shall return the instrument as unpaid. The paying bank shall notify the presenting bank in writing and copy the Chief Inspectors of both banks, the Director, Banking and Payments System Department and NIBSS.

8.1.3 The presenting bank shall write the return reason on the physical instrument in generally acceptable format and must not be at variance with the actual returned reason code as advised by the paying bank before delivering the returned physical cheque to the beneficiary.

### 8.2 Delayed Application/Return of Direct Credits

8.2.1 Clearing banks are required to apply inward direct credits to beneficiaries' accounts. A receiving bank that delays the application of direct credits or return such outside the allowed window shall face appropriate sanction, as stipulated in these Rules.

8.2.2 The aggrieved bank shall advise the erring bank in writing with acknowledgement copy advised to NIBSS; the erring bank has three working days to engage the other party in dispute resolution process, failing which NIBSS shall execute the sanction through her interchange fee service. All disputes shall be resolved by the Director, BPSD, or his designate, in conjunction with NIBSS, and its decision shall be binding.

## 9. Procedure for Clearing

### 9.1 General Procedure

Clearing Period – Under the NBCS, cheques shall clear on a T+1 basis such that Customers received value in the evening of T+1 by 10pm or as otherwise advised by CBN.

A typical transaction flow shall be as follows:

<i>TRANSACTION DAY</i>	<i>CHEQUE CLEARING CYCLE</i>
<b>DAY 1 (T)</b>	Fresh cheques are deposited at bank branch
<b>DAY 2 (T+1)</b>	<ul style="list-style-type: none"> <li>✓ Cheques are presented at the clearing System</li> <li>✓ Paying Bank to return unpaid instruments same day</li> <li>✓ Beneficiary Bank gets value</li> <li>✓ Before processing of end of day (EOD), bank customer receives value for cheques not returned.</li> </ul>

#### 9.1.1 Clearing Settlement Cutovers

The Clearing System shall operate 4 Settlement cutovers as follows:

- a. Settlement Cutover **1** (8am): Permits all clearing instruments (Cheque, NEFT-fresh and returned items)

- b. Settlement Cutover **11** (10am): Permits all clearing instruments (cheque, NEFT–fresh and returned items.)

**Note: NIBSS Plc. may apply a charge as specified by CBN for Fresh cheque transmitted during the 11<sup>th</sup> Settlement Cutover where a bank transmits more than 100 cheques.**

- c Settlement Cutover **2** (2pm): Permits only Returned Cheques, fresh NEFT and Returned NEFT.
- d Settlement Cutover **3** (5pm): Permits only Returned Cheques and Returned NEFT Instruments.

9.1.2. Settlements for Cutovers 1, 11 & 2 shall be same day, while settlement for Cutover 3 (Return Instruments) shall be next working day.

9.1.3 All unpaid clearing cheques shall be returned same day.

9.1.4 NIBSS shall ensure that all inward files and reports are available to banks for download within 1 hour of every settlement cutover.

9.1.5. CBN, NIBSS and at least two-third of clearing system members may change Clearing timeline, as circumstances may require.

9.1.6. NIBSS with the approval of CBN may create a new cutover or delete a cutover as the case may be with proper notice to clearing system members.

## **9.2 Point of Truncation**

The determination of the point of truncation shall be at the discretion of the Presenting Bank. Provided that banks shall put in place a process of proper authorization and controls to ensure that all cheques are processed accurately and in accordance with the service prescribed in rule 9.1.1

## **9.3 Clearing Procedure at the Presenting Bank**

### **9.3.1 Preliminary Verification**

It shall be the duty of the Presenting Bank to validate the physical instrument and it shall observe reasonable precautions such as:

- verifying the tenor of the instrument,
- physical feel of the instrument and
- Identifying evidence of tampering that is visible to the eye or under Ultra Violet light.

**9.3.2** The Presenting Bank shall exercise due diligence in accordance with the minimum security standard specified in the Nigeria Cheque Standard.

### **9.3.3 Crossing (Stamping)**

Every cheque received for the purpose of clearing are required to be stamped compulsorily on its face (physical or electronic) by the presenting bank, while presentation stamp on the reverse side shall be optional. The presenting bank has the responsibility to ensure that all electronically stamped cheques are stamped physically before they are archived.

**9.3.4** The following processes shall be handled as set out in Appendix B:

- I. return processing,
- II. capture of images and data,
- III. reject repair and balancing,
- IV. processing at clearing system gateway (CSG) – Outward, Inward and return processing
- V. Clearing, Image Quality Analysis (IQA) and Failure Handling,
- VI. Item Processing and
- VII. Special Processing at Clearing System

## **10. Clearing Session Quorum**

Simple majority of member banks may make recommendations to the CBN for a change in clearing operation or activities.

## **11. Operational Fees of the Clearing System**

- 11.1 All Clearing members shall pay reasonable fee for transactions processed on the clearing system to NIBSS based on the approved rate by CBN.

11.2 Each member bank shall pay an annual fee as may be determined by the Clearing System Committee for the Committee's activities.

## **12 Responsibilities of Member Banks**

### **12.1 General Responsibilities**

12.1.1 Member banks shall ensure that account opening documentations contain clauses that clearly specify the liability of customers in respect of clearing activities.

12.1.2 Subject to the provisions of these Rules, member banks shall not accept, clear or pay any payment instrument into any account other than the account of the beneficiary as stated on the face of the instrument.

12.1.3 At the end of every clearing session, a Settlement Bank shall reconcile its net settlement position with the figure advised by NIBSS and where there is any discrepancy, the Settlement Bank shall alert CBN and NIBSS immediately for corrective action.

12.1.4 Member banks shall participate at each clearing session irrespective of whether they have instruments to present or not.

12.1.5 Member banks shall document the process flow and ensure that adequate control mechanisms are in place. Special care and adequate physical check shall be taken during re-scanning of instruments and re-presentation of instruments.

12.1.6 Member banks shall generate internal control reports at the end of the session and day to effectively reconcile same. Any identified discrepancy shall be resolved not later than the following business day.

12.1.7 Member banks shall put in place a framework for mitigation of operational, legal and reputational risks, in compliance with the Electronic Banking Guidelines.

12.1.8 Where a Paying Bank is unable to return a cheque within the clearing deadline, it shall serve a Special Caution Notice on the Presenting

Bank. The Deadline for submission of Special Caution Notice shall be two (2) hours after the closure of return cheque session.

12.1.9 Special Caution Notice shall be acknowledged by the Presenting Bank to be binding.

12.1.10 The Paying Bank shall send debit note to the Presenting Bank within 2 working days failing which the Presenting Bank may give value without further recourse to the Paying Bank.

12.1.11 Where there is a debit note on the Special Caution Notice received by the Presenting Bank and not returned same working day, it shall be deemed as honoured.

12.1.12 On the request of the Paying Bank, the Presenting Bank shall release a physical instrument to the Paying Bank who may retain it for not more than a period of 3 months effective from the date of the release to the Paying Bank. Where required by law or regulation, the Paying Bank may request for an extension after which period, the Paying Bank shall return the physical instrument to the presenting Bank for safe keeping.

12.1.13 The Presenting Bank shall reject other banks" payment instrument at the point of deposit or scanning where the payment instrument does not meet the Nigeria Cheque Standard or where the information on the payment instrument"s MICR line is wrong or any other irregularity is noticed on the payment instrument.

12.1.14 The request for extension of value date must be sent by the Paying Bank at least 30 minutes before official closure of last session (return session) by NIBSS.

12.1.15 The Presenting Bank has the right to reject cheques written in colours other than black or blue.

### **13 Responsibilities of Presenting Bank**

13.1 Presenting Bank shall store physical payment instruments for five (5) years

- 13.2 The Presenting Banks shall put in place arrangements to physically archive the cleared instruments for ready retrieval, whenever required at a later date.
- 13.3 A Presenting Bank shall verify the validity of the payment instrument presented in respect of its tenor and other features. Images and MICR data to be sent to the clearing system must match.
- 13.4 A Presenting Bank shall be liable for any act of omission or commission that causes any loss of funds as a result of its non-compliance with rule 13.3.
- 13.5 The Presenting Bank shall ensure that the data transmitted is the data meant for that day's clearing.
- 13.6 A Presenting Bank shall be deemed negligent if:
- (i) A customer's account is not properly opened and all necessary KYC (Know Your Customer) requirements are not met.
  - (ii) It fails to up-date its customer-information to ensure that its customers and their referees are genuine with valid and traceable addresses.
  - (iii) On the face of the presented payment instrument, irregularities such as erasures, post-dated or stale mutilation, are evident.
  - (iv) It allows the withdrawal of cleared funds from payment instruments lodged into Dormant Accounts without reactivation of the accounts.
  - (v) It pays the proceeds of Instruments of unusually large amount(s), relative to the account's transaction history without further inquiry or exercising due diligence.
  - (vi) If it presents cheques with alteration/erasures which are visible under Ultra Violet light or eye.
- 13.7 The Presenting Bank shall take appropriate care to match the name of the beneficiary with the account name before processing ACH credit. The

Receiving bank shall not be liable if it applies fund into the account number sent to it. The liability for wrong account shall be that of the Presenting Bank and not the Receiving Bank.

13.8 Presenting Bank shall include the payee name, payee account number and payee Bank Verification Number in the data being presented for payment instruments.

#### **14 Responsibilities of Paying Bank**

14.1 A bank that negligently pays a defective instrument shall be liable provided that a bank shall not be liable for such payment if the payment is made in good faith, and in accordance with established banking procedures such as obtaining proper and valid confirmation from its customer in respect of the payment instrument clearing cheques, where applicable. (The minimum threshold for confirmation is N500,000.00).

**Note: The Member banks shall have the right to set any amount under the minimum confirmation threshold for their internal cheque processing.**

14.1.2 The paying bank shall verify the signature on the image of a cheque.

#### **14.2 Responsibilities of Members to Other Financial Institutions**

Member banks shall execute Agency Agreement with other financial institutions that collect payment instruments (e.g. Primary Mortgage Institution, Microfinance Bank, Stock Brokers and Finance Systems etc)

14.2.1 The agency agreement shall include indemnity clause in favour of member banks.

#### **14.3 Responsibilities of Member Banks to their Customers**

14.3.1 A member bank shall notify its customers of any un-cleared payment instruments deposited within 24 hours of the deposit.

14.3.2 A member bank shall give value for the payment instruments at the end of the due date (where due date is lodgment date + 1) except where the payment instruments are dishonored or returned unpaid within the stipulated clearing duration or are the subject of an inquiry.

14.3.3 A member bank shall indicate the value date of a lodged cheque on the cheque deposit slip and a notification to customer (if any) in respect of the deposit shall also indicate the value date and time which shall not be later than 10pm local time on the value date.

#### **14.4 Responsibilities of NIBSS Plc.**

14.4.1 NIBSS shall ensure that the Clearing System Table is synchronized with the master table information which may include sort codes, transaction codes, branch codes, bank codes, calendar, and designated branches.

14.4.2 NIBSS shall ensure that any change in the Clearing System Table is automatically updated on the online CSGs, and shall inform member banks to update their capture systems immediately. CSG supervisors of member banks shall ensure that their internal systems are updated accordingly.

14.4.3 It shall be the responsibility of member banks to ensure that their offline CSGs (CSGs which are not connected to CS over network) are updated before the commencement of any session after the change.

### **15 Dispute Resolutions**

#### **15.1 A breach of these Rules shall be handled as follows:**

15.1.1 The complaining party shall communicate observed breach in writing to the offending party.

15.1.2 Where the complainant is a customer and no satisfactory response is received after 10 working days, the complaining customer shall notify the Director, Consumer Protection Department of CBN with a copy to the Director, Banking and Payments System Department.

15.1.3 Where the complainant is a bank and no satisfactory response is received after 3 working days, the complaining member bank shall forward its complaint to the Director, Banking and Payments System Department.

15.1.4 The parties shall have recourse to the court of law in the event of unsatisfactory resolution of a breach at the CBN level.

## **16 Abuses of Clearing Process**

16.1 The abuses of the Clearing System are set out in the Sanction Grid in Rule 23.

16.1.1 The CBN may from time to time prescribe sanctions for any other abuses.

16.1.2 All monetary penalties payable under the Sanctions Grid shall be paid into the Penalty Account of the CBN.

### **16.2 Recall of Inter-bank Electronic Fund Transfers (ACH)**

Procedure for the recall of funds wrongly credited to beneficiary account at any member bank as a result of technical issues or operational error from presenting bank is as follows:

16.2.1 The Presenting Bank shall first notify the Receiving Bank in writing or by email. Such a notification shall be deemed as an indemnity in favour of the Receiving Bank by the Presenting Bank.

16.2.2 Upon receipt of the notification, the Receiving Bank shall place a hold on the amount in the beneficiary's account and shall return the funds to the Presenting Bank within 7 days of receiving the notification provided the customer has not withdrawn the funds from the account subsequent to the wrong credit.

16.2.3 Where the wrong credit has been withdrawn by the Paying Bank's customer, the watch-listing provisions under the BVN Framework shall apply. This is without prejudice to any other rights of the Presenting Bank to take any legal step to recover the funds from the customer.

16.2.4 The Receiving Bank shall not use the wrong credit to settle the customer's outstanding indebtedness to it and shall not consider such credit as the property of the customer.

## **17. Industrial Action**

### **17.1 Industrial Action at Clearing Member Bank(S)**

- 17.1.1 A member bank affected by an industrial action shall notify the Director, Banking & Payments System Department of the CBN and NIBSS immediately the industrial action commences, if the industrial action is such that prevents the member bank from participating in any clearing session. NIBSS shall communicate the information of the industrial action to all other member banks and temporarily exclude the affected member bank from clearing activities.
- 17.1.2 If the member bank fails to notify the CBN and NIBSS as required by rule (17.1.1.) the member bank shall be deemed to be part of the clearing system for the period.
- 17.1.3 Member banks may reject financial instruments drawn on a member bank that is unable to participate in clearing sessions for more than two (2) working days due to industrial action until the affected member bank resolves its industrial action and returns to the clearing System.
- 17.1.4 A member bank returning to the clearing system after an industrial action shall give one business day notice to the Director, Banking & Payments System Department, of the CBN, NIBSS and all member banks of its intention to return to the clearing system and may return to the System the next business day.
- 17.1.5 In the case of payment instruments which had gone through the clearing before the industrial action started in the member bank, one additional day of grace shall be counted for the value dates of the instruments above the normal clearing duration from the date the member bank returns to the clearing system.

## 18. Operation of Clearing System During an Emergency

In the case of any event that prevents the clearing system from operating for a period of time, all working days during the period shall not be counted as working days for purpose of determining clearing duration. The CBN shall inform all member banks of such event and give appropriate directives.

## 19. Amendments

19.1 These Rules may be amended by the CBN from time to time, as it may consider necessary.

19.2 Member banks may propose amendments to the Rules by forwarding same to the Director of Banking & Payments System Department.

## 20. Adjudication of Disputes

Any dispute between member banks on clearing activities shall be referred to the CBN for adjudication. The decision of the CBN shall be binding on the affected member banks.

## 21. Sanctions Grid

Appropriate sanctions shall be imposed by the CBN on any member bank that commits any of the abuses listed in this rule 15.

S/No	Abuse	Monitoring Mechanism	Sanction
1	Transmission of data that is not in agreement with the images.	Based on paying bank complaints	N1,000.00 per item
2	Clearing of payment instrument with irregularity such as stale, post-dated, amount in words and figures differ which lead to loss of fund.	Based on paying bank/presenting bank complaint	The presenting and paying bank shall be jointly liable (50:50) if there is a loss.

3	Loss of funds due to failure of Paying Bank to detect duplicated payment instrument	Based on customer's complaint.	Paying Bank shall be fully liable
4	Re-presentation of already paid payment instrument	Based on paying bank complain	N1,000.00 per item
5	Failure to return an unpaid instrument within the clearing period/window without proper notice to the presenting bank	Based on customer's complaint.	Paying Bank shall be fully liable
6	Presenting bank's failure to honour Special Caution Notice in line with section 12.1.9 of these Rules.	Based on Paying Bank complaint	Presenting Bank shall be fully liable
7	Banks Charging beneficiaries for Inward ACH credits except as prescribed by the CBN.	Bank or customer complaint to CBN	200% of the charge/fee subject to a minimum of N5,000.00 to be charged per item against the bank. In addition, a refund of the charge to the beneficiary of the inward ACH credit.
8	Delayed presentation of customers ACH instruments on the clearing system.	Based on customer's complaint to CBN	10% of ACH item with a cap of N10,000.00 per payment instrument
9	Returning Inward NEFT items outside the return window	Based on presenting Bank's complaint.	10% of instrument value subject to a minimum of N10,000.00 per day , per item
10	A bank refusing to pay its own instrument drawn on itself (Manager's Cheque/Draft) other than in cases of forgery	When a clearing member complains.	10% flat charge of face value or N10,000.00 flat charge per cheque, whichever is higher. In addition, Paying Bank shall pay full instrument value to

	or theft.		Presenting Bank
11	Presenting of NonNUBAN transactions for clearing.	As reported by NIBSS.	N1,000.00 per item.
12	A member bank not treating (approve or reject) Direct Debit mandates within 48 hours of getting alerts.	As reported by NIBSS.	N5,000.00 per item per day.
13	Frivolous return of Direct debit instruments, where valid mandate exists and customer has sufficient funds.	Based on complaint of customer or Presenting Bank.	N10,000.00 per item.
14	Delayed application of inward ACH items received from clearing into customer account i.e. beyond 2 hours after the closure of the session where the NEFT item contains valid account details.	Based on beneficiary's complaint.	N5,000.00 per item.
15	Late transmission of clearing data i.e. where NIBSS had to delay the closure of a clearing session to accommodate late transmission by a bank.	Based on NIBSS report.	N50,000.00 within the first hour and every N50,000.00 for every additional hour.

16	Presenting or Paying Bank that applies account maintenance charge on debit entries arising from returned cheques processing	Based on customer's complaint.	N10,000.00 per item.  In addition, refund of the charge to the customer.
17	Undue delay in transmission of cheques valid for presentment	Based on customer's complaint.	N10,000.00 per item per day.
18	Presenting Cheques which do not meet the requirements of the Nigerian Cheque Standard.	Based on Paying Bank's complaint.	N1,000.00 per item
19	Where a Receiving Bank fails to honour an ACH credit recall request (made within 14 days of the erroneous presentment) in accordance with Rule 16.2	Based on Presenting Bank's complaint.	N10,000.00 per item per day  In addition, NIBSS to recover the instrument value from the Receiving Bank in favour of the Presenting Bank.
20	Failure to return a wrongly applied inward ACH item within 7 working days after receiving a complaint made by the Presenting Bank.	Based on Presenting Bank's complaint.	N10,000.00 per item per day  NIBSS to recover the instrument value from the Receiving Bank in favour of the Presenting Bank.
21	Payment of Fraudulent Instruments:	As stated below	As stated below
21.1	Where the amount of the fraudulent payment instrument is below the confirmation threshold and the alterations are visible to the eye or under Ultra Violet light.	Based on Paying Bank complaint	The Presenting Bank shall be fully liable for the value lost.

21.2	Where the amount of the fraudulent payment instrument is below the confirmation threshold and the payment instrument was not altered but the signature was forged.	Based on customer complaint	The Paying Bank shall be fully liable for the value lost.
21.3	Where the amount of the fraudulent payment instrument is equal to or above the confirmation threshold and the alterations are visible to the eye or under Ultra Violet light.	Based on customer's complaint	Both presenting Bank and paying Bank shall be jointly liable for the value lost on a 50:50 basis.
21.4	Payment where there is no confirmation and the amount of the fraudulent payment instrument is equal to or above the confirmation threshold even when the payment instrument was not altered.	Based on customer's complaint	The Paying Bank shall be fully liable for the value lost.
21.5	Where the fraudulent payment instrument is a Bank Draft/Manager Cheque and the Paying Bank could have detected the fraud had it exercised due care and skill.	Based on complaint	The Paying Bank shall be fully liable
21.6	Where the fraudulent payment instrument is a Bank Draft/Manager's Cheque, there are alterations visible under Ultra Violet light, and the Presenting Bank	Based on complaint	The Presenting Bank shall be fully liable

	failed to detect the fraud.		
21.7	Where the fraudulent payment instrument is a Bank Draft/Manager Cheque and there are alterations which Presenting Bank could have detected using Ultra Violet light, and the Paying Bank could also have detected the fraud.	Based on customer's complaint	The paying bank and presenting Bank shall be fully liable 50:50
22	Frivolous return of other banks's payment instrument(s) that meet Nigeria Cheque Standard for reasons other than allowed in Section 12.1.13.	Based on complaint from Paying Bank	Presenting Bank shall pay a fine of N10,000.00 per payment instrument.
23	Transmission of more than 100 cheques in the special clearing session (11)	Based on NIBSS report	Presenting Bank shall pay a fine of N50,000.00
24	Willful presentation of wrong payment instruments on other banks	Based on Paying Bank's complaint	Presenting Bank shall pay a fine of 10% of face value
25	Persistent presentation of fake/forged instruments on other banks	Based on Paying Bank's complaint	Presenting Bank shall pay a fine of 20% of face value of the payment instrument
26	Member banks failing to indicate the correct reason for returning a payment instrument	Based on Presenting Bank's complaint	N 250 per instrument

## 22. Definitions

**ACH:** Automated Clearing House Any form of electronic payment instruments (single or bulk items) facilitating direct credit or direct debit to target bank accounts, through the Automated Clearing System infrastructure.

**Member Banks:** All banks approved by the CBN to participate in clearing system activities. These could be settlement or non-settlement banks

**Clearing Day:** The day of the exchange of payment instruments between the Presenting Bank and the Paying Bank.

**Clearing Session** means the period between the commencement and closing of a clearing cycle.

**Clearing System Committee** means the committee established under rule 3.

**NBCS:** means Nigeria Bankers Clearing System

**NEFT means** NIBSS Electronic Funds Transfer

**NIBSS means** Nigeria Interbank Settlement System Plc

**NTB means** Nigeria Treasury Bills

**Payment Instruments** mean an instrument, authority or a process enabling a payer to issue a payment instruction and includes currency or any electronic means of effecting payment

**Settlement Banks** means CBN, and member banks appointed by the CBN to settle for themselves and other member banks, known as non-settlement banks.

**Stale Cheque** means cheque presented for clearing more than six (6) months after the date on the face of the cheque.

**Working days means** Mondays through Fridays excluding public holidays.

**Cheque**— an instrument, payable on demand and drawn on or payable through or at an office of a bank, whether or not negotiable, that is handled for forward collection or return.

**Cheque Truncation**— means the conversion of a physical cheque into a substitute electronic form for transmission to the Paying Bank.

**Ordinary Caution Notice** – This is an electronic or a physical document issued by the Presenting Bank to the Paying Bank about a suspicious payment instrument.

**Special Caution Notice** – This is an electronic or a physical document issued by the Paying Bank, after the closure of the return window to alert the Presenting Bank not to give value to such clearing instrument.

**MICR' (Magnetic Ink Character Recognition)Line** (means, the numbers, which may include the bank routing number, account number, cheque number, cheque amount, and other information, that are printed near the bottom of a cheque in magnetic ink in accordance with the Nigeria Cheque Standards.

**Paying Bank** means (i) the bank by which a payment instrument is payable.

**Person**— means a natural person, corporation, unincorporated company, partnership, government unit or instrumentality, trust, or any other entity or organization.

**Presenting Bank**— means the bank that receives the payment instrument from the customer, either directly or via a third party, and presents to the clearing System for clearing and settlement.

**CTS:** Cheque Truncation System

**Managers' Cheque or Bank Draft means** A cheque guaranteed by a bank; a written order directed by a bank to pay; and a cheque drawn on the bank's owned fund.

**23.** These Rules supersede the Nigerian Banker's Clearing House Rules, Cheque Truncation Guidelines, Nigeria Automated Clearing System Rules and Clearing & Settlement Guidelines

## APPENDIX A

### REASONS FOR RETURNING INSTRUMENTS

- 01 Account Attached due to Legal or regulatory restrictions
- 02 Account Closed
- 03 Account Dormant
- 04 Account Name and Account number differ
- 05 Account Non-existent
- 06 Account not funded
- 07 Account Not valid for Clearing/Electronic Payment
- 08 Bank not in Clearing
- 09 Cheque drawn in foreign currency. Please present specially
- 10 Cheque incompletely drawn
- 11 Cheque Mutilated
- 12 Cheque Crossed to two banks
- 13 Drawer deceased
- 14 Amount transmitted differs from amount on cheque image
- 15 Drawer's confirmation required
- 16 Endorsement irregular
- 17 Incomplete or Irregular Mandate
- 18 Material alteration requires drawer's signature
- 19 Incomplete Image
- 20 Payment stopped
- 21 Crossing stamp required
- 22 Cheque Already Paid
- 23 Presented more than 3 times
- 24 Spurious or Forged cheque
- 25 Cheque, Stale or Post-dated
- 26 Amount in Words and figures differ
- 27 Wrong delivery
- 28 Blurred or Blank Image
- 29 BVN Required
- 30 Cheque Not Valid for Clearing
- 31 Multiple Presentation
- 32 Refer to Registrar

## APPENDIX B

### PROCEDURE FOR CHEQUE TRUNCATION

#### **1.0 Capture of Images and Data**

The images of all the instruments in a batch / file shall be duly captured along with MICR data using scanners set up for the purpose. The amount shall be captured or keyed in to complete the data record.

##### **1.1 Reject Repair and Balancing**

The presenting bank shall have proper systems and procedures in place to ensure that the rejects of the MICR line are appropriately repaired and the batch file is balanced before the same is uploaded from the capture system to the Clearing System. Banks are required to pass on the value in the MICR repair tag for any correction / changes / rejects on the MICR band of the cheques in the capture files.

#### **2.0 Return Processing**

The Presenting bank shall receive the return exchange file for each return session containing the returns on the presentation lodged by them. An item may be returned as long as its clearing period has not expired, and a session is available for the particular clearing type. The return file shall contain the item detail and return reason code. It shall be the responsibility of the presenting bank to generate the return memo to the customer from the information in the return file.

#### **3.0 Processing at Clearing System Gateway (CSG) – Outward Clearing**

##### **3.1 Receiving Outward Presentment**

The CSG shall receive correctly formatted outward MICR Clearing Data files and Image files from the capture system of the Presenting Bank. The Presenting Bank shall ensure that the total amount and individual line items in the MICR Data File are reconciled against the Data Image File.

##### **3.2 Image Quality Analysis (IQA) and Failure Handling**

The incoming images are subjected to IQA validations by the presenting bank. Images which fail IQA validations are rejected with an appropriate response file. The bank may rescan the instrument and present in line with the bank's internal processes or control procedures. The presenting bank shall maintain control over such re-presentments.

##### **3.3 Item Processing**

The MICR Data Files and Cheque Image files presented by the capture system are validated by the CSG against the file and item level validations indicated in the CSG Specifications, as released by the Clearing System from time to time.

The CSG after validations generates response files which contain information related to acceptance or rejection of each file and the items present in each file with appropriate reason codes.

Sometimes there may be multiple response files for a MICR Data File and Cheque Image file. It is the responsibility of the capture system to take these response files and take appropriate actions. The CSG then sorts the MICR data and their related images into bundles per paying bank and bundle collection type and creates exchange files internally and validates these bundles against the session window to which they shall be attached at the Clearing System. The CSG, before attaching the items to the session, signs MICR data as well as image views. It also signs and encrypts the exchange files before transmission to clearing system.

### **3.4 Session Attachment**

The items are assigned to an appropriate clearing session that is open based on parameters fixed for a session by the Clearing System. These parameters are passed on to the capture system through the CSG. The item inherits „session date“ that is the business date of the session. If there is no appropriate session that is open, the items/ bundles wait at the CSG until such a session opens.

A validation of the item"s Presentment Date versus the item"s Session Date is performed and items that exceed as prescribed shall be rejected by the Clearing System. The Clearing System shall from time to time prescribe this parameter.

### **3.5 Transmission of Files to Clearing System**

CSG shall build exchange files for the MICR data and the cheque images for onward transmission to the Clearing System. Each exchange file is digitally signed and encrypted before it is transmitted to the Clearing System.

Banks shall plan transmission of their outward presentation by taking into account presentation volume, the bandwidth of network with the Clearing System, and the session window. In the event of an exchange file being received at the CSG within a session time but not passed to the Clearing System (due to unforeseen circumstances such as network congestion) before close of the session, the CSG shall unbundle the exchange file, and reattach to a new session.

### **3.6 Reconciliation of Outward Presentation**

It shall be the responsibility of the Presenting Bank to verify and ensure that all the items presented / transmitted by it have been included in the settlement and reconcile the total credits with the presentation made by it.

After End of Session on the Clearing System, CSG generates an OACK file containing the details of Items that have been taken up for settlement on the Clearing System. It shall be the responsibility of presenting bank to reconcile their entire presentation by collating the information from OACK file and various response files.

## **4.0 Processing at Clearing System Gateway (CSG) - Inward Clearing**

### **4.1 Receipt of Inward Data / Images**

The Inward processing deals with accepting inward presentment data and images from the Clearing System and providing data in the form of files for

use within the bank's in-clearing (paying bank) system. The CSG receives digitally signed inward financial data exchange files and image exchange files from the Clearing System.

#### **4.2 Validation**

The CSG shall authenticate and load the exchange file data into the system and send an error exchange file to the Clearing System if the inward financial data exchange file or image exchange file failed decryption or authentication. The CSG shall send an acknowledgement exchange file to the Clearing System if the inward financial data exchange file or image exchange file gets successfully loaded. The CSG shall also validate the digital signatures on the Exchange MICR and Image Files.

#### **4.3 Control Mechanism**

The Paying Bank shall verify that all the inward items have been received by it to ensure that there has been no data loss in the transmission from Clearing System to the CSG. The CSG supervisor may compare the relevant information available at the „Clearing System Processing Monitor“ and „Inward Exchange File Screen“ for the purpose. If any files are lost in transmission the bank may request the Clearing System for retransmission of images and data.

#### **4.4 Generation of Posting File**

CSG, for each session, shall generate files for interfacing with the bank's inclearing or exception processing system.

CSG is capable of creating posting files (both image and data files) for payment processing bank wide in one of the following three ways:

- i. Bank wise for the entire bank
- ii. Branch wise within each bank
- iii. Branch and transaction code wise for each branch.

The type of posting file the paying bank requires is configurable at CSG.

### **5.0 Processing at Branches / Bank's In-clearing System**

#### **5.1 Transmission of Posting Files**

It shall be the responsibility of the paying bank module to fetch the posting files from CSG and undertake the payment processing.

#### **5.2 Duplication Checking**

The CSG detects duplicate items based on MICR code line on the data for the configured number of days. The duplicate items are indicated in the SACK files generated by the paying bank's CSG, and it is the responsibility of paying bank module to have processes in place to take necessary caution/control while processing such items. Additionally, Clearing System also generates a report of duplicate items for each CSG after each session, and is available for CSGs to access the same and download, if required.

### **5.3 Payment Processing**

Banks shall conduct the payment processing based on images of the instruments following all the prudent practices. Both the presenting and paying banks shall be liable for payment of a stale or post-dated instrument.

### **5.4 Return Request File**

It shall be the responsibility of the paying bank to collate all the return items and create Return Request File/s (RRF) as per specifications provided in CSG Specification document. The paying bank in-clearing system shall forward such Return Request File/s to CSG for onward transmission to the Clearing System.

### **5.5 Return Processing at the CSG**

The CSG shall receive Return Files from paying bank system containing all the outgoing returns along with return reason codes. The CSG shall validate the file for file integrity and data integrity, process the data and generates exchange file for the Clearing System. During return clearing images would not travel. Each exchange file is digitally signed and encrypted before it is transmitted to CS.

### **5.6 Control of Returned Cheques Incidents**

The Clearing System (CS) shall update and analyse the list of all returned cheques monthly. Customers with cases of high frequencies shall be reported to the CBN and accredited Consumer Credit Bureaus. Appropriate return reason code shall be specified in the Return File(s) by the Paying Bank.

### **5.7 Current Account Maintenance Fee**

The Presenting and Paying Banks shall not charge Current Account Maintenance (CAM) fee on Debit entries arising from Returned Instruments. However the paying bank shall be free to apply returned cheque charges as provided in the Guide to Bank Charges.

### **5.8 Transmission Discipline**

CSG shall transmit the Outward Return Exchange Files within the given return window. As there may be a time lag during transmission of a file from CSG to CS, the paying bank shall ensure that the return exchange files reach the Clearing System within the timeframe before the closure of the return session.

### **5.9 Internal Control**

While handling the inward clearing, the banks shall search for duplicate MICR cheques and maintain a duplicate MICR cheques list. In addition to the inward instruments drawn on branches of a bank, the reports generated by the Clearing System shall contain the summary position of the total number of instruments and the total value thereof. After the processing of inward clearing, banks shall verify the inward clearing figures.

### **5.10 Reconciliation of Clearing Differences**

In CTS Clearing the images and data shall be received in separate files and hence the possibility of a bank being debited without receiving an image shall not arise. In the case of a bank being debited with the cheque image

of another bank (caused, for example, of data entry error) the same shall be returned to the presenting bank with appropriate return reason code.

## **6.0 Special Processing at Clearing System**

### **6.1 Caution Notice**

Ordinary Caution Notice shall not be applicable in Cheque Truncation System (CTS) regime.

### **6.2 Different Status of CSG / Bank**

**6.2(i) Suspended:** CS shall change the status of a bank from „in clearing“ to „suspended“ under exceptional circumstances such as moratorium or unwinding. In such a scenario, the suspended bank shall not be able to participate in any clearing. But banks/NIBSS may return items presented by the suspended bank in the suspended period.

**6.2(ii) Not in Clearing:** CS shall put a bank in „not clearing“ mode when a bank does not participate in clearing based on member notification to CBN and NIBSS with copies to clearing members of inability to participate in clearing activities. Once set as „not clearing“ the bank cannot make or receive any presentations during the „not clearing“ period. Other banks also cannot return items presented on/by the bank.



July 2, 2018

**TO: ALL BANKS, MOBILE MONEY OPERATORS AND SUPER AGENTS**

**SHARED AGENCY NETWORK EXPANSION FUND INITIATIVE: REGULATORY DATA RENDITION REQUIREMENTS**

Pursuant to the decision of the Bankers' Committee to adopt and implement the Shared Agency Network Expansion Fund initiative by the Banking Industry, aimed at accelerating the Bank's financial inclusion program, the Bank hereby issues this regulatory requirement for data rendition for effective monitoring and evaluation purposes.

All banks (including Microfinance Banks and Primary Mortgage Institutions) that appoint/have agents, Mobile Money Operators and Licensed Super Agents are hereby directed to render daily returns, through the Nigeria Inter-Bank Settlement System (NIBSS) Plc, to the Central Bank of Nigeria, in the mode and template prescribed by NIBSS. The transaction data is required daily, so as to plot the growth and type of services being offered across the country.

The information, as indicated in the attached template shall be made available to NIBSS on a daily basis with effect from July 10, 2018. For further information on the reporting requirements and the mode of submission, please contact [conyejekwe@nibss-plc.com.ng](mailto:conyejekwe@nibss-plc.com.ng) and/or [bodude@nibss-plc.com.ng](mailto:bodude@nibss-plc.com.ng).

Please note that failure to comply with this directive may lead to the revocation of your operating licence.

**Dipo Fatokun**  
**Director, Banking & Payments System Department**

### Agent Manager Data Template

<b>Agent Manager Name</b>		Registered Name for Agent Manager
<b>Agent Manager ID</b>		Unique ID To be assigned by NIBSS
<b>Agent Manager e-mail Address</b>		Contact Email Address for Agent Manager
<b>Agent Manager BVN</b>		BVN for Principal official representing Agent Manager
<b>Agent Manager Phone Number</b>		Contact Phone Number for Agent Manager
<b>Agent Manager Contact Address</b>	Street Number	Information on Agent Managers Operational address
	City	Information on Agent Managers Operational address
	LGA	Information on Agent Managers Operational address
	State	Information on Agent Managers Operational address
<b>Agent Manager Bank Code</b>		Bank Code for agent Manager
<b>Additional Info 1</b>		
<b>Additional Info 2</b>		

### Agent Data Collection Template

<b>Fields</b>	<b>Description</b>
AGENT ID	Agents Unique Identification number on Agent Managers records
AGENT NAME	Name / Business Name for Agent
BVN	Agent BVN
STATE	Information on Agents Operational address
LGA	Information on Agents Operational address

WARD
AGENT ADDR
AGENT E-M
AGENT PHO
GPS Lat
GPS Long

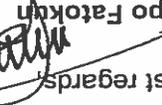
Central Bank of Nigeria  
Watch-list for the  
October 18, 2011

Section 1.6 of the  
following entities  
is hereby amended  
information after

Consequently, the  
a valid Court Order  
applicants.

Please note that

Best regards,

  
Dipo Fatokun  
Director, Bank of

BANKING

CENTRAL BANK OF NIGERIA  
Central Business District  
P.M.B. 0187,  
Garki, Abuja.



**CENTRAL BANK OF NIGERIA**  
Central Business District  
P.M.B. 0187,  
Garki, Abuja.

**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

BPS/DIR/GEN/CIR/05/008

June 25, 2018

TO: MOBILE MONEY OPERATORS AND OTHER PAYMENT SERVICE PROVIDERS

**CIRCULAR ON COMPLIANCE WITH THE CYBERCRIME (PROHIBITION, PREVENTION, ETC.) ACT 2015: COLLECTION AND REMITTANCE OF LEVY FOR THE NATIONAL CYBERSECURITY FUND**

Pursuant to the provisions of Section 44 (S. 1 and 2) of the Cybercrime (Prohibition, Prevention, etc) Act 2015, all Mobile Money Operators (MMOs) and other affected Payment Service Providers are hereby directed to comply with the statutory provision for the collection and remittance of the 0.005 levy on all electronic transactions by the businesses specified in the second schedule of the Act.

The following notes shall guide the implementation:

- I. Electronic transactions shall be all financial transactions occurring in a bank or on a mobile money scheme or any other payment platform that have an accompanying service charge.
- II. The levy shall be 0.005 of the service charge (exclusive of all tax effects) from all electronic financial transactions occurring in a bank, a mobile money scheme or other payment platforms.
- III. All electronic transactions (both inter and intra) that have an accompanying service charge shall qualify as eligible transactions.
- IV. The effective date for collection shall be with effect from July 1, 2018
- V. All levies imposed under the Act should be remitted to the nominated T24 account number: 0020538861023 domiciled in the Central Bank of Nigeria.
- VI. Operators shall remit the levy on a monthly basis using the effective date or date of commencement of business as the base month. For this purpose, the fifth business day of every subsequent month shall be the latest date for remittance.

Please be guided

**'Dipo Fatokun**  
Director Banking & Payments System Department



BANKING AND PAYMENTS SYSTEM DEPARTMENT

CENTRAL BANK OF NIGERIA  
Central Business District  
P.M.B. 0187,  
Garki, Abuja.

**BPS/DIR/GEN/CIR/05/005**

*June 1, 2018*

**To: All Deposit Money Banks, Mobile Money Operators,  
Payment Solution Service Providers and other Service  
Providers**

**CIRCULAR ON EXTENSION OF THE REGULATORY  
FRAMEWORK FOR THE USE OF UNSTRUCTURED  
SUPPLEMENTARY SERVICE DATA (USSD) IN THE NIGERIAN  
FINANCIAL SYSTEM**

Please refer to our circular referenced BPS/DIR/GEN/CIR/05/002 dated April 17, 2018, directing Deposit Money Banks (DMBs), Mobile Money Operators (MMOs), Payment Solutions Service Providers (PSSPs) and other Service Providers on the implementation of the Regulatory Framework for the use of Unstructured Supplementary Service Data (USSD) in the Nigerian Financial System, from June 1, 2018.

The Central Bank of Nigeria (CBN) has observed that in order to fully realize the objective of the Framework, the Bank has considered and approved the extension of the implementation date of the circular to be effective from October 1, 2018.

Please be guided accordingly.

**Dipo Fatokun**  
**Director, Banking & Payments System Department**



**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

**CENTRAL BANK OF NIGERIA**  
Central Business District  
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Garki, Abuja.  
+234 - 0946238445

**BPS/DIR/GEN/CIR/05/002**

**April 17, 2018**

**To: All Deposit Money Banks, Switches, Mobile Money Operators, Payment Solution Service Providers, Micro Finance Banks & Others**

**THE REGULATORY FRAMEWORK FOR THE USE OF UNSTRUCTURED SUPPLEMENTARY SERVICE DATA (USSD) IN THE NIGERIAN FINANCIAL SYSTEM**

The Central Bank of Nigeria (CBN), in furtherance of its mandate to develop and enhance the security of the electronic payments system in Nigeria, hereby releases the Regulatory Framework for the use of USSD in the Nigerian Financial System.

The implementation of this Framework is with effect from **1<sup>st</sup> June, 2018.**

Best regards,

**Dipo Fatokun**  
**Director, Banking & Payments System Department**

**REGULATORY FRAMEWORK  
FOR THE USE OF UNSTRUCTURED SUPPLEMENTARY SERVICE DATA (USSD)  
FOR FINANCIAL SERVICES IN NIGERIA**

## **1.0 Preamble**

In exercise of the powers conferred on the Central Bank of Nigeria (CBN) by Section 47(2) of the CBN Act, 2007, to promote and facilitate the development of efficient and effective system for the settlement of transactions, including the development of electronic payment systems; and Pursuant to its mandate of promoting a sound financial system in Nigeria, the CBN hereby issues the following Regulatory Framework for the Use of Unstructured Supplementary Service Data (USSD) for Financial Services in Nigeria.

## **2.0 Introduction**

The mobile phone has become a veritable tool for enhancing financial inclusion with the advent of mobile payments, m-commerce, m-banking and other implementation for financial transactions based on mobile telephony. The providers of mobile-based financial services have options of adopting varying technologies for enabling access and transmitting data including Short Messaging Service (SMS), Unstructured Supplementary Service Data (USSD), Interactive Voice Response (IVR) and Wireless Application Protocol (WAP), stand-alone mobile application clients and SIM Tool Kit (STK).

Recently, providers of mobile telephony-based financial transactions are increasingly adopting the USSD technology while the range of services supported by their mobile transaction services, using the USSD channel, is broadening rapidly. Among services provided through the channel include, account opening, balance and other enquiries, money transfer, airtime vending, bill payment, etc

The USSD technology is a protocol used by the GSM network to communicate with a service provider's platform. It is a session based, real time messaging communication technology, which is accessed through a string, which starts normally with asterisk (\*) and ends with a hash (#). It is implemented as an interactive menu driven service or command service. It has a shorter turnaround time than SMS, and unlike SMS, it does not operate by store and forward which indicates that data are neither stored on the mobile phone nor on the application. USSD technology is considered cost effective, more user-friendly, faster in concluding transactions, and handset agnostic.

## **3.0 Objectives**

The vast applications of the USSD technology, in terms of available services have raised the issue of the risks inherent in the channel. In this regard, concerns have been expressed on the likely exposure of CBN approved entities to the possible

breaching of the USSD accessed financial services in view of likely vulnerabilities in the technology and the ever growing threats.

Furthermore, the implementation in Nigeria has created multiple USSD channels to customers, thereby increasing their exposure to risk, without a common standard for all.

This Framework therefore, seeks to establish the rules and risk mitigation considerations when implementing USSD for financial services offering in Nigeria.

#### 4.0 Participants in the USSD Ecosystem

Service providers that provide financial services through the use of USSD in Nigeria include the following:

- a. **Financial institutions:** Banks, Other Financial Institutions and Payment Service Providers, providing products and services using USSD protocol to their customers.
- b. **Mobile Money Operators (MMOs):** MMOs are Deposit Money Banks or corporate entities, duly licensed by the CBN to provide mobile payment services to the banked and unbanked customers.
- c. **Mobile Network Operators (MNOs):** MNOs utilize USSD to interact with, and provide services to their customers.
- d. **Value Added Service Providers/ Aggregators (NCC Licensees) –** Any person or organization that engages in the provision of value added mobile/fixed Services, including premium rated services.
- e. **Customers:** initiate financial transactions or sessions through a USSD string provided by their financial Institutions

#### 5.0 Eligibility for Unique Short Code

- 5.1 Mobile Money Operators are eligible for the issuance of USSD short codes from the NCC after meeting the necessary requirements of the NCC for the issuance of same.
- 5.2 For CBN licensed entities, other than Mobile Money Operators, a letter of no objection/introduction from the CBN would be required before being considered for the issuance of the USSD short codes by the NCC, subject to meeting the requirements of the NCC.

## 6.0 Vulnerabilities and Mitigations

USSD based financial transaction requires encryption to protect the integrity of the financial information. To this end, Financial Institutions providing use of the USSD channel shall:

- 6.1 Put in place, a proper message authentication mechanism to validate that requests/responses are generated through authenticated users. Such authentication mechanism shall include a minimum combination of any of International Mobile Subscriber Identity (IMSI), Date of SIM Swaps, Date of Mobile Station International Subscriber Directory Number (MSISDN) Recycle, International Mobile Equipment Identity (IMEI), Date of device change, etc.
- 6.2 Ensure that the customer receives notification on the status of every transaction conducted through the channel.
- 6.3 Not use the USSD service to relay details of other electronic banking channels (in case of banks), to their customers, to prevent compromise of other electronic banking channels through the USSD channel.
- 6.4 Ensure encryption of USSD information within its environment by an auditable process.
- 6.5 Ensure at least, radio encryption between users' SIM-enabled device and base stations.
- 6.6 Ensure secure transmission of USSD signals between network operator & the USSD aggregators, and between the USSD aggregators & the bank.
- 6.7 Customer information that is logged by the USSD application as part of financial transactions should not include sensitive information such as customer PIN. Data stored by the USSD application at Financial Institutions shall be encrypted and the NCC shall define a minimum security standard for MNOs and aggregators, as may be required.
- 6.8 Avail the customers the option to opt in/out of the USSD channel for financial transactions.
- 6.9 Put a limit of N100,000.00 per customer, per day for transactions as may be required. However, customers desirous of higher limits shall execute documented indemnities with their banks or MMOs.
- 6.10 Mandate the use of an effective 2<sup>nd</sup> factor authentication (2FA) by customers for all transactions above N20,000. This shall be in addition to the PIN being used as 1<sup>st</sup> level authenticator, which applies to all transaction amounts.

6.11 Shall not send the 2FA to the customer's registered GSM number or device; and it shall not be generated or displayed on the USSD menu.

6.12 Install a Behavioural Monitoring system with capability to detect SIM-Swap/Churn status, user location, unusual transactions at weekends, etc. This shall be achieved by 31<sup>st</sup> October 2018.

## 7.0 Dispute Resolution

7.1 Financial Institutions shall be responsible for setting up dispute resolution mechanism to facilitate resolution of customers' complaints.

7.2 Financial Institutions shall treat and resolve any customer related issues within 3 (three) working days. Non-compliance shall be subject to penalty, as may be prescribed by the CBN, from time to time.

## 8.0 Service Level Agreement

8.1 There shall be Service Level Agreement between the Financial Institutions and MNOs/VAS & Aggregators, benchmarked against the NCC Quality of Service (QoS) regulation and service availability requirements of electronic payment services of the CBN.

## 9.0 Others

9.1 Service providers should put in place systems that enable users/subscribers to block their account from operating USSD service

9.2 No USSD Financial Service should be activated for customer unless the deactivation mechanism is put in place with effect from June, 2018.

## 10.0 Penalties for Infractions

The appropriate Regulator (CBN and/or NCC) as applicable shall impose appropriate sanctions for any contravention on any participant that fails to comply with this Framework.

## 11.0 Glossary of Terms

**Bank:** A deposit taking institution duly licensed by the Central Bank of Nigeria.

**Mobile Money Operators:** provide the infrastructure for the mobile payment systems for the use of participants that are signed-on to their scheme.

**Payment Service Providers:** CBN licensed companies that employ the infrastructure of the scheme operator to provide services to end users.

**PIN** means Personal Identification Number: A sequence of digits used to verify the identity of the holder of a token. The PIN is a kind of password.

**Encryption** is a method of protocol for data encryption ensuring secure transmission from point-to-point.

**Financial institutions:** Switches, Application vendors and Payment Service Providers providing products and services using USSD protocol.

**NCC:** refers to the Nigeria Communications Commission with Regulatory powers over the Mobile Network Operators (MNOs) and the Value Added Service Providers

**MNOs:** Mobile Network Operators. Mobile traffic passes through the mobile operator's network as voice, SMS, or USSD.

**VAS Providers Licensed by NCC:** Any person or organization that engages in the provision of value added mobile/fixed Services, including premium rated services. The VAS provider leverage on the infrastructure of the network operator to provide the services.

**USSD Channel:** Unstructured Supplementary Service Data, it provides session-based communication. It is a technology used by the network to send information (usually text menus) between a mobile phone and an application on the network. It will allow the subscriber to request information in short codes (starting with \* and ending with #), or menus from the network, via their cellphone

**Unique Short Code:** are short digit sequences that are used to address messages in the systems of mobile network operators.

**GSM:** Global System for Mobile Communications is a system used for mobile cellular communications.

**SIM:** Subscriber Identity Module. A mini-smartcard that is inserted into a mobile handset, It is used to authenticate the mobile to the mobile radio network The SIM may be programmed to provide security services on the mobile

**SMS:** Short Message Service – A term used to refer to a text message sent to or from a handset.

**STK:** Systems Tool Kit, It provides a set of commands which allow applications, existing in the SIM, to interact and operate with a mobile client which supports the specific command(s) required by the application. Using the SIM Toolkit, applications can be downloaded to the SIM in a secure manner.

**OTP:** One Time Password, the password (usually a random sequence of digits and or letters) sent from a bank to a customer's mobile handset for entry by the customer to authenticate themselves into the banking channel that they are using. It is considered as a second authentication factor.

**IMSI:** International Mobile Subscriber Identity (IMSI) is a unique number associated with all Global system for mobile communications (GSM) and Universal Telecommunications System (UMTS) network mobile users used for identifying a GSM subscriber.

**IMEI:** International Mobile Equipment Identity is the unique serial number of every GSM mobile cell phone.

**MSISDN:** Mobile Station International Subscriber Directory Number: A number uniquely identifying a subscription in a GSM or UMTS mobile network. The mobile phone's telephone which it is known to the world



**CENTRAL BANK OF NIGERIA**

**REGULATION FOR BILL PAYMENTS IN NIGERIA, 2018**

**February 2018**

## 1.0 Preamble

In the exercise of the powers conferred on the Central Bank of Nigeria (CBN) under Sections 2(d), 33 (1) (b) and 47(2) of the CBN Act 2007 to promote sound financial system in Nigeria, issue guidelines and facilitate the development of an efficient and effective payments system in Nigeria, the CBN hereby issues this Regulation for Bill Payments in Nigeria, 2017.

## 2.0 Objectives

The objectives of this Regulation are:

- 2.1 To document the minimum standards that must be complied with for the processing of bill payment transactions.
- 2.2 To identify stakeholders in Bill Payment system space
- 2.3 To ensure achievement of the vision of a 'nationally utilized and international recognized' payments system in Nigeria.
- 2.4 To ensure adequate protection for the stakeholders in the Bill Payment system space.

## 3.0 Scope

This Regulation covers Bill Payments on various payment channels and any payment platform that seeks to integrate the payment side of commercial activity and merchant aggregators in Nigeria. The payment methods include Cheques, Cards, Direct Debit, Instant Payments, and Automated Clearing House, etc.

## 4.0 Stakeholders

The following are the stakeholders in Bill Payments:

- 4.1. **Payer** – the individual or corporate entity making a bill payment
- 4.2. **Biller** – a registered entity/merchant that receives funds from the payer as consideration for the provision of service or product.
- 4.3. **Payer's bank** – the bank where the payer maintains the account that is debited to make the bill payment.
- 4.4. **Biller's bank** – the bank where the Biller maintains the account designated to receive proceeds of payment made by the payer.
- 4.5. **Payments Service Provider (PSP)** – a person licensed by the Central Bank of Nigeria to provide services involving direct interactions with the payment, settlement and clearing systems and payment system arrangements, as the Bank may authorize from time to time and may include a bank, Mobile

Money Operators or Other Financial Institution that is connected directly to a Biller without any service intermediary.

## **5.0 Eligibility Criteria**

Any person or entity desirous of operating a bill payment platform shall apply to the CBN for a license or be integrated to a duly licensed PSP.

### **5.1 Payment Service Providers**

5.1.2. All Inter-Bank transactions initiated and authorized on the bill payment platform shall be cleared via the Nigeria Clearing System and settled via Real Time Gross Settlement System (RTGS).

5.1.3. Each component payment method implemented on the platform shall be in accordance with the rules issued by Central Bank of Nigeria to guide the conduct of market activities for relevant payment channels.

### **5.2 Billers**

5.2.1. A Biller shall be a customer of a bank/PSP that will receive the proceeds of bill payments from Payers.

5.2.2. The Bank/PSP shall confirm the legal capacity of the Biller before onboarding the biller.

5.2.3. After approval of the Biller's application, the Biller's bank / Payment Service provider shall register the Biller on the platform capturing the following details at a minimum:

- a. Corporate entity – Bank Account Number; Registered name; RC Number/ Business Registration Number as assigned by the Corporate Affairs Commission; Address; Official Contact email address; Contact Telephone Number; Service/Product Codes.
- b. Individual merchants – BVN; Verified operating address; Contact Telephone Number; Bank Account Number

### **5.3 Payer's Bank**

5.3.1 Payer's bank shall be a member of the clearing system or integrated with a Payment Service Provider that accept Direct Debit for processing.

5.3.2 The Payer's bank shall comply with the authentication protocol as prescribed by the Electronic Payments Guidelines, where the mandate is in electronic form.

## **5.4 Biller's Bank**

- 5.4.1. Biller's bank shall be a member of the clearing system or integrated with Payment Service Providers that accept Direct Debit for processing.
- 5.4.2. The Biller's bank shall hold an account for the Biller to receive proceeds of payments
- 5.4.3. It is the responsibility of the Biller's bank to give information, advice and guidance on all aspects of the Scheme to the Biller; where applicable.

## **5.5 Operational Procedure**

- 5.5.1. There shall be a Service Level Agreement (SLA) executed between the platform provider and the Biller, as a condition for on-boarding.
- 5.5.2. The SLA shall provide the terms for engagement, roles and responsibilities of the parties, minimum service delivery commitments, obligations of the parties and penalties, as applicable
- 5.5.3. SLAs shall be reviewed periodically to ensure alignment with industry/regulatory changes, or appropriate provisions made to take cognizance of mandatory changes that may come into play after implementation.
- 5.5.4. The minimum commitments to service availability shall be defined and incorporated in the Dispute Resolution System (DRS) and SLA, and properly communicated to the users of the service.
- 5.5.5. Transaction status upon completion shall be sent by the Biller to the Payer.
- 5.5.6. A procedure shall be in place for change management and shall include major releases, maintenance calendars and conditions for emergency upgrades and notification process.

## **6.0 Dispute Resolution System (DRS)**

- 6.1. Payments shall be final and irrevocable and be consistent with the provision of the circular on the Statement of Payments Finality.
- 6.2. All requests for refunds/recalls shall be via a dispute resolution system or other supplementary rules that guide the operations of the relevant payment method.
- 6.3. Service Providers shall make an automated dispute resolution platform available to facilitate seamless resolution of complaints

6.4. Disputes arising from Bills Payment transactions shall be resolved amicably amongst the parties in line with the provisions of the guidelines on Operations of Electronic Payment Channels in Nigeria.

## **7.0 Settlement**

Each platform shall be able to receive payment for multiple billers, clear transactions and settle such transactions through existing settlement mechanisms.

## **8.0 Customer Support**

Billers/PSP shall provide helpdesk services to the Billers and Payers by the Biller's bank/PSP as applicable; via advised channels, to aid resolution of service issues. The helpdesk availability should be such that it coincides with service availability, and access should be on multi-channel basis (phone, email, web etc.)

**CENTRAL BANK OF NIGERIA**

**REGULATION FOR DIRECT DEBIT SCHEME IN NIGERIA, 2018  
(REVISED)**

**FEBRUARY 2018**

## 1.0 Preamble

In the exercise of the powers conferred on the Central Bank of Nigeria (CBN) under Sections 2(d), 33 (1)(b) and 47(2) of the CBN Act 2007 to promote sound financial system in Nigeria, issue guidelines and facilitate the development of an efficient and effective payments system in Nigeria, the CBN hereby issues this Regulation for Direct Debits Schemes in Nigeria, 2017.

This Regulation recognizes the existing and emerging multi-channel options (Online platforms, Instant Payments etc.) applied for direct debit instructions in Nigeria. In addition, the provisions of this Regulation are harmonized with developments in the payments system since the release of the previous version.

Direct debit is a cash-less form of financial settlement which facilitates recurring payments. It permits the originator of the instruction, known as "Biller", to collect amounts due from a payer through the Payer's bank by leveraging an instruction or mandate provided by the payer. An entity wishing to participate as a Biller in the Direct Debit scheme will typically contact its bank or payment service provider. The service may be deployed on channels provided by the Biller through its bank or Payment Service Provider.

## 2.0 Participants & Their Roles

The process typically involves five parties –

- a. Biller
- b. Biller's bank
- c. Payer
- d. Payer's bank
- e. Payment Service Provider

### 2.1 Biller

- 2.1.1 A Biller shall be an entity incorporated or registered by an appropriate authority to carry on business and shall be on-boarded to the Direct Debit scheme by a bank or Payment Service Provider after satisfactory due diligence.
- 2.1.2 A Biller shall obtain the mandate of the Payer through a platform provided by the Biller or its appointed agent/partner either in paper or electronic form, duly verified by the Payer's bank.

- 2.1.3 A Biller shall provide clear terms and conditions which shall be applicable to a Direct Debit payment arrangement between it and the Payer.
- 2.1.4 A Biller shall comply with the terms of the mandate executed by the Payer for the initiation of a Direct Debit transfer.
- 2.1.5 A Biller & the Biller's Bank shall enter into an SLA to govern their relationship under the Direct Debit Scheme.
- 2.1.6 The SLA mentioned shall be expressed to be subject to the provisions of this Regulation.
- 2.1.7 A Biller shall execute a Direct Debit Indemnity in favor of Biller's bank against any wrongful debit arising from Direct Debits.
- 2.1.8 The Biller's Bank shall use the Biller's RC number or Business Registration Number as a unique Identifier for use as part of the set-up process for Direct Debit. The Biller's registration Number e.g. RC Number or Business Registration Number, as assigned by the Corporate Affairs Commission (CAC) must be captured as part of the set-up process for the Biller as a unique identifier. For Non-resident entities, Business Registration Number and Country of origin must be captured.
- 2.1.9 The Biller shall notify the Biller's Bank of any change to its name or relevant incorporation documents, or information quoted on the mandate. The Biller's bank may require the Biller to give notice of such change to a Payer and/or Payer's Bank.
- 2.1.10 A Biller shall maintain documentation/records received from Payer or Payer's bank for ease of reference and to ensure that payments made under separate mandates are managed independently. These records must be maintained for as long as the mandate is active. Documentation on expired mandates should be subject to minimum retention period of six (6) years.
- 2.1.11 The Biller shall notify the Biller's bank/ payment service provider (as applicable) of receipt of the notice of cancellation of the Mandate from the Payer within 48 hours of receipt. The Biller shall acknowledge notice of cancellation received from the Payer and give notice thereof to the Biller's bank/ Payments Service Provider within two (2) business days of the receipt and ensure that cancellation is effected on the due date.

2.1.12 where any debit is effected after mandate cancellation outside the notice period, the Biller shall refund the debited amount within 5 business days from the date of the debit.

2.1.13 A Biller shall give an Advance Notice as agreed with the Payer in respect of a Variable Direct Debit Mandate.

2.1.14 A Biller shall notify the Payer via SMS or Email of failed Direct Debit transaction within 24 hours.

2.1.15 Billers shall act in good faith and in strict compliance with the provisions of this Regulation.

### **2.1.16 Withdrawal of a Biller**

A Biller may withdraw from the Scheme voluntarily or be required to withdraw from the Scheme.

#### **I. Voluntary Withdrawal**

Where a Biller wishes to withdraw from the Scheme, it shall in consultation with its Payment Service Provider or the Biller's Bank undertake the following actions:-

- a) Arise from subsisting mandates, or any indemnity liability which may arise subsequent to withdrawal or termination of liability in respect of Direct Debit initiated prior to either of these events

#### **II. Mandatory Withdrawal**

Without prejudice to any agreement between a Biller and Biller's Bank/Payment Service Provider, a Biller's Bank/ Payment Service Provider shall withdraw a Biller from the Scheme :-

- a) Immediately, if the contractual capacity of the Biller is affected by legal process, such as insolvency, liquidation or the appointment of a receiver;
- b) Upon giving notice in accordance with the agreement between a Biller and Biller's Bank/ Payment Service Provider, If in the opinion of the Biller's bank or Payment Service Provider.
  - i. the Biller carries out Direct Debits either in a manner which constitutes an abuse of the Scheme or is without due regard to the interests of other participants.

- ii. The Biller is in breach of the provisions of this Regulation or
- iii. Upon a directive from the Central Bank of Nigeria

## **2.2 Biller's Bank**

- 2.2.1. Biller's bank shall be a member of the clearing system or integrated with Payment Service Providers that accept Direct Debit for processing.
- 2.2.2. The Biller's bank shall hold an account for the Biller to receive proceeds of Direct Debit.
- 2.2.3. It is the responsibility of the Biller's bank to give information, advice and guidance on all aspects of the Scheme to the Biller; where applicable.
- 2.2.4. The Biller's Bank shall obtain an executed Direct Debit Indemnity from the Biller before commencement of any debit transfer under this Scheme.
- 2.2.5. The Biller's bank shall accept cancellation of a Direct Debit Mandate ONLY from the Biller.

## **2.3 Payer**

- 2.3.1. The Payer shall execute a Direct Debit Mandate in order to participate in the Direct Debit Scheme.
- 2.3.2. A Payer may cancel a Direct Debit Mandate at any time upon such notice to the Biller as specified in the Direct Debit Mandate provided that such cancellation shall not be effective until the end of the current billing cycle.
- 2.3.3. Notwithstanding the provisions of 2.3.2 above, for billing cycles for one (1) calendar month and above, the Payer shall give a cancellation notice of not less than 10 business days terminating at the end of the current billing cycle.
- 2.3.4. Where a cancellation notice given pursuant to 2.3.2 and 2.3.3 above is not honoured, a Payer may exercise the right to cancel a Direct Debit Mandate by advising the Payer's bank in writing or via provided electronic channels.
- 2.3.5. A Payer may raise a claim through the Payer's Bank against the Biller in the event of a successful debit after mandate cancellation.

## **2.4 Payer's Bank**

- 2.4.1. Payer's bank shall be a member of the clearing system or integrated with a Payment Service Provider that accept Direct Debit for processing.
- 2.4.2. The Payer's bank shall obtain the authority of the Payer either in paper form or electronic form before activating a Direct Debit Mandate on the Payer's account.
- 2.4.3. The Payer's bank shall comply with the authentication protocol as prescribed by the Electronic Payments Guidelines where the mandate is in electronic form.
- 2.4.4. The Payer's bank shall verify or authenticate all mandate authorization requests within 3 business days, after which the mandate will be deemed to be activated, unless authentication is declined by the Payer's bank.
- 2.4.5. Payer's Bank shall not subject an activated Direct Debit Mandate to further Payer's confirmation at the point of payment.
- 2.4.6. The Payer's bank shall render report of all Direct Debits unpaid due to insufficient funds on a monthly basis to a licensed Credit Bureau and the Credit Risk Management System or as may be required by CBN.

## **2.5 Payment System Service Provider**

- 2.5.1. A Payment System Service Provider shall execute Direct Debits in line with the Direct Debit Mandate.
- 2.5.2. A Payment System Service Provider shall give information, advice and guidance on all aspects of the Scheme to Billers on its platform.
- 2.5.3. A Payment System Service Provider shall accept cancellation of Direct Debit Mandate ONLY from the Billers on its platform.
- 2.5.4. The Payment System Service Provider shall use the Biller's RC number or Business Registration Number as a unique Identifier for use as part of the set-up process for Direct Debit. The Biller's registration Number e.g. RC Number or Business Registration Number, as assigned by the Corporate Affairs Commission (CAC) must be captured as part of the set-up process for the Biller as a unique identifier. For Non-resident

entities, Business Registration Number and Country of origin must be captured.

### **3.0 Control Mechanisms for Participation in the Scheme and Consumer Protection**

#### **3.1 General**

3.1.1 The Payer shall be notified of the following activities by SMS and / or email:

- i. Set up and approval of the Direct Debit Mandate by the Biller, Payment Service Provider or both.
- ii. Direct Debit passed into the Payer's account by the Payer's Bank.
- iii. On receipt of the mandate, the Biller shall be responsible for payments collection in respect to Direct Debit collection. A Biller cannot require the Payer's Bank to settle by any other means except with the Payer's consent
- iv. Amendments/modification made to the Direct Debit Mandate by the Biller or the Payment Service Provider as applicable
- v. Cancellation of Direct Debit Mandate by the Biller or the Payment Service Provider as applicable

3.1.2 Payer's Banks, Billers and Payment Service Providers shall keep records of all Direct Debit transaction for a period of not less than six (6) years from the date of cessation of the Direct Debit Mandate.

3.1.3 Payers' Bank shall go through its normal confirmation process upon receipt of a Direct Debit Mandate to verify its authenticity.

3.1.4 There shall be a Direct Debit logo to be utilized under the Scheme in a form displayed in APPENDIX V or any other form as the CBN may advise from time to time.

3.1.5 The Payer's Banks and the Biller's Banks shall comply with the Nigeria Bankers' Clearing System Rules as applicable to the Scheme.

3.1.6 The Biller or Payment Service Provider may notify the Payer of a Direct Debit prior to the day of debit to the payer's account.

## 4.0 Business and Operational Rules

4.1. Direct Debit transactions are of 2 types:

- i) Fixed Direct Debit: enables the debit of fixed amounts from a payer's account in accordance with the payer's Mandate.
- ii) Variable Direct Debit: enables the debit of variable amounts from a Payer's account up to the maximum amount stated in the payer's Mandate. This is applicable where payable amounts cannot be predetermined in advance. In this instance, the Biller shall notify the Payer of the invoice amount before the debit is sent to Payer's bank.

4.2. Every Direct Debit mandate shall clearly state whether it is a fixed or variable

4.3. There shall be a platform provided by the Biller for the initiation of a Direct Debit Mandate.

4.4 A Direct Debit instruction is issued subject to the provisions of the Nigeria Bankers' Clearing System rules on returned items. An item that is dishonored must be returned within the local clearing cycle in operation.

4.5. A penalty should be applied to the payer for Direct Debit instructions not honored due to insufficient funds except where a cancellation instruction has been received by the Payer's Bank or evidenced by the Payer to the Payer's Bank. The penalty prescribed for returned items (NCBS Rules/ formerly NCHR) shall apply. No penalty shall apply for multiple re-presentments on the mandated day. In the event of insufficiency of funds at beginning of next day only a single penal charge shall apply for all re-presentments on the mandated day.

4.6. Each Biller shall put in place a process for returning wrongful mandates to the Payer.

4.7 Any change in the terms of a Direct Debit Mandate shall require a cancellation of the existing mandate and issuance of a new one.

4.8. If a fixed payment fails, then the Biller's bank or Payment System Service Provider is prohibited from collecting arrears via Direct Debit. The prohibition does not extend to the re-presentment or in situations where the Biller and the Payer have agreed otherwise.

## **5.0 Unpaid Direct Debits**

5.1. Payer's Bank shall return any unpaid Direct Debit instruction within the clearing cycle. The Biller's Bank/Payments Service Provider may represent an unpaid Direct Debit instruction within 24 hours or as agreed with the Payer for the same amount that was originally dishonored.

## **6.0 Advance Notice**

6.1. A Biller shall give an Advance Notice of a minimum of ten (10) business days or as agreed with the Payer on a Mandate before :-

a. the first payment

b. changes to :-

i. the amount

ii. the due date

6.2. In all cases, an Advance Notice shall allow sufficient time for a Payer to raise a query, countermand a single payment or, cancel the transfer. Where the amount or due date is certain, a Biller shall issue an Advance Notice not less than 10 business days from the due date except the payer executed superseding terms with the Biller. In the absence of any specific agreement between a Biller and a Payer, this period shall be the minimum requirement. The Advance Notice could be in writing or electronic as agreed between the Biller and Payer.

## **7.0 Direct Debit Mandate**

7.1 General

Direct Debit Mandate shall not constitute an agreement between the Biller and the Payer's Bank.

## **8.0 Indemnity & Limitation of Liability**

8.1 The Direct Debit Indemnity

8.1.1. Every Biller shall execute a Direct Debit Indemnity in favour of the Biller's Bank.

8.1.2. A Direct Debit Indemnity may be as prescribed in Appendix IV.

- 8.1.3. A Biller shall effect settlement of Indemnity claims with Payers' Banks immediately or within 5 business days of the date of the claim.
- 8.1.4. A Biller's liability under the Direct Debit Indemnity shall be unlimited in respect of duration and amount
  - a. Time: there is a continuing liability in respect of Direct Debits initiated before receipt of a written notice of termination by a Payer's Bank
  - b. Amount: the liability of a Biller shall cover only the Direct Debit amount plus interest charged at NIBOR from the date of the debit.

## **8.2 Claims under the Indemnity**

- 8.2.1. Any claim under a Direct Debit Indemnity should be brought within a period of one (1) year from the date of the debit.
- 8.2.2. A Biller shall honour an Indemnity claim within 5 business days from the date of receipt of claim.
- 8.2.3. Direct Debit Indemnity issued pursuant to this Regulation shall not cover funds paid outside the Direct Debit Scheme.

## **9.0 Compliance with Rules, Penalties and Dispute Resolution**

### **9.1 Compliance with Rules**

- 9.1.1. Each participant in this Scheme shall comply with the provisions of this Regulation.
- 9.1.2. Each participant shall comply with the specification and standards established by the relevant payment system guidelines issued by the Central Bank of Nigeria from time to time.

### **9.2 Penalties**

- 9.2.1. Any breach of this Regulation shall be subject to appropriate penalties as prescribed under penalties in Nigeria Bankers' Clearing System Rules.
- 9.2.2. The Payments Service Providers or Banks may require a Biller to withdraw from the scheme in accordance with provisions of this Regulation

9.2.3. All participants in the scheme shall be subject to these rules and penalties shall be imposed for any breach thereof.(Consult the penalties prescribed in the proposed NBCS Rules)

### 9.3 Dispute Resolution Mechanism

Any dispute, controversy or claim arising out of or relating to this Regulation or the breach, termination or invalidity thereof shall be settled in accordance with the CBN's dispute resolution mechanism and if unresolved, may be referred to an arbitral panel, as provided under the Arbitration and Conciliation Act Cap. A18 LFN 2004.

## **APPENDIX I**

### **Definition of Terms**

The terms below shall have the following meaning, for the purpose of the Regulation: This is a verifiable written instruction in physical or electronic form given by a Payer to the Payer's Bank authorizing the payment from the Payer's stated account to the designated account of the Biller.

### **Direct Debit Indemnity**

This is an indemnity issued by the Biller to the Biller's bank to protect a Payer should an incorrect amount be debited, a debit occur earlier than specified or in error.

### **Fixed Direct Debit Mandate**

This authority allows for regular fixed/predetermined amounts to be debited from a Payer's bank account.

### **Payer**

Payer is the party whose account is to be debited as instructed in a Direct Debit Mandate.

## APPENDIX II

\*\* Forms below serve as a guide as to what is expected

### FORM OF DIRECT DEBIT MANDATE (FIXED AMOUNTS)

Date [•]

Agreement) on the \_\_\_\_\_ day of each and every month/quarterly/yearly commencing on \_\_\_\_\_ and continuing (state the period for which the underlying contractual arrangement exists for). All such debits from my/our account by you in accordance with any Direct Debit Instruction issued and delivered to you by the Biller shall be treated as though they have been signed by me/us personally.

The amounts are FIXED and shall be debited on \_\_\_\_\_ of each month/quarter/year.

I/We understand that the debits hereby authorised will be processed by electronic funds transfer, and I/we also understand that details of each debit will be printed on my/our bank statement.

I/We agree that bank charges relating to this Mandate shall apply as appropriate.

This Mandate may be cancelled by me/us by giving both you and the Biller--- days' notice to expire at the end of the current billing cycle. Notice in writing, delivered to the addresses stated above, but I/we understand that I/we shall not be entitled to any refund of amounts which may have already been withdrawn while this Mandate was in force if such amounts were legally owing to the Biller. (For billing cycles of one (1) calendar month and above the Payer shall give a cancellation notice of not less than 10 business days terminating at the end of the current billing cycle).

I/We agree that if a Direct Debit instruction is not honored due to insufficient funds in my/our account, except where a cancellation instruction has been received by the Payer's Bank or evidenced by the Payer to the Payer's Bank, the penalty prescribed for returned items in NBCS Rules shall apply.

Signed at \_\_\_\_\_ on this \_\_\_\_\_ day of \_\_\_\_\_ 20 \_\_\_\_\_

\_\_\_\_\_

[SIGNATURE AS PER ACCOUNT MANDATE]

For and on behalf of: [Insert name of Payer]

In the presence of:

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Occupation: \_\_\_\_\_

Signature: \_\_\_\_\_

### APPENDIX III

#### FORM OF DIRECT DEBIT MANDATE (VARIABLE AMOUNTS)

Date [•]

FROM [ Insert Name of Payer] Biller's TIN Number/Service Code Identifier:

[Insert Address of Payer]

TO: [Insert Name of Bank]

[Insert Address of Bank]

CC: [Insert Name of Biller]

[Insert Address of Biller]

Dear Sirs,

MY AGREEMENT [insert details of the underlying commercial transaction between the Biller and the Payer] dated [•]

The details of my/our bank account are as follows:-

Bank: Account Number: BVN: Phone Number: Email Address:

\*\*For Corporate Payers, The BVN of Authorised Signatories to the account should be used. \*\*

I/We hereby request, instruct and authorise you to debit my/our account in accordance with any Direct Debit Instruction issued and delivered to you by the Biller for such amounts necessary for monthly/quarterly/semi-annual payments due in respect of the above-mentioned agreement on the \_\_\_\_\_ day of each and every month/quarter/half-year commencing on \_\_\_\_\_ and continuing (state the period for which the underlying contractual arrangement exists for). All such debits from my/our account by you in accordance with any Direct Debit Instruction issued and delivered to you by the Biller shall be treated as though they have been signed by me/us personally. (Replicate as in fixed above in Appendix ii)

The amounts are variable subject to a maximum of N\_\_\_\_\_. I/We understand that the Biller may present varying amount only after giving me/us prior notice.

I/We understand that the withdrawals hereby authorised will be processed by electronic funds transfer, and I/we also understand that details of each withdrawal will be printed on my bank statement and/or an accompanying voucher.

I/We agree to pay any bank charges relating to this Mandate.

This Mandate may be cancelled by me/us by giving both you and the Biller (14) Business Days' notice in writing, sent by prepaid registered post, or delivered to the addresses stated above, but I/we understand that I/we shall not be entitled to any refund of amounts which may have already been withdrawn while this Mandate was in force if such amounts were legally owing to the Biller.

## APPENDIX IV

### FORM OF INDEMNITY

To: [Biller's Bank]

[Biller's Address]

Dear Sirs,

1. IN CONSIDERATION of you accepting instructions from time to time from

\_\_\_\_\_ (hereinafter called the

"Biller") or from an agent of the Biller to debit the account of the Payer with the amounts specified on instruments drawn in paper form or in automated input form written in accordance with the Direct Debit Agreement dated [•]

between \_\_\_\_\_, we hereby warrant that the

Payer on whose account a debit is drawn will have signed a Direct Debit Mandate, and we shall keep you indemnified upon your first demand against all actions, losses, damages, claims, demands costs and expenses (including legal costs, fees and expenses on a full indemnity basis) howsoever arising, which you may incur or sustain directly or indirectly from such debiting or failure to debit and without our requiring proof of our agreement to the validity of such demand we shall forthwith pay the amount.

2. We authorise you to admit compromise or reject any claims made upon you without reference to or authority from the Biller. Furthermore, with respect to any claims or demand for the refund of any money received by you on our behalf pursuant to any debit and transfer made on our behalf in accordance with the [Direct Debit Agreement] [Direct Debit arrangements between ourselves and the Payer], you are hereby authorised and are at liberty to comply with such demands and claims and without any further reference or authorisation from us, you may debit our account and transfer such funds to the account of the Payer.

3. You are not required to verify or check that instructions given to you have been given and remain in force in respect of any debit and transfer made at the request of the Biller.

4. You are not required to verify or check that any purpose of payment stated in the Direct Debit Mandate signed by the Payer is fulfilled or is observed.

5. This Direct Debit Indemnity is to be in addition to and is not to prejudice or be prejudiced by any other Direct Debit Indemnity which has been or may now or hereafter be executed by us in connection with the Direct Debit Agreement, and shall be binding on us as continuing security notwithstanding any payments from time to time made to you or any settlement of account or disability, incapacity, insolvency that may affect us or any other thing whatsoever.
6. You are to be at liberty without thereby affecting your rights hereunder at any time and from time to time at your absolute discretion to release, discharge, compound with or otherwise vary or agree the liability under this Direct Debit Indemnity or make any other arrangements with us.
7. This Direct Debit Indemnity shall be enforceable notwithstanding any change in your name or any change in the constitution of the bank, its successors or assigns or by its amalgamation with any other bank or banks.
8. This Direct Debit Indemnity shall be governed by and construed in accordance with the laws of the Federal Republic of Nigeria.

For and on behalf of: [ *Insert name of Biller* ] pursuant to a resolution of the Board of Directors of the Biller a certified copy of which is annexed hereto

In the presence of:

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Occupation: \_\_\_\_\_

Signature: \_\_\_\_\_

### APPENDIX V

There shall be a Direct Debit logo to be utilized under the Scheme in a form as displayed below or any other form as the CBN may advise from time to time.



Signed By: .....



**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

**CENTRAL BANK OF NIGERIA**  
Central Business District  
P.M.B. 0187,  
Garki, Abuja.  
+234 - 0946238445

BPS/DIR/GEN/CIR/05/001

January 04, 2018

**CIRCULAR TO: ALL DEPOSIT MONEY BANKS, MOBILE MONEY OPERATORS, SWITCHES AND OTHER PAYMENTS SYSTEM SERVICE PROVIDERS**

**RE: SANCTIONS ON ERRING BANKS/e-PAYMENT SERVICE PROVIDERS FOR INFRACTIONS OF PAYMENTS SYSTEM RULES AND REGULATIONS.**

Further to our Circular referenced BPS/DIR/GEN/CIR/02/007, dated 29<sup>th</sup> July 2015, on the above subject, please be informed that operators in the National Payments System shall be sanctioned with a penalty of ₦10,000.00 per day for as long as the infractions below subsist:

1. Failure to apply for the renewal of an operating licence three (3) months before the date of expiration of the licence.
2. Failure to regularize and respond to observations/exceptions noted by the Bank in the course of processing an application for the renewal of an operating licence within three (3) weeks.
3. Licensed operators in the Nigerian Payments System should note that the provisions of this Circular become effective from 1<sup>st</sup> April, 2018

Please be guided.

**'Dipo Fatokun**  
Director, Banking and Payments System Department



**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

**CENTRAL BANK OF NIGERIA**

Central Business District  
P.M.B. 0187,  
Garki, Abuja.  
+234 - 0946238445

REF: BPS/DIR/CIR/GEN/02/041

December 21, 2017

**To: All Deposit Money Banks and the Nigeria Inter-Bank Settlement System (NIBSS)**

**RE: EXTENSION OF SETTLEMENT BANKING ARRANGEMENT TO ALL THE CLEARING SESSIONS**

You will recall that a directive was issued on the extension of settlement banking arrangement that is being practiced for cheque clearing sessions 1 and 2 to other net settlement sessions (0 and 3) vide our circular referenced BPS/DIR/CIR/GEN/02/039, dated November 10, 2017.

The aforementioned circular directed the settlement banks to update the agency agreements with their respective non-settlement banks while merchant banks that do not have settlement banks should appoint settlement banks and inform the Director, Banking & Payments System Department, CBN Abuja, on or before 15<sup>th</sup> December, 2017.

Please note that the new policy on the extension of settlement banking to all the clearing sessions with effect from January 2, 2018, as contained in the referenced circular, is hereby suspended until further notice.

For the avoidance of doubt, the existing policy that was introduced in April 2004, on settlement banking relationship for sessions 1 and 2 (cheque and NEFT clearing instruments) only shall remain in force.

Please be guided accordingly.

**Dipo Fatokun**  
Director, Banking and Payments System Department



**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

**CENTRAL BANK OF NIGERIA**

Central Business District  
P.M.B. 0187,  
Garki, Abuja.  
+234 - 0946238445

November 10, 2017

REF: BPS/DIR/CIR/GEN/02/039

**To: All Deposit Money Banks and the Nigeria Inter-Bank Settlement System (NIBSS)**

**EXTENSION OF SETTLEMENT BANKING ARRANGEMENT TO ALL THE CLEARING SESSIONS**

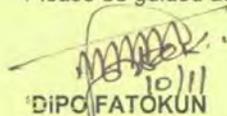
You will recall that the Central Bank of Nigeria introduced settlement banking framework on 1<sup>st</sup> April 2004. The framework categorized Deposit Money Banks into settlement and non-settlement banks. The settlement banks settle their net settlement obligations and that of their non-settlement banks arising from cheque clearing and other instruments during sessions 1 and 2. The non-settlement banks enter into agency agreement with settlement banks and pledge appropriate collaterals accordingly.

The aforementioned framework has been working well and contributed to the relative stability in the net settlement operations for settlement of clearing sessions 1 and 2 on the RTGS System.

In view of this, it has become imperative for the Bank to extend the settlement banking arrangement to all the clearing sessions, with effect from 1<sup>st</sup> January, 2018. Specifically, the settlement of net clearing obligations from CSCS, Cheques, Cards, ACH, NIP, NEFT and other clearing instruments shall be through the account of Settlement Banks only.

In this regard, Settlement Banks are hereby advised to update the agency agreements with their respective non-settlement banks. Merchant banks that do not have settlement banks should appoint a settlement bank and inform the Director, Banking & Payments System Department, CBN Abuja, on or before 15<sup>th</sup> December, 2017, with a copy of the letter from the settlement bank, accepting to settle for them.

Please be guided accordingly.

  
DiPO FATOKUN

Director, Banking and Payments System Department



**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

**CENTRAL BANK OF NIGERIA**  
Central Business District  
P.M.B. 0187,  
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**BPS/DIR/GEN/CIR/04/010**

**October 18, 2017**

**To: All Deposit Money Banks, Switches, Mobile Money Operators, Payment Terminal Service Providers, Payment Solution Service Providers, Mirco Finance Banks & Others**

**THE REGULATORY FRAMEWORK FOR BANK VERIFICATION NUMBER (BVN) OPERATIONS AND WATCH-LIST FOR THE NIGERIAN FINANCIAL SYSTEM**

The Central Bank of Nigeria (CBN), in furtherance of its mandate to develop and enhance the security of the electronic payments system in Nigeria hereby releases the Regulatory Framework for Bank Verification Number (BVN) Operations and Watch-List for the Nigerian Financial System.

The implementation of the Framework is with immediate effect.

Best regards,

  
Dipo Fatokun

**Director, Banking & Payments System Department**



CENTRAL BANK OF NIGERIA

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REGULATORY FRAMEWORK FOR BANK VERIFICATION NUMBER (BVN)  
OPERATIONS AND WATCH-LIST FOR THE NIGERIAN  
BANKING INDUSTRY

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## **Preamble**

In exercise of the powers conferred on the Central Bank of Nigeria (CBN), by Sections 2 (d) and 47 (2), of the CBN Act, 2007, to promote and facilitate the development of efficient and effective payments systems for the settlement of transactions, including development of the electronic payment systems; the Central Bank of Nigeria hereby issues the Regulatory Framework for the Bank Verification Number (BVN) Operations and Watch-List for the Nigerian Banking Industry.

## **1.0 Regulatory Framework for Bank Verification Number (Bvn) Operations**

### **1.1 Introduction**

The Central Bank of Nigeria, in collaboration with the Bankers Committee, proactively embarked upon the deployment of a centralized Bank Verification System and launched the Bank Verification Number (BVN), in February, 2014. This is part of the overall strategy of ensuring effectiveness of the Know Your Customer (KYC) principles, and the promotion of a safe, reliable and efficient payments system. The BVN gives a unique identity across the banking Industry to each customer of Nigerian banks.

This Framework also defines the establishment and operations of a Watch-list for the Nigerian Banking Industry, to address the increasing incidences, of frauds, with a view to engendering public confidence in the banking industry.

This framework, without prejudice to existing laws, is a guide for the operations of the Watch-List in the Financial System. The Watch-list is a database of bank customers identified by their BVNs, who have been involved in confirmed fraudulent activities.

### **1.2 Objectives**

The objectives of the Regulatory Framework for BVN and Watch-list Operations in Nigeria are as follows:

- i. To clearly define the roles and responsibilities of stakeholders;
- ii. To clearly define the operations of the Bank Verification Number (BVN) in Nigeria;
- iii. To define access, usage and management of the BVN information, requirements and conditions;

- iv. To provide a database of watch-listed individuals;
- v. To outline the process and operations of the Watch-List; and
- vi. To deter fraud incidences in the Nigerian Banking Industry.

### **1.3 Scope**

The Framework provides standards for the BVN operations and Watch-list for the Nigerian Banking Industry.

The Watch-list comprises a database of bank customers' identified by their BVNs, who have been involved in confirmed fraudulent activity in the banking industry in Nigeria.

### **1.4 BVN Operations**

#### **1.4.1 Participants in the BVN Operations**

This Regulatory Framework shall guide activities of the participants in the provision of the Bank Verification Number (BVN) Operations in Nigeria.

Participants are grouped into five (5) categories:

- i. Central Bank of Nigeria (CBN);
- ii. Nigeria Inter-Bank Settlement System (NIBSS);
- iii. Deposit Money Banks (DMBs);
- iv. Other Financial Institutions (OFIs); and
- v. Bank Customers

##### **1.4.1.1 Central Bank of Nigeria**

The CBN shall:

Approve the Regulatory Framework and Standard Operating Guidelines;

- i. Approve eligible users for access to the BVN information;
- ii. Ensure that the objectives of the BVN initiatives is fully achieved;
- iii. Conduct oversight on BVN operations and systems;
- iv. Monitor other stakeholders, to ensure compliance;
- v. Issue circulars to regulated institutions on the operations of the watch-list;

- vi. Review framework for the operations of the watch-list, as the need arises;
- vii. Apply appropriate sanctions for non-compliance with this document;
  
- ix. The Director, Risk Management Department of the CBN shall review cases referred to it before issuance of a formal clearance to an individual for the purpose of delisting from the Watch-List; and
  
- x. The Director, Risk Management Department of the CBN shall mediate on issues arising from the BVN Watch-list.

#### **1.4.1.2 Nigeria Inter-Bank Settlement System (NIBSS)**

The NIBSS shall:

- i. Collaborate with other stakeholders to develop and review the Standard Operating Guidelines of the BVN;
- ii. Initiate review of Guidelines, as the need arises, subject to the approval of the CBN;
  
- iii. Ensure seamless operations of the BVN system;
  
- iv. Maintain the BVN database;
  
- v. Manage access to the BVN information by the approved users;
- vi. Ensure recourse to the CBN on any request for BVN information by any party;
  
- vii. Ensure adequate security of the BVN information; and
  
- viii. Maintain an on-line real-time Watch-list Portal.

NIBSS shall maintain the Watch-list database on behalf of stakeholders and shall be responsible for the following:

- i. Update the Watch-list database with the enlisted individuals by banks.
  
- ii. Use the Watch-list report submitted by banks and duly endorsed by the MD/CEO of the bank, with clearance from the Director, Risk

Management Department of CBN to remove delisted individuals from the database.

- iii. Provide banks with a portal for the verification of watch-listed individuals in their respective categories.
- iv. Provide Application Programme Interface (API) for eligible institutions to integrate their systems to the BVN database for online validation of watch-listed individuals at transaction time.
- v. Keep audit trail of all activities on the watch-list database.
- vi. Put in place a Service Level Agreement (SLA), with relevant stakeholders.
- vii. Provide access to the watch-list database to the Central Bank of Nigeria.
- viii. Comply with the ISO standards for security and business continuity.

**1.4.1.3** Deposit Money Banks (DMBs) and the other Financial Institutions (OFIs) the DMBs and OFIs shall:

- i. Ensure proper capturing of the BVN data and validate same before the linkage with customers' accounts;
- ii. Ensure all operated accounts are linked with the signatories' BVN;
- iii. Ensure customer's name on the BVN database is the same in all of his/her accounts, across the Banking Industry;
- iv. Report confirmed fraudulent individual's BVN to NIBSS for update of the Watch-list database;
- v. Report the BVN of deceased customers to NIBSS for update on the BVN database;
- vi. Render returns to NIBSS for enlisting individuals involved in confirmed fraudulent activities. The report should be signed by the Chief Audit Executives;
- vii. The CBN (Banking Supervision Department) shall be granted real-time online access, to access the Watch-list database;

- viii. The Chief Audit Executive of the customer's bank shall be notified, where a bank needs to watch-list a customer of another bank, with a copy to CBN;
- ix. The Chief Audit Executive of the customer's bank, upon notification, shall investigate within one (1) month and after confirmation of the fraudulent activity, watch-list the customer within two (2) business days;
- x. The Chief Audit Executive of the customer's bank shall be sanctioned appropriately by the CBN if no action is taken within one (1) month on the notification received from another bank on its customer;
- xi. Delisting of individuals from the Watch-list, after due clearance;
- xii. Integrating the banking system to the Watch-list database, for online identification/verification of watch-listed individuals, as transactions occur;
- xiii. Enforcing the appropriate sanctions on customers as stipulated; and
- xiv. Updating the terms and conditions of account opening package with the following disclaimer for new accounts and communicating the update to existing customers;

'If a fraudulent activity is associated with the operation of your account, you agree that we have the right to apply restrictions to your account and report to appropriate law enforcement agencies'.

#### **1.4.1.4 Bank Customers**

Bank Customers shall:

- i. Abide by the Regulatory Framework for BVN Operations and the Watch-list for the Nigerian Banking Industry;
- ii. Customers shall report all suspicious or unauthorized activities on their accounts.

### **1.5 The BVN Operational Processes and Procedures**

These are as listed below:

- i. Enrollment: The enrolment is the process where individuals have their biometric and demographic data captured in the BVN central database system and a unique ID, the Bank Verification Number (BVN), generated for the customer.
- ii. Identification: This refers to the comparison of a person's biometrics to the biometrics of all enrolled customers, to confirm if the person is already enrolled or not, before issuing the BVN.
- iii. Verification: This refers to the process of verifying the customer by matching his/her biometric template with what has been captured in the database.
- iv. Linking of Customer's Unique ID to all related bank accounts: This is a process of using the customer's unique ID generated after his/her enrolment to link all his or her bank accounts, irrespective of which bank the account is domiciled. This ensures that the customer would not be able to enroll twice and that the customer's activities in other banks (especially suspicious ones) can be easily made available to all banks where the customer has account(s).
- v. Fraud Management: This is a process aimed at using a traceable Unique Customer Identity to deter, prevent, detect and mitigate the risks of fraud in the banking industry.
- vi. Customer Information Update: This is the process by which the customer updates his/her information on the central identity database.

## **1.6 Eligibility for Access to the BVN**

The following entities may have access to BVN information, subject to the approval of the CBN:

- i DMB
- ii OFIs
- iii MMOs
- iv PSPs
- v Law Enforcement Agencies
- vi Credit Bureaus
- vii Other entities as applicable.

## **1.7 Access Fees**

There shall be access fees payable for accessing information from the database, subject to the approval of the CBN. Such fees shall be determined from time to time.

## **1.8 Security and Data Protection**

- i. Parties involved in the BVN operations, shall put in place, secured hardware, software and encryption of messages transmitted through the BVN network;
- ii. BVN data shall be stored within the shores of Nigeria and shall not be routed across borders without the consent of the CBN;
- iii. Users of the BVN information shall establish adequate security procedures to ensure the safety and security of its information and those of its clients, which shall include physical, logical, network and enterprise security; and
- iv. Parties to the BVN operations shall ensure that all information that its employees have obtained in the course of discharging their responsibilities shall be classified as confidential.

## **1.9 Risk Management**

BVN participants must ensure that risks mitigations techniques are in place to minimize operational, technical, fraud risks, etc. BVN operations should not be susceptible to sustained operational failures, as a result of system outages.

## **1.10 Consumer Protection and Dispute Resolution**

In the event of complaints by a bank customer, disputes shall be resolved by banks or escalated to the CBN, when unable to resolve.

## **1.11 Updating Customer's BVN Records**

Change of customer records shall be allowed as follows:

- i Name change with supporting documents, subject to a maximum of twice a year.
- ii Change of date of birth shall be allowed once with supporting documents.
- iii Minor correction due to errors supported with valid means of identification. The Central Bank of Nigeria has issued circulars to this effect.

## **2.0 Watch-List for the Nigerian Banking Industry**

### **2.1 Fraud categories**

The reporting institution shall use the table below to classify fraudulent activities.

S/N	Description	Category
1	Forgery, compromise, complicity, fraudulent duplicate enrolment. Any fraudulent infraction without monetary value.	0
2	Confirmed successful fraud with monetary value	1
3	When a customer is watch-listed more than once	2
4	Fraudulent individual that is at large	99

## 2.2 Stakeholders

Watch-list stakeholders include:

- i. CBN
- ii. Banks/Other Financial Institutions
- iii. iii. Nigeria Interbank Settlement System (NIBSS)
- iv. iv. Banks' Customers

## 2.3 Sanctions and Penalties

### 2.3.1 Framework

The following penalty shall apply to a violator of the framework:

- i Appropriate penalties shall apply to any bank that fails to enlist individuals confirmed to be involved in fraudulent activity.
- ii Any other stakeholders who fail to perform its stipulated responsibilities shall be penalized by the CBN.

### 2.3.2 Watch-list

The following penalties shall apply for customers on the watch-list:

- i. A watch-listed individual shall not be allowed to enter into new relationship with any bank.
- ii. A bank may choose not to continue business relationship with account holder on the watch-list. Where a bank chooses to continue an existing business relationship with holders of account on the watch-list, the account holder shall be prohibited from all echannels, such as ATM, POS, Internet Banking, Mobile Banking, including issuance of third-party

cheques. A watch-listed customer shall not provide reference to another customer, neither shall he/she be allowed access to credit facility or guarantee credit facilities.

- iii. A watch-listed individual shall remain in the watch-list for a period as specified in the penalty table. In the event of a reoccurrence, the tenure shall begin to count from year one.
- iv. Penalties that applied to watch-listed customers shall apply to all accounts that he or she is a signatory to.

The following table prescribes the period of the penalty for each infraction on the Watch-list.

S/N	Infraction	Category	Penalty
1	Forgery, compromise, complicity, fraudulent duplicate enrolment. Any fraudulent infraction without monetary value	0	As stipulated in Section 2.3.2 above for a period of five (5) years.
2	Confirmed successful fraud with monetary value	1	As stipulated in Section 2.3.2 above for a period of ten (10) years
3	When a customer is watch-listed more than once	2	As stipulated in Section 2.3.2 above for a period of ten (10) years and transactions are limited to the branch where account is domiciled
4	Individual who committed fraud and is at large	99	As stipulated in Section 2.3.2 above and POST-NO- DEBIT flag on all accounts linked to the BVN

#### 1.4 Delisting from the Watch-list

All aggrieved individuals listed in the watch-list shall go to their bank to obtain formal request for delisting. Only a bank that places an individual on the watch-list can request for such delisting.

### **2.4.1 Reasons for Delisting**

- i. Upon expiration of term in the watch-list
- ii. Erroneous listing of a BVN on the watch-list

### **2.4.2 Process for Delisting**

#### **2.4.2.1 Automatic Delisting**

Once a watch-listed BVN has served its term in the watch-list, the NIBSS system shall automatically delist the BVN and notify the bank.

#### **2.4.2.2 Manual Delisting**

- i. Where a bank realizes that an individual was placed on the watch-list in error, the bank shall apply in writing, with supporting documents to the Director, Risk Management Department of the CBN, for approval to delist. The supporting documents shall be duly authorized by the MD/CEO and the Chief Audit Executive of the bank.
- ii. Upon approval from CBN, the bank shall forward the approval to NIBSS for delisting.
- iii. NIBSS shall effect the delisting within one (1) business day of receiving the letter.
- iv. The bank shall notify the customer appropriately.

### **Glossary of Terms**

BANKING INDUSTRY – CBN licensed entities which includes DMBs, MFIs, MMOs & OFIs

BANKS- DMBs, MMOs & OFIs

BVN- Bank Verification Number

CBN- Central Bank of Nigeria

DMBs- Deposit Money Banks

KYC- Know Your Customer

MFIs – Micro Finance Institutions

MMOs – Mobile Money Operators

NIBSS- Nigeria Inter-Bank Settlement System

OFls - Other Financial Institutions

PIN- Personal Identification Numbers

PSP-Payments Service Providers



**CENTRAL BANK OF NIGERIA**

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**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

BSPD/DIR/GEN/CIR/04/010

11<sup>th</sup> October 2017

**TO: All Deposit Money Banks**

**FURTHER CLARIFICATION ON THE ENFORCEMENT OF GIFMIS  
REVENUE REFERENCE NUMBERS**

Further to our circular referenced BSPD/DIR/GEN/CIR/04/009, dated 25<sup>th</sup> September 2017, requesting all Deposit Money Banks (DMBs), to enforce the mandatory use of the GIFMIS Revenue Reference Numbers (RRN), at the point of Revenue collection into the TSA, the following clarification is hereby provided to aid its smooth implementation.

- i. That not all payments by revenue payers require the use of GIFMIS Revenue Reference Number, revenue collections that require the RRN will have a mandatory field for such on the Remita system
- ii. That use of GIFMIS Revenue Reference Number applies only to payments going into the Consolidated Revenue Fund (CRF) on behalf of Ministries, Departments and Agencies (MDAs) under the GIFMIS Platform
- iii. For further enquiries, clarification and support; please contact Funds Department, Office of the Accountant General of the Federation.

Consequently, SystemSpecs Ltd has been directed to ensure that only MDAs whose names appear on the list provided by the OAGF are made mandatory on the Remita system for the use of GIFMIS Revenue Reference Numbers.

Please, take note of the clarifications and ensure compliance, to avoid loss of revenue by the Federal Government.

**Dipo Fatokun**

Director, Banking and Payments System Department

As part of its efforts to boost mandated the use of electronic Account (TSA). In order to prop the Accountant General of the revenue reference number for Government through the Remit the use of the GIFMIS reven making it almost impossible for

With effect from October 1 201 Revenue Reference numbers GIFMIS Revenue Reference N to the revenue payer to enable

You may wish to note that, TR/Y/A2&B2/2007/OAGF/CAD/

Signature of the Revenue Reference Number

Dip F s nu

Please be guided accordingly a

Thank you



CENTRAL BANK OF NIGERIA

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**OFFICE OF THE ACCOUNTANT-GENERAL OF THE FEDERATION**

**FEDERAL MINISTRY OF FINANCE**

**TREASURY HOUSE**

Samuel Ladoke Akintola Boulevard, P.M.B. 7015, Garki, Abuja, Nigeria

Tel: 070-98202056. E-mail: oagfnigeria@yahoo.com

Website: www.oagf.gov.ng

Ref. No: TRY A2 & B2 / 2017

OAGF/CAD/ 026/V.111/193

17<sup>th</sup> May, 2017

**Federal Treasury Circular**

**To:**

- The Chief of Staff to the President,
- The Deputy Chief of Staff, Office of the Vice President,
- All Honourable Ministers.
- The Secretary to the Government of the Federation,
- The Head of the Civil Service of the Federation,
- All Special Advisers/Senior Special Assistants,
- The National Security Adviser,
- All Service Chiefs/Inspector-General of Police,
- The Governor, Central Bank of Nigeria,
- The Chairman, Federal Civil Service Commission,
- The Chairman, Police Service Commission,
- The Chairman, Revenue Mobilization, Allocation and Fiscal Commission,
- The Chairman, Federal Inland Revenue Service,
- The Chairman, Code of Conduct Bureau,
- The Chairman, Code of Conduct Tribunal,
- The Chairman, Independent National Electoral Commission,
- The Chairman, National Population Commission,
- The Chairman, Federal Character Commission,
- The Chairman, Independent, Corrupt Practices and Other Related Offences Commission,
- The Chairman, Public Complaints Commission,
- The Chairman, Economic and Financial Crimes Commission,
- The Chairman, National Drug Law Enforcement Agency,
- The Chairman, National Salaries, Incomes and Wages Commission,
- All Federal Permanent Secretaries,
- The Clerk of the National Assembly,
- The Executive Secretary, National Judicial Council,
- The Chief Registrar, Supreme Court of Nigeria,
- The Auditor-General for the Federation,
- All Vice Chancellors of Federal Universities,
- The Surveyor-General of the Federation,

The relevant tax policies have already been processed in the GI Information System (GIS) occur in computation a formula applied in computation should be maintained

a. WHT shall be

designated according to the required payment method

b. VAT shall also be the relevant payment

c. To ensure correct taxes, MDA

preconfigured in GIFMIS at the time of commencement of procurement or upon registration of the financial commitment.

- d. In the event that names of suppliers are not found in the list pre-entered in GIFMIS or should any supplier particulars be incorrect or incomplete, the affected suppliers should be referred to the FIRS where the supplier is registered for tax purposes. For avoidance of doubt, the details in question shall include supplier bank accounts.
- e. The system (GIFMIS) shall automatically compute the relevant tax and effect the remittance to the designated FIRS bank account at the Central Bank of Nigeria.
- f. MDA will be required to print and give copies of Remittance Advice Notes to the tax payers.
- g. MDA shall ensure that *Freetext* payment type is not used to pay any supplier.

### **3. Processing of Independent Revenue of the Federal Government collected by MDA**

#### **a. Invoicing and collection for Revenue accruals**

- i. Following the adoption of accrual accounting policy, specific revenue items like rent, shall be recognized on the date of invoicing.
- ii. MDA shall be responsible for issuance of Revenue Invoices from GIFMIS to all customers approved for their respective MDAs.
- iii. All collections against invoice revenue items shall be matched against the relevant revenue invoices at the time of receipt.

#### **b. Revenue Bank Account and Collection System**

- i. All revenues accruing to the Federal Government shall be collected and processed through GIFMIS.
- ii. All Payers of revenues will pay directly into Treasury Single Account (TSA) main Account at the Central Bank of Nigeria (CBN) through any Deposit Money Bank (DMB).

**c. Revenue Reference Numbers**

- i. Each MDA shall immediately generate Revenue Reference Numbers (RRN) from GIFMIS for each revenue line of the MDA, and subsequently as new independent revenues are identified. The RRN will be decoded by the system to facilitate accounting and reporting.
- ii. RRN shall be made available to revenue payers by the respective MDA to enable to the payer make payment at the approved DMB. Revenue payers must enter the RRN while effecting the payment at the bank.
- iii. The revenue payer shall take the deposit slip back to the MDA for confirmation of payment and processing of required service by the MDA.
- iv. MDA shall provide the required service to the revenue payer only after confirmation of the payment in GIFMIS.

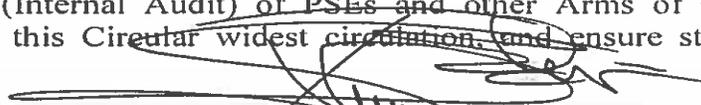
**d. Printing and Publication of Reference Numbers**

- i. To avoid potential delays, all MDA shall print the RFN on the documents used to confirm assessment.
- ii. In addition, RFN shall be printed and displayed at notice boards of all the MDA and websites as appropriate.

4. To ensure immediate compliance with the contents of this Circular, all GIFMIS-MDA must identify and communicate all relevant end-users to be setup not later than 1<sup>st</sup> July 2017. The system shall be monitored to ensure strict adherence to these guidelines and any non-compliance will result in automatic suspension of access to the TSA.

5. Further to the records available in GIFMIS, MDA are to maintain manual Revenue cash book.

6. Accounting Officers, Directors/Heads (Finance and Accounts), Directors/Heads (Internal Audit) of PSEs and other Arms of Government are enjoined to give this Circular widest circulation, and ensure strict compliance, please.



Ahmed Idris, *FCNA*  
Accountant-General of the Federation



**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

**CENTRAL BANK OF NIGERIA**  
Central Business District  
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BPS/DIR/GEN/CIR/04/007

September 7, 2017

**TO: ALL MOBILE MONEY OPERATORS**

**REVIEW OF DAILY MOBILE MONEY WALLET TRANSACTION AND BALANCE LIMIT AND BANK VERIFICATION NUMBERS (BVN) REQUIREMENT FOR MOBILE MONEY WALLET HOLDERS**

In line with the initiative of the Bank to enhance access to financial services through the Mobile Money Services, the daily transaction limit and balance limit on mobile money wallets have been reviewed to afford users of Mobile Money Services, more flexibility in the use of mobile money wallet.

The revised limits on transaction and balances are as follows:

KYC Level	Daily Cumulative Transaction Limit	Cumulative Balance Limit
1	N50,000	N300,000, in line with the three-tiered KYC requirements
2	N200,000	N500,000, in line with the three-tiered KYC requirements
3	N5,000,000	Unlimited, as provided in the three-tiered KYC requirements

Furthermore, the Bank hereby clarifies that the Mobile Money wallet holders on Tiered KYC Level 1 are not required to provide Bank Verification Number as part of the KYC documentation, while BVN is mandatory for Mobile Money wallet holders on KYC levels 2 and 3.

Please be guided.

  
Dipo Fatokun

Director, Banking and Payments System Department



BANKING AND PAYMENTS SYSTEM DEPARTMENT

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BPS/PSV/DIR/GEN/CIR/01/001

JULY 10<sup>TH</sup>, 2017

**To: All Deposit Money Banks and Other Payments System Participants**

**CIRCULAR ON STATEMENTS OF PAYMENT FINALITY FOR THE NIGERIAN PAYMENTS SCHEMES**

In line with the overall objective of the Nigerian Payments System Vision 2020 (PSV2020) project aimed at creating an electronic payments infrastructure that is *nationally utilized* and internationally *recognized*, the Central Bank of Nigeria hereby issue the statements of payment finality for the four payment schemes (RTGS, Card, Mobile and ACH, Cheque & Instant Payments) in Nigeria.

This defines the specific point at which payments are deemed to be final and irrevocable and to ensure that no payment system would invoke the principle of 'unwind'.

**GENERAL NOTE:**

- a. The definition for Payment Finality for each payment scheme is without prejudice to the dispute resolution mechanism, in accordance with the rules and regulations governing the respective schemes.
- b. The statements and operational implications will be incorporated into the respective scheme's rules.

**1. RTGS PAYMENTS SCHEME**

VARIOUS TYPES OF TRANSFER	POINT OF PAYMENT FINALITY
Inter-Bank Funds Transfer	At the point when the sending bank's account is debited and the receiving bank's account is credited, payment/settlement is final and cannot be revoked
Third-Party (Customer) Funds Transfer	At the point when the sending bank's account is debited and the receiving bank's account is credited, payment/settlement is final and cannot be revoked
Net Settlement	At the point when the accounts of banks are debited/credited, payment/settlement is final and cannot be revoked

**\*\*\*Settlement & Payment Finality happen at the same time on the RTGS system\*\*\***

**2. MOBILE PAYMENTS SCHEME**

<b>TRANSACTION WITHIN THE MOBILE PAYMENTS SCHEME</b>	<b>POINT OF PAYMENT FINALITY</b>
Mobile Money Operator (MMO) to MMO / Bank Transactions	This is at the point when the switch successfully transmits the authorization message from the sending MMO to the beneficiary MMO / Bank.
International Remittance to MMO	Payment is FINAL, when the MMO system credits the customer's wallet.
Over the Counter/ Walk-in Transactions	When NIBSS confirms and processes the transaction and sends notifications to both the sending and beneficiary MMOs.
Online Payments	A confirmation message from the Switch to the beneficiary bank confers finality of transactions.

**\*\*\*On the Mobile Payments Scheme, once payment is confirmed, settlement must be guaranteed.**

**3. ACH, CHEQUE & INSTANT PAYMENTS SCHEME**

<b>VARIOUS TYPES OF TRANSACTIONS</b>	<b>POINT OF PAYMENT Finality Evidence</b>	<b>POINT OF PAYMENT FINALITY</b>
CHEQUE AND ACH DEBIT	Payment Finality occurs at 10pm on day T+1 for all cleared instruments	<b>Clearing Session Closes</b>  (Note: A returned cheque or ACH debit will ALWAYS result as a separate payment instruction but is both a debit and reversing credit to the payer's account)
ACH CREDIT	Payment Finality occurs when Receiving Bank credits beneficiary's account	<b>Clearing Session Closes</b>  (Note: A returned payment will ALWAYS result as a separate payment instruction)
INSTANT PAYMENT	Payment is considered final and irrevocable when Presenting Bank communicates transaction status to the customer who initiated the transfer/payment request	<b>At the point when IP Switch sends authorisation response to presenting bank</b>

4. CARD PAYMENTS SCHEME

TRANSACTION WITHIN THE CARD SCHEME	POINT OF PAYMENT FINALITY
<b>P.O.S Purchases</b> (and other Card present transactions)	Payment is considered final and irrevocable when the issuer <b>AUTHORISES</b> the transaction. At this point, the transaction cannot be unwound and settlement <b>MUST</b> occur.
<b>Electronic Bill Payments</b> (and other Card NOT present transactions)	Payment is considered final and irrevocable when the issuer <b>AUTHORISES</b> the transaction. At this point, the transaction cannot be unwound and settlement <b>MUST</b> occur.

Thank you for your usual cooperation



"Dipo Fatokun

Director, Banking & Payments System Department



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**BANKING AND PAYMENTS SYSTEM DEPARTMENT**  
REF: BPS/FPO/DIR/GEN/CIR/01/099

June 23, 2017

**CIRCULARS TO ALL AUTHORIZED DEALERS**

**UNUTILIZED FX RETURNED TO THE CBN FOR THE SMIS WHOLESALE AND RETAIL INTERVENTIONS**

The Central Bank of Nigeria has noted the incessant complaints from Deposit Money Banks over the delay in getting naira value for unutilized portion of FX repatriated to CBN.

In order to ameliorate the current challenges in returning Naira to DMBs for unutilized FX and to improve on the current settlement processes, DMBs are hereby required to batch all unutilized FX returned to CBN per session/auction with effect from 26<sup>th</sup> of June, 2017. In other words, where FX was purchased from CBN for a particular session, all unutilized portion of the session should be batched and forwarded to the CBN for settlement, on a weekly basis.

In the same vein, all inflows from the proceed of International Money Transfer Operators (IMTO) should be batched and forwarded to CBN for settlement on a weekly basis.

All authorized Dealers are hereby directed to comply accordingly.

  
.....  
Director,  
Banking & Payments System Department



**CENTRAL BANK OF NIGERIA**

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**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

BPS/DIR/GEN/CIR/04/004

20<sup>th</sup> April, 2017

**RE: CIRCULAR ON NATIONWIDE IMPLEMENTATION OF THE CASH-LESS POLICY**

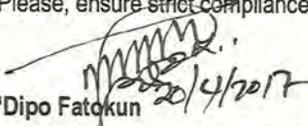
1. You will recall that a directive was issued on the nationwide implementation of the Cash-less policy vide our circulars with reference numbers BPS/DIR/GEN/CIR/04/001 dated 21st February, 2017 and BPS/DIR/GEN/CIR/04/002 dated 16th March, 2017.
2. Please note that the new withdrawal and deposit processing fee charges above the threshold, as contained in the circulars referenced above, are hereby suspended until further notice. The position of the policy shall now revert to the status quo ante.
3. For further clarification, the existing policy prior to the announcement of the new policy as earlier implemented in Lagos, Ogun, Kano, Abia, Anambra, Rivers states and the FCT shall remain in force. For the avoidance of doubt, the old charges to be reverted to are as indicated in the table below;

Account type	Withdrawals/lodgment limits	Processing fees for withdrawals	Processing fees for lodgments
Individual	₦500,000	3%	Nil
Corporate	₦3,000,000	5%	Nil

**Please note also that the policy on third party cheques shall remain in force.**

4. The new charges already applied effective 1st April, 2017 as contained in the circulars in reference above, should be reversed and the old charges as stated in No.3 above, should be applied. All necessary refunds should be made accordingly.

Please, ensure strict compliance.

  
'Dipo Fatokun  
Director, Banking & Payments System Department



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**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

BPS/DIR/GEN/CIR/04/003

April 20, 2017

To: Merchant Acquirers, Card Issuers, Card Schemes, -Mobile Money Operators, PTSPs and PTSA

**RE: CIRCULAR ON THE IMPLEMENTATION OF INTERCHANGE FEE**

Kindly refer to the CBN Circular of November 1, 2016, referenced BPS/DIR/GEN/CIR/03/004, where the Bank had communicated the discontinuance of the Merchant Service Charge (MSC) by May 1, 2017, and its subsequent replacement with the implementation of the Interchange Regime.

In line with the aforementioned, the Bank hereby notifies all stakeholders that the implementation of the Inter change regime has been suspended, until further notice.

Please be guided accordingly.

A handwritten signature in black ink, appearing to read 'Dipo' Fatokun'.

Dipo' Fatokun  
Director, Banking & Payments System Department

**SECURITIES & EXCHANGE COMMISSION**

**&**

**CENTRAL BANK OF NIGERIA**

**GUIDELINES**

**ON**

**SECURITIES SETTLEMENT IN NIGERIA**

**December 2016**

## **1.0 Preamble**

Pursuant to the powers of the Securities & Exchange Commission (SEC) conferred on it by section 13 and further section 312 (3) of the ISA 2007 and in exercise of the powers conferred on the Central Bank of Nigeria (CBN) by section 47 (2) of the CBN Act 2007 to promote and facilitate the development of efficient and effective systems for settlement of transactions, the SEC and the CBN hereby issue the following guidelines for the settlement of all types of securities in Nigeria

### **1.1 Objectives**

The main aim of this guideline is to promote competitive, efficient, safe and sound post trading arrangements in Nigeria. This should ultimately lead to greater confidence in securities markets and better investor protection and should in turn limit systemic risk. In addition, the guidelines seek to improve the efficiency of the market infrastructure, which should in turn promote and sustain the integration and competitiveness of the Nigerian securities markets.

### **1.2 Scope of the Guidelines**

The guidelines set out the procedures for the settlement of securities in Nigeria, including the rights and obligations of the parties. It also covers the settlement procedures and settlement cycle for the trades executed in the following exchanges:

- i. The Nigerian Stock Exchange traded securities.
- ii. FMDQ Over The Counter (OTC)<sup>b</sup> Securities.
- iii. NASD Over The Counter (OTC) Securities
- iv. Nigerian Commodity Exchange (NCX) traded securities.
- v. Afex Commodities Exchange.

### **1.3 Parties to Securities Settlement in Nigeria**

Parties to Securities Settlement in Nigeria shall include but not limited to:

- i Capital Market Registrars.
- ii Central Bank of Nigeria
- iii Central Securities Clearing System (CSCS) PLC (Central Securities Depository- Clearing & Settlement Agent)
- iv Custodians
- v Dealing Members Firms
- vi Deposit Money Banks (DMBs).

- vii Discount Houses.
- viii FMDQ OTC
- ix Investors.
- x NASD OTC
- xi Nigerian Commodity Exchange (NCX)
- xii Nigeria Inter-Bank Settlement System PLC (NIBBS)
- xiii Nigerian Stock Exchange (NSE)
- xiv Payment Infrastructure Service Providers.
- xv Securities & Exchange Commission
- xvi Commodity Warehouses
- xvii Other Financial Institutions (OFIs) as may be approved by the CBN or SEC in the future.
- xviii Afex Commodities Exchange

The below table depicts the details of trading, post-trade clearing and settlement.

**Table 1: The details of trading, post-trade clearing and settlement in Nigeria**

Market	Asset Class	Trading Platform	Clearing	Settlement	
				Securities	Cash
Stock Market	Equities, ETFs, Mutual Funds	NSE	CSCS	Delivery Versus Payment CSCS	Via settlement banks CBN RTGS
Unlisted Company Equities	Equities	NASD	CSCS	Delivery Versus Payment CSCS	Via settlement banks CBN RTGS
Bonds	Bonds	NSE, FMDQ	CSCS	Delivery Versus Payment CSCS, CBN S4	Via settlement banks and CBN S4

Money Market,	Treasury Bills, CPs and other notes	FMDQ	CBN, CSCS	CBN CSCS	CBN S4 DMBs
Commodities market	Commodities	NCX	CSCS	Delivery Versus Payment CSCS	Via settlement banks CBN RTGS
Securities (lending)	Equities & Bonds	NSE	CSCS	CSCS	Settlement banks
Currency	FX	FMDQ	CBN	CBN	CBN RTGS

## 2.0 Securities Settlement Rules and Procedures

As a general rule, any securities transaction must trade or be reported through a licensed Exchange in line with the standard settlement guidelines

### 2.1 The Exchange Traded Securities (Equities, ETFs, State, Corporate & Supranational Bonds

2.1.1 After each day's transaction (Day T), the clearing/settlement agent (CSCS) shall generate the financial obligations of each dealing member firms.

2.1.2 The clearing/settlement agent shall sort the financial positions of the dealing member firms based on their respective settlement banks to arrive at net position per settlement banks.

2.1.3 The clearing/settlement agent shall alert both the settlement banks and the dealing member firms of their net positions on Day T

2.1.4 On Day T+2 for Equities and T+1 for Bonds, the clearing/settlement agent shall transmit the final financial net settlement obligation of dealing member firms to settlement banks through a payment system agent (if the clearing/settlement agent has no direct access to the CBN RTGS)

2.1.5 Where the clearing/settlement agent has direct access to the CBN RTGS, the clearing/settlement agent shall transmit the final financial net settlement obligation of the settlement banks to the CBN RTGS at the same time when the security records are updated so as to achieve simultaneous Delivery versus Payment (DVP).

- 2.1.6 On settlement day (i.e. Day T+3 for Equities and day T+2 for Bonds), the clearing/settlement agent deliver the security while the payment system agent applies the net settlement advice against the settlement bank account with CBN. On same day, settlement banks shall equally credit or debit (funds) the bank account of the respective dealing member firm.
- 2.1.7 On settlement day, the clearing/settlement agent shall update the record of the investors (buyers & sellers) with the registrar.
- 2.1.8 On settlement day, the dealing member firms shall update the cash accounts of their respective investors/customers with the proceeds from the trade less charges/commission.
- 2.1.9 The dealing member firms shall debit/credit the customer account not later than the next working day.

## **2.2 The Exchange Traded Securities (Federal Government Securities)**

- 2.2.1 After each day's transaction (Day T), the clearing/settlement agent shall generate the financial obligations of each dealing member firms.
- 2.2.2 The clearing/settlement agent shall generate the financial positions of the dealing member firms based on their respective settlement banks to arrive at net position per settlement banks.
- 2.2.3 The clearing/settlement agent shall alert both the settlement banks and the dealing member firms of their net positions on Day T
- 2.2.4 On Day T+1, the clearing/settlement agent shall transmit the final financial net settlement obligation of dealing member firms to settlement banks through a payment system agent (if the clearing/settlement agent has no direct access to the CBN RTGS)
- 2.2.5 Where the clearing/settlement agent has direct access to the CBN RTGS, the clearing/settlement agent shall transmit the final financial net settlement obligation of the settlement banks to the CBN RTGS at the same time when the security records are updated so as to achieve simultaneous Delivery versus Payment (DVP).
- 2.2.6 On settlement day i.e. day T+2, the clearing/settlement agent delivers the security while the payment system agent applies the settlement advice against the settlement bank account. On same day, settlement banks shall equally credit or debit (funds) the bank account of the respective dealing member firm.

- 2.2.7 On settlement day, the clearing/settlement agent shall update the record of the investors (buyers & sellers) with the registrar.
- 2.2.8 On settlement day, the dealing member firms shall update the cash accounts of their respective investors/customers with the proceeds from the trade less charges/commission.
- 2.2.9 The dealing member firms shall debit/credit the customer account not later than the next working day.

### **2.3 Federal Government Securities (Primary Auction)**

- 2.3.1 After the release of auction result, the Government Securities Issuing Agent shall notify each successful Bidder (primary dealer) their financial obligations.
- 2.3.2 The successful Bidder shall fund its account with the Government Securities Issuing Agent for settlement on or before Day T+2.
- 2.3.3 The Government Securities Issuing Agent shall debit the cash account of successful Bidder on Day T+2 and credit their securities portfolio account (DVP)
- 2.3.4 Where the cash account of successful Bidder is not funded on Day T+2, the Government Securities Issuing Agent reserves the right to cancel the trade.
- 2.3.5 On settlement day, Day T+2, the primary dealer shall transfer the securities to the respective investor CSD or Custodian account as indicated on their application

### **2.4 Commodities Exchange Spot Market Trades**

- 2.4.1 All buying dealing members shall adequately fund their trading accounts before carrying out any trading transactions. The selling dealing members must deposit their commodities in any of the accredited/delivery warehouses before making an offer on the Exchange.
- 2.4.2 Buying dealing members shall fund their accounts to the full value of their trading volume before commencement of trading session on Day T.
- 2.4.3 After the trading session on Day T, the Commodity Exchanges shall transmit the trading/transaction details to the clearing/settlement agent (CSCS) for computation of settlement obligations of all parties of the transaction

- 2.4.4 On Day T + 2, clearing/settlement agent shall transmit the final financial net settlement obligation of the transactions parties to settlement banks through a payment system agent (if the clearing/settlement agent has no direct access to the CBN RTGS)
- 2.4.5 On settlement day i.e. day T+3, the clearing/settlement agent will electronically deliver the commodity while the payment system agent applies the settlement advice against the settlement bank account. On same day, settlement banks shall equally credit or debit (funds) the bank account of the respective transaction parties.
- 2.4.6 On settlement day, the clearing/settlement agent shall update the record of the commodity holders (buyers & sellers) with the warehouse.

## **2.5 Investor's Payments Procedure**

- 2.5.1 Customers account should be credited with proceeds from sale of their securities directly into their bank account or deposit into their stock broking account or other acceptable payment modes.
- 2.5.2 Payments shall reach the beneficiary's account not later than the next working day after settlement.

## **2.6 Dividend and Interest Payment**

- 2.6.1 Issuers issuing dividends/interests shall make funds available to the Registrar not later than seven working days after approval.
- 2.6.2 Registrars shall obtain account details of investors for the purpose of electronic payment of dividend and interest.
- 2.6.3 The Registrars shall pay dividend to investors electronically on due date and advise the investors through a credit advice.
- 2.6.4 Banks shall credit the account of investors not later than T+1 from the date of receipt of mandate and funds from the Registrars.
- 2.6.5 Where the banks cannot apply funds into some investors account, the funds and a schedule containing the list of the affected investors shall be returned to the Registrar on or before Day T+2 with reasons for the rejection.
- 2.6.6 The Registrar shall contact the affected investors within two working days to correct or supply the required information and a copy of the list of affected investors and reasons for rejection shall be sent to SEC.
- 2.6.7 Upon receipt of the required information, the Registrar shall re-send the funds and the payment details to the banks within two working days.

2.6.8 From the date of operations of these guidelines, all new issuance of securities should indicate that dividend will be paid into bank account of the investor electronically.

### **3.0 Rights and Responsibilities of the Parties**

#### **(A) Registrars**

The Registrar shall have the following responsibilities:

- (i) Select the bank or service provider for electronic payments.
- (ii) Provide the basic infrastructure requirements for electronic payments.
- (iii) Define and adhere to appropriate operational processes for initiating electronic payments.
- (iv) Obtain correct details of investors and validate them.
- (v) Provide credit advice to investors for all dividend and interest payments.

#### **(B) Rights and Responsibilities of CSCS Plc.**

- (i) Financial Market Infrastructure that provides Central Securities Depository (CSD) and sub-registry services for Nigerian Capital markets
- (ii) Provides electronic clearing and settlement services for all eligible Securities on the principle of Delivery versus Payment (DVP)
- (iii) Define requirements for Settlements Banks
- (iv) Advice Settlement Banks and NIBSS/CBN on dealing member firms financial obligations arising from Securities transactions.

#### **(C) Rights and Responsibilities of Custodians**

- (i) Custodians as clearing members are to ensure that bank accounts are funded on or before Settlement day.
- (ii) To ensure asset separation between Custodians and clients at all times
- (iii) Periodic account update to the investors.

#### **(D) Rights and Responsibilities of PDMMS**

- (i) Dealers to fund their settlement account on behalf of their clients on/before settlement day
- (ii) Dealers to transmit proceed to investors latest by the next day after settlement.

**(E) Rights and Responsibilities of Investors;** An Investor has the following responsibilities:

- (i) Maintain an account with a DMB.
- (ii) Confirm and provide proper details of the account to the Registrar and Stockbrokers.
- (iii) Alert the Registrar or Stockbroker if payment is not effected after being advised.

**(F) Rights and Responsibilities of Banks**

Banks have the following responsibilities:

- (i) Process electronic payments instructions in accordance with the terms defined by the payments system.
- (ii) Provide correct account numbers and bank sort codes to beneficiaries.
- (iii) Provide timely information on customer enquiries.

**(G) Payment Service Providers**

The Payment Service Providers have responsibility for the payment initiation platform and the electronic reporting system used by the Registrars and Stockbrokers. Their responsibilities include:

- (i) Provision of a secure electronic platform for payment initiation and online transaction reporting.
- (ii) Implementation and support of the electronic payment platform.
- (iii) Validation of received payment instructions to ensure that transactions are from the purported originator and have not been manipulated.
- (iv) Processing of received instructions and onward transmission to the DMBs for Registrars and Stockbrokers using appropriate ACH Infrastructure with capabilities for bulk processing.
- (v) The capability to generate and send Credit Advice to funds beneficiary via email and/or SMS when payments are made provided the Registrars and Stockbrokers pays for the service.

**(H) Payment Infrastructure Service Providers**

The Payment Infrastructure Service providers include all organizations that provide switching and settlement services for electronic payments. Their responsibilities include:

- (i) Provision of electronic payments and clearing services in accordance with the Nigeria Bankers Clearing House Rules and other appropriate guidelines issued by the CBN.

**(l) Central Bank of Nigeria and Securities & Exchange Commission**

The CBN and SEC shall have the following responsibilities:

- (i) Provide oversight functions on securities settlement systems.
- (ii) Ensure adequate laws are put in place to safeguard the interest of all parties.
- (iii) Apply appropriate sanctions in the event of default.
- (iv) Review and amend the Guidelines from time to time.

**4.0 Tariff/Charges**

- (i) Payment by the Registrars and Stockbrokers:** Charges for transactions should be agreed between the Registrars/Stockbrokers their banks, and Service Providers and included in their SLA
- (ii) Payment to Investors:** There shall be no charges to investors on e-payment of dividend/interest.

**5.0 Dispute Resolutions**

Dispute Resolution mechanism in respect of securities settlement shall be governed by the relevant rules issued by CBN, SEC, The Exchanges, CIS and IST's directives.

**6.0 Sanctions**

Regulatory bodies shall review and apply appropriate sanctions in the event of default and/ or infractions in securities settlement.

## 7.0 Glossary of Terms

**Clearing/Settlement Agent:** This refers to a corporate body responsible for processing/determining net positions of institutions arising from a trading/clearing session and or further processing the settlements into the account of affected institutions.

**Delivery versus Payment:** A securities settlement mechanism that links a securities transfer and a funds transfer in such a way as to ensure that delivery occurs if and only if the corresponding payment occurs

**The Exchanges:** Any trading platform owned by a self-regulatory organization and approved by the SEC.

**Settlement System:** Infrastructure for settlement of trade (Gross or net)

**Net Settlement Positions:** Value of total sales less total purchase for each institution

**Settlement Banks:** Banks that receive net position on behalf of the owner institutions

**Net NTB:** Total NTB purchased less total NTB sales

## List of Abbreviations

ACH: Automated Clearing House

ASCE: Abuja Securities and Commodity Exchange

ATS: Automated Trading System

CBN: Central Bank of Nigeria

CBN RTGS: Central Bank of Nigeria Real-Time Gross Settlement System

CDF: Certificate Deposit Form

CHN: Clearing House Number

CIS: Chartered Institute of Stockbrokers  
CSCS: Central Securities Clearing System Plc.

Day T: Transaction Day

DMBs: Deposit Money Banks

DVP: Delivery versus Payment

FGN: Federal Government of Nigeria

FMBN: Federal Mortgage Bank of Nigeria

IST: Investment & Securities Tribunal

MMD: Money Market Dealers

NCX: Nigeria Commodity Exchange

NIBSS: Nigeria Inter-Bank Settlement System

NTB: Nigeria Treasury Bills

NSE: The Nigerian Stock Exchange

OBB: Open Buy Back

OTC: Over-The-Counter

PDMMs: Primary Dealers and Market Makers

Repo: Repurchase

RTGS: Real-Time Gross Settlement System

SEC: Securities & Exchange Commission

WDAS: Wholesale Dutch Auction System

SLA: Service Level Agreement

SRO: Self-Regulatory Organization

NASD: National Association of Securities Dealers

FMDQ: Financial Markets Dealers Quotation

## APPENDIX I: FORM OF COLLECTING INVESTORS' ACCOUNT DETAILS

Dear Sirs,

The details of my/our bank account are as follows:-

<b>DMB</b>  :	
<b>Address of Bank Branch:</b>	
<b>Account Name:</b>	
<b>Account Number:</b>	
<b>Sort Code:</b>	
<b>Phone Number</b>	
<b>Email Address</b>	

Signed at \_\_\_\_\_ on this \_\_\_\_\_ day of \_\_\_\_\_ 20 \_\_\_\_\_

\_\_\_\_\_  
[NAME OF INVESTOR]

In the presence of:

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Occupation: \_\_\_\_\_

Signature: \_\_\_\_\_



BANKING AND PAYMENTS SYSTEM DEPARTMENT

**CENTRAL BANK OF NIGERIA**

Central Business District  
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BPS/DIR/GEN/CIR/03/004

November 1, 2016

To: Merchant Acquirers, Card Issuers, Card Schemes, Mobile Money Operators, PTSPs and PTSA

**CIRCULAR ON THE IMPLEMENTATION OF INTERCHANGE FEE**

With the introduction of the Cash-Less Nigeria Project and the release of the Guidelines on PoS Card Acceptance Services, the CBN outlined the Merchant Service Charge (MSC) and the modalities for its operation in the payments system. This had enhanced the issuance and utilization of cards transaction in the country and brought structure to the compensatory mechanism for parties involved in the transaction.

However, as a result of the limitations of the MSC regime and the objectives of the Payments System Vision 2020, the CBN, in consultation with industry stakeholders, has decided to migrate the payment card industry to a superior pricing mechanism. It is expected that the introduction of the new pricing regime will bring about even greater payment card issuance and utilization, investment in loyalty programs and the expansion of acquirer network infrastructure across the country.

With effect from 1<sup>st</sup> May, 2017, the CBN will no longer regulate Merchant Service Charge (MSC). The interchange fee regime will replace the MSC. Merchants and Acquirers will henceforth negotiate the MSC, while the CBN will control the interchange fees paid by the Acquirers to the Card Issuer and other regulated service providers, as defined by the CBN.

The Interchange Fee table and the modalities for its operation are presented below:

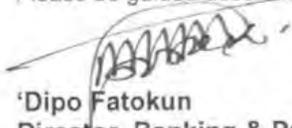
Card Type	Merchant Category	Interchange Fee	Upper Limit
Debit, Credit and Prepaid	General	Issuer 0.40%	N1,300
	Travel & Entertainment	Issuer 0.85%	N3,200

Other fees

Card Type	Merchant Category	Fee	Upper Limit
Debit, Credit and Prepaid	General	PTSP 0.15%	N500
		PTSA 0.05%	N130
	Travel & Entertainment	PTSP 0.40%	N1,500
		PTSA 0.05%	N300

1. PTSA and PTSP services are considered as mandatory and essential services that are licensed and regulated by the CBN. The fee, even though not part of the interchange, is included in the fee table to ensure that they are compensated for services provided. The settlement agent is expected to pay the PTSA and PTSP fees directly.
2. Where PTSP services are not available or not performed, the Acquirer would earn the PTSP fee in such instances where it performs the PTSP service. However, evidence must be provided by the Acquirer that the PTSP engaged by it had either failed to meet its obligations, declined to provide the service or no PTSP was willing to deploy in such location. The modalities for this service would be developed and communicated by NIBSS, within three months from the date of this Circular.
3. CBN hereby gives a period of six months, starting from November, 2016 to stakeholders to sensitize their merchants on the changes expected, and for card schemes to reconfigure their systems to the new pricing structure. The interchange regime will commence live operations, effective 1<sup>st</sup> May, 2017.

Please be guided accordingly.



**Dipo Fatokun**  
**Director, Banking & Payments System Department**



**CENTRAL BANK OF NIGERIA**

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**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

**BPS/DIR/GEN/CIR/03/008**

October 17, 2016

**TO: ALL BANKS, MOBILE MONEY OPERATORS AND PAYMENTS SERVICES PROVIDERS**

**AMENDMENTS THE GUIDELINES ON TRANSACTION SWITCHING IN NIIGERIA**

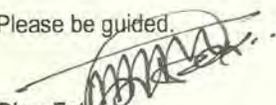
In strengthening the electronic payments system landscape in Nigeria, the Central Bank of Nigeria took cognizance of the need for a competitive environment while promoting shared services and innovation. The Bank, in ensuring that the Guidelines on Transaction Switching Services in Nigeria support the objective for payments system efficiency and financial inclusion, hereby issues this circular, to effect the following changes in the Guidelines:

1. Section 2.6.3 which stipulates that **“the NCS shall not own or promote any card business or retails products and shall be run in accordance with international best practice”** is hereby amended to read as follows:

**“The NCS shall be run in accordance with international best practice”**

To this end, the Nigeria Inter-Bank Settlement System Plc, shall communicate the Application Programing Interface (API) and other specifications of all its products to all banks and other licensed operators, including switches, mobile money operators and payments services providers, immediately.

Please be guided.

  
Dipo Fatokun

Director, Banking and Payments System Department



**BANKING AND PAYMENTS SYSTEM DEPARTMENT**  
BPS/DIR/GEN/CIR/03/006

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August 30, 2016

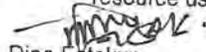
To: All Payments Solution Service Providers, Switches and Banks

**CIRCULAR ON THE PREVENTION OF EXPOSURES TO BANKS THROUGH PAYMENTS SOLUTIONS**

The Bank has observed the growing exposure of banks on payments solution service providers' platform, due to operational failures.

In furtherance of its responsibility for effective oversight of the payments system, and the need to address the issue, the Bank hereby direct as follows:

1. All Banks and Payments Solution Service Providers, for the purposes of payments under the Guidelines on Electronic Payments of Salaries, Pensions, Suppliers and Taxes in Nigeria, should give values to customers after settlement, at T+1. Exceptions that would necessitate instant value to customers are:
  - a. Where the paying organisations and/or sending banks pledge collateral against their transactions, for which they require instant value to customers;
  - b. The Payments Solution Service Provider's Scheme operates a scheme collateral arrangement, which is adequate to offset irrecoverable exposures. In the event of any shortfall of such collateral arrangement, the shortfall shall be borne by the Payments Solution Service Provider.
2. All Payments Solution Service Providers should ensure implementation of adequate system exceptions monitoring tools, including alerts, to aid banks in detecting anomalies that could lead to exposures.
3. All Payments Solution Service Providers shall jointly determine with participating banks, ICT resource capacity planning for banks' transaction levels. In addition, banks and PSSPs shall ensure that their systems are not overstretched by the level of transactions being supported, by providing necessary headroom for all critical ICT resource used in facilitating payments services.

  
Dipo Fatokun

**Director, Banking and Payments System Department**



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**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

**BPS/DPD/GEN/CIR/01/002**

**July 29, 2016**

**To: All Deposit Money Banks / General Public**

**FURTHER EXTENSION OF BVN FOR NIGERIAN BANKS' CUSTOMERS IN DIASPORA**

You will recall that, as part of its efforts towards ensuring full implementation of the BVN Project, the Central Bank of Nigeria released the guidelines for the enrolment of Nigerian banks' customers in diaspora in August, 2015. This move was to ensure that the Nigerian banks' customers in diaspora were carried along on the BVN project.

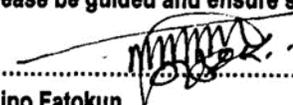
In order to fully realize this objective, the Bank issued a Circular, extending the deadline for the registration of the Nigerian banks' customers in diaspora to January 31, 2016. A survey at the end of January 2016, revealed a very low percentage of registration and the exercise was further extended to 30<sup>th</sup> June, 2016.

The Bank observed the need to expand the geographical spread of registration centres, therefore, a new consultant, Avante International Technology Inc. was engaged to join OIS and VFS in the registration of Nigerian bank customers in diaspora. The combined effort of the Consultants and some Nigerian banks abroad has greatly accelerated the enrolment of this category of banks' customers.

Consequently, to ensure that all Nigerian bank customers in diaspora are enrolled, the BVN enrolment for Nigerian banks' customers in Diaspora is hereby reopened for the next five (5) months, that is, 1<sup>st</sup> August to 31<sup>st</sup> December 2016.

Please note that from 1<sup>st</sup> January 2017, all Nigerian bank customers in diaspora should have the BVN attached to their accounts. Any bank customer without the BVN will be deemed to have "Inadequate KYC" and such an account will be operated as a "NO CUSTOMER INITIATED DEBIT" account, until the account holder obtains and attaches a BVN to the account.

Please be guided and ensure strict compliance.

  
.....  
'Dipo Fatokun  
Director, Banking & Payments System Department



BANKING AND PAYMENTS SYSTEM DEPARTMENT

**CENTRAL BANK OF NIGERIA**

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**BPS/DIR/GEN/CIR/03/005**

**July 28, 2016**

**CIRCULAR TO ALL BANKS AND OTHER FINANCIAL INSTITUTIONS**

The Central Bank of Nigeria, in furtherance of its efforts at strengthening the Nigerian Payments System, hereby issues the following directives:

1. The Removal of fixed interest rate on Credit cards.
2. Discontinuation of actual address verification in account opening, for customers with the Bank Verification Number (BVN).
3. Banks should begin to embed BVN biometric data in payment cards issued henceforth, to facilitate off-line BVN verification and biometric-based customer authentication on such payment devices as, ATMs, POS, Kiosks, etc.
4. Approval of BVN Watch-listing modalities and release by CBN of necessary Credit Risk Management System (CRMS) data, to facilitate its use for enriching the BVN watch-list.
5. Savings account customers with BVN should be allowed to deposit cheques **not more than N2,000,000.00 (two million naira) in value** into their accounts, per customer, per day.

Please be guided and ensure strict compliance with the content of this circular.

**Dipo Fatokun**  
Director, Banking & Payments System Department



BANKING AND PAYMENTS SYSTEM DEPARTMENT

**CENTRAL BANK OF NIGERIA**

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REF: BPS/DPD/GEN/CIR/01/001

July 20, 2016

To: All Deposit Money Banks (DMBs)

**BVN REGISTRATION OF FARMERS UNDER THE CBN ANCHOR BORROWERS PROGRAMME (ABP)**

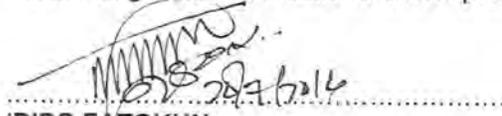
The Central Bank of Nigeria, in collaboration with the Bankers' Committee, launched the Bank Verification Number (BVN) project on 14<sup>th</sup> February, 2014, as a unique identifier, and to strengthen the Know-Your-Customer requirements across the banking industry.

Also, the Central Bank of Nigeria, as part of its development functions has, through various Credit Enhancement Programmes, and in furtherance of its drive for Financial Inclusion, supported the Agricultural Sector and the SMEs. One of the tools for driving this strategy is the "Tiered Know-Your-Customer" requirement.

The Bank, in November 17, 2015, flagged off the CBN Anchor Borrowers Programme (ABP). This programme is aimed at giving loans to farmers at a single digit interest rate. The programme, it is believed, will boost employment in the country and lift thousands of small farmers out of poverty. One of the requirements for accessing this loan is the BVN registration of the farmers.

In view of this, you are required to make all your branches available as BVN registration centres. Kindly note that a farmer can enroll for the BVN at any bank branch, including the nearest Central Bank of Nigeria Branch.

Please be guided and ensure strict compliance.



**DIPO FATOKUN**  
Director, Banking and Payments System Department

# **GUIDELINES ON TRANSACTION SWITCHING IN NIGERIA**

## **1.0 Preamble**

In exercise of the powers conferred on the Central Bank of Nigeria (CBN), by Sections 2 (d) and 47 (2) of the CBN Act, 2007, to promote and facilitate the development of efficient and effective systems for the settlement of transactions, including the development of electronic payment systems; the CBN hereby issue the following Guidelines on Transactions Switching in Nigeria.

This Guidelines supersede the previous Guidelines on Transaction Switching Services and the Operational Rules and Regulations for the Nigeria Central Switch (NCS).

## **2.0 Transactions Switching Services**

### **2.1 Scope**

The Guidelines set out the procedures for the operation of switching services in Nigeria, including the rights and obligations of the parties to the switching contract. It also compels the switching companies to meet with minimum standards for switching, as approved by the CBN.

### **2.2 License of Switching Companies**

For a switching company to operate in Nigeria, it shall obtain a Switching license from the CBN.

### **2.3 Parties to Transaction Switching**

Parties to Transaction Switching include, but not limited to:

- i. Nigeria Central Switch
- ii. Switching Companies
- iii. Card Issuers
- iv. Merchant Acquirers

### **2.4 Rights and Responsibilities of a Switching Company**

A switching company shall:

- 2.4.1 Operate its switch in accordance with these guidelines
- 2.4.2 Ensure compliance with minimum standards on Transaction Switching, as provided in this Guidelines
- 2.4.3 Open its network for reciprocal exchange of transactions/messages between it and the Nigeria Central Switch

- 2.4.4 Enter into agreement with member institutions, specifying in clear terms the responsibilities of each party, operational rules and procedures and liabilities of parties in the event of loss of funds arising from negligence of any of the parties. A copy of the agreement shall be submitted to the CBN for record purposes.
- 2.4.5 Ensure that all notifications and information that its employees have obtained in the course of discharging their responsibilities are treated as confidential.
- 2.4.6 Establish adequate security procedures to ensure the safety and security of its information and those of its clients, which shall include physical, transactions, logical, network and enterprise security.
- 2.4.7 Submit to the CBN, its security plans and periodic updates. Any security breach shall have a record and such instances shall be reported to CBN for record purposes.
- 2.4.8 Have a Business Continuity Plan, approved by the CBN.
- 2.4.9 Ensure full compliance with relevant provisions of payments system guidelines, policies and Circulars issued by the CBN, in relation to its operations.
- 2.4.10 Not be an issuer of payment cards.
- 2.4.11 Supply to the CBN, information on usage, volume and value of transactions and other relevant information, as and when due, and in the format required by the CBN.
- 2.4.12 Report all instances of fraud/attempted fraud on the switch to the CBN.
- 2.4.13 In addition to the primary site, maintain a business continuity arrangement, to ensure failsafe operation.

## **2.5 Rights and Responsibilities of Member Institutions**

- 2.5.1 Acquirers whose transactions are switched shall maintain databases that can handle information relating to cardholders, merchants and their transactions for a minimum period of seven (7) years.
- 2.5.2 Information on usage, volume and value of transactions and other relevant information shall be forwarded to the CBN as and when due and in the format required by the CBN.

- 2.5.3 Each member institution shall settle fees charged for the services provided by the switching company in relation to the operation of the switching network, in accordance with the agreed tariff.
- 2.5.4 The issuer shall be held liable (where proven) for frauds with the card arising from card skimming or other compromises of the issuer's security system.
- 2.5.5 An acquirer shall be responsible for ensuring that merchants put in place reasonable processes and systems for confirming payee identity and detecting suspicious or unauthorized usage of electronic payment instruments, both where customer/card is physically present at point of sale or in cases where customer/card is not physically present, like in Internet/web and telephone payment systems/portals.

## 2.6 **Rights and Responsibilities of the Nigeria Central Switch**

The Nigeria Central Switch shall:

- 2.6.1 be licensed by the CBN
- 2.6.2 be independent of other switching companies
- 2.6.3 not own or promote any card business or retails products and shall be run in accordance with international best practice
- 2.6.4 NIBSS shall make available to the Industry Stakeholders APIs and specifications that will enable licensed PSPs have access to services developed or hosted at NIBSS on behalf of the industry.
- 2.6.5 Allow connection by all **switching companies** that meet its requirements for participation and have obtained the necessary license from the CBN.
- 2.6.6 Enter into a written agreement with switching companies, specifying in clear terms the responsibilities of each party, and operational rules and procedures and copy shall be submitted to the CBN.
- 2.6.7 Ensure that all notification and information that its employees have obtained in the course of discharging their responsibilities shall be treated confidentially
- 2.6.8 Establish adequate security procedures to ensure the safety and security of its information and those of its clients, which shall include physical, transaction, logical, network and enterprise security
- 2.6.9 Charge fees for the services provided, in accordance with agreement reached under sub-guideline 2.6.6

- 2.6.10 Have a Business Continuity Plan approved by the CBN
- 2.6.11 Supply information on usage, volume and value of transactions and other relevant information to the CBN as and when due and in the format required by the CBN
- 2.6.12 Maintain database of transactions for a minimum period of seven (7) years.
- 2.6.13 Report all instances of fraud / attempted fraud to the CBN
- 2.6.14 Have primary site, hot backup site and contingency site, as minimum requirement

## **2.7 Technical Requirements/Standards**

### **2.7.1 Interface Specification**

The interface specifications will be provided to all Parties to Switching Services, as part of the NCS Interconnectivity requirements.

All interface specifications will conform to the international ISO 8583 standards.

All NCS Partner Institutions will have to develop both Issuer and Acquirer Interfaces that comply with the NCS Interface Specification.

### **2.7.2 Communication and Message Protocol**

The NCS ISO 8583; Host External Message is based on the standard external message developed by the International Standards Organization (ISO). It is a variable-length and variable-content message that can be configured differently, based on the type of message being sent.

The NCS ISO Host Interface component creates and interprets external messages according to the specifications in the NCS Interface specification document.

The NCS ISO 8583; host external message allows incoming and outgoing messages to be configured individually by a host, depending on the information the host chooses to send and receive.

The message format shall be ISO 8583. Details are provided in the NCS Interface Specification document.

- i. All Partner Institutions shall maintain secure dedicated Virtual Private Network TCP/IP data communication to the NCS.

- ii. The communication protocol shall be TCP/IP.
- iii. The Hardware Security Module (HSM) Connectivity - TCP/IP

### **2.7.3 Connection to NCS by Institutions**

The Nigeria Central Switch project requires a secure connectivity to all existing Switches in Nigeria and new entrants. A secure interconnectivity has to be established with the NCS.

### **2.7.4 Security**

Parties to Switching Services involved in card-operated devices, must be capable of providing secure hardware encryption/decryption of customer PINs and messages for onward transmission to the NCS network.

The Central Switch and Switching Companies shall:

- 2.7.4.1 Conduct half-yearly planned system tests to ensure ability to seamlessly switch from primary to back-up systems. Such tests shall be communicated in advance to all member institutions and the CBN. These tests shall take place at times during the week and day when the least amount of network traffic occurs, in order to minimize impact on customer service. The results of the tests shall be shared with all member institutions and Director, Banking and Payments System Department of CBN within 3 business days.
- 2.7.4.2 Publish a monthly report of all downtimes experienced to all member institutions and the CBN. Such reports shall include the duration of the downtime, the cause(s) of the downtime, and the remedial actions taken to prevent recurrence
- 2.7.4.3 Ensure that all devices/software used for transmitting financial data within their switching networks are EMV Levels 1 & 2 compliant (or any newer EMV version)
- 2.7.4.4 Be in regular compliance with PCI Data Security Standards (PCI DSS)
- 2.7.4.5 The Nigeria Central Switch shall, subject to CBN approval and in consultation with member institutions, maintain minimum technical standards on interoperability, messaging, network connectivity, network monitoring, security, disaster recovery, fraud management, and programming interfaces

- 2.7.4.6 An acquirer/member institution shall be responsible for deploying terminals/payment devices that are EMV Levels 1 & 2 compliant (or any newer EMV version).
- 2.7.4.7 An acquirer/ member institution shall be responsible for deploying terminals/payment devices with PIN Entry Devices (PED) that are PCI PED compliant.
- 2.7.4.8 The Central Switch shall maintain a list of approved network/link service providers. All connecting switches for their connection to NCS, are required to maintain a minimum of two (2) network/link service providers as the primary and secondary link.
- 2.7.4.9 The central switch shall stipulate the minimum network/link bandwidth that must be provided by each network/link provider
- 2.7.4.10 The Nigeria Central Switch shall stipulate the network/link standards and specifications for all equipment provided by each network/link provider at all terminating points
- 2.7.4.11 all switches have the duty to transmit all messages or financial transactions emanating from the Nigeria Central Switch to their expected destinations, without regard to the originating switch of such message or financial transaction.
- 2.7.4.12 No switch shall reject, degrade, give lower priority or service, or in any way negatively affect any message or financial transaction originating from the Nigeria Central Switch
- 2.7.4.13 all switches shall connect to the Nigeria Central Switch

### **3.0 Operational Rules and Procedures**

#### **3.1 Types of Transactions**

The central switch/switching companies shall only handle switching services in accordance with the provisions of these guidelines.

#### **3.2 Operating Hours**

3.2.1 The central switch/switching companies shall operate 24 hours a day and 7 days a week.

3.2.2 In case of system failure, the central switch / switching companies shall automatically switch to its / their back-up site (s).

### **3.3 Settlement Mechanism**

- 3.3.1 The Nigeria Central Switch shall work out the daily net settlement positions of member institutions and forward same through the ACH to the CBN for settlement
- 3.3.2 Member Institutions shall provide adequate collaterals, as deemed sufficient by the CBN, in form of Federal Government Securities in line with their contract agreements with Switching Companies.
- 3.3.3 Alternatively, member institutions may utilize existing cheque clearing collaterals held with the CBN, to meet the collateral requirement for transaction switching mentioned in 3.3.2 above.
- 3.3.4 The CBN shall effect the posting of the net settlement positions of member institutions into their accounts.

### **3.4 Fees and Charges**

- 3.4.1 Fees and charges for transactions switching, processing, etc. are to be agreed between service providers and banks / entities to which the services are being provided.

### **3.5 Special Provision**

- 3.5.1 The central switch/switching companies and their members shall be required to undertake measures to prevent the use of their networks for purposes associated with money laundering and other financial crimes.

### **3.6 Penalties**

- 3.6.1 Sanctions, in the form of monetary penalties and / or suspension of the specific service switching service (s), would be imposed on erring switching companies and / or their member institutions for failure to comply with any of the provisions of these Guidelines and other relevant Guidelines, issued by the CBN from time to time

## 4.0 Nigeria Central Switch

### 4.1 Background

The Nigeria Inter-Bank Settlement System (NIBSS) Plc was incorporated in April 1993 on the mandate of The Bankers Committee, to facilitate transfer of funds between the banks and discount houses. NIBSS is owned by all Licensed Banks and Discount Houses in Nigeria, including the Central Bank of Nigeria (CBN). It commenced operation in June 1994. The operations of NIBSS takes the form of banks transmitting financial transaction data on-line and retrieving reports and statements of accounts on-line via secure technology networks.

Highlight of the mandate of NIBSS, as entrenched in her memorandum and article of association is to:

- 4.1.1 Carry on business as a service oriented institution that provide the mechanism for same day clearing and settlement of inter-bank transfers and payments
- 4.1.2 Provide the infrastructure for the automated processing and settlement of transactions between banks
- 4.1.3 Initiate and develop an integrated nationwide network for the electronic or paperless funds transfer and settlement of transactions.

The mandate to develop and operate a national switch for Nigeria was formally issued by The Bankers Committee to NIBSS Plc in May 2006.

### 4.2 The Objectives of the Nigeria Central Switch (NCS)

The Nigeria Central Switch is designed to:

- 4.2.1 Provide interconnectivity and interoperability amongst approved EFT switch initiatives, Banks, MMOs and other Payment Service Providers in Nigeria as may be directed by CBN ;
- 4.2.2 Specify the Nigeria EFT interface standards;

- 4.2.3 Provide vital retail payment statistics for tactical & strategic planning purposes; provide a mechanism for proactive detection of card frauds;
- 4.2.4 Provide a central switch which integrates modules for accessing external content, transaction service networks, internal billing applications and related packages;
- 4.2.5 Provide seamless integration of the Nigeria retail payment system with the West

#### **4.4.1 Switching Companies**

These are electronic funds transfer and transaction switching and processing service providers that operate within Nigeria. It also includes future service providers. The switching companies facilitate the exchange of value between financial service providers, merchants, their customers and other stakeholders.

#### **4.4.2 Deposit Money Banks**

These are financial institutions operating in the country and are otherwise called issuers of payment tokens (cards, vouchers, etc), which are used on the network of switches.

### **4.5 Responsibilities**

#### **4.5.1 Partner Institutions**

Each partner institution shall undertake to satisfy and ensure continued compliance with the eligibility criteria and conditions for admission, as outlined in the operational rules and regulations of the Nigeria Central Switch and should:

- a. Implement the interface connectivity to the NCS.
- b. Ensure the availability of secure connectivity to the NCS and duly notify of any service failure.

- c. Maintain a record of all service failure times in a log report, which shall include date, time and period of service failure.
- d. Ensure message format conform to the ISO 8583 standard.
- e. Ensure that their banks pledge securities that provide 110% protection for their operations
- f. Maintain and provide audit trails of transactions flowing through its systems and the NCS for a minimum period of six years.
- g. Adhere to confidentiality and privacy rules.
- h. Ensure that all its transaction acquiring channels (ATM, POS, Web, etc) accept payment tokens of all NCS partner switches, in compliance with the NCS minimum transaction set.
- i. Shall provide transaction logs and traces when requested, to aid resolution of disputes arising from financial transactions.
- j. Shall provide a transaction log promptly to any requesting partner institution concerning any NCS-routed transaction, to aid resolution of card transaction complaints and disputes.

#### **4.5.2 The Nigeria Central Switch (NCS)**

The NCS shall after certification of the partner Institutions ensure:

A secure connectivity to the central switch

- a. Routing and switching of transactions amongst Partner Institutions.
- b. Switching of transactions between all transacting parties
- c. Maintenance and distribution of statistics relating to availability and service performance of the NCS and Partner Institutions.
- d. The enforcement of all agreements reached with the participating institutions and communications providers.
- e. To apply the appropriate fees and charges to all transactions passing through the through the NCS

- f. Generation and secure distribution of reports, as illustrated in the Service Level Agreement.
- g. The maintenance of transaction integrity and security for all transactions passing through the NCS.
- h. Notification of Partner Institutions on status of Settlement of Transactions.
- i. Notify all existing partner and institutions of the joining of a new partner institution to enable them configure their systems to accept payment tokens of the new institution
- j. NCS shall provide full support to services of all stakeholders

## **4.6 Technical Requirements**

### **4.6.1 Interface Specifications**

The interface specifications will be provided to all Parties to Switching Services as part of the NCS interconnectivity requirements.

All interface specifications will conform to the ISO 8583 standards

All NCS Partner institutions will have to develop both Issuer and Acquirer Interfaces that comply with the NCS Specification:

### **4.6.2 Communication and Message Protocol**

The NCS ISO 8583; Host External Message is based on the standard external message developed by the International Standard Organization (ISO). It is a variable-length and variable-content message that can be configured differently, based on the type of message being sent.

The NCS ISO Host Interface component creates and interprets external messages according to the specifications in the NCS Interface specification document.

The NCS ISO 8583; host external message allows incoming and outgoing messages to be configured individually by a host, depending on the information the host chooses to send and receive.

- i. The message format shall be ISO 8583. Details are provided in the NCS Interface Specification document.
- ii. All Partner Institutions shall maintain secure dedicated Virtual Private Network TCP/IP data communication to the NCS.
- iii. The communication protocol shall be TCP/IP.
- iv. The Hardware Security Module (HSM) Connectivity – TCP/IP

#### **4.6.3 Connection to NCS by Institutions**

The Nigeria Central Switch project requires a secure connectivity to all existing Switches in Nigeria and future new entrants. A secure interconnectivity has to be established with the NCS.

#### **4.6.4 Security**

Parties to Switching Services involved in card-operated devices, must be capable of providing secure hardware encryption/decryption of customer PINs and messages for onward transmission to the NCS network.

### **4.7 Nigeria Central Switch (NCS) Operations**

#### **4.7.1 The NCS Minimum Transactions Standard**

The following minimum transaction set must be supported by the NCS, in order to achieve interoperability:

##### **4.7.1.1 POS Transaction Types**

- a. Purchase
- b. Purchase Reversal

#### **4.7.1.2 ATM Transaction Types**

- a. Withdrawal
- b. Balance Enquiry
- c. PIN Change

Reversal Transaction shall be available for each applicable transaction type. The NCS shall support new transaction type within six (6) months of a request. Within 30 days of the request, the NCS shall revert on feasibility and timelines.

#### **4.7.1.3 Transactions from Other Devices/Channels**

Because the source of all transactions will be the Custom NCS Interface, recognized by that interface, regardless of which type of device or channel was used to initiate the transaction at the acquiring switch.

This will allow the system to process transactions from, for example, the internet, mobile phones, and IVR (interactive voice response) systems.

#### **4.7.1.4 Modus Operandi**

Transactions that route to or through the NCS for authorization do so in a series of transaction messages.

#### **4.7.1.5 Stand-in Processing**

The NCS shall not provide stand-in processing of transactions.

#### **4.7.1.6 Reports**

The NCS shall generate and circulate the following reports via secured online mode.

<b>S/N</b>	<b>Description</b>
1	Daily Activity Report By Source Switch; By Bank, MMO and by any other party switching its transaction through NCS
2	Daily Activity Report By Destination Switch; By Bank, MMO and by any other party switching its transaction through NCS
3	Net Settlement Report By Switch; By Bank, MMO and by any other party switching its transaction through NCS
4	Detailed transaction report
5	Transaction volume and value by terminal type and location

#### **4.8 Fees and Charges**

The NCS shall be kept operational at all times and as a result; all participants in the network shall bear the joint responsibility of supporting its operations. NIBSS considers the opportunity of participants to share networks that do not belong to them and thereby reducing investments in building infrastructures as a huge cost saving benefit.

The associated cost for the discharge of the functions of the NCS is as follows:

#### 4.8.1 Joining Fees

All parties to the Switching Services joining the NCS will be required to pay a one off fee. It is expected that these joining fees will cater for the efforts in infrastructure installation and systems delivery , as well as contributory license for the development of payment system in Nigeria.

#### 4.8.2 Transaction Charges

The Transaction Charges are of two types;

1. Switching Charge – NIBSS shall charge for every financial transaction that hits the NCS; as shown in the table below.

Device	Payer
ATM	Issuer
POS/WEB	Acquirer or Acquirer Network Processor
MOBILE MONEY	Operator

2. Settlement Charge – NIBSS shall charge for every settlement transaction which normally is received on net basis.

Charges will be reviewed at regular intervals by the Management of NIBSS and approved by the Board of Directors, to ensure continuous operations of the NCS, for the benefit of all stakeholders.

#### 4.9 Service Level

The four basic design goals that govern the development of the NCS are:

- a. Availability
- b. Data Integrity

- c. Performance and Scalability
- d. Open Interfaces
- e. Cost Reduction

It is therefore expected that all other connecting Partner Institutions must have similar architecture, as transactions are mission critical and pivotal to EFT processing.

As a result, the following draft service levels are expected, as a minimum requirement.

The NCS would be available for transactions 24 hours and 7 days a week.

The NCS system's performance will be measured in terms of:

- I. Up-Time
- II. Response Time

The performance of the Partner Institutions systems will be measured by:

- i. Success Rates – successful transactions as a percentage of all transactions switched to Partner Institutions for authorization.
- ii. Response Times

The NCS would maintain an uptime of at least 99% during any 24 hour period, to all Partner Institutions.

Partner Institutions connected to the NCS as Issuers must achieve transaction success rates of at least 97% any 24-hour period.

For all transaction requests routed to authorizing institutions a timeout period will be set, after which the institution node will be deemed to be down and the transaction will be classified as a failed transaction and declined. This period will be agreed with the authorizing institution, but will be no longer than 90 seconds.

Switching Companies may not be held responsible for unsuccessful transactions due to failures that occur at the upstream authorizing entity.

The NCS will be responsible for maintaining and distributing all statistics relevant to the above.

All NCS Partner Institutions will conform to these and other performance standards, which may be agreed from time to time.

All NCS Partner Institutions will maintain and provide audit trails for all transactions which pass between their systems and the NCS for a minimum of 7 years.

The timeout parameters on every terminal that allows access to the NCS must be no less than 40 seconds and not more than 90 seconds.

## **4.10 Settlement**

### **4.10.1 Business Day**

A Business Day for the NCS will be a 24-hour period. A typical business day will start from 12.00.00am to 11.59.59 pm.

### **4.10.2 Transaction Settlement Procedure**

1. Settlement among the NCS Partner Institutions will be processed through the NIBSS Inter Bank Engine.
2. The NCS end-of-day processing cycle will commence at 12.00am, at the close of each Business Day.
3. A Settlement report file, consisting of the net position of each Partner Institution will be generated.
4. The Settlement report file will be sent to Partner Institutions in a secure electronic format.
5. Postings to the CBN accounts will take place after each settlement session

#### **4.10.3 Settlement during Weekends/Non-Working Days**

1. Transaction settlement will be done every day except on weekends and/or public holidays or non-working days. However, Settlement Report Files will be generated every day, including weekends and on non working days
2. Settlement Report Files generated for each non-working day will be processed on the next working day.
3. NIBSS will send settlement confirmation reports to Partner Institutions, confirming the settlement (or non-settlement) of daily transactions

#### **4.11 Penalties and Dispute Resolution**

##### **4.11.1 Penalties**

Failure to comply with the provisions of these guidelines shall be referred to the CBN for the appropriate regulatory sanctions.

##### **4.12 Dispute Resolution**

Should any dispute arise from the operation and performance of the NCS, it shall be settled first by a meeting of at least one senior executive officer of each Party. If upon exercise of due diligence, the latter does not resolve a dispute within 15 days of the notifying Party's calling of the meeting, either Party may refer the matter to CBN.

##### **4.13 Confidentiality Rule and Prohibitions**

The rule governing the NCS is such that each of the Parties and their Advisors will disclose and provide to each other, such Confidential Information as the Disclosing Party deems necessary for the relevant business purpose under the NCS.

- 4.13.1 Confidential Information" shall for the purposes of these Rules mean any and all information that a Party discloses to the other, in connection with the relevant business purpose, which includes, but is not limited to the following:

Any customer information, technical, commercial, financial, marketing or business information and know-how, including without limitation, all correspondence, notes, computer disks and tapes, documents, records, data, services, financial information, marketing brochures or other information, in whatever form, relating to the parties, their operating documents, standard forms, which

information has been communicated to the other, or otherwise acquired by the other during the course of these services, whether such information is formally designated as confidential or not.

4.13.2 The Receiving Party will not disclose Confidential Information to any person, firm, corporation, association or any other entity for any reason or purpose whatsoever, provided however, that the Receiving Party may disclose the Confidential Information on a need-to-know basis to its internal management who are directly involved in the development and operation of the NCS, legal and financial advisors retained specifically to provide advisory services and provided that the Receiving Party ensures that such persons are bound by an equivalent duty of confidentiality.

4.13.3 The Disclosing Party may give notice in writing at any time requiring that any part of the Confidential Information disclosed be either returned or destroyed, such return or destruction to be combined with a notice to the Disclosing Party to the effect that upon such return or destruction the Receiving Party has not knowingly retained in its possession or under its control, either directly or indirectly, any Confidential Information or copies thereof. In any case, the Receiving Party must comply with any such request within thirty (30) days of receipt of such request.

4.13.4 All parties to Switching Services shall ensure that all notifications and information that its employees have obtained in the course of discharging their responsibilities are treated as confidential.

#### **4.14 Prohibition of Anti-competition Agreements**

No parties to Switching Services in Nigeria shall enter into any agreement in respect of any switching service that shall cause or is likely to cause adverse effect on competition. Any agreement entered into in contravention of this provision shall be null and void and of no effect.

4.14.1 Any agreement entered into between parties to Switching Services or decision taken by any association of switching companies or association of persons, including cartels engaged in identical or similar provision of switching services, which:

- a) Limits or controls markets, technical development, investment or provision of Switching Services

b) Shares the market or provision of services by way of allocation of geographical area of market, or number of customers in the market or any other similar way; shall be considered an anti-competition agreement.

4.14.2 Any agreement amongst parties to Switching Services, in respect of switching services, including:

- a) Tie-In Agreement;
- b) Exclusive Service Agreement
- c) refusal to deal;

Shall be considered an agreement in contravention of anti-competition agreement if such agreement causes or is likely to cause adverse effect on competition in Nigeria.

#### 4.15 Prohibition of Abuse of Dominant Position

4.15.1 No parties to Switching Services shall abuse its dominant position by directly or indirectly imposing unfair or discriminatory condition and fees in the provision of its services.

4.15.2 Equally, no parties to Switching Services shall limit or restrict the provision of switching services or market thereof or technical or scientific development relating to switching services to the prejudice of consumers.

4.15.3 No parties shall indulge in practice or practices resulting in denial of market access.

#### 4.16 Prohibition of Competition by NIBSS/NCS

Nigeria Inter-Bank Settlement System Plc (NIBSS), the Nigeria Central Switch (NCS) and any company, person or group of persons performing the roles, duties or functions of the Nigeria Central Switch SHALL NOT under any circumstance whatsoever or howsoever engage in competition with any Payment Card Industry Scheme, Operator or Service Provider. Accordingly, Nigeria Inter-Bank Settlement System Plc (NIBSS), the Nigeria Central Switch (NCS) and any company, person or group of persons performing the roles, duties or functions of the Nigeria Central Switch shall not:

4.16.1 Be or engage in any business as:

- a. A Card Scheme
- b. Issuer of Payment Cards

- c. Issuer-Processor
- d. Acquirer
- e. Acquirer-Processor

4.16.2 Support or promote any Card scheme

4.16.3 Own, deploy, maintain or install acceptance and acquiring devices such as Point of Sale terminals and Automatic teller Machine.

## 5.0 Definition of Terms

The terms below shall have the following meaning for the purpose of those Guidelines.

- 1) Acquirer means bank or any other legal person concluding contracts with merchants concerning acceptance of payment by means of electronic payment instrument.
- 2) Cardholder means any person who holds a payment card for the purpose of effecting payment in respect of good services.
- 3) Competent Authorities include Courts, EFCC, ICPC, Regulatory Authorities such as the CBN, NDIC etc
- 4) Interconnectivity means ability for reciprocal exchange of transactions/messages between two or more switching networks.
- 5) Interoperability means ability to issue cards and deploy devices in such a way that all customers (card holders, merchants and issuers) perceive operations, while obtaining service, as if the interconnected networks were one.
- 6) Member Institutions means banks and other financial institutions that are on the network of a particular switching company;
- 7) Merchant means an organization or entity that undertakes to conclude a contract with an acquirer and / or issuer concerning accepting payment by means of an electronic payment instrument;
- 8) MPR means Minimum Policy Rate
- 9) NCS stands for Nigeria Central Switch, an organization mandated to provide a single point of access, interconnectivity and interoperability amongst Payment Service Providers in Nigeria.
- 10) NIBSS stands for Nigeria Inter-Bank Settlement System, it was mandated to among others, act as the Automated Clearing House

(ACH), Payment Terminal Service Aggregator (PTSA) and Nigeria Central Switch (NCS) for Nigeria.

- 11) Offline transaction means a transaction in which no direct connection is made between the device(s) involved in the transaction and a centralized computer system for the purpose of effecting settlement, or authenticating the transaction before it is executed.
- 12) Online transaction means a transaction in which there is a direct connection between the device(s) and a centralized computer system for effecting settlement or authorization or validation before a transaction can be executed.
- 13) PIN means Personal Identification Number
- 14) Switching means a system that captures electronic financial transactions from touch-points, applies rules, determines destinations, delivers the transactions and gives appropriate feedback;
- 15) EMV (Europay, MasterCard, Visa) is the global standard that ensures smart (Chipand-PIN) cards, terminals and other systems can interoperate.
- 16) PCI DSS stands for Payment Card Industry Data Security Standard. It was developed by the major credit card companies as a guideline to help organizations that process card payments prevent credit card fraud and various other security vulnerabilities and threats.
- 17) PCI PED security requirements are designed to secure personal identification number (PIN)-based transactions globally and apply to devices that accept PIN entry for all PIN based transactions

**Central Bank of Nigeria,**

**April, 2016.**

CENTRAL BANK OF NIGERIA

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GUIDELINES ON OPERATIONS OF ELECTRONIC PAYMENT CHANNELS IN NIGERIA

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# **GUIDELINES ON OPERATIONS OF ELECTRONIC PAYMENT CHANNELS IN NIGERIA**

## **Preamble**

In exercise of the powers conferred on the Central Bank of Nigeria (CBN) by Sections 2 (d) and 47 (2) of the CBN Act, 2007, to promote and facilitate the development of efficient and effective systems for the settlement of transactions, including the development of electronic payment systems; the CBN hereby issue the following Guidelines on Operations of Electronic Payment Channels in Nigeria.

These Guidelines supersede the previous Standards and Guidelines on ATM Operations in Nigeria and Guidelines on PoS Card Acceptance Services, issued by the CBN.

## **1. Guidelines on Automated Teller Machine (ATM) Operations**

### **1.1 The Standards**

#### **1.1.1 Standards on ATM Technology and Specification:**

- a. All ATM deployers/acquirers shall comply with Payment Card Industry Data Security Standards (PCI DSS)
- b. All ATMs shall be able to dispense all denominations of Naira.
- c. For deposit taking ATMs, acceptable denominations shall be displayed by the deployer.
- d. All terminals shall be levels 1 & 2 EMV compliant at a minimum, and shall be upgraded from time to time, to comply with the latest version, within twelve months of release of the version.
- e. All ATM systems shall have audit trail and logs capabilities, comprehensive enough to facilitate investigations, reconciliation and dispute resolution.
- f. Card readers shall be identified by a symbol that:
  - i. represents the card;
  - ii. identifies the direction for which the card should be inserted into the reader;
  - iii. All new ATMs shall accept card horizontally with the chip upwards and to the right;

- g. 2% of ATMs deployed by each acquirer shall have tactile graphic symbol for the use of visually impaired customers. Locations of such ATMs are to be visibly publicized on their corporate website at the minimum. This should be complied with within five years from the release of these standards.

## 1.2 The Guidelines

### ATM deployment

- a. All Banks or independent ATM deployers may own ATMs; however such institutions must enter into an agreement with a card scheme or a scheme operator or their designated settlement agent for acceptance and settlement of all the transactions at the ATM.
- b. All ATM transactions in Nigeria shall be processed by a Nigerian company operating in Nigeria as acquirer-processor.
- c. No card or payment scheme shall compel any issuer or acquirer to send any transaction outside Nigeria for the purpose of processing, authorization or switching, if the transaction is at an ATM or at any acceptance device in Nigeria and the issuer is a Nigerian bank or any other issuer licensed by the CBN.
- d. All transactions at an ATM in Nigeria shall, where the issuer is a Nigerian bank or any other issuer licensed by the CBN be settled under a domestic settlement arrangement operated by a Nigerian Company. All collaterals for such transactions shall be in Nigerian National Currency and deposited in Nigeria.
- e. No card scheme shall discriminate against any ATM owner or acquirer. Every card-scheme must publish for the benefit of every ATM owner or acquirer and the Central Bank of Nigeria, the requirements for acquiring ATM transactions under the card scheme.
- f. No ATM owner or acquirer shall discriminate against any card scheme or issuer.
- g. Stand-alone or closed ATMs are not allowed.
- h. ATMs should be situated in such a manner as to permit access at reasonable times. Access to these ATMs should be controlled and secured so that customers can safely use them.
- i. Lighting should be adequate for safe access and good visibility. It should provide a consistent distribution and level of illumination, particularly in the absence of natural light.

- j. ATMs should be sited in such a way that direct or reflected sunlight or other bright lighting is prevented from striking the ATM display, for example, through the use of overhead sun shelter
- k. Privacy shall be provided by the design and installation features of the ATM so that in normal use the cardholder does not have to conspicuously take any protective action.
- l. All ATMs shall accept all cards issued in Nigeria under CBN regulations for any card-based value added service made available on the machine.

### **1.3 ATM Operations:**

A bank or independent organization that deploys an ATM for the use of the public shall ensure that:

- a. The ATM downtime (due to technical fault) is not more than seventy-two (72) hours consecutively, where this is not practicable, customers shall be duly informed by the deployer;
- b. The helpdesk contacts are adequately displayed at the ATM terminals. At the minimum, a telephone line should be dedicated for fault reporting and such telephone line shall be functional and manned at all times that the ATM is operational.
- c. All ATM charges are fully disclosed to customers.
- d. The ATMs issue receipts, where requested by a customer, for all transactions, except for balance enquiry, stating at a minimum, the amount withdrawn, the terminal identity, date and time of the transaction.
- e. Receipt prints and screen display are legible. The dispensing deposit and recycling component of the machine is in proper working condition.
- f. Cash retraction shall be disabled on all ATMs.
- g. There is appropriate monitoring mechanism to determine failure to dispense cash.
- h. There is online monitoring mechanism to determine ATM vault cash levels.
- i. ATM vault replenishment is carried out as often as necessary to avoid cash-out.
- j. ATMs are not stocked with unfit notes.
- k. Cash is available in the ATMs at all time. The funding and operations of the ATM deployed by non-bank institutions should be the sole

responsibility of the bank or institutions that entered into agreement with them for cash provisioning. In this regard, the Service Level Agreement (SLA) should specify the responsibilities of each of the parties.

- l. Change of PIN is provided to customers, free of charge.
- m. Acquirers monitor suspicious transactions and report same to CBN, based on the agreed format and timeframe.
- n. Back-up power (inverter) is made available at all ATM locations, in such a way that the machine would not cease operation while in the middle of a transaction.
- o. Paper disposal basket is provided at all ATM locations
- p. A register of all their ATMs in Nigeria with location, identification, serial number of the machines, etc is maintained.
- q. Provision is made for extending the time needed to perform a specific step by presenting a question, such as, "Do you need more time?"
- r. Information sufficient to construct a usable card is not displayed on the screen or printed on a transaction record. This will guard against the possibility that such information may become accessible to another person should the cardholder leave the ATM while a transaction is displayed, or abandon a printed transaction record.
- s. Precautions are taken to minimise the possibility of a card being left, by a message or voice, alerting the customer to take his card.
- t. Cash out first before card is out of the ATM is adopted, to minimise the possibility of customers leaving cash uncollected at ATM.
- u. ATM acquirers shall disable cash-retract and display such notice at the ATM or on the screen.
- v. Acquirers shall reconcile and refund all funds in their possession, belonging to customers as a result of ATM's non-dispense and partial dispense errors.
- w. Acquirers shall also install appropriate mechanism to immediately initiate refunds without the prompting of the issuing bank or the customer.

#### **1.4 ATM Maintenance**

A bank or independent organization that deploys an ATM for the use of the public shall ensure that:

- a. Notice is displayed at the ATM for planned maintenance period and disruption to service, due to maintenance for public.

- b. An ATM maintenance register or log is kept properly.
- c. All ATMs and cash in the machines are insured.
- d. They physically inspect their ATMs, at least fortnightly.

### **1.5 ATM Security**

- a. Every ATM shall have cameras, which shall view and record all persons using the machines and every activity at the ATM, including but not limited to: card insertion, transaction selection, cash withdrawal, card taking, etc. However, such cameras should not be able to record the key strokes of customers using the ATM.
- b. Where a surveillance camera is used, it should be kept secret to avoid illegal removal or damage or compromise.
- c. Networks used for the transmission of ATM transactions must be demonstrated to have data confidentiality and integrity
- d. All ATMs must be located in a manner that guarantees safety and security of users and confidentiality of their transactions.
- e. ATMs should not be placed outside buildings, unless such ATM is bolted to the floor and surrounded by structures, to prevent removal.
- f. Additional precaution must be taken to ensure that any network connectivity from the ATM to the bank or switch is protected, to prevent the connection of other devices to the network point.
- g. Where the user of an ATM blocks his image for camera capture, the ATM shall be capable of aborting the transaction.
- h. ATM key management processes must ensure that keys are changed regularly (every year) and the same keys must not be used at multiple ATMs.
- i. ATMs shall be installed with Anti-Skimming devices that would ensure effective mitigation against fraud incidents.

### **1.6 Dispute Resolution**

In the event of irregularities in the account of an ATM customer, arising from the use of card on ATM, the following shall apply:

- a. All cardholders' complaints should be treated within T + 3 from the date of receipt of the complaints; Acquirer must respond to Issuer's request within 2 days.

- b. Where records are falsified by any party, appropriate sanctions shall apply.

### **1.7 Regulatory Monitoring**

- a. Any institution which operates an automated teller machine shall file an updated list of such ATMs, including the detail location of their addresses with the Director, Banking & Payments System Department of the Central Bank of Nigeria for compliance monitoring.
- b. The CBN shall conduct onsite checks of ATMs with a view to ensuring compliance with cash and service availability.
- c. Acquirer shall report volume and value of transaction on monthly basis to the Director, Banking & Payments System Department, CBN

### **1.8 Penalties**

Sanctions, in the form of monetary penalties / or suspension of the acquiring / processing service (s) or both would be imposed on erring institutions for failure to comply with any of the provision of this Guidelines, or any other relevant Guidelines, issued by the CBN from time to time.

## **2.0 Guidelines on Point Of Sale (POS) Card Acceptance Services**

### **2.1 Objectives**

These guidelines have been developed to provide minimum standards and requirements for the operation of POS card acceptance services.

### **2.2 Point of Sale Card Acceptance Services Stakeholders**

POS Card Acceptance Services Stakeholders include, but not limited to:

- i. Merchant Acquirers
- ii. Card Issuers
  - iii. Merchants
  - iv. Cardholders
  - v. Card Schemes
  - vi. Switches
  - vii. Payments Terminal Service Aggregator (PTSA)
  - viii. Payments Terminal Service Providers (PTSP)

### **2.3 Minimum Standards**

All industry stakeholders who process and/or store cardholder information shall ensure that their terminals, applications and processing systems comply with the minimum requirements of the following Standards and Best

Practices. In addition, all terminals, applications and processing systems, should also comply with the standards specified by the various card schemes. Each vendor must provide valid certificates, showing compliance with these standards, and must regularly review status of all its terminals, to ensure they are still compliant, as standards change. There will be a continuous review and recertification on compliance with these and other global industry standards, from time to time.

2.3.1 PA DSS –Payment Application Data Security Standard.

2.3.2 PCI PED – Payment Card Industry Pin Entry Device.

2.3.3 PCI DSS – Payment Card Industry Data Security Standard.

2.3.4 Triple DES – Data Encryption Standards should be the benchmark for all data transmitted and authenticated between each party. The triple DES algorithm is the minimum standard.

2.3.5 EMV – The deployed infrastructure must comply with the minimum EMV requirements.

## **2.4 Roles and Responsibilities of:**

### **2.4.1 Merchant Acquirers**

2.4.1.1 Only CBN licensed institutions shall serve as Merchant Acquirers.

2.4.1.2 Merchant Acquirers can own POS Terminals, but shall only deploy and support POS terminals through a CBN licensed Payment Terminal Services Provider (PTSP). However, exceptions can be granted by the CBN, where PTSP services are not available.

2.4.1.3 Merchant Acquirers shall ensure that POS terminals purchased and deployed at merchant/retailer locations through CBN licensed Payment Terminal Services Provider shall accept all cards (card agnostic).

2.4.1.4 Merchant Acquirers shall enter into agreements/contracts with merchants for accepting payment by means of electronic payment instrument. All agreements /contracts shall clearly spell out the terms and conditions, including roles, responsibilities and rights of the acquirer and the merchant. The contract should also clearly spell out requirements for the merchant's responsibilities in ensuring proper upkeep of the POS terminal.

- 2.4.1.5 Every Merchant Acquirer shall connect all its PoS terminals or other acquiring devices directly to a Payments Terminal Service Aggregator.
- 2.4.1.6 Merchant Acquirers shall switch all domestic transactions through the preferred local switch of their choice for purpose of seeking authorization from the relevant Issuer and shall not under any circumstance be routed outside Nigeria
- 2.4.1.7 To achieve interoperability, all POS terminals deployed in Nigeria shall accept all transactions arising from any card issued by any Nigerian bank. Accordingly, Acquirers and other service providers shall be card neutral entities that have no reason to promote or favour any card brand over the other.
- 2.4.1.8 Every acquirer must be able to accept all cards issued by Nigerian Banks, whether through a direct license or via an arrangement with any other acquirer that is licensed under the relevant card scheme/association.
- 2.4.1.9 Merchant Acquirers, in conjunction with their Payment Terminal Service Providers, shall be responsible for ensuring that merchants are trained and made to put in place, reasonable processes and systems, for confirming cardholder identity and detecting suspicious or unauthorized usage of electronic payment instruments, where customer/card is physically present at point of sale.
- 2.4.1.10 Merchant Acquirers shall be required to undertake measures to prevent the use of their networks for purposes associated with money laundering and other financial crimes.
- 2.4.1.11 Merchant Acquirers shall conduct proper KYC on all their merchants with POS.
- 2.4.1.12 Merchant Acquirers shall set merchant limits, based on the volume of business/type of commercial activities. In addition, Merchant Acquirers shall provide guidelines to merchants on payment procedures for large ticket transactions e.g. review of Identification, etc.
- 2.4.1.13 Merchant Acquirers shall, in conjunction with banks, switches and other stakeholders, ensure resolution of disputed transactions between the merchant and the cardholder within T + 5 days. All transactions from POS devices shall be routed through the PTSA to the relevant acquirer or its appointed third party processor. Merchants shall provide

evidence to dispute requests from the Acquirers within 3 days, failure of which their accounts shall be debited for the value of transaction.

2.4.1.14 there shall be no exclusivity arrangements that bundle third party switching activities. Each acquirer shall be free to process transactions on its own, or leverage the services of a third party processor; and these services shall be independent of the switch used to facilitate such exchange.

2.4.1.15 Banks shall maintain and reconcile merchant accounts on behalf of the Merchant.

#### **2.4.2 Payment Terminal Services Provider (PTSP)**

2.4.2.1 To ensure effectiveness of POS operations and a proper Support/maintenance infrastructure, only CBN licensed Payments Terminal Service Providers shall deploy, maintain and provide support for POS terminals in Nigeria. PTSPs shall offer services to acquirers, covering all aspects relating to terminal management and support, including, but not limited to purchase and replacement of spare parts, provision of connectivity, training, repairs, and development of value-added services, amongst other things.

2.4.2.2 CBN shall license a limited number of Payments Terminal Service Providers, to enable the PTSPs build scale and maximize efficiency. Criteria for PTSPs shall be defined by CBN, and the performance of licensed PTSPs shall be reviewed annually, to confirm they meet defined performance targets. Licenses of PTSPs that fail to meet performance expectations can be withdrawn and fresh licenses issued to qualifying companies.

2.4.2.3 PTSPs can identify merchant opportunities and market potential merchants on behalf of acquirers.

2.4.2.4 Only the PTSPs shall be allowed to deploy POS terminals. Any party, other than a PTSP that deploys POS terminals, shall be fined 50,000 Naira per each day that the terminal remains deployed. PTSPs shall clearly agree SLAs on deployment timelines with acquirers, to ensure efficient deployment of POS terminals.

2.4.2.5 PTSPs shall ensure that their deployed POS terminals are functional at all times. Appropriate mechanism must be put in place to remotely detect failures, which shall be rectified or replaced within 48 hours.

- 2.4.2.6 All terminals deployed by PTSPs must have stickers with the PTSP's support service contact information. In addition PTSPs must have a support infrastructure that ensures support coverage for merchants, 7 days a week.
- 2.4.2.7 PTSPs will be required to enter into contracts/SLAs with the acquirers that will clearly state the terms and conditions of their support services.
- 2.4.2.8 PTSPs shall work with the PTSA to ensure all POS terminals deployed by them meet all required certifications and the minimum POS specifications, defined in these Guidelines.
- 2.4.2.9 PTSPs shall work with acquirers and the terminal manufacturers to ensure that terminals are phased out/replaced/upgraded as appropriate, as their certifications become obsolete.

### **2.4.3 PoS Terminal Owner**

- 2.4.3.1 Banks, Merchants, Acquirers, and PTSPs can be PoS Terminal Owners.
- 2.4.3.2 PoS Terminal Owners shall ensure all POS terminals procured by them are compliant with the minimum POS specifications.
- 2.4.3.3 PoS Terminal Owners shall cover the costs of repairs and replacements of parts for their terminals.

### **2.4.4 Payments Terminal Service Aggregator (PTSA)**

- 2.4.4.1 The Nigeria Interbank Settlement Systems (NIBSS) - owned by all Nigerian banks and the Central Bank of Nigeria, shall act as the Payments Terminal Service Aggregator for the financial system.
- 2.4.4.2 As the Payments Terminal Service Aggregator for the industry, NIBSS shall establish communication network for reliable POS data traffic that shall satisfy the service and availability standards and expectations of the industry, on a cost effective basis.
- 2.4.4.3 As the Payments Terminal Service Aggregator for the industry, NIBSS shall, on an annual basis, or more frequently, as may be required, on behalf of the industry, certify POS Terminals that meet the POS Terminal standards, approved for the industry.
- 2.4.4.4 As the Payments Terminal Service Aggregator, NIBSS shall, participate on a joint committee of industry stakeholders, to negotiate a price list with 2 – 3 terminal equipment providers for bulk purchase of POS terminals for the Nigerian market. It is expected that a bulk purchase agreement will enable cost reduction on POS terminals, as well as the

ability to define special requirements for the Nigerian market, and ensure a sufficient support infrastructure from the terminal manufacturers. Any Terminal Owner may subscribe to the negotiated global price list for the purchase of POS Terminals to take advantage of these benefits.

- 2.4.4.5 As the Payments Terminal Service Aggregator, NIBSS shall be the only entity permitted to operate a Terminal Management System. All POS terminals operating in Nigeria must be connected to the Payments Terminal Service Aggregator. This is to ensure comprehensive oversight, reporting/performance monitoring, and also in line with our objectives of shared industry infrastructure and best practice. NIBSS shall provide Acquirers and Payments Terminal Service Providers and their merchants (where required) the ability to view transactions and monitor performance of their devices.
- 2.4.4.6 All PoS Terminals deployed shall be technically enabled to accept all cards issued by Nigerian banks.
- 2.4.4.7 The Payments Terminal Service Aggregator shall route all transactions from PoS terminals to the relevant Acquirer or its designated third party processor. This enables Acquirers who are Issuers handle On-Us transactions appropriately and all Acquirers to manage their risks and accept responsibility for such transactions in line with Charge-back Rules of relevant Card Schemes. This does not preclude any Acquirer from using the services of Third Party Processor (TPP) or the Acquirer's in-house processing services to process its acquired transactions.
- 2.4.4.8 All domestic transactions, including, but not limited to POS and ATM transactions must be switched, using the services of a local switch, and shall not, under any circumstance, be routed outside Nigeria for switching.
- 2.4.4.9 The Payments Terminal Service Aggregator shall monitor the availability and transaction traffic on all POS terminals on a continuous basis and shall provide analysis and reporting on POS terminal performance and transaction trend to the Central Bank and the industry.
- 2.4.4.10 The Payments Terminal Service Aggregator shall ensure all merchants and other relevant parties are settled within the T+1 settlement period, upon receipt of settlement reports from all card schemes or the switches they have appointed to provide such reports on their behalf. Failure to execute the T+1 settlement cycle shall result in a sanction to

the PTSA, including, but not limited to refunding the entire Merchant Service Charge for that day's transactions.

2.4.4.11 The Payments Terminal Service Aggregator shall have clear Service Level Agreements for certifying terminals quickly and efficiently, as well as for integrating new value-added services on behalf of acquirers, PTSPs, or 3<sup>rd</sup> party application developers.

#### **2.4.5 Merchants**

2.4.5.1 A merchant shall enter into agreement with Merchant Acquirer, specifying in clear terms, the obligations of each party.

2.4.5.2 Merchant shall accept cards and other payment tokens as methods of payment for goods and services.

2.4.5.3 The POS shall display the amount to be authorised on the screen requesting PIN entry, so that the customer can see the amount being paid before authorization.

2.4.5.4 The merchant shall be held liable for frauds with the card arising from its negligence, connivance etc.

2.4.5.5 A merchant shall under no circumstance, charge a different price, surcharge a cardholder or otherwise discriminate against any member of the public who chooses to pay with a card or by other electronic means.

#### **2.4.6 Cardholders**

2.4.6.1 A cardholder shall:

- a) Store the payment card and protect his/her PIN with due care
- b) Not keep his payment card together with the PIN
- c) Notify the issuer without delay, about missing, stolen, damaged, lost or destroyed card
- d) Not make the payment card available to unauthorized persons.

2.4.6.2 The cardholder may withdraw from the contract for payment card without prior notice to the issuer, provided he does not owe for any charges or transactions on the payment card.

2.4.6.3 The cardholder shall present, when required by a merchant, a document confirming his identity.

- 2.4.6.4 The cardholder shall receive value for the operations performed by means of a payment card, and by so doing, the holder commits himself to pay the amount of the operations, together with charges due to the issuer, from a specified account.
- 2.4.6.5 The cardholder shall be held liable for fraud committed with his card, arising from the misuse of his PIN or his card.
- 2.4.6.6 The cardholder shall be entitled to receive a receipt, or any other form of evidence at the time a transaction is performed with his/her card.
- 2.4.6.7 The cardholder shall be entitled to receive, within a reasonable period, at least monthly, a statement of all transactions performed with his/her card.
- 2.4.6.8 If a cardholder notifies his bank that an error involving his card has occurred, the institution must investigate and resolve the claim within T + 5 days.
- 2.4.6.9 A cardholder shall be given reasonable notice before changes are made to the terms and conditions of his card contract and shall be given the option to opt out of the card contract, without penalty.

#### **2.4.7 Card Schemes**

- 2.4.7.1 All card schemes in Nigeria are bound by these Guidelines and other relevant CBN Guidelines/Circulars.
- 2.4.7.2 CBN shall reserve the right to assess the rules to confirm objectivity, vis-a-vis international standards/best practice. Any Card Scheme that wrongfully denies membership or unnecessarily delays the process of certification to potential players, would be penalized by CBN – including, but not limited to paying a fine, equivalent to the expected revenue of the payment services provider for that period, suspension and/or revocation of license, and CBN licensing new schemes.
- 2.4.7.3 No Card Scheme shall engage in the business of acquiring; neither shall any entity that has a management contract with a Card scheme engage in the business of acquiring. In addition, no entity in which a Card Scheme, its subsidiary, or the majority shareholder of a card scheme, has 20% shareholding or more, shall engage in the business of acquiring.
- 2.4.7.4 No Card Scheme shall engage in any antitrust activity or any act that will lead to abuse of dominant position, monopoly or unfair competition. Accordingly, there shall not be any form of arrangement

or collusion between two or more Card Schemes, or Payment Schemes in respect of Issuing, Acquiring, Processing or Switching.

#### **2.4.8 Switching Companies**

2.4.8.1 All local switches in Nigeria shall ensure that transactions relating to all cards issued by Nigerian banks are successfully switched between Acquirers and Issuers.

2.4.8.2 To achieve the interconnectivity of all new and existing switching companies, all switching companies shall open their networks for reciprocal exchange of transactions/messages with the Nigeria Central Switch and Payment Terminal Service Aggregator.

#### **2.5 Settlement Mechanism**

2.5.1 The settlement for domestic POS transactions must be done to the merchant account on T+1 basis, where T is the date the transaction is performed. Failure to execute the T+1 settlement cycle shall result in a sanction to the NIBSS.

2.5.2 Card schemes or their appointed switches shall provide their settlement reports to NIBSS daily by 10am, for the previous day. The settlement information should contain sufficient details, to enable NIBSS credit merchant accounts directly, and shall be provided in a format as advised by NIBSS. Failure to provide this information in the required format or by the required timeline will result in a sanction, including, but not limited to the offending party solely refunding the entire Merchant Service Charge for that day's transactions.

2.5.3 NIBSS shall also directly credit the accounts of other parties with their share of the Interchange.

2.5.4 NIBSS will be paid by the banks for the settlement done to the merchant account, in line with the NEFT fee transaction charges.

#### **2.6 Fees and Charges**

2.6.1 Fees and charges for POS Card Acceptance services are to be agreed between the service providers and banks / entities to which the services are being provided, subject to the following limits:

- I. The maximum total fee that a merchant shall be charged for any POS transaction shall be subject to negotiation between the acquirer and the merchant after taking into account, the provisions of the Interchange Guidelines.

- II. The fees and charges stated above are applicable to only POS transactions performed with naira denominated cards. POS transactions done with cards issued in foreign currencies will still follow the pricing arrangement put in place by the relevant international card scheme.

## **2.7 Transition to achieve Interoperability**

All commercial switches, processors or entities driving PoS terminals in Nigeria shall ensure full and secure connection to the Central Switch and all transactions in respect of any card that the switch, processor or other entity is not licensed to process or switch shall be routed through the NCS to a licensed switch or processor for purpose of processing such transaction on behalf of the relevant Acquirer, and for seeking authorisation from the relevant Issuer.

All terminals must be plugged to the PTSA.

## **2.8 Exclusivity Agreements**

There shall be no form of exclusivity in any area of payment service, including, but not limited to Issuing, Acquiring, Processing, and Sale and Maintenance of hardware and software. Any payment scheme, operator, processor, infrastructure provider, switching company, service provider or bank that contravenes this policy may be suspended for a minimum of one (1) month by the CBN as a payment service or payment infrastructure service provider in the first instance, to be followed by stricter sanctions if the practice persists.

## 2.9 Minimum POS Terminal Specifications

Parameters	Specifications
Card Readers	EMV Chip/Smart cards, Magnetic stripe. Optional: Contactless reader, 2 SIM Slots
Communications	GPRS, Ethernet, Dial-up Modem. Optional: CDMA, Wi-Fi
Certifications	EMV levels 1 & 2, PCI DSS, PA-DSS, PCI PED online & offline (All PCI certifications should be Level/Version 2.1 minimum)
CPU	ARM9/11, 32Bits. Optional: Dual processors
Memory	16MB Flash, 32MB SDRAM
Keypad	PCI PED Approved, Backlit
Display	TFT LCD graphics, 128/64 pixel, Backlit. Optional: Colour screen
Power	100-240V, 50-60Hz; 24hrs battery power (operating) Optional: DC support, Car jack charger, Docking fast charger
Printer	15 -18 lines per sec Thermal printer
Multi-Application	Supports Multiple Applications
Customization / Others	Optional: Coloured or branded housing, Labelling/embossing, RS232 & USB interfaces, Protocol implementation

## 2.10 Compliance

All parties shall comply with the provisions of these Guidelines and other relevant Guidelines issued by the CBN. This guideline shall prevail, in the case of conflict with any prior Guidelines. Non compliance with these Guidelines shall attract appropriate sanctions from the CBN.

## **3.0 GUIDELINES ON MOBILE POINT OF SALE (mPOS) ACCEPTANCE SERVICES**

### **3.1 Objectives**

These Guidelines have been developed to:

- 3.1.1 Provide minimum standards and requirements for the operation of mPOS.
- 3.1.2 Promote safety and effectiveness of mPOS, and thereby enhance user confidence in the service.
- 3.1.3 Identify the roles and responsibilities of stakeholders.

### **3.2 Minimum Standards**

All industry stakeholders who process and/or store cardholder information shall ensure that their applications and processing systems comply with the following minimum requirements and standards:

- 3.2.1 All applications and processing systems shall comply with the standards specified by various card schemes. The minimum requirements shall be PCI DSS certification.
- 3.2.2 Acquirers shall be required to provide mPOS solutions that utilize Payment Card Industry PIN Transaction Security (PCI PTS) in accordance with the PCI Point-to-Point Encryption (P2PE) Solution Requirements.
- 3.2.3 Each solution provider shall provide valid certificates, showing compliance with the standards in 3.1 and 3.2; and shall regularly review the status of its applications, to ensure they are in compliance with the following:
  - i. PA DSS –Payment Application Data Security Standard.
  - ii. PCI PED –Payment Card Industry Pin Entry Device.
  - iii. PCI DSS – Payment Card Industry Data Security Standard.
  - iv. Triple DES – Data Encryption Standards should be the benchmark for all data transmitted and authenticated between each party.
  - v. EMV – The deployed infrastructure must comply with the minimum EMV requirements.

3.2.4 Merchants shall use mPOS solutions that utilize P2 PE solutions in accordance with the *PCI Point -to -Point Encryption Solution Requirements* .

### **3.3 mPOS Stakeholders**

The parties involved in payments acceptance and processing for mPOS shall include:

- i. Acquirer
- ii. Issuer
- iii. PTSA
- iv. Merchant
- v. Cardholder/User
- vi. Card Schemes
- vii. Switches/Processors
- viii. PTSP

### **3.4 Roles and Responsibilities of:**

#### **3.4.1 Acquirers**

- 3.4.1.1 Only CBN licensed institutions shall serve as Acquirers.
- 3.4.1.2 Either Acquirer or Merchant may own an mPOS device
- 3.4.1.3 Acquirers shall ensure that mPOS devices purchased and deployed at merchant/retailer locations accept all cards (card agnostic).
- 3.4.1.4 Acquirers shall enter into agreements with merchants for the acceptance of payments by means of electronic payment instruments. All agreements shall clearly spell out the terms and conditions, including roles, responsibilities and rights of the Acquirer and the merchant.
- 3.4.1.5 Every Acquirer shall connect all its mPOS devices directly to the Payment Terminal Service Aggregator.
- 3.4.1.6 The Acquirers shall switch all domestic transactions through the preferred local switch of their choice for the purpose of seeking authorisation from the relevant Issuer.
- 3.4.1.7 The Acquirers shall be required to undertake measures to prevent the use of their networks for purposes associated with money laundering and other financial crimes and shall conduct proper KYC on all their merchants.
- 3.4.1.8 The Acquirers shall set merchant limits based on the volume of business/type of commercial activities. In addition, Acquirers shall provide guidelines to merchants on payment procedures for large ticket transactions (e.g. review of Identification, etc)
- 3.4.1.9 There shall be no exclusivity arrangements that bundle third party processing with switching activities. Each Acquirer shall be free to process transactions on its own, or leverage the services of a third party processor; and these services shall be independent of the switch used to facilitate such exchange.
- 3.4.1.10 The Acquirers shall maintain and reconcile merchant accounts.
- 3.4.1.11 The Acquirer shall provide the merchant with a PTSA certified card reader and the mPOS application for the handheld device; and where the card reader is in-built, the Acquirer shall ensure that the device is certified by the PTSA.

- 3.4.1.12 The Acquirer shall ensure that the mPOS application is PA-DSS certified.
- 3.4.1.13 The Acquirer shall assess and determine the suitability of mPOS for a merchant, with consideration for the merchant's control environment and other additional responsibilities for using mPOS.
- 3.4.1.14 An Acquirer shall not acquire transaction through mPOS for a merchant it assesses as having a weak control environment, for managing mPOS devices.
- 3.4.1.15 The Acquirer shall ensure an effective patch and version control management for the mobile application on the merchant's mPOS devices.
- 3.4.1.16 The Acquirer shall ensure that it does not acquire transactions from an mPOS device whose payments processing application is not updated with most recent patches, anti-virus and upgrades.
- 3.4.1.17 The Acquirer shall ensure the implementation of an enterprise mobility management system for the mPOS devices of the merchants it is acquiring.
- 3.4.1.18 The Acquirer shall ensure that payments data are transmitted using secured communication channels and protocols with end-to-end encryption, as specified in POS guidelines.
- 3.4.1.19 The Acquirer shall be responsible for the back-end payment processing. The back-end payments processing and settlement shall comply with extant POS guidelines.
- 3.4.1.20 The Acquirer shall be responsible for sensitizing/educating the merchant on security measures required for the mPOS device.
- 3.4.1.21 The Acquirer shall ensure that the mPOS is capable of issuing receipts either in electronic or paper form upon consummation of a transaction.
- 3.4.1.22 The Acquirer and the merchant shall be responsible for the maintenance of the card reader.
- 3.4.1.23 The Acquirer shall ensure that card readers are configured as merchant-specific.

3.4.1.24 The Acquirer shall ensure that mPOS applications are lockdown, such that other mobile applications on the mPOS devices of the merchants do not interact, store or transmit payment data.

### **3.4.2 Issuers**

The responsibilities of Issuers shall be as stipulated in the extant POS Guidelines.

### **3.4.3 Payments Terminal Service Aggregator (PTSA)**

3.4.3.1 Nigeria Interbank Settlement Systems (NIBSS) shall act as the Payments Terminal Service Aggregator for the financial system.

3.4.3.2 As the Payments Terminal Service Aggregator for the industry, NIBSS shall establish communication network for reliable data traffic that shall satisfy the service and availability standards and expectations of the industry on a cost effective basis.

3.4.3.3 As the Payments Terminal Service Aggregator for the industry, NIBSS shall on an annual basis or more frequently as may be required, certify mPOS devices that meet the industry standards.

3.4.3.4 All payment transactions shall be routed through the Payment Terminal Service Aggregator.

3.4.3.5 The Payments Terminal Service Aggregator (s) shall route all transactions from mPOS devices to the relevant Acquirer or its designated third party processor. This enables Acquirers who are Issuers to handle On-Us transactions appropriately and all Acquirers to manage their risks, and accept responsibility for such transactions in line with Charge-back Rules of relevant Card Schemes. This does not preclude any Acquirer from using the services of any Third Party Processor (TPP) or the Acquirer's inhouse processing services to process its acquired transactions.

3.4.3.6 All mPOS transactions in Nigeria must be switched, using the services of a local switch and shall not under any circumstance be routed outside Nigeria.

3.4.3.7 The Payments Terminal Service Aggregator(s) shall monitor the availability and transaction traffic on all mPOS devices on a continuous basis and shall provide analysis and report on performance and transaction trend to the Central Bank of Nigeria.

3.4.3.8 The Payments Terminal Service Aggregator shall have clear Service Level Agreements for certifying devices quickly and efficiently, as well as for integrating new value-added services, on behalf of Acquirers and third party application developers.

### **3.4.5 Merchants**

3.4.5.1 A merchant shall enter into agreement with the Acquirer, specifying in clear terms, the obligations of each party.

3.4.5.2 Merchant shall accept cards as a method of payment for goods and services.

3.4.5.3 The merchant shall display the payment device conspicuously for the cardholder/user to observe the amount entered into the device before the cardholder/user enters his/her PIN.

3.4.5.4 The merchant shall be held liable for frauds involving the use of mPOS device due to its negligence, connivance etc.

3.4.5.5 The merchant shall under no circumstance, charge a different price, surcharge a cardholder/user or otherwise discriminate against any member of the public who chooses to pay with a card or by other acceptable electronic means.

3.4.5.6 The merchant shall ensure that it complies with the minimum security guidance provided by the Acquirer.

3.4.5.7 The merchant shall determine the location and condition of the mPOS device at all times and shall inform the Acquirer immediately it is unable to do so

3.4.5.8 The Merchant shall be responsible for determining and maintaining inventory of other applications that co -exist on mPOS devices.

3.4. 5.9 The merchant and the Acquirer shall be responsible for the maintenance of the mPOS device.

3.4.5.10 Merchant shall be responsible for restricting physical and logical access to the mPOS device.

### **3.4.6 Cardholders/Users**

3.4.6.1 A cardholder/user shall:

- i. Protect the payment card, mobile device and PIN with due care.

Notify the issuer immediately a PIN is compromised.

- ii. Notify the issuer without delay about missing, stolen, damaged, lost or destroyed card and/or mobile device.

3.4.6.2 The cardholder may withdraw from the contract for payment card without prior notice to the issuer, provided he does not owe any charges for transactions on the payment card.

3.4.6.3 The cardholder shall present, when required by a merchant, a document confirming his identity.

3.4.6.4 The cardholder shall receive value for the operations performed by means of a payment card, and by so doing, the holder commits himself to pay the amount of the operations together with charges due.

3.4.6.5 The cardholder shall be held liable for fraud committed with his card arising from the misuse of his PIN or his card.

3.4.6.6 The cardholder/user shall be entitled to receive a receipt or any other form of evidence at the time a transaction is performed with his/her card.

3.4.6.7 The cardholder/user shall be entitled to receive, within a reasonable period, at least monthly, a statement of all transactions performed with his/her card.

3.4.6.8 If a cardholder/user notifies his bank of a transaction error, the issuer shall investigate and resolve the claim within T + 5 days from the day of notification, irrespective of the dispute resolution process of the card scheme. Acquirer must respond to Issuer's request within 3 days, in the process.

3.4.6.9 A cardholder/user shall be given not less than 5 working days notice before changes are made to the terms and conditions of his card contract and shall be given the option to opt out of the card contract without penalty.

### **3.4.7 Card Schemes**

All card schemes in Nigeria are bound by these Guidelines and other relevant CBN Guidelines/Circulars.

3.4.7.1 Any Card Scheme that wrongfully denies membership or delays the process of certification to potential players, would be penalized by CBN – including but not limited to paying a fine equivalent to the

expected revenue of the payment services provider for that period, suspension and/or revocation of license, and shall not be eligible for further participation in CBN licensing schemes.

3.4.7.2 No Card Scheme, or any entity that has a management contract with a Card Scheme, shall engage in the business of acquiring. In addition, no entity in which a Card Scheme, its subsidiary, or the majority shareholder of a card scheme, has 20% shareholding or more shall engage in the business of acquiring.

3.4.7.3 No Card Scheme shall engage in any antitrust activity or any act that will lead to abuse of dominant position, monopoly or unfair competition. Accordingly, there shall not be any form of arrangement or collusion between two or more Card Schemes, or Payment Schemes in respect of issuing, acquiring, processing or switching.

#### **3.4.8 Switches (Switching Companies)**

3.4.8.1 All local switches in Nigeria shall ensure that transactions relating to all cards issued by Nigerian banks are successfully switched between Acquirers and Issuers.

3.4.8.2 To achieve the interconnectivity of all new and existing switching companies, all switching companies shall open their networks for reciprocal exchange of transactions/messages with the Nigeria Central Switch and Payment Terminal Service Aggregator.

#### **3.5 Settlement Mechanism**

3.5.1 The settlement for all domestic mPOS transactions shall be done to the merchant account on T + 1 basis, where T is the date the transaction is performed. Failure to execute the T+1 settlement cycle shall result in a sanction to the NIBSS.

3.5.2 Card schemes or their appointed switches shall provide settlement reports to NIBSS on daily basis by 10:00 a.m. for the previous day's transactions. The settlement information shall contain sufficient details in the required format, as advised by NIBSS, to enable direct credit into merchant accounts. Failure to provide this information within the timeline and in the prescribed format will result in a sanction.

3.5.3 NIBSS shall also directly credit the accounts of other parties with their share of the Interchange.

3.5.4 NIBSS will be paid by the banks for the settlement done to the merchant account in line with the NIBSS Electronic Funds Transfer (NEFT) fee transaction charges.

### **3.6 Fees and Charges**

3.6.1 Fees and charges for mPOS Card Acceptance services are to be agreed between service providers and banks/entities to which the services are being provided, subject to the following limits:

- i. The maximum total fee that a merchant shall be charged for any mPOS transaction shall be subject to negotiation between the Acquirer and the merchant, after taking into account, the provisions of the Interchange Guidelines.
- ii. The fees and charges stated above are applicable to only mPOS transactions performed with Nigerian issued cards. mPOS transactions done with cards issued by foreign issuers will still follow the pricing arrangement put in place by the relevant international card scheme.

#### **3.7a Transition to Achieve Interoperability**

All commercial switches, processors or entities driving mPOS devices in Nigeria shall ensure full and secure connection to the Central Switch, and all transactions in respect of any card that the switch, processor or other entity is not licensed to process or switch shall be routed through the NCS to a licensed switch or processor for the purpose of processing such transaction on behalf of the relevant Acquirer and for seeking authorisation from the relevant Issuer.

All mPOS devices must be plugged to the PTSA.

#### **3.8 Exclusivity Agreements**

There shall be no form of exclusivity in any area of payment service including but not limited to issuing, acquiring, processing, and sale and maintenance of hardware and software. Any payment scheme, operator, processor, infrastructure provider, switching company, service provider or bank that contravenes this policy may be suspended for a minimum of one (1) month by the CBN in the first instance, to be followed by stricter sanctions if the practice persists.

### 3.9 Minimum mPOS Technical Specifications

Parameters	Specifications
Card Readers	EMV Chip/Smart cards, Magnetic stripe, supporting audio jack interface and/or Bluetooth communications interface. Optional: Contactless reader.
Communications	GPRS, Dial-up Modem. Optional: CDMA, Wi-Fi
Certifications	EMV levels 1 & 2, PCI DSS, PA-DSS, PCI PED online & offline (All PCI certifications should be Level/Version 2.1 minimum)
Printer	15 -18 lines per sec Thermal printer (optional). Means of notification should also support email/SMS notification.
Multi-Application	Supports Multiple Applications
Customization / Others	Optional: Coloured or branded housing, Labelling/embossing,RS232 & USB interfaces, Protocol implementation

### 3.10 Consumer Protection/Dispute Resolution

- 3.10.1 Acquirers shall, in conjunction with issuers, switches and other stakeholders ensure resolution of disputed transactions between the merchant and the cardholder within T + 5 days. Acquirers must respond to Issuer's request within 3 days.
- 3.10.2 Stakeholders/Parties may escalate complaints to the CBN, where they are dissatisfied with the result of 3.10.1 above.
- 3.10.3 Any dispute, controversy or claim arising out of or relating to this Guidelines or the breach, termination or invalidity thereof, shall be settled in accordance with the CBN's dispute resolution mechanism and if unresolved, may be referred to an arbitral panel, as provided under the Arbitration and Conciliation Act Cap.

### 3.11 Compliance

All parties shall comply with the provisions of these Guidelines and other related Guidelines issued by the CBN. Noncompliance with the Guidelines shall attract appropriate sanctions by the CBN. These Guidelines shall prevail in the case of conflict with any prior guidelines issued by the CBN.

## **4.0 Guidelines on Web Acceptance Services**

### **4.1 Scope of the Guidelines**

These Guidelines shall include all forms of transfer of monetary value on the website of a merchant or a payment aggregator in fulfillment of consideration for the purchase of goods and services on the web (internet).

### **4.2 Objectives**

These Guidelines shall:

- 4.2.1 Provide minimum standards and requirements for the processing of transactions via the web (internet) channel.
- 4.2.2 Promote safety and effectiveness of Web Acceptance Services and thereby enhance user confidence in the service.
- 4.2.3 Identify the roles and responsibilities of stakeholders.
- 4.2.4 Encourage the development of effective, low risk, low cost and convenient payment and financial services to customers and businesses through the internet.

### **4.3 Minimum Standards for Web Acquiring**

All web acquirers shall only utilize the services of gateway providers that comply with the following minimum standards:

- i) PCI DSS- Payment Card Industry Data Security Standard ii) PA DSS- Payment Application Data Security Standard
- ii) Triple DES- Data Encryption Standards should be the benchmark for all data transmitted and authenticated between each party.
- iii) 2FA- Second Factor Authentication

### **4.4 Stakeholders**

The following parties in a web payment scenario have responsibilities for web payments transactions:

- i. Acquirer: including a CBN licensed web payment aggregator
- ii. Issuer
- iii. Merchant (website owner)
- iv. Payments Gateway Providers
- v. Customer

## 4.5 Roles and Responsibilities of Stakeholders

### 4.5.1 Acquirer

In addition to the basic responsibilities of an acquirer as stipulated in extant guidelines, the acquirer shall:

- 4.5.1.1 Be responsible for engaging and managing the web payments gateway provider.
- 4.5.1.2 Evaluate the merchant web application, technology and control environment and ensure that it is implemented securely to accept payments.
- 4.5.1.3 Ensure that merchants carry out appropriate regular threat scan on the merchant's website and avail the merchant with updates on emerging threats to ensure that appropriate measures are taken by the merchant to mitigate risks.
- 4.5.1.4 Test website payment integration and ensure that sensitive customer data are not retained on the merchant's website.
- 4.5.1.5 For the minimum Web Capabilities of ecommerce websites/web portal, Acquirers and service providers shall comply with scheme rules as defined by the various card schemes, however, where there is conflict, this Guidelines supersedes.
- 4.5.1.6 The acquirer can also be a merchant and deploy/implement a website to accept card payments for its own services or services provided by merchants acquired by them.
- 4.5.1.7 The Acquirer shall assist the Merchant in setting up the accounts in the bank and any back-end processing for settlement of payments done on the merchant website using cards.
- 4.5.1.8 The Acquirer shall acquire all transactions done on the website of Merchants acquired by them.
- 4.5.1.9 The acquirer shall sign an agreement with the merchant for accepting card payment via the web channel.
- 4.5.1.10 The acquirer shall perform adequate Customer Due Diligence (CDD), Know-your-Customer (KYC) and Know-your-Customer-Business KYC/B on the merchant.
- 4.5.1.11 The acquirer shall maintain and reconcile merchant accounts on behalf of the merchant.

- 4.5.1.12 The Acquirer reserves the right to discontinue acquiring for a merchant at any time for proven cases of fraud, consistent failed deliveries and other situations involving the Merchant, which may impact negatively on the industry.
- 4.5.1.13 Acquirers shall implement a fraud management system that will detect customer usage pattern and decline/accept transaction, based on rules defined on the fraud management system.
- 4.5.1.14 Acquirers shall profile merchants, based on the services being offered, and define transaction limits.

#### **4.5.2 Merchants**

The merchant, in addition to the basic responsibilities as stipulated in extant guidelines, shall:

- 4.5.2.1 Ensure that the terms and conditions for its products and services are properly communicated and conspicuously displayed on its website.
- 4.5.2.2 Ensure that it cooperates with the Acquirer in implementing appropriate security measures.
- 4.5.2.3 Provide the customer with clear instructions on the process for making payments on its websites.
- 4.5.2.4 Provide information to customers on the charges applicable to each web payment option on its website.
- 4.5.2.5 Carry out appropriate regular threat scan on its website and ensure that appropriate measures are taken to mitigate risks

#### **4.5.3 Issuer**

The issuer, in addition to its responsibilities under the Guidelines on Card Issuance, shall:

- 4.5.3.1 Be responsible for the issuance of the cards. Only licensed deposit taking banks shall serve as the issuers of payment cards.
- 4.5.3.2 Commit to authorize the cardholder transaction made from the card linked to a specified account in the issuing bank and settle the operations performed by the means of the card.
- 4.5.3.3 Provide additional security measures e.g. second factor authentication to cardholders who intend to utilize their cards for transactions via the web channel.

- 4.5.3.4 Be held liable for card fraud in the event that payments are made with hot listed cards or where a card is reported as lost or stolen and subsequently used to make payments on any other channel.
- 4.5.3.5 Provide means through which cardholders can, at any time, notify the issuer of any loss, theft or fraudulent use of the card and the issuer shall take all necessary steps to stop any further use of the card.
- 4.5.3.6 Maintain internal records over a minimum period of seven (7) years to enable audit trails on card-related transactions.
- 4.5.3.7 Be responsible for setting overall transaction limits on cards per day, and transaction limits of such cards by channel, according to their card products and risk guidelines.
- 4.5.3.8 Acknowledge the dispute or complaints from cardholders within 24hours, and in conjunction with the Acquirer and platform provider, resolve such disputes or complaints within T + 3 days .
- 4.5.3.9 Furnish its cardholders with a detailed list of contractual terms and conditions prior to activation. Such terms shall include at a minimum, fees and charges, withdrawal limits (including offline transaction limits and terms where applicable), billing cycles, termination procedures, default/recovery procedures and loss/theft/misuse of card procedures.
- 4.5.3.10 Implement authentication at the “highly secured level” requiring 2 factor authentication
- 4.5.3.11 Implement behavioral monitoring and SMS/email alerts as additional controls to further protect the payer.
- 4.5.3.12 Not enable a card for web transactions, unless requested by the customer.

#### **4.5.4 Payments Gateway Provider**

Payment Gateway Provider (PGP) Shall:

- 4.5.4.1 Provide services with respect to the processing of online payment transactions related to the sale of goods and/or services.
- 4.5.4.2 Act as facilitator on behalf of cardholder/users:
  - i. To enable Payment Transactions; and
  - ii. Processing authorisation requests.

4.5.4.3 Be responsible for the security of the data related to the payment Instrument that is possessed or otherwise stored, processed or transmitted on behalf of cardholders/users.

4.5.4.4 Not store card details on any server maintained by either the PGP or any third party, without first undergoing a security audit carried out by a Qualified Security Assessor (QSA).

4.5.4.5 Hold all forms of customer data securely and take responsibility for the security of the data.

#### **4.5.5 Cardholder**

The cardholder shall:

4.5.5.1 Guard his card, PIN and hardware token with utmost care.

4.5.5.4 Immediately notify the issuer if the card, or token is lost/compromised. PIN

#### **4.6 Settlement Mechanism**

4.6.1 The settlement for all WEB transactions shall be made to the merchant account on a T+1 basis, where T is the date the transaction is performed.

4.6.2 The Acquirer shall settle the funds to merchant's account.

#### **4.7 Fees**

4.7.1 Fees shall be based on CBN Interchange Guidelines.

4.7.2 The interchange will be regulated by the Central Bank

4.7.3 Fees and charges for Web transaction are to be agreed between service providers and banks/entities to which the services are being provided subject to the following limits:

- i. The maximum total fee that a merchant shall be charged for any Web transaction shall be subject to negotiation between the Acquirer and the merchant, after taking into account the provisions of the Interchange Guidelines.

4.7.4 Other service providers will be free to negotiate their fees with the party that service is being rendered to

4.7.5 Web transactions done with cards issued in foreign currencies will follow the pricing arrangement put in place by the relevant international scheme.

#### **4.8 Consumer Protection/Dispute Resolution**

Any dispute, controversy or claim arising out of or relating to this Guidelines or

#### **4.9 Compliance**

All parties shall comply with the provisions of these guidelines, and other related Guidelines issued by the CBN. Non-compliance with the guidelines shall attract appropriate sanctions by the CBN. These Guidelines shall prevail in the case of conflict with any prior guidelines issued by the CBN.

#### **5.0 DEFINITION OF TERMS**

The terms below shall have the following meaning, for the purpose of the Guidelines.

- 1) Acquirer means bank or any other legal person concluding contracts with merchants concerning acceptance of payment by means of an electronic payment token.
- 2) Card Reader is an apparatus that reads data from a payment card. It may have an audio jack that is attachable to a port or may connect via Bluetooth to the mobile device.
- 3) Card Schemes define the rules of the card system (e.g. interchanges, licenses, fraud responsibilities), and choices of technical functionalities (e.g. standards, protocols, security requirements).
- 4) Cardholder means an individual or company issued with a payment card linked to an account at a licensed financial institution
- 5) Competent Authorities include Courts, Economic and Financial Crime Commission (EFCC), Independent Corrupt Practices Commission (ICPC), Regulatory Authorities such as the CBN, Nigeria Deposit Insurance Commission (NDIC).
- 6) Contactless refers to a process of performing a transaction via an NFC antenna embedded within a mobile device.
- 7) EMV (Europay, MasterCard, Visa) is the global standard that ensures smart (Chip-and-PIN) cards, terminals and other systems interoperate.
- 8) Hot list means list of deactivated cards by the issuer, that were reported missing, stolen, lost or damaged by the card holders.
- 9) Interconnectivity means ability for reciprocal exchange of transactions/messages between two or more switching networks.

- 10) Interoperability means ability to issue cards and deploy devices in such a way that all customers (card holders, merchants and issuers) perceive operations, while obtaining service, as if the interconnected networks were one. (refer to <http://www.bis.org/cpmi/>).
- 11) Issuer: Licenced Financial institution that issues payment tokens to customers
- 12) Merchant Acquirer means a CBN licensed institution that has agreement with the relevant card scheme to contract with merchants to accept payment cards as means of payment.
- 13) Merchant means an organization or entity that contracts with a Merchant Acquirer for accepting payment by means of payment card or any other electronic payment instrument.
- 14) Member Institutions means banks and other financial institutions that are on the network of a particular switching company.
- 15) MPR means Minimum Policy Rate.
- 16) mPOS stands for mobile Point of Sale. A device such as a tablet or any mobile phone with card accepting device attached to it that performs the functions of an electronic Point of Sale (PoS) terminal.
- 17) Near Field Communication (NFC) is the set of protocols that enables devices to establish radio communication with each other by touching each other or bringing them into proximity of a distance typically 10 cm (3.9 in) or less.
- 18) NIBSS stands for the Nigeria Inter-Bank Settlement System, it was mandated to among others, act as the Automated Clearing House (ACH), Payment Terminal Service Aggregator (PTSA) and Nigeria Central Switch (NCS) for Nigeria.
- 19) Offline transaction means a transaction in which no direct connection is made between the device(s) involved in the transaction and a centralized computer system for the purpose of effecting settlement, or authenticating the transaction before it is executed.
- 20) Online transaction means a transaction in which there is a direct connection between the device(s) and a centralized computer system for effecting settlement or authorization or validation before a transaction can be executed.
- 21) PA-DSS stands for Payment Application Data Security Standard. PA-DSS compliant applications help merchants and agents mitigate compromises,

prevent storage of sensitive cardholder data, and support overall compliance with the PCI DSS.

- 22) Payments GP Payment Gateway is an e-commerce application service provider that authorizes card payments for e-businesses, online retailers, etc.
- 23) Payment tokens: Any electronic payment instruments provided by an issuer to initiate a payment transaction.
- 24) PCI DSS stands for Payment Card Industry Data Security Standard. It was developed to encourage and enhance cardholder data security and facilitate the broad adoption of consistent data security measures globally.
- 25) (See [www.pcisecuritystandards.org/documents/PCI\\_DSS\\_v3-1.pdf](http://www.pcisecuritystandards.org/documents/PCI_DSS_v3-1.pdf))
- 26) PCI PED stands for Payment Card Industry Pin Entry Device. PCI PED security requirements are designed to secure personal identification number (PIN)-based transactions globally and apply to devices that accept PIN entry for all PIN based transactions.
- 27) PCI PTS stands for Payment Card Industry PIN Transaction Security requirements. These are used primarily by ATM and point-of-sale device manufacturers to secure cardholder's details at physical point of entry.
- 28) PIN means Personal Identification Number.
- 29) Processor processes card transactions.
- 30) Point-to-Point Encryption (P2PE) is a method of protocol for data encryption ensuring secure transmission between two points.
- 31) Settlement Agents: Institutions that generates financial data and compute net settlement position for each financial institution in a payment scheme(s).
- 32) Smart phone is a phone built on advanced mobile computing platform with superior capabilities than a feature phone.
- 33) Switching means a system that captures electronic financial transactions from touch-points, applies rules, determines destinations, delivers the transactions and gives appropriate feedback.
- 34) T means transaction day, or the date a customer logs the complaint.
- 35) Tablet is a mobile computer that is larger than a typical smart phone, with integrated features, such as touch screen and is typically operated not by keyboard but through touching screen.

- 36) Web Acceptance is the process of accepting payments through the web channel.
- 37) Web is an information space, where documents and other web resources are identified by uniform resource identifiers, interlinked by hypertext links, and accessible via the Internet.

*Central Bank of Nigeria*

*April, 2016*



**CENTRAL BANK OF NIGERIA**

Central Business District  
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**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

**REF: BPS/DIR/GEN/CIR/16/003**

**Wednesday, 24 February 2016**

**To: All Deposit Money Banks (DMBs),**

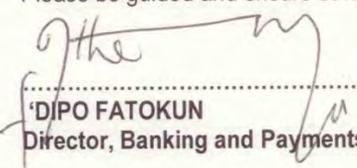
**RE: CLARIFICATION ON ACCOUNTS WITH BVN RELATED ISSUES**

You will recall that the Central Bank of Nigeria issued a circular stipulating that any bank customer without the BVN would be deemed to have inadequate KYC, effective November 1, 2015. The Bank also clarified that Nigeria resident's bank account without the BVN would be operated as "NO CUSTOMER INITIATED DEBIT" account, until the account holder obtain and attach a BVN to the account.

It has however come to our notice, that some customers could not link their BVN to their accounts, due to discrepancies between the records on the BVN database and the records on the core banking applications of the DMBs. Such customers approached their bankers for correction, but some of the banks could not effect the corrections. In view of this, it has become imperative for the CBN to issue the following clarifications:

1. Correction of date of birth on BVN record should be allowed once, with supporting documents, evidencing the correct date of birth.
2. Change of Name due to marriage should be allowed with supporting documents, such as marriage certificate/affidavit, etc.
3. Minor correction of name, due to misspelling e.g. Osikoya written as Oshikoya, should be allowed, with supporting documents, such as international passport, showing the correct name.
4. Change of names that are totally different (e.g. Ezra Abu changing to Aminu Umar) or partially different (e.g. Ezra Abu Jide to Ezra Abu Olubaje) should only be allowed after the customer has produced supporting documents to the change of the name, and this should be reported to the Nigerian Financial Intelligence Unit (NFIU) as a suspicious transaction, by the banks.
5. The customer's name on the BVN database should be the same in all his/her accounts, across the banking industry.
6. Customers that wish to close their accounts should be allowed to do so. Where the account is not linked with the BVN, a payment instrument should be issued in the name in which the account was opened. In cases where the balance on the account is more than what is legally allowed on a paper instrument (i.e. #10 million) the bank should seek for and obtain clearance from the EFCC (NFIU) before such accounts can be closed and the balance transferred electronically to another account.
7. Where the bank raises suspicion on the activity of its customer, Suspicious Transaction Report should be filed with the Nigeria Financial Intelligence Unit.
8. Timeline for the resolution of BVN issues shall be 5 working days from the date the customer submits all the required documents.

Please be guided and ensure strict compliance.

  
.....  
**DIPO FATOKUN**  
Director, Banking and Payments System Department



**GUIDELINES FOR THE OPERATION OF TREASURY SINGLE ACCOUNT (TSA)  
BY STATE GOVERNMENTS IN NIGERIA**

**February, 2016**

## **1. Background and Introduction**

State Governments continue to face intense pressure on their cash flows in the face of dwindling revenues and the need to meet increasing statutory and social responsibilities.

To address this issue, State Governments are undertaking financial and treasury management reforms of which the Treasury Single Account (TSA) scheme is a major component. This is consistent with the strategic public sector transformation initiatives and also in line with the provision of Section 120 of the 1999 Constitution.

The Central Bank of Nigeria (CBN), in exercise of its powers, as provided in the CBN Act, 2007, Section 47, sub section 2(2d), hereby issues the following guidelines on the management and operation of the Treasury Single Account (TSA), hosted with the CBN, by State Governments.

## **2. Goals of the Guidelines**

The objective of this Guideline is to provide State Governments with a clear framework to support their successful implementation of the TSA initiative, based on standardized banking arrangements, operational processes and IT infrastructure.

## **3. TSA Concept**

The Treasury Single Account (TSA) initiative is the operation of a unified structure of Government Bank Accounts, in a single account or a set of linked accounts for **ALL** Government payments and receipts.

## **4. Tsa Objectives**

The TSA is primarily designed to bring ALL Government funds in bank accounts within the effective control and operational purview of the Treasury, in order to: Enthroned centralised, transparent and accountable revenue management; Facilitate effective cash management; Ensure cash availability; Promote efficient management of domestic borrowing at minimal cost; Allow optimal investment of idle cash; Block loopholes in revenue management; Establish an efficient disbursement and collection mechanism for Government funds; Improve liquidity reserve; and Eliminate operational inefficiency and costs associated with maintaining multiple accounts across multiple financial institutions.

## **5. TSA Essential Requirements**

- i. Government agencies are not to operate ANY bank account under any guise, outside the purview and oversight of the Treasury.

- ii. The consolidation of government cash resources should be comprehensive and encompass all government cash resources, both budgetary and extra-budgetary. This means that all public monies, irrespective of whether the corresponding cash flows are subject to budgetary control or not, should be brought under the direct control of Government.
- iii. Government banking arrangement should be unified, to enable the relevant Government stakeholders such as the Ministry of Finance (MOF) and the Accountant General (AG) have full oversight of Government cash flows across bank accounts.
- iv. There are two TSA models: (i) The main TSA and associated ledger sub-accounts (where they exist) are to be maintained in a single banking institution OR (ii) The main TSA is maintained in a single banking institution and associated zero balance ledger sub-accounts (ZBAs) (where they exist) are maintained in other institutions from where balances are swept daily to the main TSA in CBN or the appointed main TSA hosting financial institution.

## **6. TSA General Requirements**

- i. Each State Government shall select any TSA model of its choice. The choice of a TSA model shall be informed and guided by the availability of clear operational processes and basic technology infrastructure that supports the implementation of the model of choice.
- ii. Each State Government shall inform the Governor of the Central Bank of Nigeria of its decision to introduce the TSA scheme, detailing; the State's preferred TSA model (banking structure) and level of preparedness to commence, operate & support the scheme, which shall include, but not limited to project organization and resourcing, operational process workflow, available technology infrastructure, etc.
- iii. Each State Government shall ensure that all legal framework, extant laws, cash management processes and policies, financial regulations, Treasury Circulars, etc. are put in place to guide the TSA operation, as well as ensure that, clear information is regularly issued to relevant internal and external stakeholders before, during and after the commencement of the TSA scheme
- iv. Each State Government shall maintain contractual Agreement(s) with parties involved in the design, delivery and ongoing support of its TSA scheme. Such Agreement shall clearly define the terms and the roles and responsibilities of the State Government and the relevant parties. Such stakeholders may

include, but not limited to the CBN, Deposit Money Banks, Payment Technology Solution Providers, etc.

- v. Each State Government shall have a clear and unambiguous position of ALL outstanding debts owed Deposit Money Banks (inclusive of debts incurred by its MDAs) before the commencement of the TSA scheme. Where a State is unable to fully liquidate its debts with DMBs before the commencement of the TSA, it shall put in place a firm repayment schedule, before commencing the TSA scheme, with the CBN.
- vi. Each State Government shall establish a TSA Project Team to be led by an official not below the position of a Director in the public service, to coordinate the implementation of the State's TSA initiative. The Team shall have primary responsibility for coordinating all pre-implementation, implementation and postimplementation programmes required for the successful implementation of the State Government's TSA scheme. This shall include but not limited to organising sensitization workshops, system specifications gathering, project documentation, user training, change management, risk management, project reporting, etc.
- vii. Each State Government shall undertake a comprehensive review, harmonization and update of its financial and treasury management processes, procedures and system, as may be necessary, to support the successful implementation and operation of the TSA initiative. This shall include but not limited to the establishment of a State Cash Management Unit (CMU), which shall be guided by the State's cash management provisions, processes, procedures, etc.
- viii. Each State Government shall be responsible for the provision of adequate sustainable capacity and resources at different levels across all MDAs. This is required to ensure the long-term success of the State's TSA initiative.

#### **b TSA Account Opening & Maintenance**

- i. Each State Government shall apply for the opening and maintenance of TSA accounts at the CBN or a DMB, through an application letter endorsed by any two persons of; the State Governor, the State Commissioner in charge of Finance or the State Accountant-General. Such application shall clearly state the type of account to be opened, such as; revenue, payments, etc.
- ii. Each State Government shall undertake a comprehensive inventory of ALL bank accounts maintained with all financial institutions by the State and all her MDAs without exception. Such accounts must be harmonized and

aligned before the commencement of the TSA scheme, to avoid the exclusion or replication of accounts.

- iii. Each State Government shall open only one main TSA account and other such ledger sub-accounts as it deems fit with the Central Bank of Nigeria or any Deposit Money Bank of its choice, provided such ledger sub-accounts shall be limited to one for each MDA and shall always be linked to the main TSA account. The choice of a State Government to host the TSA main account with a DMB and sub-ledger accounts with the same or other DMBs shall be guided by the same considerations as hosting the Main TSA account with the CBN.
- iv. The administration and operation of a State Government's main TSA and ledger sub-accounts hosted by the CBN shall be through the CBN branch in the State Government's capital.
- v. The operation of the TSA scheme hosted by the CBN for each State Government shall be operated at all times through the use of approved electronic channels and shall exclude the handling of cash or processing of manual cheque transactions by the CBN at any of its offices.

### **c. TSA Payments Infrastructure**

- i. TSA operations are conceptualized and designed to be operated on a full end-to-end basis, across various approved electronic channels, for all payment and collection transactions.
- ii. Each State Government shall adopt a CBN licensed payment platform for the operation of its TSA scheme. Approved platforms for the controlled take-off of the TSA scheme are; SystemSpecs, Interswitch, Unified Payment Services, e-Transact and NIBSS. Other approved platforms shall be advised as the TSA initiative matures.
- iii. Each State Government shall ensure the availability of a functional Government Financial Information Management System (GIFMIS) or such other application, that enables it to handle the different aspects of its activities, covering; budgeting, budget control, transactions workflow management, chart of accounts management, payables & receivables ledger management, Purchase Requisition Management, Purchase Order Management, Supplier & Vendor Payments Processing, Revenue Receipting, Treasury Management, Transactions Monitoring, Reconciliation, Payment Gateway Interface, Reporting & Data Analytics, etc.

- iv. Each State Government shall ensure the availability of basic Information Technology infrastructure and training programs required for the successful implementation and ongoing support of the TSA scheme.

## **7. TSA Stakeholders' Roles & Responsibilities**

The long-term success of the TSA scheme requires the effective collaboration of different stakeholders, during the pre-implementation, implementation and post-implementation phases of the initiative. TSA stakeholders shall include, but not limited to;

### **Central Bank of Nigeria (CBN)**

- I. Issue payment policies and guidelines to Banks
- II. Ensure compliance of Banks with issued guidelines
- III. Provide and maintain the TSA payment gateway Infrastructure
- IV. Host and maintain the TSA accounts on behalf of Government
- V. Play advisory & supervisory roles on required TSA infrastructure
- VI. Maintain help desk to provide support to users of the CBN Remita Payment Gateway
- VII. Participate in the reconciliation of accounts,
- VIII. Perform account management functions
- IX. Ensure availability of standard TSA payments and collections reports e.g. electronic bank statements, budget status reports, transaction status and monitoring reports, etc.

### **State Accountant-Generals (SAG)**

- I. Assume primary responsibility for the State Government's TSA initiative
- II. Coordinate the development of the State's TSA Policy and framework
- III. Issue TSA operational guidelines to MDAs and other stakeholders
- IV. Develop cash management policies and procedures
- V. Liaise and serve as primary contact point with CBN, Banks, Payment Service Providers and other stakeholders
- VI. Manage registration and user enrolment processes for MDAs
- VII. Maintain a TSA transactions reconciliation and settlement center

- VIII. Set up and maintain TSA help desk to coordinate all support activities to stakeholders such as MDAs, banks, corporate and individual payment beneficiaries and payers
- IX. Ensure integration of Payment Gateway with the State Financial Information Management System
- X. Create and ensure smooth operation off the State Cash Management Unit (CMU)

### **Ministries, Departments and Agencies (MDAs)**

- I. Close all DMBs accounts as directed by the State Treasury
- II. Transfer balances at DMBs to CBN through designated electronic channel
  - Guide payers on e-Collection processes, including how to pay
  - Monitor transactions to confirm that payments are made.
- III. Deliver relevant services upon confirmation of payment.
- IV. Cooperate with State Treasury for the purpose of IGR monitoring. □ Participate and complete all configuration processes.
- V. Have appropriate access to the TSA Infrastructure □ Register/create and classify all payers appropriately.
- VI. Pre-assign unique payment code to each payer to foster seamless revenue payment and ease reconciliation process. The payment code is to capture the MDA's code, amount to be paid, service for which payment is meant and other relevant details.
- VII. View all categories of payments due and made to them.
- VIII. Generate various reports
- IX. Reconcile the TSA sub-account assigned to them.

### **Deposit Money Banks (DMBs)**

- I. Close all existing accounts of MDAs as may be directed by the State Government
- II. Offer multiple payment and collection channels to corporate and individual payers and payment beneficiaries (Bank Branch, Online Banking, Mobile Wallet, Mobile App, USSD, etc.)
- III. Process payments promptly in accordance with existing CBN payment guidelines
- IV. Provide prompt and quality service to payers

- V. Cooperate with relevant Departments of State Treasury, CBN and MDAs
- VI. Provide receipts for payers.at the point of payment
- VII. Automatically sweep payments through the CBN payment Gateway to the State Government TSA Main Account or Sub-Accounts

## **8. Guidelines Review**

This Guidelines is subject to periodic review by the Central Bank of Nigeria



**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

**REF: BPS/DIR/GEN/CIR/03/001**

**CENTRAL BANK OF NIGERIA**

Central Business District  
P.M.B. 0187,  
Garki, Abuja.  
+234 - 0946238445

**Thursday, 04 February, 2016**

**To: All Deposit Money Banks (DMBs),**

### **EXTENSION OF BVN FOR NIGERIAN BANKS' CUSTOMERS IN DIASPORA**

You will recall that as part of its efforts towards ensuring full implementation of the BVN Project, the Central Bank of Nigeria issued a circular extending the deadline for the registration and linkage of BVN to accounts of Nigerian Banks' Customers in diaspora to January 31, 2016.

The Central Bank of Nigeria has observed, through a recent survey, the low percentage of registration of Nigeria Banks' Customers in diaspora, which may be attributed to lack of accessibility to registration centres and unavailability of registration centres in some cities where Nigerian population is high.

Consequently, all the DMBs are hereby requested to note that BVN enrolment for Nigerian Banks' Customers in Diaspora is hereby extended to **30<sup>th</sup> June, 2016**. This is to enable such customers complete the enrolment and link the BVN to their bank accounts.

The addresses of the existing enrolment centres are as listed below:

#### **BVN ENROLLMENT CENTRES**

<b>S/No</b>	<b>City/Country</b>	<b>Address</b>
1.	Washington DC, <b>USA</b>	<b>Washington:</b> OIS, Washington DMV, 11900 Parklawn Drive, Suite 160, Rockville, MD, 20852. Opening times: Monday to Friday (9:00am – 4:00pm) Tel: +1 860 929 8995
2.	Atlanta, <b>USA</b>	<b>Atlanta:</b> OIS Services, Suite 204, 918 Holcomb bridge road, Roswell, Atlanta, GA 30076 Opening times: Monday to Friday (9am – 4pm) Tel: +1 860-929-8995

3.	Houston, USA	<b>Houston:</b> OIS Services, Bissonnet Street, Houston, TX 77036 Opening times: Monday to Friday (9am – 4pm) .
4.	Los Angeles, USA	<b>Los Angeles:</b> OIS Services, 11001 South Broadway, Los Angeles. CA 90061 Opening times: Monday to Friday (9:00am – 4:00pm) Tel: +1 860-929-8995
5.	New York, USA	<b>New York:</b> OIS Services 25 Bond Street Brooklyn, New York 11201 Opening times: Monday to Friday (9:00am – 4:00pm)
6.	San Francisco, USA	<b>San Francisco:</b> VFS Global, 50 California Street, Suite 1500 San Francisco, CA 94111 Opening times: Monday to Friday (9am – 4pm) Tel: +1-415-277-5486
7.	London, U.K	<b>London:</b> OIS Services, 56-57 Fleet Street, London EC4Y 1JU, UK Opening times: Monday to Friday (10am – 4pm) Tel: +44 (0) 20 7832 0001
8.	Leicester, U.K	<b>Leicester:</b> OIS Services, The Peepul Center Orchardson Avenue, Leicester LE4 6DP, UK Opening Times: Monday to Friday (10am – 4pm) Tel: +44 (0) 20 7832 0001
9.	Manchester, U.K	<b>Manchester:</b> VFS Global, 1st floor, 18-22 Mosley Street, Manchester M2 3AG, United Kingdom. Opening Times: Monday to Friday (9am – 4pm) Tel: +44 203 695 9871
10.	Dubai, U.A.E	<b>Dubai:</b> OIS Services, 2907 Platinum Tower, Cluster I, Jumeirah Lake Towers, Dubai. Opening times: Sunday to Thursday (9:00am – 4:00pm) Tel: +971 4 276 5448
11.	Johannesburg, S.A	<b>Johannesburg:</b> OIS Services, 6 Bolton Road Parkwood Rosebank, 2193. Johannesburg, SA. Opening times: Monday to Friday (9am – 4pm) Tel: +27 112682376; +27 112682470
12.	Capetown, S.A	<b>Capetown:</b> VFS Global, 47 Strand Street, 5th Floor Office 504, Cape Town, Western Cape. Opening times: Monday to Friday (8am – 3pm) Tel: +27 (0)12 425 3011
13.	Kuala Lumpur, Malaysia	<b>Kuala Lumpur:</b> OIS Services, 85 Jalan Ampang Hilir, 55000 Kuala Lumpur. Malaysia. Opening times: Monday to Friday (9:00am – 5:00pm)

15.	Beijing, <b>China</b>	<b>Beijing:</b> OIS Services, Unit 1 Suite 1801, Kun Sha Building, 16 Xin Yuan Li Str, Chaoyang District, Beijing PRC Opening times: Monday to Friday (9am – 4pm) Tel: +86-1084004549
16.	Shanghai, <b>China</b>	<b>Shanghai:</b> OIS Services, Room 2025, 22/F, Catic Building, 212 Jiangning Road, Jing'an District, Shanghai, PRC Opening times: Monday to Friday (9am – 4pm) Tel: +86-2122306696
17.	Guangzhou, <b>China</b>	<b>Guangzhou:</b> OIS Services, Unit 27/28, 41st Floor, R&F To-Win Building, 30 Huaxia Rd, Tianhe District, Guangzhou PRC Opening times: Monday to Friday (9am – 4pm) Tel: +862089196634
18.	Toronto, <b>Canada</b>	<b>Toronto:</b> VFS Global, Unit 701 – 1235 Bay Street, Toronto, ON, M5R 3K4, Canada Opening times: Monday to Friday (9am – 4pm) Tel: +1 647-963-3735
19.	Vancouver, <b>Canada</b>	Oceanic Plaza 1066 West Hastings Street, Suite 2000 Vancouver, BC V6E 3X2  Working Hours – 09:00 to 16:00 (Monday to Friday)  Email ID - bvninfocan@vfglobal.com bvnfeedbackcan@vfglobal.com  Helpline: +1 647 963 3735
20.	Paris, <b>France</b>	<b>Paris:</b> OIS Center, 173 Avenue Victor Hugo, 75116 Paris, France Opening times: Monday to Friday (9:00am – 5:00pm) (Last intake will be at 4.00pm)
21.	Rome, <b>Italy</b>	<b>Rome:</b> OIS Services, S.R.L., 169, Via dei Gracchi, 2nd floor, 00192 Rome, Italy Opening times: Monday to Friday (9am – 4pm)
22.	Sao Paulo, <b>Brazil</b>	<b>Sao Paulo:</b> VFS Global, Avenida das Nações Unidas, No 12.551, World Trade Center São Paulo, 17 floor, room 1704B. Brooklin Paulista São Paulo – SP. Brazil Opening times: Monday to Friday (9am to 3pm) Tel: +55 11 3443-7511
23.	New Delhi, <b>India</b>	<b>New Delhi:</b> OIS Services, C/O Central Board of Irrigation & Power Plot, No. 4, Ground Floor, Institutional Area Opp.: Sarvodaya School Malcha Marg, Chanakyapuri New Delhi 110021, Delhi, India. Opening times: Monday to Friday (9:00am – 4:00pm) & Saturdays

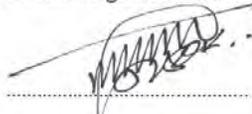
24.	Melbourne, <b>Australia</b>	<b>Melbourne :</b> VFS Global, Suite 4, Level 12, 55 Swanston Street, Melbourne, Victoria – 3000. Australia. Working Hours: (9:00am to 3:00pm) Tel: +612 9252 1152
25.	Brisbane, <b>Australia</b>	VFS Global, Level 8, Joint Visa Application Centre, 87 Wickham Terrace, Spring Hill, Brisbane, QLD – 4004  Suite 4, Level 12, 55 Swanston Street, Melbourne, Victoria - 3000  Enrollment Dates 15 February 2016 to 28 February 2016 Working Hours – 09:00 to 15:00 (Monday to Friday) Email ID - bvninfoaustralia@vfsglobal.com bvnfeedbackaustralia@vfsglobal.com  Helpline: +612 9252 1152
26.	Perth, <b>Australia</b>	VFS Global, Level 3, 267 St. George's Terrace, Perth, WA – 6000  Enrollment Dates 27 January 2016 to 10 February 2016 Working Hours – 09:00 to 15:00 (Monday to Friday)  Email ID - bvninfoaustralia@vfsglobal.com bvnfeedbackaustralia@vfsglobal.com  Helpline: +612 9252 1152
27.	Riyadh, <b>Saudi Arabia</b>	VFS Global, Dove Plaza (Hyper Panda), Umm Al Hamam Street, Riyadh Office Hours: 09:00 to 16:00 (Sunday to Thursday), 10:00 to 14:00 on Saturdays  Email ID - bvninfosaudiarabia@vfsglobal.com bvnfeedbacksaudiarabia@vfsglobal.com  Helpline: +966 920011494
28.	Jeddah, <b>Saudi Arabia</b>	VFS Global, Al Etimad Visa Centre - TasHeel Commercial Plaza, Ground Floor - Suwaid Bin Sakher Street, Off Jundub Bin Kaab Street, Al Mohammadiyah District 1, Jeddah  Office Hours: 09:00 to 16:00 (Sunday to Thursday), 10:00 to 14:00 on Saturdays  Email ID -

		byninfosaudiarabia@vfglobal.com bynfeedbacksaudiarabia@vfglobal.com  Helpline: +966 920011494
29.	<b>Al Khobar, Saudi Arabia</b>	VFS Global, Ground Floor, Unified Visa Application Centre, King Faisal Road, Al Rakah Al Janubiyah Dist. Al Khobar  Office Hours: 09:00 to 16:00 (Sunday to Thursday), 10:00 to 14:00 on Saturdays  Email ID - byninfosaudiarabia@vfglobal.com bynfeedbacksaudiarabia@vfglobal.com  Helpline: +966 920011494
30.	<b>Kiev, Ukraine</b>	VFS Global (BVN Enrollment Centre) 60, Kyrylivska Street, 04080, Kiev, Ukraine  Working Hours – 08:30 to 15:30 (Monday to Friday)  Email ID - byninfo ukr@vfhelpline.com feedbackbyn ukr@vfhelpline.com  Helpline: +380 44 224 57 66

Please note that plans are on to deploy more registration centres for locations with high Nigerian population. Nigeria Banks' Customers in diaspora are enjoined to seize the opportunity of this extension to register and link their BVN to their bank accounts.

Updated information about the enrolment centres can be obtained at [www.nibss-plc.com.ng](http://www.nibss-plc.com.ng) or [www.bvn.com.ng](http://www.bvn.com.ng).

Please be guided and ensure strict compliance.



DIPO FATOKUN

Director, Banking and Payments System Department



# Central Bank of Nigeria

Website Address:- [www.cenbank.org](http://www.cenbank.org)  
Email Address:- [info@cenbank.org](mailto:info@cenbank.org)

CBN/GEN/DMB/02/006

15<sup>th</sup> January, 2016.

## **TO: ALL DEPOSIT BANKS (DMBs) AND FINANCIAL INSTITUTIONS**

### **COLLECTION AND REMITTANCE OF STATUTORY CHARGES ON RECEIPTS TO NIGERIA POSTAL SERVICE UNDER THE STAMP DUTIES ACT**

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As part of its efforts to boost its revenue base, the Federal Government of Nigeria is exploring revenue opportunities in the non-oil sectors especially taxes and rates. It is in recognition of this fact that banks and other financial institutions are enjoined to support Government's revenue generation drive through compliance with the provisions of the Stamp Duties Act, LFN 2004 as reinforced by the court judgment in Suit No FHC/L/CS/1710/2013. In this regard, the CBN pursuant to the provisions of its enabling laws, hereby issues this circular to all DMBs and other financial institutions.

1. With immediate effect, all DMBs and other financial institutions shall commence the charging of ₦50 per eligible transaction in accordance with the provisions of the Stamp Duties Act and Federal Government Financial Regulations 2009, that is, all receipts given by any bank or other financial institution in acknowledgment of services rendered in respect of electronic transfer and teller deposits from ₦1, 000 and above.

2. For the avoidance of doubt the following receipts are however exempted from imposition of Stamp Duties:
  - a. payments deposits or transfer by self to self whether inter or intra bank: and
  - b. any form of withdrawals/transfers from saving accounts
3. It should be noted that these charges are only payable by receiving accounts.
4. Each DMB shall open an account designated as NIPOST Stamp Duties Account into which all charges collected shall be paid. The balances in such accounts shall be transferred monthly by the DMBs to CBN NIPOST Stamp Duty Collection Account No.3000047517.
5. Other Financial Institutions shall remit their Stamp Duty collections to any DMB of their choice.

Please be guided accordingly and ensure strict compliance.

**CENTRAL BANK OF NIGERIA  
JANUARY 2016**



**CENTRAL BANK OF NIGERIA**

**GUIDELINES FOR BANKING OPERATIONS IN THE FREE ZONES IN NIGERIA,  
2016**

## **GUIDELINES FOR BANKING OPERATIONS IN THE FREE ZONES IN NIGERIA, 2016**

In exercise of the powers conferred on it by sections 2(d) and 47 of the Central Bank of Nigeria Act, No. 7, 2007 ("the Act") and all other powers enabling it in that behalf, the Central Bank of Nigeria ("CBN") issues the following Guidelines –

### **PART I**

#### **OBJECTIVES OF THE GUIDELINES**

##### **1. Objectives**

The objectives of these Guidelines are to -

- a. complement and enhance the provisions of the Free Zones (FZs) Acts;
- b. provide details of regulatory and supervisory requirements necessary to promote efficient and sustainable banking services in Nigeria's FZs;
- c. spell out details of permissible and prohibited activities of banks in Nigeria's FZs;
- d. Provide details of incentives available to banks in Nigeria's FZs.

### **PART II**

#### **ESTABLISHMENT OF A BANK TO OPERATE IN THE FREE ZONES**

##### **2. Banks Operating in Nigeria's Free Zones**

- (1) Banks and other financial institutions in Nigeria are licensed under the Banks and Other Financial Institutions Act (BOFIA), Cap B3, Laws of the Federation of Nigeria, 2004 (as amended), complemented by the directives and guidelines issued from time to time by the Central Bank of Nigeria (hereinafter referred to as "CBN") to carry on banking business in accordance with the provisions of the Act.
- (2) As from the commencement of these Guidelines, only banks or financial holding companies licensed under BOFIA, or licensed foreign banks shall qualify to apply to the Authority for approval to establish presence to carry on banking business in Nigeria's FZs.
- (3) The banks currently operating in the FZ before the issuance of these Guidelines shall, from the commencement of these Guidelines, regularize

and comply with the provisions for establishing presence in the FZ. This should be done within six months of the issuance of the Guidelines.

- (4) The provisions of Nigerian Export Processing Zone Authority (NEPZA) Act, Oil and Gas Free Zone Act, BOFIA, CBN Act, and NDIC Act and all guidelines and regulations issued pursuant to these Acts shall apply to banks operating in the FZs.

### **3. Application to Establish a Bank in a Free Zone**

- (1) Without prejudice to the powers of NEPZA to grant Licenses, no enterprise shall carry on banking business in any FZ in Nigeria without:
  - a. a prior approval granted to the parent bank by the Authority, after meeting the requirements to establish the subsidiary in the FZ and,
  - b. a banking license granted to the subsidiary by the CBN, after meeting the requirements to carry on banking business.
- (2) An application to establish a bank in a FZ shall be submitted by the parent bank to the Authority along with the relevant fees.
- (3) The application shall be forwarded to the CBN by the Authority with the following documents -
  - a) An application letter;
  - b) Evidence of payment to the CBN of a non-refundable application fee of USD 10,000 or such other amount as the CBN may prescribe from time to time.
  - c) Evidence of deposit of the prescribed minimum paid-up share capital with the CBN.
  - d) Board Resolution detailing the strategic objectives for the establishment of the subsidiary;
  - e) A copy of the Authority's acknowledgment of a formal request by the parent bank for consent to establish the subsidiary;
  - f) Initial assessment report by the parent bank detailing specific benefits derivable from the subsidiary;
  - g) Board approval for capital allocation to meet the minimum capital requirement for the subsidiary;
  - h) Feasibility report which shall include -
    - i. justification of the request including the business model and strategy for the establishment of the proposed subsidiary,

- ii. the capacity of the bank to cope with such expansion considering its capital adequacy, liquidity, management effectiveness and availability of free funds,
  - iii. viability of the proposed subsidiary,
  - iv. details of the shareholding structure of the proposed subsidiary,
  - v. range of products or services to be offered by the proposed subsidiary
  - vi. a breakdown of the estimated initial capital expenditure and other operational costs for the proposed subsidiary, and
  - vii. The sources of foreign exchange to finance the establishment and running of the subsidiary.
- i) Financial projections of the subsidiary bank for at least 3 years, including Statement of Financial Position, Income Statement, Notes to the accounts and Assumptions;
  - j) Memorandum and Articles of Association of the proposed subsidiary;
  - k) Organogram and detailed profile of the directors and key management staff of the proposed subsidiary;
  - l) Human Resource requirements ;
  - m) Detailed Enterprise Risk Management Framework of the proposed subsidiary,
  - n) Details of how the operations of the subsidiary would be monitored.
- (4) Any amendment to the Memorandum and Articles of Association of the parent bank shall be communicated to the CBN within two weeks.
- (5) The CBN in reviewing the application and supporting documents may request for additional information, documents, and reports, as it may consider necessary.
- (6) Where the application for a license is unsuccessful, the CBN shall release the capital deposit plus accrued interest within thirty (30) days on receipt of a formal request by the promoters.
- (7) Where the CBN considers the application satisfactory, it shall grant an approval-in-principle (AIP) not later than three (3) months from the date of the receipt of complete information/documents.
- (8) In the event that the CBN considers the application unsatisfactory, it shall issue the applicant a deficiency letter, stating the inadequacies identified in the application within the stated time.

- (9) Any bank, which has been granted an AIP, shall ensure that from the date of such AIP, it shall conduct its affairs in accordance with the terms and conditions of the AIP and the requirements of the Authority.
- (10) Any bank that has been granted an AIP shall apply to the CBN for a final license within six (6) months of the grant of an AIP.
- (11) The AIP shall lapse after six (6) months if not utilized.
- (12) Where the CBN considers the application satisfactory, it shall grant a final license not later than three (3) months from the receipt of complete information/documentation upon the payment of a license fee of \$20,000 or such amount as the CBN may prescribe.
- (13) For the avoidance of doubt, any license issued under these Guidelines shall be valid only for the FZ in respect of which it is issued.

#### **4. Prudential Requirements**

- (1) The required minimum paid-up capital to operate in a FZ of Nigeria shall be US\$10 million or such other amount as the CBN may from time to time prescribe.
- (2) In addition, a bank in the FZ shall meet all the prudential requirements as may be specified from time to time by the CBN
- (3) Banks in FZs shall appoint fit and proper persons to key management positions, as prescribed by the CBN.

#### **5. Disclosure Requirements**

- (1) A bank in the FZs shall disclose to the CBN, the equity interests of its directors and key officers in any enterprise in the zones within fourteen days of acquisition of such interest.
- (2) It shall be the duty of a director of a bank in a FZ who is in anyway, interested in the grant of an advance, loan or credit facility with the bank in the FZ to declare the nature of his interest to a meeting of the Board of Directors of the bank.

### **PART III**

#### **INCENTIVES AND PERMISSIBLE ACTIVITIES**

#### **6. Incentives for Banks Operating in Nigeria's Free Zones**

- (1) Pursuant to the relevant provisions of the Free Zones Acts, a bank operating in Nigeria's FZ shall enjoy the following incentives -

- (a) freedom to move funds in and out of the zone on all eligible transactions;
- (b) exemption from stamp duties on all its documents;
- (c) exemption from withholding tax deductions on interest payable on deposits, dividends and royalties;
- (d) exemption from corporate and capital gains taxes;
- (e) exemption from payment of duties on imports of furniture, office equipment and other facilities necessary for its operations; and
- (f) exemption from payment of value added tax and any other incentives as may be approved by the Authority, from time to time.

(2) Banks in the FZs may maintain correspondent banking relationships with licensed banks in the Nigeria Customs Territory and overseas.

**7. Permissible Activities** A licensed bank in the FZ may -

- a) Take deposits and maintain current and saving accounts from natural and legal persons; b) provide retail banking services;
- c) grant to any person, advance, loans, or credit facility, or give any financial guarantee, or incur any other liability on behalf of any person;
- d) make remittances of funds abroad or to Nigeria Customs Territory on behalf of any nonresident;
- e) 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, any other law and CBN Regulations made pursuant thereto;
- f) provide treasury management services including but not limited to the provision of money market, fixed income, and foreign exchange investment on behalf of clients, subject to the approval of the CBN;
- g) provide custodial services;
- h) provide financial advisory services incidental to commercial banking business which do not require regulatory filings with the Securities and Exchange Commission such as: advising on financing and business strategies and structures, conducting research and economic intelligence services, building financial models, writing business plans, conducting private placements, arranging loan syndications and advising on project structures;
- i) invest in non-convertible debt instruments and, subject to CBN approval, enter into derivative transactions;

- j) undertake fixed income trading, where duly licensed to act as a Primary Dealer/ Market Maker to trade in securities as may be prescribed by the CBN from time to time;
- k) provide non-interest banking services subject to CBN approval; and
- l) such other activities as may be approved by the CBN from time to time.

## **PART IV**

### **PROHIBITED ACTIVITIES AND ADHERENCE TO THE PROVISIONS OF THE MONEY LAUNDERING (PROHIBITION) ACT, 2011.**

#### **8. Prohibited Activities**

The following banking and related activities are prohibited in the FZs -

- a) sourcing foreign exchange from the official foreign exchange market of the Nigeria Customs Territory;
- b) opening an account for a customer in contravention of the Know-Your-Customer (KYC) principles;
- c) insurance underwriting;
- d) Loss adjusting, Re-insurance, Asset Management, Issuing House and Capital Market underwriting services;
- e) investment in equity or hybrid-equity instruments, save and except for the investments permissible under BOFIA;
- f) Proprietary trading, save as permitted by these Guidelines;
- g) provision of financial advisory other than in accordance with provisions in Section 7(h) ; and
- h) undertaking any other transactions which are inimical to the interest of the FZ; and any other activity that may be specified by the CBN or other relevant authorities, from time to time.

#### **9. Adherence to the Provisions of AML/CFT Legislations**

Banks within the FZs are required to ensure strict adherence to the provisions of the Money Laundering (Prohibition) Act, 2011 (as amended), Terrorism (Prevention) Act, 2011 (as amended) and the Central Bank of Nigeria AML/CFT Regulations for Banks and Other Financial Institutions in Nigeria, 2013.

**PART V**  
**MISCELLANEOUS**

**10. Resolution of Disputes**

- (1) Disputes between banks and their customers may be resolved:
  - (a) under the CBN's dispute resolution framework; or
  - (b) by reference to an arbitral panel for resolution which shall comprise of:
    - (i) two persons appointed by the CBN ; and
    - (ii) a person representing the Authority.
- (2) A decision in any dispute does not preclude a dissatisfied party from seeking redress in the law courts.

**11. Surrender and Revocation of Banking License**

- (1) A bank operating in a FZ may voluntarily surrender its license. Such bank shall obtain the prior written approval of the CBN, through the Authority.
- (2) The CBN may revoke the license of a bank operating in the FZ–
  - (a) pursuant to the provisions of BOFIA;
  - (b) Where the Operating License of the bank is withdrawn by the Authority in consultation with the CBN.
  - (c) For failure to comply with the provisions of these Guidelines, the Authority Regulations or any other directives as may be issued by the CBN from time to time.

**PART VI**

**OPERATING MANUAL FOR BANKS OPERATING IN THE FREE ZONES**

The operation of banks in the Free Zones shall be guided by the following:

**12. Sources of Funds**

The sources of funds shall include -

- (a) Deposits from non-bank customers such as Multinational Corporations, International Corporations, Non-resident or resident persons or entities, approved Enterprises in the FZs, Regional Financial Agencies or Institutions and Euro-Money Markets;
- (b) Inter-bank borrowing within the FZs or with licensed foreign banks;
- (c) Export Proceeds;
- (d) Equity Capital; and

- (e) Such other sources of funds as may be approved by the CBN from time to time in consultation with the Authority.

### **13. Utilization of Funds**

The bank shall apply the funds at its disposal to -

- (a) loans and advances to residents and non-residents
- (b) investments
- (c) settlement of operational expenses;
- (d) payment of dividends;
- (e) payments of interest on deposits;
- (f) payments for imports; and
- (g) such other utilization of funds as may be approved by the CBN from time to time in consultation with the Authority.

### **14. Rules for Sourcing and Utilization of Funds**

- (1) Banks shall not source for foreign exchange from the official market in the Nigeria Customs Territory for transactions in the FZs;
- (2) Exports from the Nigeria Customs Territory to the FZs shall attract payment in foreign exchange and be subjected to mandatory repatriation of proceeds;
- (3) The relevant processes, documentation requirements and procedures applicable in the Nigeria Customs Territory, including any form of inspection, shall also apply to trade transactions in the zone (import and exports)
- (4) The sourcing and utilization of funds by banks in the FZs shall, in addition to the provisions of these Guidelines, be governed by such other guidelines or regulations as may be issued by the CBN, from time to time.

### **15. Rendition of Returns**

- (1) Banks in the FZs shall render returns to the CBN in the manner specified below
  - (a) Remittances for Imports – monthly;
  - (b) Foreign Exchange inflows – monthly;
  - (c) Naira Transactions (External Accounts) – monthly;
  - (d) Statements of Assets and Liabilities – monthly;
  - (e) Other Foreign Exchange Payments – quarterly;
  - (f) Breakdown of Total Credits – quarterly;

- (g) Foreign Exchange Investment – quarterly;
- (h) Annual Audited Financial Statement; and
- (i) Any other returns as may be required by the CBN or relevant authorities from time to time.
- (j) Except in the case of (1) (h) above, all returns must reach the CBN not later than the 10<sup>th</sup> day after the month in which they are due.

## **PART VII**

### **REQUIREMENTS FOR PROCESSING FOREIGN EXCHANGE APPLICATIONS**

#### **16. Document Incorporated into these Guidelines.**

The provisions of the CBN Foreign Exchange Manual shall apply to banks operating in the FZs. Extracts from the said Manual are attached as Appendix to these Guidelines to guide banks and the general public in the FZs on the requirements for processing foreign exchange applications.

Regulations, Guidelines and Circulars that would be issued from time to time by the CBN will apply to future requirements for processing foreign exchange applications.

## **PART VIII**

### **INTERPRETATIONS AND CITATIONS**

#### **17. Interpretations**

For the purpose of these Guidelines -

- o “Authority” means Nigeria Export Processing Zones Authority established under the Nigeria Export Processing Zones Act Cap N107 LFN 2004 and the Oil and Gas Free Zone Act Cap O5 LFN 2004
- o Banks” means banks licensed under BOFIA Cap B3, LFN 2004 (as amended) and authorized to deal in foreign exchange in the Nigeria Customs Territory.

- I. “Nigeria Customs Territory” means areas in Nigeria outside the Free Zones.
- II. “Eligible Transactions” means all transactions (visible and invisible) that are neither prohibited by the Free Zone Acts, nor suspended by current regulations.
- o “Free Zones (FZs)” mean Zones created under the Nigeria Export Processing Zones Act Cap N107 LFN 2004 and the Oil and Gas Free Zone Act Cap O5 LFN 2004
- o “Foreign Exchange” means foreign currency.
- o “Licensed Foreign Bank” means any enterprise licensed under the laws of any country other than the Nigeria Customs Territory to carry on banking business.

- III. "Non-Resident" means any person who is resident outside the Free Zone or an enterprise registered or incorporated outside the Free Zone.
- IV. "Resident" means a person granted permission to reside permanently in the Free Zone or enterprise registered and operating in the Free Zone.
- V. "Parent Bank" means any bank or a financial holding company that has controlling interest over a subsidiary bank.
- VI. "Subsidiary" means any bank within the FZ whose parent bank holds 51% or more of its share capital.
- VII. Form "AFZ" means CBN Form A adapted for use in the Free Zones.

## **18. Citation**

These Guidelines shall be cited as Guidelines for Banking Operations in Free Zones, 2014.

## APPENDIX

### REQUIREMENTS FOR FOREIGN EXCHANGE APPLICATIONS

#### [Guideline 16]

#### A. Direct Foreign Capital Investment in the Free Zone

Any person whether resident in or outside the Free Zone may invest in any enterprise in the Free Zone. In addition, the Authorised Dealer shall issue a Certificate of Capital Importation (CCI) to the investor within 24 hours of the receipt of the capital. The Authorised Dealer shall issue the CCI on the basis of the following documents:

##### 1. **Where the Investment is in form of Inflow of Funds:**

- i) Authenticated SWIFT message advising payment;
- ii) Board resolution of the local beneficiary authorising the investment in the Free Zone;
- iii) Purpose of capital importation (e.g. equity, portfolio, loan);
- iv) Evidence of incorporation where applicable.

##### 2. **Where Capital is in form of Equipment/Machinery or Raw Material**

- a) Original Combined Certificate of Value and Origin (CCVO) and Pre-Arrival Assessment Report (PAAR)
- b) Certified copy of Bill of Lading (original to be sighted)
- c) Certified copy of Bill of Entry/Single Goods Declaration Form (original copy to be sighted)
- d) Single Goods Declaration (SGD) Form number.

Authorised Dealers are required to render monthly returns to CBN on capital importation for the purpose of investment in the Free Zone.

##### 3. **Remittances in respect of Investment under the Debt Conversion Programme**

- a) A status report must be obtained from the Debt Management Office (DMO) before repatriation of capital, profit, interest and/or dividends, in respect of transactions which have been approved under the DMO Scheme.
- b) Evidence of payment of the mandatory 2.5% transaction cost paid to the Nostro account of CBN.

**Note:****Registration of Foreign Investment**

It is required that non-resident investors in the Free Zone shall register their Investments for records and statistical purposes with the Free Zone Authority. The FZA shall forward monthly returns of all registered foreign investments to the Trade and Exchange Department of the CBN for monitoring and record purposes. Authorised Dealers are to ensure that the FZA registration certificate/evidence is provided before funds are repatriated on behalf of the non-resident investor.

**B. Capital Outflows and Outward Transfer in Respect of Dividends, Profits and Investments**

Foreign investors are guaranteed unconditional transfer of their capital, profits and dividends attributable to their investments in any convertible currency through the Authorised Dealers.

**1. Capital Transfer (Other than Securities)**

Applications for capital transfer or withdrawal of investment may be processed by the Authorised Dealers subject to the following documentation requirements:

- i) Copy of Sales Agreement;
- ii) Certificate of Capital Importation as evidence that the original investment was imported into the Free Zone whether in the form of cash or goods (raw materials, machinery and equipment), or Approved Status in the case of an old company/investment or evidence of previous remittance of profits and dividends;
- iii) Documentary evidence that the beneficiary has sold or transferred the assets;
- iv) Valuation Report by an independent third party indicating the value of assets;
- v) Completed and approved Form "AFZ".

**2. Transfer of Shares**

Transfer of shares can be done by companies subject to:

- i) Board Resolution authorising such transfer;
- ii) Transfer agreement;

- iii) Letter of clearance from the Securities and Exchange Commission that the transfer is duly authorized. (if the transfer involve parties outside the FZ);
- iv) Letter of clearance from the Free Zone Authority that the transfer is duly authorised. (if the transfer involve only parties in the FZ);
- v) A valuation report by a reputable Auditing firm indicating the value of the shares, where the company is not quoted on the Stock Exchange.

After such transfer, enterprises are required to notify the Free Zone Authority and the CBN for monitoring and record purposes.

### **3. Capitalisation/Rights Issue**

Capitalisation/Rights Issue can be carried out by enterprises in the Free Zone subject to the following:

- a) Board Resolution authorising such capitalisation;
- b) Payment of relevant stamp duty to the Free Zone Authority;
- c) Approval from the Securities and Exchange Commission (SEC) where the investment involves entities outside the Free Zone.

### **4. Remittance of Dividends, Profits, etc**

The documentation requirements for the remittance of dividends and profits are as listed below:

- (a) Duly completed and approved Form "AFZ"
- (b) Audited accounts for the year dividends were declared.
- (c) Board of Directors/AGM resolution, authorising the payment of dividends/profits to both local and foreign shareholders.
- (d) Evidence of capital importation into the Free Zone, e.g. CCI or Approved Status and evidence of previous remittance of dividends/profit.
- (e) Evidence of what is due to each shareholder for the period dividends is declared, and/or dividend warrant.

**Note: For individuals, provisions in 4(b and c) would not be applicable.**

Authorised Dealers are required to submit monthly returns to the Central Bank of Nigeria on capital transfer/repatriation and remittance of profits and dividends.

### **5. Utilisation of Certificates of Capital Importation (CCI)**

Certificate of Capital Importation issued by any Authorised Dealer that initially handled the transaction that qualifies for issuance of CCI can be utilized through another bank subject to the following:

- (j) a formal application by the customer to the bank that initially issued the CCI, requesting for transfer to another bank;
- (ii) the initial bank effects the transfer to a bank of the customer's choice within 5 working days of the request, attaching the following:
  - (a) copy of the CCI;
  - (b) Transaction history of the CCI, stating purpose of CCI, amount remitted so far (interest, loan repayment, dividends), amount outstanding and an indemnity by the issuing bank to the receiving bank against double remittance. A copy of the CCI transaction history should be forwarded to Director, Trade & Exchange Department, CBN, Abuja.
- iii) The new bank accepts the transfer and issues to CBN, a letter of indemnity against double remittance and commences remittance on the CCI subject to relevant documentations being fully met.
- iv) In all cases and where final remittance has been effected, the original CCI should be retrieved and cancelled by the bank that last handled the transaction involving the CCI. The bank should retain a photocopy for its records and surrender the cancelled original CCI to the Director, Trade and Exchange Department, CBN, Abuja, within 5 working days from the date of cancellation.

## **C. Purchase and Sale of Securities**

### **1. Securities Payable in Nigerian Currency**

1.1 A non-resident who wishes to establish an enterprise in the Free Zone shall first of all comply with the provisions of the FZA guidelines i.e. via registration with the Free Zone Authority.

1.2A non-resident investor may buy the shares of any enterprise in the Free Zone. Such purchase of shares, shall be completed through any of the Stock Exchanges in Nigeria.

### **1.3 Procedure for Purchase of Securities Through the Stock Exchange**

- (i) The prospective investor appoints a local stock broker of his choice.
- (ii) The broker and investor agree on the bank in Nigeria for the investor; the investor then informs the bank on how much he is investing.
- (iii) The capital is imported e.g. by electronic transfer to the designated Bank. Please note that cash movement for dealing in securities is not allowed.
- (iv) On receipt of the funds, the bank issues the investor with a Certificate of Capital Importation within 24 hours.

- (v) With the certificate, the investor through the stock-broker, enters the market; invests in any company of his choice
- (vi) If at any point in time the investor wants to divest, he shall go back to the bank with the following documents:-
  - (a) Evidence that the shares were sold in line with guidelines by the Securities and Exchange Commission, the relevant Stock Exchange;
  - (b) Evidence of capital importation/approved status/evidence of previous remittance of dividends on the shares;
  - (c) Evidence of offer and acceptance (i.e. sales agreement).
  - (d) In the case of companies whose shares are not quoted on the stock exchange, a valuation report by a reputable Auditing Firm indicating the value of the shares, is required in place of (a) above

#### **1.4 Global Depository Receipts (GDRs) and Certificate of Capital Importation (CCI) Issuance**

In order to align the issuance of GDRs with the requirements of CCI issuance to foreign investors and also build confidence in the minds of investors who may want to invest in the GDRs, Authorised Dealers are to note the procedure as follows:

- (i) Certificate of Capital Importation shall continue to be issued in respect of foreign exchange inflow for loans, investment purposes and/or capital, subject to existing guidelines;
- (ii) Where foreign exchange inflow is in respect of GDR, a master CCI should be issued in favour of the Depository bank (DB) to the tune of the foreign exchange inflow; Upon issuance of the master CCI, the receiving bank/Authorised Dealer should furnish the CBN with a copy with the details of the beneficial investors to the GDR endorsed at the back of the master CCI;
- (iii) Where the portion of the GDR is cancelled offshore by the investor, the DB shall inform the Custodian/sub-custodian of the cancellation and provide the latter with the necessary documentary evidence of same;

The Depository's nominee custodian shall have valid CCI covering the number of shares withdrawn from the GDR and also effect a "mark down" of the CCI from the master CCI;

- (iv) With the valid CCI covering the number of shares withdrawn from the GDR, the direct non-resident equity investor can trade with the underlying shares in

the local market. The investor shall also be entitled to repatriate funds outside the Free Zone;

- (v) Repatriation of funds outside Nigeria shall be through Authorised Dealers subject to the following:
  - (a) The guidelines on utilization of CCI in the Foreign Exchange Manual and/or relevant circulars on same;
  - (b) Duly completed Form „AFZ“;
  - (c) Letter of evidence of conversion from GDRs to shares and confirmed by the Depository and the nominee custodian;
  - (d) Documentary evidence of cancellation of the GDR from the depository;
  - (e) Letter from the direct non-resident equity investor, stating relevant details to the Authorised Dealer via his broker, requesting for repatriation of sales proceeds;
  - (f) Photocopy of the original CCI;
  - (g) Sale Contract Note or evidence of sale of shares from a FZ broker.
- (vi) The Authorised Dealer responsible for the repatriation of proceeds of sale on behalf of the GDR holder is required to perform book-keeping and paper trail procedures evidencing:
  - (a) Proof of sale of GDR
  - (b) Identity of GDR holder
  - (c) Proof of CCI
  - (d) “Mark down” of the original CCI

## **2. Securities Payable in Foreign Currency**

Residents of the Free Zone may buy from or sell to a non-resident, any security denominated in foreign currency subject to the following documentations:

- (i) Form “AFZ”
- (ii) Broker’s Quotation or Purchase Contract Note
- (iii) Certified evidence of offer for sale of the specified shares
- (iv) Prospectus or current annual report of company offering the shares for sale

## **3. Investment in Securities Denominated in Foreign Currency**

- (a) Form “AFZ”

- (b) Purchase confirmation of the securities by the broker shall be forwarded to the dealing bank.
- (c) Submission of periodic statement of investment holdings by the broker to the dealing bank
- (d) Monthly returns on the investment by the bank to the CBN
- (e) Appointment of custodian by the investor who shall be duly acceptable to the dealing bank.
- (f) Authorised Dealers are required to apply KYC principles on the prospective investors before consideration of such application.

Authorised Dealers are to note that funds from the official foreign exchange window of the customs territory shall not be eligible for investment in securities denominated in foreign currencies abroad and setting up of offshore subsidiaries/branches of free zone enterprises. For the avoidance of doubt, only funds generated in the Free Zone shall be used to *finance such transactions*.

#### **D. Purchase of Money Market Instruments**

A non-resident national or entity may invest in Nigeria by way of purchase of money market instruments such as Commercial Paper, Negotiable Certificates of Deposit, Bankers Acceptance, Treasury Bills, etc.

1. The following guidelines should be noted:
  - (a). Investment in the Nigerian Treasury Bills (NTB) and Federal Government Bond (FGB) by foreign entities is allowed;
  - (b). However, prior to the maturity of these instruments, foreign investors are allowed to discount their investment in the secondary market to either a local or foreign investor;
  - (c). Where the new investor is in the Free Zone, the CCI issued to the initial foreign investor who is now divesting, shall be cancelled after the repatriation of the proceeds of the divestment. The new investor will now receive interest payment and on maturity collect the principal in Naira or USD;
  - (d). In the case where a foreign investor is buying over the instrument from the investor divesting, the CCI issued to the foreign investor (seller of CCI) will be cancelled. A new CCI will be issued to reflect the name of the buyer. The new investor in this case is guaranteed easy remittance of interest

that shall accrue from the investment as well as the remittance of the principal at the maturity of the instrument.

Note: For the avoidance of doubt, it should be noted that in both cases (c) and (d), the repatriation and or payment of the principal will only be effected to the holder of the instrument after its maturity.

## **2. Procedure for investing in Nigerian Money Market Instruments**

- (i) The prospective investor appoints a local bank or Discount House as an agent to purchase the instrument
- (ii) The funds for the investment are transferred electronically to a designated bank
- (iii) On receipt of the funds, the bank issues the investor with a Certificate of Capital Importation within 24 hours.
- (v) With the certificate, the investor through the bank or discount house, enters the market; invests in any instrument of his choice
- (v) If at any point in time the investor wants to divest, he shall go back to the bank with the following documents:-
  - a)** Certificate of Capital Importation
  - b)** Evidence of redemption of the money market instrument.

Authorised Dealers are to note that after repatriation of the investment, the certificate of capital importation should be recovered and cancelled. The cancelled original of the CCI should be forwarded to Director, Trade and Exchange Department, Central Bank of Nigeria, Abuja, while the bank retains a copy for records.

## **E. External Loans, Including Suppliers' Credit**

### **1. Procurement of Foreign Loan**

Request for foreign loans by enterprises registered in the Free Zone, from corporate bodies/institutions offshore shall be processed through Authorised Dealers supported with the necessary documents:

#### **1.1 Where the loan is in form of inflow of funds:**

- (a) Board Resolution to obtain the loan
- (b) A copy of agreement, showing terms and conditions of the facility, including moratorium, date of maturity, interest rate and schedule of repayment of principal and interest.
- (c) A copy of letter of offer of loan/facility or credit.

(d) A copy of letter of acceptance.

### **1.2 Where Loan is in form of Equipment/Machinery or Raw Material**

(a) Original CCVO and Pre-Arrival Assessment Report (PAAR)

(b) Certified copy of Bill of Lading (original to be sighted)

(c) Certified copy of Bill of Entry/Single Goods Declaration Form (original copy to be sighted)

(d) Single Goods Declaration (SGD) Form number.

*After such foreign loans/facilities shall have been obtained, Authorised Dealers shall forward the details of the loans/facilities to the Free Zone Authority and the Trade and Exchange Department of CBN, for record and monitoring purposes.*

## **2. Repayment of External Loans**

(i) Completed Form "AFZ"

(ii) Copy of Agreement, showing schedule of repayment

(iii) Schedule of drawdown of the loan/facility

(iv) Evidence that the loan/credit was brought into the Free Zone (CCI, CCVO and PAAR, etc.) where applicable (v) Single Goods Declaration Form number.

(vi) Demand note.

(vii) Authenticated SWIFT message in respect of inflow of funds.

## **F. Foreign Nationals' Personal Home Remittances**

### **1. Family Maintenance Allowance**

1.1 Remittances by resident foreign nationals/expatriates for the maintenance of dependants on their own accounts or for any purpose whatsoever are allowed up to 100% of their net income while physically resident in the Free Zone. An expatriate wife with accompanying husband (immigration status) and resident permit cannot enjoy the PHR facility, but can transfer funds outside the Free Zone for any other purpose.

1.2 Authorised Dealers may approve applications made by foreign nationals resident in the Free Zone to remit monies outside the FZ for family maintenance subject to the following documentation requirements:-

(a) Duly completed Form "AFZ"

(b) Certified Tax Deduction Card

(c) Photocopy of Relevant Pages of Passport

- (d) Resident Permit (for the period applied for)
- (e) Evidence of operation of current account with the bank and of payment of salaries into the account.

1.3 Actual transfer may be made once in a month on the basis of the remuneration received for the previous month. However, where remittances have fallen into arrears, Authorised Dealers can determine the applications based on the documents listed in 1.2 above.

1.4 Family maintenance allowance may be continued only while the applicant is actually resident in Free Zone and receives salary. These shall cease immediately it is known that the applicant has left the Free Zone.

## **2. Naturalised Aliens/Foreigners Married to Residents**

2.1 A limit of 50 per cent of the annual income of naturalised aliens (which include an expatriate woman married to a resident) may be allowed to be remitted abroad in any fiscal year, subject to documentation requirements in paragraph 1.2 above, except (d).

2.2 Naturalised aliens shall be treated as residents for the purpose of foreign exchange remittances. Consequently, remittances of premiums payable by them on any life or endowment policy expressed in foreign currency will be allowed until such policy matures, after which the foreign exchange proceeds shall be repatriated and credited into a Domiciliary Account operated by the beneficiary. Like other residents holding such policies, they shall be required to deposit such policies with an Authorised Dealer until maturity.

## **3 Leave Pay**

3.1 Non-residents working in the Free Zone are allowed to remit 100% of their leave allowance during any calendar year.

3.2 In all cases, the amount remitted must not exceed the leave allowance of the applicant.

Authorised Dealers shall note that the leave pay allowance granted under this guideline is inclusive of travel allowance approved for the related leave period.

3.3 Applicants' passports shall be endorsed by the Authorised Dealers to reflect the grant of leave pay remittance for each year. Where there is evidence of accumulated leave, the leave pay remittance shall be proportionate to the period(s) of accumulation and the passport shall be endorsed to indicate the period(s) accordingly.

3.4 Application for leave pay shall be supported with the following documents:-

- a) Duly completed Form "AFZ"
- b) Photocopy of relevant pages of the applicant's passport
- c) Letter from employer stating that the applicant is going on leave and the amount of leave allowance paid to applicant.
- d) Photocopy of Resident Permit (for the period applied for).

#### 4. Provident Fund Payments

Authorised Dealers may approve applications made by non-residents to remit Provident Fund Payments provided documentary evidence of the amount due is produced and income tax has been paid or that the monies are exempted from taxation. Such remittances form part of the repatriable 100% of net income.

#### 5. Bonus and Gratuity

Applications for permission to remit Gratuity/Bonus should be determined by the Authorised Dealers on presentation of the following documents:-

- (k) Duly completed Form "AFZ"
- (ii) A letter from the applicant's employer confirming payment.
- (iii) Evidence of payment of tax on the amount to be remitted.

#### 6. Company's Share of Provident/Pension Fund Liabilities Due to Expatriate Staff

Such applications shall be determined by Authorised Dealers subject to the following documentation requirements:-

- (i) Duly completed Form "AFZ"
- (ii) Approved rules of the pension scheme
- (iii) Schedule of contribution (where applicable)
- (iv) Joint Tax Board approval of the scheme/appraisal of the scheme by National Social Insurance Trust Fund (NSITF) in case of Provident Fund. (v) Resident permit of individual contributor.

#### 7. Final Balance/Terminal Pay:

All applications for remittance of terminal pay and proceeds from sales of assets (all within remittable limits) shall be determined by the Authorised Dealers, subject to the following documents:

- (a) Duly completed Form "AFZ"
- (b) Photocopy of Resident Permit

- (c) Photocopy of Relevant pages of applicant's Passport
- (d) Letter from the employer stating that the applicant is leaving the country finally, where applicable.
- (e) The applicant's statement of assets in the Free Zone.
- (f) Receipts of sale of Personal effects (if any).
- (g) Employer's confirmation of payment of fringe benefits (if any).

*The Form titled "Non-Residents – particulars for Home Remittance" and evidence of tax payment in the Free Zone such as copies of P.A.Y.E. tax deduction cards, etc. which are valid for at least one year shall be submitted to the Authorised Dealers at the time of making the initial application. Authorised Dealers are to retain such forms, cards, etc., for use in dealing with subsequent applications.*

**MADE AT ABUJA** this .....day of .....20....

**GOVERNOR**

Central Bank of Nigeria

## EXPLANATORY NOTE

*(This Note does not form part of these Guidelines but is intended to explain its purport)*

These Guidelines complement and enhance the provisions of the Free Zones (FZs) Acts, provide details of regulatory and supervisory requirements necessary to promote efficient and profitable banking services in Nigeria's FZs, spell out details of permissible and prohibited activities of banks in Nigeria's FZs, provide details of incentives available to banks in Nigeria's FZs; and facilitate the attainment of the goals for which FZs are established in Nigeria.



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**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

BPS/DIR/GEN/CIR/02/011

November 4, 2015

To: All Mobile Money Operators

**CIRCULAR ON THE IMPLEMENTATION OF THE GLOBAL MOBILE PAYMENTS MONITORING & REGULATION SYSTEM**

In line with the Central Bank of Nigeria's responsibility for oversight of the National Payment System, the Bank has implemented a monitoring solution for effective surveillance of Mobile Money Operators and their transactions. The solution will also aid fraud management on mobile money platforms.

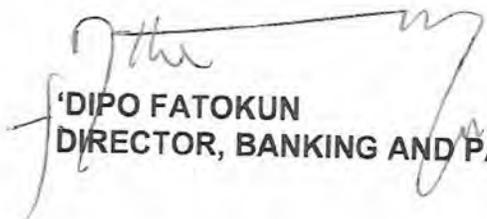
The Global Mobile Payments Monitoring & Regulation (GMPM) System was implemented by the CBN at the Nigeria Inter-Bank Settlement System Plc (NIBSS) and the system is fully operational and ready to accept and process the daily transactions data of all licensed Mobile Money Operators (MMOs).

Accordingly, all licensed mobile money operators are required to send the daily (on-us) live transactions data only (since off-us transactions would have passed through NIBSS) for onward feed into the GMPM System, as specified hereunder:

1. Provide NIBSS with daily transactions data in the XML format earlier communicated.
2. Upload of daily files (previous day) onto the NIBSS ftp server <https://webservice.nibss-plc.com/thinclient> not later than 12noon of the working day.
3. Provide NIBSS with the name, e-mail addresses and mobile phone numbers, of at least, two individuals who will be assigned this upload task, to enable NIBSS create login credentials for them.

Failure to comply by November 16, 2015 will attract a sanction of N50,000 per week from that day, in line with the CBN Circular on Erring banks/e-Payment Service Providers for Infractions of Payments System Rules and Regulation with reference number BPS/DIR/GEN/CIR/02/007.

Be guided accordingly.

  
**DIPO FATOKUN**  
**DIRECTOR, BANKING AND PAYMENTS SYSTEM DEPARTMENT**



BANKING AND PAYMENTS SYSTEM DEPARTMENT

REF: BPS/DIR/GEN/CIR/02/033

**CENTRAL BANK OF NIGERIA**

Central Business District

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**Monday, 02 November 2015**

**To: All Deposit Money Banks (DMBs),**

**EXTENSION OF BVN FOR NIGERIA BANK CUSTOMERS IN DIASPORA AND OTHER RELATED MATTERS**

As part of the overall strategy for ensuring successful implementation of the BVN Project, the Central Bank of Nigeria issued a circular stipulating that by October 31, 2015; all Nigeria Banks' Customers should have the BVN attached to their accounts. Any bank customer without the BVN would be deemed to have "Inadequate KYC".

The Central Bank of Nigeria has observed with satisfaction, the progress made so far in the implementation of the BVN Project, especially for accounts operated by Nigeria residents. Consequently, all the DMBs are hereby requested to note and implement the following:

- a) Nigeria resident's bank account without the BVN would be operated as "NO CUSTOMER INITIATED DEBIT" account, until the account holder obtain and attach a BVN to the account;
- b) Nigeria resident's bank account without the BVN will still continue to receive credit inflows (in cash and electronically) and will neither be deactivated nor confiscated;
- c) DMBs are required to educate their customers on the aforementioned clarifications;
- d) BVN enrolment for Nigerian bank customers **in Diaspora** has been extended to 31<sup>st</sup> January 2016. This is to enable them complete the registration exercise and the attachment of the BVN to their bank accounts;
- e) The DMBs should remind their customers of the need to link their BVN with their accounts if they have done the registration in another bank;
- f) DMBs should send returns on the **number** of accounts, those that are linked on monthly basis those belonging to customers in Diaspora and those that are restricted.

- g) The schedule must be available at the banks Head Offices for on-site examinations and review; and
- h) It is the responsibility of each bank to ensure that this exemption is utilised by the targeted customers (those in Diaspora) **only**.

Please be guided and ensure strict compliance.



Handwritten signature of Dipto Fatokun, dated 27/11/2015.

.....  
**DIPTO FATOKUN**  
**Director, Banking and Payments System Department**



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**BANKING AND PAYMENTS SYSTEM DEPARTMENT**  
**REF: BPS/DIR/GEN/05/009**

**Monday, 14 September 2015**

**To: All Deposit Money Banks**

**CIRCULAR ON THE IMPLEMENTATION OF e-DIVIDEND MANDATE MANAGEMENT SYSTEM (e-DMMS) PORTAL**

The Central Bank of Nigeria (CBN), and the Securities and Exchange Commission (SEC), in collaboration with relevant stakeholders, have leveraged the NIBSS Document Management System to develop a common portal for uploading completed e-Dividend Mandate Forms, detailing relevant bank account and shareholder / investor information. This resulted from the observation that the current process of enrolment for e-Dividend payment is cumbersome and has contributed to low adoption of the e-Dividend scheme.

Launched by SEC on 29th July 2015, the portal has been designed for the use of Banks and Registrars, to digitize the manual process of verification of shareholders' account details and ensure efficiency in the enrolment process for e-Dividend payment. Also, NIBSS has conducted necessary user training for the nominees of Banks and Registrars.

The new portal has the following features:

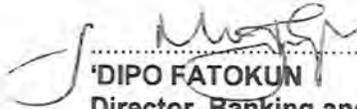
1. All Registrars' outlets and Nigerian Banks' branches are points of upload of completed e-Dividend mandate forms i.e. the investor may approach either a Bank branch or a Registrar's office to process the e-Dividend mandate.
2. Where the investor approaches the Registrar;
  - a. the Registrar will validate investor's shareholder account number, names and Clearing House Number (CHN) and upload a scanned copy of the mandate form onto the portal for immediate access by the investor's chosen Bank.
  - b. the Bank will validate the investor's bank account details and Bank Verification Number (BVN) and approve or reject the mandate online.
3. Where the investor approaches the Bank;
  - a. the Bank will validate bank account details and Bank Verification Number (BVN) of the investor and upload a scanned copy of the form onto the portal for immediate access by the investor's chosen Registrar.
  - b. the Registrar will validate investor's shareholder account number, name and Clearing House Number (CHN) and approve or reject the mandate online.
4. NIBSS is responsible for the creation of portal administrators for Banks and Registrars. The administrators so created would thereafter create and manage authorized users in their respective offices.

In this regard, Deposit Money Banks are advised to contact NIBSS for the required access rights to the portal and any further clarification required towards a smooth operation of the new system.

Should you require further clarification, please do not hesitate to contact [portalmgt@nibss-plc.com.ng](mailto:portalmgt@nibss-plc.com.ng) or 01-2716088.

It is mandatory for every Deposit Money Bank to equip all its branches to treat (validate, scan and upload) e-Dividend mandate form presented to them. This Circular is with immediate effect.

Please be guided and ensure compliance.



**DIPO FATOKUN**  
Director, Banking and Payments System Department



## CENTRAL BANK OF NIGERIA

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**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

**REF: BPS/DIR/GEN/05/009**

**Tuesday, 18 August 2015**

**To: All Deposit Money Banks / General Public**

### **CIRCULAR ON THE FRAMEWORK FOR THE ENROLMENT OF NIGERIAN BANKS' CUSTOMERS IN DIASPORA FOR BANK VERIFICATION NUMBER (BVN) ISSUANCE**

As part of its efforts towards the full implementation of the BVN Project, the Central Bank of Nigeria, in collaboration with key stakeholders in the Nigeria banking industry, has finalised the guidelines for the enrolment of Nigerian banks' customers in diaspora.

Nigerian banks' customers in diaspora could present themselves for enrolment for the BVN, without travelling to Nigeria, through the following ways:

#### **1. Use of Foreign Based Nigerian Banks**

The first option is for the customers of Nigerian banks to present themselves to the offshore branches/ subsidiaries of any Nigerian Deposit Money Bank (where such facilities have been made available) for the enrolment for the BVN. The deployment of scanners and other devices to these locations have started in earnest.

Nigerian banks abroad are expected to capture necessary data, generate a BVN and communicate same to the customers. Thereafter, the Customers are expected to forward the assigned BVN to their banks, for linkage with their accounts. A web portal to achieve this linkage to bank accounts has been developed and deployed, while the process of such linkage will be made available by NIBSS to all those enrolled abroad.

All Deposit Money Banks (DMBs) with branches/subsidiaries abroad, are by this Circular enjoined to work with NIBSS to ensure a seamless implementation of this option.

#### **2. Use of a Consultant- Online Integrated Solutions (OIS)**

The above mentioned company has been engaged to establish stations for data capture and generation of BVN at a fee of GBP 30 (thirty pounds or its equivalent) per transaction, payable by the customer. The company is expected to capture necessary data for online transmission to NIBSS, who would thereafter generate the BVN and communicate same to the customer. The customer may approach OIS for the BVN, where the communication from NIBSS is not received within 48 hours after the enrolment. Thereafter, Nigerian Banks' Customers in diaspora are expected to forward their BVN to their banks for linkage with their accounts, as in option 1 above.

The plan is to rollout this operation in twelve (12) locations in the first phase. These locations are: London, Leicester, New York, Atlanta, Washington DC, Houston, Johannesburg, Beijing, Shanghai,

Guangzhou, Dubai and New Delhi. The second phase will include locations with a high demand for service, based on online feedback, while remote locations with lower concentrations of Nigerians will be accommodated through scheduled sessions for defined periods.

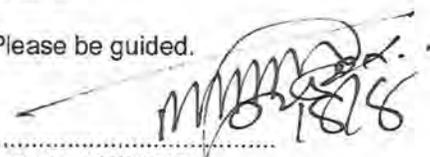
The addresses of the enrolment centers for phase 1 and possible Go-Live dates are as stated below:

S/No.	City/Country	Address	Possible Go-Live Date
1	Washington DC, USA	Washington (11900 Park Lawn Drive, Suite 160, Rockville, MD)	Aug. 24 <sup>th</sup> , 2015
2	Dubai,UAE	Dubai (2907 Platinum Tower Cluster 1, Jumeirah, Lake Towers)	Aug. 19 <sup>th</sup> , 2015
3	Johannesburg, South Africa	No. 6 Bolton Road, Rose Bank, Johannesburg. SA	Sept. 7 <sup>th</sup> , 2015
4	Beijing, China	Unit 1, Suite 1801, Kun Sha Building, 16XIN Yuan Li Str. Chaoyang District, Beijing, PRC	Sept. 7 <sup>th</sup> , 2015
5	Shanghai, China	(RM 2025, 22/F, Catic Building, 212 Jiangning Road, Jing'an District, Shanghai, PRC).	Sept. 7 <sup>th</sup> , 2015
6	Guangzhou, China	Unit 27/28, 41 <sup>st</sup> Floor, R&F To-Win Building, 30 HUAXIA Rd, Tianhe District, Guangzhou, PRC	Sept. 7 <sup>th</sup> , 2015
7	New Delhi, India	Plot No. 4, Ground Floor, Institutional Area, Malcha Marg, Chanakyapuri, New Delhi 110021, India	Sept. 7 <sup>th</sup> , 2015
8	Atlanta, USA	918 Holcomb Bridge Roswell, Atlanta	Sept. 14 <sup>th</sup> , 2015
9	London, UK	56-57 Fleet Street, City of London EC4Y 1JU	Enrolling already
10	Leicester, UK	The Peplum Center, Orchardson Avenue, Leicester LE4 6DP	Enrolling already
11	New York, USA	To be determined (TBD)	TBD
12	Houston, USA	To be determined (TBD)	TBD

For updates on the go-live dates, please visit the following websites: [www.nibss-plc.com.ng](http://www.nibss-plc.com.ng) or [www.bvn.com.ng](http://www.bvn.com.ng). Please note that information on other enrollment centres not listed above will be communicated soon.

All customers intending to register through Online Integrated Solutions (OIS) must first book and confirm an appointment at [www.oisservices.com](http://www.oisservices.com), in order for them to be attended to at the OIS offices.

Please be guided.



**'DIPO FATOKUN**  
**Director, Banking and Payments System Department**



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**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

Ref: BPS/DIR/CIR/08/2015

Tuesday, 18 August 2015

**CIRCULAR TO DEPOSIT MONEY BANKS, CHEQUE PRINTERS AND OTHER  
STAKEHOLDERS ON THE ACCREDITATION OF CHEQUE PRINTERS FOR  
2015/16**

In furtherance of its mandate to ensure an efficient Payment and Settlement System, the Central Bank of Nigeria, in collaboration with the MICR Technical Implementation Committee, conducted the accreditation and re-accreditation exercise, in line with the NICPAS qualification criteria and found the following Cheque Printers as qualified to print cheques for the Nigerian Market.

- (1) Superflux International Ltd
- (2) Tripple Gee and Company Plc
- (3) Nigeria Security Printing and Minting Plc
- (4) Euphoria Group
- (5) Papi Printing Company Ltd.

All the accredited printers had been duly notified and certificates issued. Please note that foreign based printers were neither accredited nor re-accredited, in line with the Bank's policy on the domestication of cheque printing in Nigeria.

Please be guided.

DIPO FATOKUN

Director, Banking and Payments System Department,

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**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

BPS/DIR/GEN/CIR/02/007

July 29, 2015

**TO: ALL DEPOSIT MONEY BANKS, MICROFINANCE BANKS AND PRIMARY MORTGAGE INSTITUTIONS, MOBILE MONEY OPERATIONS, SWITCHES AND OTHER PAYMENTS SYSTEM SERVICE PROVIDERS**

**SANCTIONS ON ERRING BANKS/e-PAYMENT SERVICE PROVIDERS FOR INFRACTIONS OF PAYMENTS SYSTEM RULES AND REGULATION**

Further to the provisions of S.47 (3) of the CBN Act 2007, requiring the Central Bank of Nigeria to "prescribe rules and regulations for the efficient operations of clearing and settlement systems", the Bank hereby stipulates the following applicable sanctions to erring banks and payments system service providers for infringements of extant Guidelines, Circulars, Rules and Regulations issued by the Bank on all forms of electronic payments system:

**1. ATM**

S/No.	INFRACTIONS	PENALTY
1.	Non-compliance with Payment Card Industry Data Security Standards (PCIDSS).	N250,000 as fine and a follow-up of penalty charge of N50,000 per week, for as long as non-compliance persists
2.	Non-compliance of ATM terminals with EMV level 1 & 2	N200,000 as fine and additional penalty charge of N50,000 per week, for as long as non-compliance persists
3.	Non-compliance with migration to EMV after September 30, 2010	N250,000 as fine and penal charge of N50,000 per week, for as long as non-compliance persists
4.	Failure to provide audit trails and journals for ATM transactions	Fine of N50,000 with a full refund to the customer
5.	Failure to have 2% of ATMs deployed with tactile graphic symbol for the use of visually impaired customers	Fine of N100,000
6.	Down time of ATM for more than 72 hours without cogent reasons	Fine of N100,000
7.	Non availability or non-functional help desk contacts	Fine of N100,000 and penal charge of N50,000 per week, for as long as non-compliance exists
8.	Non-disclosure of ATM	Fine of N50,000 daily

1

S/No.	INFRACTIONS	PENALTY
	surcharge to customers	
9.	Lack of online monitoring mechanism for ATMs	Penal fee of N100,000, with immediate compliance. Graduated fine of at least N150,000, if exception is picked again
10	Lack of back-up power (inverter) for ATM	Penal fee of N50,000, with immediate compliance. Graduated fine of at least N100,000 per week, if exception is picked again
11	Failure to have camera at ATM	Penal fee of N250,000 and a follow-up charge of N50,000 per day, until a camera is installed
12	Failure to provide footages on ATM transactions when required	The bank would pay a penalty equal to the amount refunded, to serve as a deterrent
13	Failure to respond to the customer/CBN on ATM complaints within 72 hours	Fine of N100,000 per day
14	Failure of Acquirer to initiate automatic reversal of failed customer ATM transaction	The bank to refund the total amount involved in the dispute and a penal fine of N50,000 per day

## 2. TRANSACTION SWITCHING SERVICES

S/No.	INFRACTION	PENALTY
1.	Any infraction of the Guidelines	Initial fine of N100,000 and full liability for compromise due to non-compliance

## 3. BULK PAYMENTS AND ACH

S/No.	INFRACTION	PENALTY
1.	Failure to apply funds to customer's account within stipulated timelines on the Guidelines on Electronic Payments of Salaries, Pensions, Suppliers and Taxes in Nigeria	Penalty stipulated on the "Guidelines on Electronic Payments of Salaries, Pensions, Suppliers and Taxes in Nigeria" applies
2.	Non return of unapplied funds within 24 hours	Penalty stipulated on the "Guidelines on Electronic Payments of Salaries, Pensions, Suppliers and Taxes in Nigeria" applies
3.	Non-compliance with third party cheque cap of N150,000 OTC withdrawal	10% of the amount in excess of limit or N100,000, whichever is higher

## 4. CARD ISSUANCE (STORED VALUE/PREPAID CARDS AND DEBIT CARDS)

S/No.	INFRACTION	PENALTY
1.	Issuance of Mag-stripe cards	Bank to be fully liable for any fraud arising from the use of the card
2.	Enabling use of Mag-stripe of Nigerian issued cards in non	Bank to be fully liable for any fraud arising from the use of the card

S/No.	INFRACTION	PENALTY
	EMV environment without customer's request	
3.	Issuance of Card without application from Account holder	Bank to be fully liable for any fraud arising from the use of the card
4.	Card fraud on an Account while card is still in custody of bank	Bank to be fully liable for any fraud arising from the use of the card. Disciplinary action on the bank staff found culpable.
5.	Card frauds that exceed the limit set on the card by the card holder	Bank to be fully liable for amount of fraud involved
6.	Card fraud on Corporate Accounts	Bank to be fully liable for amount of fraud involved
7.	Card Issuance without proper KYC	Bank to be fully liable for amount of fraud involved
8.	Loading of Cash on Cards without proper KYC	Bank to be fully liable for amount of fraud involved

#### 5. POINT-OF SALE (POS)

S/No.	INFRACTION	PENALTY
1.	Fraud arising from non-compliance with transaction value limit	Scheme operator liable for amount above set limit
2.	Lack of inter-operability and interconnectivity to other systems	Directive to operator to disable the PoS

#### 6. RENDITION OF RETURNS

S/No.	INFRACTION	PENALTY
1.	Late submission of monthly returns	Fine of N50,000 per day of delay.

#### 7. OTHERS

S/No.	INFRACTION	PENALTY
1.	e-payment operations without obtaining CBN approval or license	Close down of the operations and prosecution of the offender (individual/company promoters)
2.	Patronage of unlicensed payment system operator by a Bank	Fine of N50,000 per day of continued patronage.
3.	Non-compliance with any other CBN e-payment directive or circular	Fine of N50,000 per week of non-compliance and full liability for any fraud arising from non-compliance

**NON MONETARY SANCTIONS FOR VIOLATOR OF REGULATIONS**

1. Name and shame of responsible officers and the entity
2. Blacklisting of operator or service providers
3. Removal from office of principal officers of operators and service providers

  
Dipo Fatokun  
Director, Banking and Payments System Department



**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

**CENTRAL BANK OF NIGERIA**

Central Business District  
P.M.B. 0187,  
Garki, Abuja.  
+234 - 0946238445

BPS/DIR/GEN/CIR/02/006

July 13, 2015

**TO: ALL DEPOSIT MONEY BANKS, MICROFINANCE BANKS AND PRIMARY  
MORTGAGE BANKS**

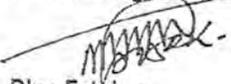
**RE: NATIONWIDE ROLLOUT OF CASHLESS POLICY TO THE REMAINING 30 STATES**

Please refer to our circular dated June 9, 2014, referenced BPS/PSP/DIR/CIR/VOL.1/ 008 on the above.

It has come to our notice that some banks have started applying charges on withdrawals above the threshold, in the remaining 30 states of the Federation.

The Central Bank of Nigeria hereby direct that the charges in these 30 states be put on hold, until further directive is received from the Bank.

In light of the above, charges inadvertently applied by banks on their customers' accounts in the remaining 30 states, with effect from 1<sup>st</sup> July 2015, should be reversed immediately.

  
Dipo Fatokun

**Director, Banking and Payments System Department**

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**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

**BPSD/DIR/GEN/CIR/02/005**

July 06, 2015

TO ALL BANKS

**CIRCULAR ON THE IMPLEMENTATION OF CONTROLS ON NAIRA DENOMINATED CARD TRANSACTIONS CONSUMATED OVERSEAS.**

Further to the earlier released circulars on the usage of Naira-denominated cards abroad, referenced TED/FEM/FPC/GEN/01/007 and TED/FEM/FPC/GEN/01/008, which limits individual customer's daily ATM withdrawal overseas with Naira-denominated cards to \$300 (or its equivalent), and total annual expenditure to \$50,000 (or its equivalent), with effect from April 13, 2015, all authorised card issuers i.e. the Deposit Money Banks (DMBs) are hereby requested to note and implement the following directives:

1. Submit reports of all Naira-denominated card transactions consummated overseas to NIBSS on daily basis. The report must be sent electronically in CSV format, via a file upload portal as specified by NIBSS, which would include the Bank Verification Number (BVN) and the account numbers of the cardholder for each transaction. NIBSS will consolidate the reports and send details of the violators of the limits to the Director, Trade and Exchange Department, Central Bank of Nigeria, with copies to the Card Issuers, on daily basis. This is with immediate effect
2. Naira demoninated Corporate cards should not be allowed for cross-border payments. Where a corporate entity requires a card(s) for overseas payments, such entities should be encouraged to obtain foreign currency denominated card(s), which would be issued against the corporate's domiciliary account, prepaid or credit cards, whose limits must be in line with the existing BTA provisions.
3. Cardholders should be informed that the banking industry has instituted a tracking system on the use of Naira denominated cards abroad.
4. Banks are required to educate their customers on the need to operate within the approved limits, as violators would be sanctioned.

Please be guided accordingly.

  
Dipo Fatokun

Director, Banking and Payments System Department



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**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

**REF: BPS/DIR/GEN/CIR/02/008**

**Tuesday, 30 June 2015**

**To: All Deposit Money Banks,**

**CIRCULAR ON THE EXTENSION OF THE DEADLINE FOR BANK VERIFICATION NUMBER (BVN)**

You would recall that as part of its efforts in the implementation of the Bank Verification Number (BVN) Project, the Central Bank of Nigeria issued circulars stipulating milestones for the successful completion of the Project. One of such milestones was that by June 30, 2015, all Deposit Money Banks (DMBs) customers should have the BVN. Any bank customer without the BVN attached to the account would be deemed to have inadequate requirement with respect to the Know Your Customer (KYC) guidelines.

It has come to our notice that the BVN registration has elicited tremendous interest from the Nigerian banks' customers who crowded the banking halls, in order to beat the deadline. Furthermore, there is the need to give Nigerian Banks' Customers in diaspora, ample time to enrol on the program. The guideline for their enrolment is being finalised and will be released soon.

In view of the foregoing, it has become imperative for the Bank to extend the timeline for all bank customers to have the BVN. The deadline for enrolment is hereby extended from 30<sup>th</sup> June, 2015 to 31<sup>st</sup> October, 2015. This extension is expected to facilitate a smooth completion of the registration exercise.

**Please be guided and ensure strict compliance.**

*Diipo Fatokun, 30/06/2015*

.....  
**DIPO FATOKUN**

**Director, Banking and Payments System Department**



## CENTRAL BANK OF NIGERIA

Central Business District  
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**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

**BPS/DIR/GEN/CIR/02/004**

**June 11, 2015**

**TO ALL DEPOSIT MONEY BANKS, SWITCHES AND PAYMENTS SERVICE PROVIDERS**

### **ESTABLISHMENT OF INDUSTRY FRAUD DESKS**

The Central Bank of Nigeria, in furtherance of its efforts at combating fraud within the Banking Industry, established the Nigeria Electronic Fraud Forum (NeFF) to proffer solutions towards addressing frauds arising from the increased adoption of electronic payments. Following submissions to the Bank by NeFF and consultations with DMBs and electronic payments service providers, it has become imperative that an effective mechanism for receiving and responding promptly to fraud alerts be set up within the Nigerian Banking industry, towards managing and reducing successful electronic payments fraud rate in the Nigerian Banking Industry.

To this end, all DMBs, MMOs, Switches and all payments service providers are hereby directed to maintain a dedicated Fraud Desk in their respective organisations. The Fraud Desk shall be appropriately staffed with personnel that have requisite training on emerging fraud trends on various electronic payments channels. The desk shall, at a minimum, offer the following services:

1. Provide support to customers on electronic frauds with a minimum of 10 dedicated phone lines, manned and available to customers at all times;
2. Make available the option for calls to contact centre, in respect of fraud alerts or complaints, to be redirected to fraud desk;
3. Block and/or Place No Debit restrictions on accounts upon receipt of fraud complaint;
4. Receive customers' stop-transaction instructions to block their accounts through short codes service provided to customers by the banks;
5. Log all customer fraud alert and/or complain and escalate in line with internally predefined escalation path'

6. Submit reports to the Nigeria Inter-Bank Settlement System (NIBSS) Plc on fraud information logged by the fraud desk;
7. Honour "hold" instructions from NIBSS with respect to fraud matters and grant NIBSS permissions to view details on logged transactions
8. Sensitise customers on e-Fraud and Fraud Desk services;
9. Manage/Resolve all intra-bank fraud issues leveraging an enterprise fraud management system
10. Maintain a mail group mapped to members of the fraud desk team.

The Nigeria Inter-Bank Settlement System (NIBSS) Plc shall have responsibility as industry coordinator of the fraud desks across all banks, mobile money operators, switches and payments service providers and shall provide the following services:

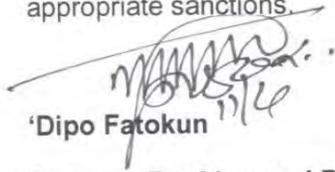
1. Provide electronic platform for fraud desks in Banks, MMOs, Switches and Payment Service Providers to log frauds;
2. Maintain direct and dedicated phone lines and email contacts to all banks, mobile money operators, switches and payments service providers' fraud desks for the purpose of exchange of information and coordination of industry response to fraud attempts/incidents;
3. Avail DMBs with an enhanced e-fraud portal/instant payment platform, with capabilities for banks to initiate "block" or "hold funds" electronic messages from a bank's fraud desk to the other;
4. Provide operational rules for the industry coordination of fraud desks and sign Service Level Agreements with DMBs, MMOs, Switches and Payments Service Providers
5. Issue "hold" instructions to any bank with regards to fraud matters and have the account frozen accordingly.

Further to the above:

1. All interbank transactions on all e-channels shall be passed through the central anti-fraud solution in NIBSS;
2. NIBSS shall have access to each bank record of fraudulent transactions and provide monthly reports to CBN

3. Banks shall implement across all electronic channels, an enterprise fraud monitoring system, which ensures behavioural monitoring, patterns and hold/block controls on transactions suspected to be fraudulent, etc. Banks may subscribe to NIBSS' central anti-fraud solution for this purpose.

The provisions of this circular shall take effect from July 1, 2015 and failure to comply shall attract appropriate sanctions.



'Dipo Fatokun

**Director, Banking and Payments System Department**



**CENTRAL BANK OF NIGERIA**  
Central Business District  
P.M.B. 0187,  
Garki, Abuja.

**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

**REF: BPS/DIR/GEN/05/008**

**Monday, 25 May 2015**

**To: All Deposit Money Banks and  
Discount Houses**

**RE: PROCESS FOR LINKING THE BVN WITH CUSTOMER'S ACCOUNT ON THE  
CORE BANKING APPLICATION BY BANKS**

Further to our letter dated 26<sup>th</sup> February 2015, on the above subject, the Central Bank of Nigeria (CBN) has noted the need to improve on the processes for linking the BVN with customer's account, such that the customer does not necessarily have to physically visit the banks for the linkage.

In addition to the existing procedures, the CBN recognised a couple of other ways through which customers could forward their BVNs to Deposit Money Banks (DMBs) for linkage with their accounts:

**1. Internet Banking and ATM**

DMBs are required to provide an interface on their internet banking platforms and ATM channels, to enable customers log-in with their password or PIN and submit their BVN to the banks. Thereafter, the Bank could use the web service provided by NIBSS to validate the BVN and other details of the customer, in order to take appropriate decision, whether to link or to reject the request, thereby necessitating a physical visit to the bank.

**2. Email and Formal Letter**

Where email messaging already exists between banks and customers, DMBs could leverage on this facility or a formal letter to obtain BVN from their customers. Thus, customers could send their BVNs to their account officers using any of these channels. Thereafter, the Bank could verify the signature of the customer and validate the BVN before linking same to the account.

**3. Self-service portal**

Customers can use a self-service portal driven by NIBSS to log in with their BVNs and obtain a passcode that will be used to complete the required information online, indicating the accounts (number and name) in all banks. On a daily basis, NIBSS will provide a report showing all the required information, to enable banks link the BVNs with

the customers' accounts. DMBs should please liaise with NIBSS on the modus-operandi for this portal.

Notwithstanding the aforementioned options, the DMBs are hereby reminded, to ensure that the BVN is genuine and validate the demographic information associated with the BVN against the customer's demographic data in the core banking application.

Please note and ensure strict compliance.



.....

**DIPO FATOKUN**

**Director, Banking and Payments System Department**

## REGULATORY FRAMEWORK FOR LICENSING SUPER-AGENTS IN NIGERIA

## FRAMEWORK FOR LICENSING SUPER-AGENTS

### 1.0 Application and Approval Requirements

Any institution that wishes to be licensed as a Super-Agent shall submit an application for approval to the CBN. The application shall be submitted to the Director, Banking & Payments System Department, Central Bank of Nigeria, Abuja.

All applicants shall supply information to the CBN as may be required from time to time.

### 3.0 Minimum Requirements For A Super-Agent

A Super-Agent shall be licensed by the CBN under the following requirements:

- a. Must be a company with an existing business, operational for at least 12 months
- b. Must be registered with the Corporate Affairs Commission (CAC)
- c. Must have a minimum Shareholders' Fund, unimpaired by losses of N50million
- d. Must obtain a reference letter from a Financial Institution (FI) as part of its documentation for licence
- e. Must have a minimum of 50 agents

### 3.0 Documentary Requirements

All applications for Super-Agent licence shall be accompanied with the following:

- i. Board Approval
- ii. Certificate of Incorporation
- iii. The company's profile and functional contact e-mails, telephone numbers, office and postal addresses
- iv. Memorandum & Articles of Association
- v. Shareholding structure of the Company
- vi. Forms C02 (Return on Allotment of shares) and C07 (Particulars of Directors)

- vii. CVs of Board and Management of the Company
- viii. Organogram of the Company
- x. Feasibility Report
- xi. Information Technology Policy of the Company
- ix. Enterprise Risk Management Framework
- x. Contingency and Disaster Recovery Plan (Business Continuity Programme)
- xii. A document that shall outline the strategy of the shared agent network including current and potential engagements, geographical spread and benefits to be derived
- xiv. Qualifying criteria for engaging agents e.g.
  - a. Outreach
  - b. Competence
  - c. Integrity
  - d. Others
- xv. Draft Service Level Agreements (SLAs) with sub-agents and FI Agent Banking Contract
- xvi. Risk management, internal control, operational procedures and any other policy and procedures relevant to the management of an agent banking arrangement.
- xvii. Procedures for KYC and AML/CFT compliance
- xviii. Fraud detection plan and standard of care
- xix. Consumer protection policy and procedure

#### **4.0 Responsibilities of Super-Agents**

The Super-Agents shall:

- i. Be responsible for monitoring and supervising the activities of the agents.
- ii. Have information on the volume and value of transactions carried out for each type of service by each agent. (which should be made available to the Principal)
- iii. Monitor effective compliance with set limits and establish other prudential measures in each case.
- iv. Take all other measures, including onsite visits, to ensure that agents operate strictly within the requirements of the law, guidelines and the contract.

- v. Notwithstanding the responsibility by the Super-Agent (SA) to monitor and supervise their agents, the CBN may at any time request for any information or carry out inspection as it deems necessary.

## **5.0 Renewal of Engagement**

Operating license of Super Agents shall be renewed every two (2) years, subject to satisfactory performance.

## **6.0 Platform and Interoperability**

This section describes the various platforms, which shall be used for the provision of mobile money services:

### **a. Platform**

- i. NIBSS shall provide the switching infrastructure to enable inter-scheme Cash-In-Cash-Out (CICO) at all agent locations
- ii. The Super-agents' platform shall be for the management and monitoring of the activities of their agents only, and shall not hold electronic money value, whereas, the FI shall provide and operate the mobile money platform and hold electronic money value
- iii. All MMO platforms shall at all times be upgraded to the latest technology (inclusive of mandatory integration to NIBSS), tested and active to ensure interoperability between MMOs
- iv. CICO services for Inter-scheme payments shall be a basic function at all agent locations, other add-on services may be provided. All MMO platforms shall facilitate inter-scheme CICO services

### **b. Interoperability**

- i. Super-Agent's platform shall be enabled to communicate with all its agents and shall have visibility of its agents' transactions through integration with NIBSS.

## 7.0 Fee Sharing Formula for Inter-Scheme Transactions

The major parties to the sharing formula for the interchange fee (inter-scheme CICO) are; NIBSS, Issuer, Acquirer, Agent and Super-Agent and the following fees shall apply.

- i. Minimum Interchange fee for inter-scheme Cash-Out transactions shall be N50. However, the FI could charge up to a maximum of N100. The additional N50 is to give the FI room to further incentivize its agents
- ii. Cash-In transactions shall be free to the customer for intra-scheme payments to encourage usage and savings.
- iii. The minimum interchange fee for inter-scheme Cash-In transactions shall be N35. The issuer will cover the interchange cost.
- iv. The maximum balance that can be held by an agent shall be N1,000,000, subject to categorization and risk profiling of the agent by the FI

### 7.1 Fee Sharing Structure Table

Service	NIBSS	Issuer	Acquirer	Super-Agent	Agent	Total
Cash-In	N1	N4	N5	N5	N20	N35
Cash-Out	N1	N9	N10	N10	N20	N50

The CBN shall review this interchange fee from time to time, as may be deemed necessary.

## 8.0 Branding and Advertisement

### a. Branding

- i. A common logo (attached as Appendix1) shall be adopted by all agents. To ensure standardization of the logo's features and to clarify the terms of use, branding policy has been defined in Appendix 2.

- ii. The Super-Agent number assigned by the CBN during licensing shall be conspicuously displayed at its outlets.
- iii. Customers shall be provided a channel (web, SMS, USSD short-code, etc.) to validate the Agent Number and address.

**b. Advertisement**

- i. All advertisement shall carry the mobile money logo and made conspicuous at branded agent outlets.
- ii. Advertisement of mobile money products shall be the responsibility of the FI in conjunction with the Super Agents.
- iii. Primary brand of agent outlet shall remain the responsibility of the super-agent/agent, provided the CBN approved logo is conspicuously displayed.
- iv. Super-Agents could advertise their primary business as well as the availability of mobile money services

**9.0 Dispute Resolution**

- i. For over-the-counter (OTC) transactions, the period for holding funds not withdrawn by a receiving customer shall be 30 days. Thereafter, it shall be reversed to the sender or notifications sent to the sender where the transaction does not emanate from a wallet. The receiving customer shall be notified of the expiry date for the transaction.
- ii. FIs shall be responsible for setting up dispute resolution mechanism for their agents to facilitate resolution of customers' complaints.
- iii. The FI shall treat and resolve any customer related issues within 48 hours. Non-compliance shall be subject to penalty as may be prescribed by CBN from time to time
- iv. A Super-Agent shall facilitate the resolution of customer related issues

- v. Disputes from transactions apart from OTC, shall be handled by the agents, in conjunction with the mobile money operators. Agents shall handle the OTC transactions disputes.

#### **10.0 Submission of Statutory Returns**

A Super-Agent shall, at the end of every month and not later than the 10th day of the following month, submit to the CBN, data and other information on agent operations including:

- i. Nature, value and volume of transactions;
- ii. Incidents of fraud, theft or robbery; and
- iii. Nature and number of customer complaints and remedial measures taken.

#### **11.0 Annual Reporting**

A Super-Agent shall include in its annual reports and accounts, in the prescribed form, all activities of its agent operations.

#### **12.0 Powers of the Cbn Over Super-Agents**

CBN shall:

- i. Request for information from agents at any time as the CBN may deem necessary;
- ii. Carry out spot or scheduled inspection of the books and premises of the agent;
- iii. Direct an agent to take such actions or desist from such conduct as the CBN may find necessary;
- iv. Direct the termination of the agency contract as the CBN may find necessary;
- v. Direct the FI to take such actions against or on behalf of the agent as the CBN may find appropriate;
- vi. Direct the FI to take such remedial action arising from the conduct of an agent as it may deem fit.

#### **13.0 Remedial Measures**

If an FI or its agent fails to comply with these Guidelines, the CBN may take any corrective action against the FI or the agent as appropriate.

## 14.0 Sanctions

The CBN shall impose appropriate sanctions for any contravention by Super Agents. This includes but not limited to:

- i. Prohibition from engaging in any further agent banking business;
- ii. Prohibition from contracting new agents;
- iii. Revocation of agent banking approval;
- iv. Termination of agent banking contract;
- v. WithholdinG Corporate approvals;
- vi. Financial Penalties.

Appendix I



## Unified Mobile Money Agent Identity guidelines.



■ C=0 M=0 Y=100 K=90	■ C=87 M=24 Y=84 K=9	■ C=75 M=0 Y=100 K=0
■ C=78 M=9 Y=46 K=9	■ C=75 M=0 Y=100 K=0	

- It is highly recommended that the above logo options be printed upon stickers with white and black backgrounds pending distribution to end users.
- This is to ensure consistency across board, and develop the identity as a brand on its own.
- The general font for the logotype is Aller (Regular)

## REGULATORY FRAMEWORK FOR MOBILE MONEY SERVICES IN NIGERIA

## 1.0 Introduction

A robust payments system is vital for effective monetary policy implementation and the promotion of economic efficiency. The introduction of mobile telephony in Nigeria, its rapid growth and adoption and the identification of person to person payments as a practical strategy for financial inclusion, has made it imperative to adopt the mobile channel as a means of driving financial inclusion of the unbanked. These factors underscore the decision of the Central Bank of Nigeria to issue this regulatory framework to create an enabling environment for the orderly introduction and management of mobile payment services in Nigeria. The framework defines the regulatory environment as a policy path towards achieving availability, acceptance and usage of mobile payment services.

Mobile payment has evolved as a veritable channel for facilitating the growth of commerce. The use of the mobile phone for the initiation, authorization and confirmation of the transfer of value out of a current, savings or stored value account has been recognized as a development that is expanding the growth of commerce among both the financially included and nonincluded units in the economy.

This regulatory framework addresses business rules governing the operation of mobile payment services, and specifies basic functionalities expected of any mobile payment service and solution in Nigeria. It identifies the participants and defines their expected roles and responsibilities in providing mobile payment services in the system. In addition, it sets the basis for the regulation of services offered at different levels and by the participants.

The overriding vision of achieving a nationally utilized and internationally recognized payments system necessitates strategies to bring informal payment transactions into the formal system.

This framework has identified two models for the implementation of mobile money services namely;

**A. Bank Led** – Financial Institution(s) and/or its Consortium as Lead Initiator

**B. Non-Bank Led**- A corporate organisation duly licensed by the CBN as Lead Initiator

The CBN recognizes the importance of Mobile Network Operator (MNOs) in the operations of mobile money and appreciates the criticality of the infrastructure they provide. However, the telco-led model (where the lead initiator is an MNO), shall not be operational in Nigeria.

Its exclusion will enable the CBN have full control of monetary policy operations, minimise risks and ensure that the offering of financial services are driven by organizations that have been licensed by CBN to do so.

## **2.0 Objectives**

The objectives of the regulatory framework are as follows:

- A. Provision of an enabling environment for the adoption of mobile payment services in reducing cash dominance in the Nigeria economy.
- B. Ensure a structured and orderly development of mobile payment services in Nigeria, with clear definition of various participants and their expected roles and responsibilities.
- C. Specification of the minimum technical and business requirements for the various participants recognized for the mobile money services industry in Nigeria.
- D. Provision of the basis for broad guidelines for the implementation of processes and flow of mobile payment transactions, from initiation to completion.
- E. Promoting safety and effectiveness of mobile money services and thereby enhance user confidence in the services.

## **3.0 Scope**

To achieve the above stated objectives, two types of mobile payment services are identified for operation in Nigeria:

1. The Bank-led Model: This is a model where a bank either alone or a consortium of banks, whether or not partnering with other approved organizations seek to deliver banking services leveraging on the mobile money system. This model shall be applicable in a scenario where the bank operates on stand-alone basis or in collaboration with other bank(s) and any other CBN approved organization. The Lead Initiator must be a bank or consortium of banks, and shall be legally responsible and accountable to the Central Bank of Nigeria and the end users.

2. The Non Bank-led Model: This model allows a corporate organization that has been duly licensed by the CBN to deliver mobile payment services to subscribers. The Lead Initiator must be a corporate organization (other than a deposit money bank or a telecommunication company) specifically licensed by the Central Bank of Nigeria to provide mobile payment services in Nigeria.

#### **4.0 Participants in the Mobile Money System**

This framework shall **guide** the activities of Participants in the provision of mobile money services.

Participants are grouped into six (6) categories:

- A. Regulators
- B. Mobile Money Operators
- C. Infrastructure providers
- D. Other Service Providers
- E. Consumers
- F. Mobile Money Agents

##### **A. Regulators**

The Regulators for this purpose are the Central Bank of Nigeria (CBN), Nigerian Communications Commission (NCC).

##### **B. Mobile Money Operators**

These are organizations that are licensed by the Central Bank of Nigeria to provide the system for the mobile money services. The organizations approved to perform the role of Mobile Money Operations are Banks and Corporate Organizations.

All approved Mobile Money Operators are required to provide:

1. The infrastructure (hardware, software, switching and security) for mobile payment services;
2. Business continuity and disaster recovery plans, to ensure services are always available at all times.
3. 99.99% system availability and ensure all signed on participating institutions follow same rule

Mobile Money Operators are required to connect to the National Central Switch (NCS) for the purpose of ensuring interoperability of all schemes in the system. A scheme operator can either be a bank or a licensed corporate organization.

The Mobile Money Operators are the Lead initiators for the mobile scheme and shall be responsible for ensuring that the various solutions and services within an approved mobile payment scheme meets the entire regulatory requirements as defined in this framework and as may be specified from time to time.

The Lead initiator (as an entity and as representative of other partners) shall be legally responsible and accountable to the Central Bank of Nigeria and the end user. All advertisements and public pronouncements on their scheme shall emanate and be issued by the Lead Initiator only.

#### **b (i). Bank**

The roles of the bank as a MMO include:

- a. Provision of all financial services for the operation of the mobile money service.
- b. Verification, approval and accountability for the credibility and integrity of their partner organizations, and recommending same to the CBN for approval.

#### **b (ii) Licensed Corporate Organizations**

The roles of Licensed Corporate Organizations include:

- a. The provision and management of the technology required to deliver mobile payment services to the subscriber.
- b. The provision of the agent network required to extend all the proposed services to the market place.

#### **C. Infrastructure Providers**

These are organizations providing infrastructure that enable switching, processing and settlement facilities for mobile money services. Settlement here refers to Inter-Scheme Settlement.

- 1. Telecommunications:** Telecommunication companies play the important role of providing the infrastructure to drive the exchange of messages for mobile payments.
- 2. Inter -Scheme Settlement:** The role of Inter-Scheme Settlement Provider shall be to provide net positions of transactions across schemes to the

inter-bank settlement system to affect the finality of payment for services consummated across two different Schemes by various participants.

#### **D. Other Service Providers:**

The CBN recognizes that, with the evolution of the mobile money system, spin-off services would be identified by MMOs which can be outsourced to entities with specialized skills and resources to support such services in a more efficient and effective manner.

The service providers may employ the infrastructures of the MMOs to provide services to the end users.

#### **E. Consumers**

These are end users of mobile money services.

#### **F. Mobile Money Agents**

The activities of Mobile Money Agents shall be guided by the provisions of the Guidelines on Agent Banking and Agent Banking Relationship in Nigeria.

### **5.0 The Nigerian Mobile Money System**

Mobile money system in Nigeria refers to the various components required to deliver mobile money to the banking and non-banking community. The providers of these services and solutions shall be required to operate within the defined regulatory framework specified in this document and any other regulation/guideline issued by the CBN.

The CBN is responsible for defining and monitoring the mobile money systems in Nigeria.

### **6.0 Mobile Money Scenarios**

The following scenarios are the methods through which mobile money can be carried out in Nigeria:

1. Bank Account Based
2. Card Account Based
3. Stored Value (e-Wallet) Account Based

#### **6.1 Bank Account Based**

This is a scenario where the mobile money system drives transactions through the bank accounts of customers. These accounts include current, savings, domiciliary etc.

### **6.1.1 Types of Bank Account Based**

The types of Bank Account Based scenario shall include, but not limited to Pull based account transactions (debits through a mobile payment solution) and Push based account transactions (credits through a mobile money solution). A pull based transaction shall be authorized by the account holder via a verifiable mode before the transaction is consummated.

### **6.1.2 Card Account Based**

This is a scenario where a payment card is linked to a mobile phone for the purpose of initiating and concluding payment transactions

#### **6.2.1 Types of Card – Driven Payments**

The types of card – driven payments recognized by this framework are:

- A. Credit
- B. Debit, and
- C. Pre-Paid

### **6.3 Stored Value Account Based**

This is a scenario where a mobile money system drives transactions through a systembased account that shall comply with the standards defined within this framework.

#### **6.3.1 Types of Stored Value Account**

The various options recognized by this framework include Re-loadable Stored Value Account, Pre-paid Account, etc.

## **7.0 Mobile Money Processes**

The Mobile Money Operators shall provide a detailed payments management process that covers the entire solution delivery, from user registration and management, Agent recruitment and management, Consumer protection/dispute resolution procedures, Risk management process to transaction settlement. These processes shall cover the scope of the value chain across all the participants in the mobile money ecosystem.

## **8.0 Infrastructure**

The core infrastructure for providing a National mobile payment system comprises of transaction processing, clearing and settlement platforms and agent network. The responsibility for the provision and management

of these platforms is shared amongst the various stakeholders/service providers.

## **9.0 Settlement**

The settlement finality for mobile money shall leverage the NIBSS Infrastructure and the CBN Inter-Bank Funds Transfer System (CIFTS). The Infrastructure shall facilitate instant payment to the end users and settlement of the Scheme providers on a T+1 cycle for the mobile money system.

## **10.0 Scheme Dispute Resolution**

NIBSS shall provide the dispute resolution platform for the mobile payment systems for the use of participants in resolving inter scheme transaction disputes. The dispute resolution process will be aligned with the global best practices for arbitration.

## **11.0 Risk Management**

In view of the peculiarity of the operations of other licensed providers and the unique risks associated with their operations, the regulatory framework hereby specifies the following requirements to mitigate risks arising from their activities.

The MMOs must ensure that risk mitigation techniques are in place to minimize operational, liquidity, technical, fraud, financial and money laundering risks. The mobile payment system should not be susceptible to sustained operational failures as a result of system outages. A risk compliance officer must be assigned by the MMOs, who are to provide internal risk management oversight. The CBN will review the risk management program, including all of the controls that are in place to manage the risks on a periodic basis

## **12.0 Technology**

The technology implemented for mobile payment services is to comply with the standards and requirements on international best practice on mobile payment services. The technology to be deployed is expected to be reliable, user friendly, safe and secure. All MMO are to interconnect through NIBSS to ensure interoperability.

## **13.0 User Interface**

**13.1** The user interface shall at the minimum, be menu-driven.

**13.2** The user interface shall not provide access to confidential information.

**13.3** PIN shall be encrypted at the point of entry.

#### **14.0 Know Your Customer (KYC) and Customer Due Diligence (CDD) Requirements**

All MMOs shall comply with the provisions of the Circular on “Three – Tiered Know Your Customer Requirements”.

#### **15.0 Anti-Money Laundering Regulation**

In addition to the provisions of the requirements prescribed in the KYC Guidelines, the CBN AML document shall also apply to mobile money service

The regulatory authorities reserve the right to change the criteria for suspicious transactions reporting in respect of mobile money as it deemed fit. Such amendments shall be communicated by appropriate channels to the mobile money operators and other stakeholders.

#### **16.0 Consumer Protection and Dispute Resolution**

To build confidence in the mobile money system, a dispute resolution mechanism needs to be put in place.

## **GUIDELINES ON MOBILE MONEY SERVICES IN NIGERIA**

## 1.0 Preamble

In exercise of the powers conferred on the Central Bank of Nigeria (CBN) by Section 47(2) of the CBN Act, 2007, to promote and facilitate the development of efficient and effective system for the settlement of transactions, including the development of electronic payment systems; and Pursuant to its mandate of promoting a sound financial system in Nigeria, the CBN hereby issues the following guidelines for Mobile Money Services in Nigeria

## 2.0 Introduction

The introduction of mobile telephony in Nigeria, its rapid growth and adoption, and the identification of person to person payments as a practical strategy for financial inclusion, has made it imperative to adopt the mobile channel as a means of driving financial inclusion of the unbanked. These factors underscore the decision of the Central Bank of Nigeria to issue these guidelines, to create an enabling environment for the orderly introduction and management of mobile money services in Nigeria.

This guideline addresses business rules governing the operation of mobile money services, and specifies basic functionalities expected of any mobile payment service and solution in Nigeria. It identifies the participants, and defines their expected roles and responsibilities in providing mobile money services in the system. In addition, it sets the basis for the regulation of services offered at different levels and by the participants.

These guidelines have identified two models for the implementation of mobile money services namely;

- A. **Bank Led** – Bank and/or its Consortium as Lead Initiator
- B. **Non-Bank Led**- A corporate organisation duly licensed by the CBN as Lead Initiator

## 3.0 Objectives

The objectives of the guidelines are as follows:

- a. To ensure a structured and orderly development of mobile money services in Nigeria, with clear definition of various participants and their expected roles and responsibilities.

- b. Specification of the minimum technical and business requirements for the various participants recognized for the mobile money services industry in Nigeria.
- c. To promote safety and effectiveness of mobile money services and thereby enhance user confidence in the services.

#### **4.0 Scope**

To achieve the above stated objectives, this Guideline covers models, agent network, business rules, roles and responsibilities of participants under mobile money services in Nigeria.

#### **5.0 Models**

Two models of mobile money services are identified for operation in Nigeria:

- a. The Bank-led Model: This is a model where a bank either alone or a consortium of banks, whether or not partnering with other approved organizations, seek to deliver banking services, leveraging on the mobile payments system. This model shall be applicable in a scenario where the bank operates on stand-alone basis or in collaboration with other bank(s) and any other approved organization. The Lead Initiator shall be a bank or a consortium of banks.
- b. The Non-Bank led Model: This model allows a corporate organization that has been duly licensed by the CBN to deliver mobile money services to customers. The Lead Initiator shall be a corporate organization (other than a deposit money bank or a telecommunication company) specifically licensed by the CBN to provide mobile money services in Nigeria.

#### **6.0 Agency Network**

The provisions of the Guidelines for the Regulation of Agent banking and Agent banking relationships in Nigeria shall apply to Mobile Money Agent Network.

#### **7.0 Business Rules**

##### **7.1 Licensing**

All Mobile Money Operators (MMOs) shall:

- (a) Be licensed by the CBN on such terms and conditions as contained in “**Appendix I**” in this document, and may be reviewed from time to time.
- (b) Be issued a unique Scheme Code by the NIBSS for managing interoperability.

- (c) Be issued unique short codes by the NCC.
- (d) Ensure that all telecommunication equipment are type approved by the NCC.
- (e) Register users of its scheme based on technology standards and the requirements of these Guidelines.
- (f) Ensure that the registration processes within its mobile money scheme shall fulfil the entire KYC requirements specified in these Guidelines.

## **7.2 Activation**

- (a) The Mobile Money System shall require a registered user to activate the service before the commencement of transactions with a security code (e.g. PIN/Password etc).
- (b) The Mobile Money Operators shall ensure that the activation process is not compromised or altered within its infrastructure.

## **7.3 Transactions**

- (a) All transactions initiated and concluded within the mobile payment system shall have a unique transaction reference issued by the system
- (b) All transactions shall have the following elements: Transaction reference number, payer and payee phone numbers, transaction amount, transaction date and time stamps, and other relevant transaction details and unique identifiers.
- (c) Where transaction involves merchants, the following details shall be provided in addition to (b) above merchant category, merchant addresses and codes.
- (d) Each transaction detail logged within the payment system shall contain a valid description as in 7.3. (b).
- (e) No airtime deductions shall be made in respect of charges on any transaction.
- (f) MMOs shall appoint and notify CBN of their settlement banks.
- (g) All obligations arising from mobile payment transactions shall be settled into settlement accounts held with Deposit Money Banks. MMOs shall maintain separate accounts for their other business activities.

## **7.4 Rules of Operations for bank account based Transactions**

- (a) Transactions shall be originated via a bank's banking application into the mobile wallet.

- (b) The bank account based relationships shall comply with the existing account opening standards and practice in the Nigerian banking system.
- (c) The transaction activities generated shall be traceable, monitored and logged within the mobile payments system.
- (d) Access to the account through the Mobile Payments System shall be via a secured channel that meets the defined standards, as specified in these guidelines.
- (f) Authorization of transactions originating from or terminating on these accounts shall be based on standards defined by the ISSUING bank.

### **7.5 Card Account Based**

This is a scenario where a payment card is issued and linked to a mobile phone account subject to the appropriate KYC and Card Issuance Rules (Please, see the Guidelines on the Issuance and Usage of Cards in Nigeria)

#### **(a) Types of Card – Driven Payments**

The types of card – driven payments recognized by these guidelines are:

- i. Credit
- ii. Debit, and
- iii. Pre-Paid

#### **(b) Rules of Operations for Card Based Transactions**

- i. The Card Account based transactions shall be based on an infrastructure that relies on the global 3DES secure architecture at the minimum.
- ii. The card shall be issued by a CBN approved Card issuing Organization.
- iii. The card system shall comply with the existing regulation and standard for cards.
- iv. All Card Account based transactions must be authenticated against the originating Card Management System.

#### **(c) Types of Stored Value Account**

The various options recognized by these guidelines include Re-loadable Stored Value Account, Pre-paid Account, etc.

#### **(d) Rules of the Operations for Stored Value Account**

- a. All system based accounts shall have an identification system that generates unique identifier per user account within the Mobile Payments System.
- b. These accounts shall only be accessible through the Mobile Payments System.
- c. The user may specifically request for other means of access to his/her system based account other than as specified in 7.5(f)(ii) above. However, the liability of the user shall be clearly stated before granting such request
- d. All accounts and transaction details shall comply with PCI DSS standards.
- e. The Mobile Payments System account unit shall comply with all the standards and requirements defined in these guidelines
- f. All system based account shall be tied to a settlement account with a licensed deposit- taking institution. The settlement account shall be funded to the tune of the total amount of the system based accounts on the scheme.

#### **7.6 Mobile Payments Processes**

The MMOs shall put in place detailed processes that cover the entire solution delivery, from user registration and management, agent recruitment and management, Consumer protection, dispute resolution procedures, Risk management processes, to transaction settlement.

These processes shall cover the scope of the value chain across all the participants in the mobile payments ecosystem.

#### **8.0 Roles and Responsibilities of Participants Banks**

The role/responsibilities of banks as Scheme Operators shall include:

- (a) Provision of all financial services for the operation of the mobile payments service.
- (b) Verification, approval and accountability for the credibility and integrity of their partner organizations.
- (c) Seeking and obtaining necessary approvals from relevant regulatory authorities.
- (d) The deployment and delivery of the mobile payment services to the customer.
- (e) Ensuring that the mobile payment service meets all specified mobile payment standards as provided in this Guidelines.

- (f) Putting in place adequate measures to mitigate all the risks that could arise, following the deployment and use of its mobile payment service.
- (g) Facilitating remittances to both scheme and non-scheme recipients.
- (h) Providing financial, clearing and settlement services to the mobile payments system.
- (i) Educating the customers on the appropriate use of the service and ensuring the deployment of adequate channels for enquiries and complaints.

## **8.2 Licensed Corporate Organizations**

The roles/responsibilities of Licensed Corporate Organizations shall include:

- (a) The provision and management of the solution required to deliver mobile payment services to the subscriber.
- (b) Ensuring that the proposed services meet all the regulatory standards and requirements specified in the mobile payments Guidelines; the deployment and delivery of the mobile payment solutions to the customer;
- (c) Educating the customers on appropriate use of the solution and ensuring the deployment of adequate channels for enquiries and complaints.ensuring that international inflow messages shall at a minimum be conveyed to the recipients by secure SMS.
- (d) Ensuring that the mobile payments system provides transaction monitoring and reporting in compliance with this Guideline.
- (e) Providing access for on-the-spot assessment and verification of its transactions by the Central Bank of Nigeria on demand basis.
- (f) Providing a monthly assessment report on the performance in prescribed format, and the submission of same to the Banking and Payment Systems Department of the Central Bank of Nigeria.
- (g) Keeping records of transactions emanating from the organization's mobile payment system for a minimum of seven (7) years.
- (h) Ensuring that the mobile payment services comply with specified standards as stated in this guidelines.
- (i) Putting in place adequate measures to mitigate all the risks that could arise from the deployment and use of its mobile payment services.

### **8.3 Infrastructure Providers**

These are organizations providing infrastructure that enable switching, processing and settlement facilities for mobile money services. Settlement here refers to InterScheme Settlement.

### **8.4 Mobile Network Operators (MNOs):**

Their role shall be guided by the following provisions:

- (a) Providing telecommunication network infrastructure for the use of Mobile Money Operators;
- (b) Ensuring that a secure communication channel based on the minimum technology standard stipulated in this Guidelines are implemented;
- (c) That MNOs shall not give preferential treatment to any MMO over another in terms of traffic and price.
- (d) Ensuring that its customers are free to use any mobile payments scheme service of their choice;
- (e) Shall not receive deposits from the public, except in respect of the airtime billing of their customers;
- (f) Shall not allow the use of the airtime value loaded by their customers for purposes of payments or to transfer monetary value;
- (g) Shall ensure seamless interconnection between MMOs; and
- (h) Shall not engage in any conduct which has a purpose or effect of anticompetition in any aspect of mobile money services.

### **8.5 Consumers**

They shall have rights/responsibilities as follows:

- (a) Ease of enrolment
- (b) Ease of use ( SMS, USSD, STK, IVR, etc)
- (c) Privacy, Trust and Security of transaction
- (d) Convenience
- (e) Accessibility to funds on completion of transaction process
- (f) Real time transfer of value
- (g) Easy and prompt access to dispute resolution process
- (h) Ensure the protection of PIN / Password
- (i) Ensure prompt reporting of fraud cases, errors and complaints

- (j) Ensure proper confirmation of transaction details and recipients' mobile phone numbers at all times before authorizing transactions.
- (k) Comply with all security rules as provided by the scheme operator
- (l) Escalate complaints to the Consumer Protection Departments of the Central Bank of Nigeria, if resolution of complaints is unduly delayed.

#### **Nominee/Settlement Account**

- (a) MMOs shall appoint and notify CBN of their settlement banks.
- (b) All obligations arising from mobile money transactions shall be settled into settlement accounts held with Deposit Money Banks. MMOs shall maintain separate accounts for their other business activities.
- (c) The settlement accounts with the deposit money banks shall be opened as Nominee Accounts on behalf of the customers of the Mobile Money Operators.

The operations of the account shall be guided by the following conditions:

- i. the account shall be non-interest bearing,
  - ii. no right of set-off,
  - iii. debit transactions into the account shall only be for settlement related transactions
  - iv. No charges of any form shall apply to the account
- (d) The settlement account shall not be used, under any guise or purpose, as collateral for negotiation of loans by the organisation.
  - (e) The balance on the settlement account shall always be equal to the total outstanding (un-spent) balance of all holders of the e-money.
  - (f) Mobile Money Operators shall be required to reconcile on a daily basis, the balances in their pool accounts and make weekly returns to the Director, Banking & Payments System Department of the CBN.
  - (g) All customer transactions shall be traceable; auditable and can be validated.
  - (h) Remittance inflow messages shall, at a minimum, be conveyed to the recipient through SMS.

## Settlement

- a. The settlement process to be deployed by Mobile Money Operators shall ensure compliance with the settlement standards and requirements defined in these Guidelines.
- b. The MMO shall ensure that its mobile payment infrastructure fully complies with the clearing and settlement rules for finality of settlement.
- c. The scheme operator shall, on a daily basis request for its settlement positions from its bankers for reconciliation of transactions.
- d. All inter scheme settlements shall be routed through the inter-bank settlement system.
- e. The scheme operator shall ensure that all settlement information details are preserved for reference for a minimum period of seven (7) years.
- f. The Scheme Operator shall maintain a minimum Shareholders' Fund unimpaired by losses of N2 billion, with effect from 1<sup>st</sup> June, 2016.

### 10.1 Operating Rules for Scheme Settlement Operator

Nigeria Inter-bank Settlement System Plc (NIBSS) shall:

- (a) Provide net settlement positions of all Inter-Scheme service providers and effect final settlement using the CBN Inter-Bank Funds Transfer System (CIFTS) on (T+1) cycle.
- (b) Provide statistical reports to the regulatory bodies and participants as may be prescribed from time to time
- (c) Maintain audit trail and transaction log of all transactions consummated on the scheme.
- (d) Provide the infrastructure (hardware, software, switching and security) to link all inter scheme providers.
- (e) Provide business continuity/disaster recovery plans to ensure services are available at all times.
- (f) Provide 99.99% system availability and ensure that all signed-on participating institutions follow same rules.
- (g) Ensure MMOs are connected to the National Central Switch (NCS) for the purpose of interoperability
- (h) Ensure that the mobile payments system is interoperable with the network infrastructure of different MNOs, solution providers, MMOs and the NCS

## **10.2 Inter -Scheme Settlement**

The role of NIBSS as Inter-Scheme Settlement Provider shall be to provide net positions of transactions across schemes to the inter-bank settlement system to affect the finality of payment for services consummated across two different Schemes by various participants.

## **10.3 Forms of Settlement**

There are two transaction scenarios that come into play. These scenarios On-us and Not on-us transactions:

### **(a) On-Us Transactions**

- i. These are payment transactions in which all parties involved in the transaction cycle are of the same scheme i.e. Issuer, Acquirer, Merchant and Consumer.
- ii. Transactions are not routed through a switch except where an external processor is involved e.g. Airtime Recharge Transactions, Bills payment.
- iii. These set of transactions do not require settlement.

### **(b) Not-on-Us/Remote-on-Us Transactions**

- i. These are payment transactions where an Acquirer Terminal is used by other Issuers. ii. The role of the Inter-Scheme Settlement Providers shall be to provide a net position of all participants, the acquirer and the issuer, which consummate services across schemes to the inter-bank settlement system to affect the finality of payment.

## **10.4 Final Settlement**

For finality of settlement between participating institutions, settlement providers shall provide settlement information of their participants to the final settlement system. Final Settlement shall be done through the CBN Inter-Bank Funds Transfer System (CIFTS) by effecting the net positions provided by the national central switch and the inter-bank settlement system.

## **11 Transaction Security Standards**

11.1 Mobile Payments solutions deployed shall adhere to the following minimum standards:

- (a) The minimum encryption standard is 3DES encryption. Encryption shall be on an end-to-end basis.
- (b) ISO 8583

- (c) EMV standards in the case of Card payment related transactions.
- (d) PCIDSS
- (e) All subsequent routing of messages to the Mobile Money Operators' servers must be with the highest level of security with dedicated connectivity like leased lines (E1 links) / VPNs;
- (f) That any sensitive information stored in third party systems is restricted with appropriate encryption and hardware security standards as contained in this guidelines;
- (g) All transactions on an account shall be allowed only after authentication of the mobile number and the PIN associated with it;
- (h) That mobile payments application shall not allow the option of saving the PIN either on the handset or on the application;
- (i) All accounts activated by the consumer on the mobile application are linked to the mobile phone number. This mobile phone number shall be used as the second factor authentication for mobile transactions;
- (j) The PIN shall not travel in plain text during the transaction;
- (k) That proper system of verification of the phone number shall be implemented;
- (l) The payment authorisation message from the user's mobile phone shall, at the minimum, be 3DES encrypted and checked for tampering by the scheme operator. It shall not be possible for any interceptor to change the contents of the message;
- (m) There shall exist, a security policy duly approved by the Board of Directors of the organisation providing the service;
- (n) Segregation of duty of Security Officer / Group dealing exclusively with information systems security and Information Technology Division which actually implements the computer systems;
- (o) The Information Systems Auditor shall conduct periodic audit of the system to ensure adherence to the specified security standards;
- (p) Logical access controls to data, systems, application software, utilities, telecommunication lines, libraries, system software, etc. exists;
- (q) At the minimum, there shall be in place, the use of proxy server type of firewall so that there is no direct connection between the Internet and the Mobile Money Operators' systems. For sensitive systems, an inspection firewall

shall be implemented to thoroughly inspect all packets of information, compare past and present transactions and enable a real time security alert;

## **12. Infrastructure**

The core infrastructure for providing a national mobile payment system comprises of transaction processing, clearing and settlement platforms. The responsibility for the provision and management of these platforms shall be that of the Lead Initiator

## **13. Risk Management**

**13.1** In view of the peculiarity of the operations of the MMOs and the unique risks associated with their operations, this guidelines hereby specifies the following requirements to mitigate risks arising from their activities.

- (a) The MMOs shall ensure that risk mitigation techniques are in place to minimize operational, liquidity, technical, fraud, financial and money laundering risks.
- (b) The mobile payments system shall not be susceptible to sustained operational failures, as a result of system outages.
- (c) A risk management officer shall be assigned by the MMOs, who is to provide internal risk management oversight.
- (d) The CBN will review the risk management program, including all the controls that are in place to manage the risks from time to time.

### **13.2 Credit and Settlement Risk**

The central role of the settlement infrastructure requires that MMOs shall:

- (a) Ensure that the mobile payment settlement platform automatically generates transaction settlement information/records.
- (b) Adopt standard messaging formats as provided by NIBSS, for all schemes for settlement purposes.
- (c) Maintain audit trail and settlement log for a minimum of seven (7) years.
- (d) Fulfill other conditions that may be reviewed by the regulatory authorities from time to time.

### **13.3 Business Continuity Risk**

MMOs shall:

- (a) Maintain proper backup infrastructure.

- (b) Implement a disaster recovery and business continuity plan.
- (c) Periodically test the effectiveness of the backup infrastructure and business continuity plan.

#### **13.4 Business Continuity Plan (BCP)**

MMOs shall:

- (a) Ensure that BCP is approved by their board.
- (b) Comply with laid down minimum technology standards as specified in this document.
- (c) Ensure proper/adequate back up of data as may be required by their operations.
- (d) Ensure that the BCP is tested through a fail-over process, at least twice a year.
- (e) Have, well documented and tested business continuity plans approved by the board, that address all aspects of the mobile payment business, to take care of business disruptions and ensure system availability and recoverability:
  - i. Both data and software should be backed up periodically
  - ii. Recovery and business continuity measures, based on the criticality of the systems, shall be in place and a documented plan with the organization and assignment of responsibilities of the key decision making personnel shall exist.
  - iii. An off-site back up is required for recovery from major failures / disasters to ensure business continuity. Depending on criticality, different technologies based on backup, hot sites, warm sites or cold sites should be available for business continuity.
  - iv. Develop and implement comprehensive risk management framework to identify, monitor and control risks. This should provide the strategy to resolve potential problems that may result from internal and external interdependencies.

#### **13.5 The BCP shall be:**

- (a) Based on a comprehensive Business Impact Analysis and Risk Assessment;
- (b) Documented in a written program;
- (c) Reviewed and approved by the board and senior management, at least annually;

- (d) Disseminated to employees;
- (e) The responsibility of the MMO, where it is outsourced to a third-party;
- (f) Flexible to respond to unanticipated threat scenarios and changing internal conditions;
- (g) Focused on the impact of various threats that could potentially disrupt operations rather than on specific events;
- (h) Developed based on valid assumptions and an analysis of interdependencies; and
- (i) Effective in minimizing service disruptions and financial loss through the implementation of mitigation strategies.
- (j) Ensure that processing priorities can be adequately implemented and that business operations can be resumed in a timely manner.
- (k) Monitor closely mobile traffic and system capacity to ensure that any service degradation due to capacity problems are addressed promptly.
- (l) Ensure that the BCP is reviewed by external auditors at least annually, and forwarded to CBN;
- (m) Ensure employees are trained and aware of their roles in the implementation of the BCP;
- (n) Ensure the BCP is tested, at least quarterly, on an enterprise-wide basis;
- (o) Review the BCP testing program and test results on a regular basis;
- (p) Ensure the BCP is continually updated to reflect the current operating environment.

## **14.0 Technology**

The technology implemented for mobile money services shall comply with the following standards and other requirements outlined in the provisions of these Guidelines.

### **14.1 Standards**

#### **(a) Modularity of Technologies**

- i. The MMOs shall ensure that the minimum technology standards for communication are met (Interoperability and Interconnectivity).
- ii. Only secure channels shall be used in providing mobile money services.
- iii. The mobile money services shall ensure non-repudiation.

## **(b) Reliability**

- i. Payment instruction shall be consistently executed. In the event of failure, reversal shall be immediate and automatic.
- ii. Consumers shall get immediate value for every successful transaction.

## **(c) User Interface**

- i. The user interface shall, at the minimum, adhere to the security requirements as stated in the guideline.
- ii. The user interface shall not provide access to confidential information.
- iii. PIN shall be encrypted at the point of entry.

## **15.0 Know Your Customer (Kyc) and Customer Due Diligence (Cdd) Requirements**

All MMOs shall comply with the provisions of the KYC Guidelines (CBN AML/CFT Regulation 2009)

## **16.0 Certainty of Mobile Transactions**

For the purpose of establishing certainty of transactions through mobile payments, MMOs shall ensure the following:

- a. Summary of transaction requested must be displayed to the user for confirmation. The transaction summary shall include, the phone numbers of the paying user and receiving user, transaction description, the transaction amount, date and time and a unique transaction identifier. By confirming the summary, the user commits to the transaction.
- b. Option for the user to save such transaction summary.
- c. Upon completion of the transaction, the user receives an electronic receipt which shall conform to the transaction summary earlier displayed and the option for saving the electronic receipt shall be available to the user.
- d. The electronic summary of transaction and the electronic receipt should be securely logged and the log maintained online for a minimum period of three (3) months and subsequently archived for a minimum period of seven (7) years. However, if a complaint arises before the expiration of the seven (7) years, the log in respect of such pending complaints shall be maintained until the case is completely resolved or discharged.

- e. Regulatory authorities, Law Enforcement Agencies or Arbiters are granted access to the log, when required, for the purpose of certifying a printed copy for evidential purposes.

### **17.0 Consumer Protection Measures**

MMOs shall comply with the following minimum requirements:

- a. Ensure that customers understand the transactions they are entering and adequate disclosures are made.
- b. Ensure that a channel of communication is in place 24/7 to entertain enquiries and complaints in a language understood by customers.
- c. Clearly display charges for services through its agents.
- d. Factor in the vulnerability of the lower end of the society in product and services design. There should be adequate consumer education activities to ensure that consumers are sensitized on the services.
- e. Ensure that appropriate consumer protection mechanisms are put in place against loss of service, fraud and privacy of customer information to enhance confidence in the mobile money services.
- f. Provide the leading role in dispute resolutions and take necessary steps to reach other agencies in the ecosystem that are relevant to resolving disputes.
- g. Resolve customer complaints within a reasonable time and not later than 48 hours from the date of reporting or lodging the complaint with the MMO.
- h. Be held responsible for the actions and inactions of their agents.

### **17.1 Dispute Resolution Mechanisms**

Disputes arising between parties shall be settled as follows:

- a. The parties shall settle disputes within 14 days.
- b. Customers may escalate complaints to the Central Bank of Nigeria where they are dissatisfied with item 1 above.
- c. If resolution is not achieved, after 1 & 2 above, parties may thereafter settle the dispute in accordance with the provisions of the Arbitration and Conciliation Act, Cap A18, Laws of the Federation of Nigeria, 2004.

## **18.0 Cessation of Mobile Payment Service**

- a. Any MMO wishing to exit from the mobile payments system shall notify the CBN in writing regarding the intention for the discontinuation, 120 days before ceasing its operations;
- b. The CBN shall have powers to order any MMO exiting from the mobile payments system to meet its outstanding obligations.

## **19.0 Statutory Returns**

- a. MMOs shall, at the end of every month and not later than the 14th day of the next month, submit to the CBN, data and other information on mobile money operations including:
  - b. Nature, value and volume of transactions;
  - c. Incidents of fraud; and
  - d. Nature and number of customer complaints and remedial measures taken.

## **19.1 Annual Reporting**

MMOs shall include in their annual reports and accounts, in the prescribed format all activities of its mobile money operations.

## **20.0 Remedial Measures**

If an MMO or its agent fails to comply with these Guidelines, the CBN may take any corrective action against the MMO as may be prescribed from time to time.

## **21.0 Sanctions**

In addition to the use of remedial measures in Section 22, the Bank may impose any or all of the following sanctions against an MMO, its board of directors, officers or agents:

- (a) Withholding Corporate approvals;
- (b) Financial Penalties;
- (c) Suspension from mobile money operation; and
- (d) Revocation of the mobile money operation license.

## **22.0 Review Of The Guidelines**

This Guideline shall be reviewed from time to time by the Central Bank of Nigeria.

## 23.0 Glossary Of Terms

**Cifts:** The Real Time Gross Settlement (RTGS) System deployed by the Central Bank of Nigeria which effects settlement of transfer among banks on real time and gross basis. It is known as the CBN Inter-Bank Funds Transfer System (CIFTS).

**Bank:** A deposit taking institution duly licensed by the Central Bank of Nigeria.

**Interoperability:** a situation in which payment instruments belonging to a given scheme may be used in systems installed by other schemes.

**Inter-Scheme Operation:** Inter-Scheme operations are mobile payments consummated across two different schemes by various participants.

**Intra-Scheme Operations:** Intra-Scheme operations are mobile payments that are consummated within a particular service provider's scheme.

**Issuer:** the entity which receives payment in exchange for value distributed in the system and which is obligated to pay or redeem transactions or balances presented to it.

**Mobile Money Operators:** provide the infrastructure for the mobile payment systems for the use of participants that are signed-on to their scheme.

**NCC:** refers to the Nigeria Communications Commission with Regulatory powers over the telecommunication companies (Telcos)

**Service Providers:** employ the infrastructure of the scheme operator to provide services to end users.

**Settlement Infrastructure Providers:** Organizations providing infrastructure that enables message exchange, switching and settlement facilities for mobile money services.

**NIBSS:** Nigeria Inter-Bank Settlement System

**3DES:** Triple(3) Data Encryption Standard

**Nominee Account:** Account set up by a Nominee (MMO) for settlement of customer transactions held on behalf of the individual customers (the 'beneficial owner') under a custodial agreement.

**Licensed Corporate Organizations:** Companies licensed by the Corporate Affairs Commission (CAC) under the Companies and Allied Matters Act 2004 (CAMA), to carry business in Nigeria.

**Infrastructure Providers:** These are organizations providing infrastructure that enable switching, processing and settlement facilities for mobile money services. Settlement here refers to Inter-Scheme Settlement.

## APPENDIX I

### Requirements for Mobile Money Licence

1. Evidence of the formation of the Consortium that will deploy the project (Certificate of Incorporation)
2. The Consortium's profile and functional contact e-mails and telephone numbers
3. Memorandum & Articles of Association
4. Shareholding structure of the Consortium
5. Forms C02 (Return on Allotment of shares) and C07 (Particulars of Directors)
6. CV's of Board and Management of the Company
7. 7. Organogram of the company
8. Business Plan, to include:
  - i Nature of the Business
  - ii Features of the scheme
  - iii Securities features that will be put in place
  - iv 3 years Financial projections for the company
  - v Transaction and other charges that will be borne by customers
  - vi Profit sharing agreement among the parties
  - vii Diagrammatic illustration of transaction flows
9. Information Technology Policy of the Company including:
  - i Privacy Policy
  - ii Information Ownership/Disclosure/Loss Policy
  - iii Backup and Restore Policy
  - iv Network Security Policy
  - v Encryption Policy
  - vi Confidential Data Policy
  - vii Password Policy
  - viii Third Party Connection Policy
  - ix Incidence Response Policy

x Physical Security Policy

10. Enterprise Risk Management Framework

11. Contingency and Disaster Recovery Plan (Business Continuity Programme)

12. Draft agreements with the following:

- i Technical Partners
- ii Participating banks
- iii Switching company/(s)
- iv Merchants
- v Telcos
- vi Any other party

13. Tax Clearance Certificate for three (3) years of each party in the Consortium

14. Project Deployment Plan (time, location, operation, etc.)

15. Payment of non-refundable Application fee of N100,000.00 (One hundred thousand naira) made payable to the CBN via the RTGS Third Party Transfer.

16. Evidence of Shareholders' Fund of N2 billion before a license is issued



**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

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**BPS/CSO/CON/DIR/01/079**

**February 25, 2015**

**Circular to All Deposit Money Banks (DMBs)**

**COMMENCEMENT OF FEDERAL GOVERNMENT'S INDEPENDENT REVENUE E-COLLECTION SCHEME UNDER THE TREASURY SINGLE ACCOUNT (TSA) INITIATIVE**

Further to our letter dated 28<sup>th</sup> January, 2015, on the commencement of the Federal Government's Independent Revenue e-Collection Scheme, this is to remind all banks that, the Federal Government's Independent Revenue e-Collection Scheme has commenced.

The Federal Government's Independent Revenue e-Collection initiative will automate Revenue Collections of Ministries, Departments and Agencies (MDAs) directly into the Federal Government's Consolidated Revenue Fund (CRF) account at the Central Bank of Nigeria (CBN), through the Remita e-Collection platform and other electronic payment channels.

As previously communicated, your bank branches are required to have been setup and sensitised, and your internet banking platform configured for use by revenue payers, to make transfers to the Federal Government e-Collection account in your bank, which will be swept by you to the CRF, as previously agreed between the CBN, OAGF and the DMBs.

The Office of the Accountant General of the Federation (OAGF) has issued a treasury circular to all MDAs to close existing revenue accounts in DMBs not later than February 28, 2015 and transfer available funds to the Consolidated Revenue Funds (CRF).

All Deposit Money Banks (DMBs) are hereby enjoined to ensure full compliance.

Regards

  
**'Dipo Fatokun**  
**Director, Banking & Payments System Department**

**Cc: Office of the Accountant General of the Federation (OAGF)**  
**SystemSpecs**



**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

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**BPS/DIR/GEN/CIR/02/001**

**February 11, 2015**

**DEPOSIT MONEY BANKS, SWITCHES, PROCESSORS, PTSPs AND OTHER PAYMENTS  
SYSTEM SERVICE PROVIDERS**

Please, recall that Electronic Payments Incentive Scheme (EPIS) Circular issued on 18th September, 2014, included the implementation of the Purchase with Cash back and COT exemptions as initiatives to incentivize merchants and enhance electronic payments adoption for purchases at Merchants. It was also intended to make additional service available on Point-of-Sale (PoS) terminals for cardholders.

Further to the implementation of EPIS, the CBN hereby issues the following framework for its implementation:

**1. Purchase with Cash back services:**

Purchase with cash back is a service offered to cardholders, by which an amount to be withdrawn as cash, is added to the purchase payment amount for transactions paid through the PoS. The cardholder receives the added cash, along with the goods purchased.

- i. Purchase with cash back services shall only be available to users who make payments with their cards at merchant locations.
- ii. The scheme shall be applicable to the following categories of merchants, which may be enrolled by the Acquirers:
  - General Retail Merchants
  - Hospitality
  - Bureau de Change
  - Petroleum Retail Outlets

- iii. The maximum cash-out obtainable through a PoS purchase with cash back shall not be more than N20,000.00 per transaction, subject to a daily cumulative limit of N50,000 per card.
- iv. Cash-out transactions done by a cardholder from a PoS at a merchants' location shall attract a convenience charge of N100 flat fee. The convenience charge shall be applied to remunerate stakeholders in the provision of the service as follows:

Stakeholder	% of Commission	Rationale
Merchant	50%	The party to be incentivized and operator of PoS terminal
Acquirer	20%	The Financial Institution that owns the merchant's relationship and terminal bears the cost of the terminal, its application upgrade and maintenance.
Issuer	15%	The Financial Institution that issued the card to the card holder
Processors	5%	The party that processes the transaction on behalf of the Acquirer
PTSA	5%	The Payment Terminal Service Aggregator (NIBSS)
PTSPs	5%	The party that manages the terminal: Repairs, Upgrade, Maintenance and Training of merchants and salespersons.

- v. NIBSS shall advise Acquirers, Issuers, VAS provider and PTADs on cashback specifications
- vi. Stakeholders of the scheme shall ensure that the aggregate cash –out transaction on all channels (ATM, POS, etc.) must not be above the daily maximum cash withdrawal limit under the Cash-Less Policy.
- vii. There shall be uniform message about the purchase with cashback service across all merchant locations

viii. The Go-live date for the service is March 1, 2015.

**2. COT Exemption:**

- i. A merchant, for the purpose of COT exemption, is any account holder that receives payment for goods and services, through Point of Sale (POS) terminals, web and mobile payment, ATM, RTGS, NEFT, NIP and other electronic channels.
- ii. Electronic inflows, for the purpose of COT exemption, are all payments initiated, using electronic payment instruments (Point of Sale (POS) terminals, web and mobile payment, ATM, RTGS, NEFT and NIP, etc) other than cash and paper-based instruments.

The scheme is primarily focused to reward users of electronic payments in Nigeria and to further encourage greater adoption by all. The incentive scheme will reward and appreciate usage across all electronic payment channels.

The Go-live date is April 1, 2015



A handwritten signature in black ink, appearing to read 'Dipo Fajokun', with a date '1/2/2015' written below it.

**Dipo Fajokun**  
**Director Banking & Payments System Department**



BPS/DIR/GEN/CIR/06/002

January 19, 2015

TO: ALL DEPOSIT MONEY BANKS (DMBs)

**CIRCULAR ON NIGERIAN ISSUED CARD PRESENT FRAUD IN NON-EMV ENVIRONMENTS**

The occurrence of Card Present Fraud in Non-EMV environments is on the increase, especially when International hybrid cards issued by Nigerian banks are used in non-EMV environments like the USA. It has therefore become necessary for the Bank to issue the following directives;

1. All DMBs should do the following:
  - i. Collate all their card frauds abroad and send to CBN not later than January 30, 2015. Subsequently, all data on card fraud occurring abroad should be rendered on the NIBSS fraud portal.
  - ii. Implement Anti-fraud solution on their cards management system, not later than January 30, 2015.
  - iii. Ensure that from the February 01, 2015, only customers that expressly indicated their intension of travelling to non-EMV jurisdictions would have their cards default to the magnetic stripe and for the period indicated by the cardholder only. To this end, banks should ensure that their customers are adequately educated.
  - iv. Carry out regular awareness campaign to cardholders on tips to avoid fraud in non-EMV environment.
  - v. Ensure strict compliance on PCIDSS and their vendors/partners involved in card processing activities.

2. All the DMBs will be liable to make refund on the card fraud abroad except (items ii to v) are fully complied with.

Please be guided and ensure strict compliance with the content of this circular.



**'Dipo Fatpkun**  
**Director, Banking and Payments System Department**



BPS/DIR/GEN/CIR/06/001

January 19, 2015

TO: ALL DEPOSIT MONEY BANKS (DMBs)

**CIRCULAR ON IMPLEMENTATION OF TWO FACTOR AUTHENTICATION FOR INTERNAL BANKING PROCESSES**

A major identified cause of fraud in the banking industry has been traced to increased insider abuse. This abuse revolves around identity theft and abuse of authorization. The increased use of automation in most banking payment processes has further escalated insider abuse in banks with weak authentication procedures.

It has therefore become necessary for the Central Bank to issue the following directives to all DMBs;

**a)** Implement a Maker/Checker control structure for all payment platforms, including account and Database system maintenances on core banking systems. The risk appetite/capacity of individual banks will be a key factor in considering transaction limits for maker/checker roles. DMBs are expected to comply by December 31, 2015.

**b)** Implement Two Factor Authentication at login points for applications driving Transfers, Withdrawal, Deposit, Standing Order, Account Maintenance and System

Maintenance processes. An implementation plan should be submitted to the Central Bank by January 30, 2015 and all banks are expected to fully comply by December 31, 2015, failing which defaulting banks would incur a penalty of ₦50,000.00 daily.

**c)** All payment processing Gateways and Third Party Processors should implement Fraud-Monitoring Tool to check transfers from an account to multiple bank accounts by December 31, 2015.

Please be guided and ensure strict compliance with the content of this circular.

**'Dipo Fatokun**

**Director, Banking and Payment System Department**



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Tel:.....

Fax:.....

**REF: BPS/DIR/GEN/CIR/02/033**

**Thursday, 04 December 2014**

**To: All Deposit Money Banks and  
Cheque Printers**

**CIRCULAR ON THE YEAR 2014 ACCREDITED CHEQUE PRINTERS**

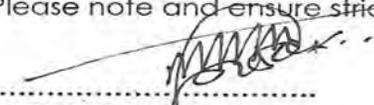
In furtherance of its mandate to ensure an efficient payments and settlement system, the Central Bank of Nigeria, in collaboration with the MICR Technical Implementation Committee (MTIC), conducted the accreditation of the Cheque printers in Nigeria for 2014. This was in line with the provisions of the Nigeria Cheque Printers' Accreditation Scheme (NICPAS) qualification criteria.

At the end of the exercise, the following Cheque Printers were accredited to print cheques and other debit pull paper instruments on categories 'A & B', for the Nigerian Market.

- I. Nigeria Security Printing and Minting Company Plc. (NSPMC Plc.)
- II. Tripple Gee and Company Plc.
- III. Superflux International Limited.
- IV. Euphoria Group Limited.

Please note that in line with the Bank's policy on domestication of Cheque production in the country, no foreign Cheque printer was considered nor accredited to print for the Nigerian market. Consequently, all banks are reminded to patronize the CBN Accredited Cheque Printers only, for the printing of cheques, dividend warrants, and any other paper based instruments that are cleared through the Nigerian Clearing and Settlement System.

Please note and ensure strict compliance.

  
.....  
**'DIPO FATOKUN**  
**Director, Banking and Payments System Department**



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**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

REF: BPS/DIR/GEN/CIR/01/014

Wednesday, 19<sup>th</sup> November, 2014

TO: All Deposit Money Banks (DMBs) and Merchant Banks

**CIRCULAR TO ALL DEPOSIT MONEY BANKS AND MERCHANT BANKS ON  
THE IMPLEMENTATION OF SWIFT SANCTION SCREENING SERVICE**

In furtherance of the efforts by the Central Bank of Nigeria (CBN) to strengthen the National Payments Infrastructure and ensure compliance with global best practices; an information session was organized by the CBN, in collaboration with SWIFT, on the 11<sup>th</sup> of September 2014, to highlight the SWIFT Sanction Screening Service (SSS) and its objectives, and improve the transparency of international payments at the point of origination.

The CBN by this circular, hereby issue the following directives for the adoption of the SWIFT Sanction Screening Service. All DMBs and Merchant Banks are hereby mandated to:

1. Assign a Project Manager for the SWIFT Sanction Screening Service Project and forward the contact details of such to the Director, Banking and Payments System Department of the CBN on or before the 24<sup>th</sup> of November, 2014 and email same to: [scokojere@cbn.gov.ng](mailto:scokojere@cbn.gov.ng) and [gmladan@cbn.gov.ng](mailto:gmladan@cbn.gov.ng) .
2. Nominate three (3) staff, inclusive of the project manager, to be trained on the SWIFT Sanction Screening Service Project.
3. Subscribe to the SWIFT Sanction Screening Service by 1<sup>st</sup> December, 2014 and implement same on or before 31<sup>st</sup> January, 2015.

Please ensure strict compliance.

**'Dipo Fatokun**  
**Director, Banking and Payment System Department**



**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

**REF: BPS/DIR/GEN/CIR/01/015**

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**Tuesday, 21<sup>st</sup> October 2014**

**To: All Deposit Money Banks**

**CLARIFICATION CIRCULAR ON BANK VERIFICATION NUMBER (BVN) ENROLLMENT**

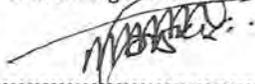
You will recall that the Central Bank of Nigeria, in collaboration with the Bankers Committee, launched the Bank Verification Number (BVN) project in February 2014. As part of the overall strategy of ensuring the effectiveness of Know Your Customer (KYC) principles, the BVN gives each Bank customer, a unique identity across the Nigerian Banking industry.

The CBN has observed that Deposit Money Banks are making steady progress towards the enrollment of their customers. However, the attention of CBN has been drawn on the need to clarify certain grey areas in the process of enrollment of the customers on BVN.

It has therefore become necessary for the Bank to issue the under-listed clarifications for the stakeholders to note and implement:

- a. Where an existing customer wishes to register the BVN with his/her bank, capturing his signature and photo identification document may not be necessary, as the bank is expected to have those records during the account opening.
- b. Where an existing customer wishes to do a change of name after his/her enrollment on the BVN, due diligence should be exercised and appropriate legal documents obtained, before the change is effected
- c. In order to fast-track the enrollment process;
  - i. DMBs are expected to give more attention to the enrollment of their customers.
  - ii. All DMBs are required to enroll at least, 40% of their customers on or before 31<sup>st</sup> December 2014, and 70% on or before 30<sup>th</sup> March 2015.
  - iii. All DMBs are required to fully integrate their core banking system, latest by 31<sup>st</sup> October 2014, to ease the enrollment process.
  - iv. All new loans must have the BVN as a condition precedent to drawdown, with effect from 3<sup>rd</sup> November 2014.
  - v. All credit customers must have BVNs by 31<sup>st</sup> December 2014.
  - vi. The Central Bank of Nigeria will monitor compliance.

Please be guided and ensure strict compliance with the content of this circular.

  
.....  
**'DIPO FATOKUN**

**Director, Banking and Payments System Department**



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BPSD/DIR/GEN/CIR/01/012

September 18, 2014

To: All Deposit Money Banks and All Licensed Payments Service Providers

**ELECTRONIC PAYMENTS INCENTIVES SCHEME AND AWARENESS CAMPAIGN**

In furtherance of the drive for the pervasive usage of electronic payments in Nigeria, the Management of the Central Bank of Nigeria has approved an industry-wide Incentive Scheme and awareness campaign for electronic payments stakeholders and users.

The scheme is primarily focused to reward users of electronic payments in Nigeria and to further encourage greater adoption by all. The incentive scheme will reward and appreciate usage across all channels with emphasis on channels of electronic payments that promote financial inclusion.

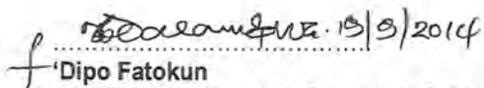
The scheme has identified and will reward the following categories of users:

- Consumers
- Merchants
- Sales Persons

The incentive scheme and awareness campaign is designed as a "white-label" campaign in which all stakeholders are required to partner.

The implementation schedule, which has taken into consideration, the system configuration that will be required for the successful roll-out of the scheme, is hereby attached.

We solicit for the cooperation of all stakeholders for the successful implementation of the Electronic Payments Incentives Scheme (EPIS).

  
Dipo Fatokun  
Director, Banking and Payments System Department

REF: BPS/DIR/GEN/CIR/02/033

September 18, 2014

To: All Deposit Money Banks

**CIRCULAR ON THE GO-LIVE OF BANK VERIFICATION NUMBER (BVN) PROJECT**

In furtherance of its efforts in the development of a safe, reliable and efficient payments system in Nigeria, the Bank in conjunction with the Bankers' Committee, undertook some major initiatives. One of such was the launching of the Bank Verification Number (BVN) Project in February 2014, which is being sponsored by the Bankers Committee.

The Central Bank of Nigeria has observed the progress made so far in the implementation of the BVN Project. In order to increase the tempo in the enrolment by the Deposit Money Banks (DMBs) customers on the BVN, and to start coupling the enormous benefits of the project, it is imperative to stipulate milestones for the implementation of the Project.

Consequently, all stakeholders are hereby advised to note and implement the following:

- a. That by March 2015, transactions valued at N100,000,000.00 (One hundred million Naira) and above, should only be allowed for customers with the BVN; (These include, but not limited to, money transfers, loans, contingencies, etc)
- b. That by June 2015, all banks' customers should have the BVN. Any bank customer without the BVN would be deemed to have inadequate KYC; and
- c. DMBs should intensify efforts to sensitize their customers on the aforementioned development and enrol them for the BVN accordingly.
- d. DMBS are required to submit to NIBSS, as part of their weekly returns on Customers Account Details, the account status of customers that have submitted their BVN and those that have not. NIBSS in turn, will render consolidated returns to the CBN, on weekly basis, starting from 1<sup>st</sup> October 2014.

Please note that the Central Bank of Nigeria will monitor compliance with the requirements of this circular, and defaulters will be sanctioned.



DIPO RATOKUN  
Director, Banking and Payments System Department

Tuesday, 19 August 2014

REF: BPS/DIR/CIR/GEN/02/033

**To: All Deposit Money Banks,  
Registrars, Insurance Companies, Embassies,  
and Other Stakeholders**

**AUTHORIZED SIGNATORIES VERIFICATION PORTAL FOR THE NIGERIAN BANKING  
INDUSTRY**

In furtherance of its effort in the development of a safe, reliable and efficient payments system in Nigeria, the Central Bank of Nigeria, in collaboration with relevant stakeholders, has developed an industry portal for the verification of authorized signatories in the Nigerian banking system.

The signatories verification portal is expected to replace the printed signature booklets that banks distribute, such that instructions/documents received from other banks can be verified electronically (online). The portal will be used by banks, Registrars, Insurance Companies, Embassies and any other user of the printed signature booklets, to avoid fabrication of letters as coming from the banks.

The Portal is meant to digitize the booklet and also ensure that updates can be made quickly, as staff change functions or move to other institutions.

In this regard, your organisation is expected to get in touch with NIBSS PLC, for the needed training and access rights to the portal, amongst others. The registration process and upload of the authorized signatories to the portal should be completed on or before 29th August 2014.

Should you require further clarification, please do not hesitate to contact [soluyemi@nibss-plc.com.ng](mailto:soluyemi@nibss-plc.com.ng) (08023159950) or [oadosumu@cbn.gov.ng](mailto:oadosumu@cbn.gov.ng)

Kindly note and ensure strict compliance.

*DIPO FATOKUN. 19/8/2014*

*f* **DIPO FATOKUN**  
**Director, Banking and Payments System Department**



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**BANKING AND PAYMENTS SYSTEM DEPARTMENT**  
**BPS/DIR/GEN/CIR/01/011**

August 13, 2014

To: All Banks

**CIRCULAR ON THE REVIEW OF OPERATIONS OF THE NIBSS INSTANT PAYMENT (NIP) SYSTEM AND OTHER ELECTRONIC PAYMENTS OPTIONS WITH SIMILAR FEATURES**

In order to further strengthen the risk aversion measures put in place for the operations of the NIBSS Instant Payment (NIP) system, and other electronic payments options with similar features, the Central Bank of Nigeria hereby issues the following directives:

1. A categorization of online funds transfer from **low security to highly secured transfer**, with limits as specified below.

S/N	Category	Required Control	Daily Limit for Instant Value	Daily Limit for Next Working Day Value
i.	Highly Secured Online Fund Transfer (WEF-Jan 15, 2015)	<ul style="list-style-type: none"> <li>▪ Hardware Token / Token</li> <li>▪ Behavioural Monitoring</li> <li>▪ SMS/Email Trans Alert</li> <li>▪ User Name/Password</li> <li>▪ Anti-phishing Solution</li> </ul>	Individual: ₦1m Corporate: ₦10M	Individual: ₦10m Corporate: ₦100m
ii.	Moderately Secure Online Fund Transfer (WEF-Jul 30, 2014)	<ul style="list-style-type: none"> <li>▪ Hardware/Soft Token</li> <li>▪ User ID and Password</li> <li>▪ SMS/Email Trans Alert</li> <li>▪ Anti-phishing Solution</li> </ul>	Individual: ₦500k Corporate: ₦5m	Individual: ₦1m Corporate: ₦10m
iii.	Basic Security (WEF-Jul 30, 2014)	<ul style="list-style-type: none"> <li>▪ OTP (One-Time-Password).</li> <li>▪ User ID and Password</li> <li>▪ SMS /Email Trans Alert</li> </ul>	Individual: ₦200k	Individual: ₦1m
iv.	Low Security (WEF-Jul 30, 2014)	<ul style="list-style-type: none"> <li>▪ User ID and Password</li> <li>▪ SMS/Email Trans Alert</li> </ul>	Individual: ₦20k	Individual: ₦100k

2. Banks are expected to achieve "Highly Secured Online Funds Transfer" status within six (6) months, i.e. with a deadline Of 31<sup>st</sup> December 2014.
3. Limits of ₦1million (Instant value) and ₦10million (Next day value) shall be applied for NIP and NEFT respectively, and other electronic payments options with similar features, initiated by individuals, with effect from 1<sup>st</sup> September, 2014. There shall be no limit on the amount that can be received into a customer's bank account from the platform.
4. For same day value (NIP), the maximum amount that can be transferred by an individual (cumulative) is N5 million.

5. A customer shall issue a written indemnity to the bank, where they chooses to initiate transactions above the limits specified in item 1 above, subject to maximums of ₦5 million and ₦100 million for individual and corporate customers respectively
6. Banks are to establish internal procedures/policies for variants of the ₦5 million limits. Transactions above the N1 million limit could be delayed by the receiving bank for not more than one (1) hour (as opposed to the current 2 minutes), before applying credit.
7. Limits of ₦10 million (Instant value) and ₦100 million (Next day value) shall be applied for NIP and NEFT, respectively, and other electronic payments options with similar features, initiated by corporates with effect from 1<sup>st</sup> September 2014.
8. Transfers above ₦100 million shall be effected through the Real Time Gross-Settlement System (RTGS)
9. Banks are expected to return unapplied funds within 10 minutes, where their fraud/risk management systems flag such as suspicious or fraudulent.
10. Banks are also expected to communicate the aforementioned policies clearly to their customers and give adequate notice, before implementation
11. Banks should encourage customers to pre-register beneficiaries of online transfers
12. Banks are encouraged to confirm all email transfer requests via the accounts officers

Best Regards,

  
Dipó Fatókun  
Director, Banking & Payments System Department



## CENTRAL BANK OF NIGERIA

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**BANKING AND PAYMENTS SYSTEM DEPARTMENT**  
**BPS/DIR/GEN/CIR/01/010**

August 13, 2014

To: All Banks

### CIRCULAR ON THE INTRODUCTION OF FEES ON REMOTE-ON-US ATM WITHDRAWAL TRANSACTIONS

The Central Bank of Nigeria, in collaboration with the Bankers Committee had in December, 2012 transferred the payment of N100 fee on "Remote-on-us" ATM Cash withdrawal transactions to issuing banks. This fee is shared between the acquirers, issuers, and switches. On the commencement of the arrangement in December 2012, banks (issuers) decided to waive the issuer fee (N35), which should have ordinarily been an income to them. Consequently, banks only bore the cost of N65 each time their customers use another banks' ATM.

However, as a result of the unintended consequences of the decision, which has resulted in substantial cost burden incurred by banks in defraying the cost for the service, the payment structure for card carrying bank customers is hereby reviewed, in line with present realities.

Therefore, the CBN hereby issues the following directives.

1. The re-introduction of Remote-on-us ATM cash withdrawal transactions fee, which will now be N65 per transaction, to cover the remuneration of the switches, ATM monitoring and fit-notes processing by Acquiring banks.
2. The new charge shall apply as from the 4<sup>th</sup> "Remote-on-us" withdrawal (in a month) by a card holder, thereby making the first three (3) 'remote-on-us' transactions free for the card holder, but to be paid for by the issuing bank.
3. September 1, 2014 shall be the effective date for the implementation of the new fee
4. Banks are expected to conduct adequate sensitization of their customers, on the introduction of the new fee.
5. All ATM cash withdrawals on the ATM of issuing banks shall be at no cost to the card holder.

**'Dipo Fatokun**  
**Director, Banking & Payments System Department**

## **Guidelines on International Money Transfer Services in Nigeria**

# GUIDELINES ON INTERNATIONAL MONEY TRANSFER SERVICES IN NIGERIA

## 1.0 Preamble

In exercise of the powers conferred on the Bank by Section 2 (d) of the Central Bank of Nigeria Act, 2007 and Section 57 (2) of the Banks and Other Financial Institutions Act (BOFIA), Laws of the Federation of Nigeria, 2004, to issue guidelines for the maintenance of adequate and reasonable financial services to the public, the Central Bank of Nigeria (CBN) hereby issues the following guidelines for the regulation of International money transfer services in Nigeria.

### 1.1 Objectives

The objectives of the guidelines are to:

- i. provide minimum standards and requirements for International money transfer services operations in Nigeria;
- ii. specify delivery channels for offering international money transfer services (inbound/outbound), in a cost effective manner;
- iii. Provide an enabling environment for international money transfer services in the Nigerian economy;
- iv. specify minimum technical and business requirements for various participants in the international money transfer services industry in Nigeria; and
- v. Provide broad guidelines for implementation of processes and flows of international money transfer services, from initiation to completion.

### 1.2 Scope

This guidelines address business rules governing the operation of international money transfer services in Nigeria. In addition, it sets the basis for the regulation of the services offered at different levels and by diverse participants.

## 2.0 Licensing Requirements

**2.1** No person or institution shall provide international money transfer services unless such person/institution has been duly licensed by the CBN.

**2.2** Application for a licence to carry on the business of International money transfer services shall be submitted to the office of the Director, Trade & Exchange Department, Central Bank of Nigeria, Abuja.

### 2.3 Documentary Requirements

All applications shall be accompanied with the following:

- i. Board of director's approval to offer International money transfer services.
- ii. Copy of the applicant's certificate of incorporation
- iii. Memorandum & Articles of Association (certified copy), of which the primary object clause shall indicate provision of Money Transfer Services.
- iv. Shareholding structure of the Company
- v. Forms C02 (Return on Allotment of shares) and C07 (Particulars of Directors)
- vi. Profiles of the Board and Management of the Company to include: CVs, functional contact e-mails and telephone numbers, ownership, governance and management structure;
- vii. Organogram of the company
- viii. Business Plan, to include:
  - a. Nature of the Business
  - b. Features of the scheme
  - c. Internal control systems and monitoring procedures
  - d. Security features that will be put in place
  - e. 3 years Financial projections/Market analysis for the Company
  - f. Transaction and other charges that will be borne by customers
  - g. Profit sharing agreement among the parties
  - h. Diagrammatic illustration of transaction flows
  - i. Consumer Protection and Dispute Resolution Mechanism
- ix. Information Technology Policy of the Company including:
  - a. Privacy Policy
  - b. Information Ownership/Disclosure/Loss Policy
  - c. Backup and Restore Policy
  - d. Network Security Policy
  - e. Encryption Policy
  - f. Confidential Data Policy
  - g. Password Policy
  - h. Third Party Connection Policy
  - i. Incidence Response Policy

- j. Physical Security Policy
- x. Enterprise Risk Management Framework
- xi. Contingency and Disaster Recovery Plan(business continuity plan)
- xii. Draft agreements with the participating parties
- xiii. Tax Clearance Certificate for three (3) years
- xiv. Project Deployment Plan (time, location, operation, etc.)
- xv. Credit reports from a licensed credit bureau for the shareholders and key officers of the money transfer services operator;
- xvi. Any other information as may be required by the CBN from time to time
- xvii. A non-refundable application fee of N500,000 (Five Hundred Thousand Naira) or such other amount that the Bank may specify from time to time, payable to the "Central Bank of Nigeria" by electronic transfer.
- xviii. Evidence of meeting the minimum paid up share capital of:
  - a. N2,000,000,000 (Two Billion Naira) for Nigerian companies; and
  - b. N50,000,000 (Fifty Million Naira) or its equivalent for Foreign companies, plus the guarantee of the parent company
- xix. Presence in at least seven (7) different countries.

#### **2.4 Overseas Partnership Requirements**

A money transfer operator, who wishes to engage a foreign technical partner that will provide global or regional payment or money transfer platform, shall obtain a letter of no objection from the CBN. The following conditions shall apply to the technical partner:

- a. Be a registered entity, licensed in its home country to carry on money transfer activities.
  - b. Have a minimum Net Worth of US\$1 million, as per the latest audited financial statement, or as may be determined by the CBN from time to time.
  - c. The Overseas technical partner should be well established in the money transfer business, with a track record of operations.
  - d. There should be an MOU that clearly delineates liabilities in the event of disputes and/or process failures.
- 2.4 The CBN shall conduct appropriate due diligence on the promoters, directors and key officers of the proposed money transfer operator.

## **2.6 Prohibitions**

- a. Deposit Money Banks are prohibited from operating as Money Transfer Service Operators (MTSO), but can act as agents.
- b. Section 19 (1) (a) of BOFIA 1991 as amended, for persons not qualified to be on the employment of banks, shall also apply to Money Transfer Service Operators.

## **2.7 Disqualification of Shareholders and officers**

In line with the BOFI Act No. 25 of 1991 [as amended], all the conditions stipulating the exclusion of certain individuals from the management of banks, shall apply to the management of Money Transfer Service Providers, except with the written permission of the Governor of the CBN.

Shareholders and officers of the company shall be disqualified, based on the provisions of Section 44 (2) of the BOFIA 1991 as amended. The section provides that: No person shall be appointed or shall remain a director, secretary or an officer of a bank who:

- (a) is of unsound mind or as a result of ill- health is incapable of carrying out his duties; or
- (b) is declared bankrupt or suspends payments or compounds with his creditors including his bankers; or
- (c) is convicted of any offence involving dishonesty or fraud; or
- (d) is guilty of serious misconduct in relation to his duties; or
- (e) in the case of a person possessed of professional qualification, is disqualified or suspended (otherwise than of his own request) from practicing his profession in Nigeria by the order of any competent authority made in respect of him personally.

## **3.0 Operations of International Money Transfer Services**

### **3.1 Permissible Activities**

The permissible operations of International money transfer services shall include allowable inbound and outbound international money transfer transactions. The transactions shall consist of the following activities:

- (a) The acceptance of monies for the purpose of transmitting them to persons resident in Nigeria or another country.

- (b) Cross-border personal money transfer services, such as, money transfer services towards family maintenance and money transfer services favoring foreign tourists visiting Nigeria shall be allowed under this arrangement.
- (c) The money transfer services shall target individual customers mainly and the transactions shall be on "person to person transfer" basis to safeguard against corporate customers that might structure their transactions into smaller amounts to circumvent the statutory reporting threshold.

### **3.2 Non Permissible Activities**

A money transfer operator is not authorized to:

- a. Act as an authorized dealer in gold or other precious metals;
- b. Engage in deposit taking and/or lending money;
- c. Maintain current accounts on behalf of customers;
- d. Establish letters of credit; or
- e. Act as a custodian of funds on behalf of customers.
- f. Engage in institutional transfers. A money transfer service operator shall not engage in any other business other than as authorized by the Bank.
- g. Buy foreign exchange from the domestic foreign exchange market for settlement.

### **3.3 Business Premises**

A money transfer operator shall display prominently at each of its business premises:

- (a) The current licence to engage in money transfer services;
- (b) The business hours;
- (c) Details of the tariffs to be charged;
- (d) A notice informing the customers that they are entitled to be issued with a receipt for any money transfer service transactions; and
- (e) A notice to the effect that the money transfer operator is not allowed to accept deposits or lend to the public.

### **3.4 Notification of Business Hours**

A money transfer service operator shall notify the Bank and its customers of:

- (i) the business hours for each of its outlets;

- (ii) any intended changes in business hours, in any of their places of business, fifteen days in advance, before the changes are effected

### **3.5 Temporary closure of business**

A money transfer service operator wishing to temporarily close its main offices shall seek the consent of the CBN. In the event of an emergency, the operator shall relocate to its established back up site and notify the CBN accordingly.

The temporary closure of an agency or outlet shall be notified to the CBN immediately.

In either event above, the operator/agent shall display a conspicuous notice to that effect.

### **3.6.0 Transfer Limits**

**3.6.1** Allowable limit of the outbound money transfer shall be US\$2,000 or its equivalent per transaction, subject to periodic review by the CBN.

**3.6.2** All in-bound money transfers to Nigeria shall only be disbursed to beneficiaries through bank accounts or mobile money wallets.

**3.6.3** Where the beneficiary does not have a bank account or mobile money wallet, payments shall only be made upon the provision of a satisfactory reference from a current account holder in a bank, confirming that the beneficiary is the bona fide owner of the funds.

**3.6.4** The following conditions shall apply in the transaction:

- i. The currency to be given to a money transfer agent for an outbound transfer shall be the Naira;
- ii. An outward payment transaction shall be executed in a convertible currency agreed between the parties; and
- iii. Where a currency conversion service is offered before initiation of a payment transaction or at the point of payment, the money transfer services operator must disclose all charges, as well as the exchange rate to be used for converting the payment transaction

### **3.7 Split Transactions**

A money transfer service operator shall not allow or process a transaction that appears to have been deliberately split into small amounts to avoid the reporting requirements under the provisions of the AML/CFT Act.

### **3.8 Agents**

An approved money transfer service operator may conduct its business through an agent, in line with the provisions of these guidelines.

An agent is a suitable entity engaged by a money transfer service operator to provide money transfer service on its behalf, using the agent's premises, staff and technology.

#### **3.8.1 Suitability for appointment:**

An agent shall:

- (1) be a corporate body registered with the corporate affairs commission in Nigeria or with a similar body in other jurisdictions or established by law.
- (2) be an existing and well established commercial entity which has been operational for at least 12 months.
- (3) not have been classified as a non performing borrower by any financial institution in the last 12 months.
- (4) possess appropriate physical infrastructure and human resources to provide money transfer services.
- (5) not be an entity listed on any Sanction list.
- (6) Be a financial institution under the regulatory purview of the CBN.

#### **3.8.2 Engagement of an Agent**

The money transfer operator shall:

- (1) execute a contract with each agent that specifies terms and conditions of their engagements. These terms shall include but are not limited to the following:
  - (a) A statement that the money transfer services operator is wholly responsible and liable for all actions or omissions of the agent.
  - b) Measures to mitigate risks associated with agent business including limits, customer transactions, cash management, cash security, security of agent premises and insurance policies;
  - (c) Specific services to be rendered by the agent;
  - (d) The rights, expectations, responsibilities and liabilities of both parties;
  - (e) A statement that the Bank shall have free, unfettered and timely access to the internal systems, documents, reports, records, staff and premises of the

agents, in so far as money transfer business is concerned and shall exercise such powers as it may considered necessary;

- (f) Appropriate policies and procedures to detect, prevent, report or otherwise deal with incidences of money laundering;
  - (g) Responsibilities of the agent to deliver supporting transaction documents;
  - (h) A statement that all information or data that the agent collects in relation to agency money transfer services, whether from the customers, the money transfer operator or from other sources, is the property of the money transfer operator;
  - (i) Adequate oversight safeguards for the money transfer operator to address instances of non-compliance by the agent with the stipulated obligations;
  - (j) Prohibition from charging the beneficiary any fees other than the fees agreed upon with the sender, at the initiation of the transaction;
  - (k) Business hours of the agent;
  - (l) Suitable limits on cash holding by the agent and also limits on individual customer payments and receipts;
  - (m) Confidentiality of customer and user information;
  - (n) Remuneration for the agent;
  - (o) A transition clause on the rights and obligations of the money transfer operator and the agent upon termination or cessation of the agency contract; and
  - (p) Detailed procedure for disengagement or termination of the agency contract.
- (2) Retain a contract for the life of the agency plus a retention period of 7 years or as may be determined by the CBN from time to time.
  - (3) Notify the Bank of the appointment of each agent, providing details of name, phone number and any additional information as may be required by the Bank
  - (4) Conduct the business in compliance with all the applicable laws, regulations and guidelines.

### **3.9.0 Bank Accounts**

A money transfer operator shall:

- 3.9.1** Hold all customer funds for transfer in an account designated as "**customers' account**" domiciled with any deposit money bank in Nigeria. This

account shall be separate from all other accounts maintained by the operator.

**3.9.2** Maintain complete and accurate accounting records.

**3.9.3** Produce, upon request by the Bank, all documents pertaining to the account activity, including, but not limited to, bank statements, cheque books, deposit slips and reconciliations or other comparable account records.

**3.10 Records.**

**3.10.1** A money transfer operator shall:

**3.10.2** Maintain a management information system that facilitates efficient collection and processing of data required for audit trails.

**3.10.3** Maintain accurate information on each transaction. Transaction information shall include:

- (a) Date of transaction;
- (b) Name, address and contact phone number of sender;
- (c) Name, address and contact phone number of beneficiary;
- (d) Acceptable means of identification;
- (i) Amount and currency;
- (j) Occupation of the sender;
- (k) Type (Sending or Receiving) and Purpose of the transaction; and
- (l) Source of funds.

**3.10.4** Issue receipt, which shall contain the following information:

- (a) Full names of the customer;
- (b) The type and amount of currency sent or received;
- (c) The transaction reference;
- (d) The nature, time and date of the transaction;
- (e) Customer signature; and
- (g) Commission charged, if any.

**3.10.5** All transactions generated by the money transfer operator in the course of its business activities must be posted in its books of accounts.

**3.10.6** A money transfer service operator shall keep accurate and up to date records and ensure that the records are verified on a daily basis.

### **3.11 Returns**

A money transfer service operator shall submit its returns to the Director, Trade & Exchange Department, Central Bank of Nigeria, Abuja.

### **3.12 Anti-Money Laundering Risk**

All money transfer operators in Nigeria shall comply with the provisions of the Central Bank of Nigeria "Anti-Money Laundering and Combating the Financing of Terrorism in Banks and Other Financial Institutions Regulations 2013" and all other applicable laws and regulations.

## **4.0 Disclosure Requirements**

### **4.1 General**

A money transfer service operator shall disclose to its customers:

4.1.1 Details of applicable exchange rate, commission, fees and any other amount that may be charged by banks/agents involved in a transfer.

4.1.2 The meaning of any technical terms and acronyms used.

4.1.3 That it neither accepts deposits nor lends to the public

4.1.4 Prevailing exchange rates at all times and in all locations it conducts business.

#### **4.2.0 Outward Money Transfer Services**

A money transfer operator shall:

4.2.1 advise customers of the time funds sent would be available for collection by beneficiaries;

4.2.2 Inform the customers within 24 hours where outward transfers could not be effected within the time frame advised.

4.2.3 Refund to the sender, any amount returned undelivered in the manner it was paid by the customer:

- i. Where the operator is responsible for the returned transfer, the refund to the sender shall include all the fees and charges paid by the sender; and
- ii. Where the sender is responsible for the returned transfer, the operator shall recover from the sender, only costs associated with the transaction.

#### **4.3.0 INWARD MONEY TRANSFER SERVICES**

A money transfer operator shall:

4.3.1 Make payment to customers only in Nigerian currency, in line with CBN regulation;

- 4.3.2 Use the prevailing exchange rate on the day the transfer is received; and
- 4.3.2 Declare in the receipt/certificate of transfer that the money paid to the customer is not counterfeited.

#### **4.4.0 Charges**

- 4.4.1 All money transfer operators shall comply with the guide to money transfer charges, as provided by the CBN from time to time.
- 4.4.2 The provider must make refund where wrong, inappropriate or disproportionate charges or fees are identified internally by provider.

### **5.0 Dispute Resolution**

- 5.1 All complaints to the operator must be acknowledged on receipt.
- 5.2 Each operator shall provide a Complaints Management Unit to resolve complaints or disputes submitted by its customers. The unit shall provide its services free of charge through well publicized and dedicated channels, including phone numbers and e-mail address(es).
- 5.3 An operator must fully investigate complaints and make appropriate decision and communicate same to the complainant within one (1) week of the receipt of complaints.
- 5.4 Each complaint shall be assigned a unique identifier for ease of reference. Operators shall provide dedicated phone, email or other means by which complainants may enquire about the progress of their complaints. In addition, operators shall provide a response to all enquiries within 48 hours of receipt.
- 5.5 Where a complainant is dissatisfied with the decision, the operator shall provide an internal mechanism to review its initial decision.
- 5.6 The review body must arrive at a decision within one week of receiving letter of dissatisfaction from a complainant;
- 5.7 Where a complainant is not satisfied with a decision of a review body, the complainant may escalate the issue to the Director, Consumer Protection Department, Central Bank of Nigeria; and
- 5.8 A provider shall render monthly returns on all complaints to the Director, Trade & Exchange Department, Central Bank of Nigeria, Abuja, in a format approved by the Bank.

## **6.0 Miscellaneous**

**6.1** At a minimum, an operator must have a second level authentication before payment could be made to recipients in the case of inward money transfer services;

- I. An operator owes a customer a duty of confidentiality except where:
  - a. Disclosure is at the instance of a relevant authority; and
  - b. The customer expressly consents to disclosure.
- II. An operator should not require from the customer, any means of Identification different from those provided in extant CBN circulars and guidelines;
- III. For the avoidance of doubt, any of the under-listed is an acceptable means of identification:
  - a. International Passport;
  - b. Driver's License;
  - c. National Id. Card;
  - d. INEC Registration Card; or
  - e. Bank Verification Number (BVN)

## **7.0 Remedial Measures**

If a Money Transfer Service Operator or its agent fails to comply with these Guidelines, the CBN may take any corrective action against the MTSOs as may be prescribed from time to time.

## **8.0 Sanctions**

In addition to the use of remedial measures in Section 8, the Bank may take any or all of the following sanctions against an MTSO, its board of directors, officers or agents:

- (a) Withhold Corporate approvals;
- (b) Financial Penalties;
- (c) Suspension from Money Transfer operation; and
- (d) Revocation of the Money Transfer Service operation licence.

## 9.0 Glossary of Terms

**Agent:** An agent is a suitable entity engaged by a money transfer service operator to provide money transfer service on its behalf, using the agent's premises, staff and/or technology.

**Bank:** Central Bank of Nigeria

**BOFIA:** Banks and Other Financial Institution Act

**CAC:** Corporate Affairs Commission

**CBN:** Central Bank of Nigeria

**Credit Bureau:** Credit Reference Company - means an institution that collects information from creditors and available public sources on borrower's credit history. The bureau compiles the credit information on individuals/entities regarding their credits, credit repayments, court judgements, bankruptcies etc. and then creates a comprehensive credit record that may be sold to lending institutions and other authorized users.

**MTSO:** Money Transfer Service Operator

**Transaction:** A transfer sent or transfer received as the case may be.

**Transfer Amount:** the funds collected from the sender for a transfer, excluding applicable fees

**Banking & Payments System Department and Trade & Exchange Department**

**June, 2014**



**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

**CENTRAL BANK OF NIGERIA**

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**Ref: BPS/PSP/DIR/CIR/VOI.1/008**

**June 9, 2014**

**TO: ALL DEPOSIT MONEY BANKS, MICROFINANCE BANKS, PRIMARY MORTGAGE INSTITUTIONS**

**CIRCULAR ON THE PHASE III NATIONWIDE ROLLOUT OF CASH-LESS POLICY TO THE 30 REMAINING STATES**

In line with the directive of the Central Bank of Nigeria on the Cash-Less Policy, you are advised to note the following;

1. The Cash-Less Policy shall be extended nationwide, effective 1<sup>st</sup> July 2014.
2. All charges on deposits are hereby stopped with effect from 5<sup>th</sup> June 2014.
3. Charges on withdrawal remain sustained at the current 3% for individual transactions exceeding N500,000 and 5% for corporate transactions exceeding N3 Million.

All other details as contained in our earlier circular Ref: GOV/SSO/GEN/CLL/02/100, dated 3<sup>rd</sup> June 2014 remain the same.

**'DIPO FATOKUN**  
**DIRECTOR BANKING & PAYMENTS SYSTEM DEPARTMENT**

Approved

## Guidelines for Card Issuance and Usage in Nigeria

## **1.0 Preamble**

In exercise of the powers conferred on the Bank by Section 47 (3) of the Central Bank of Nigeria Act 2007 (as amended), to issue guidelines for the maintenance of adequate and reasonable financial services for the public and to ensure high standards of conduct and management throughout the banking system; and pursuant to its inherent powers, the Central Bank of Nigeria (CBN) hereby issues the following Guidelines for the Regulation of Card Issuance and Usage in Nigeria.

### **1.1 Objectives**

- I.** These guidelines have been developed to provide minimum standards and requirements for the issuance and usage of payment cards in Nigeria
- II.** It will enable issuing banks, other financial institutions, processors and cards schemes upgrade and maintain their card operations to ensure optimum security, efficiency, cost effectiveness and customer friendliness
- III.** Serve as a tool for banks and other financial institutions to assess their card issuance portfolio
- IV.** Ensure that consumers that carry Nigerian issued cards operate within acceptable standards
- V.** Encourage the use of Nigerian issued cards locally and internationally

### **1.2 Scope**

- I.** To all licensed banks and other institutions that participate in the issuance and processing of debit, credit, stored value/prepaid, virtual cards, either directly or through their subsidiaries, affiliated companies or third party associated companies.

## **2.0 Minimum Standards**

All industry stakeholders who process, transmit and/or store cardholder information shall ensure that their terminals, applications and processing infrastructure comply with the minimum requirements of the following Standards and Best Practices. In addition, all terminals, applications and processing infrastructure, should also comply with the standards specified by the various card schemes. Each vendor must provide valid certificates evidencing compliance with these standards, and must regularly review status of all its systems to ensure they are still compliant, as standards change.

There will be a continuous review of compliance with these and other global industry standards from time to time.

- 2.1 PA DSS –Payment Application Data Security Standard.
- 2.2 PCI PED – Payment Card Industry Pin Entry Device.
- 2.3 PCI DSS – Payment Card Industry Data Security Standard.
- 2.4 Triple DES – Data Encryption Standards should be the benchmark for all data transmitted and authenticated between each party. The triple DES algorithm is the minimum standard.
- 2.5 EMV – All cards issued and acquiring devices deployed, must comply with the minimum EMV requirements.

### **3.0 General Requirements**

- 3.1 Only banks licensed by the CBN with clearing capacity shall issue payment cards to consumers and corporations in Nigeria. Banks without clearing capacity can issue in conjunction with those with clearing capacity. However, where a partnership exists, the parties shall document service level agreements, delineating their responsibilities for the issuance of the cards. A copy of the Service Level Agreement shall be submitted to the Central Bank of Nigeria.
- 3.2 All banks shall seek approval from the CBN for each card brand and type they wish to issue.
- 3.3 The payment cards to be issued can be a “pay now”, such as debit and prepaid, or a “pay later”, such as credit and charge card. These can be operated in different forms, including, but not limited to: plastic cards; virtual card numbers (VCN), tag, etc.
- 3.4 The usage channels, limits and frequencies and other control measures shall be defined by the issuing banks.
- 3.5 The cardholder shall, in agreement with the issuing bank, have the flexibility to customize the usage limits, select transaction channels and other customizable features, to suit their personal risk preferences.
- 3.6 All payment card transactions shall be subject to current Nigerian Financial Intelligence Unit (NFIU) reporting requirements.
- 3.7 A cardholder or his/her estate shall, upon request, be entitled to receive a cash refund of the available balance (which belongs to the customer) in the card account from the issuing bank or institution.
- 3.8 Cards may be issued in Nigerian Naira or in any other convertible currency.
- 3.9 The international usage limits and frequencies for Naira denominated cards shall be defined by each participating bank. However these limits shall not

exceed the total combined amount of Foreign Currency that each individual can access via BTA and PTA per annum - which is currently \$150,000 per annum

- 3.10** All card issuers shall render monthly returns to the CBN on the volume of transactions and gross amount of transactions done internationally using their cards.
- 3.11** The issuer, its agent and card association must maintain an AML/CFT program, reasonably designed within the context of laws and regulations, to prevent the Card Association system from being used to facilitate money laundering or the financing of terrorist activities.
- 3.12** An issuer should have risk-management framework in place that enables it to identify, measure, monitor, and manage the range of risks that arise in or are borne by its operations.
- 3.13** In the application of customer fees for services rendered, Issuers shall be guided in their operations by the CBN's "Guide to Bank Charges". To reduce the burden of card costs to customers, payment cards must be valid (i.e. shall not expire) for at least 3 years from when the card is issued to the customer.
- 3.14** Issuers are expected to continuously educate cardholders on the following, amongst other things:
- I. Security tips for safeguarding cardholder information
  - II. Costs and charges associated with owning and using a payment card
  - III. Contact numbers to the Issuer's 24/7 contact centre in order to report cardholder issues or problems
  - IV. Dispute resolution process across the bank's products and channels
- 3.15** Issuers shall not levy any charge that was not explicitly indicated to the customer or cardholder.
- 3.16** Unsolicited cards should not be issued. Where an unsolicited card is issued and activated without the written consent of the recipient and the latter is billed for the same, or fraudulent activity occurs, the card issuer shall not only reverse the charges forthwith, but also pay a penalty, without objection to the recipient, amounting to twice the value of the charges reversed.
- 3.17** The verifiable consent of a customer shall be required before issuing a payment card or other products offered along with the card. Information to

the customer has to be explicit and not implied. The consent may be received physically or electronically.

**3.18** Card issuers shall continue to furnish customers or cardholders with details of the contractual terms and conditions, prior to activation. Such terms shall include at a minimum:

- i. Fees and charges;
- ii. Withdrawal limits;
- iii. Billing cycles;
- iv. Termination procedures; and
- v. Consequences of Default/theft/misuse of cards

**3.19** No card issuer or its agent shall deliver any card to a customer in a fully-activated state.

**3.20** A card issuer shall keep internal records over a sufficient period of time, in line with existing CBN guidelines, to enable easy tracking of card-related transactions.

**3.21** The issuer shall ensure full security of the payment card. The security of the payment card shall be the responsibility of the issuer and the losses incurred on account of breach of security or failure of the security mechanism shall be borne by the issuer, except the issuer establishes security breach on the part of the card holder.

**3.22** Issuers should ensure that the process of card issuance is completely separated from the process of PIN issuance, and done in accordance with best practices thus minimizing the risk of compromise.

**3.23** All domestic card transactions must be settled within a cycle of T + 1, while international transactions shall be settled as may be defined and reviewed by the settlement agent.

**3.24** All debit entries arising from failed transactions attributable to system-related issues must be auto-reversed. Where auto reversal is not feasible, manual reversal must be carried out within 24 hours.

## **4.0 Roles and Responsibilities of Card Issuers**

### **4.1 General**

**4.1.1** In order for a card to be used abroad, the issuing bank must have done full KYC on the customer, as reflected in the CBN KYC Manual and Money Laundering (Prohibition) Act.

- 4.1.2 Issuers shall implement a risk-based approach to setting volume and transaction limits. The risk attached to a customer will be based on KYC due diligence carried out during the customer on-boarding process.
4. 1.3 Issuers shall ensure that they understand the respective rules for the acceptance of their cards internationally and shall ensure that they make customers aware of any information that would be necessary in taking a decision on the card to use, when going overseas.
4. 1.4 Issuers shall give customers the opportunity to request for cards within the range of the bank's card products. For instance, if an issuer offers brand of cards such as Verve, Visa, MasterCard, Union Pay, etc, customers shall be free to choose any brand of cards issued. The available cards provided by the issuer must be explicitly stated on the card request form (physical or electronic) so that the customer can make an informed choice.
4. 1.5 Issuers shall also provide customers with a choice to specify limits for the volume and value of transactions that they would perform; such limits cannot be higher than the maximum limits, as specified in this Guideline.
4. 1.6 Issuers shall provide customers with the ability to specify when their cards should work abroad, and when it should not, as well as which countries they would like their cards to work in, at any particular time.
- 4.1.7 It is the responsibility of the issuing bank to work with the card schemes in providing the settlement and clearing facility for cards used outside Nigeria.

## **4.2 Transaction Processing**

- 4.2.1 Issuers shall ensure that their card information are hosted and processed within the PCIDSS certified environment.
- 4.2.2 Issuers shall implement systems that ensure that Exchange Control and transaction limits are complied with, and Issuers shall provide monthly reports that demonstrate that this is being complied with.
- 4.2.3 Card issuers must provide authorization services for their card transactions. Where this service is outsourced, the bank shall be responsible for all risk mitigation service efficiency.
- 4.2.5 An issuer must process a Chargeback for a transaction in accordance with the Card Association Operating Regulations. An Issuer sending Chargeback documentation must do so within the time period specified in the Card Association Operating Regulations.

### **4.3 Settlement**

**4.3.1** Settlement of domestic transactions shall be done within the standards defined by the CBN (T+1).

**4.3.2** Foreign currency shall be sourced from the autonomous FX market and Issuers shall leverage their foreign exchange licenses to access, buy or transfer foreign exchange to remit to international card schemes. Domestic card schemes shall appoint a domestic Settlement bank whom shall leverage its license as a regulated authority to buy and transfer the required volume of foreign exchange to international acquirers.

### **4.4 Fraud and Risk Management**

**4.4.1** Issuers shall establish Board or Executive Management approved AML program/policy that includes:

- i. Assessment of money laundering
- ii. Appointment of a Compliance Officer;
- iii. Annual Internal Audit/Independent testing of the AML program; iv. Periodic AML training for employees;
- v. Investigating and filing any reports of suspicious activity required under the Nigerian law.

**4.4.2** Issuers shall implement processes/reports/alerts to monitor potential instances of money laundering or terrorist financing.

**4.4.3** Issuers shall ensure that they issue cards from only the card schemes that have demonstrable fraud management systems.

**4.4.4** Liability shift rules shall apply when Nigerian issued EMV cards are used fraudulently on EMV compatible terminals where magnetic stripe fallback is enabled, or at nonEMV compatible terminals where the transactions is read as a fully magnetic stripe transaction.

**4.4.5** In the event that the acquirer operates in an environment where EMV compatibility is not enforced, the Nigerian Issuer must set limits, in order to reduce the issuer and the cardholder's exposure.

**4.4.6** Issuers are required to monitor their card production procedures to ensure that their EMV cards are properly produced. The issuer shall take full liability for any fraud from a fall back transaction that occurred as a result of improperly produced chip cards.

**4.4.7** The Card Issuer should implement system validation to detect potentially suspicious transactions. The Card Issuer may refuse to authorise a transaction or allow the Cardholder to make a payment into the card account if:

I. The Cardholder has exceeded an account limit (either aggregate or daily limit)

II. The transaction seems unusual, compared with the normal Card usage (such as unusual locations and spending patterns)

III. The Card Issuer reasonably believes that:

A. the Cardholder has used or obtained, or may use or obtain, a service or money illegally or fraudulently

B. A third party may have rights over money in the Cardholder account

IV. The transaction originates from a blacklisted merchant, in which case, the Issuer must provide proof of blacklisting to CBN, upon request.

**4.4.8** For card not present transactions, the minimum of 2<sup>nd</sup> level authentication for internet based transactions is mandatory.

**4.4.9** Issuers are expected to deploy robust fraud monitoring tools that have the capacity to monitor customer transaction trends, real-time operations and option of blocking suspicious transactions.

**4.5.0** Any trapped card in the ATM shall be rendered unusable (by perforation) by the Acquirer and returned to the Issuer on the next working day.

## **5.0 Specific Requirements for Stored Value Cards (Individual and Corporate)**

**5.1** No stored value card shall be issued to a person without obtaining the minimum KYC.

**5.2** The maximum amount that can be loaded on the stored value card shall not exceed N50,000 per day.

**5.3** The fee for loading salary payments unto a payment card shall be paid separately by the salary payer and not deducted from the balance value of the stored value card.

**5.4** The maximum balance on the stored value card shall not exceed N250,000 at any time.

**5.5** The limits specified for stored value cards shall also apply to cards linked to mobile money wallets, where least KYC (Phone Number and Name) has been performed on the mobile money customer.

**5.6** Issuers can offer stored value products, but not limited to the following segments:

- i. Consumers: General Purpose Reloadable (GPR), Travel, Student, loyalty/reward and On-line
- ii. Corporations: Payroll, Incentives, Per Diem, Corporate Travel and Healthcare
- iii. Public Sector: Social Benefits, Payroll, Procurement, Meal Vouchers, Disaster Relief

## **6.0 Specific Requirements for Prepaid Cards (Individual and Corporate)**

**6.1** Prepaid cards issued will operate at least within the minimum KYC requirements prescribed by the CBN. However, loadable limits (in Naira and Foreign currency) and daily balances shall be determined by the issuing bank or financial institution.

**6.2** No prepaid card shall be issued beyond the limits of a stored value card to a person or a corporate organization. Where a customer desires to do transactions beyond the limits prescribed above, full KYC would be required. Please, refer to CBN KYC Manual and Money Laundering (Prohibition) Act.

**6.3** The maximum withdrawal and spending limits for the Prepaid Cards will be determined by the issuing bank.

**6.4** The limits specified for Prepaid Cards shall also apply to cards linked to mobile money wallets, where full KYC has been performed on the mobile money customer.

## **7.0 Specific Requirements for Debit Cards**

**7.1** Debit cards shall be issued to customers having Savings /Current Accounts.

## **8.0 Specific Requirements for Credit and Charge Cards (Individual and Corporate)**

**8.1** An issuer should identify sources of credit risk, routinely measure and monitor credit exposures, and use appropriate risk-management tools to control these risks and minimize credit and charge cards defaults.

**8.2** Credit and charge cards to be issued in Nigeria include but are not limited to the following:

- I. General purpose cards - Issued under the trademark of credit card associations, accepted by all merchants
- II. Private label cards: accepted by specific retailers (e.g. a departmental store)

**8.3** Change(s) in charges (other than interest) may be made only with prospective effect giving notice of at least one month. If a credit cardholder desires to surrender his credit card on account of any change in credit card charges to his disadvantage, he may be permitted to do so without the bank levying any extra charge for such closure. Any request for closure of a credit card has to be honoured immediately by the credit card issuer, subject to full settlement of dues by the cardholder.

**8.4** Issuers should not unilaterally upgrade credit cards and enhance credit limits. Prior consent of the borrower should invariably be taken whenever there are any change(s) in terms and conditions.

**8.5** In the matter of recovery of dues, banks should ensure that they or their appointed agents conduct themselves in a manner that is courteous, ethical and professional.

## **9.0 Dispute Resolution**

### **9.1 Domestic Transactions**

Where a customer has a dispute to resolve, the customer shall report it to the Issuer. The Issuer, working with the respective Card Scheme shall ensure that disputes are resolved within internationally acceptable timeframes for disputed international transactions. The timeline for the resolution of domestic transaction disputes shall be T+2, commencing from the date of the transaction. The Acquirer shall initiate the resolution, even without the prompting of the issuing bank.

### **9.2 International Transactions**

The timeline for dispute resolution for international transactions shall be as specified by the card scheme.

## **10.0 Submission of Statutory Returns**

Issuers shall, at the end of every month, and not later than the 10th day of the next month, submit data and other information on card transactions to the CBN. The following are the minimum information that must be included in the Returns:

- i) Type, value and volume of transactions, on a monthly basis.
- ii) Separation of the type, value and volume by transaction type, card type (by card scheme and by debit, credit, charge, stored value and prepaid card), channel (internet, POS, ATM), local and foreign transactions.
- iii) Incidents of fraud, theft or robbery on cards, card data, etc.

- iv) Reports of foreign exchange remitted to international card schemes and international acquirers, respectively
- iii) Type and number of customers' complaints and remedial measures taken

This reporting format may be changed from time to time, as specified by the CBN.

### **11.0 Annual Reporting**

Card Issuers shall include in its annual reports and accounts, all activities of its card operations.

### **12.0 Powers of the CBN over Card Issuers and their agents.**

In addition to any other power conferred on the CBN, the Bank shall have power to:

- i) Request for any information from any card issuer at any time, as the Bank may deem necessary;
- ii) Carry out spot or scheduled inspection of the books and premises of the Issuer or its agent;
- iii) Direct a Card Issuer or its agent to take such actions or desist from such conduct as the CBN may find necessary.

### **13.0 Remedial Measures**

If a Card Issuer fails to comply with these Guidelines, the CBN may take any corrective action against the Card Issuer, as may be considered appropriate.

### **14.0 Sanctions**

In addition to the use of remedial measures, the Bank may take any or all of the following sanctions against the Card Issuer, its board of directors, officers or agents:

- i. Prohibition from issuing new cards to its customers;
- ii. Revocation of approval to issue a specified card brand to its customers;
- iii. Monetary Penalties;
- iv. Any other regulatory sanction that may be deemed appropriate.

### **15.0 Amendment to the Guidelines**

These guidelines may be amended by the CBN from time to time, in whole or in part, as it is deemed necessary.

## 16.0 Previously released Guidelines

Unless expressly overwritten in this document, these Guidelines supersede all previously released CBN Guidelines on Card Issuance and Usage in Nigeria.

## 17.0 Definition of Terms

- a) ATM - Automated Teller Machine
- b) AML/CFT - Anti-Money Laundering/Combating the Financing of Terrorism
- c) CBN - Central Bank of Nigeria (also referred to as the Bank)
- d) Banks - Commercial, specialized, merchant and other licensed financial institutions
- d) EMV (Europay, MasterCard, Visa) - The global standard that ensures smart (Chip-andPIN) cards, terminals and other systems can interoperate.
- e) Stored-value cards - Payment cards where money is on deposit with the issuer, but the card account is not linked to a current or savings account. Funds and data on a stored value card are metaphorically 'physically' stored on the card. Stored value cards are usually anonymous in nature and issued outside of banking halls.
- f) Prepaid cards - Payment cards where money is on deposit with the issuer, but the card account is not linked to a current or savings account. Funds and data are maintained on computer systems affiliated with the issuer.
- g) Credit card - Refers to a payment card assigned to a cardholder, usually with a credit limit, that can be used to purchase goods and services on credit or obtain cash advances. Credit cards allow cardholders to pay for purchases made over a period of time, and to carry a balance from one billing cycle to the next.
- h) Charge Card – A charge card is a credit card that requires all outstanding to be settled on due date without the feature to revolve balances (i.e., carry a balance to the next billing cycle).
- i) Payment Cards - are cards issued by a CBN licensed issuer to cardholders (individuals or corporates) and accepted at terminals (ATMs, POS, Web, Mobile, Kiosks etc.) to make payments, purchases or withdrawals. Payment Cards shall be governed by CBN rules and shall comply with the rules of the applicable domestic or international Card Scheme. Closed Scheme cards (cards issued by a merchant or institution that can only be used within that merchant or institution) are not Payment Cards.
- j) PIN - Personal Identification Number

- k) VCN - Virtual Card Numbers
- l) NFIU - Nigerian Financial Intelligence Unit
- m) NDIC - Nigerian Deposit Insurance Corporation
- n) BTA - Business Travel Allowance
- o) PTA - Personal Travel Allowance
- p) KYC - Know Your Customer
- q) FX - Foreign Exchange
- r) GPR - General Purpose Reloadable
- s) PoS - Point-of-Sale

### **Banking and Payments System Department**

**May, 2014**



**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

**CENTRAL BANK OF NIG**  
Central Business District  
P.M.B. 0187,  
Garki, Abuja.  
+234 - 0946238445

April 22, 2014

REF: BPS/DIR/GEN/CIR/01/004

TO: ALL DEPOSIT MONEY BANKS (DMBs), SWITCHES AND PROCESSORS.

**CIRCULAR ON THE TIMELINE FOR PCIDSS CERTIFICATION BY ALL DEPOSIT MONEY BANKS, SWITCHES AND PROCESSORS.**

Consequent upon our circular on the need to combat card fraud, referenced BPS/DIR/GEN/CIR/01/08, dated 25<sup>th</sup> May, 2012, mandating all banks to comply with the Payment Card Industry Data Security Standards (PCIDSS) before 31<sup>st</sup> December, 2012, many banks requested for an extension of the deadline, to enable them complete the certification process.

In order to determine the readiness of the various operators, the Central Bank of Nigeria engaged the services of three Qualified Security Assessors (QSAs), to conduct Pre-certification assessment of the banks.

The result of the Pre-certification assessment revealed that while many banks and processors have complied with the Standard, some are in various stages of compliance.

In view of the above, all Deposit Money Banks (DMBs), Switches and Processors are required to be PCIDSS certified, on or before 30<sup>th</sup>, November 2014.

Please note that the Central Bank of Nigeria would invoke appropriate sanctions for non-compliance with the provision of this circular.

A handwritten signature in black ink, appearing to read 'Dipo Fatokun', written over a horizontal line.

**'Dipo Fatokun**

**Director, Banking & Payments System Department**



**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

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BPS/DIR/GEN/CIR/01/002

MARCH 27, 2014

CIRCULAR TO ALL DEPOSIT MONEY BANKS

**IMPLEMENTATION OF E-REFERENCE OPERATIONS IN NIGERIA**

As a further step in enhancing the efficiency of the payments system in the country, the Central Bank of Nigeria hereby issues the Guidelines on the implementation of the Electronic Reference (e-Reference) Portal by the industry, with immediate effect.

The e-Reference system is a web based automated document management system, designed to process customer account references, and is capable of eliminating the inefficiencies characteristic of the old ways of manual reference processing system. The implementation of this solution ensures that inter-bank references become faster, more efficient and traceable, by both the presenting and receiving banks. It is also designed to enhance compliance with the existing Know Your Customer (KYC) directives.

The e-Reference Portal, which is hosted by the Nigeria Inter-Bank Settlement System (NIBSS) Plc, requires that receiving banks respond to inward references within three (3) working days. Other operational details are contained in the attached Guidelines for e-Reference Operations. Please be guided.



Dipo Fatokun

**Director, Banking & Payments System Department**



**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

**CENTRAL BANK OF NIGERIA**  
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REF: BPS/PSP/GEN/CIR/05/001

March 05, 2014

TO: ALL DEPOSIT MONEY BANKS (DMBs)

**CIRCULAR ON THE NEED TO INSTALL ANTI-SKIMMING DEVICES ON ALL ATM TERMINALS**

The Central Bank of Nigeria has observed with satisfaction, the growth in the adoption of Automated Teller Machines (ATMs), by Nigerians, as one of the channels of e-payment. The Bank is therefore committed to ensuring that the deployment and management of ATMs are in line with global best practices.

However, we have observed with dismay, an upward increase in the number of ATMs related fraud in the banking system. This development does not portend good for the industry and requires urgent steps to curb the abuse.

Consequently, in addition to the existing guidelines on card related frauds and in order to guard against Card Skimming at ATM channels across the country, all DMBs are hereby mandated to comply with the provisions of section 3.2 "ATM Operations" and 3.4 "ATM Security" of the Standards and Guidelines on Automated Teller Machine (ATM) Operations in Nigeria and also install risk mitigating devices on their ATM terminals on or before June 1, 2014.

The CBN would inyoke appropriate sanctions for non-compliance with this circular.

A handwritten signature in black ink, appearing to read 'Dipo Fatokun', written over a horizontal line.

'Dipo Fatokun

**Director, Banking & Payments System Department**

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**GUIDELINES FOR NIGERIAN BANKING INDUSTRY**  
**ELECTRONIC REFERENCE PORTAL OPERATIONS**

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# **1 Executive Summary**

## **1.1 Introduction**

The Financial Services sector in Nigeria has passed through many phases of development within the last decade, as a result of Central Bank of Nigeria's (CBN's) active development and supervisory initiatives to evolve a stronger and more dynamic banking system. Despite all the efforts, only an insignificant percentage of the more than 140 million Nigerians are currently banked. This is alarming and grossly unimpressive, considering the need for effective monitoring and control of, as well as, planning the economy by both the Government and the Central Bank of Nigeria (CBN).

Besides high illiteracy level and low confidence in the Financial System, a major reason for this relatively small number of account holders is the inter-bank reference bottleneck which makes it difficult for new accounts to be opened speedily. At times, the prospective bank customers get frustrated and eventually abandon the process of opening a bank account.

The Nigeria Inter-Bank Settlement System (NIBSS) Plc, in fulfilment of her sharedservice mandate and in conjunction with the Committee of Heads of Bank Operations (CHBO) has agreed to develop an electronic reference (e-Reference) portal, such that account opening processes of Nigerian banks can be fast-tracked with regards to interbank referencing.

## **1.2 Objectives**

- a. To eliminate the manual process of inter-bank reference forms exchange.
- b. To enhance the efficiency of reference clearing in Nigeria.
- c. To ensure accountability of reference documents.
- d. To reduce the turn-around time for confirming references for new accounts.
- e. To provide a common secure web-based platform for the exchange of documents within the Financial Services Industry
- f. Reduce the cost of printing of manual reference for the whole industry

## **1.3 Stakeholders**

- a. Banks
- b. NIBSS
- c. Banking Public (Indirect)

## **2 Electronic Reference Portal as a Solution for Inter-Bank Referencing & Document Exchange**

### **2.1 What is e-Reference Portal?**

This is a web-based document management system, by which one entity can send documents electronically (e-documents) to the other, within the Nigeria Banking System. This system is designed, necessary and important for timely Inter-Bank reference processing.

### **2.2 System Features**

- a. Secure web-based platform, hence there will be no direct interconnection requirements among banks.
- b. Clearing of paper-based not-for-value inter-bank items.
- c. Bank user from any branch will be able to upload scanned completed reference forms as well as any other document for the attention of another bank.
- d. Presenting Bank user will be able to search/view/download e-documents/forms approved or rejected by the Receiving Bank.
- e. Receiving Bank user will be able to search/view/download and treat incoming edocuments/forms from other banks.
- f. On-Line-Real-Time follow-up by Presenting Bank.
- g. On-Line-Real-Time approval by Receiving Bank.
- h. Regulatory authorities will be able to monitor defaulting Receiving Banks.

### **2.3 Scalability**

- a. NIBSS Administrator will be able to create as many bank administrators as requested by the banks
- b. Bank Administrator will be able to create users (Operators and Authorizers).
- c. System will be able to accept scanned input from any machine compatible with the host operating system.

### **2.4 Security**

The confidentiality, integrity and authenticity of data are ensured by the implementation of the following security measures:

- a. Input/uploads will be done directly into the system via secure VPN.
- b. All transmitted data will be encrypted and compressed appropriately.

Administrators will use a 2-factor authentication username and password

## **2.5 Document Specifications**

- a) Size : A4 maximum (8.27" x 11.29")
- b) Type: Portable Document Format (PDF)
- c) Color: Black & White
- d) Dot per inch: 200dpi (maximum)

## **3 Operations Work Flow**

### **3.1 Creation of Users**

- a. NIBSS will create Admin users for each Financial Institution (based on formal application/instruction) who in turn will create all internal users.
- b. Bank Admin User will create two users per location:
  - I. Operator (will upload scanned items and complete other details online)
  - II. Authorizer (will approve Operator"s work online before items are registered as valid Outward/Inward Items)
- c. Bank Admin user will be able to block the privileges of any user s/he created earlier in the system.
- d. NIBSS Administrator will be able to block Bank Admin User earlier created or replace him/her with another user on Bank"s formal instruction.
- e. Bank/NIBSS Admin User will not be able to upload, approve or transmit references.

### **3.2 Outward Operation (Presenting Bank)**

- a. Operator logs into the e-reference portal.
- b. User uploads scanned reference document from his/her workstation and completes online details.
- c. E-reference portal marks document as „awaiting approval“.
- d. Authorizer logs into the e-reference portal to view items „awaiting approval“.
- e. Authorizer approves or rejects document.
- f. Approved items are immediately transmitted to Receiving Bank.
- g. Rejected items are immediately returned to the Operator with a reason.
- h. Operator (e-reference portal deletes item permanently and starts afresh each successfully transmitted item is issued a unique identification number for auditing and tracing purposes.

It is important to note that the status of references are color-coded and transparent across the portal. Each user knows at any point in time the status of an outward/inward reference.

### **3.3 e-Reference Clearing Processing**

- a) e-Reference portal receives approved outward items from Presenting Banks.
- b) Items are instantly transmitted to the Receiving Bank.
- c) Presenting Bank immediately receives acknowledgement of delivery.

### **3.4 Inward Operation (Receiving Bank)**

- a. Both Operators and Authorizers will be able to view detailed and summary incoming items for confirmation.
- b. Operator marks each verified item as „confirmed“ or „rejected“.
- c. Authorizer will be able to view and mark „confirmed“ or “rejected” items by the operator as “Approved” or “Not Approved”.
- d. “Not Approved” items will be marked in the e-Reference portal with appropriate reject reason(s) as in Appendix 1. (multiple selection of reject reasons should be possible and at least one reason MUST be selected)
  - i. Incorrect Signature
  - ii. Bad Image
  - iii. Account Closed
  - iv. Non-Current Account
  - v. Account does not exist
  - vi. Account status not qualified for referencing
  - vi. Beneficiary not known to referee
  - vii. Others.
- e. All treated items should be immediately available to both Presenting and Receiving banks
- f. Both users will be able to view/download own items “Approved” or “Not Approved” by other banks

### **3.5 Reports**

Generally, reports will be produced based on „From“, „To“ „dates“, „Status“ supplied by users. The statuses will be „Due“, „Past Due“, „Pending“, „Approved“ and „Not Approved for both Outward and Inward items.

- a. Due ref as Pbank will contain detailed presented items bank-wide.
- b. Due ref as Summary Pbank will contain summarized presented items bank-wide.
- c. Due ref as RBank will contain detailed received items bank-wide.
- d. Due ref as Summary RBank will contain summarized received items bank-wide.
- e. Control report will contain detailed „past due“ items and for how long they have been so.
- f. System should be able to send Control Report per bank to at least two designated email addresses in each bank every Monday morning.
- g. System should be able to visually advise users of all their inward „past due“ items daily.
- h. Statistics report will provide MIS details of e reference portal clearing operations per bank and Industry.

### **3.6 e-Reference Clearing Cycle**

The e-Reference Clearing Cycle shall be T+3 .

In the event that a Bank refuses to respond to an inward reference confirmation request after the T+3 cycle, an escalation mail will be sent by the portal to the Authorizer, the Head of Domestic Operations and the Head of Operations of the Bank concerned. Under no circumstance shall Reference confirmations be deemed okay when there is no response from the receiving Bank.

## **4 Responsibilities of Stakeholders**

### **4.1 Presenting Bank**

- a. Ensure clarity of scanned images as poor quality images will be a valid ground for rejection.
- b. Ensure references are sent timeously to referees“ Bank.

### **4.2 Receiving Bank**

- a. Ensure speedy response to all incoming items.
- b. Respond to rejected items with valid reasons.

### **4.3 NIBSS**

- a. Ensure maximum system uptime.

- b. Ensure speedy response to banks request for creating/changing/removing Bank Admin User.
- c. Regular maintenance of system application, database and operating systems.

## **5 Commercials**

The usage of the e-Reference Portal, amongst other financial industry portals being offered by NIBSS shall subsist on:

1. The Payment of Annual Subscription Fee of One Million Naira Only (₦1,000,000.00) for access to the usage of all NIBSS Portals
2. The payment of e-Reference Processing Fee of Fifty Naira Only (₦50.00) by reference Presenting Bank

## 6. APPENDICES

### 6.1 APPENDIX - REJECT REASONS

1. Incorrect Signature
2. Bad Image
3. Account Closed
4. Non-Current Account
5. Account does not exist
6. Account status not qualified for referencing
7. Beneficiary not known to referee



**CENTRAL BANK OF NIGERIA**

**Central Business District  
P.M.B. 0187,  
Garki, Abuja.**

**BANKING AND PAYMENTS SYSTEM DEPARTMENT**  
REF: BPS/DIR/CIR/GEN/02/031

Tuesday, 02 July 2013

**To: All Deposit Money Banks,  
EFT Switches,  
Mobile Money Operators and  
Other Financial Institutions**

**SUBMISSION OF FRAUD REPORT ON E-CHANNELS USING A COMMON PORTAL FOR  
THE PAYMENTS INDUSTRY**

In furtherance of its effort in the development of a safe, reliable and efficient payments system in Nigeria, the Bank undertook some major initiatives. One of such initiatives was the establishment of Nigeria Electronic Fraud Forum (NeFF).

The NeFF in conjunction with CBN and NIBSS developed and operationalised a fraud reporting portal for the industry. The purpose of the Portal was to provide a controlled environment where participants in the payments industry could share fraud experiences with a view to providing for better education and strategic preventive methodology that could reduce the incidences and amounts lost to fraudsters.

In order to sustain public confidence in the Payments System, especially for the successful implementation of Cashless Nigeria Project, it is imperative for all the stakeholders to collaborate with a view to addressing fraud risks and its associated challenges.

It has therefore, become necessary for all the Banks, EFT Switches, Mobile Money Operators and other Financial Institutions to get in touch with NIBSS Plc, for training and access rights to the portal, amongst others. The registration process should be completed not later than 12<sup>th</sup> July 2013 while "fraud report on e-channels" using the approved format should be uploaded to the portal every Monday following the reporting week.

Should you require further clarification, please do not hesitate to contact [seviaden@nibss-plc.com](mailto:seviaden@nibss-plc.com) (08033339244)

Kindly note and ensure strict compliance, as defaulters would be sanctioned.

A handwritten signature in black ink, appearing to read 'Diipo'.

**'DIPO FATOKUN**  
**Director, Banking and Payments System Department**



**Internal Memorandum**

BPS/DIR/GEN/CIR/01/015

May 17, 2013.

To: All Deposit Money Banks

**EXTENSION OF CASH- LESS POLICY TO FIVE STATES AND THE FCT**

In line with the decision of the Bankers Committee at its meeting of 12<sup>th</sup> February, 2013, the Cash-less policy would be extended to the following five states: Abia, Anambra, Kano, Ogun, Rivers and the Federal Capital Territory, with effect from July 1, 2013.

In view of the above, branches of Deposit Money Banks in the affected states are expected to commence:

1. The enlightenment of their customers on the Cash-less policy, including the existing limits on cash withdrawals and deposits for individuals and corporate bodies, as well as the available e-payment options.
2. Training of staff on the Cash-less policy, in order to provide answers to enquiries and handle issues/customers' complaints, as well as provide advice on the policy.
3. Media communication by the banks to complement existing CBN's and Bankers' Committee's media campaign.
4. Engagement of banks' key customers and other stakeholders

All banks are to ensure that their Cash-less teams in the affected states liaise properly with the Cashless office in the CBN for necessary clarification and further assistance, if required.

Please note that the implementation team will perform spot checks on banks branches in the phase II locations to ensure readiness and compliance.

f Director, Banking and Payments System Department.



**CENTRAL BANK OF NIGERIA**  
Central Business District  
P.M.B. 0187,  
Garki, Abuja.

**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

Re: BPS/DIR/CIR/04/2013

May 9, 2013

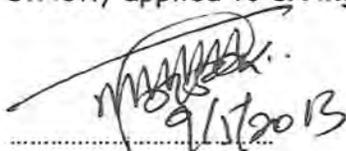
**CIRCULAR TO DEPOSIT MONEY BANKS, CHEQUE PRINTERS AND  
OTHER STAKEHOLDERS ON THE ACCREDITATION OF CHEQUE  
PRINTERS FOR 2013/14**

In furtherance of its mandate to ensure an efficient payments and Settlement System, the Central Bank of Nigeria, in collaboration with the MICR Technical Implementation Committee conducted the accreditation and re-accreditation exercise of cheque printers in Nigeria in line with the Nigeria Cheque Printers' Accreditation Scheme (NICPAS) qualification criteria. At the end of the exercise, the following Cheque Printers were accredited to print cheques and other "debit pull" paper instruments for the Nigerian Market:

- (1) Superflux International Ltd
- (2) Tripple Gee and Company Plc

Foreign based printers were neither accredited nor re-accredited in line with the Bank's policy to domesticate cheque printing in Nigeria. Consequently, all banks are by this circular, reminded to patronize only the CBN accredited cheque printers. It is instructive to note that the accreditation exercise is on-going and more local printers may be added to the list in the future, if they satisfy the NICPAS requirements.

Please be guided and note that henceforth, appropriate penalties shall be strictly applied to erring institutions for noncompliance.

  
9/17/2013

**Dipo Fatokun,**  
Director,  
Banking and Payments System Department



4<sup>th</sup> March, 2013

BPS/DIR/GEN/CIR/01/001

**TO ALL DEPOSIT MONEY BANKS**

**CIRCULAR TO ALL NIGERIAN DEPOSIT MONEY BANKS,  
MICROFINANCE BANKS & PRIMARY MORTGAGE BANKS ON THE  
NATIONWIDE ENCASHMENT OF 3<sup>RD</sup> PARTY CHEQUES ABOVE  
N150,000.00 OVER THE COUNTER OF BANKS AND STOPPAGE OF  
CHARGES ON 3<sup>RD</sup> PARTY CHEQUES BELOW N150,000.00**

In recognition of its role in the development of an efficient payments and settlement system, the Central Bank of Nigeria undertook some major initiatives to modernise the system. One of such initiatives was that 3<sup>rd</sup> party cheques above ₦150,000.00 shall not be eligible for encashment over the counter. It has been observed that the policy has succeeded immensely in the Lagos area and has also contributed to the reduction of fraud on cheques and aided the National Financial Inclusion (NFI) strategy.

In view of the above, all banks are hereby directed to ensure the implementation of ₦150,000.00 limit on 3<sup>rd</sup> party cheques that could be cashed over the counter nationwide, with effect from June 1, 2013.

It has also been observed that some banks charge their customers in respect of payments of 3<sup>rd</sup> party cheques below ₦150,000.00, cashed over the counter. By this circular, all banks are hereby directed to stop charging their customers for 3<sup>rd</sup> party cheques of up to ₦150,000.00, cashed over the counter.

Kindly note and ensure strict compliance.

**Dipo Fatokun**

**Director, Banking & Payments System Department**

**09-46238455**



**CENTRAL BANK OF NIGERIA**

**GUIDELINES FOR THE REGULATION OF AGENT BANKING AND AGENT  
BANKING RELATIONSHIPS IN NIGERIA**

## SECTIONS

1. Definition of Agent Banking
2. Application and Approval Requirements
  - 2.1. Documentary requirements
  - 2.2. Agent Structure
  - 2.3. Information requirements for agent structure
  - 2.4. Renewal of engagement
  - 2.5. Monitoring of Agent Banking relationships
3. Minimum Requirements of Agent Banking Contract
4. Establishment of agent Banking relationship
  - 4.1. Agent eligibility
5. Assessment of Agents
  - 5.1. Suitability assessment of an agent
  - 5.2. Moral and professional suitability of a prospective agent.
  - 5.3. Agent due diligence
6. Key Roles & Responsibilities of the Financial Institution
  - 6.1. Management of agent banking business
  - 6.2. Permissible activities
  - 6.3. Prohibited activities
  - 6.4. Operational and Transactional Limits
7. Rules on exclusivity of agents
8. Supervision of agents
9. Publication of list of agents and locations
10. Relocation, transfer and closure of agent premises
11. Settlement of transactions and the technology requirement
  - 11.1. Real time transactions
  - 11.2. Minimum IT requirements for the operation of agent banking

- 11.3. Data and Network Security Requirements
- 12. Third-Party Service Providers
- 13. Risk Management
- 14. Money Laundering
  - 14.1. Customer due diligence
  
  - 14.2. Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) requirements;
- 15. Consumer protection measures
  - 15.1. Minimum requirements
- 16. Disclosures
- 17. Branding and Advertisement
- 18. Dispute Resolution
- 19. Submission of statutory returns
  - 19.1. Annual Reporting
- 20. Powers of the CBN over agents.
- 21. Remedial measures
- 22. Sanctions
- 23. Amendment to the Guidelines

# **Guidelines for the Regulation of Agent Banking and Agent Banking Relationships**

## **A. Preamble**

In exercise of the powers conferred on the Bank by Section 2 (d) of the Central Bank of Nigeria Act, 2007 and Section 57 (2) of the Banks and Other Financial Institutions Act (BOFIA), Laws of the Federation of Nigeria, 2004 to issue guidelines for the maintenance of adequate and reasonable financial services to the public, the Central Bank of Nigeria (CBN) hereby issues the following guidelines for the regulation of Agent Banking and Agent Banking Relationships in Nigeria.

## **B. Objectives**

The objectives of the guidelines are to:

- provide minimum standards and requirements for agent banking operations;
- enhance financial inclusion; and
- provide for agent banking as a delivery channel for offering banking services in a cost effective manner.

### **1. Definitions**

#### **Agent Banking**

Agent banking is the provision of financial services to customers by a third party (agent) on behalf of a licensed deposit taking financial institution and/or mobile money operator (principal).

#### **Principal**

For the purposes of this document the principal shall at all times be a deposit taking Financial Institution and/or Mobile Money Operator (MMO).

#### **Agent**

An agent is an entity that is engaged by a financial institution to provide specific financial services on its behalf using the agent's premises.

#### **Associate**

For the purpose of this guidelines; an associate of an FI may be an employee (current or former), his/her relations, including spouse, parent, children or any person with a pecuniary interest with the Financial Institution (FI).

#### **Premises**

The physical location or place used by the agent to conduct business.

#### **Financial Institution (FI)**

For the purposes of this document a financial institution shall be any institution licensed by the CBN to accept deposits and conduct banking or other financial services as defined by BOFIA and the licensed Mobile Money Operators

### **Third Party Service Providers**

These shall mean parties other than the principal and agent who are in contract with either the principal or agent specifically relating to the existing agent banking relationship.

### **Agent Banking Database**

This shall mean the database of all approved agent banking relationships, locations, agents and principal that exist in the country.

### **Super-Agent**

A super-agent is an agent that has been contracted by the principal and thereafter may subcontract other agents in a network while retaining overall responsibility for the agency relationship.

### **Sole Agent**

A Sole agent is an agent who does not delegate powers to other agents but assumes agency relationship/responsibility by himself.

### **Sub-Agent**

A sub-agent is a person to whom some or all aspects of the agent banking have been delegated by a Super-Agent.

### **Bank-led model**

The Bank led model is a general agency arrangement where only a bank may act as a principal in forming agent banking relationships.

### **Non-bank led model**

The non-bank led model of agent banking is a general agency arrangement where parties other than banks may act as principal in forming agent banking relationships.

### **AML/CFT**

This means Anti-Money Laundering and Combating Financing Terrorism

### **KYC**

Know Your Customer

## **Proprietor and Partner**

A “proprietor” or “partner” under this Guideline shall, in respect of other unincorporated entities include reference to persons and their titles as they are known or referred to under those unincorporated entities.

## **Receipts**

For purposes of this document, receipts shall include all forms of durable and verifiable acknowledgements including, paper, email and SMS.

## **Real Time Transactions**

This means the processing of instructions on an individual basis at the time they are received rather than at some later time.

## **2. Application and Approval Requirements**

Any financial institution that wishes to engage in agent banking shall submit an application for approval to the CBN. The application shall clearly state the extent of agent banking activities and responsibilities of the relevant parties.

The application shall be submitted to the Office of the Director, Banking & Payments System Department, CBN, Abuja. All applicants shall supply information to the CBN as may be required from time to time.

Information required by the CBN for agent banking licence shall include:

- a. Name of the applicant
- b. Postal Address/email
- c. Business Address
- d. Telephone number
- e. Company Registration Number/certificate
- f. Feasibility Study for the agent relationship

### **2.1 Documentary Requirements**

All applications for agent banking shall be addressed to the Director, Banking & Payments System Department, CBN, Abuja and accompanied with the following:

- i. Board Approval
- ii. A document that shall outline the strategy of the FI including current and potential engagements, geographical spread and benefits to be derived

- iii. Qualifying criteria for engaging agents e.g.
  - a. Outreach
  - b. Competence
  - c. Integrity
  - d. Others
- iv. Service Level Agreements (SLAs) and Agent Banking Contract
- v. Risk management, internal control, operational procedures and any other policy and procedures relevant to the management of an agent banking arrangement.
- vi. Proposal for KYC and AML/CFT compliance.

## **2.2 Agent Structure**

The responsibility for the selection of agents lies solely with the FI, subject to the following allowable agent structures:

- i) Super-Agents: These are agent networks that shall establish a collection of outlets or franchise within its wide network of outlets that shall be under its supervision and control.
- ii) Sole-Agent: A sole agent is an agent who does not delegate powers to other agents but shall assume the agent banking relationship/responsibility by himself.
- iii) Sub-Agents: These are networks of agents that shall be under the direct control of a superagent as may be provided in the agent banking contract.

## **2.3 Information Requirements for Agent Structure**

Within each agent category, the FIs shall clearly state the agent structure adopted. In addition, any structure adopted shall contain among others, the following information:

- i. Name(s) of agent(s).
- ii. Location(s) of activities.
- iii. Terms of engagement, itemizing all commercial activities the agent is currently engaged in and all proposed responsibilities.
- iv. Signed declaration by agents.

FIs shall require all agents to submit updated information annually or as soon as any change occurs.

#### **2.4 Renewal of Engagement**

Licensed institutions are advised to renew all agent agreements biennially except otherwise required.

#### **2.5 Monitoring of Agent Banking relationships**

The CBN shall, at least on an annual basis, monitor FI/agent relationships; compliance with laid down guidelines and regulations. Where the need arises or in response to specific issues, the CBN shall conduct monitoring visits to any agent(s).

The approach for monitoring super-agent would differ from other agent types in view of the probable higher risk, liquidity management and consequences of failure. In the case of super agents the CBN shall require full disclosure on persons or entities that control more than 10% or more of the share capital or has powers to exercise significant influence over the management.

### **3. Minimum Requirements of Agent Banking Contract**

- i. Every agent banking contract shall contain reference to the FIs full liability with respect to customers, and it shall specify the obligation of both the FI and the agent.
- ii. The principal is allowed to use a third party (e.g. a network manager) to manage its agent network. However, all agents sign ups must be approved by the principal.
- iii. FIs shall itemize all activities that the agent shall be conducting on its behalf or limitations on any such activities.
- iv. These may include:
  - a. Account opening, deposits and withdrawals
  - b. Fund transfer services
  - c. Bills payments
- v. Fees and all charges in respect of the agent banking shall be explicitly stated in the contract.
- vi. Responsibility for payment of expenses (directly or indirectly) relating to the activities of the agency shall also be explicitly stated.

- vii. Responsibility for provision of infrastructure and procurement of third party service providers including undertaking for service provision shall be explicitly stated.
- viii. All agent banking contracts shall have a dispute resolution clause.
- ix. Agents shall not be permitted to charge any fees directly to customers, and details of remuneration for the agent shall be specified in the contract between the agent and the principal.
- x. Measures to mitigate risks associated with agent banking services to include; limits on customer transactions, cash management, cash security, security of agent premises and insurance policies.
- xi. The FI shall be responsible for all actions or omissions of the agent notwithstanding anything contained in the contract to the contrary; provided they relate to banking services or matters connected therein.
- xii. The CBN shall have free, full, unfettered and timely access to the internal systems, documents, reports, records, staff and premises of the agent in so far as the agent banking business is concerned and shall exercise such powers as it may deem necessary.
- xiii. Compliance with AML/CFT and KYC requirements is mandatory.
- xiv. The agent shall be under obligation to deliver transaction support documents to the principal.
- xv. A statement that all information or data that the agent collects in relation to agent banking services, whether from the customers, the FIs or from other sources, is the property of the FI and such information shall be kept confidential.
- xvi. Remedial action available to the FI in the event of agent failure to discharge its stipulated obligations.
- xvii. Agent's business hours.
- xviii. Suitable limits on cash holding by the agent and also limits on individual customer withdrawal and lodgement.
- xix. Confidentiality of customer and user information.
- xx. Technical description of electronic devices.
- xxi. Remuneration for the agent.

- xxii. Specify that the agent shall at all times ensure safe-keeping of all relevant records, data, documents or files or alternately, such records, data, documents or files are moved to the institution at regular pre-agreed intervals.
- xxiii. A statement to the effect that employees of an agent shall not be treated as employees of the institution and the rights and duties of such shall be agreed upon between the institution and the agent.
- xxiv. A provision for changing the terms of the contract and stipulations for default and determination of the contract.
- xxv. A transition clause on the rights and obligations of the parties upon termination or cessation of the agent banking contract.
- xxvi. The FI and the agent may provide for other terms and conditions that they consider necessary for the agent banking business.

#### **4. Establishment of Agent Banking Relationship**

- i. FIs shall be required to carry out its respective due diligence on prospective agents.
- ii. The CBN shall prescribe the extent of such agent banking relationships and scope of activities.
- iii. All FIs shall have due diligence policies and guidelines that define initial agent engagement, regular monitoring and supervisory checks, trigger points and corrective measures.
- iv. FIs shall also specify the permissible activities agent may undertake within each agent category.
- v. FIs shall define minimum standards for selection and approval procedure for each agent category.
- vi. Any FI that wishes to vary the terms of its earlier agreement as approved by the CBN, shall be required to submit a new application.
- vii. All agent banking contract between an FI and an agent shall comply with this Guidelines and any other law in force.

##### **4.1 Agent eligibility**

- i. The entity must have been in legitimate commercial activity for at least twelve (12) months immediately preceding the date of the application to become an agent and the business must be a going concern.

- ii. An entity shall not be eligible for appointment as an agent if the carrying out of agent banking business by the entity shall contravene any written law, regulation or the objects of the entity.
- iii. The following entities shall be eligible for appointment as agents under this Guidelines:
  - i) Limited liability companies.
  - ii) Sole proprietorships.
  - iii) Partnerships.
  - iv) Cooperative Societies.
  - v) Public entities.
  - vi) Trusts.
  - vii) Any other entity, which the CBN may prescribe.
  - viii. Any entity which is faith-based or not-for-profit, a non-governmental organization, an educational institution, bureau-de-change or any other entity which, under any applicable law is not allowed to carry on profit-making business shall not engage in agent banking business.
  - ix. Any entity, which is subject to any regulatory authority under any written law or is a public entity, shall obtain the consent of the regulatory authority or the appropriate oversight body or authority prior to being appointed an agent.

## **5. Assessment of Agents**

### **5.1 Suitability Assessment of an Agent**

- A. Before the appointment of an agent the FI shall ensure that the entity has:
  - i. An existing well established commercial activity which has been operational for at least twelve (12) months immediately preceding the date of the suitability assessment.

- ii. Not been classified as a non-performing borrower by any FI in the last 12 months preceding the date of signing the contract (such information having been obtained from licensed Credit Bureaux). The performing status shall be maintained for the duration of the agency.
  - iii. Appropriate physical infrastructure and human resources to provide the services required.
  - iv. For purposes of carrying out an assessment under this clause, the proposed agent shall complete **an agent assessment form**.
- B. Prior to the appointment as an agent under the provisions of this Guidelines, any entity that seeks to be appointed as an agent by an institution shall furnish the institution with the following information as applicable:
- i. Name of the entity proposed to be an agent;
  - ii. Certificate of incorporation or business registration;
  - iii. Description of the commercial activity the entity has been carrying on for the last twelve months immediately preceding the date of the application;
  - iv. Valid business licence or permit for any regulated commercial activity carried on by the entity for at least twelve months prior to the date of the application;
  - v. Audited financial statements for the last two years where applicable;
  - vi. Tax clearance certificate;
  - vii. Physical location, postal address and telephone numbers of the entity and its working hours;
  - viii. Evidence of availability of funds to cover agent operations including deposits and withdrawals by customers, and
  - ix. Any other information the FI may require.
  - x. Where a prospective agent is unable to meet the requirements in (i-ix) above, it is not precluded from being a sub-agent, where there is a super-agent structure.
- C. The FI shall keep all information provided by the agent safe and confidential and shall make this information available to the CBN on request.
- D. The FI shall endeavor to obtain accurate information from the entity and its officers or employees.

- E. Any entity which or whose proprietors, partners, officers or employees furnish an FI with false or inaccurate information under this Part shall be disqualified from conducting agent banking business.
- F. Every FI shall sensitize its agents on the provisions of this Guidelines and the obligation to comply with its requirements.

## **5.2 Moral and Professional Suitability of a Prospective Agent**

- i. FIs shall assess the moral, business and professional suitability of the sole proprietor or partners proposed to be appointed as agents.
- ii. In the case of a corporate entity, the FI shall assess the moral, business and professional suitability of the chief executive officer and the officer(s) in charge of or responsible for agent banking operations of the entity.
- iii. The persons mentioned in Clauses i and ii shall, for the purpose of suitability assessment under this Part, furnish the FI with a duly completed agent appraisal form for sole proprietor, partner, and corporate entity.
- iv. In assessing the suitability of a corporate entity, sole proprietor, partners or officers of a corporate entity, the FI shall have regard to the following:
  - a. Negative information obtained from Credit Bureaux or other credible sources.
  - b. Any criminal record in matters relating to finance, fraud, honesty or integrity.
  - c. Reputation (based on references from at least two people of good social standing living in the same locality as the person and who have known the person for at least three years).
  - d. Business or work experience.
  - e. Sources of funds.
  - f. The business track record of the entity in the last three years where applicable.
  - g. Any other information that may negatively or positively impact on the prospective agent.

### **5.3 Agent Due Diligence**

- i. The FI shall establish efficient and thorough Agent Due Diligence procedures to mitigate risks.
- ii. The FI shall institute clear, well documented Agent Due Diligence policies and procedures. Minimum contents shall include, methods of identifying potential agents, initial due diligence, and regular due diligence checks to be performed at specified intervals and check list of early warning signals and corrective actions to ensure proactive agent management.
- iii. Roles/responsibilities of functions/departments within the FI with regards to agent management shall be clearly specified in the Agent Due Diligence procedures.
- iv. FIs shall ensure that agents are well established, reputable and have the confidence of the market.
- v. FIs shall ensure that proper AML/CFT monitoring processes exist for agent banking. The necessary actions to be taken by agents in this regard shall be communicated to the agents and the agents' compliance monitored. Due Diligence shall also include:
  - a. Verification of legal status of the Agent.
  - b. Verification of address or location of all prospective agents.
  - c. Establishing that there are no relationships with the FIs that may be detrimental to the agent banking relationship.
  - d. Verification of the adequacy of the prospective agents resources for agent banking.
  - e. Any other measures deemed necessary by the FI.

### **6. Key Roles & Responsibilities of the Financial Institution**

- i. The FI shall make a clear, informed and documented decision on the use of agents for rendering banking services to its customers.
- ii. Development of an appropriate agent banking contract and appointment of eligible agents based on set out criteria.
- iii. The FI shall be wholly responsible and liable for all actions or omissions of its agent. This responsibility shall extend to actions of the agent even if not authorized in the contract so long as they relate to agent banking services or matters connected therewith.

- iv. Maintenance of an effective oversight of the agent's activities and ensuring that appropriate controls are incorporated into its system in order to assure compliance with relevant regulations.
- v. Assessing the adequacy of controls of outsourced activities through regular audits.
- vi. Formulation and implementation of policies and procedures to safeguard the information, communication and technology systems and data from threats.
- vii. Provide agents with such operational guidelines/manuals and risk management policy documents as shall be needed for rendering services to customers efficiently.
- viii. Inclusion of risk-based review of critical agent banking processes to ensure that the policies, rules, regulations and operational guidelines are adhered to.
- ix. Selecting credible agents with suitable/convenient outlets.
- x. Management and mitigation of risk associated with the engagement of agents to provide financial services on their behalf.
- xi. The provision of basic financial education to customers and agents. The FI must periodically train its agents.

## **6.1 Management of Agent Banking Business**

- i. The FI shall develop and implement an agent banking strategy and establish an effective oversight over agent banking services.
- ii. The FI shall ensure effective management oversight, which shall encompass the review and approval of key aspects of its security control programs, processes, policies and infrastructure.
- iii. There shall be a comprehensive process/framework for managing risks associated with reliance on third parties.
- iv. The FI shall ensure the expansion of the scope of the bank's internal audit function to address the increased complexity and risks inherent in agent banking activities and ensure appropriate staffing of the audit department with personnel possessing the right skills.
- v. The FI shall take steps to update and modify, where necessary, its existing risk management policies and practices to cover current or planned agent banking services.

- vi. The FI shall take steps to ensure the integration of agent banking applications with the main banking systems so as to achieve an integrated risk management approach for all banking activities.
- vii. The FI shall train agents to enable them adequately perform operations and provide the services agreed upon, including training relating to the proper identification of customers, customer service, confidentiality of information, record keeping and financial education.

## **6.2 Permissible Activities**

- i. Cash deposit and withdrawal.
- ii. Bills payment (utilities, taxes, tenement rates, subscription etc.).
- iii. Payment of salaries.
- iv. Funds transfer services (local money value transfer).
- v. Balance enquiry.
- vi. Generation and issuance of mini statement.
- vii. Collection and submission of account opening and other related documentation.
- viii. Agent mobile payments/banking services
- ix. Cash disbursement and cash repayment of loans.
- x. Cash payment of retirement benefits.
- xi. Cheque book request and collection
- xii. Collection of bank mail/correspondence for customers.
- xiii. Any other activity as the CBN may from time to time prescribe.
- xiv. It shall be the responsibility of the FI to determine, based on agent risk assessment, which services a particular agent may provide.

## **6.3 Prohibited Activities**

An agent shall not:

- i. Operate or carry out any transaction when there is communication failure with the FI.

- ii. Carry out a transaction where a receipt or acknowledgement cannot be generated.
- iii. Charge the customer any fee.
- iv. Give any guarantee.
- v. Offer banking services on its own accord.
- vi. Continue with the agency business when it has a proven criminal record involving fraud, dishonesty, integrity or any other financial impropriety.
- vii. Provide, render or hold itself out to be providing or rendering any banking service which is not specifically permitted in the contract.
- viii. Open accounts, grant loans or carry out any appraisal function for purposes of opening an account or granting of a loan or any other facility except as may be permitted by any other written law to which the agent is subject.
- ix. Undertake cheque deposit and encashment of cheques.
- x. Transact in foreign currency.
- xi. Provide cash advances.
- xii. Be run or managed by an FI's employee or its associate.
- xiii. Sub-contract another entity to carry out agent banking on its behalf except where there is a super-agent structure in place.
- xiv. FI may in the contract document specify other activities, which the agent is prohibited from undertaking.

#### **6.4 Operational and Transactional Limits**

- i. The FI shall establish limits for services agreed upon with agents.
- ii. The limits shall be prudent and bear a relation to the volume of cash moved by the agent and the risks associated with the agent's locality for conducting agent-banking business.
- iii. Limits shall be set for each agent and where applicable, for each type of transaction.

#### **7. Rules on Exclusivity of Agents**

- i. There shall be no exclusivity of agent banking contracts between FIs and agents.
- ii. An agent may provide agent-banking services to as many FIs as it can accommodate at any given time.

- iii. The capacity of the agent to accommodate more FIs shall be determined by the additional/incoming FI.

## **8. Supervision of Agents**

- i. FIs shall be responsible for monitoring and supervising the activities of the agents.
- ii. FIs shall have information on the volume and value of transactions carried out for each type of service by each agent.
- iii. FIs shall monitor effective compliance with set limits and establish other prudential measures in each case.
- iv. FIs shall implement measures to control operational risks, including having clause(s) in the contract establishing the liabilities of the agent.
- v. FIs shall take all other measures including onsite visits by the FI's staff or authorized persons to ensure that agents operate strictly within the requirements of the law, guidelines and the contract.
- vi. Notwithstanding the responsibility by the FIs to monitor and supervise their agents, the CBN may at any time request for any information or carry out inspection as it deems necessary.

## **9. Publication of List of Agents and Locations**

- i. FI shall publish an updated list of all their agents on their websites and annual reports. In addition to this, it may publish a comprehensive list of agents on flyers, corporate gifts and such other publications, as it deems appropriate.
- ii. The publications containing the list of their agents shall be disseminated to all their branches and may also be disseminated to their agents.

## **10. Relocation, Transfer and Closure of Agent Premises**

It is the responsibility of the FI to ensure the following:

- i. No agent shall relocate, transfer or close its agent banking premises without prior notice to the FI.
- ii. Notice of intention to relocate, transfer or close agent banking premises shall be served on the FI at least thirty days or such other period as may be agreed upon in the contract, a copy of which shall be posted at the agent's premises.
- iii. Within thirty days prior to relocation or closure of agent banking premises, the FI shall notify the CBN and forward the details and reason(s) for relocation, transfer or closure of premises.

## **11. Settlement of Transactions and the Technology Requirements**

### **11.1 Real Time Transactions**

To ensure real time transactions, the FI shall:

- i. Ensure that all transactions carried out within the agent banking are done on a real time basis.
- ii. Deploy technology that facilitates instant payment to the end users account.
- iii. Provide its agents with settlement positions for reconciliation of transactions.

### **11.2 Minimum IT requirements for the operation of agent banking**

The technology implemented by the FI for agent banking shall comply with the industry standard technology in terms of hardware and software. The FI shall ensure that:

- i. Transaction information is transmitted in a secure manner.
- ii. The technology deployed comprises a set of interoperable infrastructure modules that work seamlessly. There shall be an end-to-end connection from the FI to the agent.
- iii. Customers get immediate value for successful transactions
- iv. Payment instructions are instantly executed. In the event of failure of communication during a transaction, immediate reversal shall be mandatory.
- v. Generation of receipts or durable acknowledgements for successful transactions.
- vi. Automatically deny an agent exceeding the daily limit allowed or performing unauthorized transactions.
- vii. Audit trail is maintained and made available on request.
- viii. All settlement information details are preserved for a minimum period of 5-years.
- ix. The FI shall put in place adequate measures to mitigate all the risks that could arise from the deployment and use of its agency banking IT architecture.

### **11.3 Data and Network Security Requirements**

FIs shall put in place systems that specifically and at a minimum address the following issues:

- i. Physical and logical security of infrastructure.

- ii. Availability of services.
- iii. Data confidentiality and integrity.
- iv. Encryption of PIN and electronic transactions.
- v. Customer accountability and non-repudiation of transactions
- vi. Error messaging and exception handling.

## **12. Third-Party Service Providers**

- i. The FI may enter into a written contract with a third party service provider for the following:
  - a. Technology platform
  - b. Agent selection
  - c. Agent network management
  - d. Agent training
  - e. Equipment provision
  - f. Equipment maintenance

It must be noted however, that such contracts shall not constitute agent banking.

- ii. Any third party service provider, who seeks to render agent banking in addition to providing the above services, shall be required to follow the application process for agent banking services as specified in this Guidelines.
- iii. The FI shall be responsible for the agent banking business even where a third party service provider is contracted to provide the services specified above.
- iv. The FI shall ensure compliance of both the agent and third party service provider with the standards and requirements of the agent banking guideline.

## **13. Risk Management**

- i. FIs shall be responsible for monitoring and supervising the activities of their agents.
- ii. FIs shall have information on the numbers and volumes of transactions carried out for each type of service by each agent.
- iii. FIs shall monitor effective compliance with set limits and establish other prudential measures in each case.

- iv. FIs shall implement measures to control operating risks, including having clause(s) in the contract establishing the liabilities of the agent.
- v. Periodic physical visits by institution's staff or authorized persons shall be necessary to ensure that agents operate strictly within the requirements of the law, guidelines and the contract.
- vi. FIs shall pay special attention to credit risk, operational risk, legal risk, liquidity risk, reputation risk and compliance with rules for combating money laundering and financing terrorism.
- vii. FIs shall conduct due assessment of agent's credit worthiness and set limit structures for agent's various activities commensurate with this assessment.
- viii. Product programs, procedure manuals and customer transaction limits shall be devised keeping in mind implications for operational and liquidity risks for agents.
- ix. Wireless or electronic banking related risks as well as information and data security risks shall be managed by the FI in a prudent manner.
- x. A business continuity management plan of FI shall accommodate Agent Banking Operations to mitigate any significant disruption, discontinuity or gaps in agent's functions.
- xi. FIs shall put in place appropriate product and operations manuals, accounting procedures and systems and design appropriate forms/stationery to be used by the agent.
- xii. Institute systems and personnel to adequately monitor and control agent banking operations on an ongoing basis.
- xiii. Notwithstanding the responsibility on FIs to monitor and supervise their agents, the CBN may at any time, exercise regulatory and supervisory powers under BOFIA and CBN Act (as amended) and may request for such data or information or carry out such inspection as it deems necessary.

## **14 Money Laundering**

### **14.1 Customer Due Diligence**

FIs are required to conduct due diligence on customers to ensure that the requirements of Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT) are adhered to.

Factors to consider include:

- Know Your Customer (KYC) requirements.

- Daily and transaction limits.
- Minimum IT security requirements.
- Authentication of each customer's transaction.

#### **14.2 Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Requirements**

FIs shall train their agents on anti-money laundering (AML) and combating of financing of terrorism (CFT) requirements.

FIs shall ensure:

- i. Customers are identified with at least any of the following; IDs, PINs, passwords, payment card, secret code or secret message while performing any transaction requiring identification.
- ii. Agents report to the FI within twenty four (24) hours, all suspicious activities that come to the agent's knowledge.
- iii. Agent conducts banking business strictly within the transaction limits prescribed by the FI.

In the fulfillment of AML/CFT requirements, institutions shall comply with the requirements of the Money Laundering (Prohibition) Act, 2011 and Financing of Terrorism (Prohibition) Act 2011.

### **15. Consumer Protection Measures**

Appropriate consumer protection systems against risks of fraud, loss of privacy and loss of service shall be put in place by FIs for purposes of establishing trust among consumers of agent banking services.

#### **15.1 Minimum requirements**

The following requirements shall be complied with at all times:

- i. FIs shall establish mechanisms that will enable their customers or users to appropriately identify their agents and the services provided through such agents.
- ii. Agents shall issue receipts for all transactions undertaken through them. FIs shall provide their agents with necessary tools that enable generation of receipts or acknowledgements for transactions carried out through agents. In this regard, electronic receipts or acknowledgements are permissible.
- iii. Where an agent acts as a receiver and deliverer of documents, an acknowledgement shall be provided for all documents received or delivered by the agent to or from the customer.

- iv. A channel for communication of customer/agent complaints to the FIs shall be provided. FIs shall provide dedicated customer care telephone numbers for lodging complaints by their customers. The customers/agents can also use this telephone numbers to verify with the FI, the authenticity and identity of the agent, its physical location and the validity of its agent banking business.
- v. FIs shall establish complaints redress mechanism and shall ensure proper communication of this mechanism to their customers.
- vi. All customer complaints shall be resolved within a reasonable time and not later than fourteen (14) days from the date of reporting or lodging the complaint with the FI. FIs shall keep record of all customer complaints and how such complaints are redressed.
- vii. An agent shall have signs that are clearly visible to the public indicating that it is a provider of services of the FI with which it has an agency contract. The agent shall not however represent to the public that it is an FI.
- viii. In the provision of agent banking services, FIs shall use secure systems that ensure customer information confidentiality.
- ix. The customer shall be made aware of the fact that he shall not carelessly store PIN and other critical information or share such information with other parties including agents.
- x. FIs shall establish contact centres to facilitate communication between a customer and the FI.

## **16. Disclosures**

The agent shall display in a conspicuous place on its premises the following:

- i. Name and the logo of the FI.
- ii. Banking services offered.
- iii. A notice to the effect that services shall be provided subject to availability of funds.
- iv. Charges or fees applicable for each service which are payable to the FI by the customers.
- v. The dedicated telephone number(s) through which customers can contact the FI.
- vi. The name, telephone numbers and location of the institution's branch to which the agent reports its agent activities.

- vii. On request by a customer, an agent shall show a copy of the approval letter issued by the Central Bank to the FI, a copy of its appointment letter as agent by the FI and the current license for the commercial activity being undertaken by the agent. These documents should be readily available in the agent banking premises.

## **17. Branding and Advertisement**

- i. FIs may choose to brand their agent network service under any brand name. However use of protected words like “bank”, “finance”, “financial institution”, “financial intermediary” or their derivatives or any other word suggesting that the agent is itself an FI is prohibited.
- ii. In advertising its agent service network, the FI shall not in any form misrepresent the agent as a financial institution or mislead the public as to the services available at the agent’s premises.
- iii. An agent shall not brand its premises in a manner that may suggest that it is a financial institution.
- iv. An agent shall display its principal’s name and logo in a conspicuous manner and ensure where there is more than one principal the names and logos shall be similarly displayed.

## **18. Dispute Resolution**

Where a dispute arises between an FI and an agent, it shall be settled as provided below:

- i. The parties shall agree to attempt to settle the disputes amicably within a period of 10 business days.
- ii. If the parties are unable to settle the dispute in accordance with (i) above, they may thereafter refer the dispute to an Arbitral panel as provided under the Arbitration and Conciliation Act, Cap. A18, Laws of the Federation of Nigeria, 2004.

## **19. Submission of Statutory Returns**

FIs shall, at the end of every month and not later than the 10th day of the following month, submit to the CBN, data and other information on agent operations including:

- i) Nature, value and volume of transactions;
- ii) Incidents of fraud, theft or robbery; and
- iii) Nature and number of customer complaints and remedial measures taken.

## **19.1 Annual Reporting**

FIs shall include in its annual reports and accounts in the prescribed form all activities of its agent banking operations.

## **20. Powers of the Cbn Over Agents**

In addition to any other power conferred on the CBN, it shall have power to:

- i) Request for information from agents at any time as the CBN may deem necessary;
- ii) Carry out spot or scheduled inspection of the books and premises of the agent;
- iii) Direct an agent to take such actions or desist from such conduct as the CBN may find necessary;
- iv) Direct the termination of the agency contract as the CBN may find necessary;
- v) Direct the FI to take such actions against or on behalf of the agent as the CBN may find appropriate;
- vi) Direct the FI to take such remedial action arising from the conduct of an agent as it may deem fit.

## **21. Remedial Measures**

If FI or its agent fails to comply with these Guidelines, the CBN may take any corrective action against the FI or the agent as appropriate.

## **22. Sanctions**

In addition to the use of remedial measures in section 21, the CBN may take any or all of the following sanctions against an FI, its board of directors, officers or agents:

- iii) Prohibition from engaging in any further agent banking business;
- iv) Prohibition from contracting new agents;
- v) Revocation of agent banking approval;
- vi) Termination of agent banking contract;
- vii) Withholding Corporate approvals;
- viii) Financial Penalties.

### **23. Amendment To The Guidelines**

These guidelines may be amended by the CBN from time to time in whole or in part as it is deemed necessary.

**Banking and Payments System Department**

**February, 2013**



09-46238455(Fax)  
0946238445(Tel)

**CENTRAL BANK OF NIGERIA**  
Central Business District  
P.M.B. 0187  
Garki, Abuja

**BPS/DIR/GEN/CIR/01/014**

**December 14, 2012**

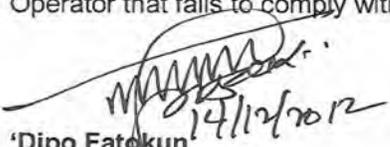
**TO: ALL MOBILE MONEY OPERATORS**

**TIMELINE FOR INTEROPERABILITY AND INTERCONNECTIVITY**

In furtherance of the CBN's efforts at ensuring effective and robust mobile payments system, all MMOs are hereby directed to fully connect to the National Central Switch (NCS) on or before February 28, 2013, to ensure interoperability and interconnectivity of their schemes.

You will recall that this decision was reached at the Mobile Payment Forum held on November 29, 2012.

For the avoidance of doubt, appropriate sanctions will be imposed on any Mobile Payment Operator that fails to comply with this circular.

  
'Dipo Fatokun'  
Director, Banking & Payment System Department



09-46238445 (Fax)  
09-46238445

Central Bank of Nigeria,  
Central Business District,  
Private Mail Bag 0187  
Garki, Abuja.

BPS/DIR/CIR/08/2012

27<sup>th</sup> November, 2012.

CIRCULAR TO DEPOSIT MONEY BANKS IN RESPECT OF THE CLEARING OF  
FINANCIAL INSTRUMENTS OF LIQUIDATED/LEGACY BANKS.

The Central Bank of Nigeria, has noted with concern, the prevalence of legacy/liquidated banks' financial instruments, being processed and cleared for settlement in the various Clearing Houses.

This development is unacceptable and should be discontinued forthwith. The Deposit Money Banks are advised to stop the issuance and circulation of legacy /liquidated banks' financial instruments in our clearing system, particularly as we have migrated to the NUBAN.

Please note that, with effect from January 2<sup>nd</sup> 2013, no legacy/liquidated banks financial instruments would be allowed for presentation in the Nigerian Clearing Houses. Failure to adhere to this important instruction will attract severe sanctions, in line with extant Guidelines.

A handwritten signature in black ink, appearing to read 'Diipo Fatokun', written over a dotted line.

DIPO FATOKUN  
Director,  
Banking and Payments System Department,  
Central Bank of Nigeria, Abuja.



**CENTRAL BANK OF NIGERIA**

**REVISED GUIDELINES ON STORED  
VALUE/PREPAID CARD ISSUANCE  
AND OPERATIONS**

## **GUIDELINES ON STORED VALUE/PREPAID CARD ISSUANCE AND OPERATIONS**

### **1.0 Preamble**

In exercise of the powers conferred on the Bank by Section 47 (3) of the Central Bank of Nigeria Act 2007 (as amended) to issue guidelines for the maintenance of adequate and reasonable financial services for the public and to ensure high standards of conduct and management throughout the banking system; and Pursuant to its inherent powers, the Central Bank of Nigeria (CBN) hereby issues the following guidelines for Stored Value/Prepaid Card Issuance and Operations in Nigeria:

### **2.0 Objectives**

These guidelines have been developed to provide minimum standards and requirements for the operation of stored value/prepaid card issuance and operations.

### **3.0 General Requirements**

- 3.1 Only deposit-taking banks or financial institutions licensed by the CBN with clearing capacity shall issue stored value/prepaid cards. Other deposit taking institutions without clearing capacity can issue in conjunction with those with clearing capacity.
- 3.2 Only one stored value/prepaid card shall be issued per person per currency per product by an issuer at any anytime
- 3.3 The usage limits and frequencies shall be defined by each participating bank
- 3.4 All stored value/prepaid card transactions shall be subject to current Nigerian Financial Intelligence Unit (NFIU) reporting requirements
- 3.5 All card issuers shall render monthly returns to the CBN on the number of stored value/prepaid cards in issue, volume of transactions and gross amount of transfers from/to stored value/prepaid cards for inclusion in the national statistics on payments
- 3.6 All stored value/prepaid card account Naira balances shall be considered deposit liabilities by the issuing bank or financial institution and therefore subject to deposit insurance protection up to the limit provided by the Nigerian Deposit Insurance Corporation (NDIC) for bank deposits
- 3.7 A stored value/prepaid card holder or his/her estate shall, upon request, be entitled to receive a cash refund of the outstanding balance of the card account from the issuing bank or institution

- 3.8 The fee for loading salary payments unto a stored value/prepaid card shall be paid separately by the salary payer and not deducted from the balance value of the stored value/prepaid card.
- 3.9 Operators, including mobile/telecommunications operators, wishing to operate money transfer schemes with stored value/prepaid cards shall do so with requisite approval from the CBN and, at all times, in strict conjunction with licensed deposit-taking banks or financial institutions
- 3.10 Stored value/prepaid cards shall be issued without regard to where actual value resides; value shall be held in either centrally-connected network databases or in non-network attached electronic devices, including, but not limited to, smart/chip cards and mobile handsets.
- 3.11 All Stored value/prepaid cards shall be EMV-compliant (i.e. Chip and PIN enabled)
- 3.12 The CBN Guidelines for Transaction Switching and Card Issuance and Guidelines on POS Card Acceptance Services shall also apply to stored value/prepaid cards unless where specifically overwritten in these Guidelines

#### **4.0 Specific Requirements for Stored Value Cards**

- 4.1 No stored value card shall be issued to a person without obtaining minimum KYC which includes name, phone number, and address of the person. The issuer shall ensure that at least one of the KYC information is validated
- 4.2 The maximum amount that can be loaded on the stored value card shall not exceed N50,000 per day
- 4.3 The maximum balance on the stored value card shall not exceed N250,000 at any time
- 4.4 The limits specified for stored value cards shall also apply to cards linked to mobile money wallets, where least KYC (Phone Number and Name) has been performed on the mobile money customer.

#### **5.0 Specific Requirements for Prepaid Cards (Individual and Corporate)**

- 5.1 Prepaid cards issued will operate at least within the minimum KYC requirements prescribed by the CBN. However, loadable limits (in Naira and Foreign currency) and daily balances will be determined by the issuing bank
- 5.2 No prepaid card shall be issued beyond the limits of a stored value card to a person or a corporate organization. Where a customer desires to do

transactions beyond the limits prescribed above. Full KYC would be required. Refer to CBN KYC Manual and Money Laundering (Prohibition) Act

- 5.3 The maximum withdrawal and spending amount for the Prepaid Cards will be determined by the issuing bank
- 5.4 The limits specified for Prepaid Cards shall also apply to cards linked to mobile money wallets, where Full KYC has been performed on the mobile money customer.

## **Appendix: Definition of Terms**

The terms below shall have the following meaning for the purpose of these guidelines.

- a) CBN is the Central Bank of Nigeria
- b) Deposit Taking Banks means banks and other financial institutions
- c) Closed Scheme is where a card is issued and used within a limited/closed group
- d) ATM is Automated Teller Machine
- d) EMV (Europay, MasterCard, Visa) is the global standard that is helping ensure smart (Chip-and-PIN) cards, terminals and other systems can interoperate
- e) Stored-value cards are payment cards where money is on deposit with the issuer, but the card account is not linked to a current or savings account. The individual transactions limits, the daily transactions limits, and the maximum amount that can be loaded on the card, are as specified in these guidelines. Stored value cards are usually anonymous in nature and issued outside of banking hall
- f) Prepaid cards are payment cards where money is on deposit with the issuer, but the card account is not linked to a current or savings account. The individual transactions limits, the daily transactions limits, and the maximum amount that can be loaded on the card, would be as specified by the issuer
- g) Product is a group of cards that have unique functionality and are defined to meet specific purposes of the target users
- h) PIN means Personal Identification Number

**Central Bank of Nigeria**

**September 12, 2012.**

# REVISED NIGERIA BANKERS' CLEARING HOUSE RULES

July 16, 2012

## 1. PREAMBLE

WHEREAS the Central Bank of Nigeria by CBN Act No. 7 of 2007 is to promote monetary stability and sound financial system in Nigeria.

WHEREAS the Central Bank of Nigeria by virtue of S. 47 of the CBN Act No. 7 of 2007 is charged with the duty of facilitating the clearing of cheques, credit instruments for banks and for this purpose to organize in conjunction with other Banks, clearing houses in such places as the Bank may consider necessary.

NOW THEREFORE the Central Bank of Nigeria, pursuant to S. 47 of the CBN Act of 2007 and having had consultations with banks duly established in Nigeria hereby issues the following rules for the guidance of all Nigeria Banks Clearing Houses.

### a. Objectives

The objectives of the NBCH are:

- (i) To provide a forum for the speedy and efficient collection of cheques, bills and other payment instruments payable or deliverable at or through offices of member banks of the NBCH by a system or systems of clearing.
- (ii) To draw up and prescribe from time to time standards for the use of the member banks of the NBCH in connection with clearing.
- (iii) To provide a mechanism for the settlement of clearing activities among member banks.
- (iv) To facilitate the implementation of an effective and efficient payment system in the Nigerian Banking Industry.
- (v) To do all such other lawful things as are incidental or conducive to the attainment of all or any of the aforementioned objectives.

### b. Scope

The Clearing House Rules shall be binding on all member banks of the the NBCH with effect from July 16<sup>th</sup> 2012.

\*\* These rules supersede any previous NBCH rules

## 2. Conditions for Membership

Membership of the NBCH shall be restricted to CBN, Deposit Money Banks, and NIBSS where applicable. The appointment of Money Deposit Banks shall be based on merit.

- (i) Any bank wishing to become a member of the NBCH in any part of the federation shall apply in writing to the Director of Banking Operations Department on the prescribed form annexed herewith and marked Appendix I provided by the CBN. Membership shall imply membership of the appropriate Bankers Clearing House Committee.
- (ii) Any licensed bank that is not a member bank of the NBCH may enter into an agency agreement(s) with any member(s) of any NBCH for the purpose of accepting cheques drawn on it and for collecting cheques drawn on other banks
- (iii) A list of newly approved members of the NBCH shall be communicated to all clearing banks by the Clearing Superintendent.

### **3. Management of Clearing House**

- a. NBCH wherever located shall be administered by a committee. The committee shall comprise the representatives of clearing banks, the CBN and NIBSS where applicable.
- b. The CBN shall appoint the chairman of the committee, the Clearing House Superintendent and the Clearing House Superintendent Assistant(s).
- c. Each member bank shall appoint representatives to the committee who shall be the Head of Clearing or its equivalent in all branches. The name and status of such a representative shall be communicated, in writing to the Chairman of the committee. Any representative of lower status shall not be admitted to committee meetings.
- d. Clearing sessions shall be presided over by the clearing superintendent and the assistant(s).
- e. The decision(s) of the clearing superintendent shall be binding on all clearing representatives at any session. Any party dissatisfied with the decision(s) of the superintendent may at the end of the day's session appeal to the Head, Banking Services of the relevant branch of CBN.
- f. A member bank shall be suspended from participating in any clearing session on the following reasons:
  - (i) Where the Settlement Account is not adequately funded, an appropriate amount of the clearing collateral shall be immediately rediscounted. The amount of clearing collateral that has been utilized to fund the account shall be replaced within two (2) business days, failing which the Settlement Bank shall be suspended from further participation in clearing house activities, nationwide.

- (ii) Where the collateral so discounted is insufficient the settlement bank shall be suspended forthwith and further measures shall be taken in accordance to Section 2.7 of Attachment I;
- (iii) When a settlement bank, persistently overdraws its settlement account maintained with the CBN
- (iv) When a non-settlement bank, persistently overdraws its account with its settlement bank and the settlement bank has communicated its intention to stop settling for such a non-settlement bank to the CBN and NIBSS.
- (v) Failure to provide acceptable or competent representatives at the clearing sessions despite a written notice issued by the Clearing Superintendent.
- (vi) Failure to maintain adequate collateral with either the CBN in case of a settlement bank or its settlement bank in case of a
- (vii) Non settlement bank in accordance to the guidelines on the Nigeria banks clearing and settlement system (Attachment I).
- (viii) When any member bank is suspended by the management of the CBN in the interest of the system for any other reason not hereto afore mentioned

#### **4. Eligible Financial Instruments**

- a. Eligible financial instruments for clearing purposes shall include:
  - i. Paper instruments such as cheques, drafts, dividend/interest warrants, debit/credit notes, bankers payments, direct debits;
  - ii. Electronic payment instruments i.e. ACH (NEFT etc.) that are approved for clearing/settlement in the Automated Clearing House;
  - iii. Any other instrument that may be approved by the CBN.
- b. Each eligible financial instrument to be presented for clearing purposes shall not exceed the maximum amount as approved by CBN.

#### **5. Duration of Holding Instruments**

##### **a. Paper Instruments:**

Cheques lodged at the counter of any member bank shall be deemed paid after two (2) clearing days or 3 working days commencing from the day of lodgment.

##### **b. Electronic Instruments shall clear as follows:**

- i. Electronic Instruments shall be presented to the clearing house within 24 Hours of receiving same from the originating customer unless the relevant service agreement dictates otherwise;
- ii. Direct Credits shall be applied to the beneficiary's account on the receiving date;
- iii. Direct Debits shall be deemed paid after two (2) clearing days or three (3) working days commencing from the day of lodgment.

## **6. Settlement Rules and Procedures**

- (i) The CBN shall appoint settlement banks, among member banks, from time to time for the purpose of settlement finality.
- (ii) Every non-settlement bank shall be required to appoint one of the settlement banks so designated as an agent bank
- (iii) Every settlement bank shall have the mandatory responsibility to maintain in credit its current account with the Central Bank of Nigeria and shall be required to deposit with the CBN the required clearing collateral and or any other securities such as NTB, NTC etc. the value of such collateral shall be determined from time to time by the CBN.
- (iv) Every non-settlement bank shall have the mandatory responsibility to maintain in credit its settlement current account with the settlement bank and shall be required to deposit with the settlement bank the agreed clearing collateral.
- (v) The clearing net settlement positions of such non-settlement bank shall be applied to the CBN settlement account of the settlement bank after every clearing session.
- (vi) The settlement activities between banks shall be in accordance with the guidelines on the Nigeria banks clearing and settlement system as set out in (Attachment I) hereto attached.
- (vii) The settlement and non-settlement banks relationships shall be governed by a properly executed agency agreement, a proforma of which is provided in Attachment I (Appendix).

## SUMMARY OF CLEARING AND SETTLEMENT DAYS

INSTRUMENT TYPE	<u>CLEARING PERIOD I.E. DURATION OF HOLDING INSTRUMENT</u>	SETTLEMENT TIME
1 Cheques (Fresh)	2 Days	Next Day
2 Cheques (Returned Items)	n/a	Same Day (Next day for second session)
3 ACH Credits (Fresh)	2 Days	Same Day
4 <u>ACH Credits (Return Items)</u>	n/a	Same Day
5 ACH Debits (Fresh)	2 Days	Next Day
6 <u>ACH Debits (Returned Items)</u>	n/a	Same Day

### 7. Return of Unpaid Instruments

#### (a) Time Limit

All financial instruments presented on member banks in any clearing area shall if unpaid be returned through the clearing house by the second (2<sup>nd</sup>) clearing day. Any unpaid instrument shall be returned through the clearing house. For the avoidance of doubt the time limit set for the return through clearing of any financial instrument drawn on branches in any clearing Area are:

- (i) Cheques and all ACH - Second (2<sup>nd</sup>) clearing day or Third (3<sup>rd</sup>) working day commencing from the day of lodgment.
- (ii) Any financial instrument not returned on the last clearing day as stated in subsection (i) above shall be deemed paid and the collecting bank shall give value to its customer the next day except where a prior notice stopping payment had been sent to the bank within business hours of the last clearing day.
- (iii) All unpaid instruments must be returned through the clearing area where they were originally presented for clearing
- (iv) A paper instrument returned unpaid may be represented subject to a maximum of two (2) representations. After the third (3<sup>rd</sup>) time such an instrument shall not be represented.
- (v) The clearing cycle for both categories of instruments may be subject to review by the CBN from time to time in consultation with clearing banks.

## CLEARING CYCLE OF PAPER INSTRUMENTS

<i>TRANSACTION DAY</i>	<i>CHEQUE CLEARING CYCLE</i>
<b>MONDAY (T)</b>	Fresh cheques are deposited at bank branch
<b>TUESDAY (T+1)</b>	Cheques are presented at the clearing house
<b>WEDNESDAY(T+2)</b>	<ul style="list-style-type: none"> <li>• Beneficiary Bank gets value</li> <li>• Last/due date for the return of dishonored cheques</li> </ul>
<b>THURSDAY</b>	At the beginning of day, bank customer receives value for cheques not returned

### **(b) Reasons for Returning Instruments**

- (i) All clearing instruments returned unpaid shall bear a written reason for the cause of non payment. The reason shall be written on the instrument itself in generally accepted form and must not be at variance with actual fact.
- (ii) Reasons for return shall be as listed in Appendix II annexed hereto.
- (iii) Where an unpaid instrument is subject of any enquiry, the paying bank shall pass a debit note with a copy of the unpaid instrument through the clearing house to the collecting bank and shall indicate why the instrument is not paid. The original instrument may be returned to the collecting bank under confidential cover.
- (iv) Where the unpaid instrument is a fraudulent / spurious instrument, the Paying bank shall pass a debit note with a copy of the spurious instrument through the clearing house to the collecting bank. The paying bank MUST notify the presenting bank in writing and copy the Clearing House Superintendent.
- (v) Where cases of errors in the listing of clearing instruments occur or a wrong delivery is discovered, an adjustment will be made at the next clearing session by use of debit notes. Wrongly delivered clearing instruments shall be returned to the clearing house the next session following the session the wrong delivery was made.
- (vi) Where a paper item is delivered without a corresponding data transmission, the paying bank shall treat the instrument as a free item in line with the provisions of the Automated Clearing House Rules and Procedures (Attachment II annexed hereto). Such instruments must be returned to the presenting bank at

the next clearing session, except where agreed between the banks to treat otherwise.

- (vii) Where data transmission is effected without the corresponding paper item or where wrong data is transmitted, such data must be returned to the presenting bank within the clearing period.

### **(c) Delayed Application/Return of Direct Credits**

Clearing banks are required to apply inward direct credits to beneficiaries' accounts as prescribed in Section (7); a receiving bank that delays the application of direct credits or returns such outside the allowed window shall face appropriate sanction as approved by the CBN.

The aggrieved bank shall advise the erring bank in writing with acknowledgement copy advised to NIBSS; the erring bank has three working days to dispute the issue in writing, failing which NIBSS shall execute the sanction through her interchange fee service. All disputes shall be resolved by the Clearing Superintendent and his/her decision shall be binding.

## **8. Hours of Clearing**

Clearing sessions shall commence each working day at 8.00 am or at such other times as the local circumstances and peculiarities may permit. Any other session shall be as stated in the automated clearing house rules (Attachment II).

## **9. Clearing Session Quorum**

The quorum of a clearing session shall be a simple majority of all settlement banks, including the CBN.

## **10. Lateness to the Clearing House**

Any member bank which arrives at the clearing house later than 15 minutes after the time scheduled for the clearing exercise shall not be allowed to take part in the session without the approval of the clearing house Superintendent.

## **11. Location of Clearing House**

NBCH shall be located in premises as agreed by the CBN and the clearing banks.

## **12. Operational Cost of the Clearing House**

- a. The CBN shall bear the operational cost of the NBCH where such is operated by it.
- b. NBCH members shall bear the operational cost of the NBCH where such is not operated by CBN.

### **13. Meetings of Clearing House Committee**

The committee shall meet at a place to be provided by the CBN on the last Wednesday of every quarter or any other day approved by the NBCH to discuss matters relating to the NBCH.

- a. Attendance at meetings of the committee shall be mandatory and shall be a prerequisite for continued membership of NBCH
- b. A member bank may be penalized by suspension from participating in clearing activities for such periods as shall be determined by the CBN for non attendance at committee meetings without a satisfactory reason communicated in writing within five (5) working days before any scheduled meeting.
- c. Deliberations of the committee shall be recorded by the clearing house superintendent and presided over by the chairman. The recorded minutes shall be circulated to all members for adoption at the next meeting. A certified copy of the minutes of a meeting at which an amendment to these rules is proposed shall be forwarded to the Director of Banking Operations for necessary action.
- d. Meetings of the committee shall require a simple majority of the registered member banks
- e. A member bank of the committee shall have one vote. The decisions of the committee shall be upheld by a simple majority vote count and where there is a tie, the chairman shall cast a verdict vote to break the tie and uphold a decision.

### **14. Responsibilities**

#### **(a) Responsibilities of Members**

- (i) Clearing banks shall ensure that liability clauses are incorporated in all their account opening documentations and brought to their customers' notice while the said documents must be properly signed by the customer.
- (ii) At the end of every clearing session and upon the return of its representatives from the clearing house, a settlement bank must write a letter, signed in accordance with its mandate with the Central Bank, stating net figures for or against it as shown on the presentation form and signed by the clearing superintendent for the day. Such a letter must reach the Branch Controller before the clearing session following that to which the letter relates. The letter is not to be sent through the clearing house representatives.
- (iii) Should there be any discrepancy, the Branch Controller must alert the bank during the next clearing session. Any settlement bank in respect of whom such a letter is not received within the specified period will be

deemed to have accepted as correct the figure shown on the presentation form, for each clearing session.

- (iv) Every member bank shall subject to the agency agreement between settlement and non-settlement banks be represented at the clearing house by representatives who shall deliver and receive the documents to be cleared.

Each representative, in addition to his identity card, which shall be issued to him by his bank, should always have in his possession, whenever he is attending the clearing house on behalf of his bank, the clearing house entry card of member, which shall be issued to his bank by the CBN or NIBSS (where applicable). Such representatives shall:

- refrain from any activity that may bring discredit to his/her bank or disrupt the clearing session.
- conduct himself /herself with dignity in the house and respect and obey the clearing superintendent.

- (v) Member banks shall take full responsibility for the action of their own representatives. Members must send their representatives to the clearing house during clearing hours whether the member has any documents to pass through the clearing system or not.

- (vi) A presenting/collecting bank may be fully liable to the extent of any act of omission or commission including contributory negligence, that cause(s) any loss of funds through presentation of defective clearing instruments, if it fails to send a presentment caution letter to the paying bank.

- (vii) A collecting bank that pays the proceeds of a defective forged instrument before maturity shall be fully liable for the loss of fund thereof.

- (viii) A presenting/collecting bank shall be deemed negligent if:

- (a) A customer's account is not properly opened and all documents required by regulation for opening of account are not obtained, cross-checked and verified according to established procedures.
- (b) It fails to up-date its customer-information to ensure that its customers and their referees are genuine, with locatable addresses.
- (c) on the face of the presented instrument, irregularities such as erasures, post/stale date, mutilations, are evident
- (d) A notice of caution is not sent to a paying bank branch with a copy sent to the chief inspector when:
  - Instruments are lodged into dormant accounts, new accounts or salary accounts
  - Instruments of unusually large amount(s), relative to the account's transaction history, is (are) lodged by a customer

- Suspected spurious instrument
- (e) A special caution notice served at its presenting branch and/or head office/central clearing office within business hours before the due date is not acted upon. Such a caution notice will not be binding unless stamped 'Received and Confirmed'.
- (ix) A paying bank shall be absolved from liability if in the ordinary course of business it pays presented instruments in good faith, and in accordance with established banking procedures with proper and valid confirmation of its customers (where applicable)
- (x) Without prejudice to (viii) above a Receiving Bank shall be liable if it applies an inward instrument into an account based on Account Number only; it is expected that the Receiving bank would employ appropriate technology to confirm correctness of Account Number and Account name before applying instruments
- (xi) A paying bank that negligently pays a defective/forged instrument shall be:
  - (a) Fully liable, up to the limit of available funds with the collecting bank, for any loss of funds arising from the payment of such instrument if not discovered within the stipulated clearing period;
  - (b) Liable if a caution notice served at its head office and/or the nearest branch of the paying bank or its central clearing office before due date is not acted upon.
- (xii) Both paying and collecting banks shall be jointly liable for any loss of funds due to defective instruments if they are both negligent in the clearing of the instruments.
- (xiii) Caution Notices shall be processed in accordance to the provisions of the Electronic Caution Notice Rules, where applicable.

**(b) Responsibilities of members to Other Financial Institutions**

- (i) Clearing banks shall maintain properly signed and sealed Agency Agreement with any of their non-clearing financial institution customers that collect instruments (e.g. Primary Mortgage Institution, Microfinance Bank, Stock Brokers and Finance houses).
- (ii) Settlement banks shall maintain properly executed Agency Agreement with their non-settlement banks. (Appendix of Attachment I)
- (iii) The agreement shall contain adequate provisions that shall convey full liability to the institutions for any instrument they collect for clearing.
- (iv) Where a paying bank is unable to return an instrument within the clearing period and has sent a special caution notice to the presenting bank the physical instrument must be returned to the

presenting bank within 2 extra days failing which the presenting bank may give value without further recourse to the paying bank.

- (v) Paying bank must ensure that all caution notices delivered to their offices within normal banking hours are accepted. However, presentment caution notices must be delivered to the paying bank within the due date of the underlying clearing instrument.

### **(c) Responsibilities of Members to Bank Customers**

Bank customers shall be entitled to receive value for their uncleared effects/instruments for collection on due date (where due date is a day after the last clearing day for the return of the instrument) without hindrance except where their instruments are dishonoured and returned unpaid to them within the stipulated clearing duration or are the subject of an inquiry/fraud.

Every Clearing Bank shall indicate the value date of a lodged cheque on the Cheque Deposit Slip, to properly guide the Bank customer.

### **15 Rights**

- a Clearing banks may have recourse to their customer(s) through legal means as provided for by the laws of the Federation for any loss of funds attributable to the operation of their customers' accounts.
- b A breach of the NBCH Rules shall be handled as follows:
  - i. The complaining party shall communicate observed breach in writing to the offending party.
  - ii. The complaining party shall notify the Banking Supervision Department of CBN if after 10 work days there is no response/satisfactory response.
  - iii. The parties shall have recourse to the court of law in the event of unsatisfactory resolution of a breach at the CBN level.

### **16 Disclaimer**

- (a) CBN/Settlement banks in the conduct and settlement of clearing instruments, shall not incur any liability or additional responsibility other than that falling equally upon all member banks
- (b) Members of the NBCH shall not be liable for any errors and/or omissions relating to clearing settlement of any clearing session if the error or omission is not identified and reported in writing within reasonable time. Late reports of errors and/or omissions by member banks shall be bilaterally resolved between the affected members.

### **17. Abuses of Clearing Process**

#### **(a) Offences**

Any of the under listed acts or such other acts that the offending bank stands to derive undue advantage from shall constitute abuse

of the clearing system if it is proven that it is knowingly committed these offences include:

- (i) Drawing or accepting instruments on unfunded accounts by a bank.
- (ii) Persistent presentation of fake/forged instruments on other banks.
- (iii) Willful wrong presentation of instruments of high value on other banks.
- (iv) Banks charging beneficiaries for inward ACH credits.
- (v) Delayed presentation of customers' ACH items in the clearing house.
- (vi) Delayed application of inward ACH items.
- (vii) A bank refusing to pay its own instrument drawn on itself (Manager's Cheque/Draft).

Any other act that may be determined by the Central Bank of Nigeria and / or NBCH committee from time to time as constituting an abuse of the clearing system.

#### **(b) Sanctions**

Appropriate sanctions shall be imposed by the CBN and / or NBCH committee on any bank that commits any of the above listed offences.

#### **18. Industrial Action in Member Banks**

- (a) The affected bank shall write to the CBN immediately the industrial crisis commences, if the crisis is such as to prevent the officials of the bank from attending any clearing session. The letter to the CBN shall be addressed to the Branch Controller with a copy sent to NIBSS (where applicable), Directors of Banking Operations and Banking Supervision Departments. A bank that fails to write as indicated above shall be deemed to be absent from the clearing house and shall be liable to appropriate penalty as may be determined by the CBN.
- (b) The Branch Controller or his agent shall make a formal announcement of the industrial action at the next clearing session.
- (c) Member banks shall reserve the right to reject financial instruments drawn on a bank that stays away from the clearing session for more than two (2) consecutive working days due to industrial action until the bank resolves its industrial crisis and returns to the clearing house.
- (d) Any bank returning to the clearing house after an industrial crisis shall give a day's notice in writing to the Branch Controller with copies to

NIBSS(where applicable), and all member banks of its intention to return to the clearing house and may return to the house the next day.

- (e) In the case of instruments, which had gone through the clearing before the industrial action started in the member bank, one additional day of grace shall be counted for the value dates of the instruments above the normal clearing duration from the date the member bank returned to the clearing house.

## **19. Industrial Action Affecting Clearing House Location**

In the event of an industrial action affecting the location of the clearing house (Clause 11), which prevents the clearing house from sitting, clearing activity may be conducted in a temporary place, which shall be arranged by the First Bank of Nigeria Plc. in conjunction with any other bank(s).

In this regard, banks shall exchange their clearing instruments bilaterally and adopt settlement by means of Bankers payments. The normal clearing duration shall be observed by all banks.

In the case of instruments, which had gone through the clearing before the industrial action started, one additional day of grace shall be counted for the value dates of the instruments above the normal clearing duration from the date they resume clearing operations. Where a temporary place could not be arranged while the industrial crisis lasts, banks may present their instruments direct to the Clearing office in that location or the head Offices of the banks on which the instruments are drawn and they shall observe the normal clearing duration as applicable.

## **20. National Emergency**

In the event of a National Emergency that prevents the clearing house from meeting, all working days during the emergency period shall not be counted as working days for purpose of determining clearing duration. The CBN shall write to all member banks to inform them of the National Emergency.

## **21. Amendments**

The rules of the Clearing House may be amended by the CBN, as it may consider necessary. Member banks wishing to propose amendments to the Rules shall forward such proposals to the Director of Banking Operations Department. The amendment(s) shall be widely circulated among member

banks and sufficient notice given to all member banks before the effective date of the amendment(s).

## 22. Adjudication on Disputes

Any dispute between member banks on clearing activities shall be referred to the CBN for adjudication. The decision of the CBN shall be binding on the affected banks.

## 23. Definitions

- (a) **ACH:** Any form of electronic payment instruments (single or bulk items) facilitating direct credit or direct debit to target bank accounts, through the Automated Clearing House infrastructure.
- (b) **Clearing bank:** All banks approved by the CBN to participate in clearing House activities. These could be settlement or nonsettlement banks
- (c) **Clearing day:** Where there are more than one clearing session within a day, the sessions will make up one clearing day. Clearing days start to count from the date the instrument is presented through the Clearing House.
- (d) **Clearing session** means the period between the commencement and closing of clearing business on each working day.
- (e) **Committee** refers to NBCH Committee. i.e a committee of all clearing banks
- (f) **NBCH:** Nigeria Bankers Clearing House
- (g) **NEFT:** NIBSS Electronic Funds Transfer
- (h) **NIBSS:** Nigeria Interbank Settlement System Plc
- (i) **NTB:** Nigeria Treasury Bills
- (j) **NTC:** Nigeria Treasury Certificate
- (k) **Paying bank:** This is the bank that is expected to give value on the instrument presented for clearing
- (l) **PBCC:** Participating Bank Clearing Center
- (m) **Presenting bank:** The bank that receives value for the proceeds of the instrument presented for clearing. Otherwise known as the collecting bank.
- (n) **Settlement Banks:** these are clearing banks that are appointed by the CBN to clear and settle for themselves and other clearing banks, known as

non-settlement banks. Settlement banks hold accounts with the CBN for the purpose of settling NBCH clearing positions.

- (o) **Stale Cheque:** A check presented in the clearing more than six (6) months after it is dated. Banks are not required to present or honour a stale-dated cheque.
- (p) **Working days** start to count from the date of lodgment of the instrument with the collecting banks. 'Working day' includes Mondays through Fridays excluding public holidays.

## Central Bank of Nigeria

**APPENDIX I - CLEARING HOUSE APPLICATION FOR MEMBERSHIP**

WHEREAS BY SECTION 47 of the Central Bank of Nigeria Act the Central Bank is charged with the duty of organizing in conjunction with other banks, a clearing house in \_\_\_\_\_ and such other places as may be desirable;

AND WHEREAS THE Central Bank, pursuant to the said Section 47 of the Central Bank of Nigeria Act and in consultation with the banks duly established in

\_\_\_\_\_ has decided to organize and set-up a Clearing House which will be operated under Rules and Procedures relating thereto duly made by the CBN/Clearing House committee amended from time to time in force.

AND WHEREAS the \_\_\_\_\_ A BANK DULY LICENCED TO OPERATE in Nigeria is desirous of becoming a member of the \_\_\_\_\_ Clearing House upon the conditions herein after appearing in this application. AND WHEREAS I \_\_\_\_\_ Being \_\_\_\_\_ a \_\_\_\_\_ of the said \_\_\_\_\_ and duly authorized. In this behalf in the manner required by law and the memorandum and Articles of Association of the said \_\_\_\_\_ And with the intent that the obligations hereby undertaken shall be binding \_\_\_\_\_ upon \_\_\_\_\_ the said \_\_\_\_\_ I, \_\_\_\_\_ authorized \_\_\_\_\_ as aforesaid and with the intent before mentioned, hereby apply for and on behalf of the \_\_\_\_\_ that the said \_\_\_\_\_ be admitted into fully and complete membership of the clearing House and that in consideration of the exercise, enjoyment and use of the facilities, rights and privileges whatsoever of the clearing House the said

\_\_\_\_\_ hereby in consideration of the acceptance of the application herein made, undertakes for itself servants and/or agents to be bound by any

Rules, regulations, Conditions and Stipulations whatsoever duly promulgated and in force from time to time in respect of the Clearing House and its operations and with the intent that the rights, privileges and obligations that will arise on the acceptance of this application shall be mutually enforceable by the due process of law as between the Clearing House Organisation and the applicant herein-named.

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 19\_\_\_\_\_

(To be executed under seal or signed under power of Attorney where appropriate)

The Central bank of Nigeria as on and from the day of commencement of the operation of the Clearing House and in consideration of the \_\_\_\_\_ being a member of the Clearing House, the Central Bank of Nigeria, is hereby authorized to debit or credit the account of this Bank with them as may be necessary with the appropriate net balance arrived at in the daily settlement of the Clearing.

\_\_\_\_\_ 19\_\_\_\_\_

(Executed under Seal or signed under Power of Attorney where appropriate)

## APPENDIX II - REASONS FOR RETURNING INSTRUMENTS

- 1 Account Attached
- 2 Account Closed
- 3 Account Dormant
- 4 Account Name and Account number differ
- 5 Account Non-existent
- 6 Account not funded
- 7 Account Not valid for Clearing/Electronic Payment
- 8 Bank not in Clearing
- 9 Cheque drawn in foreign currency. Please present specially
- 10 Cheque incompletely drawn
- 11 Cheque Mutilated
- 12 Crossed to two banks
- 13 Drawer deceased
- 14 Drawer's attention required
- 15 Drawer's confirmation required
- 16 Endorsement irregular
- 17 Incomplete/Irregular Mandate
- 18 Material alteration, requires drawer's signature
- 19 Missing paper item
- 20 Payment stopped
- 21 Presentation/Crossing stamp required
- 22 Represent
- 23 Represented more than the allowed number of times
- 24 Spurious/forged cheque
- 25 Stale/Post-dated
- 26 Words and figure differ
- 27 Wrong delivery

# **ATTACHMENT I - GUIDELINES ON THE NIGERIA BANKS CLEARING AND SETTLEMENT SYSTEM**

## **Introduction**

Pursuant to enhancing the efficiency of the payments system, it has become necessary to provide a viable framework for managing the settlement positions of banks. This is aimed at ensuring settlement finality at the CBN, given the important role that a well functioning payments system has on monetary policy, financial stability and overall economic activity.

All banks will continue to maintain a single account with the CBN. While the single account to be maintained by a Settlement Bank will be known as a Settlement Account, the single account to be maintained by a non-settlement bank will be known as an Operations Account.

The following procedures will guide the operations of the Clearing and Settlement system:

## **General**

1. The Central Bank of Nigeria (CBN) in pursuance of Section 47 of the CBN Act, 2007, will ensure that appropriate Rules, Standards and Procedures exist and are observed for the effective operation of the Clearing and Settlement System.
2. Settlement Banks must ensure that they and their non-Settlement Banks are fully conversant with the Nigeria Bankers' Clearing House (NBCH) Rules, procedures and standards necessary for the efficient and secure running of the daily clearing process, nationwide.
3. Members of the Nigeria Bankers' Clearing House (the House) must report any problem that may have a detrimental effect on the daily operation of the House to the Clearing House Superintendent and the Director, Banking Operations Department of the CBN.
4. Settlement banks must be financially accountable for the settlement of their financial instruments and those of their non-settlement banks that they settle for.
5. Settlement banks must maintain a minimum of the prescribed clearing collateral, at the CBN and to the satisfaction of the Bank so that amounts for settlement can be applied by the Bank without delay, and to achieve settlement finality.

6. It is the duty of the settlement banks to submit for clearing, technically accurate data and paper clearing instruments. They must ensure that the data and paper clearing instruments are processed correctly and adhere to the relevant standards and Service Level Codes, in accordance with the Nigeria Bankers' Clearing House Rules and Procedures.
7. It is the duty of settlement banks to accept all the clearing instruments, whether paper or electronic, presented to them and their non-settlement banks. Subsequently, they or acting on behalf of their non-settlement banks may return or recall such instruments/electronic data, as are allowed within the Clearing House Rules.
8. (a) The relationship between the settlement banks and any non- settlement banks shall be governed by an agency agreement entered into between the two parties.  
(b) Pursuant to 8(a) where the non-settlement bank account with a settlement bank is not adequately funded, an appropriate amount of the clearing collateral shall be immediately rediscounted. The amount of clearing collateral that has been utilized to fund the account shall be replaced within 24 hours, failing which the settlement bank may decline to present or receive clearing instruments on behalf of the non-settlement bank.  
(c) A settlement bank must give the CBN and the non-settlement banks it represents four (4) weeks notice before terminating its agency agreement for any other reason apart from 8(b) above. Similarly, a non-settlement bank must give the CBN and the settlement bank representing it four (4) weeks notice before terminating the agency agreement.
9. Pursuant to section 8(b) above, the agency agreement shall specify a clearing collateral to be pledged by the non-settlement bank to the settlement bank. The minimum clearing collateral to be pledged by a non-settlement bank shall not be less than N250 million, which shall be reviewed from time to time.

## **2.0 Clearing Instruments and Collateral**

- 2.1 It is the duty of the Settlement Banks to be able to send and receive clearing instruments/data files to and from the Clearing Houses.
- 2.2 Financial instruments to be exchanged at the clearing house shall be subject to approval by the CBN which will consider their suitability, with reference to the national technical standards and to any other requirements prescribed by the Bank, in conjunction with the Bankers

Committee, regarding the size, shape and form of the instruments and the materials used in their production.

- 2.3 The Settlement Banks shall provide clearing collateral to the CBN in Nigerian Treasury Bills.
- 2.4 The level of collateral shall be determined by CBN on an annual basis; the collateral amount shall be sum of highest (debit) settlement position of individual settlement banks for the immediate preceding one year, divided equally among the settlement banks.
- 2.5 All Settlement Banks must ensure that their Settlement Accounts with the CBN are appropriately funded at given times.
- 2.6 Where the Settlement Account is not adequately funded, an appropriate amount of the clearing collateral shall be immediately rediscounted. The amount of clearing collateral that has been utilized to fund the account shall be replaced within two (2) business days, failing which the Settlement Bank shall be suspended from further participation in clearing house activities, nationwide.
- 2.7 Where the clearing collateral is insufficient to fund a debit settlement position, the CBN shall apply its regulatory powers as it deems fit. The principle of unwind shall not be an option under this rule.
- 2.8 In the event of any clearing bank being suspended from participation in clearing house activities, the NBCH shall be given a notice of one clearing session to allow for return of cheques presented on such a bank. This is to resolve the settlement problems that may result from such a suspension.

### **3.0 Contingency Plans**

- 3.1 Settlement Banks shall provide adequate contingency for both Outward and Inward clearing, to ensure that they can continue to provide clearing and settlement services to the non-settlement banks, in the event of a major disruption to their operation.
- 3.2 Pursuant to 3.1 all Settlement Banks shall have adequate proxy agreements with each other for the purpose of providing clearing and settlement services to the non-Settlement banks.
- 3.3 In the event of developments that may prevent banking operation, especially the disruption of outward and inward clearing process or data transmission, the financial instruments of the non-settlement bank shall be

presented/received in the clearing house by its proxy with which it has agency agreement.

The net Settlement position shall be posted into the Settlement Bank's Account with the CBN

#### **4.0 Outward Clearing**

It is the duty of all Settlement Banks to ensure that paper items and the corresponding clearing data files conform to the relevant Standards and are presented in accordance with these guidelines as well as the National Clearing House Rules. Consequently, a Settlement Bank must ensure that:

- 4.1 The crossing stamp of the non-settlement bank is visible on all paper items passing through the Zonal Clearing House (ZCH).
- 4.2 Any returned and received unpaid items can be traced to the relevant office of the non-settlement bank.
- 4.3 Individual items bear appropriate sort codes and are appropriately encoded. All clearing items for the clearing house must be posted encoded with the amount in line with NACS standards.
- 4.4. The items are presented in accordance with the Agency Agreement place between the Settlement Bank and its Non-Settlement Bank.

#### **5.0 Outward Exchange Financial /Data Files**

- 5.1 It is the duty of the Settlement Banks to effect the delivery of the various items for exchange at the clearing house within the limits established in the exchange time table.
- 5.2 It is the duty of presenting Settlement Bank to deliver items prepared for presentation to the correct Receiving Settlement Bank and send/deliver/transmit clearing data files it has created from the paper to the ZCH.
- 5.3 Upon receipt of the items at the ZCH by the receiving Settlement Bank, it has a duty to ensure that the items are securely delivered to its non-Settlement Bank.
- 5.4 Subject to the Agency Agreement, non-Settlement Banks that already possess PBCC/NACS equipment, may:
  - 5.4.1 Make use of their clearing equipment to process their own cheques and deliver the data files to the Settlement Bank's Clearing Centre for verification. Such a non-Settlement Bank should transmit directly to the

accounts of the respective Settlement Banks representing them in the Clearing House.

## **6.0 Inward Clearing Data/Files**

Subject to the Agency Agreement between the Settlement Bank and the non-Settlement Bank, the following procedure shall apply:

- 6.1 A Receiving Settlement Bank must perform a sufficient check of all items received to ensure that the correct financial instruments have been received.
- 6.2 The cheques so received shall be promptly delivered to the Non-Settlement Bank in accordance with the Agency Agreement.
- 6.3 A receiving Settlement Bank as well as a paying bank must perform adequate checks on all items received, to identify instruments with no corresponding entries on the clearing data files received on the same day before processing the items. It must also process the papers on the same day of receipt, to locate individual items that have been wrongly delivered.
- 6.4 The final net settlement positions of the Settlement banks shall be made available after the clearing sessions, to the CBN for settlement finality.

## **7.0 Obligations**

### **7.1 Obligations of Settlement Banks**

- 7.1.1 Settlement Banks shall clear and settle for all non-Settlement Banks that have accepted to clear through them.
- 7.1.2 Settlement Banks shall ensure they post into the account of each of the non-Settlement banks with them the net settlement position of the non-Settlement banks from all the CBN clearing zones.
- 7.1.3 Subject to the Agency Agreement, settlement banks shall ensure that the net credit settlement position of each of the non-settlement banks is transferred to their respective Operations Account with the CBN, within 24 hours.

### **7.2 Obligations of the Cbn**

- 7.2.1 The CBN shall maintain Settlement Accounts for each of the Appointed Settlement Banks, into which shall be posted all the net settlement positions (Debit/Credit), of each of them, including the net settlement position of their respective non-settlement banks.

- 7.2.2 The CBN shall provide statements of the Settlement accounts in all clearing centres not later than 9.00 a.m. next business day.
- 7.2.3 At the end of the clearing session in each of the clearing centres, the CBN shall transfer the net settlement positions of the appointed Settlement Banks to their Head Office Settlement Accounts with the CBN.
- 7.2.4 The CBN shall provide an information centre that will enable the Settlement Banks have access to prompt information relating to their Settlement Accounts as may be required.
- 7.2.5 In the event of a Settlement Bank being stripped of its settlement status for reasons other than those stated in para. 2.5 above by the CBN, the Bank shall grant a maximum of one month notice to that Settlement Bank and its non-settlement banks.
- 7.2.6 Any absence from the clearing house should be communicated in writing to all relevant banks at least 48 hours before such absence will take effect.
- 7.2.7 Settlement Banks that were previously absent from the clearing house should inform the Clearing Superintendent and other banks in writing at least a session before their resumption.

**8.0 Obligations of Non-Settlement Banks**

8.1 Obligations of the non-settlement banks are stated in the attached Appendix.

**9.0** Pursuant to the implementation of this Settlement System, the Cash Drawing Facility hitherto in use at the CBN Branches by deposit banks shall be abolished.

**THIS AGREEMENT** is made the            day of            20 - - BETWEEN **XYZ Bank, a licensed bank** incorporated in Nigeria and having its registered office at            ..... (hereinafter referred to as

**"Settlement Bank"** which expression shall where the context so admit include its successors-in-title and assigns ) of the one part and, **ABC BANK PLC,** a licensed bank incorporated in Nigeria and having its registered office at ..... (hereinafter referred to as **"Non-Settlement Bank"** which expression shall where the context so admit include its successor- intitle and assigns) of the other part.

## **WHEREAS:**

- Settlement Bank has been appointed by the Central Bank of Nigeria (CBN) as one of the Settlement Banks in Nigeria to undertake Clearing/Settlement obligation for other Banks.
- Non-Settlement Bank has mandated the Settlement Bank to act as its agent for clearing and settlement of its instruments in all the clearing houses. Settlement Bank has agreed with non-Settlement Bank to render this service subject to the following terms and conditions:

### **Now This Agreement Witnesses as Follows:**

#### **1. Responsibilities of the Settlement Bank**

That in pursuance of the said agreement and in consideration of the payment of fees to Settlement Bank by Non-Settlement Bank of the sum mentioned in clause (7) being processing and settlement fees respectively. Settlement Bank hereby agrees to process Non-Settlement Bank's clearing instruments and represent it at the Clearing House and settle Non-Settlement Bank's net settlement position, subject to clause 12, the following conditions:

- a) Settlement Bank shall for the duration of this agreement be the sole representative of Non-Settlement Bank on an exclusive basis at the Clearing House.
- b) Settlement Bank undertakes to accept Non-Settlement Bank's physical instruments and process them for payment after which the net settlement position shall be credited and/or debited (as the case may be) to the settlement account of Non-Settlement Bank with Settlement Bank.
- c) Settlement Bank will ensure that physical instrument(s) to be presented at the Clearing Session shall be prepared in the prescribed format for transmission to the clearing house as prescribed in the Clearing House rules and procedures
- d) Settlement Bank will thereafter exchange the physical instruments of NonSettlement Bank and its own instruments as may be required at the Clearing House with representatives of other settlement banks.
- e) Settlement Bank will make the inward clearing instruments and reports of Non-Settlement Bank instruments collected from the Clearing House

available for pick up by Non-Settlement Bank's authorised representative (as notified to Settlement Bank) immediately after the end of each clearing session.

- f) Settlement Bank will ensure that it is represented at the Clearing House each working day at all the clearing sessions.
- g) Settlement Bank will, to the best of its ability represent the interest of NonSettlement Bank at the Clearing House.
- h) Settlement Bank will inform Non-Settlement Bank of any changes that occur in the Clearing House immediately the information is received by Settlement Bank.
- i) Delivery of all instruments between Settlement Bank and Non-Settlement Bank must be duly acknowledged by the authorised representative of the receiving bank as notified to the other party.
- j) Settlement bank will be held responsible for ensuring that the net credit settlement position is transferred to the non-settlement bank's Account with the CBN, in accordance with NACS guidelines.

## **2. Responsibilities of Non-Settlement Bank**

- a) Non-Settlement Bank will ensure that its instruments conform to the required standards as approved for the Nigerian Banks Clearing System.
- b) Non-Settlement Bank will ensure that it provides the physical instruments and other information as required by Settlement Bank in the format specified for Nigeria Automated Clearing System (NACS).
- c) In accordance with the clearing rules and Know Your Customer (KYC) guidelines of CBN, Non-Settlement Bank shall maintain current and up to date information on its customers.
- d) Non-Settlement Bank shall be responsible for ensuring that all instruments delivered to Settlement Bank for clearing purposes are prima facie good instruments and that person or persons presenting any instruments to NonSettlement Bank are duly authorized and entitled so to do.
- e) Non-Settlement Bank agrees to indemnify and hold Settlement Bank harmless in respect of any liability and/or loss whether direct or indirect that may arise as a result of this agreement. Accordingly, Non-Settlement Bank hereby undertakes to be primarily responsible and liable for all instruments presented for clearing through Settlement Bank and in case of any diversion, conversion, instrument cloning and/or any other fraudulent

dealing in respect of any instrument presented for clearing by Non-Settlement Bank through Settlement Bank, Settlement Bank is hereby indemnified and held harmless from any loss arising therefrom and Non-Settlement Bank shall make good whatever loss and/or liability that may arise from such dealings without involving Settlement Bank and in case Settlement Bank is called upon to answer to any of such charges, Non-Settlement Bank shall take over the charges and make good the loss without involving Settlement Bank.

- f) Non-Settlement Bank shall comply with NACS' guidelines for cheque Clearing and Settlement, which guidelines will be made known to Non-Settlement Bank for purposes of efficient and hitch free operation of these presents.

### **3. Operational Modalities**

- a) The Non-Settlement Bank shall deliver to the Settlement Bank all its clearing instruments physically with or without electronic data and shall ensure that the clearing instruments are delivered before \_\_\_\_\_ a.m./p.m on the day preceding the 1<sup>st</sup> clearing session or before \_\_\_\_\_ a.m for the second clearing sessions in a secured medium.
- b) Where the clearing instruments are to be delivered physically without electronic data, Settlement Bank undertakes to accept Non-Settlement Bank's physical instruments and process them for presentment at the Clearing Centre.
- c) Where the clearing instruments are to be delivered with electronic data NonSettlement Bank shall ensure that the electronic data of the physical instruments to be presented at the clearing session is prepared in the format requested by the Zonal Clearing House (ZCH) as stated in the Nigerian Automated Clearing House Rules and Procedures.
- d) Settlement Bank will thereafter exchange the physical instruments as may be required at the ZCH with representatives of other settlement banks. Settlement Bank will ensure that Non-Settlement Bank have access to its settlement positions as advised by the ZCH.
- e) Settlement Bank shall transfer the net credit of the non-settlement bank to its operations account with the CBN within 24 hours, in line with the agency agreement.
- f) Without prejudice to the provision of the preceding paragraph, the NonSettlement Bank cannot be allowed to overdraw its non-chequing

account. Where the Non-Settlement Bank ends the day with a net debit clearing position, the Settlement Bank shall have recourse to the Non-Settlement Bank's clearing collateral pledged pursuant to the Agreement.

#### **4. Security/Collateral for Clearing and Settlement of Non-Settlement**

##### **Bank's Cheques**

- a) Non-Settlement Bank shall open a non-chequing account with Settlement Bank, to be designated "Settlement Account" wherein the net clearing position of Non-Settlement Bank shall be credited and/or debited as may be appropriate after each clearing session.
- b) Non-Settlement Bank shall also pledge with the Settlement Bank, Treasury Bills which shall not be less than ~~N~~\_\_\_\_\_ million as per the guidelines, and the Treasury Bills shall constitute collateral security for any debit balance in the Settlement Account.
- c) In the effect of non funding, Settlement Bank is hereby authorized without further recourse to Non-Settlement Bank to re-discount Non-Settlement Bank's Treasury Bill in (b) above for purposes of recovering and netting off the debit balance in the Settlement Account.
- d) In the event of any shortfall in the clearing collateral arising from a rediscounting, a Non-Settlement Bank shall make up the shortfall in the clearing collateral (Treasury Bill) before the commencement of the next clearing session from the date of re-discount in order to bring the aggregate value of the investment up to the minimum value as specified in (b) above.
- e) Non-Settlement Bank undertakes to bear the cost of re-discounting the Treasury Bills necessitated by a need to recover the debit balance in the Settlement Account.

#### **5. Access**

In accordance with the Agency Agreement,

- a) Settlement Bank will provide Non-Settlement Bank with electronic viewing access to the Nigeria Automated Clearing System at Non-Settlement Bank's premises by allowing it to view its net settlement position in the Clearing House, or as agreed by the two parties.
- b) Settlement Bank will provide Non-Settlement Bank with the infrastructure to electronically view their net settlement position on the NACS such as Personal Computers in the Settlement Bank premises.

- c) The Settlement Bank will provide the Non-Settlement Bank with daily statement of its Settlement Account showing the net settlement position.
- d) The Settlement Bank will ensure that all relevant equipment as approved for the NACS such as Reader-Sorter and inter-connectivity between NIBSS and CBN are installed and functional.

**6. Returned Items**

The Settlement Bank will consider an inward clearing instrument deemed to have been honoured or paid unless the Non-Settlement Bank delivers the instruments to be returned unpaid to the clearing house to a Settlement Bank at the latest by the following cut-off time:

- by ..... a.m./p. m. prior to the last working day before the instrument is due to clear, where the instrument is to be returned at the 1<sup>st</sup> clearing session of the day OR not later than 4 (four) hours before commencement of the 2<sup>nd</sup> clearing session of the day.

**7. Guidelines to Fees Charges**

- a. There shall be a processing fee of ₦\_\_\_\_\_ per Clearing instrument payable by the Non-Settlement Bank to the Settlement Bank subject to a maximum of N..... per annum
- b. The Non-Settlement Bank shall also pay an annual settlement fee of the sum of N ..... to the Settlement Bank.

**8. Information**

- a) The information sent between the Settlement Bank and the nonSettlement Bank will be in the format compatible with Clearing House requirement.
- b) All notices and other communication under the agreement shall be sent to the following address:

**Settlement Bank:**

.....  
 .....

**Non-Settlement Bank:**

.....

## **9. Disclaimer (Liability/Indemnity)**

a. The Non-Settlement Bank as well as Settlement Bank shall be liable for any fraud committed or act of negligence by their officers/agents associated with the operation this Agreement.

## **10. Compliance with Laws**

Each party hereto agrees that it shall comply with all applicable laws, guidelines, codes, policies and regulations in the performance of its obligations or receipt of services including the procurement of permits and certificates where required. If at any time during the term of this Agreement, a party is informed or information comes to its attention that it is in violation of any law, guidelines, policy, regulation or code (or if it is so determined by any court of law, tribunal or other authority), that party shall immediately take all appropriate steps to remedy such violation and comply with such law, regulation, ordinance, policy or code in all respects.

Further, each party shall establish and maintain proper records of all transactions with the other party.

## **11. Confidentiality**

- a. Settlement Bank accepts that all the information received by it from the NonSettlement Bank in the processing of the Non-Settlement Bank's transactions are confidential and proprietary and must be held in the strictest confidence. Any proven cases should be reported to CBN and could be a case for termination of Agency agreement.
- b. Settlement Bank agrees not to use any information provided by Non-Settlement Bank for any purpose other than as permitted or required of under this Agreement.
- c. Settlement Bank therefore agrees not to disclose or provide any information so received to a third party except with the express permission of Non-Settlement Bank or as may be lawfully required.

## **12. Duration/Termination of Agreement**

- i. This Agreement shall commence on the date herein above and will continue to be in full force and effect unless terminated in accordance with the provision of this Section.

Any amendments to this Agreement shall be made only with the written consent of both parties to this Agreement.

- ii. Both parties shall remain responsible for their obligation with respect to action and events prior to such termination
- iii. Each party shall have the right to terminate this Agreement if any of the following events occur:
  - a. if the other party is wound up or goes into liquidation, or for any reason ceases threatens to cease carrying on business or transfers its business or if a holden action is imposed on it by any supervisory or regulatory authority or if any licence issued to it is suspended or revoked by the CBN
  - b. A decree or order by a court or government agency or authority shall be entered for the appointment of a Manager, Receiver or Liquidator for the other party in an insolvency, marshalling of assets and liabilities or similar proceeding, or the other party shall consent to such appointment;
  - c. The other party shall commit a material breach of the terms of this Agreement or shall repeat or continue or fail to remedy any material breach;
  - d. The obligations of either party becomes prohibited by law or any other regulatory authority including but without limitation, to the Central Bank of Nigeria
- iv. In the event of either party being desirous of terminating the Agreement, the party desiring to terminate shall give one month's notice in writing to the other party which shall be delivered to and acknowledged at the other party's earlier notified address and NIBSS and CBN would be duly notified.
- v. The foregoing notwithstanding, the Settlement Bank shall be entitled to terminate this Agreement upon all or any of the following conditions:
  - a. If the Non-Settlement Bank's Settlement is contrary to 4 (b) above.
  - b. If the collateral security in 4 ( c) above is insufficient to offset the debit balance in the Settlement Account
  - c. If the value of the Treasury Bills is below the minimum as specified in 4 ( c) above
  - d. If the Non-Settlement Bank's performance of its obligation is unsatisfactory and/or other habitual breach of the provisions of these presents
- vi. The Non-Settlement Bank may with the consent of the Settlement Bank, which consent shall not be withheld provided that the Settlement Account is at the time and remains in credit; upon giving the Settlement

Bank one month's notice of its intention to do so, close the Settlement Account and open an account with another authorized Settlement Bank.

**13. Governing Law**

The Agreement shall be governed by and construed, interpreted and enforced in accordance with the Laws of the Federal Republic of Nigeria.

**IN WITNESS WHEREOF** the parties hereto have caused their respective Common Seals to be affixed hereto the day and year first above written.

THE COMMON SEAL OF THE WITHIN NAMED **XYZ  
BANK PLC.**

WAS HEREUNTO AFFIXED IN THE PRESENCE OF:

\_\_\_\_\_  
**DIRECTOR**

\_\_\_\_\_  
**SECRETARY**

THE COMMON SEAL OF THE WITHIN NAMED  
**ABC BANK LIMITED**

WAS HEREUNTO AFFIXED IN THE PRESENCE OF:

\_\_\_\_\_  
**DIRECTOR**

\_\_\_\_\_  
**SECRETARY**

## ATTACHMENT II: NIGERIA AUTOMATED CLEARING HOUSE RULES AND PROCEDURES

### NIGERIA INTER BANK SETTLEMENT SYSTEM PLC

#### NIGERIA AUTOMATED CLEARING SYSTEM: RULES AND PROCEDURES

##### 1 General Principles

- 1.1 The Central Bank of Nigeria (CBN) in pursuance of Section 41 of Central Bank of Nigeria Act of 1991 will guide to ensure that appropriate Rules, Standards and Procedures exist for the effective operation of the Nigeria Automated Clearing System (NACS) and will ensure that the appropriate mechanisms are in place to manage the rules.
- 1.2 The Central Bank of Nigeria in conjunction with the Bankers Committee have mandated Nigerian Inter-Bank Settlement System (NIBSS) Plc to provide for its members clearing and settlement services for financial instruments and the electronic data relating to the paper instruments in Nigeria.
- 1.3 Nigeria Inter Bank Settlement System (NIBSS) Plc will provide for clearings to be held each business day in Nigeria, as will be defined by the Central Bank of Nigeria from time to time for the interchange, between the settlement members of financial instruments drawn on banks in Nigeria and meeting the Automated Clearing System's Clearing House Rules.
- 1.4 The Central Bank of Nigeria will appoint a staff of the Bank, not below the rank of a manager to superintend the Nigeria Automated Clearing House especially as pertains to physical exchange of cheques as well as settlements. Nigeria Inter Bank Settlement System (NIBSS) Plc will appoint a Clearing House Manager who shall be responsible for the day-to-day management of the clearing house within guidelines and authorities delegated to him by the Managing Director.
- 1.5 Settlement members must ensure that they and their staff are fully conversant with the Nigeria Automated Clearing Systems' Rules, Procedures and Standards necessary for the efficient and secured running of the daily clearing process.
- 1.6 Members shall report any problem that may have a detrimental effect on the daily operations of the system to the Clearing House Manager.

- 1.7 Settlement members shall be financially accountable for the settlement of financial instruments handled by them or their agents.
- 1.8 Members, whether direct or Indirect must maintain adequate clearing collateral with Central Bank of Nigeria to the satisfaction of the Bank so that amounts for settlement can be applied by the Bank without delay, and settled in accordance with the timetable.
- 1.9 It shall be the duty of members to submit for clearing, technically accurate data and paper clearing instruments. Members shall ensure that the data and paper clearing instruments, submitted by Direct Participating Banks, are processed correctly and conform to the relevant standards as determined by NIBSS Plc from time to time.
- 1.10 It shall be the duty of members to accept all the clearing instruments, whether paper or data presented to them or their agents at the Nigeria Automated Zonal Clearing Center. Subsequently they or their agents may return or recall such instruments/data, as are allowed within this Rules.
- 1.11 Clearing banks shall advise NIBSS Plc of changes in their process systems in accordance with NIBSS Plc change control procedures.

## **2.0 Clearing Instruments**

- 2.1 Financial instruments to be exchanged at the Zonal Clearing Center shall be subject to approval by the CBN who shall consider their suitability, with reference to the national technical standards and to any other requirements prescribed by the CBN regarding the size, shape and form of the instrument and the materials used in its production.
- 2.2 Financial instruments that do not bear a sorting code shall be excluded from outward exchange files.

## **3.0 Contingency Plans –Clearing Banks/Nibss Plc**

- 3.1 All members shall provide adequate contingency for outward clearing to ensure that they can continue to provide automated clearing data and paper to other members following a major disruption to their out-ward clearing process or data transmission.
- 3.2 Nigeria Inter Bank Settlement System (NIBSS) Plc shall provide adequate contingency for all clearing data files (Outward, Inward and Settlement files) to ensure that it can continue to provide automated clearing data to its members following a major disruption to its primary and/secondary network.

### **Contingency comprises of the following:**

- i. Physical media contingency for total network failure.
- ii. Physical media contingency for total authentication failure.
- iii. Physical media contingency for single authentication failure.
- iv. Physical media contingency for settlement.

### **3.3 Physical media contingency for total network failure.**

A direct participating bank shall in the event of a total network failure produce exchange files on physical media, authenticate and submit the files to the ZCH.

### **3.4 Physical Media contingency for single member network failure**

- i. If a single member cannot access the network then, they shall produce their exchange files in physical media and deliver them to the ZCH within the time frame.
- ii. Once the affected member has opted for physical media, the clearing house manager, shall also supply the members' inward clearing files on physical media.

### **3.5 File Authentication**

3.5.1 Members shall ensure that all outward exchange files for transmission to the ZCH are authenticated.

3.5.2 Outward files shall have a security trailer generated and incoming files shall have the security trailer verified.

3.5.3 Members are obliged to conform to the Certification Practice Statement and Information Security Policy of the Nigeria Automated Clearing System.

### **3.6 Certification Management**

It shall be the duty of members to abide by the rules and procedures for generating public/private key pair and obtaining the public key certificates in order to maintain authentication integrity.

### **3.7 Key Management**

Members shall have in place the necessary controls and associated procedures for management of authentication key as laid-down in the automated clearing security standards. The management of keys is the responsibility of the members.

### **3.8 Generation of the File Security Trailer**

Members shall adhere to the procedures for the generation of the file security trailer as contained in the automated clearing security standards.

### **3.9 Verification of the File Security Trailer**

Members shall abide by the procedures for the verification of incoming files as laid down by these rules.

### **3.10 Monitoring of the Authentication Process**

Members shall adhere to the procedures for the creation, authentication and sending of files as contained in the security policy of Nigeria Automated Clearing System.

### **3.11 Archiving of Audit Trails and Files Security Trailers**

A member is required to retain an audit trail of files and file security trailers procedures covering a member's internal audit trail from the authentication server as defined in the Certification Practice Statement.

## **4.0 Data Communication Management**

4.1 It shall be the duty of all members of Nigeria Automated Clearing System to be able to send and receive clearing data files from the ZCH and to support NIBSS in the effective management of the network.

### **4.2 Outward Clearing**

It shall be the duty of all members to ensure that paper items and the corresponding clearing data files conform to the relevant NACS Standards and presented in accordance with this rules.

- i. The crossing stamp of the presenting bank is visible on all paper items passing through the ZCH.
- ii. An audit trail of all items is maintained by allotting an Item Sequence Number to each item (ISN).
- iii. Returned and received unpaid items can be traced to the relevant office of the presenting bank.
- iv. Individual items bear appropriate sort codes and appropriately encoded. All paper items for clearing shall be amount encoded in line with NACS standards. All clearing banks are required to validate the contents of the code line, including transaction/sort codes.

- v. The items are presented in accordance with bi-lateral agency agreement between Direct Participating Banks (DPB) and Indirect Participating Banks (IPB).
- vi. The Items Sequence Numbers (ISN) (which is unique within the same day) is assigned to all financial instruments.

## 5.0 Outward Exchange Financial/Data Files

5.1 It shall be the duty of PBCCs to effect the deliveries of the various items for exchange at the zonal clearing house within the limits established in the clearing schedule, which shall be as follows:-

### CLEARING SCHEDULE FOR THE NACS

<i>SESSION I</i>		<i>SESSION II</i>
TIME	ACTIVITY	TIME
9.00am	Deadline for the transmission clearing files to ZCH of	2.00pm
7.00am – 9.00am	<i>Physical Instrument Exchange at ZCH</i>	12pm – 2.00pm
9.30am	<ul style="list-style-type: none"> <li>• PBCCs to download clearing reports and files</li> <li>• CBN to download Net Settlement reports and files</li> </ul>	3.30pm

5.2 It shall be the duty of presenting banks to deliver items prepared for presentation to the correct PBCC; and send clearing data files it has created from the paper to the ZCH.

5.3 Upon receipt of the items from the ZCH by the PBCC, it shall be the duty of the PBCC to ensure that the items are securely delivered to the Indirect Banks whose duty it is to collect at the premises of PBCC.

## 6.0 Inward Clearing/Data Files

6.1 A PBCC shall perform a sufficient check on all items received to ensure that the correct financial instruments have been received.

- 6.2** A PBCC shall perform checks on items received, to identify instruments with no corresponding entries on the clearing data files received on the same day before processing the item. It shall also process the papers on same day of receipt to locate individual items that have been wrongly delivered.
- 6.3** In the event that a PBCC cannot receive clearing data files from the network in accordance with the exchange time-table it shall immediately notify the Clearing House Manager, who shall thereafter copy a physical media containing settlement claim figures of the PBCC, inward exchange files and clearing reports.
- 6.4** The final net settlement positions of banks, including those of indirect banks shall be electronically made available at the scheduled time to Central Bank of Nigeria to enable it effect the settlement finality.
- 6.5** The ZCH shall provide remote on-line access that will enable Central Bank of Nigeria to enquiry and down-load data items, including CBN (ZCH) Summary Report and MIS.
- 6.6** NIBSS shall ensure that all PBCC have remote on-line access to the ZCH for enquiry and downloading of relevant data items, including reports files as well as aggregate net settlement position of banks, as may be required from time to time.



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**CENTRAL BANK OF NIGERIA**

Central Business District

P.M.B. 0187

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BPS/DIR/GEN/CIR/01/009

12<sup>th</sup> June, 2012.

**RECALL OF CIRCULAR TO ALL NIGERIAN DEPOSIT MONEY BANKS, MICROFINANCE BANKS & PRIMARY MORTGAGE BANKS ON THE USE OF THE NATIONAL IDENTITY NUMBER (NIN) FOR THE 'KNOW YOUR CUSTOMER' (KYC) VERIFICATION**

This is to recall, with immediate effect, the circular reference number BPS/DIR/GEN/CIR/01/029 dated 28<sup>th</sup> May 2012, to all Deposit Money Banks, Microfinance Banks and Primary Mortgage Banks, on the use of the National Identity Number (NIN) for the 'Know Your Customer' (KYC) verification.

A handwritten signature in black ink, appearing to read 'Dipo Fatokun'.

**Dipo Fatokun**

Director, Banking & Payments System Department



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**CENTRAL BANK OF NIGERIA**  
Central Business District  
P.M.B. 0187  
Garki, Abuja

**BPS/DIR/GEN/CIR/01/007**

**24<sup>th</sup> May, 2012**

**ALL ACCREDITED CHEQUE PRINTERS**

**PRINTING OF SECURITY INSTRUMENTS.**

**The Nigeria Cheque Standard (NCS) and the Nigeria Cheque Printers Accreditation Scheme (NICPAS) Document states that all security instruments (cheques, interest/dividend warrants etc.) produced for the Nigerian market, must meet the stipulated standard.**

**However, the MICR Technical Implementation Committee has noted with concern that most of the dividend/interest warrants produced for the Nigeria market, do not meet the specified standard.**

**Going forward, accredited cheque printers will be sanctioned for security instruments produced by them that fail to meet the required standard.**

**Kindly note and ensure strict compliance.**

*[Handwritten signature]*  
28/5/12

**Dipo Fatokun**  
**Director, Banking and Payments System Department**

## Guidelines for Cheque Truncation in Nigeria

## **1 Preamble**

WHEREAS the Central Bank of Nigeria by CBN Act No. 7 of 2007 is to promote monetary stability and sound financial system in Nigeria.

WHEREAS the Central Bank of Nigeria by virtue of S. 47 of the CBN Act No. 7 of 2007 is charged with the duty of facilitating the clearing of cheques, credit instruments for banks and for this purpose to organize in conjunction with other Banks, clearing houses in such places as the Bank may consider necessary.

WHEREAS NOW THEREFORE the Central Bank of Nigeria, pursuant to S. 47 of the CBN Act of 2007 and having had consultations with banks duly established in Nigeria hereby issues the following Guidelines for Cheque Truncation in Nigeria.

### **a) Objectives**

The objectives of the Cheque Truncation Guidelines are:

- (i) To provide for the regulation and management of cheque truncation in Nigeria with the view to reducing cost and days of clearing instruments;
- (ii) To articulate the rights and responsibilities of presenting and paying banks in the Cheque Truncation System;
- (iii) To provide for minimum technical and operational standards for cheque truncation; and
- (iv) To facilitate the implementation of an effective and efficient payment system in the Nigerian Banking Industry.

### **b) Scope**

These Guidelines shall apply to clearing and settlement activities in the Nigeria Bankers Clearing Houses which practice cheque truncation system.

Notwithstanding the provisions of this Guidelines, the provisions of the Revised Nigeria Bankers' Clearing House Rules shall apply to cheque truncation system in Nigeria subject to necessary modifications.

Provided that where there is a conflict between the provisions of the Cheque Truncation Guidelines and Revised Nigeria Bankers' Clearing House Rules, the former shall prevail.

## 2 Terminology

CH	Clearing House
CHG	Clearing House Gateway
IQA	Image Quality Assurance
CAR	Courtesy Amount Read box
UDK	Unique Document Key
PKI	Public Key Infrastructure
RRF	Return Request File
CTS	Cheque Truncation System
ECPIX	Electronic Cheque Presentment with Image Exchange
NACS	Nigeria Automated Clearing System
OACK	Outward Acknowledgement File
SACK	Settlement Acknowledgement File

## 3 Definitions

**Cheque**— an instrument, payable on demand and drawn on or payable through or at an office of a bank, whether or not negotiable, that is handled for forward collection or return.

**Cheque Truncation**— a process that involves stopping the physical movement of the cheque and replacing the physical instrument with the image of the instrument and the corresponding data contained in MICR line. The cheque details are captured, typically by the bank presenting the cheque or its clearing agent and electronically presented in an agreed format to the Clearing House for onward delivery to the paying bank for payment. Unlike the more common form of presentment where a cheque is physically

presented to the paying bank, a truncated cheque is typically stored by the presenting bank.

**Ordinary Caution Notice** – This is document issued by the presenting bank to alert other clearing bank (s) about a suspicious instrument.

**Special Caution Notice** – This is document issued by the paying bank, after the closure of the return window to alert the presenting bank not to give value to such clearing instrument.

**MICR Line**— “magnetic ink character recognition line” mean the numbers, which may include the bank routing number, account number, cheque number, cheque amount, and other information, that are printed near the bottom of a cheque in magnetic ink in accordance with the Nigeria Cheque Standards.

**Paying Bank**—(i) the bank by which a cheque is payable, unless the cheque is payable at or through another bank and is sent to the other bank for payment or collection; or (ii) the bank at or through which a cheque is payable and to which the cheque is sent for payment or collection.

**Person**— means a natural person, corporation, unincorporated company, partnership, government unit or instrumentality, trust, or any other entity or organization.

**Presenting Bank**— the bank that receives the cheque from the customer, either directly or via a third party, and presents the cheque to the clearing house for clearing and settlement.

## **4 The Nigerian Cheque Truncation Model**

### **4.1 Model for Truncation**

The overall model for Nigeria shall be:

#### **Generic model – ‘Image and Data’ model:**

Cheque Images and MICR data flow from the Presenting Bank through to the Paying Bank.

#### **Data Capture – ‘Presenting Bank’ model:**

The cheque is dematerialised by the bank where the cheque is initially presented. Cheques shall be truncated at the Presenting Bank and within prescribed times defined by the Guidelines.

## **Data and Image Exchange - Clearing House Model:**

The Clearing House acts as an intermediary for data and image flow between the presenting and the paying bank.

### **Data and Image Archive:**

NIBSS shall be the Central Image Warehousing Agency (CIWA) for storage and certification of cheque images. The paying bank may request for any image from CIWA for the purpose of proof of payment up to a period of 10 years. Such data retrieval shall be provided on online real time basis.

#### **4.2 Data Standards**

The prescribed data standards shall be ANSI X9.37.

#### **4.3 Value Limits on cheque truncation**

All cheques are eligible for cheque truncation subject to value limits that may be imposed by the CBN from time to time.

#### **4.4 Retention of original cheque**

The minimum retention period of physical cheques by the presenting bank is five (5) years. The electronic image shall be retained by CIWA for a minimum period of ten (10) years.

#### **4.5 Data Storage**

From the point of view of control, it is recommended that that Presenting Bank, Paying Bank, and the Automated Clearing House (NIBSS) shall keep copies of the cheque images.

#### **4.6 Minimum Storage Standards**

The Cheque front shall be stored in Grey Scale format, while Black and White format shall be used for the cheque front and rear.

#### **4.7 Implementation and Deployment**

Truncation shall be mandatory for all banks at a particular centre from a cut-off date as may be determined by the CBN. The cut-over date shall be announced well in advance and the participating banks are required to undertake a formal certification test to demonstrate operational readiness for the conversion to cheque truncation.

## 5 Procedures

### 5.1 General Procedures

Clearing Period – Under the Cheque Truncation regime, cheques shall clear on a T+1 basis such that customers receive value in the morning of T+2.

<b>TRANSACTION DAY</b>	<b>CHEQUE CLEARING CYCLE</b>
<b>MONDAY (T)</b>	Fresh cheques are deposited at bank branch
<b>TUESDAY (T+1)</b>	<ul style="list-style-type: none"><li>• Cheques are presented at the clearing house</li><li>• Paying Bank to return unpaid instruments same day</li><li>• Beneficiary Bank gets value</li></ul>
<b>WEDNESDAY(T+2)</b>	At the beginning of day, bank customer receives value for cheques not returned

#### 5.1.1 Clearing Timings

The CH shall operate 3 sessions as follows:

**Session 1 (1am-8am):** Permits all clearing instruments (cheque, NEFT–fresh and returned items)

**Session 2 (11am - 2pm):** Permits only returned cheques, fresh NEFT and Returned NEFT. Fresh cheques are not allowed.

**Session 3 (4pm - 6pm):** Permits only returned cheques and Returned NEFT Instruments.

#### NOTES:

1. *Settlements for 1<sup>st</sup> and 2<sup>nd</sup> clearing sessions shall be same day, while Return Instruments (3<sup>rd</sup> session) shall be settled next day.*
2. *All unpaid clearing cheques shall be returned same day.*
3. *NIBSS shall ensure that all inward files and reports are available to banks for download within 1 hour of session closure.*

#### 5.1.2 Point of Truncation

The point of truncation is left to the discretion of the Presenting Bank.

Provided that banks shall put in place a process of proper authorization and controls to ensure that all cheques are processed accurately and in accordance with the service levels concerning timings.

### **5.1.3 Settlement**

Settlement shall be generated on the basis of the existing MICR code line. The AMOUNT field shall be captured and keyed in separately by the Presenting Bank.

The specifications of the cheques detailed for MICR clearing shall be followed. Presenting Banks are encouraged to auto-read CAR field and specify cheque value. This shall eliminate cheque post-encoding which is time consuming in the first place. With the commencement of cheque truncation, post-encoding of the amount field shall no longer be mandatory.

Presenting Banks shall employ appropriate Optical Character Recognition technologies to auto-read the AMOUNT field such that cheque post-encoding would be eliminated in the in-clearing process as advised in the Nigeria Cheque Standards.

## **5.2 Clearing – Procedure at the Presenting Bank**

### **5.2.1 Preliminary Verification**

As the payment processing is done on the basis of images, the onus of due diligence shifts to the Presenting Bank for validation of the physical instrument. The Presenting Bank shall observe reasonable precautions such as:

- verifying the tenor of the instrument,
- physical feel of the instrument and
- Identifying evidence of tampering that is visible to the naked eye and UV light. For enhanced attention, based on exceptions, the banks shall employ suitable risk management techniques such as enhanced scrutiny of high value transactions. The Presenting Bank takes full responsibility for collecting a cheque and exercises due diligence as per the standard banking conditions and the minimum security standard specified in the Nigeria Cheque Standard. The presenting bank shall ensure that the cheque they are presenting conforms to the Nigeria Cheque Standard.

### **5.2.2 Crossing**

All cheques received over the bank's counters for the purpose of clearing are required to be branded with the bank's special crossing and presentation stamp prior to scanning.

### **5.2.3 Return Processing**

The Central Clearing Center of the Presenting bank shall receive the return exchange file/s for each return session containing the returns on the presentation lodged by them. An item may be returned as long as its clearing period has not expired, and a session is available for the particular clearing type. The return file shall contain the item detail and return reason code. It shall be the responsibility of the presenting bank to generate the return memo to the customer from the information in the return file.

### **5.2.4 Capture of Images and Data**

The images of all the instruments in a batch / file shall be duly captured along with MICR data using scanners set up for the purpose. The amount needs to be captured/ keyed in to complete the data record.

### **5.2.5 Reject Repair and Balancing**

The banks shall have proper systems and procedures in place to ensure that the rejects of the MICR line are appropriately repaired and the batch file is balanced before the same is uploaded from the capture system to the Clearing House. Banks are required to pass on the value in the MICR repair tag for any correction / changes / rejects on the MICR band of the cheques in the capture files.

## **5.3 Processing at Clearing House Gateway (CHG) – Outward Clearing**

### **5.3.1 Receiving Outward Presentment**

The CHG shall receive correctly formatted outward MICR Clearing Data files and Image files from the capture system of the Presenting Bank. The Presenting Bank shall ensure that the total amount and individual line items in the MICR Data File are reconciled against the Data Image File.

### **5.3.2 Image Quality Analysis and Failure Handling**

The incoming images are subjected to IQA validations. The images which fail IQA validations are rejected with an appropriate response file. The bank may rescan the instrument and present in line with bank's internal processes/ control procedures. The member banks have to maintain control over such re-presentments.

### **5.3.3 Item Processing**

The MICR Data Files and Cheque Image files presented by the capture system are validated by the CHG against the file and item level validations indicated in the CHG Specifications, as released by the Clearing House from time to time. The

CHG after validations generates response files which contain information related to acceptance or rejection of each file and the items present in each file with appropriate reason codes.

Sometimes there may be multiple response files for a MICR Data File and Cheque Image file. It is the responsibility of the capture system to take these response files and take appropriate actions. The CHG then sorts the MICR data and their related images into bundles per paying bank and bundle collection type and creates exchange files internally and validates these bundles against the session window to which they shall be attached at the Clearing House. The CHG, before attaching the items to the session, signs MICR data as well as image views. It also signs and encrypts the exchange files before transmission to CH.

#### **5.3.4 Session Attachment**

The items are assigned to an appropriate clearing session that is open based on parameters fixed for a session by the Clearing House. These parameters are passed on to the capture system through the CHG. The item inherits 'session date' that is the business date of the session. If there is no appropriate session that is open, the items/ bundles wait at the CHG until such a session opens.

A validation of the item's Presentment Date versus the item's Session Date is performed and items that exceed as prescribed shall be rejected by the Clearing House. The Clearing House shall from time to time prescribe this parameter.

#### **5.3.5 Transmission of Files to Clearing House**

CHG shall build exchange files for the MICR data and the cheque images for onward transmission to Clearing House. Each exchange file is digitally signed and encrypted before it is transmitted to the CH.

Banks shall plan transmission of their outward presentation by taking into account presentation volume, the bandwidth of network with the Clearing House, and the session window. In the event of an exchange file being received at the CHG within a session time but not passed to the Clearing House (due to unforeseen circumstances such as network congestion) before close of the session, the CHG shall unbundle the exchange file, and reattach to a new session.

#### **5.3.6 Reconciliation of Outward Presentation**

It shall be the responsibility of the Presenting Bank to verify and ensure that all the items presented / transmitted by it have been included in the settlement and reconcile the total credits with the presentation made by it.

After End of Session at the CH, CHG generates an OACK file containing the details of Items that have been taken up for settlement at the CH. It shall be the responsibility of presenting bank to reconcile their entire presentation by collating the information from OACK file and various response files.

## **5.4 Processing at Clearing House Gateway - Inward Clearing**

### **5.4.1 Receipt of Inward Data / Images**

The Inward processing deals with accepting inward presentment data and images from the CH and providing data in the form of files for use within the bank's inclearing (paying bank) system. The CHG receives digitally signed inward financial data exchange files and image exchange files from the CH.

### **5.4.2 Validation**

The CHG shall authenticate and load the exchange file data into the system and send an error exchange file to the CH if the inward financial data exchange file or image exchange file failed decryption or authentication. The CHG shall send an acknowledgement exchange file to the CH if the inward financial data exchange file or image exchange file gets successfully loaded. The CHG shall also validate the digital signatures on the Exchange MICR and Image Files.

### **5.4.3 Control Mechanism**

The Paying Bank shall verify that all the inward bundles/ items have been received by it to ensure that there has been no data loss in the transmission from Clearing House to the CHG. The CHG supervisor may compare the relevant information available at the 'Clearing House Processing Monitor' and 'Inward Exchange File Screen' for the purpose. The paying bank would not be able to generate posting files unless all the inward bundles/ items have been actually received at the CHG.

If any files are lost in transmission the bank may request the Clearing House for retransmission of images and data.

### **5.4.4 Generation of Posting File**

CHG, for each session, shall generate files for interfacing with the bank's inclearing or exception processing system.

CHG is capable of creating posting files (both image and data files) for payment processing bank wide in one of the following three ways:

- i. Bank wise for the entire bank
- ii. Branch wise within each bank
- iii. Branch and transaction code wise for each branch.

The type of posting file paying bank requires is configurable at CHG.

## **5.5 Processing at Branches / Bank's In-clearing System**

### **5.5.1 Transmission of Posting Files**

It shall be the responsibility of the paying bank module to fetch the posting files from CHG and undertake the payment processing.

### **5.5.2 Duplication Checking**

The CHG detects duplicate items based on MICR code line on the data for the configured number of days. The duplicate items are indicated in the SACK files generated by the paying bank's CHG, and it is the responsibility of paying bank module to have processes in place to take necessary caution/control while processing such items. Additionally, CH also generates a report of duplicate items for each CHG after each session, and is available for CHGs to access the same and download, if required.

### **5.5.3 Payment Processing**

The banks shall do the payment processing based on images of the instruments following all the prudent practices. Both the presenting bank and the paying bank shall be liable for payment of a stale or post dated instrument.

### **5.5.4 Return Request File**

It shall be the responsibility of the paying bank to collate all the return items and create Return Request File/s (RRF) as per specifications provided in CHG Specification document. The paying bank in-clearing system shall forward such Return Request File/s to CHG for onward transmission to the CH.

### **5.5.5 Return Processing at the CHG**

The CHG shall receive RRF/s from paying bank system containing all the outgoing returns along with return reason codes. The CHG shall validate the file for file integrity and data integrity, process the data and generates exchange file for the CH. During return clearing images would not travel. Each exchange file is digitally signed and encrypted before it is transmitted to CH.

The Clearing House (CH) shall update and analyse the list of all returned cheques monthly. Customers with cases of high frequencies shall be reported to the CBN and accredited Consumer Credit Bureaus. Appropriate return reason code shall be specified in the RRF/s by the Paying Bank.

### **5.5.7 Commission on Turnover (COT)**

The Presenting and Paying Banks shall not charge COT on Debit entries arising from Returned Instruments. However the paying bank shall be free to apply returned cheque charges as provided in the Bankers Tariff.

### **5.5.8 Transmission Discipline**

CHG shall transmit the Outward Return Exchange Files within the given return window. As there may be a time lag during transmission of a file from CHG to CH, the paying bank shall ensure that the return exchange files reach the Clearing House within the timeframe before the closure of the return session.

### **5.5.9 Internal Control**

While handling the inward clearing, the banks shall search for duplicate MICR cheques and maintain a duplicate MICR cheques list.

In addition to the inward instruments drawn on branches of a bank, the reports generated by the Clearing House shall contain the summary position of the total number of instruments and the total value thereof. After the processing of inward clearing, banks shall verify the inward clearing figures.

### **5.5.10 Reconciliation of Clearing Differences**

In CTS Clearing the images and data shall be received together in the separate files (images in IMG and data in XML) and hence the possibility of a bank being debited without receiving an image shall not arise. In the case of a bank being debited with the cheque image of another bank (caused, for example, of data entry error) the same shall be returned to the presenting bank with appropriate return reason code.

## **5.6 Special Processing at Clearing House**

### **5.6.1 Caution Notice**

Ordinary Caution Notice shall cease to exist in the CTS regime.

### **5.6.2 Different Status of CHG / Bank**

**Suspended:** CH shall change the status of a bank from 'in clearing' to 'suspended' under exceptional circumstances such as moratorium or unwinding. In such a scenario, the suspended bank shall not be able to participate in any clearing. But banks may return items presented by the suspended bank in the suspended period.

**Not in Clearing:** CH shall put a bank in 'not clearing' mode when a bank does not participate in clearing. Once set as 'not clearing' the bank cannot make or

receive any presentations during the 'not clearing' period. Other banks also cannot return items presented on/by the bank.

## **6 Interbank Data Exchange rules**

### **6.1 Use of Dedicated Secure Network**

Images accompanied by the MICR line data, duly encrypted & digitally signed, shall travel over a dedicated network connecting all the CHGs with the Clearing House.

### **6.2 Transmission of Image / Data**

The capture system shall transmit the MICR data and images of the cheques to its Clearing House Interface electronically and/or on the media. Banks may have procedures in place to optimise bandwidth and ensure that the branches upload their presentation in over a period of time rather than sending all the images and data relating to the day's clearing of the branch at the end of the day or at a given point of time.

### **6.3 Media Based Transmission of Exchange Files**

In the event of a network failure or in case of an offline CHG, the application allows for data and image files to be exchanged with the CH using different types of Electronic medium. The same Public Key Infrastructure (PKI) infrastructure that is used during network transmission is used to create the files for transfer using physical media options.

## **7 Technical Specifications**

### **7.1 Scanning Standard**

The scanning shall conform to the prescribed standards which are, for front side, grey scale 100 DPI 8 bit (256 level) in JFIF format with JPEG compression, and front and back bi-tonal (black and white), 200 DPI TIFF image. Compression techniques used are JPEG for grey scale image and CCITT G4 standards for the bi-tonal. The image quality assurance (IQA) is required at the scanning stage so that the images meet the processing quality standards. The image specifications are as follows:

<b>Sl. No.</b>	<b>Image Type</b>	<b>Minimum DPI</b>	<b>Format</b>	<b>Compressio</b>
1	Front Grey Scale	100 DPI	JFIF	nJPEG
2	Front Black & White	200 DPI	TIFF	CCITT G4
3	Reverse Black & White	200 DPI	TIFF	CCITT G4

The background of the cheques shall be image-friendly. There shall be no dark background.

## **7.2 Image Quality Checking**

The banks need to perform IQA validations at the capture system. Each image shall have an IQA indicator tag indicating the outcome of the IQA test carried out by the capture system.

The threshold values for different IQA parameters shall be intimated to the banks by the Clearing House from time to time. The banks shall take care to synchronize the IQA parameters at the capture system, to avoid excessive rejection at the CHG.

## **7.3 Handing IQA Failure**

The Clearing House retains the right to define threshold limits on items failing IQA, and invoke penal provisions for its violations.

## **7.4 Digital Signatures**

The use of the Public Key Infrastructure (PKI) ensures data authenticity, integrity and non-repudiation, adding strength to the entire system. The Presenting Bank CHG shall affix digital signature on each Exchange File before transmission to CH. The digital signatures used for the clearing file exchange between the CH and CHGs shall have an unexpired life of at least one month. The Exchange Files are secured using the PKI throughout the entire cycle covering capture system, the Presenting Bank, the Clearing House and the paying bank.

# **8 Data Storage**

## **8.1 Storage and Archiving System**

A sound storage and archiving system of images is an integral part of CTS which takes care of disputes, complaints, reconciliation, etc. The physical instruments and electronic image shall be stored by the presenting bank for a minimum of five (5) and ten (10) years respectively.

## **8.2 Clearing House Table**

The master table information, such as sort codes, transaction codes, branch codes, bank codes, clearing zone codes, calendar, and designated branches, etc., of the capture system shall be synchronised with that of Clearing House Table. Any changes in the clearing house table shall get automatically updated on the online CHGs, and it shall be the bank's responsibility to update its capture system immediately. CHG supervisors shall monitor whether the CH Table has

been updated successfully or not. Any error related to CH Table updates is reflected in the system monitor screen of the CHGs.

It shall be the responsibility of the offline CHGs (CHGs which are not connected to CH over network) to ascertain any updates to the Master Tables, before the commencement of any session. Offline CHGs may have to approach the Clearing House for any updates.

### 8.3 Storage of Physical Instruments

The presenting banks need to put in place arrangements to physically archive the cleared instruments for ready retrieval, whenever required at a later date. The physical instruments shall be stored for the required statutory period, as mentioned.

## 9 Risk and Mitigation

### 9.1 Internal Control

The banks shall document the process flow and ensure that the adequate control mechanisms are in place. Special care and adequate physical check shall be taken during re-scanning of instruments and re-presentation of instruments.

The banks shall have a mechanism to generate internal control reports at the end of the session / day to effectively reconcile the presentation made by it and the credit received by it from the CH. Any discrepancy shall be identified on the same business day and resolved on the following business day at latest.

Banks shall put in place a framework for mitigation of operational, legal and reputational risks in compliance with the Electronic Banking Guidelines.

## 10 Roles and Responsibilities

	Responsibilities	Sanction
1	Persistent transmission of data that are not in agreement with the image	Bank shall be reported to the CBN. After 3 warnings the bank shall be suspended from clearing until such error is corrected.

2	Presentation of cheques with alteration/erasures which are visible under the UV light/naked eye thus leading to fraud	Presenting bank shall be fully liable
3	Presenting cheques which are not in accordance with the Nigeria Cheque Standard	Relevant CBN sanction shall apply.
4	Presentation of cheques with irregularity such as stale, post-dated, amount in words and figures differ	The presenting and paying bank shall be jointly liable(50:50) if there is a loss
5	Paying bank to ensure that their host application can prevent the payment of duplicated cheques	Paying Bank is fully liable.
6	Failure to return an unpaid instrument within the clearing period/window without notice to the presenting bank	Paying bank shall be fully liable
7	Presenting bank's failure to honour Special Caution Notice from the paying bank duly served within the business hour of presentment day	Presenting bank shall be fully liable
8	Undue delay in transmission of cheques valid for presentment which made a customer to suffer a loss as a result of delay in getting value	Applicable CBN sanction shall be invoked.

The introduction of the truncation process changes the roles and the responsibilities of the various participants in the clearing system and may lead to introduction of certain risks which have to be mitigated. These are documented below.

- a. At the presenting bank level, the responsibility to verify the genuineness of the cheque based on the apparent tenor or the features of the cheque presented for collection may lead to banks refusing to accept a genuine cheque or accept a forged cheque based on a manual scrutiny. Images and MICR data to be sent to the clearing house have to be matched before they are released to the Clearing House.

- b. The Clearing House shall assume that the data given by the banks is the data meant for that day's clearing and shall arrive at the settlement based on this assumption. If the MICR data given by the bank is not that matching with the day's image the bank has sent for collection, it may lead to erroneous settlement and large returns.
- c. Truncating cheques entails additional operational risks. Banks shall take adequate measures to ensure that all necessary safeguards are provided for in consonance with legal requirements and banking practice while making payments, especially for high value instruments.
- d. The paying bank shall verify the signature on the image of a cheque. If a paying bank chooses to verify signatures on the images of cheques above a cut-off amount only, then it runs the risk of paying some forged instruments.

## 11 Sanctions

	Responsibilities	Sanction
1	Persistent transmission of data that are not in agreement with the image	Bank shall be reported to the CBN. After 3 warnings the bank shall be suspended from clearing until such error is corrected.
2	Presentation of cheques with alteration/erasures which are visible under the UV light/naked eye thus leading to fraud	Presenting bank shall be fully liable
3	Presenting cheques which are not in accordance with the Nigeria Cheque Standard	Relevant CBN sanction shall apply.
4	Presentation of cheques with irregularity such as stale, post-dated, amount in words and figures differ	The presenting and paying bank shall be jointly liable(50:50) if there is a loss
5	Paying bank to ensure that their host application can prevent the payment of duplicated cheques	Paying Bank is fully liable.

6	Failure to return an unpaid instrument within the clearing period/window without notice to the presenting bank	Paying bank shall be fully liable
7	Presenting bank's failure to honour Special Caution Notice from the paying bank duly served within the business hour of presentment day	Presenting bank shall be fully liable
8	Undue delay in transmission of cheques valid for presentment which made a customer to suffer a loss as a result of delay in getting value	Applicable CBN sanction shall be invoked.

March 14, 2012



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**BPS/DIR/GEN/CIR/01/004**

**March 23, 2012**

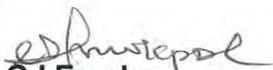
**ALL BANKS  
CASH IN TRANSIT  
CIT COMPANIES  
PAYMENTS SYSTEM SERVICE PROVIDERS  
SWITCHES  
CARD ACQUIRERS  
ISSUERS & PROCESSORS  
PUBLIC**

**INDUSTRY POLICY ON RETAIL CASH COLLECTION AND LODGMENT (IITP/C/001) AS IT AFFECTS SPECIALISED INTERNATIONAL INSTITUTIONS**

Our Circular Ref. No. BPS/DIR/GEN/CIR/01/003 dated 16<sup>th</sup> March, 2012 on the above caption with special emphasis on Section (d) refers.

Nigeria is Signatory to several treaties which exempt these institutions from all fees and charges in the host country. As a matter of international practice, sovereign states do not impose financial penalties on other sovereign states, it has become necessary therefore to extend the exemption on cash withdrawal/deposit to these institutions.

The Central Bank of Nigeria hereby exempts ALL EMBASSIES, DIPLOMATIC MISSIONS, and MULTILATERAL and AID DONOR AGENCIES in Nigeria from penalties and charges on cash withdrawal and deposits with regards to the Cashless Nigeria project.

  
G.I Emokpae

Ag. Director, Banking and Payments System Department





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**BPS/DIR/GEN/CIR/01/003**

**March 16th, 2012**

**ALL BANKS  
CASH-IN-TRANSIT  
CIT COMPANIES  
PAYMENTS SYSTEM SERVICE PROVIDERS  
SWITCHES  
CARD ACQUIRERS  
ISSUERS & PROCESSORS  
PUBLIC**

**Re: INDUSTRY POLICY ON RETAIL CASH COLLECTION AND  
LODGEMENT (IITP/C/001)**

**Our earlier Circular Ref. No. COD/DIR/GEN/CIT/05/031 dated 20<sup>th</sup> April, 2011 on the above caption refers.**

**In furtherance of its efforts at ensuring the efficiency of the payments system in the country and the success of the Cash-Less Nigeria Project, the Central Bank of Nigeria, has noted through its effective monitoring and feedback mechanism the need to reassess the project to allow for smooth transition and adoption in Lagos State in the first instance, and across the country at a later date.**

**In consideration of the above, the Central Bank of Nigeria hereby reviewed the policies as follows:**

**a. Daily Cumulative Cash Limit:**

**The daily cumulative limits of N150,000 and N1,000,000 have been reviewed upwards to N500,000 and N3,000,000 on free cash withdrawals and lodgments by individual and corporate customers respectively.**

**b. Processing fees for Withdrawal:**

**The processing fee for withdrawal above the limit for individual customers has been reviewed downwards from 10% to 3% while the processing fee for withdrawal above the limit for corporate has also been reviewed downwards from 20% to 5%**

**c. Processing fees for Lodgment:**

**The processing fee for lodgment above the limit for individual customers has been reviewed downwards from 10% to 2% while the processing fee for lodgment above the limit for corporate has been reviewed downwards from 20% to 3%**

**d. Exemptions:**

**Exemption is hereby granted on lodgment for accounts operated by ministries, departments and agencies (MDAs) of the federal and state governments, for the purpose of revenue collections ONLY.**

**The policy on Cash-Less Lagos applies to transactions conducted in Lagos state. That is, transactions conducted in the banks' branches situated in Lagos state.**

**In order to ensure successful implementation of cash-less project, the pilot run in Lagos state is hereby extended to December 31st, 2012. Consequently, the roll-out in other states of the Federation has been deferred to January 1, 2013.**

**The reduction in the processing fees is a temporary measure that will be reviewed every 6 months. All other clauses contained in the circular under reference remain valid.**

**It is further directed that the collection of charges by the deposit money banks shall take effect from April 1, 2012.**

  
**G. I. Emokpae**

**Ag. Director, Banking & Payments System Department**



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**BPS/DIR/GEN/CIR/01/002**

**March 1, 2012**

**ALL DEPOSIT MONEY BANKS**

**NEED FOR CLARIFICATION ON CASH WITHDRAWAL LIMIT FOR  
PRIMARY MORTGAGE INSTITUTIONS AND MICROFINANCE BANKS**

It has come to our notice that some Deposit Money Banks apply cash withdrawal/deposit limits for Corporate Organizations to Primary Mortgage Institutions (PMIs) and Microfinance Banks (MFBs).

PMIs and MFBs are specialized banks as defined under the new banking model which have customers that maintain savings demand and time deposit accounts with them. As deposit-taking institutions, they are obliged to honour the withdrawal requests of their customers and other mature obligations.

It is imperative to note that the aggregate withdrawals by the depositors of MFBs and PMIs per day could exceed N1 million, thus necessitating those institutions to withdraw over N1 million from their correspondent banks in order to service their customers.

It has therefore, become necessary to clarify that direct withdrawal/deposit by Microfinance Banks and Primary Mortgage Institutions are excluded from the policy of N1 million limit for corporate bodies to enable them meet the legitimate demands of their numerous customers. However, the cash withdrawal/deposit limits are applicable to the customers of MFBs and PMIs.

Please be guided.

A handwritten signature in blue ink, appearing to read 'G. I. Emokpae'.

**G. I. Emokpae**

**Ag. Director, Banking & Payments System Department**



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February 20, 2012

**REF: BPS/DIR/CIR/GEN/03/001**

**TO: ALL DEPOSIT MONEY BANKS**

**NON COMPLIANCE WITH CBN CIRCULAR ON ATM DEPLOYMENT**

This is to bring to your notice that the Bank hereby expresses its disappointment for non-compliance with the CBN circular on Modalities for ATM Operations issued November 4, 2011.

You are by this circular to note the following:

- i) That all various cards used in Nigeria are treated equally on their ATMs.
- ii) That a N100 fee charged for not-on-us transactions is to be displayed to the card holder for acceptance before the transaction is consummated, the Bank observed that this does not happen when Visa cards are used. This is discriminatory and does not align with the objective of accepting all cards and ensuring equal service level offering.
- iii) This circular takes immediate effect and any Deposit Money Bank (DMB) that fails to comply would be sanctioned accordingly.

Thank you.

  
**G. I. EMOKPAE**  
**Ag. DIRECTOR, BANKING & PAYMENTS SYSTEM DEPARTMENT**



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**BPS/DIR/GEN/CIR/01/015**

**January 5, 2012**

**CIRCULAR TO ALL DEPOSIT MONEY BANKS**

**COMPLIANCE WITH COMMENCEMENT DATE FOR THE IMPLEMENTATION OF ELECTRONIC PAYMENTS IN NIGERIA**

In its efforts at enhancing the efficiency and security of the payment system in the country, the Central Bank of Nigeria hereby sets 9<sup>th</sup> January, 2012 as the commencement date for the implementation of end-to-end straight through electronic payments of Suppliers, all forms of Taxes, Salaries and Pensions by both private and public organisations with more than 50 employees/pensioners in Nigeria.

To this end, all Deposit Money Banks (DMBs) are to dishonour payment instructions with schedules delivered via unsecured methods such as Flash Drives, Compact Discs or e-mail attachments with effect from that date.

To support this initiative, Deposit Money Banks are hereby implored to properly educate and advise their customers on the adoption and implementation procedures for an end-to-end e-payment.

A handwritten signature in blue ink, appearing to read 'G. I. Emokpae', written over a horizontal line.

**G. I. Emokpae**  
**Ag. Director, Banking & Payments System Department**



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**Ref: BPS/PSP/GEN/CIR/02/004**

**December 22, 2011**

**TO: ALL MOBILE PAYMENTS SCHEME OPERATORS**

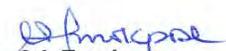
**CIRCULAR TO ALL MOBILE SCHEME OPERATORS**

It has come to the attention of the Management of Central Bank of Nigeria that Mobile Network Operators (Telecommunication Companies) have been carrying out public media advertisement on behalf of Mobile Payments Scheme Operators thereby sending wrong signals to the public as well as causing disaffection among the Scheme Operators. This is totally unacceptable.

For the avoidance of doubt, no Telecommunications Company (Telcos) had been licensed by the Central Bank to operate any mobile money scheme in Nigeria. However, the Bank is not unmindful of their critical roles, and hence the explicit assignment of responsibilities to them in the Regulatory Framework for Mobile Payments Services as infrastructure providers. Such responsibilities should be based on criteria which are transparent and generally applicable to all Scheme Operators **WITHOUT DISCRIMINATORY PRACTICES AGAINST ANY SCHEME OPERATOR.**

In order to build and sustain public confidence in the mobile payments scheme, it is hereby directed that henceforth, on no account should any Mobile Network Operator be allowed to advertise on behalf of any Scheme Operators or tie the operation of their system to any network. Customers should be able to operate the mobile payment system from any telecommunication network of their choice.

Failure to adhere to this directive will attract appropriate sanctions and could lead to withdrawal of already granted licence.

  
G.I. Emokpae

**Ag. Director, Banking & Payments System Department**



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November 25, 2011

REF: BPS/DIR/CIR/GEN/02/031

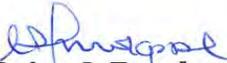
**TO: ALL SWITCHES**

**PENALTY FOR NON COMPLIANCE WITH NIBSS FORMAT FOR SENDING SETTLEMENT REPORT**

In furtherance of its effort to encourage the adoption of electronic payments in Nigeria, the Central Bank of Nigeria reiterates its commitment towards ensuring T+1 settlement cycle for POS transactions. In that regard, a format for sending settlement reports to NIBSS was designed with a view to giving value to merchants on T+1. However, it has been observed that some switches are yet to comply with sending their reports in the required format even after the given timeline of October 1, 2011.

In order to build and sustain public confidence in the electronic Payments System, especially for the successful implementation of the cashless Lagos projects, it is imperative for merchants to get value for POS transactions on T+1.

Switches are therefore mandated to comply with the NIBSS format on or before November 30, 2011, failing which the Central Bank of Nigeria shall sanction any erring party with a penalty of N50,000.00 for each day they fail to comply.

  
**Gaius I. Emokpae**

**Ag. Director, Banking and Payments System Department.**



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**BPSD/DIR/CIR/01/011**

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## **CIRCULAR TO ALL DMBs, IADs, CIT COMPANIES & SWITCHES**

### **MODALITIES FOR OFF-SITE ATM OPERATIONS/DEPLOYMENT**

In line with the Cashless Society objectives, and further to the discussions with all key stakeholders, the following provisions are issued to guide the deployment of off-site ATMs.

Given the critical role of ATM deployment and availability in ensuring a smooth implementation of the new cash policy, it is important for all parties to perform their required roles to the expected standards. A comprehensive review of the ATM guidelines is in process, and shall be communicated in due course.

#### **Off-site ATMs**

- Banks and Independent ATM Deployers (IADs) will be allowed to acquire and deploy off-site ATMs.
- Each party, whether Bank or IADs, will be free to brand the off-site ATMs they acquire, and process their transactions accordingly. Each party shall ensure provision of cash for their off-site ATMs.

#### **Service Charges & Fees**

- Banks shall have the option to engage IADs to deploy, maintain and support off-site ATMs. In such a case, the banks and the IADs shall agree on the service scope and the charges/fees.

- Transaction fees shall remain pegged at a maximum of N100 per transaction for all ATMs.
- All ATMs shall clearly display the transaction fees for card holders to accept before the transaction is consummated.

### **Service Quality**

- All ATMs (off-site and on-site) shall have a minimum uptime of 95% going forward. For the avoidance of doubt, ATM uptime refers to ATM availability from the customers' perspective including but not limited to network availability, and availability of cash. This shall be monitored routinely, with strict sanctions applied in the case of non-compliance.
- All ATMs shall have cameras and other security measures deployed to deter and prevent fraud.
- All ATMs shall accept at the minimum the following cards; Visa, MasterCard and Verve.
- All ATMs shall present the same set of services (Menu Options) to all the cards they accept. There shall be no discrimination of card with regard to service offering allowed on any ATM deployed.

The provisions of this circular shall take precedence, in the event of any conflict between it and previous guidelines regarding ATM operations/deployment.

This circular becomes effective from November 4, 2011.

  
**G. I. Emokpae**

**Ag. Director, Banking & Payments System Department.**



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BPS/DIR/CIR/01/012

24<sup>th</sup> October, 2011

**CIRCULAR TO DEPOSIT MONEY BANKS/DISCOUNT HOUSES**

**ACCREDITATION AND RE-ACCREDITATION OF CHEQUE PRINTERS.**

The Central Bank of Nigeria, in collaboration with the MICR Technical Implementation Committee, has approved the re-accreditation of Tripple Gee Company Plc as a Cheque Printers under the Nigeria Cheque Printer Accreditation Scheme (NICPAS) for the year 2011, bringing the number of approved Cheque Printers to Fifteen.

Attached is the list of the cheque printers approved for the Nigerian market.

Thank you

  
**G.I. Emokpae**

Ag. Director, Banking & Payments System Department.

## LIST OF ACCREDITED PRINTERS

PRINTER'S NAME	ADDRESS & CONTACT TELEPHONE NO	CATEGORY	ACCREDITATION NO
NIGERIA SECURITY PRINTING & MINTING PLC	54 SAMUEL LADOKE AKINTOLA BOULEVARD,P.M.B 144 GARKI, ABUJA Tel: 09 3149139,3149146	1 & 2	0106
TRIPPLE GEE & COMPANY PLC	PLOT 9 KAREEM GIWA STREET, ABULE OSUN, KM, 11 BADAGRY EXPRESS ROAD, P. O BOX 6418, LAGOS. Tel 01 8042442, 80443222 contact@the3group.com	1 & 2	0206
KALAMZOO SECURE SOLUTIONS LTD	MILL LANE, NORTHFIELD, BIRMINGHAM, B 312 NY ENGLAND Tel: +447970579616 Deanjackson61@btinternet.com	1&2	0306
SECURITY PRINT SOLUTION	NORTHUMBRIA HOUSE,UNIT 38,NO1 INDUSTRIAL ESTATE, CONSETT CO DURHAM, DH8 6 TW, UK Tel: +44(0)1207590185 infi@securityps.co.uk	1 & 2	0406
CFH TOTAL DOCUMENT MGT LTD	ST PETERS PARK, WELLS ROAD,RADSTOCK, ENGLAND, BA 33 UP Tel- 01761416311 Paul.clarke@cfh.com	1 & 2	0506
SMITH & OUZMAN LTD	BRAMPTON ROAD,EAST BOURNE, SUSSEX BN 229 AM ENGLAND Tel: +441323524000 nicksmith@smith&ouzman.com	1 & 2	0606
TALL SECURITY PRINT LTD	UNIT 2 PEMBROKE COURT, MANOR PARK, RUNCORN, WAT 1 TJ UK. Tel: +441928579200 export@tallgroup.co.uk	1 & 2	0706
A1 TRADE PRINT SERVICES	CAMP LANEHANDSWORTH, BIRMINGHAM 321 8 JB ENGLAND Tel : 01215079606 Jimrichardson@a1tps.co.uk	1 & 2	0806
CAMELOT GHANA LTD	OSU REGAL LA RD BEHIND REGAL CINEMA BUILDING ,ACCRA, GHANA Tel:23321774852/77312 Camelot@camelotprint.com	1 & 2	0906

SUPERFLUX INTERNATIONAL LTD	3, VORI CLOSE, OFF ACME ROAD, OGBA IKEJA.P. O BOX 74944 Tel:4924620, 4924610,4922328 Email: sales@superflux.com.ng	1 & 2	1207
SHAVE AND GIBSON GROUP	1290 SOUTH COAST ROAD, MOBENI 4052 SOUTH AFRICA Tel: +27314622336 Jim.short@shavegibson.com	1 & 2	1410
PAPI PRINTING COY LTD	PAPI HOUSE, 78 RAWLYN CLOSE, CHAFFORD HUNDRED, ESSEX RM 16 6BS, UK Tel - +234 8025434144 a.ekong@btinternet.com	1 & 2	1510
CORRINUM CONTINUOUS LTD	UNIT 4 MERCIAN CLOSE, WATERMOORE, GRENCETER, GLOUCESTER, GL 71 LT UK Tel: 01285 658233 jonathan@coriniumcontinuous.co.uk	1 & 2	1610
DLRS GROUP,	PINEWOOD CLOSE, BOGHALL ROAD BRAY, CO WICKLOW, IRELAND Tel: +35312768600 Peter.thomas@smurfitkappa.ie Martin.desmond@smurfitkappa.ie	1 & 2	1611
EUPHORIA COMM. LTD	Pallion Trading Est, Pallion Sunderland, Tyne & Wear, SR4 6ST UNITED KINGDOM Tel: 447516158938,+23418060547345 contact@euphoriasite.com	1 & 2	1511



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BPS/DIR/CIR/01/009

August 22, 2011

**CIRCULAR TO ALL DEPOSIT MONEY BANKS (DMBs)**

**REQUEST FOR DATA ON PAYMENT CARD**

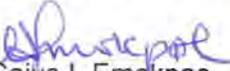
In line with the Bankers' Committee's agreement to drive card issuance and create an enabling environment for the cash policy implementation, the CBN would like to monitor the progress made by various banks in card issuance.

Going forward, kindly forward to us the data on card issued and total number of active accounts using the format below:

Total number of Active Accounts	Cumulative Cards issued	Cumulative active cards	Number of cards issued in the reporting month	Number cards activated in the reporting month

Please note, active accounts for this purpose, are accounts with at least one transaction in the past 6 months; while active cards are those that have been picked up and activated by the customer.

It will be appreciated, if the data could be forwarded to the Director, Banking & payments System Department, CBN Abuja as well as through the email address: [sharedservices@cbn.gov.ng](mailto:sharedservices@cbn.gov.ng) on or before the third working day following the reporting month. Thus, the first report should be forwarded to us on or before September 3, 2011.

  
Gaius I. Emokpae

Ag. Director, Banking and Payments System Department.



**CENTRAL BANK OF NIGERIA**

**GUIDELINES ON POINT OF SALE (POS) CARD ACCEPTANCE SERVICES**

## **1 Preamble**

In exercise of the powers conferred on the Bank by Section 47 (3) of the Central Bank of Nigeria Act 2007 (as amended) to issue guidelines for the maintenance of adequate and reasonable financial services for the public and to ensure high standards of conduct and management throughout the banking system; and

Pursuant to its inherent powers, the Central Bank of Nigeria (CBN) hereby issues the following guidelines for Point of Sale (POS) Card Acceptance Services in Nigeria:

### **Objectives**

These guidelines have been developed to provide minimum standards and requirements for the operation of POS card acceptance services under the following POS environment:

- a) Countertop
- b) Wireless/Portable
- c) Handover (PIN Entry only/Customer-activated with PIN Entry)
- d) Automated Dispenser (e.g. Automated Fuel Dispenser, Token dispenser, etc)
- e) Biometric point of sale
- f) Contactless

## **2 Point of Sale Card Acceptance Services Stakeholders**

POS Card Acceptance Services Stakeholders include, but, not limited to:

- 1. Merchant Acquirers
- 2. Card Issuers
- 3. Merchants
- 4. Cardholders
- 5. Card Schemes and Card Associations
- 6. Switches
- 7. POS Terminal Owners
- 8. Payments Terminal Service Aggregator (PTSA)
- 9. Payments Terminal Service Providers (PTSP)
- 10. Processors

## **3 Minimum Standards**

All industry stakeholders who process and/or store cardholder information shall ensure that their terminals, applications and processing systems comply with the

minimum requirements of the following Standards and Best Practices (for PCI, the minimum requirement will be level 2.1). In addition, all terminals, applications and processing systems, should also comply with the standards specified by the various card schemes. Each vendor must provide valid certificates showing compliance with these standards, and must regularly review status of all its terminals to ensure they are still compliant as standards change. There will be a continuous review and recertification on compliance with these and other global industry standards from time to time.

- 3.1 PA DSS –Payment Application Data Security Standard.
- 3.2 PCI PED – Payment Card Industry Pin Entry Device.
- 3.3 PCI DSS – Payment Card Industry Data Security Standard.
- 3.4 Triple DES – Data Encryption Standards should be the benchmark for all data transmitted and authenticated between each party. The triple DES algorithm is the minimum standard.
- 3.5 EMV – The deployed infrastructure must comply with the minimum EMV requirements.
- 3.6 Each vendor must provide valid certificates showing compliance with these standards.

The timelines for compliance with the above minimum standards are as follows:

- New terminals and payment applications Immediate
- Existing payment applications December 1, 2011
- Existing terminals December 31, 2012

#### **4.0 Roles and Responsibilities of:**

##### **4.1 Merchant Acquirers**

- 4.1.1 Only CBN licensed financial and non- financial institutions shall serve as Merchant Acquirers.
- 4.1.2 Merchant Acquirers can own POS Terminals, but shall only deploy and support POS terminals through a CBN licensed Payment Terminal Services Provider (PTSP).
- 4.1.3 Merchant Acquirers shall ensure that POS terminals purchased and deployed at merchant/retailer locations through CBN licensed Payment Terminal Services Provider shall accept all cards (card agnostic)
- 4.1.4 Support for existing POS terminals already deployed shall be handed over to PTSPs by November 1st, 2011
- 4.1.5 Merchant Acquirers shall enter into agreements/contracts with merchants for accepting payment by means of electronic payment instrument. All agreements/contracts shall clearly spell out the terms and conditions, including roles, responsibilities and rights of the acquirer and the

merchant. The contract should also clearly spell out requirements for the merchant's responsibilities in ensuring proper upkeep of the POS terminal.

- 4.1.6 Every Merchant Acquirer shall connect all its PoS terminals or other acquiring devices directly to the Payments Terminal Service Aggregator.
- 4.1.7 Merchant Acquirers shall switch all domestic transactions through the preferred local switch of their choice for purpose of seeking authorisation from the relevant Issuer.
- 4.1.8 To achieve interoperability, all POS terminals deployed in Nigeria shall accept all transactions arising from any card issued by any Nigerian bank. Accordingly, Acquirers and other service providers shall be card neutral entities that have no reason to promote or favour any card brand over the other.
- 4.1.9 Every acquirer must be able to accept all cards issued by Nigerian Banks, whether through a direct license or via an arrangement with any other acquirer that is licensed under the relevant card scheme/association.
- 4.1.10 Merchant Acquirers, in conjunction with their Payment Terminal Service Providers, shall be responsible for ensuring that merchants are trained and made to put in place reasonable processes and systems for confirming cardholder identity and detecting suspicious or unauthorized usage of electronic payment instruments where customer/card is physically present at point of sale.
- 4.1.11 Merchant Acquirers shall be required to undertake measures to prevent the use of their networks for purposes associated with money laundering and other financial crimes.
- 4.1.12 Merchant Acquirers shall conduct proper KYC on all their merchants with POS.
- 4.1.13 Merchant Acquirers shall set merchant limits based on the volume of business/type of commercial activities. In addition, Merchant Acquirers shall provide guidelines to merchants on payment procedures for large ticket transactions (e.g. review of Identification, etc)
- 4.1.14 All POS Terminals procured should allow for implementation of Biometric Authentication by December 2015.
- 4.1.15 Merchant Acquirers shall in conjunction with banks, switches and other stakeholders ensure resolution of disputed transactions between the merchant and the cardholder within five (5) working days. All transactions from POS devices shall be routed through the PTSA to the relevant acquirer or its appointed third party processor.

4.1.16 There shall be no exclusivity arrangements that bundle third party processing with switching activities. Each acquirer shall be free to process transactions on its own, or leverage the services of a third party processor; and these services shall be independent of the switch used to facilitate such exchange.

4.1.17 Merchant Deposit Banks shall maintain and reconcile merchant accounts on behalf of Merchant Acquirers.

## **4.2 Payment Terminal Services Provider (PTSP)**

4.2.1 To ensure effectiveness of POS operations and a proper support/maintenance infrastructure, only CBN licensed Payments Terminal Service Providers shall deploy, maintain and provide support for POS terminals in Nigeria. PTSPs shall offer services to acquirers covering all aspects relating to terminal management and support, including but not limited to purchase and replacement of spare parts, provision of connectivity, training, repairs, and development of valueadded services, amongst other things.

4.2.2 PTSPs shall agree their fees directly with the acquirers, but subject to the following guidelines:

- i A flat fee per terminal, irrespective of location deployed and/or value/volume of transactions
- ii An incentive fee based on volume of transactions per terminal
- iii Timely settlement of payments

4.2.3 CBN shall license a limited number of Payments Terminal Service Providers, to enable the PTSPs build scale and maximize efficiency. Criteria for PTSPs shall be defined by CBN, and the performance of licensed PTSPs shall be reviewed annually to confirm they meet defined performance targets. Licenses of PTSPs that fail to meet performance expectations can be withdrawn and fresh licenses issued to qualifying companies.

4.2.4 PTSPs can identify merchant opportunities and market potential merchants on behalf of acquirers.

4.2.5 Only PTSPs shall be allowed to deploy POS terminals. Any party, other than a PTSP that deploys POS terminals, shall be fined 50,000 Naira per day that terminal remains deployed. PTSPs shall clearly agree SLAs on deployment timelines with acquirers to ensure efficient deployment of POS terminals.

4.2.6 PTSPs shall ensure that deployed POS terminals are functional at all times. Appropriate mechanism must be put in place to remotely detect failures which shall be rectified or replaced within 48 hours.

- 4.2.7 All terminals deployed by PTSPs must have stickers with the PTSP's support service contact information. In addition PTSPs must have a support infrastructure that ensures support coverage for merchants 7 days a week.
- 4.2.8 PTSPs will be required to enter into contracts/SLAs with the acquirers that will clearly state the terms and conditions of their support services, including the fee structure and timeline for fee settlement.
- 4.2.9 PTSPs shall work with the PTSA to ensure all POS terminals deployed by them meet all required certifications and the minimum POS specifications defined in these guidelines.
- 4.2.10 PTSPs shall work with acquirers and the terminal manufacturers to ensure that terminals are phased out/replaced/upgraded as appropriate, as their certifications become obsolete.
- 4.2.11 No Card Scheme shall engage in business as a Payment Terminal Services Provider; neither shall any entity that has a management contract with a Card Scheme engage in business as a Payment Terminal Services Provider. In addition, no entity in which a Card Scheme, its subsidiary, or the majority shareholder of a card scheme, has 20% shareholding or more shall engage in business as a Payment Terminal Services Provider. In addition, no single Bank shall have a controlling share in any Payment Terminal Services Provider

### **4.3 PoS Terminal Owner**

- 4.3.1 Banks, Merchants, Acquirers, PTSA, and PTSPs can be PoS Terminal Owners.
- 4.3.2 PoS Terminal Owners shall ensure all POS terminals procured by them are compliant with the minimum POS specifications.
- 4.3.3 PoS Terminal Owners shall cover the costs of repairs and replacements of parts for their terminals.

### **4.4 Payments Terminal Service Aggregator**

- 4.4.1 Nigeria Interbank settlement Systems (NIBSS) - owned by all Nigerian banks and the Central Bank of Nigeria shall act as the Payments Terminal Service Aggregator for the financial system.
- 4.4.2 As the Payments Terminal Service Aggregator for the industry, NIBSS shall establish communication network for reliable POS data traffic that shall satisfy the service and availability standards and expectations of the industry on a cost effective basis.

- 4.4.3 As the Payments Terminal Service Aggregator for the industry, NIBSS shall on an annual basis or more frequently as may be required, on behalf of the industry certify POS Terminals that meet the POS Terminal standards approved for the industry.
- 4.4.4 As the Payments Terminal Service Aggregator, NIBSS shall participate on a joint committee of industry stakeholders, to negotiate a price list with 2 – 3 terminal equipment providers for bulk purchase of POS terminals for the Nigerian market. It is expected that a bulk purchase agreement will enable cost reduction on POS terminals, as well as the ability to define special requirements for the Nigerian market, and ensure a sufficient support infrastructure from the terminal manufacturers. Any Terminal Owner may subscribe to the negotiated global price list for the purchase of POS Terminals to take advantage of these benefits.
- 4.4.5 As the Payment Terminal Service Aggregator, NIBSS shall be the only entity permitted to operate a Terminal Management System. All POS terminals operating in Nigeria must be connected to the Payment Terminal Service Aggregator. This is to ensure comprehensive oversight, reporting/performance monitoring, and also in line with our objectives of shared industry infrastructure and best practice. NIBSS shall provide Acquirers and Payment Terminal Service Providers and their merchants (where required) the ability to view transactions and monitor performance of their devices.
- 4.4.6 All PoS Terminals deployed shall be technically enabled to accept all cards issued by Nigerian banks.
- 4.4.7 The Payments Terminal Service Aggregator shall route all transactions from PoS terminals to the relevant Acquirer or its designated third party processor. This enables Acquirers who are Issuers to handle On-U transactions appropriately and all Acquirers to manage their risks and accept responsibility for such transactions in line with Charge-back Rules of relevant Card Schemes. This does not preclude any Acquirer from using the services of any Third Party Processor (TPP) or the Acquirer's in-house processing services to process its acquired transactions.
- 4.4.8 All domestic transactions including but not limited to POS and ATM transactions in Nigeria must be switched using the services of a local switch and shall not under any circumstance be routed outside Nigeria for switching between Nigerian Issuers and Acquirers.
- 4.4.9 The Payments Terminal Service Aggregator shall monitor the availability and transaction traffic on all POS terminals on a continuous basis and shall

provide analysis and reporting on POS terminal performance and transaction trend to the Central Bank and the industry.

4.4.10 The Payments Terminal Service Aggregator shall ensure all merchants and other relevant parties are settled within the T+1 settlement period, upon receipt of settlement reports from all card schemes or the switches they have appointed to provide such reports on their behalf. Failure to execute the T+1 settlement cycle shall result in a sanction to the PTSA, including but not limited to them solely refunding the entire Merchant Service Charge for that day's transactions.

4.4.11 The Payments Terminal Service Aggregator shall have clear Service Level Agreements for certifying terminals quickly and efficiently, as well as for integrating new value-added services on behalf of acquirers, PTSPs, or 3rd party application developers.

## **4.5 Card Issuers**

4.5.1 Only licensed deposit taking banks shall with the approval of CBN serve as the issuers of payment cards.

4.5.2 Only EMV-compliant cards shall be issued by Nigerian banks.

4.5.3 Deposit Taking Banks shall act as the issuer of payment cards and by so doing commit themselves towards the cardholders to settle the operations performed by means of payment cards, and the cardholder commits himself/herself to pay the amount of the operations together with charges due to the issuer from a specified account.

4.5.4 A card issuer shall be held liable (where proven) for card frauds arising from card skimming or other compromises of the issuer's security system, including payment done with hot-listed card.

4.5.5 A card issuer shall put in place adequate controls to prevent, track and minimize fraud.

4.5.6 A card issuer shall provide means whereby its cardholders may at any time of the day or night notify the loss, theft or fraudulent use of the card and the card issuer shall take all necessary steps to stop any further use of the affected card.

4.5.7 A card issuer shall keep sufficient internal records over a minimum period of ten (10) years to enable audit trails on card-related transactions.

4.5.8 A card issuer must have a capacity to reflect customer's preferences on the usage of his card.

- 4.5.9 A card issuer shall ensure that all hot-listed cards are system driven across all channels.
- 4.5.10 A card issuer shall be responsible for any loss arising from any use or operation of a card after the card has been reported lost or stolen.
- 4.5.11 Card issuers shall be responsible for setting overall transaction limits on cards per day, and transaction limits of such cards by channel, according to their card products and risk guidelines.
- 4.5.12 Card issuers, who provide offline limits for their card products, shall ensure the terms for such offline limits are fully understood and agreed with the customer. Irrespective of the status of the cardholders account as at the time of the transaction, the card issuer shall be liable to settle the amount to the merchant, while it takes the appropriate measures to recover the funds from the cardholder.
- 4.5.13 No card issuer or its agent shall deliver any card in a fully activated state.
- 4.5.14 No card issuer or its agent shall bill or charge a customer for an unsolicited card unless and until after the card is fully activated by cardholder.
- 4.5.15 No card issuer or its agent shall engage in the use of unethical tactics when marketing its card products to members of the public.
- 4.5.16 No card issuer or its agent shall communicate false or misleading information regarding card terms and conditions, service fees/waivers, and/or associated promotions/gifts/prizes to members of the public.
- 4.5.17 Card Issuers shall respond to Card related disputes or complaints from cardholders within 24 hours and in conjunction with the Acquirer resolve such disputes or complaints within five (5) working days.
- 4.5.18 A card issuer must furnish its cardholders with a detailed list of contractual terms and conditions prior to activation. Such terms shall include at a minimum:
- i Fees and charges
  - ii Withdrawal limits (including offline transaction limits and terms where applicable)
  - iii Billing cycles
  - iv Termination procedures
  - v Default/recovery procedures
  - vi Loss/theft/misuse of card procedures
  - vii Grievance/Complaints procedures

## **4.5 Merchants**

- 4.5.1 A merchant shall enter into agreement with Merchant Acquirer specifying in clear terms the obligations of each party.
- 4.5.2 Merchant shall accept cards as a method of payment for goods and services.
- 4.5.3 A merchant may refuse to accept payment by means of an electronic payment instrument, including payment with cards, if:
- a) The electronic payment instrument is invalid;
  - b) Notification of loss, missing, stolen or damaged has been made of the electronic payment instrument;
  - c) The cardholder refuses to present a document confirming his/her identity in the event of suspicious / unauthorized use of electronic payment instruments.
- 4.5.4 The merchant shall display the payment device conspicuously enough for the cardholder to observe the amount entered into the device before the cardholder enters his/her PIN.
- 4.5.5 The merchant shall be held liable for frauds with the card arising from its negligence, connivance etc.
- 4.5.6 A merchant shall under no circumstance charge a different price, surcharge a cardholder or otherwise discriminate against any member of the public who chooses to pay with a card or by other electronic means.

## **4.6 Cardholders**

- 4.6.1 A cardholder shall:
- a) Store the payment card and protect his PIN with due care
  - b) Not keep his payment card together with the PIN
  - c) Notify the issuer without delay about missing, stolen, damaged, lost or destroyed card
  - d) Not make available the payment card to unauthorized persons.
- 4.6.2 The cardholder may withdraw from the contract for payment card without prior notice to the issuer provided he does not owe for any charges or transactions on the payment card.
- 4.6.3 The cardholder shall present, when required by a merchant, a document confirming his identity.

- 4.6.4 The cardholder shall receive value for the operations performed by means of a payment card, and by so doing, the holder commits himself to pay the amount of the operations together with charges due to the issuer from a specified account.
- 4.6.5 The cardholder shall be held liable for fraud committed with his card arising from the misuse of his PIN or his card.
- 4.6.6 The cardholder shall be entitled to receive a receipt or any other form of evidence at the time a transaction is performed with his/her card
- 4.6.7 The cardholder shall be entitled to receive, within a reasonable period, at least monthly, a statement of all transactions performed with his/her card
- 4.6.8 If a cardholder notifies his bank that an error involving his card has occurred, the institution must investigate and resolve the claim within 3 working days.
- 4.6.9 The cardholder shall be given reasonable notice before changes are made to fees levied on his/her card and be given the option to discontinue usage of card to avoid such changes in fees without penalty
- 4.6.10 A cardholder shall be given reasonable notice before changes are made to the terms and conditions of his card contract and shall be given the option to opt-out of the card contract without penalty
- 4.6.11 The cardholder shall be entitled to privacy and information on his card account cannot be shared with third parties unless:
- a) With express customer approval or
  - b) In cases of customer default, where information can be shared with credit bureaus and collection/recovery agents or
  - c) In cases where information is requested by valid order of a competent Nigerian court/authority or
  - d) In cases where it is necessary to prevent fraud

#### **4.7 Card Associations and Card Schemes**

- 4.7.1 All card associations and card schemes doing business in Nigeria are bound by these guidelines and other relevant CBN guidelines/circulars.
- 4.7.2 To ensure fair play and equal opportunity for all players, each Card Scheme shall make public and transparent, objective rules for membership of the said scheme and estimated time required for certification.

- 4.7.3 CBN shall reserve the right to assess the rules to confirm objectivity, vis-a-vis international standards/best practice. Any Card Scheme that wrongfully denies membership or unnecessarily delays the process of certification to potential players, would be penalized by CBN – including but not limited to paying a fine equivalent to the expected revenue of the payment services provider for that period, suspension and/or revocation of license, and CBN licensing new schemes.
- 4.7.4 No Card Scheme shall engage in the business of acquiring; neither shall any entity that has a management contract with a Card scheme engage in the business of acquiring. In addition, no entity in which a Card Scheme, its subsidiary, or the majority shareholder of a card scheme, has 20% shareholding or more shall engage in the business of acquiring.
- 4.7.5 No Card Association or Card Scheme shall engage in any antitrust activity or any act that will lead to abuse of dominant position, monopoly or unfair competition. Accordingly, there shall not be any form of arrangement or collusion between two or more Card Associations, Card Schemes, or Payment Schemes in respect of Issuing, Acquiring, Processing or Switching.

#### **4.8 Switching Companies**

- 4.8.1 All local switches in Nigeria shall ensure that transactions relating to all cards issued by Nigerian banks are successfully switched between Acquirers and Issuers.
- 4.8.2 To achieve the interconnectivity of all new and existing switching companies, all switching companies shall open their networks for reciprocal exchange of transactions/messages with the Nigeria Central Switch and Payment Terminal Service Aggregator.

#### **5. Settlement Mechanism**

- 5.1 The settlement for all POS transactions must be done to the merchant account on T + 1 basis, where T is the date the transaction is performed.
- 5.2 Card schemes or their appointed switches shall provide their settlement reports to NIBSS by 10am for the previous day. The settlement information should contain sufficient detail to enable NIBSS credit merchant accounts directly, and shall be provided in a format as advised by NIBSS. Failure to provide this information in the required format or by the required timeline will result in a sanction, including but not limited to the offending party solely refunding the entire Merchant Service Charge for that day's transactions.

5.3 NIBSS shall also directly credit the accounts of other parties with their share of the merchant service charge (MSC).

5.4 NIBSS will be paid by the banks for the settlement done to the merchant account in line with the NEFT fee transaction charges.

## **6. Fees and Charges**

6.1 Fees and charges for POS Card Acceptance services are to be agreed between service providers and banks / entities to which the services are being provided subject to the following limits:

- i. The maximum total fee that a merchant shall be charged for any POS transaction shall be 1.25% of the transaction value subject to a maximum of N2, 000.00. Exceptions may apply in respect of travel and entertainment merchants including but not limited to hotels, restaurants, airlines, etc. In which case shall be at such rate as agreed from time to time between the Acquirer and the Merchant. Under NO CIRCUMSTANCE shall a merchant charge a surcharge to customers for using their cards.
- ii. The fees and charges stated above are applicable to only POS transactions performed with naira denominated cards. POS transactions done with cards issued in foreign currencies will still follow the pricing arrangement put in place by the relevant international card association/scheme.

6.2 Fees charged on POS Terminal transactions shall be shared as follows:

- i. Issuer - 30.0%
  - ii. Acquirer - 32.5%
  - iii. Payment Terminal Owner - 25.0%
  - iv. Local Switch - 5.0%
  - v. Payment Terminal Service Aggregator - 7.5%
- The Fee schedule will be reviewed annually.

## **7. Transition to Achieve Interoperability**

Prior to December 1, 2011 and the effective date for the new arrangements, all commercial switches, processors or entities driving PoS terminals in Nigeria shall ensure full and secure connection to the Central Switch and all transactions in respect of any card that the switch, processor or other entity is not licensed to process or switch shall be routed through the NCS to a licensed switch or processor for purpose of processing such transaction on behalf of the relevant Acquirer for seeking authorisation from the relevant Issuer.

All terminals must be plugged to into NIBSS Plc, the PTSA on or before November 15, 2011.

## 8. Exclusivity Agreements

There shall be no form of exclusivity in any area of payment service including but not limited to Issuing, Acquiring, Processing, and Sale and Maintenance of hardware and software. It shall be the responsibility of every Card Association/Payment Scheme and other relevant parties to ensure that all existing exclusivity contracts are amended not later than September 30, 2011 to ensure conformity with these guidelines and other regulations. Any payment scheme, operator, processor, infrastructure provider, switching company, service provider or bank that contravenes this policy may be suspended for a minimum of one (1) month by the CBN as a payment service or payment infrastructure service provider in the first instance, to be followed by stricter sanctions if the practice persists.

## 9. Minimum POS Terminal Specifications

Parameters	Specifications
Card Readers	EMV Chip/Smart cards, Magnetic stripe. Optional: Contactless reader, 2 SAM Slots
Communications	GPRS, Ethernet, Dial-up Modem. Optional: CDMA, Wi-Fi
Certifications	EMV levels 1 & 2, PCI DSS, PA-DSS, PCI PED online & offline (All PCI certifications should be Level/Version 2.1 minimum)
Biometric	Upgradeable to incorporate fingerprint reader/scanner
SIM capacity	Must operate either a dual SIM or a roaming SIM
CPU	ARM9/11, 32Bits. Optional: Dual processors
Memory	16MB Flash, 32MB SDRAM
Keypad	PCI PED Approved, Backlit
Display	TFT LCD graphics, 128/64 pixel, Backlit. Optional: Colour screen
Power	100-240V, 50-60Hz; 24hrs battery power (operating) Optional: DC support, Car jack charger, Docking fast charger

Printer	15 -18 lines per sec Thermal printer
Multi-Application	Supports Multiple Applications
Customization / Others	Optional: Coloured or branded housing, Labelling/embossing, RS232 & USB interfaces, Protocol implementation

Existing POS terminals that do not comply with the standards set in these guidelines shall be phased out by December 31, 2012.

## 10. Compliance

All parties shall comply with the provisions of these guidelines and other relevant guidelines issued by the CBN. This guideline shall prevail in the case of conflict with any guidelines issued prior.

## 11. Timelines

The deadlines for complying with the guidelines as stated in this document shall be on or before the following dates:

Compliance with minimum standards:

- New terminals and payment applications                      Immediate
- Existing payment applications                                      December 1, 2011
- Existing terminals    December 31, 2012

Provision of scheme rules and certification timelines                      September 1, 2011

Compliance with new settlement arrangement                      October 1, 2011

Spin-off/Independence of Card Schemes                                      April 1, 2012

Handover of existing terminals to PTSPs                                      November 1, 2011

Plug-in of existing terminals to NIBSS                                      November 15, 2011

## **Appendix 1: Definition of Terms**

The terms below shall have the following meaning for the purpose of those Guidelines.

- a) Merchant Acquirer means a CBN licensed financial or non-financial institution that has agreement with the relevant card scheme to contract with merchants to accept payment cards as means of payment for goods and services.
- b) Cardholder means any person to whom a payment card is issued and whose account will eventually be debited for settlement of transactions performed with the payment card.
- c) Deposit Taking Banks means banks and other financial institutions.
- d) Merchant means an organization or entity that contracts with a Merchant Acquirer for accepting payment by means of payment card or any other electronic payment instrument.
- e) Operations include facilitation of funds transfer, effecting payment and such other transactions that may be determined from time to time by means of an electronic payment instrument.
- f) Interoperability means ability to issue cards and deploy devices in such a way that all customers (card holders, merchants and issuers) perceive operations, while obtaining service, as if the interconnected networks were one.
- g) Interconnectivity means ability for reciprocal exchange of transactions/messages between two or more switching networks.
- h) PIN means Personal Identification Number.
- i) Competent Authorities include Courts, Economic and Financial Crime Commission (EFCC), Independent Corrupt Practices Commission (ICPC), Regulatory Authorities such as the CBN, Nigeria Deposit Insurance Commission (NDIC) etc.
- j) Hot list means list of deactivated cards that were reported missing, stolen, lost or damaged by the card holders.
- k) Switch means a system that switches card payments messages between acquirer (or acquirer processor) and issuer (or issuer processor)
- l) Card Schemes define the rules of the card system (e.g. interchanges, licenses, fraud responsibilities), and choices of technical functionalities (e.g. standards, protocols, security requirements)

- m) Processor processes card transactions.
- n) A Card Association is a network of issuing banks and acquiring banks that process payment cards of a specific brand.
- o) EMV (Europay, MasterCard, Visa) is the global standard that is helping ensure smart (Chip-and-PIN) cards, terminals and other systems can interoperate.
- p) PCI DSS stands for Payment Card Industry Data Security Standard. It was developed by the major credit card companies as a guideline to help organizations that process card payments prevent credit card fraud and various other security vulnerabilities and threats.
- q) PCI PED security requirements are designed to secure personal identification number (PIN)-based transactions globally and apply to devices that accept PIN entry for all PIN based transactions.
- r) PA-DSS stands for Payment Application Data Security Standard. PA-DSS compliant applications help merchants and agents mitigate compromises, prevent storage of sensitive cardholder data, and support overall compliance with the PCI DSS.

**Central Bank of Nigeria 2011**



09-46238455 (Fax)  
09-46238445 Tel

**CENTRAL BANK OF NIGERIA**  
Central Business District  
P.M.B. 0187  
Garki, Abuja

7<sup>th</sup> July, 2011

**CIRCULAR TO DEPOSIT MONEY BANKS/DISCOUNT HOUSES**

Dear Sir

**ACCREDITATION AND RE-ACCREDITATION OF CHEQUE PRINTERS.**

We write to notify you that Central Bank of Nigeria in collaboration with the MICR Technical Implementation Committee has approved the accreditation and re-accreditation of thirteen (13) Cheque Printers under the Nigeria Cheque Printers Accreditation Scheme (NICPAS) for the year 2011.

Attached is the list of the cheque printers approved for the Nigerian market.

Thank you

  
E.C. Obaigbona  
Head; Domestic Settlement Division  
For; Director, Banking and Payments System Department.

## LIST OF ACCREDITED PRINTERS

PRINTER'S NAME	ADDRESS & CONTACT TELEPHONE NO	CATEGORY	ACCREDITATION NO
NIGERIA SECURITY PRINTING & MINTING PLC	54 SAMUEL LADOKE AKINTOLA BOULEVARD, P.M.B 144 GARKI, ABUJA Tel: 09 3149139,3149146	1 & 2	0106
KALAMZOO SECURE SOLUTIONS LTD	MILL LANE, NORTHFIELD, BIRMINGHAM, B 312 NY ENGLAND Tel: +447970579616 Deanjackson61@btinternet.com	1&2	0306
SECURITY PRINT SOLUTION	NORTHUMBRIA HOUSE, UNIT 38, NO1 INDUSTRIAL ESTATE, CONSETT CO DURHAM, DH8 6 TW, UK Tel: +44(0)1207590185 infi@securityps.co.uk	1 & 2	0406
CFH TOTAL DOCUMENT MGT LTD	ST PETERS PARK, WELLS ROAD, RADSTOCK, ENGLAND, BA 33 UP Tel- 01761416311 Paul.clarke@cfn.com	1 & 2	0506
SMITH & OUZMAN LTD	BRAMPTON ROAD, EAST BOURNE, SUSSEX BN 229 AM ENGLAND Tel: +441323524000 nicksmith@smith&ouzman.com	1 & 2	0606
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## NIGERIA DIRECT DEBIT SCHEME

## CHAPTER 1

### INTRODUCTION

1. Direct Debit has been operated in Nigeria in paper form in the form of “Debit Notes” originated by payer’s bank using the Nigeria Clearing House infrastructure. The Automated Clearing House was implemented in 2002 and the Nigerian version of the Domestic Funds Transfer introduced to the market as NEFT (NIBSS Electronic Funds Transfer). NIBSS (Nigeria Inter Bank Settlement System) owns and manages the physical infrastructure for clearing of cheques and paperless clearing instruments in Nigeria

ACH Direct Debit (DD) as a product was formally introduced to the Nigerian Clearing System by the Nigeria InterBank Settlement System (NIBSS) in January 2006. It was introduced as a variant of NEFT (NIBSS Electronic Funds Transfer) and operated by participating banks under the aegis of the Nigeria bankers clearing house. Also, other market participants in the payments environment such as Interswitch have also introduced variants of Direct Debit products which run-off their switching infrastructure but with ultimate settlement between the banks passing through NIBSS.

There are currently no general rules specific to Direct Debit as a payment mechanism in the Nigeria market. What exist are corporate rules developed to guide the participants in the relevant switch on the various products that run off this switch, and the general rules for the clearing house. This underlies its relative low acceptability in the market as there are no clearly articulated and documented rules that guide and bind market participants, and thus grow the confidence of the user to accept and use the product.

2. The ACH Debit is a cash-less form of financial settlement which facilitates “regular in nature” payments. It permits an Originator to collect amounts due from a Payer at the Payer’s Bank by initiating Direct Debit Transfer on a bank account nominated in a Direct Debit Mandate. Banks are not responsible for any underlying contract as it is solely a method of collecting payments. It also provides an efficient platform for Originators to draw funds from their account across banks in an efficient manner. In an environment where bank customers have multi-bank relationships, it provides the right platform for optimal management of liquidity across banking relationships.
3. Organisations or individuals that regularly or periodically receive large volumes of payments may benefit immensely from the scheme.

4. An organisation wishing to join the Scheme will typically contact the appropriate service division of its Originator's bank. The organisation is expected to satisfy the requirements of the bank before admittance.

The development of a Code of Conduct for Bill Payment is one of the initiatives arising from the CBN Vision 2020 for the Financial System on Payments. The implementation of this initiative provides the background to development of these rules, Nigeria Direct Debit Rules.

We have adopted some of the content from the Direct Debit Rules of other countries such as Kenya, SEPA, UK due to similarity in operating environment and need to adopt best practices.

## **CHAPTER 2**

### **DEFINITIONS**

#### **1. Direct Debit Transfer**

A Direct Debit Transfer is a payment prepared in an Electronic Funds Transfer format, in this case, the NEFT Data Transfer format or any other format prescribed by the relevant service provider.

These Rules refer to a Direct Debit Transfer as a Transfer.

#### **2. Direct Debit Mandate**

This is a written authority given by a Payer to the Payer's Bank, to make payments from an identified bank account at the request of, and to the account of, an Originator. The authority is given by the Payer to the Payer's Bank with a copy to the Originator. However, in the event that the written authority is given to the Originator, who in turn presents to the Payer's Bank, it is required that the Payer's Bank duly confirm authenticity from the Payer through its normal process for confirmations.

These Rules refer to a Direct Debit Mandate as an Authority.

#### **3. Variable Direct Debit Mandate**

This authority allows variable amounts to be debited from a Payer's bank account. It is used for regular payments that cannot be forecast in advance and for amounts that change periodically (monthly, quarterly, annually, etc.). An Originator must provide an Advance Notice to a Payer, of the amounts and dates of payment, in sufficient time for any queries to be raised before payment. A new Authority must be variable and, in practice, the vast majority of existing Authorities are in variable format.

#### 4. **Advance Notice**

This is the notice that must be given by an Originator to a Payer who has signed a Variable Direct Debit Mandate. At least 14 calendar days' notice must be given, in respect of the date and or amount to be debited.

#### 5. **Direct Debit Indemnity**

A Direct Debit Indemnity, referred to in these Rules as an Indemnity, protects a Payer should an incorrect amount be debited, a debit occur earlier than specified or in error. Should a Payer query a payment as given, the Payer's Bank must, on request, make an immediate refund to the Payer's bank account. This covers situations where an Originator may not have given the required Advance Notice regarding a change of amount or date.

6. **Debit Order/Debit transaction** – means a mandated payment instruction from a user to a bank to collect money from a client e.g. insurance premium, hire purchase, rentals. This definition does not exclude a situation where a user initiates such an instruction for its own account, or for other variable amount subject to compliance with the conditions stipulated herein.

### **CHAPTER 3**

#### **PARTICIPANTS AND THEIR ROLES**

##### **1. Originator or Biller**

An originator or Biller is an organisation that is able to make a Direct Debit Transfer. A Direct Debit Indemnity binds an Originator to collect only amounts that have been authorised by a payer on or after a specified date, notified in advance.

##### **2. Originator's Bank (also known as Creditor Bank)**

The Originator maintains a bank account with the bank that presents the debit instruction to clearing. An Originator must use the services of a bank to introduce Direct Debit Transfers to the Clearing House. The Originator must satisfy a bank's internal requirements to be allowed access to the Direct Debit Scheme.

##### **3. Payer**

A payer is the party whose bank account is to be debited as instructed in a Direct Debit Mandate, typically a customer of an originator or has an existing financial relationship with an originator.

#### **4. Payer's Bank (also known as Debtor Bank)**

This is the bank where the payer maintains an account.

#### **5. Payment Service Provider (PSP)**

A PSP is a payment service company that is able to accept Direct Debit Transfers from Originators/Billers, for processing through the Automated Clearing House. The funding aspect of all Direct Debit Transfers must be processed through Originator's Bank and the Payer's Bank.

### **Criteria for Entry into the Direct Debit Scheme**

#### **Originating Bank**

- Must be a member of the Automated Clearing House and integrated with a Payment Service Scheme that accepts direct debit transfers for processing. The Payment Service Scheme must have been duly licensed by the Central Bank to carry out payment / switching services.
- It must hold an account for the originator to receive proceeds of the Direct debit transfer.
- Originating Banks must comply with the file specification and standards established by NIBSS or the relevant payment service scheme for electronic file delivery.
- Must have systems in place to automatically trigger issuance of direct debit instructions on due date. This is to ensure that installed processes are efficient enough to meet the expectation of users for settling recurring obligations using this scheme.

#### **Payer's Bank**

- Must be a member of the Automated Clearing House and integrated with a Payment Service Scheme that accepts direct debit transfers for processing. The Payment Service Scheme must have been duly licensed by the Central Bank to carry out payment / switching services.
- It must hold an account for the payer from which payment will be issued in line with the Direct Debit Authority.
- Must hold a valid Direct Debit Authority executed in line with the payer's mandate with the bank.

## **Automated Clearing House / Payment Service Providers.**

- I. The process and participation criteria for the Direct Debit Scheme is guided by the Nigeria Bankers' clearing House Rules and the Guidelines on Transaction Switching Services.
- II. Originators/Billers
- III. Originators shall execute the Direct Debit Indemnity with any bank that originates its transaction.
- IV. Every originator will be assigned a Unique Identification Number by its sponsor bank. The identifier shall be unique to each biller or originator and shall be used irrespective of the bank originating the transactions. The Unique Identifier facilitates the process for automated mandate confirmation of Direct Debit Authority. See Chapter 5 Item 8.

## **CHAPTER 4**

### **RIGHTS AND OBLIGATIONS OF ALL PARTICIPANTS**

#### **A Originator**

1. It is pertinent that an Originator must first obtain an Authority from a Payer before initiating a Transfer on the Payer's bank account.

An Originator must be prepared to accept any Indemnity claim from a Payer, arising from an amendment and or a limitation clause inserted by the Payer before lodgement.

2. On receipt of a Payer's signed Authority, an Originator becomes entirely responsible for collecting payments due under that Authority, via a Transfer. An Originator cannot require the Payer's Bank to settle by any other means.

3. An Originator must:-

- a. initiate a Transfer strictly within the terms of the Authority
- b. initiate a Transfer within the terms of any Advance Notice given to a Payer

The data on a Transfer must conform to that advised in the Authority.

An Originator's identity quoted on a Transfer, if any, must be the same as that quoted in the Authority.

4. Per adventure an Originator decides to vary the terms of a fixed amount Authority, a Payer must provide a new Authority incorporating a cancellation clause.

5. It is expected that an Originator should seek the advice of the Originator's Bank before making any changes to:-

- a. the name or constitution of the Originator
- b. information quoted on an Authority

The Originator's Bank may require an Originator to give notice of such a change to a Payer and/or a Payer's Bank.

6. It is pertinent for the Originator to note that a Payer can cancel an Authority without reference; for instance, the appointment of a liquidator or receiver may involve statutory publicity, which by implication infers that a Payer has provided constructive notice.

7. If a fixed amount Authority exists for a payment that has not yet been settled by a specified date and payment is outstanding, then an Originator's Bank is prohibited from collecting arrears via a Transfer. The prohibition does not extend to the re-presentation of an individual unpaid Transfer or in situations where the Originator has adequately notified the Payer.

8. If an Originator is notified that an Authority is cancelled or amended, the Originator must alter his records immediately, in order to ensure that:-

- a. a Transfer is not initiated after receipt of such notice of cancellation
- b. all Transfers initiated in the future incorporate the amendment so notified, in the case of amendment.

#### Rights and Obligations of all Participants

Note: a. For ease of reference, it is recommended that an Originator retains documentation received from a Payer's Bank. This is important as the absence of evidence could prejudice a successful counter-claim against a Payer's Bank.

b. It is recommended that an Originator ensures that payments made under separate Authorities are not merged as this could lead to difficulties when a Payer wishes to cancel an Authority (not all authorities).

9. It is the responsibility of an Originator's Bank to ensure that an Originator strictly adheres to the requirements of the Scheme.

Only Banks that are members of the Nigeria Clearing House shall act as Originators Banks. The moment a bank ceases to be a member of the Clearing House, related Originators shall appoint other Banks in the clearing house with whom they either have account or choose to open account with.

10. It is the responsibility of the Originator's Bank to give information, advice and guidance on all aspects of the Scheme to an Originator.

## **B Payer**

1. The initiation of a Transfer must be strictly within the terms of the Mandate and any Advance Notice to which a Payer is entitled.

2. A Payer is at liberty to cancel a Mandate at any time by advising the Payer's bank in writing and with a copy to the Originator. The Originator will duly advise his bank on receipt of the notice of cancellation.. It is not the Originator Bank's responsibility for accepting a cancellation of an Authority. Therefore, the Payer must raise a claim against the Originator through his bank per adventure a payment gets through after cancellation, and the Originator must pay promptly.

It is possible that a notice of cancellation is received by the Payer's bank and Originator, but not be able to act on it before the next due date of payment. Adequate notice must be given by the payer to avoid such situations. For recurrent items where collected is made in advance of service provided, this risk is well mitigated.

## **C Payer's Bank**

1. A Payer's Bank shall accept Transfers originated under an Authority on the understanding that it is not responsible for verifying or checking that:-

- a. an Authority exists
- b. payments conform to the terms of the Authority
- c. any purpose or condition of payment expressed in that Authority is fulfilled

2. Depending on the nature of the account, which could be deposit account or any other type of account that might be subject to notice of withdrawal, a Payer's Bank may decline to accept instructions to charge Transfers to such accounts.

## **CHAPTER 5**

### **ADMISSION OF ORIGINATORS**

1. Originators, while acting as such, must recognise that a trust is being bestowed on them by banks, with extensive power, which must be exercised in strict accordance with the requirements stipulated in these Rules.

2. A prospective Originator must be a customer of a bank whose responsibility it would be to support the application. An Originator may hold accounts with several banks

3. In making an assessment, an Originator's Bank shall have regard to an applicant's contractual capacity, credit risk, financial standing and quality of administrative control.

4. As a condition of participation in the Scheme, a prospective Originator must execute an Indemnity, obtained from the Originator's Bank.
5. A prospective Originator's application must stand on its own merits. An Originator's Bank shall not accept any third-party support for the liability assumed under an Indemnity. In this context, a third-party relationship does not exist between a parent and an associated or subsidiary company.
6. The decision on sponsorship shall not be influenced by the existence or availability of any private insurance cover an Originator may choose to obtain to cover his Indemnity liability. The assignment of such cover in favour of banks is neither practicable nor acceptable.
7. After execution, an Originator must return the signed Indemnity and other accompanying documents deemed necessary by the Originator to the Originator's Bank.
8. The Originator's Bank shall use its discretion in accepting an Originator to the scheme. However, the Nigeria Clearing House management shall also act as arbiter, if warranted, in future. This will provide a forum for banks to share information. The fate of a prospective Originator shall rest with the Originator's Bank. The Originator's Bank, in communicating a determination to a prospective Originator, shall not refer to the Nigeria Clearing House.
9. After the approval of an application, an Originator's Bank shall allocate the Originator with a unique Originator's Identification Number for quoting on all Transfers. The Unique Identifier will be the Originator's RC Number, to be captured as Payment Reference. Where the Originator provides more than one service and seeks to differentiate them, a Service Code will be assigned and associated with the Identifier in the form – RC Number/--. The Unique Identifier, and where relevant, the Service Code must be indicated on all mandates and billing instructions emanating from the Originator.
10. The lodgement of a signed Indemnity with an Originator's Bank must be notified to other banks, together with an advice of the Originator's Identification Number issued, through the Nigeria Clearing House.
11. The allocation of an Originator's Identification Number may be made exceptionally in advance of lodgement of the Indemnity when such a number is required for testing automated procedures.

## **CHAPTER 6**

### **SCOPE AND BENEFITS OF THE SCHEME**

#### **A. Originator**

1. The scheme ensures that the Originator shall no longer have to employ a comprehensive reconciliation process to check the receipt of expected payments. It is recommended that, an Originator maintains a separate bank account in which Transfers are collected. This will effectively ease reconciliation.
2. The Scheme provides the only means recognised by banks where, at the discretion of an Originator, a Payer could authorise payments from a bank account of amounts which are variable by time and or amount, until further notice.
3. For an Originator whose payments are subject to changes in amount, a variable Authority is available, thereby avoiding the need to issue new instructions whenever amounts change.
4. It also ensures that the Originator is able to manage and control cash flow by exception and with greater certainty, by attending to unpaid Transfers. The information on unpaid transfers will also be readily available.
5. An Originator shall be able to take advantage of electronic file formats to update internal systems and records.

#### **B. Payer**

1. Provided by the Scheme is a simple, safe and convenient banking service that enables a Payer to settle accounts as and when they fall due.
2. Further provisions by the Scheme are:-
  - a. the elimination of cheques
  - b. the discontinuation of visits and queues to cash offices or banks
  - c. the relief from worries about overlooking payment dates
  - d. a quick and easy resolution to queries at the Payer's Bank, including an immediate refund for payments made, if transactions are in dispute
  - e. an Originator, the ability to merge several payments into one transaction, by using a variable Authority, provided a Payer consents
  - f. a Payer, through a variable Authority, the avoidance of the need to issue a fresh Authority each time a payment amount changes.

## CHAPTER 7

### BUSINESS AND OPERATIONAL RULES

1. Direct Debit as a form of financial settlement facilitates settlement of "regular in nature" payments. It is an instruction from a customer to their bank authorising an organisation to collect funds from their account".
2. The process typically involves four parties - A service provider (Originator), service provider's bank (Originator's bank), a subscriber (Payer) to the service provider and the subscriber's bank (Payer's bank). Direct Debit also provides a viable option for bank customers who intend to pull funds from their account with one bank to another.
3. Direct Debit transactions are of 2 types:
  - Fixed Direct Debit: allows fixed amounts to be debited from a payer's bank account.
  - Variable Direct Debit: allows variable amounts to be debited from a Payer's bank account. Typically used for payments where amounts cannot be predetermined in advance. In this instance, there is need for the service provider to intimate the subscriber (payer) of the invoice amount well before the debit is sent to his/her bank.
4. The Direct Debit mandate will clearly state whether it is fixed or variable
5. Every Originator must be assigned with a unique identification number by the Originator's bank. This number will be unique to the originator and will be used for all direct debit transaction originated as a result of mandates executed in favour of the originator, irrespective of the bank transacting. The unique Originator's Identification Number must be recorded in electronic funds transfer file and must be quoted on all transfers.
6. A direct debit instruction is issued subject to the rules of the clearing house on returned items. An item that is dishonoured must be returned within the local clearing cycle in operation. Currently, local cheques clear in T+3. The clearing house shall not accept paper vouchers under these rules
7. However, irrespective of (6), a payer shall obtain immediate reimbursement for instructions that are issued in error or not in conformity with the terms of the mandate or fraudulently issued and identified after the instruction has been honoured.
8. The Originator's bank shall submit transfer details to the clearing house at least 3 working days before payment due date.

9. An originator shall submit transfer details to the Originator's Bank in accordance with the electronic file format defined in the Nigeria Clearing House Rules.

10. If the Payer's Bank cannot pay a Transfer for any reason, the Payer's Bank shall return that debit to the Originator's Bank within the clearing period allowed under the Clearing House Rules. The Originator's Bank shall advise the Originator of the unpaid item.

11. These Rules are subject to the settlement finality rules applicable to the Nigeria Banker's Clearing House.

### **Unpaid Direct Debit Transfers**

1. As noted above, a Payer's Bank may return a Transfer unpaid
2. A Transfer must be paid or returned unpaid within the same clearing cycle applicable to local cheques subject to the Nigeria Banker's Clearing House rules
3. Representation should only occur when an Originator reasonably assumes that a Payer shall meet the conditions necessary for payment.
4. The authority of an Originator to effect re-presentation does not arise from the existence of a debt owed by a Payer to the Originator. An Originator's Bank may represent an unpaid item only once and for the same amount that was originally dishonoured.
5. If a re-presented Transfer is dishonoured an Originator must make other arrangements directly with a Payer to collect the amount due.

### **Advance Notice**

1. An Originator must give an Advance Notice to a Payer on a variable Authority, before:-
  - a. the first payment
  - b. changes to :-
    - i. the amount on the Transfer
    - ii. the due date of the Transfer

An Advance Notice is also required for the payment of :-

- c. an initial un-stated amount
- d. an amount subject to a limitation clause

An Originator may advise changes known in advance in a schedule.

An Advance Notice must be in writing.

Where appropriate, an Advance Notice should indicate:-

- e. that an Originator shall not send a subsequent Advance Notice if the amount on the Transfer changes solely because of an alteration in the applicable statutory rate
- f. the amount initially advised shall be subject to a subsequent discount, mutually negotiated and agreed

For example: An invoice used as an Advance Notice may indicate:-

The total shown will be charged to your bank account by direct debit on or just after \_\_\_\_\_.

2. Where the Originator is a national official body, for example a Government department that is collecting variable statutory amounts payable, the Originator must consult the Originator's Bank on the form of Advance Notice required. Such an Originator is exempted from issuing individual Advance Notices for changes in the amount payable, after a Payer receives an Advance Notice of the first payment, provided that :-

- a. the amount payable is specifically identifiable in statute or subordinate legislation duly passed by the National Assembly
- b. the Payer is required to pay the statutory amount, if not by Transfer, then by some other means
- c. the variable Authority signed by the Payer states that if the statutory amount payable changes, then the Originator shall provide full publicity without individual Advance Notices
- d. the Originator's Bank is satisfied that the Originator shall provide full publicity on changes in the statutory amount payable, in sufficient time before Transfers are initiated, in case a Payer wishes to cancel an Authority.
- e. the Originator shall not issue individual Advance Notices and all literature shall clearly state this

3. In all cases, an Advance Notice, or the publicity referred to here-before, must allow sufficient time for a Payer to raise a query, countermand a single payment or, cancel the Transfer. Where the amount or due date is certain, an Originator shall issue an Advance Notice not less than 14 days from the due date. In the absence of any specific agreement between an Originator and a Payer, this period shall be the minimum requirement. The Advance Notice could be in writing or electronic as agreed between the Originator and Payer.

Note; Should a club or professional institution make a change to the rate of subscription or the date of payment, then each member must receive a

separate notice of the change. An announcement of the change in a professional journal or other publication is not adequate, although a separate letter, giving advice of the change, may accompany an individually addressed journal or publication.

Exceptionally, a written Advance Notice may not be required when a direct action by a Payer requires an Originator to initiate a specific Transfer on Payer's bank account. This action must provide sufficient information to determine the amount and date of Transfer. An Originator must obtain authority from the Originator's Bank before establishing an arrangement dispensing with an Advance Notice. There are a number of possibilities giving rise to this:-

- a. when an Originator is required to debit a Payer's bank account following a withdrawal of cash from an automated teller machine under the control of the Originator
- b. when there is a written request by a Payer to an Originator
- c. when there is a request by a Payer to an Originator by means other than in writing but providing an audit trail.

## **The Direct Debit Mandate**

### **A. General**

1. A Direct Debit Mandate is not and should not be misconstrued as evidence of any contract between an Originator and a Payer's Bank.
2. When requiring a Payer to complete a Mandate, the Originator should provide a separate letter and/or leaflet, showing the essential features of the Scheme. The letter and/or leaflet should provide in concise manner the essential features of the scheme and highlight the key aspect and mechanism that guarantees protection for the Payer. A sample format is included in the Appendix.
3. Before publishing such information to a Payer, an Originator must obtain the approval of the Originator's Bank.

In all cases an Originator must:-

- a. confirm that a Payer shall obtain immediate reimbursement from the Originator, in case of an erroneous initiation of a Transfer
- b. give a categorical assurance that Transfers shall conform strictly to the terms of the Mandate and the conditions governing payments between the parties concerned
- c. explain the reasons for the use of a variable Mandate, and give details of the Advance Notice a Payer will receive

- d. include any additional information appropriate to the individual circumstances of the Originator
- e. advise a Payer that an Mandate may be cancelled at any time by notifying the Originator accordingly

## B Types of Direct Debit Mandate

### 1. There are two distinct types of Authorities:-

#### a. Variable Direct Debit Mandate

- i. suitable for all payments, particularly if amounts are liable to change, and must be used when it is intended to merge payments
- ii. the Originator must give an Advance Notice to the Payer of amounts and dates of debiting

#### b. Fixed Amount Direct Debit Mandate

This is suitable when amounts remain constant for the life of the Mandate.

- 2. If a Payer has a query regarding the authenticity of a Transfer applied to the Payer's account, the Payer's Bank must return the transfer to the Originator's bank within the clearing period, and shall refer the Payer immediately to the Originator.
- 3. The Payer's Bank may decline to accept Mandate instructions to charge Transfers to certain types of accounts, such as deposit and savings accounts, which are subject generally to notice of withdrawal.

## Amendment to a Direct Debit Mandate

- 1. A Payer's Bank shall advise an Originator promptly of all technical changes concerning:-
  - a. the Payer's Bank
  - b. a Payer's bank account

It is recognised that cases can arise where an Originator shall receive a notice advising of an amendment or cancellation but will be unable to act on it before the next due date of payment.

### 2. Amendments may arise:-

- a. because a Payer's bank account is transferred to another branch of the same bank
- b. because a Payer's bank account is transferred to another bank

In this case, a Payer shall be required to obtain a new Mandate. A Payer's previous bank should return as unpaid transfers, Transfers received after a change has occurred.

c. because a Payer authorises, in writing, material alterations to an Mandate, such as :-

- i. the account name
- ii. the account number
- iii. the due date of payment
- iv. the frequency of payment
- v. the amount

Note Whilst not a permanent amendment to an Mandate, a Payer may dispute an Advance Notice and countermand the single payment advised.

3. A Payer's Bank shall use a Mandate Amendment Advice form to notify an Originator of the changes.

When produced by automated means the form may display the relevant information only. An Originator may also receive Advice of new sorting codes and or account details from banks. If one Originator is required to make numerous amendments, for example arising out of a closure or merger of branches, then a list giving details of all amendments to be made may be provided, provided the Originator does not object.

4. On receipt of an Advice, an Originator must amend records accordingly.
5. The transfer of a Payer from one Originator to another can only be authorised by the Payer concerned. The authorisation must be in the form of a new Mandate.
6. A Payer should advise an Originator directly of any amendments made to a Mandate.

The recommended formats and text for Direct Debit Mandates are included in the Appendix.

## **CHAPTER 8**

### **CONTROL MECHANISMS AND CONSUMER PROTECTION**

#### **General**

These rules are developed with the key objective of ensuring that all participants in the scheme are protected and that their roles and processes are clearly articulated and understood by all stakeholders. To further ensure that users are

confident that their interest is protected, further control mechanisms are recommended as best practices to achieve this objective. These recommendations leverage on existing technology already in deployment in the industry and should drive competition and product differentiation among players:

- 1 All Payers' Banks are required to have the facility for transaction notification via sms and/or email. The Payer must be duly notified via either of these media of the debit passed into their accounts within the clearing cycle. Payers should encourage their banks to provide this service as a matter of course to meet the need for prompt and adequate transaction information. However, the inability of the Payer's Bank to meet this requirement will not invalidate the Transfer instructions that comply with the Mandate of the Payer.
- 2 Controlled Direct Debit is a feature of mobile banking that has been implemented in other climes to provide the payer with more control over debits to their accounts that are subject of Direct Debit Mandates. The Transfer instruction is transmitted and can only become effective subject to the authorisation of the Payer on his mobile phone.
- 3 A major challenge with the Direct Debit process is the ability to keep a track of valid Direct Debit mandates on record. It is critical that Debit Mandates are held as electronic records for ease of updates, tracking, monitoring, and direct debit auto-verification. This should be implemented by Payer Bank's to improve the efficiency and effectiveness of the Direct Debit process.
- 4 A Payer must give the Payer's bank adequate notice of cancellation of a Direct Debit Mandate. A minimum period of 14 days is recommended to enable all parties to the scheme to be adequately notified and records updated.
- 5 Disputes arising from Direct Debit transaction will be resolved under the aegis of the Clearing House in line with these rules.
- 6 A Unique Identifier will be assigned to Originators by their sponsoring banks which certifies that the market participant is subject to these rules. The Unique Identifier to be derived from Originators RC Number and relevant Product Service Code e.g. 12346/01.

### **Control Requirements for Participation in the Scheme**

I.All banks participating in this scheme shall have facilities for transaction notification via sms and/or email. The Payer must be duly notified via either of these media of the debit/credit passed into their account within the subsisting clearing cycle.

- II. In order to ensure ease of access to mandate instructions, banks are required to have facilities for holding Direct Debit Authority in electronic form. This is to ensure efficiency in the processing of debit request received from clearing.
- III. A minimum of 14 days notice of cancellation must be given by the Payer to his bank. This is to enable all parties to the scheme to be adequately notified and records updated.
- IV. Each originator will be sponsored by a bank. The Sponsor bank will assign a Unique Identifier to the originator for use irrespective of the bank originating the transaction. The clearing house will be duly notified of all registrations within 48hrs.
- V. It is expected that the Payers' Bank would go through its normal confirmation process (as in Cheque Confirmation) upon receipt of a Direct Debit Authority to verify its authenticity.
- VI. A "Kite Mark" or logo will be implemented for the scheme to be displayed on the Debit mandates form accompanying invoices and subscription forms issued by certified originators to subscribers for their products/services. This mark represents a mark of "service quality" and "process integrity" for the scheme.
- VII. The Nigeria Bankers Clearing House shall monitor the operation of the Scheme to ensure that all participants achieve and maintain the required standards of documentation and procedure.
- VIII. • AUDIT TRAILS: The following records must be maintained and accorded the same retention period as for Cheques by the participating Banks:
- The executed Direct Debit mandate
  - The executed Direct Debit Indemnity
  - Full transaction history records of instructions transmitted to clearing.
  - Full transaction history records of all returned items.

## **CHAPTER 9**

### **THE DIRECT DEBIT INDEMNITY**

1. Every Originator must execute the prescribed form of Indemnity provided by an Originator's Bank.
2. An Originator shall not be permitted to, single-handedly, make amendments to the standard text. An Originator's Bank may, with discretion, and the agreement of other participating banks, require certain additions or deletions

to be made to text when particular circumstances or the status of an Originator indicate that certain contingencies are not covered.

3. An Originator shall undertake to effect settlement of Indemnity claims with Payers' Banks immediately and in any case within 5 working days of the date of the claim.
4. An Originator's Bank, after having accepted its cover, shall give written notice of the termination of an Indemnity.
5. An Originator should note that liability is unlimited on:-
  - a. time there is a continuing liability in respect of Transfers initiated before receipt of a written notice of termination by a Payer's Bank
  - b. amount the liability of an Originator arises not only in respect of Transfers initiated in error or not at all, but also in respect of any consequential loss attributable to such errors

### **Claims under the Indemnity**

1. An Originator shall undertake to indemnify banks against any loss arising from Transfers.
2. The liability under this Indemnity shall be limited to a period of one year.
3. There is no limit on the amount on an Indemnity liability. This is because of consequential loss as well as errors of commission and omission.
4. An Originator must honour an Indemnity claim immediately and in any case within 14 days.
5. An Originator wishing to make a counter-claim on a Payer's Bank should seek guidance from the Originator's Bank. The Originator's Bank should assist an Originator in lodging the counter-claim with the Payer's Bank concerned.
6. A Payer's Bank shall not claim on an Indemnity to recover funds paid in error. The Payer's Bank may request an Originator for a full or partial refund of funds, in writing. This should not include a request for consequential loss. Any recovery shall be at the discretion of an Originator. An Originator doubting the validity of a claim should seek the advice of the Originator's Bank.

Note The essential principle of the Scheme is the right of a Payer to seek and obtain an immediate refund of payments made in error from and by an Originator.

On establishing that an Originator was at fault, a Payer's Bank shall assist a Payer in lodging an Indemnity claim with the Originator.

## **CHAPTER 10**

### **COMPLIANCE WITH RULES, PENALTIES AND ARBITRATION**

1. Each of the participants in this scheme shall conform to the requirements for admission into the scheme and all the criteria laid down for participation in the Nigeria Clearing House and the provisions of these rules.
2. Each Originator is required to have executed the Direct Debit Indemnity with an Originating Bank as sponsor. The relevant Originating Bank shall duly advise all banks after the execution of the agreement.
3. Each participant shall comply with the specification and standards established by the relevant payment service provider for electronic files delivered to the ACH.

#### **Penalties**

1. The Nigeria Banker's Clearing House may require an Originator to withdraw from the scheme if in their opinion their activities constitute an abuse of the scheme.
2. All participants in the scheme shall be subject to the rules of the Nigeria Banker's Clearing House and penalties imposed in line with its rule for breach of the rules.

#### **Resolution and Arbitration Mechanisms**

- Any dispute between participating Banks in the Direct Debit scheme shall be referred to the CBN for adjudication. The decision of the CBN shall be binding on all parties.
- Refer to Chapter 9 – Direct Debit Indemnity

## **CHAPTER 11**

### **WITHDRAWAL OF AN ORIGINATOR**

1. An Originator may withdraw from the Scheme either voluntarily or compulsorily.
2. Voluntary Withdrawal

An Originator must plan very carefully, in close consultation with the Originator's Bank, the following actions:-

- a. the cancellation of existing Instructions
- b. the progressive replacement of the direct debiting method of payment by some other method

Note Should an Originator wish to revert to payment by standing order, Payer's must submit new standing order mandates.

An Originator withdrawing voluntarily from the Scheme should prudently consider establishing a contingency reserve for meeting:-

- any claims which may arise in respect of unpaid Transfers
- any Indemnity liability which may arise subsequent to withdrawal or termination of liability respect of Transfers initiated prior to either of these events

### 3. Compulsory Withdrawal

An Originator's Bank may require the withdrawal of an Originator from the Scheme if:-

- a. in their opinion, Transfers are carried out either in a manner which constitutes an abuse of the Scheme or is without due regard to the interests of Payers
- b. there is evidence that an Originator is deliberately ignoring standards and procedures detailed in these Rules
- c. the contractual capacity of the Originator is terminated by legal process, for example, by bankruptcy, liquidation or the appointment of a receiver

Note In extreme cases it may be necessary for an Originator's Bank to insist on the withdrawal of an Originator at short notice, notwithstanding the disruption which may occur. However, an Originator's Bank shall make every effort to give sufficient notice to enable an Originator make alternative arrangements. In this context, an Originator's Bank shall not assume an obligation in giving notice. More particularly, an Originator's Bank shall not accept liability under any circumstances for any loss that an Originator may suffer as a result of withdrawal from the Scheme.

## **CHAPTER 12**

### **MONITORING BY BANKS**

1. The Nigeria Banker's Clearing House shall monitor operations of the Scheme to ensure that all Originators achieve and maintain the required standards of documentation and procedure.
2. An essential feature of the monitoring process shall be a selective random audit, from time to time, of Transfers received by banks and the respective Instructions held by Originators.
3. The audit shall take place after a day's clearing session and, in the next day's clearing session, Transfers that had earlier failed to conform to significant terms of the respective Instructions shall be unpaid.

4. In this context, significant terms of an Instruction shall include :-

a. the amount

b. the due date

c. the Payer's identity; that is, the name, number of the account and Sort Code to be debited

d. The Originator's Unique Identifier under Payment Reference.

5. An Originator's Bank shall advise an Originator accordingly, should an audit reveal that there is an unacceptable level of error or substantial deviation from standard procedure. Further, should there be no subsequent improvement that Originator may be required to withdraw from the Scheme.

6. The monitoring of Transfers shall assist customers using the Scheme. Failure by the Nigeria Clearing House to carry out random audits shall not affect the validity of any claim under the Indemnity.

## APPENDIX 1

### FORM OF DIRECT DEBIT MANDATE (FIXED AMOUNTS)

Date [•]

FROM [Insert Name of Payer] Creditor's RC Number/Service  
Code Identifier:

[Insert Address of Payer]

TO: [Insert Name of Bank]

[Insert Address of Bank]

CC: [Insert Name of Creditor]

[Insert Address of Creditor]

Dear Sirs,

MY AGREEMENT [insert details of the underlying commercial transaction between the Creditor and the Payer] dated [•]

The details of my/our bank account are as follows:-

Bank:

Address of Bank Branch:

Account Number:

Sort Code:

I/We hereby request, instruct and authorise you to debit my/our account in accordance with any Direct Debit Instruction issued and delivered to you by the Creditor the sum of \_\_\_\_\_ (amount in words), necessary for payment of the monthly instalment due in respect of the above-mentioned agreement) on the \_\_\_\_\_ day of each and every month commencing on \_\_\_\_\_ and continuing (state the period for which the underlying contractual arrangement exists for). All such debits from my/our account by you in accordance with any Direct Debit Instruction issued and delivered to you by the Creditor shall be treated as though they have been signed by me/us personally.

The amounts are FIXED and may be debited on \_\_\_\_ of each month. I/We understand that the Creditor may change the amount and dates only after giving me/us prior notice and subject execution of this mandate in its variable form.

I/We understand that the withdrawals hereby authorised will be processed by electronic funds transfer, and I/we also understand that details of each withdrawal will be printed on my bank statement and/or an accompanying voucher.

I/We agree to pay any bank charges relating to this Mandate.

This Mandate may be cancelled by me/us by giving both you and the Creditor twenty (20) Business Days notice in writing, sent by prepaid registered post, or delivered to the addresses stated above, but I/we understand that I/we shall not be entitled to any refund of amounts which may have already been withdrawn while this Mandate was in force if such amounts were legally owing to the Creditor.

I/We understand that if any Direct Debit Instruction is paid which breaches the terms of this Mandate, you shall not be liable to us in any way or manner whatsoever, whether under contract, tort or negligence and that our recourse shall be limited to the Creditor..

Signed at \_\_\_\_\_ on this \_\_\_\_\_ day of \_\_\_\_\_ 20 \_\_\_\_\_

\_\_\_\_\_

[SIGNATURE AS PER ACCOUNT MANDATE] for and on behalf of: [Insert name of Payer]

In the presence of:

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Occupation: \_\_\_\_\_

Signature: \_\_\_\_\_

## APPENDIX 2

### FORM OF DIRECT DEBIT MANDATE (VARIABLE AMOUNTS)

Date [•]

FROM [Insert Name of Payer] Creditor's RC Number/Service Code Identifier:  
[Insert Address of Payer]

TO: [Insert Name of Bank]

[Insert Address of Bank]

CC: [Insert Name of Creditor]

[Insert Address of Creditor]

Dear Sirs,

MY AGREEMENT [insert details of the underlying commercial transaction between the Creditor and the Payer] dated [•]

The details of my/our bank account are as follows:-

Bank:

Address of Bank Branch:

Account Number:

Sort Code:

I/We hereby request, instruct and authorise you to debit my/our account in accordance with any Direct Debit Instruction issued and delivered to you by the Creditor for such amounts necessary for monthly/quarterly/semi-annual payments due in respect of the above-mentioned agreement on the \_\_\_\_\_ day of each and every month/quarter/half-year commencing on \_\_\_\_\_ and continuing (state the period for which the underlying contractual arrangement exists for). All such debits from my/our account by you in accordance with any Direct Debit Instruction issued and delivered to you by the Creditor shall be treated as though they have been signed by me/us personally.

The amounts are variable and may be debited on various dates. I/We understand that the Creditor may change the amount and dates only after giving me/us prior notice.

I/We understand that the withdrawals hereby authorised will be processed by electronic funds transfer, and I/we also understand that details of each withdrawal will be printed on my bank statement and/or an accompanying voucher.

I/We agree to pay any bank charges relating to this Mandate.

This Mandate may be cancelled by me/us by giving both you and the Creditor twenty (20) Business Days notice in writing, sent by prepaid registered post, or delivered to the addresses stated above, but I/we understand that I/we shall not be entitled to any refund of amounts which may have already been withdrawn while this Mandate was in force if such amounts were legally owing to the Creditor.

I/We understand that if any Direct Debit Instruction is paid which breaches the terms of this Mandate, you shall not be liable to us in any way or manner whatsoever, whether under contract, tort or negligence and that our recourse shall be limited to the Creditor..

Signed at \_\_\_\_\_ on this \_\_\_\_\_ day of \_\_\_\_\_ 20 \_\_\_\_\_

\_\_\_\_\_

[SIGNATURE AS PER ACCOUNT MANDATE] for and on behalf of: [Insert name of Payer]

In the presence of:

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Occupation: \_\_\_\_\_

Signature: \_\_\_\_\_

## APPENDIX 3

### FORM OF INDEMNITY

To: [Originator's Bank]  
[Originator's Address]

Dear Sirs,

1. IN CONSIDERATION of you severally accepting instructions from time to time from \_\_\_\_\_ (hereinafter called the "Creditor") or from an agent of the Creditor to debit the account of the Payer with the amounts specified on instruments drawn in paper form or in automated input form written in accordance with the Direct Debit Agreement dated [•] between \_\_\_\_\_, we hereby warrant that the Payer on whose account a debit is drawn will have signed a Direct Debit Mandate, and we shall keep you indemnified upon your first demand against all actions, losses, damages, claims, demands costs and expenses (including legal costs, fees and expenses on a full indemnity basis) howsoever arising, which you may incur or sustain directly or indirectly from such debiting or failure to debit and without our requiring proof of our agreement to the validity of such demand we shall forthwith pay the amount.

2. We authorise you to admit compromise or reject any claims made upon you without reference to or authority from the Creditor. Furthermore, with respect to any claims or demand for the refund of any money received by you on our behalf pursuant to any debit and transfer made on our behalf in accordance with the [Direct Debit Agreement] [direct debit arrangements between ourselves and the Payer], you are hereby authorised and are at liberty to comply with such demands and claims and without any further reference or authorisation from us, you may debit our account and transfer such funds to the account of the Payer.

3. You are not required to verify or check that instructions given to you have been given and remain in force in respect of any debit and transfer made at the request of the Creditor.

4. You are not required to verify or check that any purpose of payment stated in the Direct Debit Mandate signed by the Payer is fulfilled or is observed.

5. This Direct Debit Indemnity is to be in addition to and is not to prejudice or be prejudiced by any other Direct Debit Indemnity which has been or may now or hereafter be executed by us in connection with the Direct Debit Agreement, and

shall be binding on us as continuing security notwithstanding any payments from time to time made to you or any settlement of account or disability, incapacity, insolvency that may affect us or any other thing whatsoever.

6. You are to be at liberty without thereby affecting your rights hereunder at any time and from time to time at your absolute discretion to release, discharge, compound with or otherwise vary or agree the liability under this Direct Debit Indemnity or make any other arrangements with us.

7. This Direct Debit Indemnity shall be enforceable notwithstanding any change in your name or any change in the constitution of the bank, its successors or assigns or by its amalgamation with any other bank or banks.

8. This Direct Debit Indemnity shall be governed by and construed in accordance with the laws of the Federal Republic of Nigeria.

Signed By: \_\_\_\_\_

for and on behalf of: [Insert name of Creditor] pursuant to a resolution of the Board of Directors of the Creditor a certified copy of which is annexed hereto

In the presence of:

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Occupation: \_\_\_\_\_

Signature: \_\_\_\_\_

## **APPENDIX 4**

### LETTER TO PAYER

#### DIRECT DEBIT

##### Your rights

Direct Debit is one of the safest ways of paying your bills. Organisations using the Direct Debit Scheme go through a careful vetting process before they are authorised to participate in the scheme, and are closely monitored by the banking industry.

The Direct Debit Scheme protects you and your money by means of the rules that drive the Direct Debit Scheme.

This protection provided under the scheme is offered by all banks that take part in the Direct Debit Scheme. The efficiency and security of the Scheme is monitored and protected by your own bank.

##### Your Protection under the Scheme

- If the amounts to be paid (in the case of a Fixed Mandate) or the payment dates change, the organisation collecting the payment will notify you normally 14 working days in advance of your account being debited or as otherwise agreed
- If an error is made by the organisation or your bank, you are guaranteed a full and immediate refund from your bank of the amount paid
- You can cancel a Direct Debit at any time by contacting your bank. You are also required to notify the organisation concerned.



CENTRAL BANK OF NIGERIA  
Central Business District  
P.M.B. 0187  
Garki, Abuja

09-46238455 (Fax)  
09-46238445 Tel

**REF: BPSIDIR|GENICIR|02|007**

**February 23, 2011**

**TO: ALL DEPOSIT MONEY BANKS (DMBS)**

**RE: CIRCULAR ON THE NEED TO COMBAT CARD FRAUD**

*Further to our circular dated August 30, 2010 on the above subject, it has become necessary for all Deposit Money Banks (DMBs) to apply additional measures to the existing controls to stem the menace of card fraud in the market.*

*Consequently, all DMBs are hereby directed to implement the following:*

- *Apply proper KYC for issuance of cash cards*
- *Set limit and ensure second level authentication for card to card transfers, POS and web payments*
- *Cardholders should be given options to choose channels (ATM, POS, Web, etc) for which their cards will be applied. This process should be completed within the next 60 days from the date of this circular.*
- *Restrict cash card usage for payment of services specifically to the agreed schemes.*
- *Comply with the attached standard convention of naming all terminals with identification numbers and location addresses within the next 60 days from the date of this circular.*

*This circular takes immediate effect.*

*Appropriate sanctions will be imposed for non-compliance in line with the recent circular on penalties.*

A handwritten signature in black ink, appearing to read 'A. S. Atoloye'.

**A. S. ATOLOYE**

**Director, Banking & Payments System Department**

---

## **STANDARD NAMING CONVENTION OF TEMRMINAL IDs for ALL ATMs**

ISO Message fields 41, 42, and 43 are standardized as follows:

- **Field 41** contains the **Card Acceptor Terminal ID (8 characters)** and should have its content breakdown as follows:
  - a. **1BNKBRNX** where **1** connotes **ATM transaction**; **BNK** for **Bank CBN code**; **BRN** for **Bank Branch Code**; while **X** stands for **ATM number at the Branch**.
    - i. For example: **10630161** implies ATM Terminal (1) from xxx Bank (063) situated at Branch 016 and it's the first ATM deployed at the Branch location (1).
    - ii. Another example: **10990502** implies ATM Terminal (1) from xxx Bank (099) situated at Branch 050 and it's the second ATM deployed at the Branch location (2).
  
- **Field 42** contains the **Card Acceptor ID Code (15 characters)** and should have its content breakdown as follows:
  - a. **BANKNAME** – Here we will have xxxxxxxx **Bank\_Plc**
  
- **Field 43** contains the **Card Acceptor Name (40 characters)** and should have this four (4) elements in its content breakdown as follows:
  - a. The location information (positions 1 - 23), exclusive of city, state and country
  - b. The city (positions 24 - 36) in which the Terminal/Point-of-Service is located
  - c. The state (positions 37 - 38) in which the Terminal/Point-of-Service is located
  - d. The country (positions 39 - 40) in which the Terminal/Point-of-Service is located

---

## STANDARD STATE CODES

STATE	CODE
ANAMBRA	AN
ABIA	AB
ADAMAWA	AD
AKWAIBOM	AK
BAUCHI	BA
BENUE	BE
BORNU	BO
BAYELSA	BY
CROSS RIVER	CR
DELTA	DE
EBONYI	EB
EDO	ED
EKITI	EK
ENUGU	EN
FCT(ABUJA)	FC
GOMBE	GM
IMO	IM
JIGAWA	JG
KADUNA	KD
KASTINA	KT
KWARA	KW
KANO	KN
KOGI	KO
KEBBI	KB
LAGOS	LA
NIGER	NG
NASARRAWA	NA
OYO	OY
OSUN	OS
OGUN	OG
ONDO	ON
PLATEAU	PL
RIVERS	RV
SOKOTO	SK
TARABA	TA
YOBE	YB
ZAMFARA	ZA



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February 7, 2011

REF: BPS/DIR/CIR/GEN/02/003

**TO: ALL DEPOSIT MONEY BANKS (DMBS) AND ACQUIRERS**

**PENALTY FOR NON COMPLIANCE WITH CBN CIRCULARS AND GUIDELINES ON ATM OPERATIONS IN NIGERIA**

The Bank has observed, with great concern, the lack of cooperation and the deliberate attempt by some players in the e-payment market to frustrate the policy on offsite ATMs of deposit money banks. Central Bank's circulars and Guidelines on ATM Operations in Nigeria have been disregarded with impunity.

It has therefore, become necessary to bring order into the market by stipulating some penalties for non-compliance to the CBN directives and policies on ATM operations as detailed below:

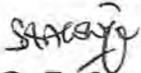
- For Non compliance with Payment Card Industry Data Security Standards (PCIDSS) a fine of N50,000 per week will apply until compliance is established.
- Non compliance of ATM terminals with EMV levels 1 & 2, will attract a fine of N50,000 and temporary suspension of the affected terminal until compliance is established
- Non compliance with migration to EMV after September 30, 2010, will attract a fine of N50,000 and the issuer will bear full liability for any fraud perpetrated with the mag-stripe card
- Failure to provide audit trails and journals for ATM transactions will attract a fine of N50,000 per week
- Failure to have 2% of ATMs deployed with tactile graphic symbol for the use of visually impaired customers within the five-year time line will attract a fine of N50,000 per week
- Failure to comply with new policy of offsite ATM deployment will attract a fine of N50,000 per week until compliance is established.

- **Failure to establish help desk contacts will attract a fine of N50,000 for each day of infraction.**
- **Non-functional help desk contacts will attract a fine of N50,000 for each day of infraction.**
- **Failure to disclose ATM surcharge to customers, a refund of the surcharge to the affected customers will be enforced by the CBN.**
- **For lack of online monitoring mechanism and back-up power (inverter) for ATM, a fine of N50,000 per day, will apply.**
- **An ATM without a camera installed will attract a fine of N50,000 and deactivation of the ATM until the camera is installed.**
- **A fine of N50,000 per day will be applied for late submission of returns/data on ATM frauds when required.**
- **An ATM deployer will be made to refund the full amount involved in any fraud perpetrated on its ATM for failure to provide footages on the disputed transactions when required.**
- **Failure to respond to the customer or to the CBN on ATM complaints within 72 hours will attract a fine of N50,000 per day for each complaint after the 72 hours until the response is received.**
- **Failure to resolve any ATM dispute with evidence of resolution within 14 days, the deployer will refund the total amount involved in the fraud.**

**Other non-monetary sanctions that could be applied to the erring institutions include the following:**

- 1. Name the offenders at the Bankers' Committee forum**
- 2. Suspension of offenders from participation in clearing operations until the infraction is corrected**
- 3. Suspension of offenders from participation in RTGS operations until the infraction is corrected**

**Please note that the penalties take immediate effect, and be guided accordingly.**



**A. S. F. Atoloye**  
**Director, Banking and Payments System Department**  
**Central Bank of Nigeria**



09-46238455 (Fax)  
09-46238445 Tel

CENTRAL BANK OF NIGERIA  
Central Business District  
P.M.B. 0187  
Garki, Abuja

**REF: BPS/DIR/GEN/CIR/01/006**

**October 19, 2010**

**TO: ALL DEPOSIT MONEY BANKS (DMBS)**

**CIRCULAR ON COMPLIANCE WITH DUE DILIGENCE IN THE DEPLOYMENT OF POINT OF SALE (POS) TERMINALS**

It has come to our notice that Deposit Money Banks deploy Point-of-Sale (POS) terminals to their merchants without conducting due diligence on the merchants. The Central Bank of Nigeria (CBN) views this as unethical and therefore, unacceptable. This is because of the possibility of using the POS as a point of compromising card details of customers.

To reduce the occurrence of fraud on POS transactions, therefore, DMBs are hereby mandated to observe the following for existing and new merchants:

- Conduct proper KYC on all their merchants with POS
- Set merchant limits based on the volume of business/commercial activities
- Set customer limit based on card class
- Instruct merchants to enforce cardholder's identification at the point of payment for transactions above a specific limit as agreed between the bank and the merchant.

Please note that appropriate sanctions will be imposed for non-compliance.

A handwritten signature in black ink, appearing to read 'A. S. Atoloye'.

**A. S. ATOLOYE**  
Director, Banking & Payments System Department



09-61638445 (Fax)  
09-46238445

**CENTRAL BANK OF NIGERIA**  
Central Business District  
P.M.B. 0187  
Garki, Abuja

August 30, 2010

REF: BPS/DIR/CIR/2010/GEN/01/169

TO: ALL DEPOSIT MONEY BANKS (DMBs)

**CIRCULAR ON THE NEED TO COMBAT CARD FRAUD**

Following the increase in the spate of complaints by ATM cardholders on fraud, it has become necessary for all Deposit Money Banks (DMBs) to put measures in place, in addition to the existing guidelines to stem this tide. Consequently, all DMBs are hereby directed to implement the following:

1. No debit card should be issued on an account without a written request from the account holder. Henceforth, DMBs shall bear liability for any fraud perpetrated with the use of cards issued without written request from the account holder, and such card must be delivered in such a manner that the confidentiality of the information is not compromised.
2. DMBs should set and implement mandatory daily limits for ATM cash withdrawals. All other related transactions, including POS and Web purchases should be subject to stringent limits as agreed and documented between the DMBs and their customers. It is the responsibility of the DMBs to ensure that the agreements are documented and that such limits are embedded within the card so as to automatically initiate a trigger when limits are exceeded.
3. The use of 2<sup>nd</sup> level authentication for internet transactions is now mandatory for all payment cards. It is the responsibility of the Issuer to ensure that transactions emanating from its web merchants are properly scrutinized and operations are permitted only after 2<sup>nd</sup> level verification.

4. DMBs must send SMS alerts to the telephones/email addresses of cardholders whenever there is a debit transaction via payment card. Evidence of the dispatch of such messages would be required in cases of non-receipt of the alerts by account holders as a result of telephone network failures.
5. Cardholders should be provided with a facility to block their accounts immediately from their mobile phones whenever the SMS alert is received in respect of suspicious transactions so as to prevent further fraudulent transactions from being perpetrated.
6. All card issuing banks should deploy fraud monitoring tools that have the capability to monitor the normal spending trends of a card holder as well as automatically stop abnormal transactions that are perceived to be fraudulent. The block shall only be lifted by express instruction by the Card holder.
7. The use of temporary staff, i.e., Students on industrial attachment/vacation job, NYSC members and contract staff for card management and issuance/ distribution of PIN mailers should be stopped forthwith.

Appropriate sanctions will be imposed for non-compliance.

  
**A.S. ATOLOYE**  
**DIRECTOR, BANKING & PAYMENTS SYSTEM DEPARTMENT**

**CENTRAL BANK OF NIGERIA**

**NIGERIAN UNIFORM BANK ACCOUNT NUMBER  
STANDARDS**

**(N.U.B.A.N)**

**APPROVED**

**Release Date: August 19th 2010**

**Version number: 1**

## 1. Introduction

The Bankers Clearing House has witnessed an upsurge in the volume of ACH (automated direct credits) cleared through the system since February, 2009. This resulted from the directive of the Federal Government to the effect that all Ministries, Departments and Agencies of the Federal Government should replace all forms of cheque payments with electronic payments as from January 01, 2009. As the ACH volume increased, so have complaints of banks and bank customers resulting from the incidents of abuse of the clearing system. Such of the complaints include:

- a) Delayed presentment of customers instructions in the clearing house
- b) Delayed application of inward ACH items by some banks
- c) Late Return of unapplied inward ACH items
- d) Application of inward ACH items to wrong accounts
- e) Bank customers quote account numbers wrongly

It was observed that many of these complaints are traceable to the non-uniform structure of bank account numbers among Nigerian banks. For instance most ACH beneficiaries quote their bank account numbers wrongly while providing such account numbers to their employers, in preparation for electronic means of salary payment. When this happens, both the employer and the presenting bank would not be able to validate such accounts before presenting such payment instructions through the Automated Clearing House.

A uniform account number structure scheme would enable both the employer and the presenting bank to validate account numbers and this would greatly reduce:

- a) The volume of items returned unapplied due to wrong account numbers;
- b) The incidence of posting to wrong account numbers, by the receiving bank;
- c) The incidence of delayed presentment of outward ACH items. Presently, most banks use days to cross-check, validate and correct account numbers before presenting ACH items through the Automated Clearing House;
- d) The incidence of delayed application of inward ACH items. Most banks expend a lot of energy and time to correct account numbers before uploading inward items just because their core banking applications work with too long bank account numbers.

It is hoped that the implementation of a Uniform Bank Account Number scheme, then many of the electronic payment problems we currently experience would be resolved and banks would experience reduced cost of operations and increased efficiency of ACH processing.

## **2. Best Practice**

Uniform account numbering system is in line with global best practice. For instance, the UK Payments Council published 'Industry Best Practice for Financial Institutions: Account Number Formats' on June 20, 2009. UK banks are required to implement the scheme. An extract from the document follows:

### **Account Number Formats**

Also, we noted the ISO 13616-1 (Financial Services – International Bank Account Number IBAN) published by the International Organization for Standardisation (ISO) on 01/03/2007 was also to give effect to the adoption of uniform account numbering structure.

The adoption of a 10-digit NUBAN will make Nigeria fully comply with the 10-digit Account Number structure required by the West Africa Monetary Institute towards the economic integration of ECOWAS countries.

## **3. Nuban Account Format**

The NUBAN is a 10-digit Bank Account Number format, with the following structure:

9999999999 - Account Serial Number

9 - A Check Digit constructed to support a modulus check, which enables the presenting bank to perform checks. The Check Digit is derived from an algorithm that operates on a combination of the 3-digit CBN-assigned Bank Code and the 9-digit Account Serial Number.

Every bank is required to create and maintain a NUBAN code for every customer account (current, savings, etc) in its customer records database, and the NUBAN code should be the only Account Number to be used at all interfaces with a bank customer. We expect every bank to maintain their present Account Numbers and use them for their internal operations only as from the effective date of NUBAN, but every such account number would have to be mapped to a NUBAN code as an Alternate Account Number.

The bank customer should be provided with only the NUBAN code which he/she would use as a means of account identity at every interaction with the bank. The onus lies on the bank to map such NUBAN code supplied by the customer to the relevant internal account number within the bank's technology system.

A 10-digit account number is simple and can easily be managed by bank customers. NUBAN frees bank customers from the risk of quoting account numbers wrongly – a risk that is higher with account numbers of longer digits.

### **Impact of Nuban on MICR Cheques**

The Nigeria Cheque Standards already prescribes a 10-digit account number in the MICR codeline of all cheques. This shows clearly that NUBAN is compliant with the Nigeria Cheque Standard, so banks will not have to change the physical features of the cheque, now or in the future. However banks would have to change the structure of the 10-digit account number in the codeline. NUBAN

actually helps to streamline the account number of all other account types (Savings Account, etc.) to the 10-digit format which Current Accounts have enjoyed over the years.

#### **4. Usage of Nuban in ACH Operations**

The NUBAN shall be used in ACH operations as follows:

- a) Every payer shall obtain the 3-digit Bank Code and a 10-digit NUBAN code from the payee whenever ACH payments are to be set up;
- b) The Payer's bank shall ensure that all payee accounts supplied by the payer conform to NUBAN standards. The Payer shall validate the check digit (10th digit) of the NUBAN code of every electronic payment instruction, and only instructions with valid NUBAN codes shall be presented in the Automated Clearing House;
- c) The Receiving (Payee) Bank shall upload inward ACH payments based only on the NUBAN codes of each payment instruction; such upload program/software shall validate the check digit (10th digit) of the NUBAN code in the upload process. All inward items with invalid NUBAN codes shall be returned unapplied, and the receiving bank shall not make any manual effort to correct such records.
- d) The Account Number field in the MICR codeline of cheques shall contain only the NUBAN code.

#### **5. Implementation Strategy**

Sequel to consultations with relevant stakeholders including 3 major providers of core banking applications to the Nigerian banking system, we hereby mandate a period of nine (9) months for full compliance by the Deposit Money Banks. Compliance monitoring by the Payments System Policy and Oversight Office will commence six (6) months from the release date of this document. All DMBs are expected to submit their comprehensive migration plans to the Central Bank of Nigeria one (1) month from the release date herein.

#### **6. Sanctions**

Any infractions to the dictates and stringent timelines provided in this document shall attract severe sanctions as may be determined by the Central Bank of Nigeria from time to time.

**Signed**

**MANAGEMENT**

## NIGERIA DIRECT DEBIT SCHEME

## CHAPTER 1

### INTRODUCTION

1. Direct Debit has been operated in Nigeria in paper form in the form of “Debit Notes” originated by payer’s bank using the Nigeria Clearing House infrastructure. The Automated Clearing House was implemented in 2002 and the Nigerian version of the Domestic Funds Transfer introduced to the market as NEFT (NIBSS Electronic Funds Transfer). NIBSS (Nigeria Inter Bank Settlement System) owns and manages the physical infrastructure for clearing of cheques and paperless clearing instruments in Nigeria

ACH Direct Debit (DD) as a product was formally introduced to the Nigerian Clearing System by the Nigeria InterBank Settlement System (NIBSS) in January 2006. It was introduced as a variant of NEFT (NIBSS Electronic Funds Transfer) and operated by participating banks under the aegis of the Nigeria bankers clearing house. Also, other market participants in the payments environment such as Interswitch have also introduced variants of Direct Debit products which run-off their switching infrastructure but with ultimate settlement between the banks passing through NIBSS.

There are currently no general rules specific to Direct Debit as a payment mechanism in the Nigeria market. What exist are corporate rules developed to guide the participants in the relevant switch on the various products that run off this switch, and the general rules for the clearing house. This underlies its relative low acceptability in the market as there are no clearly articulated and documented rules that guide and bind market participants, and thus grow the confidence of the user to accept and use the product.

2. The ACH Debit is a cash-less form of financial settlement which facilitates “regular in nature” payments. It permits an Originator to collect amounts due from a Payer at the Payer’s Bank by initiating Direct Debit Transfer on a bank account nominated in a Direct Debit Mandate. Banks are not responsible for any underlying contract as it is solely a method of collecting payments. It also provides an efficient platform for Originators to draw funds from their account across banks in an efficient manner. In an environment where bank customers have multi-bank relationships, it provides the right platform for optimal management of liquidity across banking relationships.
3. Organisations or individuals that regularly or periodically receive large volumes of payments may benefit immensely from the scheme.

4. An organisation wishing to join the Scheme will typically contact the appropriate service division of its Originator's bank. The organisation is expected to satisfy the requirements of the bank before admittance.

The development of a Code of Conduct for Bill Payment is one of the initiatives arising from the CBN Vision 2020 for the Financial System on Payments. The implementation of this initiative provides the background to development of these rules, Nigeria Direct Debit Rules.

We have adopted some of the content from the Direct Debit Rules of other countries such as Kenya, SEPA, UK due to similarity in operating environment and need to adopt best practices.

## **CHAPTER 2**

### **DEFINITIONS**

#### **1. Direct Debit Transfer**

A Direct Debit Transfer is a payment prepared in an Electronic Funds Transfer format, in this case, the NEFT Data Transfer format or any other format prescribed by the relevant service provider.

These Rules refer to a Direct Debit Transfer as a Transfer.

#### **2. Direct Debit Mandate**

This is a written authority given by a Payer to the Payer's Bank, to make payments from an identified bank account at the request of, and to the account of, an Originator. The authority is given by the Payer to the Payer's Bank with a copy to the Originator. However, in the event that the written authority is given to the Originator, who in turn presents to the Payer's Bank, it is required that the Payer's Bank duly confirm authenticity from the Payer through its normal process for confirmations.

These Rules refer to a Direct Debit Mandate as an Authority.

#### **3. Variable Direct Debit Mandate**

This authority allows variable amounts to be debited from a Payer's bank account. It is used for regular payments that cannot be forecast in advance and for amounts that change periodically (monthly, quarterly, annually, etc.). An Originator must provide an Advance Notice to a Payer, of the amounts and dates of payment, in sufficient time for any queries to be raised before payment. A new Authority must be variable and, in practice, the vast majority of existing Authorities are in variable format.

#### **4. Advance Notice**

This is the notice that must be given by an Originator to a Payer who has signed a Variable Direct Debit Mandate. At least 14 calendar days' notice must be given, in respect of the date and or amount to be debited.

#### **5. Direct Debit Indemnity**

A Direct Debit Indemnity, referred to in these Rules as an Indemnity, protects a Payer should an incorrect amount be debited, a debit occur earlier than specified or in error. Should a Payer query a payment as given, the Payer's Bank must, on request, make an immediate refund to the Payer's bank account. This covers situations where an Originator may not have given the required Advance Notice regarding a change of amount or date.

**6. Debit Order/Debit transaction** – means a mandated payment instruction from a user to a bank to collect money from a client e.g. insurance premium, hire purchase, rentals. This definition does not exclude a situation where a user initiates such an instruction for its own account, or for other variable amount subject to compliance with the conditions stipulated herein.

### **CHAPTER 3**

#### **PARTICIPANTS AND THEIR ROLES**

##### **1. Originator or Biller**

An originator or Biller is an organisation that is able to make a Direct Debit Transfer. A Direct Debit Indemnity binds an Originator to collect only amounts that have been authorised by a payer on or after a specified date, notified in advance.

##### **2. Originator's Bank (also known as Creditor Bank)**

The Originator maintains a bank account with the bank that presents the debit instruction to clearing. An Originator must use the services of a bank to introduce Direct Debit Transfers to the Clearing House. The Originator must satisfy a bank's internal requirements to be allowed access to the Direct Debit Scheme.

##### **3. Payer**

A payer is the party whose bank account is to be debited as instructed in a Direct Debit Mandate, typically a customer of an originator or has an existing financial relationship with an originator.

##### **4. Payer's Bank (also known as Debtor Bank)**

This is the bank where the payer maintains an account.

## **5 Payment Service Provider (PSP)**

A PSP is a payment service company that is able to accept Direct Debit Transfers from Originators/Billers, for processing through the Automated Clearing House. The funding aspect of all Direct Debit Transfers must be processed through Originator's Bank and the Payer's Bank.

### **Criteria for Entry into the Direct Debit Scheme**

#### **Originating Bank**

- I. Must be a member of the Automated Clearing House and integrated with a Payment Service Scheme that accepts direct debit transfers for processing. The Payment Service Scheme must have been duly licensed by the Central Bank to carry out payment / switching services.
- II. It must hold an account for the originator to receive proceeds of the Direct debit transfer.
- III. Originating Banks must comply with the file specification and standards established by NIBSS or the relevant payment service scheme for electronic file delivery.
- IV. Must have systems in place to automatically trigger issuance of direct debit instructions on due date. This is to ensure that installed processes are efficient enough to meet the expectation of users for settling recurring obligations using this scheme.

#### **Payer's Bank**

- I. Must be a member of the Automated Clearing House and integrated with a Payment Service Scheme that accepts direct debit transfers for processing. The Payment Service Scheme must have been duly licensed by the Central Bank to carry out payment / switching services.
- II. It must hold an account for the payer from which payment will be issued in line with the Direct Debit Authority.
- III. Must hold a valid Direct Debit Authority executed in line with the payer's mandate with the bank.

#### **Automated Clearing House / Payment Service Providers.**

- I. The process and participation criteria for the Direct Debit Scheme is guided by the Nigeria Bankers' clearing House Rules and the Guidelines on Transaction Switching Services.

#### **Originators/Billers**

- I. Originators shall execute the Direct Debit Indemnity with any bank that originates its transaction.

- ii. Every originator will be assigned a Unique Identification Number by its sponsor bank. The identifier shall be unique to each biller or originator and shall be used irrespective of the bank originating the transactions. The Unique Identifier facilitates the process for automated mandate confirmation of Direct Debit Authority. See Chapter 5 Item 8.

## CHAPTER 4

### RIGHTS AND OBLIGATIONS OF ALL PARTICIPANTS

#### A Originator

1. It is pertinent that an Originator must first obtain an Authority from a Payer before initiating a Transfer on the Payer's bank account.

An Originator must be prepared to accept any Indemnity claim from a Payer, arising from an amendment and or a limitation clause inserted by the Payer before lodgement.

2. On receipt of a Payer's signed Authority, an Originator becomes entirely responsible for collecting payments due under that Authority, via a Transfer. An Originator cannot require the Payer's Bank to settle by any other means.

3. An Originator must:-

- a. initiate a Transfer strictly within the terms of the Authority
- b. initiate a Transfer within the terms of any Advance Notice given to a Payer

The data on a Transfer must conform to that advised in the Authority.

An Originator's identity quoted on a Transfer, if any, must be the same as that quoted in the Authority.

4. Per adventure an Originator decides to vary the terms of a fixed amount Authority, a Payer must provide a new Authority incorporating a cancellation clause.

5. It is expected that an Originator should seek the advice of the Originator's Bank before making any changes to:-

- a. the name or constitution of the Originator
- b. information quoted on an Authority

The Originator's Bank may require an Originator to give notice of such a change to a Payer and/or a Payer's Bank.

6. It is pertinent for the Originator to note that a Payer can cancel an Authority without reference; for instance, the appointment of a liquidator or receiver

may involve statutory publicity, which by implication infers that a Payer has provided constructive notice.

7. If a fixed amount Authority exists for a payment that has not yet been settled by a specified date and payment is outstanding, then an Originator's Bank is prohibited from collecting arrears via a Transfer. The prohibition does not extend to the re-presentation of an individual unpaid Transfer or in situations where the Originator has adequately notified the Payer.
8. If an Originator is notified that an Authority is cancelled or amended, the Originator must alter his records immediately, in order to ensure that:-
  - a. a Transfer is not initiated after receipt of such notice of cancellation
  - b. all Transfers initiated in the future incorporate the amendment so notified, in the case of amendment.

#### Rights and Obligations of all Participants

##### Note:

- a. For ease of reference, it is recommended that an Originator retains documentation received from a Payer's Bank. This is important as the absence of evidence could prejudice a successful counter-claim against a Payer's Bank.
  - b. It is recommended that an Originator ensures that payments made under separate Authorities are not merged as this could lead to difficulties when a Payer wishes to cancel an Authority (not all authorities).
9. It is the responsibility of an Originator's Bank to ensure that an Originator strictly adheres to the requirements of the Scheme.

Only Banks that are members of the Nigeria Clearing House shall act as Originators Banks. The moment a bank ceases to be a member of the Clearing House, related Originators shall appoint other Banks in the clearing house with whom they either have account or choose to open account with.
  10. It is the responsibility of the Originator's Bank to give information, advice and guidance on all aspects of the Scheme to an Originator.

#### **B Payer**

1. The initiation of a Transfer must be strictly within the terms of the Mandate and any Advance Notice to which a Payer is entitled.
2. A Payer is at liberty to cancel a Mandate at any time by advising the Payer's bank in writing and with a copy to the Originator. The Originator will duly advise his bank on receipt of the notice of cancellation.. It is not the

Originator Bank's responsibility for accepting a cancellation of an Authority. Therefore, the Payer must raise a claim against the Originator through his bank per adventure a payment gets through after cancellation, and the Originator must pay promptly.

It is possible that a notice of cancellation is received by the Payer's bank and Originator, but not be able to act on it before the next due date of payment. Adequate notice must be given by the payer to avoid such situations. For recurrent items where collected is made in advance of service provided, this risk is well mitigated.

### **C Payer's Bank**

1. A Payer's Bank shall accept Transfers originated under an Authority on the understanding that it is not responsible for verifying or checking that:-
  - a. an Authority exists
  - b. payments conform to the terms of the Authority
  - c. any purpose or condition of payment expressed in that Authority is fulfilled
2. Depending on the nature of the account, which could be deposit account or any other type of account that might be subject to notice of withdrawal, a Payer's Bank may decline to accept instructions to charge Transfers to such accounts.

## **CHAPTER 5**

### **ADMISSION OF ORIGINATORS**

1. Originators, while acting as such, must recognise that a trust is being bestowed on them by banks, with extensive power, which must be exercised in strict accordance with the requirements stipulated in these Rules.
2. A prospective Originator must be a customer of a bank whose responsibility it would be to support the application. An Originator may hold accounts with several banks
3. In making an assessment, an Originator's Bank shall have regard to an applicant's contractual capacity, credit risk, financial standing and quality of administrative control.
4. As a condition of participation in the Scheme, a prospective Originator must execute an Indemnity, obtained from the Originator's Bank.
5. A prospective Originator's application must stand on its own merits. An Originator's Bank shall not accept any third-party support for the liability

assumed under an Indemnity. In this context, a third-party relationship does not exist between a parent and an associated or subsidiary company.

6. The decision on sponsorship shall not be influenced by the existence or availability of any private insurance cover an Originator may choose to obtain to cover his Indemnity liability. The assignment of such cover in favour of banks is neither practicable nor acceptable.
7. After execution, an Originator must return the signed Indemnity and other accompanying documents deemed necessary by the Originator to the Originator's Bank.
8. The Originator's Bank shall use its discretion in accepting an Originator to the scheme. However, the Nigeria Clearing House management shall also act as arbiter, if warranted, in future. This will provide a forum for banks to share information. The fate of a prospective Originator shall rest with the Originator's Bank. The Originator's Bank, in communicating a determination to a prospective Originator, shall not refer to the Nigeria Clearing House.
9. After the approval of an application, an Originator's Bank shall allocate the Originator with a unique Originator's Identification Number for quoting on all Transfers. The Unique Identifier will be the Originator's RC Number, to be captured as Payment Reference. Where the Originator provides more than one service and seeks to differentiate them, a Service Code will be assigned and associated with the Identifier in the form – RC Number/--. The Unique Identifier, and where relevant, the Service Code must be indicated on all mandates and billing instructions emanating from the Originator.
10. The lodgement of a signed Indemnity with an Originator's Bank must be notified to other banks, together with an advice of the Originator's Identification Number issued, through the Nigeria Clearing House.
11. The allocation of an Originator's Identification Number may be made exceptionally in advance of lodgement of the Indemnity when such a number is required for testing automated procedures.

## **CHAPTER 6**

### **SCOPE AND BENEFITS OF THE SCHEME**

#### **A Originator**

1. The scheme ensures that the Originator shall no longer have to employ a comprehensive reconciliation process to check the receipt of expected payments. It is recommended that, an Originator maintains a separate bank

account in which Transfers are collected. This will effectively ease reconciliation.

2. The Scheme provides the only means recognised by banks where, at the discretion of an Originator, a Payer could authorise payments from a bank account of amounts which are variable by time and or amount, until further notice.
3. For an Originator whose payments are subject to changes in amount, a variable Authority is available, thereby avoiding the need to issue new instructions whenever amounts change.
4. It also ensures that the Originator is able to manage and control cash flow by exception and with greater certainty, by attending to unpaid Transfers. The information on unpaid transfers will also be readily available.
5. An Originator shall be able to take advantage of electronic file formats to update internal systems and records.

## **B Payer**

1. Provided by the Scheme is a simple, safe and convenient banking service that enables a Payer to settle accounts as and when they fall due.
2. Further provisions by the Scheme are:-
  - a. the elimination of cheques
  - b. the discontinuation of visits and queues to cash offices or banks
  - c. the relief from worries about overlooking payment dates
  - d. a quick and easy resolution to queries at the Payer's Bank, including an immediate refund for payments made, if transactions are in dispute
  - e. an Originator, the ability to merge several payments into one transaction, by using a variable Authority, provided a Payer consents
  - f. a Payer, through a variable Authority, the avoidance of the need to issue a fresh Authority each time a payment amount changes

## **CHAPTER 7**

### **BUSINESS AND OPERATIONAL RULES**

- 1 Direct Debit as a form of financial settlement facilitates settlement of "regular in nature" payments. It is an instruction from a customer to their bank authorising an organisation to collect funds from their account".
- 2 The process typically involves four parties - A service provider (Originator), service provider's bank (Originator's bank), a subscriber (Payer) to the service provider and the subscriber's bank (Payer's bank). Direct Debit also provides a viable option for bank customers who intend to pull funds from their account with one bank to another.

**3 Direct Debit transactions are of 2 types:**

-Fixed Direct Debit: allows fixed amounts to be debited from a payer's bank account.

-Variable Direct Debit: allows variable amounts to be debited from a Payer's bank account. Typically used for payments where amounts cannot be predetermined in advance. In this instance, there is need for the service provider to intimate the subscriber (payer) of the invoice amount well before the debit is sent to his/her bank.

- 4 The Direct Debit mandate will clearly state whether it is fixed or variable
- 5 Every Originator must be assigned with a unique identification number by the Originator's bank. This number will be unique to the originator and will be used for all direct debit transaction originated as a result of mandates executed in favour of the originator, irrespective of the bank transacting. The unique Originator's Identification Number must be recorded in electronic funds transfer file and must be quoted on all transfers.
- 6 A direct debit instruction is issued subject to the rules of the clearing house on returned items. An item that is dishonoured must be returned within the local clearing cycle in operation. Currently, local cheques clear in T+3. The clearing house shall not accept paper vouchers under these rules
- 7 However, irrespective of (6), a payer shall obtain immediate reimbursement for instructions that are issued in error or not in conformity with the terms of the mandate or fraudulently issued and identified after the instruction has been honoured.
- 8 The Originator's bank shall submit transfer details to the clearing house at least 3 working days before payment due date.
- 9 An originator shall submit transfer details to the Originator's Bank in accordance with the electronic file format defined in the Nigeria Clearing House Rules.
- 10 If the Payer's Bank cannot pay a Transfer for any reason, the Payer's Bank shall return that debit to the Originator's Bank within the clearing period allowed under the Clearing House Rules. The Originator's Bank shall advise the Originator of the unpaid item.
- 11 These Rules are subject to the settlement finality rules applicable to the Nigeria Banker's Clearing House.

## Unpaid Direct Debit Transfers

1. As noted above, a Payer's Bank may return a Transfer unpaid
2. A Transfer must be paid or returned unpaid within the same clearing cycle applicable to local cheques subject to the Nigeria Banker's Clearing House rules
3. Representation should only occur when an Originator reasonably assumes that a Payer shall meet the conditions necessary for payment.
4. The authority of an Originator to effect re-representation does not arise from the existence of a debt owed by a Payer to the Originator. An Originator's Bank may represent an unpaid item only once and for the same amount that was originally dishonoured.
5. If a re-presented Transfer is dishonoured an Originator must make other arrangements directly with a Payer to collect the amount due.

## Advance Notice

1. An Originator must give an Advance Notice to a Payer on a variable Authority, before :-
  - a. the first payment
  - b. changes to :-
    - i. the amount on the Transfer
    - ii. the due date of the Transfer

An Advance Notice is also required for the payment of :-

- c. an initial un-stated amount
- d. an amount subject to a limitation clause

An Originator may advise changes known in advance in a schedule.

An Advance Notice must be in writing.

Where appropriate, an Advance Notice should indicate :-

- e. that an Originator shall not send a subsequent Advance Notice if the amount on the Transfer changes solely because of an alteration in the applicable statutory rate
- f. the amount initially advised shall be subject to a subsequent discount, mutually negotiated and agreed

For example An invoice used as an Advance Notice may indicate :-

The total shown will be charged to your bank account by direct debit on or just after \_\_\_\_\_ .

2. Where the Originator is a national official body, for example a Government department that is collecting variable statutory amounts payable, the Originator must consult the Originator's Bank on the form of Advance Notice required. Such an Originator is exempted from issuing individual Advance Notices for changes in the amount payable, after a Payer receives an Advance Notice of the first payment, provided that :-
  - a. the amount payable is specifically identifiable in statute or subordinate legislation duly passed by the National Assembly
  - b. the Payer is required to pay the statutory amount, if not by Transfer, then by some other means
  - c. the variable Authority signed by the Payer states that if the statutory amount payable changes, then the Originator shall provide full publicity without individual Advance Notices
  - d. the Originator's Bank is satisfied that the Originator shall provide full publicity on changes in the statutory amount payable, in sufficient time before Transfers are initiated, in case a Payer wishes to cancel an Authority.
  - e. the Originator shall not issue individual Advance Notices and all literature shall clearly state this
3. In all cases, an Advance Notice, or the publicity referred to here-before, must allow sufficient time for a Payer to raise a query, countermand a single payment or, cancel the Transfer. Where the amount or due date is certain, an Originator shall issue an Advance Notice not less than 14 days from the due date. In the absence of any specific agreement between an Originator and a Payer, this period shall be the minimum requirement. The Advance Notice could be in writing or electronic as agreed between the Originator and Payer.

Note Should a club or professional institution make a change to the rate of subscription or the date of payment, then each member must receive a separate notice of the change. An announcement of the change in a professional journal or other publication is not adequate, although a separate letter, giving advice of the change, may accompany an individually addressed journal or publication.

Exceptionally, a written Advance Notice may not be required when a direct action by a Payer requires an Originator to initiate a specific Transfer on Payer's bank account. This action must provide sufficient information to determine the amount and date of Transfer. An Originator must obtain authority from the Originator's Bank before establishing an arrangement dispensing with an Advance Notice. There are a number of possibilities giving rise to this:-

- a. when an Originator is required to debit a Payer's bank account following a withdrawal of cash from an automated teller machine under the control of the Originator
- b. when there is a written request by a Payer to an Originator
- c. when there is a request by a Payer to an Originator by means other than in writing but providing an audit trail.

## **The Direct Debit Mandate**

### **A General**

1. A Direct Debit Mandate is not and should not be misconstrued as evidence of any contract between an Originator and a Payer's Bank.
2. When requiring a Payer to complete a Mandate, the Originator should provide a separate letter and/or leaflet, showing the essential features of the Scheme. The letter and/or leaflet should provide in concise manner the essential features of the scheme and highlight the key aspect and mechanism that guarantees protection for the Payer. A sample format is included in the Appendix.
3. Before publishing such information to a Payer, an Originator must obtain the approval of the Originator's Bank.

In all cases an Originator must:-

- a. confirm that a Payer shall obtain immediate reimbursement from the Originator, in case of an erroneous initiation of a Transfer
- b. give a categorical assurance that Transfers shall conform strictly to the terms of the Mandate and the conditions governing payments between the parties concerned
- c. explain the reasons for the use of a variable Mandate, and give details of the Advance Notice a Payer will receive
- d. include any additional information appropriate to the individual circumstances of the Originator
- e. advise a Payer that an Mandate may be cancelled at any time by notifying the Originator accordingly

### **B Types of Direct Debit Mandate**

1. There are two distinct types of Authorities:-
  - a. Variable Direct Debit Mandate
    - i. suitable for all payments, particularly if amounts are liable to change, and must be used when it is intended to merge payments

- ii. the Originator must give an Advance Notice to the Payer of amounts and dates of debiting
- b. Fixed Amount Direct Debit Mandate
 

This is suitable when amounts remain constant for the life of the Mandate.
- 2. If a Payer has a query regarding the authenticity of a Transfer applied to the Payer's account, the Payer's Bank must return the transfer to the Originator's bank within the clearing period, and shall refer the Payer immediately to the Originator.
- 3. The Payer's Bank may decline to accept Mandate instructions to charge Transfers to certain types of accounts, such as deposit and savings accounts, which are subject generally to notice of withdrawal.

### **Amendment to a Direct Debit Mandate**

1. A Payer's Bank shall advise an Originator promptly of all technical changes concerning:-
  - a. the Payer's Bank
  - b. a Payer's bank account

It is recognised that cases can arise where an Originator shall receive a notice advising of an amendment or cancellation but will be unable to act on it before the next due date of payment.

2. Amendments may arise:-
  - a. because a Payer's bank account is transferred to another branch of the same bank
  - b. because a Payer's bank account is transferred to another bank

In this case, a Payer shall be required to obtain a new Mandate. A Payer's previous bank should return as unpaid transfers, Transfers received after a change has occurred.

- c. because a Payer authorises, in writing, material alterations to an Mandate, such as :-
      - i. the account name
      - ii. the account number
      - iii. the due date of payment
      - iv. the frequency of payment
      - v. the amount

Note Whilst not a permanent amendment to an Mandate, a Payer may dispute an Advance Notice and countermand the single payment advised.

3. A Payer's Bank shall use a Mandate Amendment Advice form to notify an Originator of the changes.  
When produced by automated means the form may display the relevant information only. An Originator may also receive Advice of new sorting codes and or account details from banks. If one Originator is required to make numerous amendments, for example arising out of a closure or merger of branches, then a list giving details of all amendments to be made may be provided, provided the Originator does not object.
4. On receipt of an Advice, an Originator must amend records accordingly.
5. The transfer of a Payer from one Originator to another can only be authorised by the Payer concerned. The authorisation must be in the form of a new Mandate.
6. A Payer should advise an Originator directly of any amendments made to a Mandate.

**The recommended formats and text for Direct Debit Mandates are included in the Appendix.**

## **CHAPTER 8**

### **CONTROL MECHANISMS AND CONSUMER PROTECTION**

#### **General**

These rules are developed with the key objective of ensuring that all participants in the scheme are protected and that their roles and processes are clearly articulated and understood by all stakeholders. To further ensure that users are confident that their interest is protected, further control mechanisms are recommended as best practices to achieve this objective. These recommendations leverage on existing technology already in deployment in the industry and should drive competition and product differentiation among players:

- 1 All Payers' Banks are required to have the facility for transaction notification via sms and/or email. The Payer must be duly notified via either of these media of the debit passed into their accounts within the clearing cycle. Payers should encourage their banks to provide this service as a matter of course to meet the need for prompt and adequate transaction information. However, the inability of the Payer's Bank to meet this requirement will not invalidate the Transfer instructions that comply with the Mandate of the Payer.

- 2 Controlled Direct Debit is a feature of mobile banking that has been implemented in other climes to provide the payer with more control over debits to their accounts that are subject of Direct Debit Mandates. The Transfer instruction is transmitted and can only become effective subject to the authorisation of the Payer on his mobile phone.
- 3 A major challenge with the Direct Debit process is the ability to keep a track of valid Direct Debit mandates on record. It is critical that Debit Mandates are held as electronic records for ease of updates, tracking, monitoring, and direct debit auto-verification. This should be implemented by Payer Bank's to improve the efficiency and effectiveness of the Direct Debit process.
- 4 A Payer must give the Payer's bank adequate notice of cancellation of a Direct Debit Mandate. A minimum period of 14 days is recommended to enable all parties to the scheme to be adequately notified and records updated.
- 5 Disputes arising from Direct Debit transaction will be resolved under the aegis of the Clearing House in line with these rules.
- 6 A Unique Identifier will be assigned to Originators by their sponsoring banks which certifies that the market participant is subject to these rules. The Unique Identifier to be derived from Originators RC Number and relevant Product Service Code e.g. 12346/01.

#### **/ Control Requirements for Participation in the Scheme.**

- i. All banks participating in this scheme shall have facilities for transaction notification via sms and/or email. The Payer must be duly notified via either of these media of the debit/credit passed into their account within the subsisting clearing cycle.
- ii. In order to ensure ease of access to mandate instructions, banks are required to have facilities for holding Direct Debit Authority in electronic form. This is to ensure efficiency in the processing of debit request received from clearing.
- iii. A minimum of 14 days notice of cancellation must be given by the Payer to his bank. This is to enable all parties to the scheme to be adequately notified and records updated.
- iv. Each originator will be sponsored by a bank. The Sponsor bank will assign a Unique Identifier to the originator for use irrespective of the bank originating the transaction. The clearing house will be duly notified of all registrations within 48hrs.
- v. It is expected that the Payers' Bank would go through its normal confirmation process (as in Cheque Confirmation) upon receipt of a Direct Debit Authority to verify its authenticity.

- vi. A "Kite Mark" or logo will be implemented for the scheme to be displayed on the Debit mandates form accompanying invoices and subscription forms issued by Certified originators to subscribers for their products/services. This mark represents a mark of "service quality" and "process integrity" for the scheme.
- vii. The Nigeria Bankers Clearing House shall monitor the operation of the Scheme to ensure that all participants achieve and maintain the required standards of documentation and procedure.

**Audit Trails:** The following records must be maintained and accorded the same retention period as for Cheques by the participating Banks:

- The executed Direct Debit mandate
- The executed Direct Debit Indemnity
- Full transaction history records of instructions transmitted to clearing.
- Full transaction history records of all returned items.

## CHAPTER 9

### THE DIRECT DEBIT INDEMNITY

1. Every Originator must execute the prescribed form of Indemnity provided by an Originator's Bank.
2. An Originator shall not be permitted to, single-handedly, make amendments to the standard text. An Originator's Bank may, with discretion, and the agreement of other participating banks, require certain additions or deletions to be made to text when particular circumstances or the status of an Originator indicate that certain contingencies are not covered.
3. An Originator shall undertake to effect settlement of Indemnity claims with Payers' Banks immediately and in any case within 5 working days of the date of the claim.
4. An Originator's Bank, after having accepted its cover, shall give written notice of the termination of an Indemnity.
5. An Originator should note that liability is unlimited on:-
  - a. time there is a continuing liability in respect of Transfers initiated before receipt of a written notice of termination by a Payer's Bank
  - b. amount the liability of an Originator arises not only in respect of Transfers initiated in error or not at all, but also in respect of any consequential loss attributable to such errors

## **Claims Under The Indemnity**

1. An Originator shall undertake to indemnify banks against any loss arising from Transfers.
2. The liability under this Indemnity shall be limited to a period of one year.
3. There is no limit on the amount on an Indemnity liability. This is because of consequential loss as well as errors of commission and omission.
4. An Originator must honour an Indemnity claim immediately and in any case within 14 days.
5. An Originator wishing to make a counter-claim on a Payer's Bank should seek guidance from the Originator's Bank. The Originator's Bank should assist an Originator in lodging the counter-claim with the Payer's Bank concerned.
6. A Payer's Bank shall not claim on an Indemnity to recover funds paid in error. The Payer's Bank may request an Originator for a full or partial refund of funds, in writing. This should not include a request for consequential loss. Any recovery shall be at the discretion of an Originator. An Originator doubting the validity of a claim should seek the advice of the Originator's Bank.

Note The essential principle of the Scheme is the right of a Payer to seek and obtain an immediate refund of payments made in error from and by an Originator.

On establishing that an Originator was at fault, a Payer's Bank shall assist a Payer in lodging an Indemnity claim with the Origin.

## **Chapter 10**

### **COMPLIANCE WITH RULES, PENALTIES, AND ARBITRATION**

1. Each of the participants in this scheme shall conform to the requirements for admission into the scheme and all the criteria laid down for participation in the Nigeria Clearing House and the provisions of these rules.
2. Each Originator is required to have executed the Direct Debit Indemnity with an Originating Bank as sponsor. The relevant Originating Bank shall duly advise all banks after the execution of the agreement.
3. Each participant shall comply with the specification and standards established by the relevant payment service provider for electronic files delivered to the ACH.

### **Penalties**

1. The Nigeria Banker's Clearing House may require an Originator to withdraw from the scheme if in their opinion their activities constitute an abuse of the scheme.

2. All participants in the scheme shall be subject to the rules of the Nigeria Banker's Clearing House and penalties imposed in line with its rule for breach of the rules.

### **Resolution and Arbitration Mechanisms.**

- I. Any dispute between participating Banks in the Direct Debit scheme shall be referred to the CBN for adjudication. The decision of the CBN shall be binding on all parties.
- II. Refer to Chapter 9 – Direct Debit Indemnity

## **CHAPTER 11**

### **WITHDRAWAL OF AN ORIGINATOR**

1. An Originator may withdraw from the Scheme either voluntarily or compulsorily.
2. Voluntary Withdrawal

An Originator must plan very carefully, in close consultation with the Originator's Bank, the following actions:-

- a. the cancellation of existing Instructions
- b. the progressive replacement of the direct debiting method of payment by some other method

Note: Should an Originator wish to revert to payment by standing order, Payer's must submit new standing order mandates.

An Originator withdrawing voluntarily from the Scheme should prudently consider establishing a contingency reserve for meeting:-

- any claims which may arise in respect of unpaid Transfers
- any Indemnity liability which may arise subsequent to withdrawal or termination of liability respect of Transfers initiated prior to either of these events

3. Compulsory Withdrawal

An Originator's Bank may require the withdrawal of an Originator from the Scheme if :-

- a. in their opinion, Transfers are carried out either in a manner which constitutes an abuse of the Scheme or is without due regard to the interests of Payers
- b. there is evidence that an Originator is deliberately ignoring standards and procedures detailed in these Rules

- c. the contractual capacity of the Originator is terminated by legal process, for example, by bankruptcy, liquidation or the appointment of a receiver

Note: In extreme cases it may be necessary for an Originator's Bank to insist on the withdrawal of an Originator at short notice, notwithstanding the disruption which may occur. However, an Originator's Bank shall make every effort to give sufficient notice to enable an Originator make alternative arrangements. In this context, an Originator's Bank shall not assume an obligation in giving notice. More particularly, an Originator's Bank shall not accept liability under any circumstances for any loss that an Originator may suffer as a result of withdrawal from the Scheme.

## **CHAPTER 12**

### **MONITORING BY BANKS**

1. The Nigeria Banker's Clearing House shall monitor operations of the Scheme to ensure that all Originators achieve and maintain the required standards of documentation and procedure.
2. An essential feature of the monitoring process shall be a selective random audit, from time to time, of Transfers received by banks and the respective Instructions held by Originators.
3. The audit shall take place after a day's clearing session and, in the next day's clearing session, Transfers that had earlier failed to conform to significant terms of the respective Instructions shall be unpaid.
4. In this context, significant terms of an Instruction shall include :-
  - a. the amount
  - b. the due date
  - c. the Payer's identity; that is, the name, number of the account and Sort Code to be debited
  - d. The Originator's Unique Identifier under Payment Reference.
5. An Originator's Bank shall advise an Originator accordingly, should an audit reveal that there is an unacceptable level of error or substantial deviation from standard procedure. Further, should there be no subsequent improvement that Originator may be required to withdraw from the Scheme.
6. The monitoring of Transfers shall assist customers using the Scheme. Failure by the Nigeria Clearing House to carry out random audits shall not affect the validity of any claim under the Indemnity.

## APPENDIX 1

### FORM OF DIRECT DEBIT MANDATE (FIXED AMOUNTS)

Date [•]

FROM [Insert Name of Payer]

**Creditor's RC Number/Service Code Identifier:**

[Insert Address of Payer]

TO: [Insert Name of Bank]

[Insert Address of Bank]

CC: [Insert Name of Creditor]

[Insert Address of Creditor]

Dear Sirs,

MY AGREEMENT [insert details of the underlying commercial transaction between the Creditor and the Payer] dated [•]

The details of my/our bank account are as follows:-

<b>Bank:</b>	
<b>Address of Bank Branch:</b>	
<b>Account Number:</b>	
<b>Sort Code:</b>	

I/We hereby request, instruct and authorise you to debit my/our account in accordance with any Direct Debit Instruction issued and delivered to you by the Creditor the sum of \_\_\_\_\_ (*amount in words*), necessary for payment of the monthly instalment due in respect of the above-mentioned agreement) on the \_\_\_\_\_ day of each and every month commencing on \_\_\_\_\_ and continuing (*state the period for which the underlying contractual arrangement exists for*). All such debits from my/our account by you in accordance with any

Direct Debit Instruction issued and delivered to you by the *Creditor* shall be treated as though they have been signed by me/us personally.

The amounts are FIXED and may be debited on \_\_\_\_\_ of each month. I/We understand that the *Creditor* may change the amount and dates only after giving me/us prior notice and subject execution of this mandate in its variable form.

I/We understand that the withdrawals hereby authorised will be processed by electronic funds transfer, and I/we also understand that details of each withdrawal will be printed on my bank statement and/or an accompanying voucher.

I/We agree to pay any bank charges relating to this Mandate.

This Mandate may be cancelled by me/us by giving both you and the *Creditor* twenty (20) Business Days notice in writing, sent by prepaid registered post, or delivered to the addresses stated above, but I/we understand that I/we shall not be entitled to any refund of amounts which may have already been withdrawn while this Mandate was in force if such amounts were legally owing to the *Creditor*.

I/We understand that if any Direct Debit Instruction is paid which breaches the terms of this Mandate, you shall not be liable to us in any way or manner whatsoever, whether under contract, tort or negligence and that our recourse shall be limited to the *Creditor*..

Signed at \_\_\_\_\_ on this \_\_\_\_\_ day of \_\_\_\_\_ 20 \_\_\_\_\_

\_\_\_\_\_  
[SIGNATURE AS PER ACCOUNT MANDATE]

for and on behalf of: [*Insert name of Payer*]

In the presence of:

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Occupation: \_\_\_\_\_

Signature: \_\_\_\_\_

## APPENDIX 2

### FORM OF DIRECT DEBIT MANDATE (VARIABLE AMOUNTS)

Date [•]

FROM [*Insert Name of Payer*]

**Creditor's RC Number/Service Code Identifier:**

[*Insert Address of Payer*]

TO: [*Insert Name of Bank*]

[*Insert Address of Bank*]

CC: [*Insert Name of Creditor*]

[*Insert Address of Creditor*]

Dear Sirs,

MY AGREEMENT [*insert details of the underlying commercial transaction between the Creditor and the Payer*] dated [•]

The details of my/our bank account are as follows:-

<b>Bank:</b>	
<b>Address of Bank Branch:</b>	
<b>Account Number:</b>	
<b>Sort Code:</b>	

I/We hereby request, instruct and authorise you to debit my/our account in accordance with any Direct Debit Instruction issued and delivered to you by the *Creditor* for such amounts necessary for monthly/quarterly/semi-annual payments due in respect of the above-mentioned agreement on the \_\_\_\_\_ day of each and every month/quarter/half-year commencing on \_\_\_\_\_ and continuing (*state the period for which the underlying contractual arrangement exists for*). All such debits from my/our account by you in accordance with any Direct Debit Instruction issued and delivered to you by the *Creditor* shall be treated as though they have been signed by me/us personally.

The amounts are variable and may be debited on various dates. I/We understand that the *Creditor* may change the amount and dates only after giving me/us prior notice.

I/We understand that the withdrawals hereby authorised will be processed by electronic funds transfer, and I/we also understand that details of each withdrawal will be printed on my bank statement and/or an accompanying voucher.

I/We agree to pay any bank charges relating to this Mandate.

This Mandate may be cancelled by me/us by giving both you and the Creditor twenty (20) Business Days notice in writing, sent by prepaid registered post, or delivered to the addresses stated above, but I/we understand that I/we shall not be entitled to any refund of amounts which may have already been withdrawn while this Mandate was in force if such amounts were legally owing to the *Creditor*.

I/We understand that if any Direct Debit Instruction is paid which breaches the terms of this Mandate, you shall not be liable to us in any way or manner whatsoever, whether under contract, tort or negligence and that our recourse shall be limited to the *Creditor*..

Signed at \_\_\_\_\_ on this \_\_\_\_\_ day of \_\_\_\_\_ 20 \_\_\_\_\_

\_\_\_\_\_  
[SIGNATURE AS PER ACCOUNT MANDATE]

for and on behalf of: [*Insert name of Payer*]

In the presence of:

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Occupation: \_\_\_\_\_

Signature: \_\_\_\_\_

## APPENDIX 3

### FORM OF INDEMNITY

To: [Originator's Bank]  
[Originator's Address]

Dear Sirs,

1. **IN CONSIDERATION** of you severally accepting instructions from time to time from \_\_\_\_\_ (hereinafter called the "**Creditor**") or from an agent of the Creditor to debit the account of the Payer with the amounts specified on instruments drawn in paper form or in automated input form written in accordance with the Direct Debit Agreement dated [•] between \_\_\_\_\_, we hereby warrant that the Payer on whose account a debit is drawn will have signed a Direct Debit Mandate, and we shall keep you indemnified upon your first demand against all actions, losses, damages, claims, demands costs and expenses (including legal costs, fees and expenses on a full indemnity basis) howsoever arising, which you may incur or sustain directly or indirectly from such debiting or failure to debit and without our requiring proof of our agreement to the validity of such demand we shall forthwith pay the amount.
2. We authorise you to admit compromise or reject any claims made upon you without reference to or authority from the Creditor. Furthermore, with respect to any claims or demand for the refund of any money received by you on our behalf pursuant to any debit and transfer made on our behalf in accordance with the [Direct Debit Agreement] [direct debit arrangements between ourselves and the Payer], you are hereby authorised and are at liberty to comply with such demands and claims and without any further reference or authorisation from us, you may debit our account and transfer such funds to the account of the Payer.
3. You are not required to verify or check that instructions given to you have been given and remain in force in respect of any debit and transfer made at the request of the Creditor.
4. You are not required to verify or check that any purpose of payment stated in the Direct Debit Mandate signed by the Payer is fulfilled or is observed.

5. This Direct Debit Indemnity is to be in addition to and is not to prejudice or be prejudiced by any other Direct Debit Indemnity which has been or may now or hereafter be executed by us in connection with the Direct Debit Agreement, and shall be binding on us as continuing security notwithstanding any payments from time to time made to you or any settlement of account or disability, incapacity, insolvency that may affect us or any other thing whatsoever.
6. You are to be at liberty without thereby affecting your rights hereunder at any time and from time to time at your absolute discretion to release, discharge, compound with or otherwise vary or agree the liability under this Direct Debit Indemnity or make any other arrangements with us.
7. This Direct Debit Indemnity shall be enforceable notwithstanding any change in your name or any change in the constitution of the bank, its successors or assigns or by its amalgamation with any other bank or banks.
8. This Direct Debit Indemnity shall be governed by and construed in accordance with the laws of the Federal Republic of Nigeria.

**Signed By:** \_\_\_\_\_

for and on behalf of: [*Insert name of Creditor*] pursuant to a resolution of the Board of Directors of the Creditor a certified copy of which is annexed hereto

In the presence of:

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Occupation: \_\_\_\_\_

Signature: \_\_\_\_\_

## **APPENDIX 4**

### **LETTER TO PAYER**

#### **DIRECT DEBIT**

##### **Your rights**

Direct Debit is one of the safest ways of paying your bills. Organisations using the Direct Debit Scheme go through a careful vetting process before they are authorised to participate in the scheme, and are closely monitored by the banking industry.

The Direct Debit Scheme protects you and your money by means of the rules that drive the Direct Debit Scheme.

This protection provided under the scheme is offered by all banks that take part in the Direct Debit Scheme. The efficiency and security of the Scheme is monitored and protected by your own bank.

##### **Your Protection under the Scheme**

- If the amounts to be paid (in the case of a Fixed Mandate) or the payment dates change, the organisation collecting the payment will notify you normally 14 working days in advance of your account being debited or as otherwise agreed
- If an error is made by the organisation or your bank, you are guaranteed a full and immediate refund from your bank of the amount paid
- You can cancel a Direct Debit at any time by contacting your bank. You are also required to notify the organisation concerned.

**Central Bank of Nigeria**

**STANDARDS AND GUIDELINES**

**ON**

**AUTOMATED TELLER MACHINE (ATM)**

**OPERATIONS IN NIGERIA**

## 1. Preamble

In exercise of the powers conferred on the Bank by Section 28 (1) (b) of the Central Bank of Nigeria Act 2007 (as amended) to issue guidelines, rules and standards for the maintenance of adequate and reasonable financial services for the public and to ensure good conduct and management of the financial system; and Pursuant to its inherent powers, the Central Bank of Nigeria (CBN) hereby issues the following standards and guidelines for the operations of the ATM services in Nigeria.

The primary purpose is to ensure the efficiency of ATM services and convenience as well as protection of customers. The standards and guidelines are expected to inform the conduct of ATM operations in Nigeria.

Every institution (banks, non-banks or acquirer) that deploys ATMs or any issuer that issues card or token to be used at ATM shall comply with the following standards and guidelines with respect to each of the ATM facilities within its dominion and control:

## 2. The Standards

### 2.1 Standards on ATM Technology and Specification:

- a. All ATM deployers/acquirers shall comply with Payment Card Industry Data Security Standards (PCIDSS).
- b. All ATMs shall be able to dispense all denominations of Naira.
- c. All terminals shall be levels 1 & 2 EMV compliant and shall be upgraded from time to time to comply with the latest version within six months of release of the version.
- d. All ATMs shall have audit trail and logs capabilities, comprehensive enough to facilitate investigations, reconciliation and dispute resolution.
- e. Card readers shall be identified by a symbol that:
  - i. represents the card;
  - ii. Identifies the direction for which the card should be inserted into the reader
- f. 2% of ATMs deployed shall have tactile graphic symbol for the use of visually impaired customers. This should be complied with within five years from the release of these standards.
- g. All new ATMs shall accept card horizontally with the chip upwards and to the right.

### 3. The Guidelines

#### ATM deployment

- a. All ATM consortia may own ATMs; however such institutions must enter into an agreement with a card scheme or a scheme operator or their designated settlement agent for acceptance and settlement of all the transactions at the ATM.
- b. Banks shall only deploy ATMs within their premises while the deployment of ATMs outside banks' premises should be left to CBN approved consortia provided that no card scheme or any company that a card scheme has share holding or ownership of more than 20% will be licensed as ATM owner or acquirer.
- c. All ATM transactions in Nigeria shall be processed by a Nigerian company operating in Nigeria as acquirer-processor.
- d. No card or payment scheme or Card Association shall compel any issuer or acquirer to send any transaction outside Nigeria for purpose of processing, authorization or switching if the transaction is at an ATM or at any acceptance device in Nigeria and the issuer is a Nigerian bank or any other issuer licensed by the CBN.
- e. All transactions at an ATM in Nigeria shall, where the issuer is a Nigerian bank or any other issuer licensed by the CBN be settled under a domestic settlement arrangement operated by a Nigerian Company. All collaterals for such transactions shall be in Nigerian National Currency and deposited in Nigeria.
- f. No card scheme shall discriminate against any ATM owner or acquirer. Every card-scheme must publish for the benefit of every ATM owner or acquirer and the Central Bank of Nigeria the requirements for acquiring ATM transactions under the card scheme.
- g. No ATM owner or acquirer shall discriminate against any card scheme or issuer.
- h. Stand-alone or closed ATMs are not allowed.
- i. ATMs should be situated in such a manner as to permit access at reasonable times. Access to these ATMs should be controlled and secured so that customers can safely use them.
- j. Lighting should be adequate for safe access and good visibility. It should provide a consistent distribution and level of illumination, particularly in the absence of natural light.

- k. ATMs should be sited in such a way that direct or reflected sunlight or other bright lighting is prevented from striking the ATM display, for example, through the use of overhead sun shelter
- l. Privacy shall be provided by the design and installation features of the ATM so that in normal use the cardholder does not have to conspicuously take any protective action.

### **3.2 ATM Operations:**

A bank or independent organization that deploys an ATM for the use of the public shall ensure that:

- a. The ATM downtime (due to technical fault) is not more than seventy-two (72) hours consecutively;
- b. The helpdesk contacts are adequately displayed at the ATM terminals. At the minimum, a telephone line should be dedicated for fault reporting and such telephone facility shall be functional and manned at all times that the ATM is operational.
- c. All ATM surcharges are fully disclosed to customers;
- d. The ATMs issue receipts, where requested by a customer, for all transactions, except for balance enquiry, stating at a minimum the amount withdrawn, the surcharges, date and time of the transaction;
- e. Receipt prints and screen display are legible.
- f. The dispensing deposit and recycling component of the machine is in proper working condition;
- g. The dispensing component holds out the notes for the collection of the user for a minimum of twenty (20) seconds;
- h. There is appropriate monitoring mechanism to determine failure to dispense cash;
- i. There is online monitoring mechanism to determine ATM vault cash levels
- j. ATM vault replenishment is carried out as often as possible to avoid cash-out.
- k. ATMs are not stocked with unfit notes;
- l. Availability of cash in the ATMs at all time. The funding and operation of the ATM deployed by non-bank institutions should be the sole responsibility of the bank or institutions that entered into agreement with them for cash provisioning. In this regard, the Service Level Agreement (SLA) should specify the responsibilities of each of the parties.

- m. Change of PIN is provided to customers free of charge throughout the entire value chain.
- n. Acquirers monitor suspicious transactions and report statistics to CBN based on the agreed format and timeframe
- o. Back-up power (inverter) is made available at all ATM locations in such a way that the machine would not cease operation while in the middle of a transaction.
- p. Waste disposal basket is provided at all ATM locations
- q. A register of all their ATMs in Nigeria with location, identification, serial number of the machines, etc is maintained.
- r. Provision is made for extending the time needed to perform a specific step by presenting a question, such as, "Do you need more time?"
- s. Information sufficient to construct a usable card is not displayed on the screen or printed on a transaction record. This will guard against the possibility that such information may become accessible to another person should the cardholder leave the ATM while a transaction is displayed, or abandon a printed transaction record. Precautions are taken to minimise the possibility of a card being left by a message or voice alerting the customer to take his card.
- t. Cash out first before card is out of the ATM is adopted to minimise the possibility of customers leaving cash uncollected at ATM.
- u. ATM acquirers that disable cash-retract shall display such notice at the ATM or on the screen.
- v. Every ATM Consortium or acquirer of ATM or POS shall drive its ATMs or POS directly and shall not outsource the driving of its ATMs or POS to any Card Scheme or Switch and all transactions from the ATM or POS shall first go to the ATM Consortium or acquirer.

### **3.3 ATM Maintenance**

A bank or independent organization that deploys an ATM for the use of the public shall ensure that:

- a. Notice is displayed at the ATM for planned maintenance period and disruption to service due to maintenance for public;
- b. An ATM maintenance register or log is kept properly
- c. All ATMs and cash in the machines are insured.

- d. They physically inspect their ATMs at least fortnightly.

### **3.4 ATM Security**

- a. Every ATM shall have cameras which shall view and record all persons using the machines and every activity at the ATM including but not limited to: card insertion, PIN entry, transaction selection, cash withdrawal, card taking, etc. However, such cameras should not be able to record the key strokes of customers using the ATM.
- b. Where a surveillance camera is used, it should be kept secretly to avoid thieves removing or damaging or compromising it.
- c. Networks used for transmission of ATM transactions must be demonstrated to have data confidentiality and integrity
- d. All ATMs must be located in such a manner that guarantees safety and security of users and confidentiality of their transactions.
- e. ATMs should not be placed outside buildings unless such ATM is bolted to the floor and surrounded by structures to prevent removal.
- f. Additional precaution must be taken to ensure that any network connectivity from the ATM to the bank or switch is protected to prevent the connection of other devices to the network point.
- g. Where the user of an ATM blocks his image for camera capture, the ATM shall be capable of aborting the transaction.

### **3.5 Dispute Resolution**

In the event of irregularities in the account of an ATM customer arising from the use of card on ATM, the following shall apply:

- a. All cardholders' complaints should be treated within a maximum of 72 hours from the date of receipt the complaints.

### **3.6 Liability Shift**

- a. Where a non EMV card is used on a non EMV Terminal and a fraud occurs, liability is on either the Card Issuer or the Card Holder. Proof has to be established on which party compromised card details.
- b. Where a non EMV card is used on an EMV Terminal and fraud occurs, liability is on the Card Issuer
- c. Where an EMV card is used on a non EMV Terminal and fraud occurs, liability is on the Acquirer

- d. Where an EMV card is used on an EMV Terminal and fraud occurs, liability is on the Card Holder or the Issuer. However, the onus is on the cardholder to prove that their PIN had not been disclosed to a third party willingly or negligently.
- e. Where a hybrid card is used on a non EMV Terminal and fraud occurs, liability is on the Acquirer
- f. Where a hybrid card is used on an EMV Terminal and card treated as magnetic stripe for authorization and fraud occurs, liability is on the Card Issuer
- g. Where a hybrid card is used on an EMV Terminal and card treated as EMV for authorization and fraud occurs, liability is on the Card Holder or the Issuer. However, the onus is on the cardholder to prove that his/her PIN had not been disclosed to a third party willingly or negligently.

#### **4.0 Regulatory Monitoring**

- a. Any institution which operates an automated teller machine shall file an updated list of such ATMs, including the detail location of their addresses with Banking & Payments System Department of the Central Bank of Nigeria for compliance monitoring.
- b. The CBN shall conduct onsite snap checking of ATMs with a view to ensuring compliance with cash and service availability at the ATMs.
- c. Acquirers shall report volume and value of transactions on monthly basis to the Director, Banking & Payments System Department, CBN.

#### **5.0 Penalties**

Sanctions, in the form of monetary penalties / or suspension of the acquiring/processing service (s) or both, would be imposed on erring institutions for failure to comply with any of the provisions of the ATM standards and guidelines or any other relevant guidelines issued by the CBN from time to time.

**Central Bank of Nigeria**

**April, 2010.**

## Appendix 1: Definition of Terms

The terms below shall have the following meaning for the purpose of the ATM Standards and Guidelines.

- a) Issuer: Financial institution that issues plastic cards to customers
- b) Acquirer means bank or any other legal person concluding contracts with merchants concerning acceptance of payment by means of electronic payment instrument.
- c) Cardholder means any person who holds a payment card for the purpose of effecting payment in respect of good services.
- d) Settlement Agent: Institution that generates financial data and compute net settlement position for each financial institution in a payment scheme(s).
- e) PIN means Personal Identification Number
- f) Payment tokens: Any authorized payment instruments (physical or electronic) used to initiate a transaction.
- g) Switch means a system that captures electronic financial transactions from touchpoints, applies rules, determines destinations, delivers the transactions and gives appropriate feedback;
- h) EMV (Europay, MasterCard, Visa) is the global standard that is helping ensure smart (Chip-and-PIN) cards, terminals and other systems can interoperate.
- i) PCI DSS stands for Payment Card Industry Data Security Standard. It was developed by the major credit card companies as a guideline to help organizations that process card payments prevent credit card fraud and various other security vulnerabilities and threats

**GUIDELINES ON STORED VALUE/PREPAID CARD ISSUANCE AND  
OPERATIONS**

## **GUIDELINES ON STORED VALUE/PREPAID CARD ISSUANCE AND OPERATIONS**

1. Only deposit-taking banks or financial institutions licensed by the CBN with clearing capacity shall issue stored value/prepaid cards. Other deposit taking institutions without clearing capacity can issue in conjunction with those with clearing capacity.
2. No stored value/prepaid card shall be issued to a person without obtaining basic identification which includes name, phone number, and address of the person along with any of the following: any photo identification, passport photograph, or uniquely verified biometric identification
3. Only one stored value/prepaid card shall be issued per person per currency by an issuer at any anytime
4. The maximum amount that can be loaded on the stored value/prepaid card shall not exceed N20,000 per day
5. The maximum balance on the stored value/prepaid card shall not exceed N250,000 at any time
6. The maximum amount on the stored value/prepaid card shall not exceed \$5,000 per quarter
7. The usage limits and frequencies shall be defined by each participating bank
8. No third party transfer to or from a stored value/prepaid card is allowed unless the transfer is from one stored value/prepaid card to another.
9. All stored value/prepaid card transactions shall be subject to current Nigerian Financial Intelligence Unit (NFIU) reporting requirements
10. All card issuers shall render quarterly returns to the CBN on the gross amount of transfers from/to stored value/prepaid cards for inclusion in the national statistics on payments
11. All stored value/prepaid card account Naira balances shall be considered deposit liabilities by the issuing bank or financial institution and therefore subject to deposit insurance protection up to the limit provided by the Nigerian Deposit Insurance Corporation (NDIC) for bank deposits
12. A stored value/prepaid card holder or his/her estate shall, upon request, be entitled to receive a cash refund of the outstanding balance of the card account from the issuing bank or institution

13. The fee for loading salary payments onto a stored value/prepaid card shall be paid separately by the salary payer and not deducted from the balance value of the stored value/prepaid card.
14. Operators, including mobile/telecommunications operators, wishing to operate money transfer schemes with stored value/prepaid cards shall do so with requisite approval from the CBN and, at all times, in strict conjunction with licensed deposit-taking banks or financial institutions
15. Stored value/prepaid card issuers and/or acquirers that wish to operate closed schemes shall obtain requisite approval from the CBN
16. Stored value/prepaid cards shall be issued without regard to where actual value resides; value shall be held in either centrally-connected network databases or in non-network attached electronic devices, including, but not limited to, smart/chip cards and mobile handsets.
17. All Stored value/prepaid cards shall be EMV-compliant (i.e. Chip and PIN enabled)
18. Each participating bank shall have a Card Management System to effectively manage the issuance and operation of stored value/prepaid cards
19. The CBN Guidelines for Transaction Switching and Card Issuance shall also apply to stored value/prepaid cards unless where specifically overwritten in these guideline.



09-61638445  
09-61638455 (Fax)

**CENTRAL BANK OF NIGERIA**  
Central Business District  
P.M.B. 0187  
Garki, Abuja

Ref: BOD/DIR/CIR/2010/GEN/01/107

TO: ALL DEPOSIT MONEY BANKS (DMBs)

**CIRCULAR ON IMPLEMENTATION OF MAXIMUM CAP FOR CHEQUE PAYMENTS**

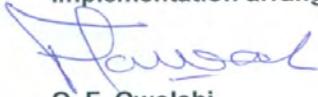
This is a follow up to the circular with reference number BOD/DIR/GEN/01/106 dated December 11, 2009 and captioned "Maximum Limit on Cheque Payment".

In order to avoid any ambiguity, misinterpretation and or sharp practice in the implementation of the above named policy, please note that the maximum cap of N10 million naira for a single cheque payment and other paper-based payments must be observed in respect of:

1. Bank drafts/manager cheques
2. In-house cheques drawn by all classes of account holders of the same bank and or branch
3. Across-the-counter cash withdrawals with cheque by customers of banks (as already provided for by the Money Laundering Act )
4. Dividend/interest warrants
5. Cash withdrawals by banks from the CBN under Cash Drawing Facility for their branches, and
6. All classes of cheques that were issued under (1) - (4) above, prior to the take-off date of the policy with value higher than N10 million, but yet to be paid after January 1<sup>st</sup> 2010.

Cheques in this category should be presented for clearing within two weeks from 4<sup>th</sup> January 2010. Thereafter any cheque not presented should be recalled by drawers or returned unpaid by the paying banks with the appropriate reason. The concerned drawers should subsequently be enjoined to issue payment mandates to their bankers to do electronic transfers in favour of the payees.

You are hereby implored to properly educate your customers on this implementation arrangement.



O. F. Owolabi  
Ag. Director, Banking Operations Department



**CENTRAL BANK OF NIGERIA**  
Central Business District  
P.M.B. 0187  
Garki, Abuja

09-46238445  
09-46238455 (Fax)

BOD/DIR/CIR/GEN/01/106

December 11, 2009

**CIRCULAR TO ALL DEPOSIT MONEY BANKS**

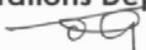
**MAXIMUM LIMIT ON CHEQUE PAYMENT**

As a further step in its efforts at enhancing the efficiency of the payments system in the country, the Central Bank of Nigeria hereby sets a maximum limit on cheque payments at N10 million with effect from 1<sup>st</sup> January, 2010.

To this end, any payment value exceeding N10 million should be made through the e-payment mode such as the Central Bank Inter-Bank Funds Transfers System (CIFTS i.e. RTGS) and Nigeria Inter-Bank Settlement System Electronic Funds Transfer (NEFT) from that date.

The maximum limit serves as a risk reduction measure in the clearing and settlement arrangement in line with international best practice.

To support this initiative, Deposit Money Banks are implored to properly educate their customers on the implementation procedure.

 11/12  
**Ag. Director, Banking Operations Department**  




09-46238445  
09-46238455 (Fax)

DRAFT

**BOD/DIR/CIR/GEN/01/101**

**December 08, 2009**

**CIRCULAR TO ALL DEPOSIT MONEY BANKS**

**HARMONIZATION OF ACCOUNTS**

Following frequent reconciliation issues resulting from the operations of multiples of accounts by Deposit Money Banks, it has become expedient to streamline these accounts.

In this regard, therefore, with effect from January 1, 2010 the Central Bank of Nigeria has directed that henceforth each Deposit Money Banks (DMBs) should keep three (3) accounts only namely;

- Current Account
- RTGS (Settlement Account), and
- CRR (Cash Reserve Requirement) Account

Consequently all dormant/legacy and other non-active accounts would be closed and balances therein would be transferred into the current account.

Please be guided accordingly.

**Ag. Director, Banking Operations Department**



CENTRAL BANK OF NIGERIA  
Business Central Area District  
P.M.B. 0187  
Garki, Abuja

09-61638445  
09-61638455 (Fax)

**BOD/DIR/CIR/GEN/03/028**

**August 27, 2009**

**To: All Deposit Money Banks**

**RE: EXTENSION OF THE DEADLINE FOR THE REMOVAL OF DEPOSIT MONEY BANKS' OFFSITE ATMs**

Please refer to the last circular on the deployment of ATMs referenced BOD/DOR/GEM/SMP/03/025 and dated June 26, 2009.

The Central Bank of Nigeria is taking appropriate steps to facilitate the appointment of a number of ATM Consortia to effect the current policy of redeploying offsite ATMs and has received applications from some registered financial companies in this regard.

However, in order to ensure a success of the exercise and proper commencement of operations of the emerging appointed Consortia, it is expedient to extend the current deadline set for the removal of deposit money banks' ATMs in public places from 31<sup>st</sup> August, 2009 to 31<sup>st</sup> March, 2010.

For the avoidance of doubt, the offsite ATMs of deposit money banks are hereby allowed to continue operating until the deadline of March 31, 2010.

**A. S. F. Atoloye**  
**Ag. Director, Banking Operations Department**  
**Central Bank of Nigeria**



**CENTRAL BANK OF NIGERIA**  
Business Central Area District  
P.M.B. 0187  
Garki, Abuja

09-61638445  
09-61638455 (Fax)

July 30, 2009

REF: BOD/DIR/GEN/CIR/03/027

**CIRCULAR TO ALL DEPOSIT MONEY BANKS AND DISCOUNT HOUSES**

**NEED TO PROVIDE ADEQUATE NARRATION FOR INTER-BANK TRANSFERS  
OVER THE CBN INTER-BANK TRANSFER SYSTEM (CIFTS)**

All Deposit Money Banks (DMBs) and Discount Houses (DHs) are by this Circular directed to henceforth provide adequate narration for their inter-bank trading transfers over the CBN Inter-Bank Funds Transfer System (CIFTS) to enable the CBN obtain accurate data on the tenor and rates at which inter-bank money market transactions are effected.

Timely and accurate provision of the inter-bank data will assist the CBN in implementing its new policy of guaranteeing the inter-bank lending among banks and discount houses.

To this end, DMBs and DHs are to note that the provision of adequate narrations of their transfers over the CBN CIFTS as well as timely and accurate rendering of returns on their transactions in the inter-bank money market to the CBN will henceforth be a pre-condition for obtaining funds from any of the CBN windows.

  
**A.S.F. Afoloye**  
**Ag. Director, Banking Operations Department**



**CENTRAL BANK OF NIGERIA**  
Central Business District  
P.M.B. 0187  
Garki, Abuja

09-61638445  
09-61638455 (Fax)

**BOD/DIR/GEN/SMP/03/025**

**June 26, 2009**

**To: All Deposit Money Banks**

**RE: DEPLOYMENT OF DEPOSIT MONEY BANKS' OFFSITE ATMS  
AND ESTABLISHMENT OF ATM CONSORTIUM**

Please refer to the circular on the deployment of ATMs referenced BOD/DIR/CIR/GEN/01/48 and dated April 7, 2009.

The Central Bank of Nigeria has observed that there is little effort by deposit money banks to comply with the directive to establish two ATM consortia for the purpose of effective management and operations of offsite ATMs.

Consequently, the Bank has decided to place an advertisement in some national newspapers outlining the procedure for registering and establishing ATM consortium. The deposit money banks will be notified of the outcome of this exercise in due course.

In the meantime, we hereby extend the deadline for the removal of deposit money banks' ATMs in public places by two months from the earlier date, June 30, 2009. In other words, the new deadline is now 31<sup>st</sup> August, 2009.

**A.S.F. Atoloye**  
**Ag. Director, Banking Operations Department**  
**Central Bank of Nigeria**





**CENTRAL BANK OF NIGERIA**  
Business Central Area District  
P.M.B. 0187  
Garki, Abuja

09-61638445  
09-61638455 (Fax)

Ref: BOD/DIR/GEN/SMP/03/024

**June 24, 2009**

**To: All Banks**

**DISHONOURING BANK DRAFT(S) BY ISSUING BANKS**

The CBN has, in recent times, observed increased cases of banks dishonouring their own bank drafts, ostensibly on the pretext that the current clearing house rules not placing a distinction between cheques and bank drafts.

It should be noted that the CBN Circular Ref: BOD//D/BKG/1/2001 dated September 3, 2001 (copy attached) is very clear on this issue, and the contents of the circular remain valid.

For the avoidance of doubt, a banker's draft is a form of cheque payable to order on demand, and therefore, it should not be subject to restrictive or conditional terms. In other words, a bank is fully liable on its draft(s), to a bona fide holder, and payment must be made on demand. It is only in exceptional situations that a bank can place a stop on its own draft, especially when there is conclusive proof that the endorsement on the draft was forged.

Henceforth, the CBN would no longer take any infractions against these Clearing House Rules lightly, as appropriate penalties will be applied against any erring bank.

A handwritten signature in black ink, appearing to read 'A.S.F. Atoloye'.

**A.S.F. Atoloye**  
Ag. Director, Banking Operations Department.

CENTRAL BANK OF NIGERIA  
Business Central Area District  
P.M.B. 0187  
Garki, Abuja

09-61638445  
09-61638455 (Fax)

June 11, 2009

BOD/RTP/GEN/RVP/01/001

To: All Switches, Banks and Payments Service Providers

**GUIDELINE ON TRANSACTION SWITCHING SERVICES AND THE OPERATIONAL RULES  
OF THE NIGERIA CENTRAL SWITCH**

The Central Bank of Nigeria, in furtherance of its mandate for the development of the electronic payments system in Nigeria hereby releases the following regulations for the operation of switching services in Nigeria:

- Guideline on Transaction Switching Services
- Operational Rules of the Nigeria Central Switch

The above Guidelines and Rules are designed to guide the licensing and operations of switching companies in Nigeria. Furthermore, in order to ensure interoperability among electronic funds switches and in line with section 2.11 of the guidelines, all licensed switching companies are required to connect to the Nigeria Central Switch on or before July 30, 2009.



E.C. Obaigbona

For: Director, Banking Operations Department

## **GUIDELINES ON TRANSACTIONS SWITCHING SERVICES**

## **Guidelines on Transactions Switching Services**

- 1.1 In exercise of the powers conferred on the Bank by Section 28 (1) (b) of the Central Bank of Nigeria Act 10991 (as amended) to issue guidelines for the maintenance of adequate and reasonable financial services for the public and to ensure high standards of conduct and management throughout the banking system; and

Pursuant to its inherent powers, the Central Bank of Nigeria (CBN) hereby issues the following guidelines for the operations of the switching services in Nigeria:

### **1.2 Scope of the Guidelines**

The guidelines set out the procedures for the operation of switching services in Nigeria, including the rights and obligations of the parties to the switching contract. It also compels the switching companies to meet with minimum standards for switching as approved by the CBN.

### **1.3 License of Switching Companies**

For a switching company to operate in Nigeria, it shall obtain a license from the CBN.

#### **1.3.1 Eligibility**

The following are eligible for license to operate as a switching company:

1. Deposit Money Banks
2. Consortium of Banks
3. Agent of a bank or banking consortium, subject to the provisions in section 1.4
4. Any other company approved by the CBN

#### **1.3.2 Parties to Switching Services**

Parties to Switching Services include but not limited to:

1. Central Switch
2. Switching Companies
3. Deposit Money Banks
4. Other Financial Institutions
5. Independent Service Operators (ISO)
6. NIBSS
7. Merchants

## 8. Cardholders

### 9. Card Issuers

### 10. Merchant Acquirers

## 1.4 Rights and Responsibilities of a Switching Company

A switching company shall:

- 1.4.1 Operate its switch in accordance with the license issued to it
- 1.4.2 Ensure compliance with minimum standards on switches issued by the CBN and as amended from time to time
- 1.4.3 Open its network for reciprocal exchange of transactions/messages between it and the Central Switch
- 1.4.4 Shall enter into agreement with member institutions, specifying in clear terms the responsibilities of each party, operational rules and procedures and liabilities of parties in the event of loss of funds arising from negligence of any of the parties and a copy shall be submitted to the CBN for record
- 1.4.5 Ensure that all notifications and information that its employees have obtained in the course of discharging their responsibilities are treated as confidential
- 1.4.6 Establish adequate security procedures to ensure the safety and security of its information and those of its clients, which shall include physical, transactions, logical, network and enterprise security
- 1.4.7 Submit to the CBN its security plans and periodic updates. Any security breach shall have a record and such instances shall be reported to the CBN for record purpose
- 1.4.8 Charge fees for the services provided in relations to its respective switching network
- 1.4.9 Have a robust Business Continuity Plan approved by the CBN
- 1.4.10 Ensure full compliance with relevant provisions of the electronic banking and other guidelines issued by the CBN in relation to its operations
- 1.4.11 Not be an issuer of payment cards
- 1.4.12 Supply to the CBN, information on usage, volume and value of transactions and other relevant information, as and when due, and in the format required by the CBN

- 1.4.13 Maintain database on information relating to cardholders, merchants and their transactions for a minimum period of ten (10) years and in compliance with section 2.2.4
- 1.4.14 Report all instances of fraud/attempted fraud *on the switch* to the CBN
- 1.4.15 Have a primary site, hot backup site and contingency site as minimum requirement
- 1.4.16 Maintain a hot list of cards reported by member banks as lost, missing, stolen or damaged *for the period of validity of the card*.

## 1.5 Rights and Responsibilities of Member Institutions

- 1.5.1 Member Institutions/Acquirers shall enter into contract with merchants for accepting payment by means of electronic payment instrument
- 1.5.2 Upon receipt of settlement from the acquirers, banks shall be responsible to the merchants for crediting their accounts with the amounts resulting from the operations on the principles and within the periods as specified in the contract referred to in 1.5.1
- 1.5.3 Member Institutions shall act as the issuer of payment cards and by so doing commit themselves towards the cardholders to settle the operations performed by means of payment cards, and the cardholder commits himself to pay the amount of the operations together with charges due to the issuer from a specified account.
- 1.5.4 The card shall be issued after signing the contract for payment card. Up to the moment of issuance, the issuer bears the responsibility for any *fraud* resulting from using the card by any unauthorized user
- 1.5.5 Upon receipt of payment card *or card details and PIN* by the holder, the holder bears the responsibility for any *fraud* resulting from using the card.
- 1.5.5 Acquirers whose transactions are switched shall maintain databases that can handle information relating to cardholders, merchants and their transactions for a minimum period of ten (10) years
- 1.5.6 Information on usage, volume and value of transactions and other relevant information shall be forwarded to the CBN as and when due and in the format required by the CBN
- 1.5.7 Each member institution shall settle fees charged for the services provided by the switching company in relation to the operation of the switching network, in accordance with the agreed tariff

- 1.5.8** Member Institutions shall enter into agreement with cardholders specifying in clear terms their responsibilities in terms of PIN protection and other security measures
- 1.5.9** Only licensed deposit taking institutions shall with the approval of CBN serve as the issuers of multi purpose payment card
- 1.5.10** The issuer shall be held liable (where proven) for frauds with the card arising from card skimming or other compromises of the issuer's security system.
- 1.5.11** Each member institution shall notify the switching company of card reported lost, stolen, damaged etc for the purpose of placing it on hot list
- 1.5.12** No card issuer or its agent shall deliver any card in a fully activated state
- 1.5.13** A card issuer shall put in place adequate credit controls to track and minimize credit fraud
- 1.5.14** No card issuer or its agent shall bill or charge a customer for an unsolicited card unless and until after the card is fully activated by cardholder.
- 1.5.15** No card issuer or its agent shall engage in the use of unethical tactics when marketing its card products to members of the public
- 1.5.16** No card issuer or its agent shall communicate false or misleading information regarding card terms and conditions, service fees/waivers, and/or associated promotions/gifts/prizes to members of the public
- 1.5.17** A card issuer must furnish its cardholders with a detailed list of contractual terms and conditions prior to activation. Such terms shall include at a minimum:
- I. Fees and charges
  - II. Withdrawal limits
  - III. Billing cycles
  - IV. Termination procedures
  - V. Default/recovery procedures
  - VI. Loss/theft/misuse of card procedures
  - VII. *Grievance/Complaints procedures*
- 1.5.18** A card issuer shall provide means whereby its cardholders may at any time of the day or night notify the loss, theft or fraudulent use of the card and the card issuer shall take all necessary steps to stop any further use of the affected card.

- 1.5.19** A card issuer shall keep sufficient internal records over a minimum ten (10) year period, and in line with existing CBN guidelines on Electronic Banking, to enable the tracing of errors on card-related transactions
- 1.5.20** An acquirer shall be responsible for ensuring that merchants put in place reasonable processes and systems for confirming payee identity and detecting suspicious or unauthorized usage of electronic payment instruments both where customer/card is physically present at point of sale or in cases where customer/card is not physically present like in Internet/web and telephone payment systems/portals.
- 1.5.21** No member institution shall issue or support the issuance of a card or access device that is restricted to only certain terminals/payment devices that have distinctive hardware and/or software features unless such terminals/payment devices are for use only in closed systems that are not normally made available to members of the general public.

## **1.6 Rights and Responsibilities of the Merchant**

- 1.6.1** A merchant shall enter into agreement with an acquirer specifying in clear terms the obligations of each party.
- 1.6.2** An acquirer shall be responsible for crediting the account of the merchant with the amount resulting from operations, within periods as specified in the agreement, but not exceeding 3 days for online transactions and 5 days for offline transactions.
- 1.6.3** A merchant may refuse to accept payment by means of an electronic payment instrument, ***including payment with cards***, if:
- I. The electronic payment instrument is invalid;
  - II. Obtaining acceptance for execution of operations is not possible;
  - III. Notification of loss, missing, stolen or damaged has been made of the electronic payment instrument;
  - IV. The cardholder refuses to present a document confirming his/her identity in the event of suspicious / unauthorized use of electronic payment instruments;
- 1.6.4** Each merchant shall be entitled to promptly receive from the issuer an updated list of cards that have been placed on the hot list.
- 1.6.5** The merchant shall display the payment device conspicuously enough for the cardholder to observe the amount entered into the device before the cardholder enters his/her PIN

**1.6.6** The merchant shall be held liable for frauds with the card arising from its negligence, connivance etc

**1.6.7** A merchant shall neither practice differential pricing based on payment mode nor discriminate against any member of the public who chooses to pay with a card or by other electronic means. The prices of goods and services payable by any customer shall not be different regardless of the mode of payment.

## **1.7 Rights and Responsibilities of the Cardholder**

1.7.1 Cardholder shall:

- Store the payment card and protect his PIN with due care
- Not keep his payment card together with the PIN
- Notify the issuer without delay about missing, stolen, damaged, lost or destroyed card
- Not make available the payment card to unauthorized persons.

1.7.2 The cardholder may withdraw from the contract for payment card without prior notice to the issuer provided he surrenders the payment card and does not owe for any charges or transactions on the payment card.

1.7.3 The cardholder shall present, when required by a merchant, a document confirming his identity.

1.7.4 The cardholder shall receive value for the operations performed by means of a payment card, and by so doing, the holder commits himself to pay the amount of the operations together with charges due to the issuer from a specified account.

1.7.5 The cardholder shall be held liable for fraud committed with his card arising from the misuse of his PIN or his card.

1.7.6 The cardholder shall be entitled to receive a receipt or any other form of evidence at the time a transaction is performed with his/her card

1.7.7 The cardholder shall be entitled to receive, within a reasonable period or at an agreed intervals, a statement of all transactions is performed with his/her card

1.7.8 The cardholder shall be given reasonable notice before changes are made to fees levied on his/her card and be given the option to discontinue usage of card to avoid such changes in fees without penalty

- 1.7.9 A cardholder shall be given reasonable notice before changes are made to the terms and conditions of his card contract and shall be given the option to opt-out of the card contract without penalty
- 1.7.10 The cardholder shall be entitled to privacy and information on his card account cannot be shared with third parties unless
- I. with express customer approval or
  - II. in cases of customer default, where information can be shared with credit bureaus and collection/recovery agents or
  - III. in cases where information is requested by valid order of a competent Nigerian court/authority or
  - IV. *in cases where it is necessary to prevent fraud*

## **1.8 Rights and Responsibilities of the Central Switch**

The Central Switch shall:

- 1.8.1 be licensed by the CBN
- 1.8.2 be independent of other switching companies
- 1.8.3 not own or promote any card business or retails products and shall be run in accordance with international best practice
- 1.8.4 connect with all *new and existing switching companies* that meet its requirements for participation and have obtained the necessary license from the CBN
- 1.8.5 Enter into a written agreement with switching companies, specifying in clear terms the responsibilities of each party, and operational rules and procedures and copy shall be submitted to the CBN.
- 1.8.6 Ensure that all notification and information that its employees have obtained in the course of discharging their responsibilities shall be treated confidentially
- 1.8.7 Establish adequate security procedures to ensure the safety and security of its information and those of its clients, which shall include physical, transaction, logical, network and enterprise security
- 1.8.8 Charge fees for the services provided in accordance with agreement reached under sub-guideline 1.8.5
- 1.8.9 Have a robust Business Continuity Plan approved by the CBN

- 1.8.10 Ensure full compliance with all the relevant provisions of electronic banking guidelines and other guidelines issued by the CBN, from time to time
- 1.8.11 Supply information on usage, volume and value of transactions and other relevant information to the CBN as and when due and in the format required by the CBN
- 1.8.12 Maintain database on information relating to cardholders, merchants and their transactions for a minimum period of ten (10) years.
- 1.8.13 Report all instances of fraud / attempted fraud to the CBN
- 1.8.14 Have primary site, hot backup site and contingency site as minimum requirement

## **2.0 Technical Requirements/Standards**

- 2.1 The central switch/switching companies and their member institutions shall ensure compliance with the following minimum standards:
  - I. Minimum Standards for Messaging/Communication
  - II. Minimum Standards for interoperability
  - III. Minimum Security Standards
  - IV. Minimum Standards for Devices
  - V. EMV Compliance Certification
  - VI. Minimum Standards for Card Design

### **2.2 The Central Switch and Switching Companies shall:**

- 2.2.1 Conduct half-yearly planned system tests to ensure ability to seamlessly switch from primary to back-up systems. Such tests shall be communicated in advance to all member institutions and the CBN. These tests shall take place at times during the week and day when the least amount of network traffic occurs in order to minimize impact on customer service. The results of the tests shall be shared with all member institutions and the CBN within 3 business days.
- 2.2.2 Publish a weekly report of all downtimes experienced to all member institutions and the CBN. Such reports shall include the duration of the downtime, the cause(s) of the downtime, and the remedial actions taken to prevent recurrence
- 2.2.3 ensure that all devices/software used for transmitting financial data within their switching networks are EMV 4.0 - Levels 1 & 2 compliant (or any

newer EMV version as periodically advised by the CBN) by September 30, 2009

- 2.2.4 Be in regular compliance with PCI Data Security Standards (DSS) by September 30, 2009
- 2.3 The central switch shall, subject to CBN approval and in consultation with member institutions, maintain minimum technical standards on interoperability, messaging, network connectivity, network monitoring, security, disaster recovery, fraud management, and programming interfaces
- 2.4 An acquirer/member institution shall be responsible for deploying terminals/payment devices that are EMV 4.0 - Levels 1 & 2 compliant (or any newer EMV version as periodically advised by the CBN). This guideline only affects new equipment purchases made after September 30, 2009
- 2.5 An acquirer/ member institution shall be responsible for deploying terminals/payment devices with PIN Entry Devices (PED) that are PCI Security Standards Council (SSC) PED compliant. This guideline only affects new equipment purchases made after September 30, 2009
- 2.6 The central switch shall maintain a list of approved network/link service providers. All connecting switches are required to maintain a minimum of two (2) network/link service providers as the primary and secondary link.
- 2.7 The central switch shall stipulate the minimum network/link bandwidth that must be provided by each network/link provider
- 2.8 The central switch shall stipulate the network/link standards and specifications for all equipment provided by each network/link provider at all terminating points
- 2.9 All switches have the duty to transmit all messages or financial transactions emanating from the Central Switch to their expected destinations without regard to the originating switch of such message or financial transaction.
- 2.10 No switch shall reject, degrade, give lower priority or service, or in any way negatively affect any message or financial transaction originating from the Central Switch
- 2.11 All switches shall connect to the Central Switch by July 30, 2009

### 3.0 Operational Rules and Procedures

#### 3.1 Types of Transactions

The central switch/switching companies shall only handle switching services in accordance with the license issued to them.

#### 3.2 Operating Hours

3.2.1 The central switch/switching companies shall operate 24 hours a day and 7 days a week

3.2.2 In case of system failure, the central switch / switching companies shall automatically switch to its / their back-up site (s)

#### 3.3 Settlement Mechanism

3.3.1 The Central Switch shall work out the daily net settlement positions of member institutions and forward same through NIBSS to the CBN for settlement

3.3.2 Member Institutions shall provide adequate collaterals, **as deemed sufficient by the CBN**, in form of Federal Government Securities in line with their contract agreements with Switching Companies.

3.3.3 *Alternatively, member institutions may utilize existing cheque clearing collaterals held with the CBN to meet the collateral requirement for transaction switching mentioned in 3.3.2 above.*

3.3.4 The CBN shall effect the posting of the net settlement positions of member institutions into their accounts.

#### 3.4 Incomplete/Irregular Transactions

In the event of irregularities in the account of card holder arising from the operations of electronic payment instrument, the following procedures shall apply:

3.4.1 The cardholder **or any other party to the transaction** shall immediately notify the issuer on irregularities in his account concerning:

- I. Contested transactions
- II. Understatement or overstatement of his account
- III. Debit in his account without obtaining the value for the transactions •  
Other irregularities

3.4.2 The cardholder's notification shall be considered and verified without delay

3.4.3 Upon confirmation of the irregularities, the anomaly shall be corrected within a maximum period of 14 days **from the date of settlement**.

3.4.4 Failure to regularize the anomaly within 14 days shall attract penalty on the defaulting party at the prevailing MPR

3.4.5 *All related costs arising from the transaction shall be borne by the defaulting party.*

### **3.5 Fraudulent Transactions**

In the event of fraudulent transactions, the following procedures shall apply:

- I. The cardholder shall bear the cost of operations performed by persons, to whom he made available the payment card or disclose his PIN
- II. The cardholder shall bear the cost of operations performed by means of a lost payment card up till the time of notifying the issuer about the loss
- III. The cardholder shall not bear the cost of operations performed by means of his lost card, if this performance took place in consequence of defective execution of obligations by the issuer or merchant

### **3.6 Fees and Charges**

3.6.1 Fees and charges for transactions switching, processing, etc are to be agreed between service providers and banks / entities to which the services are being provided.

3.6.2 Fees and charges for transaction switching shall not exceed predefined ceiling specified in 3.6.1 as may be reviewed from time to time.

### **3.7 Termination.**

3.7.1 Member Institutions may terminate participation in the switching network by notifying the switching company at least one month prior to the intended termination date.

3.7.2 The switching company may suspend or terminate the participation of any member institution from the system by giving at least one month notice to the participating member, if the member institution is in breach of member institutions rules and responsibilities.

### **3.8 Special Provision**

3.8.1 The central switch/switching companies and their members shall be required to undertake measures to prevent the use of their networks for purposes associated with money laundering and other financial crimes.

### **3.9 Penalties**

A) Sanctions, in the form of monetary penalties of not less than N5 million and / or suspension of the specific switching service (s) or both, would be imposed on erring switching companies and / or their member institutions for failure to comply with any of the provisions of these guidelines and other relevant guidelines issued by the CBN from time to time.

## Appendix 1: Definition of Terms

The terms below shall have the following meaning for the purpose of those Guidelines.

- a) Acquirer means bank or any other legal person concluding contracts with merchants concerning acceptance of payment by means of electronic payment instrument.
- b) Cardholder means any person who holds a payment card for the purpose of effecting payment in respect of good services.
- c) Competent Authorities include Courts, EFCC, ICPC, Regulatory Authorities such as the CBN, NDIC etc
- d) Hot list means list of deactivated cards that were reported missing, stolen, lost or damaged by the card holders.
- e) Interconnectivity means ability for reciprocal exchange of transactions/messages between two or more switching networks.
- f) Interoperability means ability to issue cards and deploy devices in such a way that all customers (card holders, merchants and issuers) perceive operations, while obtaining service, as if the interconnected networks were one.
- g) Member Institutions means banks and other financial institutions that are on the network of a particular switching company;
- h) Merchant means an organization or entity that undertakes to conclude a contract with an acquirer and / or issuer concerning accepting payment by means of an electronic payment instrument;
- i) MPR means Minimum Policy Rate
- j) Offline transaction means a transaction in which no direct connection is made between the device(s) involved in the transaction and a centralized computer system for the purpose of effecting settlement, or authenticating the transaction before it is executed.
- k) Online transaction means a transaction in which there is a direct connection between the device(s) and a centralized computer system for effecting settlement or authorization or validation before a transaction can be executed.
- l) Operations include facilitation of cash withdrawal, funds transfer, effecting payment and such other transactions that may be determined from time to time by means of an electronic payment instrument.;

- m) PIN means Personal Identification Number
- n) Switch means a system that captures electronic financial transactions from touch-points, applies rules, determines destinations, delivers the transactions and gives appropriate feedback;
- o) EMV (Europay, MasterCard, Visa) is the global standard that is helping ensure smart (Chip-and-PIN) cards, terminals and other systems can interoperate.
- p) PCI DSS stands for Payment Card Industry Data Security Standard. It was developed by the major credit card companies as a guideline to help organizations that process card payments prevent credit card fraud and various other security vulnerabilities and threats
- q) PCI PED security requirements are designed to secure personal identification number (PIN)-based transactions globally and apply to devices that accept PIN entry for all PIN based transactions

### **Central Bank of Nigeria**

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**Operational Rules and Regulations for the  
Nigeria Central Switch (NCS)**

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## 1.0 Terms & Definitions

ACQUIRER	Financial Institution or any other person authorized by the Central Bank of Nigeria; that enables merchants or retailers to accept payment cards as a means of payment for goods and services and is responsible for merchant settlement or enables cardholders to withdraw cash at acceptance devices including but not limited to ATMs and PoS terminals.
ACQUIRER	Financial Institution or any other person authorized by the Central
PROCESSOR	Bank of Nigeria, and licensed by a Card or Payment scheme to provide the services of and enabling data traffic between the network or Switch of the Card or Payment Scheme and an acquiring device including but not limited to ATM, PoS Terminal – Internet or Hardware, etc.
ADVERSE EFFECT	Activities limiting and affecting: the growth in the industry; the ON COMPETITION choice of users/cardholders; the choice of financial institutions; the growth of the payments system; monetary policy implementation; free competition such as restricting new entry to the system and innovations in the industry
ATMs	Automated Teller Machines
CARD SCHEME	An entity, company, association or consortium that owns a trademark, sign, name, logo or other signage which is displayed on payment cards or tokens and at/on merchant locations, Points of Sale, Automatic Teller Machines (ATM) or any acceptance device or location indicating usage or acceptance of cards bearing the trademark, sign, name, logo, or other signage.
CBN	Central Bank of Nigeria
DOMINANT	A position of strength, enjoyed by a switching company, in the

POSITION	<p>relevant market, in Nigeria, which enables it to:</p> <p>Operate independently of competitive forces prevailing in the market in its favour</p> <p>Affect its competitors or consumers or the relevant market in its favour</p> <p>Control more than 35% of such other percentage of the volume and value of transactions switched in Nigeria as may be determined from time to time</p>
EFT	Electronic Funds Transfer
EXCLUSIVE SWITCHING SERVICE AGREEMENT	Any agreement restricting the user in the course of business from acquiring or otherwise dealing in any services other than those of the provider or any other provider
FEP	Front End Processors are connecting switches' software deployed to enable connection to the NCS
HSM	Hardware Security Module
ISO	International Standards Organization
ISSUER	Financial Institution or any other person authorized by the Central Bank of Nigeria to issue plastic cards to customers
ISSUER – PROCESSOR	Financial Institution or any other person authorized by the Central Bank of Nigeria; and licensed by a Card or Payment scheme to provide the services of and enabling data traffic between the network or Switch of the Card or Payment Scheme and the Issuing Institution or Issuer.
MERCHANT	Party accepting the card and presenting transaction data to an acquirer
NCS	Nigeria Central Switch
NOT-ON-US	Transactions acquired by a financial institution on behalf of another and to whom the transaction is referred for authorization.

OFF-LINE	This describes a state when the authorizing institution's network is unavailable to accept, authorize and process EFT transactions
ON-LINE	This describes the availability of authorizing institution's network to accept, authorize and process EFT transactions
PAYMENT TOKENS	Any authorized payment instrument (physical or electronic) used to initiate a transaction e.g. Payment Cards, Mobile, etc
PIN	Personal Identification Number
POS	Point of Sale
PREDATORY FEE	The provision of services at a fee which is below the cost, as may be determined by regulations, or provision of services, with a view to reduce competition or eliminate the competitors
REFUSAL TO DEAL	Any agreement which restricts, or is likely to restrict by any method the user/provider or classes of users/providers to whom services are rendered or from whom services are procured
TCP/IP	Transmission Control Protocol/Internet Protocol
THE BANKERS COMMITTEE	A Committee of all Chief Executives of Banks and Discount Houses under the Chairmanship of the Governor of Central Bank of Nigeria.
TIES-IN ARRANGEMENT	Any agreement requiring a user of switching service to use some other service(s) of the provider as a condition to using the switching service
UNCITRAL	United Nations Commission on International Trade Law

## 2.0 Background

Nigeria Inter-Bank Settlement System (NIBSS) Plc was incorporated in April 1993 on the mandate of The Bankers Committee, to facilitate transfer of funds between the banks and discount houses. NIBSS is owned by all Licensed Banks (in equal proportion) and Discount Houses in Nigeria, including the Central Bank of Nigeria (CBN). It commenced operation in June 1994. The operations of NIBSS takes the form of banks transmitting financial transaction data on-line and retrieving reports and statements of accounts on-line via secure technology networks.

Highlight of the mandate of NIBSS as entrenched in her memorandum and article of association is to:

- I. Carry on business as a service oriented institution that provide the mechanism for same day clearing and settlement of inter-bank transfers and payments
- II. Provide the infrastructure for the automated processing and settlement of transactions between banks
- III. Provide framework for elevating the level of efficiency in funds transfer services generally
- IV. Initiate and develop an integrated nationwide network for the electronic or paperless funds transfer and settlement of transactions.

The mandate to develop and operate a national switch for Nigeria was formally issued by The Bankers Committee to NIBSS Plc in May 2006.

### 2.1 The Objectives of the Nigeria Central Switch (NCS)

The Nigeria Central Switch is designed to:

Provide interconnectivity and interoperability amongst approved EFT switch initiatives in Nigeria;

Specify the Nigeria EFT interface standards

Provide vital retail payment statistics for tactical & strategic planning purposes;

Provide a mechanism for proactive detection of card frauds;

Provide a central switch which integrates modules for accessing external content, transaction service networks, internal billing applications and related packages;

Provide seamless integration of the Nigeria retail payment system with the West African Monetary Zone retail payment plan and beyond.

Deploy a central switch network which complies with all relevant international standards

Operationally, the NCS:

Provides a single point of access.

Enables sharing of common technology infrastructure

Enables new entrants to effectively build only one interface to the system.

Conforms to International Switch and Messaging standards ISO 8583.

### **3.0 Scope**

This document (Operational Rules and Regulations for the Nigeria Central Switch) specifies the rules and general guidelines for the operation of the NCS. Its provisions shall be binding on all partner institutions.

### **4.0 Partner Institutions**

#### **4.1 Switching Companies**

These are electronic funds transfer and transaction switching and processing service providers that operates within Nigeria. It also includes future service providers. The switching companies facilitate the exchange of value between financial service providers, merchants, their customers and other stakeholders.

#### **4.2 Deposit Money Banks**

These are financial institutions operating in the country and are otherwise called issuers of payment tokens (cards, vouchers, etc), which are used on the network of switches. They may equally assume the title of Acquirers if they own Automated Teller Machines (ATMs), Point of Sale (POS) terminals, and / or other payment service channels.

#### **4.3 Others**

These are other financial institutions such as Independent Service Operators, payments processing institutions and solution providers.

### **5.0 Responsibilities**

#### **5.1 Partner Institutions**

Each Partner Institution shall undertake to satisfy and ensure continued compliance with the eligibility criteria and conditions for admission as outlined in the operational rules and regulations of the Nigeria Central Switch (NCS) and should:

1. Implement the interface connectivity to the NCS
2. Ensure availability of secure connectivity to the NCS and duly notify of any service failure.
3. Maintain a record of all service failure times in a log report, which shall include date, time and period of service failure.
4. Ensure message format conform to the ISO 8583 standard.
5. Ensure that their banks pledge securities that provide 110% protection for their operations
6. Maintain and provide audit trails of transactions flowing through its systems and the NCS for a minimum period of seven years.
7. Adhere to confidentiality and privacy rules.
8. Ensure that all its transaction acquiring channels (ATM, POS, Web, etc) accept payment tokens of all NCS partner switches, in compliance with the NCS minimum transaction set, subject to the user of the channel or device paying such fees as the owner of the acquiring channel or device will stipulate including but not limited to transaction fees pursuant to Rule 8.3.
9. Shall provide transaction logs and traces when requested, to aid resolution of disputes arising from financial transactions.
10. Shall provide a transaction log promptly to any requesting partner institution concerning any NCS-routed transaction, to aid resolution of card transaction complaints and disputes.

## **5.2 The Nigeria Central Switch (NCS)**

The NCS shall after certification of the partner Institutions ensure:

1. A secure connectivity to the central switch based on the specifications in the NCS Secure Interconnectivity Requirements document (September, 2007).
2. Routing and switching of transactions amongst Partner Institutions.
3. Switching of transactions between all transacting parties
4. Maintenance and distribution of statistics relating to availability and service performance of the NCS and Partner Institutions.
5. The enforcement of all agreements reached with the participant institutions and communications providers.
6. To apply the appropriate fees and charges to all transactions passing through the NCS.

7. Generation and secure distribution of reports as illustrated in the Service Level.
8. The maintenance of transaction integrity and security for all transactions passing through the NCS.
9. Notification of Partner Institutions on status of Settlement Transactions.
10. Notify all existing partner and institutions of the joining of a new partner institution to enable them configure their systems to accept payment tokens of the new institution

## 6.0 Technical Requirements

### 6.1 Interface Specification

The interface specifications will be provided to all Parties to Switching Services as part of the NCS Interconnectivity requirements.

All interface specifications will conform to the international ISO8583; 1993 standards.

All NCS Partner Institutions will have to develop both Issuer and Acquirer Interfaces that comply with the NCS Interface Specification as described in the following documents:

A	BASE24- es_ISO_8583_1993_Host_External_Message_Manual.pdf	Dec
B	BASE24_es_ISO_8583_1993_Host_Ext_Msg_Manual_Future_Update_Feb-2007.pdf	Feb

### 6.2 Communication and Message Protocol

The NCS ISO 8583; 1993 Host External Message is based on the standard external message developed by the International Standards Organization (ISO). It is a variable-length and variable-content message that can be configured differently, based on the type of message being sent.

The NCS ISO Host Interface component creates and interprets external messages according to the specifications in the NCS Interface specification document.

The NCS ISO 8583; 1993 host external message allows incoming and outgoing messages to be configured individually by a host, depending on the information the host chooses to send and receive.

1. The message format will be ISO 8583. Details are provided in the NCS Interface Specification document.
2. All Partner Institutions would maintain secure dedicated Virtual Private Network TCP/IP data communication to the NCS.
3. The communication protocol will be TCP/IP.
4. The Hardware Security Module (HSM) Connectivity - TCP/IP

### **6.3 Connection to NCS by Institutions**

The Nigerian Central Switch project requires a secure connectivity to all existing Switches in Nigeria and future new entrants. A secure interconnectivity has to be established with the NCS, as specified in the NCS Secure Interconnectivity Requirements (Sept. 2007).

### **6.4 Security**

Parties to Switching Services involved in card-operated devices, must be capable of providing secure hardware encryption/decryption of customer PINs and messages for onward transmission to the NCS network.

PIN numbers will be 4 digits.

PINs and messages of transactions must be hardware encrypted using keys provided by NIBSS.

## **7.0 Nigeria Central Switch (NCS) Operations**

### **7.1 The NCS Minimum Transactions Standard**

The following minimum transaction set must be supported by all switches in order to achieve interoperability:

#### **7.1.1 POS Transaction Types**

- I. Purchase
- II. Purchase Reversal

#### **7.1.2 ATM Transaction Types**

- I. Withdrawal

## II. Balance Enquiry

Reversal Transaction will be available for each

### **7.1.3 Transactions from Other Devices/Channels**

Because the source of all transactions will be the Custom NCS Interface, the NCS will process all transactions which are presented in a format recognized by that interface, regardless of which type of device or channel was used to initiate the transaction at the acquiring switch.

This will allow the system to process transactions from, for example, the internet, mobile phones, and IVR (interactive voice response) systems.

### **7.2 Modus Operandi**

Transactions that route to or through the NCS for authorization do so in a series of transaction messages.

Transaction processing through the NCS includes the following components, depending on the source of the transaction and the routing configuration:

Message Delivery (foundation)

Acquirer Interface or Channel Manager (business)

Prefix (business)

Router (business)

Issuer Authorization and/or Issuer Interface (business)

Journal (business)

There are many different components involved in any one transaction. Those listed above provide a basic list of components for the NCS payment engine processing.

### **7.3 Off-line Services**

The NCS will not provide off line authentication or authorization of transactions. All authorizations shall come from the issuer.

### **7.4 Reports**

The following reports are to be generated and circulated via secured online mode.

S/N	Description
1	Daily Activity Report By Source Switch; By Bank
2	Daily Activity Report By Destination Switch; By Bank
3	Interchange Fees By Switch; By Bank
4	Net Settlement Report By Switch; By Bank
5	Detailed transaction report
6	Audit trail / History report
7	Transaction volume and value by terminal type and location

## 8.0 Fees and Charges

The NCS shall be kept operational at all times and as a result; all participants in the network shall bear the joint responsibility of supporting its operations. NIBSS considers the opportunity of participants to share ATM/POS networks that do not belong to them and thereby reducing investments in building infrastructures as a huge cost saving benefit.

The associated cost for the discharge of the functions of the NCS is as follows:

### 8.1 Joining Fees

All parties to the Switching Services joining the NCS will be required to pay a one off fee. It is expected that these joining fees will cater for the efforts in infrastructure installation and systems delivery as well as contributory license for the development of payment system in Nigeria.

### 8.2 Transaction Charges

The Transaction Charges are of two types;

1. Switching Charge – NIBSS will charge for every financial transaction that hits the NCS; as shown in the table below.

Device	Payer	Recovery Of Fee
ATM	Issuer	NCS to recover fee from Issuer, through NIBSS, monthly.
POS	Acquirer OR Ac qui rer net wo rk pro ce sso r	NCS to compute fee monthly and recover such fee on 15 <sup>th</sup> of following month from bank account nominated by paying acquirer processor, who would have recovered the fee upfront from acquirer.

2. Settlement Charge – NIBSS will charge for every settlement transaction which normally is received on net basis.

Charges will be reviewed at regular interval by the Management of NIBSS and approved by the Board of Directors, to ensure continuous operations of The NCS for the benefit of all stakeholders.

### 8.3 Transaction Fees Payable to Device Owners

Fees payable to device owners shall be as agreed by individual card schemes. With respect to transactions at POS terminals, Acquirers/Users should agree with Device Owners, the amount payable to Device Owners while amount payable to ATM owners/acquirers shall be agreed between the Owners/Acquirers and the Users/Issuers.

ATM Acquirer/Device owners are required to display applicable Transaction Fees clearly on their devices, and obtain cardholder's consent during transaction processing.

### 9.0 Service Level

The four basic design goals that govern the development of the NCS are:

- I. Availability
- II. Data Integrity

III. Performance and Scalability

IV. Open Interfaces

It is therefore expected that all other connecting Partner Institutions must have similar architecture, as transactions are mission critical and pivotal to EFT processing.

As a result, the following draft service levels are expected as a minimum requirement.

The NCS would be available for transactions 24 hours and 7 days a week.

The NCS system's performance will be measured in terms of:

- a) Up-Time
- b) Response Time

The performance of the Partner Institutions systems will be measured by:

- a) Success Rates – successful transactions as a percentage of all transactions switched to Partner Institutions for authorization.
- b) Response Times

The NCS would maintain an uptime of at least 99% during any 24 hour period, to all Partner Institutions.

Partner Institutions connected to the NCS as Issuers must achieve transaction success rates of at least 97% any 24-hour period.

For all transaction requests routed to authorizing institutions a timeout period will be set after which the institution node will be deemed to be down and the transaction will be classified as a failed transaction and declined. This period will be agreed with the authorizing institution but will be no longer than 90 seconds.

The NCS will be responsible for maintaining and distributing all statistics relevant to the above.

All NCS Partner Institutions will conform to these and other performance standards, which may be agreed from time to time.

All NCS Partner Institutions will maintain and provide audit trails for all transactions which pass between their systems and the NCS for a minimum of 7 years.

The timeout parameters on every terminal that allows access to the NCS must be no less than 40 seconds and not more than 90 seconds.

## 10.0 Settlement

### 10.1 Business Day

A Business Day for the NCS will be a 24-hour period. A typical business day will start from 12.00.00am to 11.59.59 pm.

### 10.2 Transaction Settlement Procedure

1. Settlement among the NCS Partner Institutions will be processed through the NIBSS Inter Bank Engine.
2. The NCS end-of-day processing cycle will commence 12.00am, at the close of each Business Day.
3. A Settlement report file consisting of the net position of each Partner Institution will be generated.
4. The Settlement report file will be sent to Partner Institutions in a secure electronic format.
5. Postings to the CBN accounts will take place once a day at the close of business.

#### 10.2.1 Settlement during Weekends/Non Working Days

1. Transaction settlement will be done every day except on weekends and/or public holidays or non working days. However, Settlement Report Files will be generated every day including weekends and on non working days
2. Settlement Report Files generated for each non working day will be processed on the next working day.
3. NIBSS will send settlement confirmation reports to Partner Institutions, confirming the settlement (or non settlement) of daily transactions

### 10.3 Settlement of Transactions

#### 10.3.1 Settlement Risk Mitigation

- Settlement risk shall be mitigated by the Proactive Risk Management (PRM) functionality of the NCS.
- The switches shall ensure that member banks in their scheme pledge securities that provide for 110% protection for their operations.
- Partner Institutions may be required to increase their value of securities pledged as and when required as approved by the CBN from time to time.
- The NCS shall settle all transactions that pass through into bank accounts.

## **10.4 Notifications on Settlement**

- NIBSS will notify Partner Institutions of the success or failure of each settlement transaction.

## **11.0 Governing Law**

This agreement shall be governed and construed in accordance with the laws of the Federal Republic of Nigeria and be subject to the jurisdiction of the Nigerian Courts. All disputes shall be settled under the law of the Federal Republic of Nigeria.

## **12.0 Penalties and Dispute Resolution**

### **12.1 Penalties**

Failure to comply with the provisions of these guidelines shall be referred to the CBN for the appropriate regulatory sanctions.

### **12.2 Dispute Resolution**

Should any dispute arise from the operation and performance of the NCS, it shall be settled first by a meeting of at least one senior executive officer of each Party. If upon exercise of due diligence, the latter does not resolve a dispute within 15 days of the notifying Party's calling of the meeting, either Party may refer the matter to binding arbitration. Parties shall agree to abide by the decision of the arbitration panel. Dispute resolution shall be conducted under the rules of UNCITRAL, in Nigeria unless the Parties mutually agree upon another jurisdiction. A panel of three (3) arbitrators shall conduct the dispute resolution; one each appointed by each Party and the third appointed by the other two. The arbitrators appointed shall be English speaking and the arbitral proceedings shall be conducted in English. The arbitrators' award shall be binding on the Parties, without recourse to court. The Parties to a dispute shall evenly bear the cost of the arbitration except for their own respective individual costs, which they shall bear individually.

## **13.0 Confidentiality Rule and Prohibitions**

The rule governing the NCS is such that each of the Parties and their Advisors will disclose and provide to each other such Confidential Information as the Disclosing Party deems necessary for the relevant business purpose under the NCS.

13.0.1 Confidential Information" shall for the purposes of these Rules mean any and all information that a Party discloses to the other in connection with the relevant business purpose, which includes, but is not limited to the following:

Any customer information, technical, commercial, financial, marketing or business information and know-how, including without limitation, all correspondence, notes, computer disks and tapes, documents, records, data, services, financial information, marketing brochures or other information in whatever form relating to the parties, their operating documents, standard forms which information has been communicated to the other, or otherwise acquired by the other during the course of these services, whether such information is formally designated as confidential or not.

13.0.2 The Receiving Party will not disclose Confidential Information to any person, firm, corporation, association or any other entity for any reason or purpose whatsoever, provided however, that the Receiving Party may disclose the Confidential Information on a need-to-know basis to its internal management who are directly involved in the development and operation of the NCS, legal and financial advisors retained specifically to provide advisory services and provided that the Receiving Party ensures that such persons are bound by an equivalent duty of confidentiality.

13.0.3 The Disclosing Party may give notice in writing at any time requiring that any part of the Confidential Information disclosed be either returned or destroyed, such return or destruction to be combined with a notice to the Disclosing Party to the effect that upon such return or destruction the Receiving Party has not knowingly retained in its possession or under its control, either directly or indirectly, any Confidential Information or copies thereof. In any case, the Receiving Party must comply with any such request within thirty (30) days of receipt of such request.

13.0.4 All parties to Switching Services shall ensure that all notifications and information that its employees have obtained in the course of discharging their responsibilities are treated as confidential.

### 13.1 Prohibition of Anti-competition Agreements

No parties to Switching Services in Nigeria shall enter into any agreement in respect of any switching service that shall cause or is likely to cause adverse effect on competition. Any agreement entered into in contravention of this provision shall be null and void and of no effect.

13.1.1 Any agreement entered into between parties to Switching Services or decision taken by any association of switching companies or association of persons, including cartels engaged in identical or similar provision of switching services, which:

a. Limits or controls markets, technical development, investment or provision of

## Switching Services

b. Shares the market or provision of services by way of allocation of geographical area of market, or number of customers in the market or any other similar way; shall be considered an anti-competition agreement.

13.1.2 Any agreement amongst parties to Switching Services, in respect of switching services, including:

- a. Tie-In Agreement;
- b. Exclusive Service Agreement
- c. refusal to deal;

shall be considered an agreement in contravention of anti-competition agreement if such agreement causes or is likely to cause adverse effect on competition in Nigeria.

### **13.2 Prohibition of Abuse of Dominant Position**

13.2.1 No parties to Switching Services shall abuse its dominant position by directly or indirectly imposing unfair or discriminatory condition and fees in the provision of its services.

13.2.2 Equally, no parties to Switching Services shall limit or restrict the provision of switching services or market thereof or technical or scientific development relating to switching services to the prejudice of consumers.

13.2.3 No parties shall indulge in practice or practices resulting in denial of market access.

13.3 Prohibition of Competition by NIBSS/NCS Nigeria Inter-Bank Settlement System Plc (NIBSS), the Nigeria Central Switch (NCS) and any company, person or group of persons performing the roles, duties or functions of the Nigeria Central Switch SHALL NOT under any circumstance whatsoever or howsoever engage in competition with any Payment Card Industry Scheme, Operator or Service Provider. Accordingly, Nigeria Inter-Bank Settlement System Plc (NIBSS), the Nigeria Central Switch (NCS) and any company, person or group of persons performing the roles, duties or functions of the Nigeria Central Switch shall not:

13.3.1 Be or engage in any business as:

- a. A Card Scheme
- b. Issuer of Payment Cards
- c. Issuer-Processor

- d. Acquirer
- e. Acquirer-Processor

13.3.2 Support or promote any Card scheme

13.3.3 Own, deploy, maintain or install acceptance and acquiring devices such as Point of Sale terminals and Automatic teller Machine.

#### **14.0 Amendments**

Any NCS stakeholder wishing to propose amendments to the NCS rules shall forward such proposals to the MD/CEO of NIBSS. The amendments shall be widely circulated among stakeholders and sufficient notice given to all before the effective date of the amendment, if approved.

CENTRAL BANK OF NIGERIA  
Business Central Area District  
P.M.B. 0187  
Garki, Abuja

09-61638445  
09-61638455 (Fax)

June 11, 2009

BOD/RTP/GEN/RVP/01/002

To: The General Public

**REGULATORY FRAMEWORK FOR MOBILE PAYMENTS SERVICES IN NIGERIA**

The Central Bank of Nigeria, in its desire to extend banking services to a wider segment of the Nigerian public, has identified mobile telephony as a veritable avenue for advancing financial inclusion. In view of the penetration and wide acceptance of the mobile phone services in Nigeria, the Bank is encouraging the introduction of payments services through the mobile phone.

The Central Bank of Nigeria hereby issues the following regulatory framework for the operations of mobile payments services in Nigeria.

Thank you

A handwritten signature in blue ink, appearing to be 'E.C. Obaigbona', is written over a light blue rectangular background.

E.C. Obaigbona

For: Director, Banking Operations Department

## **REGULATORY FRAMEWORK**

### **FOR MOBILE PAYMENTS SERVICES IN NIGERIA**

## **1.0 Introduction**

This regulatory framework is developed to conform to international best practice and standards. It is also a product of vigorous engagement and consultations with stakeholders.

After identifying person to person payments (over the mobile phone infrastructure) as a practical strategy for financial inclusion of the un-banked, the Central Bank of Nigeria opted for the creation of an enabling regulatory environment as a policy path towards achieving availability, acceptance and usage of mobile payments services in Nigeria.

The overriding vision is to achieve a nationally utilised and internationally recognised payments system.

### **1.1 Objectives**

The objectives of the regulatory framework are as follows:

- I. Provision of an enabling environment for mobile payments services in reducing cash dominance in the Nigerian economy.
- II. Specification of minimum technical and business requirements for various participants in the mobile payments services industry in Nigeria.
- III. Stipulation of roles and responsibilities of participants in the provision and usage of mobile payments services in Nigeria.
- IV. Provision of broad guidelines for implementation of processes and flows of mobile payments transactions from initiation to completion.

### **1.2 Scope**

This regulatory framework addresses business rules governing the operation of mobile payment services in Nigeria. It specifies basic functionalities expected of any mobile payment service and solution in Nigeria. In addition, it sets the basis for regulation of mobile payments services offered at different levels and by diverse participants. This framework does not cover the use of mobile phone as an access to the internet for the purpose of using internet banking services. In that regard, the provisions of the Electronic Banking Guidelines should apply.

### **1.3 Participants**

The framework shall guide the activities of participants in the provision of mobile payments services. Participants include service providers, infrastructure providers, solution providers, scheme operators and the consumers.

#### **1.3.1 Scheme Operators**

Organizations that provide the infrastructure for the mobile payment systems for the use of participants that are signed-on to their scheme.

#### **1.3.2 Settlement Infrastructure Providers**

Organizations providing infrastructure that enables message exchange, switching and settlement facilities for mobile payments services.

#### **1.3.3 Service Providers**

Organizations that employ the infrastructure of scheme operators to provide mobile payments services to end users.

### **1.3.4 Consumers**

These are end users of mobile payments services.

### **1.3.5 Solution Provider**

These are information technology software developers that develops mobile payments software, application and other ancillary hardware.

## **2.0 Mobile Payment System**

Mobile Payment System in Nigeria refers to the various components required to deliver mobile payment to the banking and non-banking community. The providers of these services and solutions shall be required to operate within the defined regulatory framework specified in this document.

The Central Bank of Nigeria shall be responsible for defining, monitoring and regulating the mobile payment systems in Nigeria.

### **2.1 Mobile Payment Models**

This framework has identified three major models for the implementation of mobile payments services namely;

- I. Bank –Focused- Financial Institutions as Lead Initiator
- II. Bank Led – Financial Institution(s) and/or its Consortium as Lead Initiator
- III. Non-Bank Led- A corporate organisation as Lead Initiator

The Lead initiator shall be responsible for ensuring that the various solutions and services within a mobile payment system meet the entire regulatory requirement as defined by the Central Bank of Nigeria. The Lead initiator (as an entity and as representative of other partners) shall be legally responsible and accountable to the Central Bank of Nigeria and the end user.

The Central Bank of Nigeria appreciates the critical role of telecommunication companies in any of the models for the implementation of mobile payments services in Nigeria. The role of the telecommunication companies shall be guided by the following provisions;

Telecommunication companies shall

- I. provide telecommunication network infrastructure for the use of scheme operators;
- II. ensure that a secure communication path based on the technology standard stipulated in this regulatory framework is implemented;
- III. make available its network to scheme operators based on criteria which are transparent and generally applicable to all scheme operators without discriminatory practices against any scheme;
- IV. ensure that its subscribers are free to use any mobile payments system service of their choice;
  - I. not receive deposit from the public except in respect of the prepaid airtime billing of their subscribers
  - II. not allow the use of the prepaid airtime value loaded by their subscribers for purposes of payment or to transfer monetary value.

#### **2.1.1 Bank-Focused Model**

This is a model where a bank delivers banking services to existing and prospective bank customers using the mobile phone as a delivery channel. This model can only be deployed by a licensed deposit-taking financial institution.

Licensed deposit-taking financial institutions, under this model shall include, deposit money banks, microfinance banks and discount houses.

#### **2.1.1.1 The Participants**

The participants in this model shall include the initiating bank, its Information and Communication Technology (ICT) partners and the customers.

#### **2.1.1.2 Responsibilities of the Financial Institutions**

Financial Institutions shall be responsible for;

2.1.1.2.1 Seeking and obtaining necessary approvals from the regulatory authorities.

2.1.1.2.2 The deployment and delivery of the mobile payment solutions to the customer

2.1.1.2.3 Ensuring that the mobile payment solution meets all specified mobile payment standards as stated in the mobile payment services regulatory framework

2.1.1.2.4 Putting in place adequate measures to mitigate all the risks that could arise from the deployment and use of its mobile payment solution.

2.1.1.2.5 Facilitating international remittances to both scheme and non-scheme recipients.

#### **2.1.1.3 Rules**

The financial institutions shall ensure that

2.1.1.3.1 The mobile payment system meets all regulatory requirements and standards

2.1.1.3.2 it adheres to the requirements of the mobile payment KYC guidelines.

2.1.1.3.3 It makes adequate provision for monitoring and reporting as defined in the mobile payment monitoring and compliance guidelines.

2.1.1.3.4 Remittance messages shall, at a minimum, be conveyed to the recipient through secured SMS.

#### **2.1.2 Bank Led Model**

This is a model where a bank, or a consortium of banks, partnering with other organizations, jointly seeks to deliver banking services leveraging on the mobile banking system.

This model shall be applicable only in a scenario where there exists collaboration between a licensed deposit-taking financial institution(s) and an organization duly verified by the partner bank(s). Licensed deposit-taking financial institutions, under this model shall include, deposit money banks, microfinance banks and discount houses.

#### **2.1.2.1 The Participants**

The participants in this model are the initiating bank(s), the partner organizations (e.g scheme operator, infrastructure providers telecommunications companies, independent operators etc) and the customers.

#### **2.1.2.2 Roles of the Financial Institutions**

The Financial Institutions shall:

2.1.2.2.1 Provide all financial services for the operation of the mobile payments service.

2.1.2.2.2 Verify, approve and guarantee the creditability and integrity of the partner organization.

### **2.1.2.3 Roles of the Partner Organizations**

Among other roles as may be defined in the agreement with the financial institution(s), the partner organizations shall:

- 2.1.2.3.1 Provide and manage the technology required to deliver mobile payment services to the customer
- 2.1.2.3.2 Provide the agent network required to extend all the proposed services to the market place.
- 2.1.2.3.3 Facilitate international remittances to both scheme and non –scheme recipients

### **2.1.2.4 Responsibilities of the Financial Institutions**

The Financial Institutions shall be responsible for:

- 2.1.2.4.1 Seeking and obtaining approval from the CBN;
- 2.1.2.4.2 Providing financial, clearing and settlement services to the mobile payment system;
- 2.1.2.4.3 Ensuring that the mobile payment solution complies with specified mobile payment standards as stated in the mobile payment services regulatory framework;
- 2.1.2.4.4 Putting in place adequate measures to mitigate all the risks that could arise from the deployment and use of its mobile payment solution and;
- 2.1.2.4.5 Educating the customers on the appropriate use of the solution;
- 2.1.2.4.6 Recruiting, training, and managing the agents

### **2.1.2.5 Responsibilities of the Partner Organizations**

The Partner organisations shall be responsible for:

- 2.1.2.5.1 ensuring that the proposed solution meets all the regulatory standards and requirements specified in the mobile payment services regulatory framework;
- 2.1.2.5.2 The deployment and delivery of the mobile payment solutions to the customer;
- 2.1.2.5.3 providing the agent network required to support the delivery of services to the customer;
- 2.1.2.5.4 Collaborate with the financial institutions in recruiting, managing and training the agents on the network;
- 2.1.2.5.5 Educating the customers on appropriate use of the solution;
- 2.1.2.5.6 Ensuring that international remittance messages shall, at a minimum, be conveyed to the recipient through secured SMS.

### **2.1.2.6 Rules**

- 2.1.2.6.1 The mobile payment system must meet all regulatory requirements and standards

The financial institution shall ensure that

- 2.1.2.6.2 It adheres to the requirements of the mobile payments KYC guidelines.
- 2.1.2.6.3 It makes adequate provision for monitoring and reporting as defined in the mobile payment monitoring and compliance guidelines.
- 2.1.2.6.4 International remittance messages shall, at a minimum, be conveyed to the recipient through secured SMS.

### **2.1.3 Non-Bank Led Model**

This model allows a corporate organisation that has been duly approved by CBN to deliver mobile payments services to consumers. This model shall be applicable to any organization other than a licensed deposit money bank and telecommunication companies. Corporate organisation, under this model, include switching companies and payments system service providers.

#### **2.1.3.1 The Participants**

The participants in this model are the corporate organization, its partners and the consumers.

#### **2.1.3.2 Roles of the Organization**

2.1.3.2.1 The corporate organization would provide and manage the technology required to deliver mobile payment services to the customer.

2.1.3.2.2 The corporate organization would provide the agent network required to extend all the proposed services to the market place.

#### **2.1.3.3 Responsibilities of the Organization**

The organisation shall be responsible for:

2.1.3.3.1 ensuring that the proposed solution meets all the regulatory standards and requirements specified in the mobile payment services regulatory framework.

2.1.3.3.2 the deployment and delivery of the mobile payment solutions to the customer.

2.1.3.3.3 developing the agent network required to support the delivery of services to the customer.

2.1.3.3.4 recruiting, managing and training the agents on their network.

2.1.3.3.5 educating the customers on appropriate use of the solution

2.1.3.3.6 ensuring that its mobile payment system provides transactions monitoring and reporting system in compliance with regulatory requirements.

2.1.3.3.7 providing access for on-the-spot assessment and verification of its transaction details by the Central Bank of Nigeria on an on-demand basis.

2.1.3.3.8 providing a quarterly assessment report on the performance of the organization and the submission of same at the Banking Operations Department of the Central Bank of Nigeria.

2.1.3.3.9 keeping records of transaction details emanating from the organization's mobile payment system.

2.1.3.3.10 ensuring that the mobile payment solution complies with specified standards as stated in the regulatory framework.

2.1.3.3.11 putting in place adequate measure to mitigate all the risk that could arise from the deployment and use of its mobile payment solution.

2.1.3.3.12 shall appoint and notify CBN of its settlement bank among the CBN approved settlement banks.

2.1.3.3.13 facilitate international remittances to both scheme and non -scheme recipients.

#### **2.1.3.4 Rules**

The organisation shall ensure that:

- 2.1.3.4.1 monetary values in respect of its mobile payments services are reflected in the settlement bank financial system by maintaining a settlement account with a deposit money bank.
- 2.1.3.4.2 The settlement account with the deposit money bank shall be opened as a nominee account with users of the e-money issued on it as beneficiaries.
- 2.1.3.4.3 The settlement account is not interest bearing to both the users and the Organization.
- 2.1.3.4.4 The settlement account is not used, under any guise or purpose, as collateral for negotiation of loans by the organisation.
- 2.1.3.4.5 The balance on the settlement account shall always be equal to the total outstanding (un-spent) balance of all holders of the e-money.
- 2.1.3.4.6 the mobile payment system meets all regulatory requirements and standards 2.1.3.4.7 it adheres to the requirements of the mobile payments Know Your Customer (KYC) guidelines.
- 2.1.3.4.8 all customer transactions are traceable; auditable and can be validated.
- 2.1.3.4.9 international remittance messages shall, at a minimum, be conveyed to the recipient through secured SMS.

## **2.2 Types of Mobile Payments Scenarios**

Mobile payment scenarios are methods through which mobile payments can be carried out. These scenarios could be;

- I. Card Account Based
- II. Bank Account Based
- III. Stored Value (e-Money) Account Based

### **2.2.1 Card Account Based**

This is a scenario where a payment card is linked to a mobile phone for the purpose of initiating and concluding payment transactions.

#### **2.2.1.1 Types of Card-Driven Payments**

The types of card-driven payments recognized by the CBN are:

- I. Credit,
- II. Debit and
- III. Pre-Paid

#### **2.2.1.2 Rules of Operations**

- 2.2.1.2.1 The Card Account Based payment shall be based on an infrastructure that relies on the global 3-DES secure architecture.
- 2.2.1.2.2 The card shall be issued by a CBN approved card issuing organization
- 2.2.1.2.3 The card shall be recognized within the existing financial system
- 2.2.1.2.4 The card system shall comply with the existing regulation and standards for cards.
- 2.2.1.2.5 All Card Account based transactions must be authenticated against the originating Card Management System.

### **2.2.2 Bank Account-Based**

This is a scenario where a mobile payment system drives transactions through bank accounts of customers. These accounts are based on the existing accountgenerating system in the banking system.

Some of the account type include: current account, saving account, domiciliary accounts etc.

### **2.2.2.1 Types of Bank Account Based**

The types of Bank Account based scenarios shall include but not limited to Pull Based account transactions and Push Based account transactions.

The Pull-based transactions are transactions that generate a debit on the account through a mobile payment solution, whilst a Push-based generates a credit transaction through a mobile payment solution on the account. A Pull-based transaction shall be authorised by the account holder via a verifiable mode before the transaction is consummated and debited to his or her account.

### **2.2.2.2 Rules of Operations**

2.2.2.2.1 The Bank Account Based payment shall be originated via a financial institution's banking application.

2.2.2.2.2 The Bank Account Based shall comply with the existing account opening standards and practice in the Nigerian banking system.

2.2.2.2.3 The transaction activities generated within/by the account shall be traceable, monitored and logged within the mobile payment system

2.2.2.2.4 Access to the account through the mobile payment system shall be via a secured mobile payment system that meets the defined standards specified in the mobile payment services regulatory framework.

2.2.2.2.5 Authorization of transactions originating from or terminating on these accounts shall be based on standards defined by the host financial institution.

### **2.2.3 Stored Value Account Based**

This is a scenario where a mobile payment system drives transactions through a system-based account. These system-based accounts shall comply with the standards defined within the regulatory framework.

#### **2.2.3.1 Type of Stored Value Account**

The various stored value options recognized by the CBN include Re-loadable stored value accounts, prepaid account etc.

#### **2.2.3.2 Rules of Operations**

2.2.3.2.1 All system-based accounts shall have an identification system that generates unique identifier per user account within the mobile payment system.

2.2.3.2.2 All system-based accounts shall only be accessible through the mobile payment system.

2.2.3.2.3 The user may however specially request other means of access to his/her system-based account other than specified in 2.2.3.2.2 above. The liability of the user shall be clearly stated before granting request.

2.2.3.2.4 All accounts and transaction details shall be stored in an encrypted format within the mobile payment system.

2.2.3.2.5 The mobile payment system account management unit shall comply with all the standards and requirements defined in the mobile payment regulatory framework.

2.2.3.2.6 All system based stored value account shall be tied to a settlement account with a licensed deposit taking institution. The settlement

account shall be funded to the tune of the total outstanding balance amount of all the systembased accounts on the scheme

## **2.3 Mobile Payment Processes**

The mobile payment solution providers shall provide a detailed payment management process that covers the entire solution delivery process from customer registration and management, customer service and dispute resolution procedures to transaction settlement finality.

These processes shall cover the scope of the value chain across all the participants in the mobile payment system.

### **2.3.1 Operational Modalities**

The Mobile Payment system shall support the following key processes for delivering payments to the customers through their handsets.

#### **2.3.1.1 Registration**

2.3.1.1.1 All scheme operators shall be registered with the Central Bank of Nigeria and shall be issued a unique scheme code by the national switch for managing interoperability within the national mobile payment system.

2.3.1.1.2 The mobile payment system deployed by a service provider shall have the capabilities to register all users within the payment system.

2.3.1.1.3 The service provider shall register users of its solution based on technology standards and requirement in this regulatory framework

2.3.1.1.4 The solution provider shall ensure that the registration processes within its mobile payment system shall fulfil the entire KYC requirement specified within the regulatory framework.

2.3.1.1.5 All mobile payment system users shall retain and maintain evidence of the successful completion of the registration process with a solution provider.

#### **2.3.1.2 Activation**

2.3.1.2.1 The mobile payment system shall require a registered user to activate the service before commencement of transactions with his PIN/Password.

2.3.1.2.2 The activation of service shall ensure that user identity is not compromised within or without the mobile payment system.

2.3.1.2.3 The activation of users shall be securely managed within the solution provider mobile payment system.

2.3.1.2.4 The scheme operators shall ensure that the activation process is not compromised or altered within its infrastructure.

#### **2.3.1.3 Transactions**

2.3.1.3.1 All transactions initiated and concluded within the mobile payment system shall have a unique transaction reference issued by the system

2.3.1.3.2 All transactions shall have the following elements: Transaction number, transaction amount, transaction date and time stamps, merchant categories, merchant addresses and codes

2.3.1.3.3 Each transaction detail logged within the payment system shall contain a valid description, payer and payee phone numbers.

2.3.1.3.4 Mobile payment solution providers shall provide notifications for all transactions concluded on their mobile payment systems.

2.3.1.3.5 Scheme Operators shall ensure that all transactions processed within its infrastructure are not compromised.

### **2.3.1.4 Settlement**

- 2.3.1.4.1 The settlement process to be deployed by scheme operators shall ensure compliance with the settlement standards and requirements defined in the mobile payment regulatory framework.
- 2.3.1.4.2 The scheme operator shall ensure that its mobile payment infrastructure fully complies with the mobile payment services regulatory framework requirement for finality of settlement.
- 2.3.1.4.3 The scheme operator shall provide all solution providers with settlement positions for reconciliation of transactions.
- 2.3.1.4.4 All final settlement processes shall be routed through the inter-bank settlement system.
- 2.3.1.4.5 The scheme operator shall ensure that all settlement information details are preserved for reference over a 5 year period.

## **3.0 Infrastructure**

The core infrastructure in providing a national mobile payment system comprises transaction, clearing and settlement arrangements. These infrastructures consist of service providers, network facilities, information and computer technologies, operating procedures and rules. To achieve finality of payments to all parties, the settlement process for all models need to be defined as well as the rules guiding the various services.

Infrastructure already exists at the national switch and inter-bank settlement system, to facilitate the settlement finality of payment through the CBN InterBank Funds Transfer System (CIFTS) infrastructure. Infrastructure shall facilitate instant payment to the end users and settlement of the Scheme providers in a T+1 cycle for the mobile payment system. The rules and regulation to provide such an operation are detailed below.

### **3.1 Settlement**

There are various settlements processes which will come into place depending on how the mobile services were consummated. The services include IntraScheme (*On us; Not on us*) and Inter-Scheme (*On Us; Not On Us*).

#### **3.1.1 Intra Scheme**

Intra-Scheme Services are services that are consummated within a particular service provider's scheme. However, as there are various participants in each scheme, a service initiated by a particular participant on itself is referred to as a *On Us* service while a service initiated from one participant to another within the same scheme is referred as a *Not On Us*.

The role of Intra-Scheme Settlement Providers shall be to provide a net position of all their participants to the inter-bank settlement system to effect finality of payment.

#### **3.1.2 Inter Scheme**

Inter-Scheme Services are services consummated across two different schemes by various participants. When a service is consummated by the same participant that belongs to two different schemes, this service is referred to as *On Us* service. *Not On Us* service are services consummated by two different participants that belong to two different schemes.

The role of Inter-Scheme Settlement Providers shall be to provide a net position of all participants which consummate services across schemes to the inter-bank settlement system to effect the finality of payment.

### **3.1.3 Final Settlement**

For finality of Settlement between participating institutions, settlement providers shall provide settlement information of their participants to the final settlement system. Final Settlement shall be done through the CBN Inter-Bank Funds Transfer System (CIFTS) by effecting the net positions of both the inter scheme and the intra schemes (Not on Us) provided by the national central switch and the inter-bank settlement system.

### **3.1.4 Operating Rules**

#### **3.1.4.1 Intra-Scheme (Not on Us) Settlement**

Any organization providing intra-scheme settlement shall:

3.1.4.1.1 obtain CBN approval for the operation of the scheme.

3.1.4.1.2 maintain a settlement account with a bank that is a participant on CIFTS.

3.1.4.1.3 provide net settlement positions of all their participants to the participating banks for final settlement on a T+1 cycle.

3.1.4.1.4 provide statistical reports to the Regulators and participants as required.

3.1.4.1.5 maintain audit trail and transaction log of all transactions consummated on the scheme.

#### **3.1.4.2 Inter Scheme Settlement**

Any organization providing inter-scheme settlement shall:

3.1.4.2.1 provide net settlement positions of all Inter-Scheme service providers and effect final settlement using the CBN Inter-Bank Funds Transfer System (CIFTS) on (T+1) cycle.

3.1.4.2.2 provide statistical reports to the regulatory bodies and participants as required

3.1.4.2.3 maintain audit trail and transaction log of all transactions consummated on the scheme.

### **3.1.5 Roles and Responsibilities**

#### **3.1.5.1 Intra Scheme Settlement**

Any organization providing intra-scheme settlement shall:

3.1.5.1.1 provide the infrastructure (hardware, software, switching and security) to participating service providers on mobile payments schemes.

3.1.5.1.2 provide business continuity and disaster recovery plans to ensure services are always available at all times.

3.1.5.1.3 provide 99.99% system availability and ensure all signed on participating institutions follows same rule.

3.1.5.1.4 ensure all infrastructures are interoperable across all providers.

#### **3.1.5.2 Inter Scheme Settlement**

Any organization providing inter-scheme settlement shall:

3.1.5.2.1 provide the infrastructure (hardware, software, switching and security) to link all inter scheme providers.

3.1.5.2.2 provide business continuity and disaster recovery plans to ensure services are always available at all times.

3.1.5.2.3 provide 99.99% system availability and ensure that all signed-on participating institutions follow same rules.

3.1.5.2.4 ensure that all infrastructures are interoperable across all providers.

## **3.2 Scheme Operators**

Scheme Operators provide the infrastructure for the mobile payment systems for the use of participants that are signed-on to their scheme.

### **3.2.1 Participants**

The participants in this industry are Banks, Payments Switches and Independent Scheme Operators.

### **3.2.2 Operating Rules**

For any of the following interested parties to operate as scheme operator they shall adhere to the following rules:

#### **3.2.2.1 Banks**

Banks shall:

3.2.2.1.1 obtain CBN approval before operating the scheme

3.2.2.1.2 have systems to provide KYC information to all regulatory bodies

3.2.2.1.3 ensure that independent service providers pledge adequate collateral where it provides settlement banking relationship.

3.2.2.1.4 ensure that the settlement accounts of the independent service providers to which it provides banking services is drawn down by only the net settlement position of the provider.

#### **3.2.2.2 Payment Switches**

Payments switches shall:

3.2.2.2.1 obtain CBN approval to operate the scheme

3.2.2.2.2 maintain systems to provide KYC information to all regulatory bodies

3.2.2.2.3 ensure that service providers utilizing their infrastructure provides adequate collateral to mitigate settlement risk.

#### **3.2.2.3 Independent Scheme Operators**

Independent scheme operators shall:

3.2.2.3.1 obtain CBN approval to operate the scheme

3.2.2.3.2 maintain systems to provide KYC information to all regulating bodies

3.2.2.3.3 ensure that service providers utilizing their infrastructure provide adequate collateral to mitigate settlement risk.

### **3.2.3 Roles and Responsibilities**

Scheme operators shall:

3.2.3.1 provide the infrastructure (hardware, software, switching and security) to participating service providers on mobile payments.

3.2.3.2 provide business continuity and disaster recovery plans to ensure services are always available at all times.

3.2.3.3 provide 99.99% system availability and ensure all signed on participating institutions follow same rule.

3.2.3.4 ensure all infrastructure are interoperable across all providers

## **3.3 Service Providers**

The service providers employ the infrastructures of the Scheme Operators to provide services to the end users.

### **3.3.1 Participants**

The participants in this industry are Banks, Telecommunication Companies, and Independent Service Providers.

### **3.3.2 Operating Rules**

For any of the following interested parties to operate as service providers they shall abide by the following rules:

#### **3.3.2.1 Banks**

The banks shall:

- 3.3.2.1.1 obtain CBN approval to provide the service
- 3.3.2.1.2 provide KYC information to all regulatory bodies
- 3.3.2.1.3 provide adequate collateral to mitigate settlement risk

#### **3.3.2.2 Independent Service Providers**

The independent service providers shall:

- 3.3.2.2.1 obtain CBN approval to provide the service
- 3.3.2.2.2 provide KYC information to all regulatory bodies
- 3.3.2.2.3 provide adequate collateral to mitigate settlement risk
- 3.3.2.2.4 maintain a settlement account with a settlement bank
- 3.3.2.2.5 ensure that all payments for purchases of issued stored value are made into designated settlement account.

### **3.3.3 Roles and Responsibilities**

Service providers shall:

- 3.3.3.1 provide customer support service
- 3.3.3.2 provide users with user manuals and training in using the scheme.
- 3.3.3.3 have procedures for efficient dispute resolution.
- 3.3.3.4 guarantee that the mobile payment system will be available 99.99%
- 3.3.3.5 maintain details of transaction records consummated within their mobile payment system for 5 years
- 3.3.3.6 ensure that the customer gets the notification for every transaction on its mobile and an alternative medium e.g e-mail.
- 3.3.3.7 ensure compliance with the standards and requirements of the mobile payment system guideline.

### **3.3.4 Risk Management for Independent Service Providers**

In view of the peculiarity of the operations of the independent service providers and the unique risks associated with their operations, the regulatory framework hereby specifies the following requirements to mitigate risks arising from the activities of the independent service providers.

#### **3.3.4.1 Credit and Settlement Risk**

Independent service providers shall:

- 3.3.4.1.1 ensure that the mobile payment system automatically generates settlement information.
- 3.3.4.1.2 ride on the capabilities of the scheme operators for settlement purposes.
- 3.3.4.1.3 maintain audit trail and settlement log for 5 years.
- 3.3.4.1.4 maintain a minimum paid-up capital of N20million unimpaired by losses
- 3.3.4.1.5 fulfill other conditions that may be specified by the regulatory authorities from time to time.

### **3.3.4.2 Business Continuity Risk**

Independent service providers shall:

3.3.4.2.1 maintain proper backup infrastructure

3.3.4.2.2 implement a disaster recovery and business continuity plan

3.3.4.2.3 periodically test the effectiveness of the backup infrastructure and business continuity plan.

### **3.3.4.3 Other Risks**

Independent service providers shall:

3.3.4.3.1 implement a robust risk management framework to identify, monitor and control all other risks that may arise out of the operation.

3.3.4.3.2 ensure that ownership is credible and the top management is experienced.

3.3.4.3.3 be registered with CAC as Limited Liability Company.

## **4.0 Technology**

The technology implemented for mobile payment services shall comply with the following technology standards and other requirements outlined in the provisions of this regulatory framework.

### **4.1 Standards**

#### **4.1.1 Modularity of Technologies**

4.1.1.1 The technology deployed in the delivery of mobile payment services shall comprise a set of interoperable infrastructure modules that work seamlessly. There shall be an end-to-end connection from user-device through transport network to the service site.

4.1.1.2 Provided the security requirements of this regulatory framework are met, the mobile payment service shall use any mode of communication including, but not restricted to, the following:

- I. Secure SMS,
- II. WAP/GPRS and
- III. USSD1
- IV. EDGE

4.1.1.3 Provided the security requirements of this framework are met, the mobile payments service shall use any mode of user interface, including, but not restricted to, the following :

- I. Secure SMS
- II. Menu driven USSD1 application
- III. WAP/GPRS

4.1.1.4 The mobile payments services shall not use plain SMS.

4.1.1.5 Only secure channels shall be used in providing mobile payments services

4.1.1.6 The mobile payments services shall ensure non-repudiation

4.1.1.7 The mobile payment solution may be embedded into SIM toolkit. The NCC shall stipulate standards for all telecommunication network service providers to facilitate embedding of mobile payment solutions.

#### **4.1.2 Solution Initialisation**

The mobile payments solution shall ensure simple initialization of the payment application.

### **4.1.3 Compatibility**

4.1.3.1 The mobile payment solution shall be compatible and interoperable with the network infrastructure of different telecommunication companies, solution providers, and scheme providers and the Nigeria Central Switch.

### **4.1.4 Interoperability**

All schemes shall be able to interoperate:

4.1.4.1 with other scheme or solution providers

4.1.4.2 with other payment channels like cards, ATM, POS, etc.

4.1.4.3 with the National Central Switch

4.1.4.4 The National Central Switch shall provide scheme codes for the various operators of mobile payments services for the purpose of seamless operations and settlements, with the ultimate aim of giving immediate value to all user transactions.

### **4.1.5 Message Format**

Mobile Payments solutions deployed shall adhere to the following message format:

4.1.5.1 encrypted end-to-end

4.1.5.2 ISO 8583 compliant.

### **4.1.6. Reliability**

4.1.6.1. Payment instruction shall be consistently executed. In the event of failure, immediate reversal shall be automatic.

4.1.6.2 Users shall get immediate value for every successful transaction.

### **4.1.7 Flexibility**

Users shall be able to switch between service providers without any bottlenecks.

Switching from one solution to another shall be as easy as possible.

### **4.1.8 User Interface**

4.1.8.1 The user interface shall, at the minimum, be menu-driven.

4.1.8.2 If private or personal data in the application are directly accessible through this menu (for example, memorizing the PAN-Primary Account Number), the access to this menu shall be protected.

4.1.8.3 Administrative functions - for example, tracing, certification/confirmation of transaction shall be provided.

4.1.8.4 PIN shall be encrypted at the point of entry.

### **4.1.9 Security**

The overall security framework shall ensure:

4.1.9.1 encrypted messaging / session between consumer's phone and third party service provider / Telecom Company. The minimum encryption standard to be specified is Triple Data Encryption Standard (3-DES) encryption;

4.1.9.2 all subsequent routing of messages to the scheme providers' servers must be with the highest level of security with dedicated connectivity like leased lines (E1 links) / VPNs;

4.1.9.3 that Hardware Security Module (HSM) exists between Nigeria Central Switch, service providers and all financial or third party institutions that participate in the scheme;

- 4.1.9.4 that any sensitive information stored in third party systems is restricted with appropriate encryption and hardware security standards;
- 4.1.9.5 all transactions on an account shall be allowed only after authentication of the mobile number and the PIN associated with it;
- 4.1.9.6 that mobile payments application shall not allow the option of saving the PIN either on the handset or on the application;
- 4.1.9.7 all accounts activated by the consumer on the mobile application is linked to the mobile phone number. This mobile number shall be used as the second factor authentication for mobile transactions;
- 4.1.9.8 the PIN does not travel in plain text during the transaction;
- 4.1.9.9 that proper system of verification of the phone number shall be implemented;
- 4.1.9.10 the payment authorisation message from the user's mobile phone shall, at the minimum, be triple DES encrypted and checked for tampering by the service or scheme provider. It shall not be possible for any interceptor to change the contents of the message;
- 4.1.9.11 existence of a security policy duly approved by the Board of Directors of the organisation providing the service.
- 4.1.9.12 segregation of duty of Security Officer / Group dealing exclusively with information systems security and Information Technology Division which actually implements the computer systems;
- 4.1.9.13 that Information Systems Auditor audits the information systems;
- 4.1.9.14 logical access controls to data, systems, application software, utilities, telecommunication lines, libraries, system software, etc. exists;
- 4.1.9.15 at the minimum, the use of proxy server type of firewall so that there is no direct connection between the Internet and the scheme providers' systems. For sensitive systems, a stateful inspection firewall shall be implemented to thoroughly inspects all packets of information, compare past and present transactions and enable a real time security alert;
- 4.1.9.16 the information security officer and the information system auditor undertake periodic penetration tests of the system, which shall include;
  - I. Attempting to guess passwords using password-cracking tools;
  - II. Search for back door traps in the programs;
  - III. Attempt to overload the system using DDoS (Distributed Denial of Service) & DoS (Denial of Service) attacks;
  - IV. Check if commonly known holes in the software, especially the browser and the e-mail software exist;
  - V. regular penetration testing on the mobile payment system;
- 4.1.9.17 physical access controls is strictly enforced. Physical security shall cover all the information systems and sites where they are housed, both against internal and external threats.
- 4.1.9.18 proper infrastructure and schedules for backing up data. The backed-up data shall be periodically tested to ensure recovery without loss of transactions in a time frame as given out in the security policy.

4.1.9.19 the existence of disaster recovery sites and regular testing of its facilities for the purpose of business continuity.

## **5.0 Business Rules**

### **5.1 E-Money**

E-Money is monetary value stored electronically in a centrally held electronic device. It shall possess the following characteristics to be classified as e-money:

- I. issued on receipt of funds
- II. accepted as a means of payment by parties other than the issuer
- III. its value shall be transferable
- IV. shall have defined cash out capabilities
- V. e-money is not entitled to any interest payments
- VI. charges are not allowed on e-money floats

#### **5.1.1 Issuers**

The issuer is the entity which receives payment in exchange for value distributed in the system and which is obligated to pay or redeem transactions or balances presented to it. The issuer of e-money can either be a bank or a third party with the necessary authorization/license from the regulatory authorities.

##### **5.1.1.1 Bank Issuer**

This is the institution that pledges the float. They are responsible for

- 5.1.1.1.1 settlement of all transactions against (all) their e-money schemes
- 5.1.1.1.2 appointment of Agents and subagents
- 5.1.1.1.3 monitoring the exit of agents and sub-agents
- 5.1.1.1.4 ensuring compliance to KYC/AML limits as set
- 5.1.1.1.5 enrolment of customers
- 5.1.1.1.6 sale of e-money
- 5.1.1.1.7 cash out/withdrawal
- 5.1.1.1.8 complying with the minimum technical specification for the operation of this scheme as specified in this framework.
- 5.1.1.1.9 interoperability with other scheme operators
- 5.1.1.1.10 maintaining and providing the regulator with data on transactions on the mobile payments scheme detailing transaction volume and value on a weekly basis.
- 5.1.1.1.11 the provision of adequate collateral securities with the regulatory authority for the purpose of mitigating settlement risks. The amount shall be stipulated and reviewed by the regulatory authority as may be deemed necessary from time to time.
- 5.1.1.1.12 the replenishment of the pledge within 24 hours of depletion, failing which the issuer shall be sanctioned.
- 5.1.1.1.13 complying with all the provisions of this regulatory framework, failing which the regulator may mete out appropriate sanctions as may be deemed fit.

##### **5.1.1.2 Non-Bank Issuer**

The Non-bank issuers of e-money for the purpose of mobile payments are institutions, other than deposit money banks, who are responsible for:

- 5.1.1.2.1 the appointment of Agents and subagents
- 5.1.1.2.2 monitoring the exit of agents and subagents
- 5.1.1.2.3 ensuring compliance to KYC/AML limits as set
- 5.1.1.2.4 obtaining license from the regulatory authority for the operation of the scheme.
- 5.1.1.2.5 complying with the minimum technical specification for the operation of this scheme as specified in this framework.
- 5.1.1.2.6 interoperability with other scheme operators
- 5.1.1.2.7 maintaining and providing the regulatory authority with data on transactions on the mobile payments scheme detailing transaction volume and value on a weekly basis.
- 5.1.1.2.8 providing adequate collateral securities with the regulatory authority for the purpose of mitigating settlement risks. The amount shall be stipulated and reviewed by the regulatory authority as may be deemed necessary from time to time
- 5.1.1.2.9 replenishment of the pledge within 24 hours of depletion, else the issuer shall be sanctioned
- 5.1.1.2.10 maintaining a settlement account with one of the designated settlement banks for the purpose of settling inter-scheme settlement positions. The non-bank issuer shall notify the regulator of the settlement bank of its choice. The settlement account shall warehouse the total outstanding balance of e-money issued at any given time.
- 5.1.1.2.11 complying with all the provisions of this regulatory framework, failing which the regulator may mete out appropriate sanctions as may be deemed fit.
- 5.1.1.2.12 collaborating with other financial institutions to offer services to the tune of the limits specified for semi-banked in the KYC/AML section of this framework.

## **5.2 Agents Network**

A contractual relationship in which one party, the agent, acts on behalf of another party, the principal. The agent may execute trades for the principal but is not responsible for performance by the principal.

### **5.2.1 Roles and Responsibilities of the banks and scheme operators to their agents are as follows:**

Banks and scheme operators:

- 5.2.1.1 may appoint agents to facilitate the following activities in connection to their mobile payments services:
  - I. Enrolment of customers
  - II. Deposit
  - III. Withdrawal /Cash-out
- 5.2.1.2 shall carry out the following due diligence before appointing an agent;
- 5.2.1.3 Where agent is an individual, the name, address, signature and/or finger prints of the agent shall be obtained and verified appropriately;
- 5.2.1.4 Where the agent is a corporate body or a registered business, the bank shall verify its registration and obtain the following documents:
  - I. Copies of Certificate of Incorporation/Registration of Business

- II. Memorandum and Article of Association
- III. Board Resolution authorizing the organization to offer mobile payments agency services
- IV. Any other relevant document for KYC/CDD purposes.
- V. List of Head Office and Operational offices/kiosks.

- 5.2.1.5 the agent shall be a customer of the bank and/or scheme operator and shall maintain a bank account with a bank in Nigeria.
- 5.2.1.6 shall be able to monitor the agent's cash-in-hand at all reasonable periods and evacuate same based on pre-agreed limits.
- 5.2.1.7 shall give an operational brochure detailing the expected process for each activity of the agents.
- 5.2.1.8 shall establish reasonable control procedures around the activities of the agent.
- 5.2.1.9 shall purchase a fidelity insurance cover for the activities of its agents.
- 5.2.1.10 shall maintain customer complaint/help line which shall be conspicuously displayed at the offices/kiosks of the agent.
- 5.2.1.11 shall ensure that all transactions consummated under its payment scheme has an industry standard audit trail.
- 5.2.1.12 shall maintain an online link to the agent.
- 5.2.1.13 shall ensure that its agents are well trained to deliver the services they offer
- 5.2.1.14 shall ensure that the agent displays its brand visuals conspicuously at all times
- 5.2.1.15 shall ensure that the relationship between it and its agents as well as the income derivable by the agents are documented and agreed.

## **5.2.2 Roles and Responsibilities of Agent**

The agent shall:

- 5.2.2.1 Maintain an account with the bank or scheme operators.
- 5.2.2.2 maintain a till not exceeding N100,000.00 at any time.
- 5.2.2.3 report any transaction he deems suspicious.
- 5.2.2.4 shall conspicuously display the complaint/help line maintained by the bank.
- 5.2.2.5 Effectively use the online link provided by the bank/e-money issuer in the conduct of his/her business
- 5.2.2.6 the agents are not restricted to any one scheme operator (They can serve as agents to multiple operators).

## **5.2.3 Know Your Customer (KYC) and Customer Due Diligence (CDD) Requirements**

A hierarchical approach towards the implementation of KYC/CDD is required to make a success of financial inclusion strategy of mobile banking. A threetiered KYC/CDD requirement matrix for mobile payments scheme provider is therefore stipulated as follows:

<b>BANKING STATUS</b>	<b>KYC/CDD LEVEL</b>	<b>VERIFICATION REQUIREMENT</b>	<b>MOBILE PAYMENT TRANSACTION LIMIT</b>
Un-banked	Least KYC	Name and Phone Number	Maximum transaction limit of N3,000 and Daily limit of N30,000
Semi-banked	Partial KYC	Refer to CBN KYC Manual and Money Laundering (Prohibition) Act.	Maximum transaction limit of N10,000 and Daily limit of N100,000
Fully-banked	Full KYC	Refer to CBN KYC Manual and Money Laundering (Prohibition) Act.	Maximum transaction limit of N100,000 and Daily limit of N1,000,000.

The above matrix shall apply to individuals while merchants as account holders shall be subjected to the full KYC requirements for corporates. Schemes operated by independent organisation shall not allow mobile payments transaction beyond the limit stipulated above for the un-banked.

#### **5.2.4 Anti-Money Laundering Regulation**

The mobile payments scheme operator shall notify the Nigeria Financial Intelligence (NFIU) of suspicious transactions. Suspicious mobile payments transaction shall be identified based on the following criteria:

- 5.2.4.1 Any single mobile payment (individual) account (including virtual and stored value account) which receives a total volume of payments of more than 100 in a day.
- 5.2.4.2 Any single mobile payment (merchant) account (including virtual and stored value account) which receives a total volume of payments of more than 1000 in a day.
- 5.2.4.3 Any single mobile payment (individual) account (including virtual and stored value account) which receives a total value of payments of ₦1m and above in a day.

5.2.4.4 Any single mobile payment (merchant) account (including virtual and stored value account) which receives a total value of payments of ₦10m above in a day.

The regulatory authorities reserve the right to change the criteria for suspicious transactions reporting in respect of mobile payments as it deemed fit. Such amendments shall be communicated by appropriate channel to the mobile payments scheme operators and other stakeholders.

### **5.3 Certainty of Mobile Transactions**

For the purpose of establishing certainty of transactions through mobile payments, mobile payments scheme operators shall ensure the following:

5.3.1 Summary of transaction requested must be displayed to the user for confirmation. The transaction summary shall include, the phone numbers of the paying user and receiving user, transaction description, the transaction amount, date and time and a unique transaction identifier. By confirming the summary, the user commits to the transaction.

5.3.2 Option for the user to save such transaction summary.

5.3.3 Upon completion of the transaction, the user receives an electronic receipt which shall conform to the transaction summary earlier received and the option for saving the electronic receipt shall be available to the user.

5.3.4 The electronic summary of transaction and the electronic receipt should be securely logged and the log maintained online for a minimum period of three (3) months and subsequently archived for a minimum period of seven (7) years. However, if a complaint arises before the expiration of seven (7) years, the log in respect of such pending complaints shall be maintained until the case is completely resolved or discharged.

5.3.5 The regulatory authority (or its agent) is granted access to the log when required for the purpose of certifying a printed copy for evidential purposes.

## **6.0 User Protection**

### **6.1 Responsibilities of Mobile Payments Scheme Operators**

6.1.1 Operators shall maintain a functional dispute and complaints resolution desk which shall be equipped to receive complaints through phone calls, e-mails and personal visit/contact from the user.

6.1.2 The addresses, telephone lines and e-mail of the complaint resolution desk must be well advertised through various media and at their agents' locations.

6.1.3 Operators and/or their agents shall be the first point of call for any subscriber of mobile payments scheme to register any complaint.

6.1.4 Mobile payments scheme operators shall ensure that complaints are acknowledged with a case identifier issued to the complainant within 24 hours and resolved within 3 working days of registering such complaints.

6.1.5 Operator shall ensure that all calls to the telephone lines of the dispute/complaint resolution desk should be recorded and maintained till the dispute is resolved.

6.1.6 Complaints by personal visits must be adequately logged with the name and

signature (or thumbprint) of the complainant documented against the complaint.

6.1.7 Operators must ensure adequate due diligence in appointing agents as they shall be held accountable for the activity of their agents, if lapses are established against them in respect of their due diligence responsibilities.

6.1.8 Ensure consumer education and awareness to promote ease of use, security and adoption.

## **6.2 Rights of Users**

6.2.1 Ease of enrolment

6.2.2 Easy to use (Menu Driven, SMS, USSD, etc)-maximum of 25 key strokes

6.2.3 Privacy, Trust and Security of transaction

6.2.4 Convenience: anywhere, anytime.

6.2.5 Accessibility to funds on completion of transaction process

6.2.6 Immediacy of transfer and value

6.2.7 Assurance of value to the recipients

6.2.8 Easy and prompt access to dispute resolution process

## **6.3 Responsibilities of Users**

6.3.1 Ensure the protection of PIN / Password

6.3.2 Ensure prompt reporting of fraud cases / attempts, errors and complaints

6.3.3 Ensure proper confirmation of transaction details and recipients' mobile phone numbers at all times before authorizing transaction.

6.3.4 Comply with all security rules as provided by the scheme operator

6.3.5 Escalate complaints to the ombudsman through the offices of the Central Bank of Nigeria if resolution to complaints is unduly delayed.

## **6.4 Composition and Role of Ombudsman in Dispute Resolution**

The Central Bank of Nigeria shall establish the Office of the Ombudsman.

The Office of the Ombudsman shall comprise:

6.4.1 A representative of the Nigeria Communication Commission.

6.4.2 A representative of the Consumer Protection Council

6.4.3 A representative of scheme operators

6.4.4 A representative of financial institutions

6.4.5 An eminent professional or a respectable Nigeria

6.4.6 A member of the National Payments System Committee

6.4.7 The Central Bank of Nigeria

### **The roles of the Office of the Ombudsman shall be as follows:**

6.4.8 Receive, investigate and resolve complaints involving all participants.

6.4.9 Sustainance of confidence in the mobile payments schemes.

6.4.10 Creation of an environment that encourages expeditious resolution of complaints.

6.4.11 Monitor and ensure instant compensation or otherwise notification to the complainant for decided cases.

6.4.12 Recommend improvement to mobile payments services.

6.4.13 Promote consumer education and awareness.

## 7.0 Compliance Monitoring

The Central Bank of Nigeria shall ensure the establishment of appropriate processes and procedures for the purpose of monitoring compliance to the regulatory framework.

Non-compliance with the provisions of this regulatory framework shall attract appropriate sanctions as may be determined by the Central Bank of Nigeria.

### Glossary of Terms

1. **CIFTS:** The Real Time Gross Settlement (RTGS) System deployed by the Central Bank of Nigeria which effects settlement of transfer among banks on real time and gross basis. It is known as the CBN Inter-Bank Funds Transfer System (CIFTS).
2. **Financial Institution:** A deposit taking institution duly licensed by the Central Bank of Nigeria.
3. **Interoperability:** a situation in which payment instruments belonging to a given scheme may be used in systems installed by other schemes.
4. **Inter-Scheme Operation:** Inter-Scheme operations are mobile payments consummated across two different schemes by various participants.
5. **Intra-Scheme Operations:** Intra-Scheme operations are mobile payments that are consummated within a particular service provider's scheme.
6. **Issuer:** the entity which receives payment in exchange for value distributed in the system and which is obligated to pay or redeem transactions or balances presented to it.
7. **Scheme Operators** provide the infrastructure for the mobile payment systems for the use of participants that are signed-on to their scheme.
8. **Service Providers** employ the infrastructure of the scheme operator to provide services to end users.
9. **Settlement Infrastructure Providers** Organizations providing infrastructure that enables message exchange, switching and settlement facilities for mobile payments services.



**CENTRAL BANK OF NIGERIA**

**GUIDELINES FOR CUSTODIANSHIP IN MONEY MARKET AND OTHER  
FIXED INCOME INSTRUMENTS**

## **GUIDELINES FOR CUSTODIANSHIP IN MONEY MARKET AND OTHER FIXED INCOME INSTRUMENTS**

In furtherance of the primary objectives of the Bank to promote price stability, enhance inter-bank activities and pursuant to the provisions of Sections 27 and 28 of the Central Bank of Nigeria Act, 1991, as amended, section 55 of the Banks and Other Financial Institutions Act, 1991, as amended, and section 4.3 of the Central Bank of Nigeria Operational Procedures on Money Market Dealership System in Nigeria, the Central Bank of Nigeria (CBN) hereby issues the following Guidelines for the operation of Custodianship in money market and fixed income instruments in Nigeria.

### **1.0 Introduction**

Custodianship is an arrangement whereby some financial institutions undertake to provide safekeeping and administration of financial assets on behalf of their clients who may or may not be the actual investors in those assets. A custodian holds financial assets in trust for its client, and acts in accordance with the client's instructions and service level agreement between them. The custodian provides custodial services at a fee and/or charges.

The purpose for the introduction of custodianship in money market and fixed income securities in Nigeria is to further align the Nigerian money market with the rest of the world and to adopt international best practices which will further enhance investors' confidence in the Nigerian money market. It will also enhance the growth as well as transparency in the market.

The Guidelines provide the basic procedure and rules that shall be adhered to by Custodians in money market and fixed income instruments. They are to be read along with other existing guidelines issued to regulate the operations and conducts of the operators in the Nigerian money market.

### **2.0 Qualifications for Custodianship**

- 2.1 The following shall be eligible to be appointed a Custodian in money market instruments:
- 2.2 A bank or discount house that has completed and submitted a prescribed application form to the CBN on behalf of its subsidiary to be appointed a custodian.
- 2.3 A subsidiary of a bank or of a discount house set up with the sole purpose of carrying out custodial business, and has a minimum of N2.0 billion paid-up capital.

- 2.4 A duly licensed custodian by the National Pension Commission (Pencom) who may wish to carry out custodial business in money market and fixed income instruments.
- 2.5 All duly licensed Pension Funds Custodians shall continue to hold money market instruments of pension fund as provided for by the Pension Reform Act of 2004 and as may be amended from time to time.
- 2.6 Appointment fee of N2.0 million shall be paid to the CBN within two weeks by an applicant whose application was successful and approval-in-principle has been granted.
- 2.7 Any other criteria as the CBN may specify from time to time.

### **3.0 Eligible Instruments**

- 3.1 All government securities shall be eligible for Custodianship including but not limited to, NTB, FGN Bonds, FRN Bonds, Treasury Certificates, etc.
- 3.2 All securities issued by the Central Bank of Nigeria for its monetary operation including OMO Bills, CBN Certificates, etc.
- 3.3 All securities approved by appropriate authorities issued by government at all levels, corporate organizations, government agencies and parastatals.

## **4.0 Functions and Scope of Operations**

### **4.1. Functions**

The functions of a Custodian shall include but not limited to the following:

- i. Safekeeping of instruments.
  - ii. Transaction settlement.
  - iii. Transaction statement.
  - iv. Position statement.
  - v. Reporting (compliance, valuation, performance, etc)
  - vi. Income and proceeds collection
  - vii. Securities lending.
  - viii. Remittances.
  - ix. Tax services.
  - x. Other services.
- 4.1.1 Safekeeping of securities on behalf of its clients. The securities can be held in physical or electronic forms in the name of a nominee or in the beneficial

name. The clients or investors can be individuals, corporate bodies, government, other institutional investors and the general public who do not maintain security portfolio with the CBN.

- 4.1.2 Transaction settlement shall include collection of cash and securities on behalf of buyers and receiving payments on behalf of the sellers. *Settlement shall be on the basis of delivery versus payment.*
- 4.1.3 Custodians shall furnish their clients with daily transaction statement and where there is no transaction a nil statement shall be sent. The transaction statement shall include but not limited to trade date, settlement date, price, volume, types of securities, and counterparties.
- 4.1.4 Custodians shall provide daily statement of cash and securities balances to their clients.
- 4.1.5 Custodians shall provide reports to their clients, which shall include inquiry tracking, records of clients' cash and securities positions; settlement activity, performance measurement of the securities in the clients' portfolio, valuation, etc.
- 4.1.6 Custodians shall act an agent for the clients in corporate actions to collect on their behalf, interest, coupons, proceeds and any accrued benefits during the tenors of the securities, and at redemption.
- 4.1.7 Custodians may deploy the instruments in their custody for securities lending with express permission of their clients.
- 4.1.8 Custodians shall effect requisite remittances of settlement proceeds, interest, coupons and any accrued benefits in line with the clients' mandates.
- 4.1.9Custodians may provide tax services to clients in accordance with the provisions of the tax laws pertaining to the investment. Tax services shall include among others, filing requirements; accurate definition of the clients' tax situation; arranging tax relief at source before interests or coupons are paid; preparation of tax documents for filing or submission to tax authorities for processing; and, monitoring of outstanding payments or claims relating to the securities in their custody.
- 4.1.10 Custodians may offer other services to their clients including cash management services for clients' cash balances for which the client can earn a return on the funds, foreign exchange, etc.

## **4.2 Scope of Operations**

4.2.1A Custodian without Money Market Dealership status shall settle custodian trade in money market and fixed income instruments only through authorized MMD.

4.2.2 The scope of custodianship shall cover the instruments as contained in section 3.0 of the Guidelines.

## **5.0 Operational Modalities**

5.1 All instruments in custody shall be held in book form. However, existing instruments in physical form shall be dematerialized within six months from the inception of the operation of the Guidelines.

5.2 The instruments so held in custody may be in the name of a nominee or the beneficial name.

5.3 The instruments shall be kept separate and distinct from those of the bank or discount house custodian and must not appear on their balance sheets. A separate account (nominee clients) shall be maintained with the CBN exclusively for custodial (non-proprietary) assets. In the case of a pension custodian, the instruments must be separated and distinct from personal assets.

5.4 Such instruments shall be electronically administered and maintained and shall be protected adequately. Physical instruments shall be kept in secured and fire-proof vault, registered and maintained in a separate book.

5.5 Where a Custodian is asking the CBN to move assets from its clients' account (nominee account)) to the propriety account or to the account of an MMD, the client's letter of instruction authorizing such movement shall be attached.

5.6 Custodians shall accept additional instruments for safekeeping on behalf of their clients if new issues are acquired. A client shall be expected to keep the entire holdings of a particular type instrument with a single Custodian at any point in time.

5.7 The money market instruments in custody may, with the express permission of the client, be used for security lending and the income there-from shall be shared as agreed by both parties.

5.8 There shall be 'securities lending agreement' between the Custodian and the borrower requiring the borrower of securities to provide the Custodian with collateral. Such collateral shall be in form of cash or government securities equal to or greater than the loaned securities.

- 5.9 The borrower of securities shall pay the Custodian a fee which shall be negotiated between them. The fee shall be quoted as an annualized percentage of the value of the loaned securities.
- 5.10 Where the same custodian is acting on behalf of the buyer and the seller, it shall on the agreed value date, make the proceeds/securities available to the seller/buyer in accordance with the specified instructions.
- 5.11 In all other transactions except as it is described in sub-section 5.10, the seller's Custodian shall have received instructions from the seller to move the asset to the buyer. The Custodians shall settle the transaction. The seller's Custodian shall release cash proceeds to the client on receipt of value while the buyer's custodian shall receive the securities and credit the client's account accordingly. Where the custodian fails to or unduly delays in remitting funds in contravention of the client's instructions and/or service level agreement (SLA) it shall pay with interest at the CBN monetary policy rate during the lag period.
- 5.12 In the event of loss of instruments resulting directly or indirectly from fraud, negligence, willful default, misconduct or error by the Custodian or its employees or agents, the Custodian shall bear the full replacement cost, including any incidental costs in addition to the value of the instrument at the time the loss was identified.
- 5.13 The custodian shall ensure it maintains adequate fidelity insurance to cover its custodial operations and obligations. It shall also put in place and maintain a robust business continuity plan/disaster recovery arrangements and facilities

## **6.0 Remuneration**

The Custodian shall be entitled to charge:

- a.* custody fee of not more than 0.35 per cent per annum charged monthly;
- b.* transaction cost of N500.00 per transaction;
- c.* In addition, a custodian may share revenue with a non-custodian bank that appointed it as a custodian up to 20 per cent of the revenue earned on the business.

## **7.0 Activity Report**

- 7.1 The financial statements of the Custodian shall disclose the money market instruments held under custody.
- 7.2 The Custodian shall render monthly statements to the investor.
- 7.3 A Custodian shall submit details of transactions to the CBN daily in specified format.

7.4 A Custodian shall provide the holdings of offshore investors, in prescribed formats, to the CBN on a daily basis.

## 8.0 **Code of Conduct**

8.1 On appointment, a Custodian shall sign an undertaking to abide by the Guidelines on Custodianship, and other rules and regulations and meet requirements that may be stipulated by the CBN from time to time.

8.2 A custodian shall and administer clients' assets with utmost caution and duty of care.

8.3 A Custodian shall not refuse to receive instruments or settle transactions on behalf of its clients. It shall also not refuse to transfer assets to another custodian on the instructions of its clients.

8.4 A Custodian shall not divulge any information relating to a client except as required by law, regulatory reports or as specified by the Guidelines, CBN, and by any Court of Law.

8.5 A custodian shall put in place procedure and mechanism for tracking and reporting suspicious transactions.

8.6 In line with ownership segregation requirement, custodians shall keep custody assets in such a way as to protect them from foreclosure, appropriation/attachment by creditors or liquidators of custodial assets.

## 9 **Sanctions**

a. From the commencement of this Guidelines, no person or entity shall engage in the business of custody of money market instruments except in line with the provisions contain therein.

b. The CBN shall review the performances of individual Custodians with respect to their compliance with the requirements. Appropriate sanctions shall be applied for all infractions. Sanctions shall include, but not limited to the suspension or revocation of custodianship certificate.

## 10 **Review of the Guidelines**

The Guidelines shall be reviewed from time to time.

## Glossary of Terms

### 1. Instrument

Instrument in this Guidelines refers to money market (securities whose tenors do not exceed one year) and fixed income (securities that pay fixed periodic income including but not limited to eligible instruments in clauses 3.1 – 3.3 of this Guidelines).

### 2. Custodian

An institution/corporate body licensed by the CBN for safekeeping and administration of money market and fixed income instruments on its own behalf and/or on behalf of its clients.

### 3. FGN Bonds

Bonds issued by the Federal Government of Nigeria to the investing public through the Domestic Debt Office.

### 4. Money Market Dealer

An institution licensed by the CBN for the purpose of dealing in money market instruments for its own account or on behalf of individuals and institutional investors.

### 5. FRN Bonds.

Bonds issued by the authority to replace the Ways and Means Advances granted the Federal Government of Nigeria for fiscal operations. The bonds are exclusively held by the CBN.

### 6. Primary Market

This is a market of new issues of money market instruments.

### 7. OMO Bills

These are bills issued by the CBN for liquidity management purposes.

### 8. CBN Certificates.

These are money market instruments issued by the CBN for its monetary operations.

### 9. Secondary Market

This is a market where previously issued money market instruments are traded.

### 10. Dematerialization

The elimination of physical certificates that represent ownership of securities, so that securities exist as book entry records only.

**CONSENT TO PARTICIPATE AS A CUSTODIAN IN MONEY MARKET INSTRUMENTS**

We hereby accept and consent to the terms and conditions, rights and obligations as contained in the guidelines for Custodianship in money market instruments.

.....  
Managing Director's/ CEO's Signature and Date

.....  
Company Secretary's/ Director's Signature and Date



09-61638445  
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**CENTRAL BANK OF NIGERIA**  
Business Central Area District  
P.M.B. 0187  
Garki, Abuja

*April 7, 2009*

BOD/DIR/CIR/GEN/01/48

**TO: ALL DEPOSIT MONEY BANKS**

**DEPLOYMENT OF AUTOMATED TELLER MACHINES**

The Central Bank of Nigeria has observed with satisfaction the growth in the adoption of the Automated Teller Machines (ATMs) by Nigerians as one of the channels of e-payment. The Bank is therefore committed to ensuring that the deployment and management of ATMs within the economy are in line with global best practices.

It would be recalled that one of the policies guiding the operations of ATM consortium (ATMC) is that the ATMC shall have the sole mandate to deploy ATMs at public places while the banks shall deploy ATMs only within their premises.

The CBN has observed with concern that the banks are competing with the ATMC in the deployment of ATMs in public places. A worrisome trend is the number of ATMs at the airports and hotel lobbies, which if unchecked would soon, congest these public places. Against this backdrop, the CBN hereby directs that banks should forthwith restrict the deployment of the ATMs to their premises. Banks are further advised to re-deploy all existing ATMs in public places to their premises on or before June 30, 2009.

Furthermore, in line with the Bank's policy on shared payments infrastructure by the banking industry and the need to effectively respond to the rising demand for ATM services by the public, the CBN has decided to commence soon, the process of licensing an additional ATM consortium. This will bring the total number of ATM consortia in the economy to (2) two. The two (2) consortia shall be solely responsible for the deployment of ATMs in public places in line with this policy and best practices.

Thank you.

A handwritten signature in black ink, appearing to read 'James K. A. Olekah'.

**James K. A. Olekah**  
Director, Banking Operations Department



**CENTRAL BANK OF NIGERIA**  
Business Central Area District  
P.M.B. 0187  
Garki, Abuja

09-61638445  
09-61638455 (Fax)

March 23, 2009

BOD/DIR/CIR/GEN/01/24

**CIRCULAR TO ALL DEPOSIT MONEY BANKS AND DISCOUNT HOUSES:**

**LENDING RATES ON THE CBN WINDOW**

Further to our circular reference: BOD/DIR/CIR/GEN/01/23 of March 16, 2009, we provide the following clarification on the CBN's lending rates.

**Table 1: Applicable Rates for the REPO WINDOW**

<b>TENORS</b>	<b>GOVT. SECURITIES</b>
	Repo Rates (%)
1-3 days	MPR (9.75)
4-7 days	MPR+25 basis points (bps)
30 days	MPR+125 basis points (bps)
60 days	MPR+175 basis points (bps)
90 days	MPR+195 basis points (bps)

**Table 2: Applicable Rates for the Expanded Discount Window**

<b>TENORS</b>	<b>Expanded Discount Window (EDW)</b>
	Rates (%)
1-3 days	MPR+300 basis points (bps)
4-7 days	MPR+350 basis points (bps)
30 days	MPR+400 basis points (bps)
60 days	MPR+425 basis points (bps)
90 days	MPR+450 basis points (bps)
180 days	MPR+475 basis points (bps)
360 days	MPR+500 basis points (bps)

Consequently, the maximum spread on the 360-day EDW facility shall be 500 basis points; while the maximum spread on the 90-day tenor repo remains 195 basis points above the prevailing CBN MPR.

Thank You.

  
**James K. A. Olekah**

Director, Banking Operations Department



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March 16, 2009

BOD/DIR/CIR/GEN/01/23

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Central Business District

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Garki, Abuja

**CIRCULAR TO: ALL DEPOSIT MONEY BANKS AND DISCOUNT HOUSES**

**UPDATE ON THE CBN LENDING WINDOWS**

As part of the continued efforts of the Central Bank of Nigeria to ensure that the banking system remains liquid in the face of the on-going global economic melt-down, the Bank makes the following clarifications.

**Standing Lending Facility (SLF) Window**

1. The daily Standing Lending Facility (SLF) of the CBN is open to all the deposit money banks (DMBs) and the discount houses (DHS).
2. The rate for accessing this window would remain the CBN's Monetary Policy Rate (MPR), while the eligible collateral would continue to be the Federal Government securities.

**Repurchase Facility Window**

3. In addition, the Repurchase (REPO) window of the CBN is open to all participants of the money market. This facility is available up to a maximum tenor of 90 days, while the eligible collateral remains the Federal Government Securities.
4. The rate on the REPO window is still bench-marked to the CBN MPR plus appropriate basis points to reflect the different tenors. (Appendix 1)

**Expanded Discount Window (EDW)**

5. In order to further expand the scope of liquidity injection into the money market, the eligible collateral for accessing facility from the EDW shall include non-FGN securities as follows:
  - ◆ State Government Bonds
  - ◆ NDIC Accommodation Bills
  - ◆ Bankers Acceptances
  - ◆ Guaranteed Commercial Papers
  - ◆ Promissory Notes

6. This means that the Federal Government Security ceases to be eligible collateral for the EDW. DMB/DH that wants to use the FGN security as collateral for facility from the CBN, should access the Bank's REPO and SLF windows
7. Transactions on the EDW shall continue to be for tenors not exceeding 360 days.
8. The rate on the EDW would continue to be bench-marked to the CBN Monetary Policy Rate (MPR) + appropriate basis points. (See Appendix 2)
9. For the avoidance of doubt the above facilities remain the Bank's normal monetary operation channels and all DMBs/DHs shall be given unfettered access to these windows to meet their liquidity needs so long as they satisfy the minimum regulatory requirements.
10. However to prevent arbitrage opportunities, any DMB/DH that obtains funds from any of the CBN's lending windows should not simultaneously place funds in the inter-bank money market.
11. Any institution that engages in lending activities in the inter-bank money market, having accessed the CBN window would be sanctioned appropriately.
12. Sanctions would include denial of access to the CBN window for a period of 3 months in the first instance, and for six months for the second time, while the third time offence would attract a 12-month suspension from CBN's money market window. In addition, the institution shall forfeit the profits it would have made on the transaction.

Thank You.



**James K. A. Olekah**

Director, Banking Operations Department

**Appendix 1: Applicable Rates for the REPO WINDOW**

<b>TENORS</b>	<b>GOVT. SECURITIES</b>
	Repo Rates (%)
1-3 days	MPR (9.75)
4-7 days	MPR+ 25 bps
30 days	MPR + 125 bps
60 days	MPR + 175 bps
90 days	MPR + 195 bps

**Appendix 2: Applicable Rates for Expanded Discount Window**

<b>TENORS</b>	<b>Expanded Discount Window.</b>
	Rates (%)
1-3 days	MPR+300
4-7 days	MPR+350
30 days	MPR +400
60 days	MPR +450
90 days	MPR +500
180 days	MPR + 600
360 days	MPR + 700



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February 27, 2009

BOD/DIR/CIR/GEN/01/23

**To: All Deposit Money Banks (DMBs) and Card Issuers**

**EXTENSION OF TIMELINE FOR MIGRATION FROM MAGNETIC STRIPE TO CHIP+PIN/EMV**

Recall that Section 1.4.2c of the e-banking guidelines issued in August 2003 by the CBN stipulates that "in view of the demonstrated weaknesses in the magnetic stripe technology, banks should adopt the chip (smart card) technology as the standard, within 5 years".

The implication of this is that the timeline given to card issuers in the guidelines had expired as at the end of August, 2008. However, after due consideration of the concerns from the market and other stakeholders, the National Payments System Committee agreed to extend the deadline for the migration to Chip+PIN technology to April 1, 2009.

**You are by this circular required to cease the issuance of new magnetic stripe cards with effect from April 1, 2009. However, previously issued magnetic stripe cards should be withdrawn on expiration of the cards and not as at April 1, 2009.**

Please note that no new extension of the time would be granted, while failure to comply with this directive will attract severe sanctions which would include imposition of financial penalty and withdrawal of approvals.

Best regards

  
**JAMES K.A OLEKAH**

Director, Banking Operations Department



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**CENTRAL BANK OF NIGERIA**  
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Garki, Abuja

*February 27, 2009*

BOD/DIR/CIR/GEN/01/22

**To: All Deposit Money Banks and Discount Houses**

**CIRCULAR ON COMPLIANCE WITH CIFTS OPERATING HOURS**

The CBN Inter-Bank Funds Transfer System (CIFTS) Rules and Regulations stipulated the operating hours of 8:30a.m. to 3:30 p.m. for participants' transactions. The rules also provided that participants may request for time extension when needed for its operations.

You will recall that section 3.4 of the Rules and Regulation stipulates the non-enforceability of transactions received outside the operating hours of the system. Hence, you are required to ensure that your daily CIFTS transactions are completed at 3:30p.m.

However, if there are exceptional challenges on your part which require an extension of the timeline, you are advised to apply in accordance with the rules. Failure to comply with the above will result in your organization being penalized with double the extension fee for each hour after the 3.30pm timeline. Recall that the extension fee is N60,000 (Sixty thousand Naira only) for each hour.

Best regards

**JAMES K.A OLEKAH**  
Director, Banking Operations Department



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**December 5, 2008**

BOD/DIR/CIR/2008/GEN/3/18

**TO: ALL DEPOSIT MONEY BANKS AND DISCOUNT HOUSES**

**ACCESS TO INTRADAY FACILITY**

In line with the provisions of the CBN Inter-Bank Funds Transfer System (CIFTS) Rules and Regulations, the Central Bank of Nigeria has concluded arrangements to provide intraday facility (ITF) for the use of Deposit Money Banks (DMBs) and Discount Houses (DHs).

The provision of intraday facility is expected to, enhance banks' access to temporary liquidity within the business/working day, forestall the creation of queues on the Real Time Gross Settlement (RTGS) and thereby strengthen the operations of the RTGS. Participating institutions, however, shall unwind the facility on or before the close of business; failing which the collateral used for the facility would be discounted.

The DMBs and the DHs are hereby notified that the ITF can be accessed through the Temenos Internet Banking (TIB) with effect from Wednesday, December 10, 2008. The ITF shall be collateralised by Nigerian Treasury Bills and FGN Bonds.

Thank you.

A handwritten signature in black ink, appearing to read 'James K. A. Olekah'.

James K. A. Olekah  
Director, Banking Operations Department



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October 28, 2008

BOD/DIR/CIR/2008/GEN/3/17

TO: ALL DEPOSIT MONEY BANKS AND DISCOUNT HOUSES

### **EXPANDED DISCOUNT WINDOW OPERATIONS**

In order to ensure a robust operation of the discount window and in the process provide effective and efficient guidance for the conduct of monetary operations, the Central Bank of Nigeria hereby expands its discount window operations.

The key elements of the Expanded Discount Window operations include:

- ✚ The provision of two categories of facilities, namely; the overnight standing facility and the fixed tenor repo;
- ✚ The increase in the tenor of borrowing from the window from overnight to 360 days;
- ✚ The increase in the number of financial instruments acceptable as collateral in the Window to include non-federal government securities.
- ✚ The widening of the base of the financial markets from which the instruments are drawn; and

🚩 The broadening of financial innovations to support the operations of the Discount Window.

Details of the Guidelines on the Expanded Discount Window Operations are as contained in the attached document

All operators in the money market are to be guided by the provisions in the Guidelines, and may wish to contact the undersigned if further clarifications are needed.



James K. A. Olekah  
Director, Banking Operations Department



**CENTRAL BANK OF NIGERIA**

**GUIDELINES ON THE EXPANDED WINDOW OPERATIONS**

## **FOREWORD**

This Guideline is issued by the Central Bank of Nigeria (CBN) in exercise of its statutory powers under section 30 of the CBN Act 2007.

Under the Guidelines, the Bank hereby expands its discount window operations in order to allow more robust processes of injection and absorption of excess liquidity in the money market.

The expanded discount window is introduced to admit non-federal government instruments as eligible securities. It is also to ensure that the tenor of liquidity provided under the discount window operations is extended from overnight to maturities of up to 360 days.

For any further clarification on the Guidelines, enquiries can be directed to:

**The Director,  
Banking Operations Department  
Central Bank of Nigeria  
Abuja**

## Introduction

1. Following the liberalization of the financial markets and the need to deepen the securities market, the Central Bank of Nigeria in exercise of its statutory powers hereby expands the Bank's Discount Window operations. This is through the admittance of non-federal government instruments. It also involves extending the tenor of liquidity provided through the discount window from overnight to maturities of up to 360 days. These additional initiatives are expected to engender a more efficient and effective financial resource flows and intermediation. However, the basic policy thrust in the administration of the Discount Window (DW) would remain that of the Central Bank of Nigeria acting as a lender of last resort in relieving liquidity shortages and absorbing excess liquidity in the banking system.

2. The Central Bank of Nigeria (the Bank) recognizes that open market operations are the primary means of effecting changes in the overall level of bank reserves and the interest rates in the inter-bank market. It will, therefore, continue to employ open market operations in the adjustment of reserves. Nevertheless, the DW is expected to serve as a supplementary adjustment mechanism, especially for the institutions which may be facing liquidity imbalances. It must be realized that access to the DW has the implication of creating reserves, and reserves should be created circumspectly if monetary control objectives are to be constantly placed in adequate perspective.

## General Conditions Governing the Discount Window (DW) Operations

### 3. DEFINITION OF TERMS

**Institutions:** Banks and Discount Houses only.

**Bank:** Central Bank of Nigeria (CBN)

**DMB:** Deposit Money Banks

**DH:** Discount Houses

**MPR:** Monetary Policy Rate

**DW (Discount Window):** The window through which the CBN grants standing lending facilities and outright advances to the DMBs and DHs.

**NDIC (Nigeria Deposit Insurance Corporation):** A body established to provide insurance for private sector deposits in the DMBs.

**SLF (Standing Lending Facility):** An overnight advance available to DMs and DHs.

**SDF (Standing Deposit Facility):** The deposit facility for institutions to place overnight excess funds with the CBN.

**Repo (Repurchase Agreement):** The sale of securities for immediate payment and the commitment by seller to buy back the securities at a later date under an agreed term.

**Bankers Acceptance (BA):** A bill of exchange which is drawn on, and accepted by, a DMB.

**Guaranteed Commercial Paper (GCP):** An unconditional promise by the issuer to pay to the order of a person, a certain sum at a future date.

**Guidelines:** The Guidelines for the expansion of CBN's Discount Window

**Promissory Note:** A contract where one party (the maker or issuer) makes an unconditional promise in writing to pay a sum of money to the other (the payee), either at a fixed or determinable future time or on demand of the payee, under specific terms.

4. The operation and functions of the DW will continue to be based on the following broad conditions:

- (i) Lender of Last Resort Facility - Institutions seeking to utilize the DW must first fully exhaust all alternative market sources. The DW is to be approached on a Last resort basis only.
- (ii) Deposit Money Banks and Discount Houses shall access the DW only on secured basis. Any credit must therefore be fully and adequately

collateralized by eligible securities listed in paragraph 6 of this Guideline.

- (iii) Deposit Money Banks and Discount Houses may use the DW to obtain liquidity from the Bank via repo or collateralized loans against eligible instruments.
- (iv) Repo credit from the DW shall be for a period not exceeding one year.
- (v) Collateralized loans shall be on an overnight basis through standing lending facilities.
- (vi) Credits at the DW must be with eligible instruments whose tenor shall not exceed one year. In other words, such instruments shall be those qualifying for secondary market operations with the Bank.
- (vii) **Credits by way of an advance or outright borrowing must be fully secured by eligible instruments.**
- (viii) The eligible instruments at the DW will be rated appropriately and in line with the prevailing economic conditions and the financial well being of the issuer of the security.
- (ix) Advances or outright borrowing at the DW whilst adequately secured shall be priced appropriately and the applicable rate of interest will be governed by the prevailing economic and market conditions. In any event, such advances shall attract a rate of interest at the Bank's MPR plus a margin determined at the discretion of the Bank.

#### **Access to the Discount Window**

5. All DMBs and DHs shall have direct access to the DW. The Bank through its **Banking Operations Department** shall exercise good judgment and discretion in the administration of the DW in order to ensure that the DW objectives are met. In particular, institutions may be denied access to the DW in the following circumstances:

- (i) if the Bank observes an act of undue rate arbitrage in the operations of the institution's dealings;
- (ii) if an institution is found to have contravened the provisions of the Bank's monetary and credit policy guidelines;
- (iii) if the Bank discovers that the institution is be over-trading or engaged in undue mismatch of its assets and liabilities;
- (iv) if there is contravention of the clearing houses rules;
- (v) if there is any contravention or non-observance of provisions of the prudential guidelines;

(vi) If a DMB/DH under a holding action fails to comply with the provisions of the holding action.

### **Eligible Instruments**

6. The following instruments shall qualify for eligibility at the DW:
  - i. Nigerian Treasury Bills
  - ii. Nigerian Treasury Certificates
  - iii. FGN Bonds
  - iv. NDIC Accommodation Bills
  - v. States Government Bonds
  - vi. Banker's Acceptances/Guaranteed Commercial Papers/Promissory Notes.
  - vii. Any other instrument that may be approved by the Bank from time to time.
  
7. The first three instruments are securities issued by the Federal Government of Nigeria, while the others are the non-federal government securities. It must be noted that not all nonfederal government instruments will have automatic eligibility at the DW. The Bank will maintain a list of the eligible instruments for DW operations. DMBs/DHs will be required to satisfy certain prescribed conditions as contained in the Annexure to this paper, in order to have eligibility conferred on their instruments. Consideration for applications from prospective eligible authorized dealers will be open-ended. Such applications should be addressed to the Director of Banking Operations, Central Bank of Nigeria, Abuja or Tinubu Square, Lagos.

### **Nigeria Treasury Bills (NTBs)**

8. NTBs are the obligations of the Nigerian Government. They are short-term securities issued for various tenors up to one year. NTBs are issued by auction in various denominations. Interested investors usually make application for purchase of the bills through any authorized dealer. The bills are issued in bearer form and in book entry, and are therefore negotiable. Because of the zero issuer risk, they are the most liquid and marketable money market instrument in the Nigerian money market today.
  
9. An active secondary market is conducted daily at the Bank where two-way quotes in the respective bill bands are made. However, unlike the primary market, the Bills are sold to buyers in book-entry form in order to facilitate the transactions which are enormous in value and volume. A secondary market amongst money market counter-parties also exists

where bills could be traded. NTBs have automatic eligibility at the DW. Holders wishing to repo physical bills at the DW must specially endorse those bills to the Bank. In the case of book-entry holdings, an application duly signed by two authorized signatories is required. All transactions are usually for same-day value and proceeds of discounted bills are credited into the current account of the DMB/DH held at the Bank.

### **Nigerian Treasury Certificates (NTCs)**

10. Like treasury bills, NTCs are also obligations of the Nigerian Federal Government. NTCs are medium-term money market instruments of one year and two-year maturities. NTCs possess all the attributes of NTBs in the market, in terms of risk and dealings, as well as transferability and negotiability. Therefore, much of the provisions contained in the foregoing paragraphs 9 and 10 relating to NTBs apply to NTCs.

### **FGN Bonds**

11. FGN Bonds are sovereign obligations backed by the "full faith and credit" of the Nigerian Federal Government. They are long-term debt instruments with maturity greater than one year issued on behalf of the Federal Government by the Bank on the authority of the Debt Management Office (DMO). They are issued at par and at a coupon rate, as interest is paid periodically.

12. Interested applicants and investors usually make application for purchase of the instruments through DMBs/DHs. The instruments are issued in physical certificates or book entry form.

13. The secondary market activities are at present conducted on the floor of the Nigerian Stock Exchange with the expectation of over the counter trading in the Bank. DMBs and DHs wishing to rediscount physical instruments at the DW must specially endorse those instruments to the Bank. In the case of book-entry holdings, an application duly signed by two authorized signatories is required. All transactions are usually for same-day value and proceeds of discounted instruments are credited into the current account of the DMB or DH held at the Bank.

### **NDIC Accommodation Bills**

14. An Accommodation Bill is a bill to which a person called an accommodation party puts his name to oblige or accommodate another person without receiving any consideration for so doing. The position of such a party is, in fact, that of a surety or guarantor. When a

banker discounts an accommodation bill he becomes a holder for value and an accommodation party is liable to a holder for value.

15. In exercise of its statutory obligations to insured banks, the Nigerian Deposit Insurance Corporation (NDIC) is empowered by section 37 (2) (c) of the NDIC Act 2006 to accept an accommodation bill with interest for a period not exceeding 90 days maturity exclusive of days of grace and subject to renewal of not more than four times. An NDIC accommodation bill is an eligible instrument at the DW and such a bill must meet the following requirements:

- (i) be drawn by an insured DMB;
- (ii) be drawn for a period not exceeding 90 days;
- (iii) be signed by two authorized signatories of the bank;
- (iv) bear on the face of the bill the acceptance of the NDIC with the authorized signatories of the Corporation;
- (v) be endorsed specially to the Bank by the DMB;
- (vi) the rate of commission (which should be expressed as a percentage on the face value) payable on the bill should be agreed between the DMB and NDIC while the Bank shall be advised accordingly.

16. Provided the foregoing conditions are fully satisfied, the Bank will proceed to discount the bill at the DW subject to the following:

- i) the applicable discount rate, which in any event will not be lower than the MPR will be at the discretion of the Bank;
- ii) the proceeds of the bill, net of NDIC commission, will be credited to the current account of the bank at the Bank, under advice;
- iii) at the maturity of the bill, the face value shall be debited to the account of the DMB;
- iv) in the event that the funds in the current account of the DMB are insufficient to cover the face value of the bill at maturity, the entire amount shall be debited into the account of the NDIC, under advice, but without formal notice; and
- v) all parties shall ensure that an accommodation bill once issued is not renewed for more than a four-cycle period.

### **State Government Bonds**

17. State Government Bonds are obligations of State Governments or their agencies. Like FGN Bonds, they are long-term debt instruments with maturity greater than one year. They are also backed by full faith, credit and taxing power of the State Governments issuing them.

18. The instruments will be accorded eligibility at the DW subject to the following:

- (i) Must be rated by a recognized rating agency.
- (ii) Must have a minimum of "BBB" rating.
- (iii) Must be secured by an Irrevocable Standing Payment Order ("ISPO") of the issuer as a first charge upon, and payable out of the Statutory Allocation of the State Government and must be deductible at source.
- (iv) Must provide a Sinking Fund Account to be managed by a registered Trustee.
- (v) Must be guaranteed by a DMB/DH.

### **Bankers' Acceptance (BAs)**

19. A Bankers Acceptance is a bill of exchange which is drawn on, and accepted by, a DMB. It usually arises from documentary or acceptance credits which have been opened by a DMB in favour of a customer who is the drawer of the Bill. The customer may require short-term finance from a DMB to cover the movement of goods in home and overseas trade, or to finance existing stock pending sale or processing. By placing its acceptance on the bill, a DMB is accepting a contingent liability as well as giving an indication that it will honour the draft upon presentation at maturity. Being a three-ways-out paper, BAs may command a low credit risk in the money market.

20. To qualify for eligibility at the DW, an acceptance must be made by a DMB accorded eligibility status by the Bank. The Bank will maintain a list of those institutions whose acceptances are eligible for discount at the DW (the criteria for determining eligibility is contained in the annexure to this Guidelines.) On the other hand, those accepted by a DMB whose acceptances are not accorded eligibility at the DW will be classified as ineligible acceptances. A BA must satisfy the following conditions:

- (i) the BA must identify the underlying transaction for which the bill was drawn.
- (ii) shall be self-liquidating and must not be for capital purposes;
- (iii) shall be drawn for an original tenor not exceeding 180 days
- (iv) the bill shall not be payable outside Nigeria
- (v) the bill shall not be drawn on, or accepted by connected parties or by a DMB with a share holding link with the drawer. Connected parties will

be informed where there exists direct or indirect shareholding relationship as well as common or inter-locking directorship; and

- (vi) the bill must have been purchased by DMBs/DHs thus making the bill a two-name paper, namely those of the drawer, the accepting bank/discount house.

21. The tenor of borrowing shall not exceed that of the underlying BA.

22. The features of an eligible BA at the DW are contained in the provisions outlined in paragraphs 8 and 9 of the Annexure to this Guideline.

### **Guaranteed Commercial Paper (GCP)/Promissory Notes**

23. A Guaranteed Commercial Paper is an unconditional promise by the issuer to pay to the order of a person, a certain sum at a future date. The instrument is issued in form of a Note with a maturity of less than one year at a discount from face value and must carry a bank's guarantee with the bank incurring a contingent liability.

24. A Promissory Note is a contract where one party (the maker or issuer) makes an unconditional promise in writing to pay a sum of money to the other (the payee), either at a fixed or determinable future time or on demand of the payee, under specific terms.

25. To qualify for eligibility at the DW, a GCP must satisfy the provisions contained in the foregoing paragraphs 20 and 21 relating to BAs.

### **Types of Facility**

26. There are basically two types of credit which are available to eligible borrowers at the DW. These are:

- Overnight Advance/*Standing Lending Facility (SLF)* or Outright Borrowing - Fixed Tenor Repo.

Eligible instruments may be repurchased by the Bank at the DW. Such instruments shall not exceed a maturity period of one year.

While Outright Advances shall be on overnight basis, Repurchase Agreements shall be for such periods as shall be stipulated by the Bank from time to time.

#### **27. Standing Lending Facility:**

The CBN Standing Lending Facility (SLF) is an overnight advance available to deposit money banks / discount houses. The facility is fully collateralized with a margin of 10 per cent (for only FGN securities backed facilities) above the face value of the amount applied for. For non-federal government securities, the Bank

reserves the right to determine the collateral margin after accessing the dating of the instrument.

The following procedure shall apply in the granting of an overnight advance/SLF to a DMB/DH:

- i) submission of an application for an overnight advance, addressed to the Director, Banking Operations Department, CBN;
- ii) the application shall state:
  - the amount required, which shall not exceed 10% of the applicant's total assets at the time of application;
  - the purpose for which the advance is required;
  - the date it is required;
- iii) the application shall be accompanied by :
  - a statement of the applicant's assets as at the close of business the previous day;
  - collateral in form of treasury bills, or other eligible collateral whose face value should not be lower than **110%** of the advance;
- iv) the interest on overnight advance shall be deducted from the advance and the balance credited to the borrower's current account with the Bank;
- v) the applicable interest rate which will be at the discretion of the Bank shall not be lower than the *Monetary Policy Rate (MPR)*.
- vi) the over-riding consideration shall be that the window should be accessed only on a last resort basis.

27. Each DMB/DH shall be eligible for an advance only once in any day and at the close of business. Any DMB/DH that accesses the CBN DW too frequently shall be subjected to greater scrutiny by the Bank. The Bank shall not hesitate to impose penalty on any DMB/DH should there be inappropriate utilization of the SLF window. The CBN may suspend or revise the conditions of any one or both of the SLF if it does not meet the overall objectives of the Bank's monetary policy stance.

### **Repurchase Agreement (Repo)**

29.A Repurchase Agreement is a contract involving two simultaneous transactions in a single contract. It is the sale of securities for immediate payment and the commitment by the seller to buy back the securities at

a later date, under an agreed term. The Repo could be viewed as a money market instrument in its own right to the extent that it allows an investor the opportunity of suitable asset/liability structuring.

30. Transactions on a Repurchase Agreement could be either a Repo (buy-back) or a reverse (sell-back) depending on whether the transaction is viewed from the standpoint of the lender or the borrower of the funds. For purposes of the DW facility the CBN will view a transaction as a Repo, which is a creation of reserves while a Reverse Repo is withdrawal of reserves.
31. In the conduct of open market operations, the Bank uses outright sales/purchases of securities as well as repurchases transactions to effect either a permanent or temporary action on bank reserves. Generally, central banks use repos at their own initiative for monetary policy purposes and not a means of making a secondary market in an asset. This basic concept will guide discount officers in the administration of the Repo facility at the DW. In other words, a perceived liquidity surplus in the system on any one day or over a period could engender a reverse action. Conversely, a shortage could evoke a repo action. Outside these two scenarios, a repurchase transaction will be viewed strictly as means of making a secondary market trading.
32. Whenever a repo transaction is undertaken as a secondary market trading, the Bank will view such transaction purely as a loan and the following conditions will apply:
  - (i) The term of a repo shall be as prescribed by the Bank from time to time. The tenor shall not exceed 360 days
  - (ii) A repo is viewed as a loan, albeit collateralized. The applicable rate shall therefore be market-driven. In any event, such rate shall not be lower than the CBN MPR. All eligible securities at the DW will be allowed for repo transactions.
  - (iii) Repo shall not be granted alongside an overnight advance.
  - (iv) The maximum allowable borrowing under a repo transaction in DW shall not exceed 70% of the face value of the eligible security. This clause is applicable to only the nontreasury securities i.e. commercial bills and state government bonds.
33. *Deposit money banks and discount house will be eligible for repo only once in any one day at the close of business. The reason for the facility shall be explicitly stated. Therefore, at 3:30 p.m. every day each deposit*

*money bank /discount house shall inform the Director, Banking Operations Department of the Bank of its position in the money market, that is, whether it is short of funds or has surplus funds.*

34. The *Bank* reserves the right to disallow access to the expanded discount window if:
- (i) There is a perceived excess in the general level of bank reserves in the system.
  - (ii) A DMB/DH is suspected to be involved in rate arbitraging
  - (iii) The supporting collateral is inadequate in terms of value and quality.
  - (iv) The DMB/DH's access to the DW, on cumulative basis, at any time is more than 50% of the DMB/DH's shareholders' funds unimpaired by losses.

#### **Pricing at the Discount Window**

35. The pricing of instruments at the DW will be fully market-based in order to disallow any incidence of undue arbitraging.
36. In determining the applicable rate, due cognizance will be given to prevailing market rates such as the inter-bank market rates. As had been stated, DMBs/DHs seeking to utilize the DW are expected to have fully exhausted all available alternative market sources of funds.

#### **Conclusion:**

37. This guideline has been issued to assist money market participants in understanding the facilities which are available at the Central Bank of Nigeria Discount Window and shall be reviewed from time to time as the need arises.

**Banking Operations Department  
Central Bank of Nigeria Abuja.**

**October, 2008**

## ANNEXURE

### CRITERIA FOR DETERMINING ELIGIBILITY OF BANKS WHOSE ACCEPTANCES QUALIFY FOR DISCOUNT WINDOW (DW) SUPPORT

This paper describes in general terms the conditions that must be satisfied by an authorized dealer in order to become an eligible institution.

1. The Bank shall maintain a list of those authorized dealers whose acceptances are eligible for discounting at its DW. Any institution may therefore apply at any time to the Bank for inclusion in this list.
2. To acquire an eligible status, an applicant must satisfy the following performance criteria consistently during the six months immediately preceding the receipt of its application:
  - (i) Statutory minimum capital requirement;
  - (ii) Capital adequacy ratio;
  - (iii) Specified liquidity ratio;
  - (iv) Specified cash reserve;
  - (v) Prudential Guidelines; and
  - (vi) Sound management.
3. An assessment of each application will also take cognizance of the following:
  - (i) Track record-whether the applicant already has a demonstrated capacity as well as a substantial existing acceptance business in the Nigeria money market;
  - (ii) Whether the extent to which an applicant has been operating as a market maker or trading in eligible DW instruments is considered adequate; and
  - (iii) Views expressed by other market participants on the usefulness of the role undertaken by the applicant, especially with regard to inter-bank transactions.
4. An important performance criterion on the assessment of an application is that an applicant must have demonstrated active participation in the Nigerian money market. This is meant to encompass an applicant's volume of trading in eligible DW instruments.
5. Institutions are expected to operate their current accounts at the Bank in a consistently regular manner. The overdrawing of its CBN account (without any supportable collateral under the mandate facility) by an institution is an indication of its current or future inability to promptly and fully satisfy its financial obligations. In this regard, applicants for eligibility would be

required to have conducted their CBN accounts in a most desirable manner over the prescribed period.

6. The Bank in its dealings in the money market recognizes the need to control the composition and size of its own debt portfolio. The Bank will not impose any direct limit on the volume of acceptance business written by eligible institutions. However, for reasons of prudence, it will exercise internal controls on the proportion of its own portfolio for which a individual acceptor's paper may account. The Bank would therefore ensure that the volume of each institution's acceptances is not disproportionately out of line with its capital resources. Furthermore, the Bank may limit the volume of acceptances, which it may acquire at any time, for purposes of monetary controls.
7. A DMB may apply for eligibility at any time. The eligibility list will be revised from time to time with a view to adding to, or deleting from, the list. An eligible bank, which wishes to renounce its eligibility, is free to do by giving notice to the Bank.
8. For a BA, GCP and Promissory Note to qualify for eligibility at the DW, it must conform to the following:
  - (i) its size should be 24cm by 13cm.
  - (ii) the name and logo of its accepting bank should be clearly stamped and endorsed on the face of the instrument.
  - (iii) "Acceptance" by DMB should be clearly stamped and endorsed on the face of the instrument.
  - (iv) Other endorsements should be clearly indicated on the reverse side of the instrument.
  - v) Instruments traded in the market should be in the minimum denomination of N5million.
9. The following documents should accompany any DW dealings in Bankers Acceptance (BAs); Guaranteed Commercial Papers (GCPs) and Promissory Notes:
  - i) Details of contract letters.
  - ii) Original instruments.

10. ***Standing Lending Facility:***

The CBN Standing Lending Facility (SLF) is an overnight advance available to deposit money banks / discount houses. The facility is fully collateralized with a margin of 10 per cent (minimum) above the face value of the amount applied for.

**Banking Operations Department**

**Central Bank of Nigeria**

**October, 2008**



09-61638445  
09-61638455 (Fax)

**CENTRAL BANK OF NIGERIA**  
Central Business District  
P.M.B. 0187  
Garki, Abuja

October 8, 2008

BOD/DIR/CIR/2008/GEN/3/15

**CIRCULAR TO ALL BANKS AND DISCOUNT HOUSES**

**EXPANSION OF THE TENOR OF CBN REPO**

Following a review of recent developments in the financial market, especially the current liquidity crunch, the CBN hereby expands the tenor of repo instruments at the CBN window from 1-7 days to 1 – 360 days.

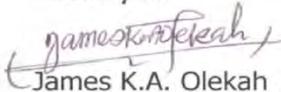
The repo operations would continue to be in treasury securities i.e. Treasury Bills and Bonds issued by the Federal Government.

The expansion will afford all CBN counterparties the opportunity to access relatively long term funds from the CBN window with the prescribed eligibility securities.

The CBN shall provide the repo facility for the different tenors at rates specified below. The rates would however be subject to review depending on prevailing market conditions.

REPO RATES FOR CBN DISCOUNT WINDOWS	
1-3 days	MPR
4-7 days	MPR Plus 25 bps
30 days	MPR plus 125 bps
60 days	MPR plus 175 bps
90 days	MPR plus 195 bps
180 days	MPR plus 300 bps
360 days	MPR plus 400 bps

Thank you.



James K.A. Olekah  
Director, Banking Operations Dept.





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CENTRAL BANK OF NIGERIA  
Business Central Area District  
P.M.B. 0187  
Garki, Abuja

April 29, 2008

BOD/DIR/CIR/2008/GEN/03/011

CIRCULAR TO ALL BANKS

HARMONISATION OF CLEARING CYCLES TO THREE WORKING DAYS

Recall that on July 2, 2007, the Central Bank of Nigeria, in collaboration with the Bankers Committee, reduced the clearing cycle for up-country payment instruments from six (T+5) to four (T+3) working days. In order to build on the success of that initiative, the deposit money banks were informed in a letter that the two clearing cycles would be collapsed into one. As a follow-up to that letter, a meeting with the banks and other stakeholders was held on Tuesday April 22, 2008 at which it was agreed that the up-country clearing cycle should be merged with the local clearing cycle of three working days.

Consequently, the Management of the Central Bank of Nigeria has approved the harmonisation of the two clearing cycles to three working days with effect from 5<sup>th</sup> May 2008. As from that date there would be three working days uniform clearing cycle for the country and the dichotomy between up-country and local clearing cycles would cease to exist. The harmonisation exercise, as in the reduction in up-country clearing cycle, is expected to positively impact business processes and reduce the waiting period for the receipt of value for instruments lodged in banks.

The deposit money banks are therefore requested to note the commencement date and the need for cooperation with the monetary authorities to make this initiative succeed as in the past.

A handwritten signature in black ink, appearing to read 'James K. A. Olekah'.

James K. A. Olekah  
Director, Banking Operations Department.

CENTRAL BANK OF NIGERIA  
Business Central Area District  
P.M.B. 0187  
Garki, Abuja.

09-61638445  
09-61638455 (Fax)

April 1, 2008

REF: BOD/DIR/CIR/08/03/09

CIRCULAR TO ALL BANKS

**CLEARING AT THE NEW CBN CURRENCY CENTRES**

As you are aware, the Central Bank of Nigeria had recently opened four new branches at Awka, Lokoja, Umuahia and Asaba. Two others are scheduled to be opened soon at Osogbo and Gombe. Enhancing the efficiency of the payments system is a key consideration in the drive to embark on the expansion of the branch network of the Bank.

To this end, all clearing banks are reminded of the need to apply for membership of the new clearing houses at these new currency centres forthwith. Please note that clearing by banks' branches located in the new clearing zones at their former clearing centres shall cease, with effect from Monday, April 21, 2008, except Gombe which shall be with effect from April 27, 2008.

Thank you.

James K.A Olekah  
Director, Banking Operations Department



CENTRAL BANK OF NIGERIA  
Business Central Area District  
P.M.B. 0187  
Garki, Abuja

09-61638445  
09-61638455 (Fax)

January 2, 2008

BOD/DIR/CIR/2008/GEN/03/003

CIRCULAR TO ALL DEPOSIT MONEY BANKS (DMBs)/DISCOUNT HOUSES

**HARMONISATION OF PARTICIPANTS' CODES ON THE CIFTS DATABASE AT CBN  
AND PARTICIPANTS' TAD**

It has been observed that the codes on the cheque books of some CIFTS participants are different from that on the CBN Inter-bank Funds Transfer System (CIFTS). In view of this, the Central Bank of Nigeria is in the process of harmonizing the codes for all the CIFTS participants.

All the CIFTS participants are therefore required to collect the 'sql' script and the procedure from the CBN Lagos, Information Technology Department on January 4, 2008, for effective harmonisation of the codes thereafter.

Please note that it is mandatory that all the participants implement the 'sql' script on Saturday January 5, 2008.

Thank you.

James K.A. Olekah

Director, Banking Operations Dept



CENTRAL BANK OF NIGERIA  
Business Central Area District  
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Garki, Abuja

09-61638445  
09-61638455 (Fax)

December 18, 2007

BOD/DIR/CIR/2007/GEN/03/002

**CIRCULAR TO ALL DEPOSIT MONEY BANKS (DMBs) AND DISCOUNT HOUSES (DHs)**

**CBN CLASSIFIES FGN BONDS AS LIQUID ASSETS**

In order to help deepen the financial market, especially the bonds market, and enhance the information content of the yield curve for effective price discovery as well as bench-mark international best practices, the DMBs and the DHs are hereby informed that all FGN bonds actively traded on the secondary market, irrespective of tenor, would henceforth qualify as liquid assets.

It would be recalled that hitherto, only FGN bonds with three years maturity or less were considered as liquid assets.

By the new decision, all FGN bonds actively traded on the secondary market, shall:

- qualify as eligible instruments for the computation of liquidity ratio of the deposit money banks; and
- serve as collateral for lending/repo at the CBN window. The CBN however, will exercise discretion on the maturity class to admit for purposes of its monetary operations.

This circular takes immediate effect.

A handwritten signature in black ink, appearing to read 'James K.A. Olekah'.

**James K.A. Olekah**  
Director,  
Banking Operations Department

**CENTRAL BANK OF NIGERIA**  
Business Central Area District  
P.M.B. 0187  
Garki, Abuja

09-61638445  
09-61638455 (Fax)

November 27, 2007

**BOD/DIR/CIR/2007/GEN/03/001**

**CIRCULAR TO GOVERNMENT REVENUE COLLECTING BANKS**  
**ENSURING TIMELY REMITTANCE OF GOVERNMENT REVENUE BY DEPOSIT MONEY**  
**BANKS**

It would be recalled that the Central Bank of Nigeria (CBN), in 1999 delegated its retail banking role with government to the deposit money banks. Since then banks have been the main revenue collecting agents for government and its agencies. Under this arrangement all appointed banks are required to remit all revenue collections into the pool accounts at the CBN, within an agreed timeline.

The CBN is however worried that notwithstanding the appeals to the revenue collecting banks, some do not remit their collections as and at when due especially the collection on behalf of the Nigeria National Petroleum Corporation (NNPC) from its depots all over the country. This has led to the postponement of the Federation Accounts Allocation Committee (FAAC) meeting dates in some instances; thus disrupting the distribution of revenue to the federating units. In addition, this unethical practice undermines the effective conduct of monetary policy given the size of the NNPC account.

The CBN warns that it would no longer tolerate this attitude. ***Thus, all revenue deposits collected on behalf of NNPC from all its depots should be paid into the CBN within twenty-four (24) hours of the exact value date indicated on the NNPC payment instruction to banks, failing*** which the CBN shall debit the accounts of the affected banks in the CBN. Banks, whose accounts get overdrawn because of the direct debit, shall pay double the penalty for overdrawn accounts. In

addition, defaulting banks risk being stopped from collecting revenue for NNPC and other parastatals.

We will continue to count on your support and cooperation.

**J.K.A. Olekah**

**Director, Banking Operations Department**

**PART B**  
**BANKING SUPERVISION CIRCULARS, POLICIES AND GUIDELINES**



**BSD/DIR/GEN/LAB/11/25**

October 10, 2018

**LETTER TO ALL BANKS AND PAYMENT SERVICE PROVIDERS**

**ISSUANCE OF RISK-BASED CYBERSECURITY FRAMEWORK AND GUIDELINES FOR DEPOSIT MONEY BANKS AND PAYMENT SERVICE PROVIDERS**

The CBN hereby issues the attached Risk-Based Cybersecurity Framework and Guidelines for Deposit Money Banks (DMBs) and Payment Service Providers (PSPs), which represents the minimum requirements to be put in place by all DMBs in their respective cybersecurity programmes.

The effective date for full compliance with the provisions of the guidelines is **January 1, 2019** and all DMBs and PSPs are expected to do so, on or before that date.

Please, be guided accordingly.

Yours faithfully,

**AHMAD ABDULLAHI**

**DIRECTOR, BANKING SUPERVISION**

**RISK-BASED CYBERSECURITY FRAMEWORK AND GUIDELINES**

**FOR**

**DEPOSIT MONEY BANKS AND PAYMENT SERVICE PROVIDERS**

**OCTOBER 2018**

## **Introduction**

The safety and soundness of Deposit Money Banks (DMBs) and Payment Service Providers (PSPs) require that they operate in a safe and secure environment. Hence, the platform on which information is processed and transmitted should be managed in a way that ensures the confidentiality, integrity and availability of information as well as the avoidance of financial loss and reputation risk, amongst others.

In recent times, cybersecurity threats have increased in number and sophistication as DMBs and PSPs, use information technology to expedite the flow of funds among entities. In this regard, threats such as ransomware, targeted phishing attacks and Advanced Persistent Threats (APT), have become prevalent; demanding that DMBs and PSPs remain resilient and take proactive steps to secure their critical information assets including customer information that are accessible from the cyberspace.

It is in this regard that this framework, which outlines the minimum cybersecurity baseline to be put in place by DMBs and PSPs, is being issued. The framework is designed to provide guidance for DMBs and PSPs in the implementation of their cybersecurity programmes towards enhancing their resilience.

Cybersecurity resilience is considered as an organisation's ability to maintain normal operations despite all cyber threats and potential risks in its environment. Resilience provides an assurance of sustainability for the organisation using its governance, interconnected networks and culture.

DMBs/PSPs should note that for a cybersecurity programme to be successful, it must be fully integrated into their business goals and objectives, and must be an integral part of the overall risk management processes.

The framework provides a risk-based approach to managing cybersecurity risk. The document comprises five parts: Cybersecurity Governance and Oversight, Cybersecurity Risk Management System, Cybersecurity Operational Resilience, Metrics, Monitoring & Reporting and Compliance with Statutory and Regulatory Requirements.

### **Cybersecurity Governance and Oversight**

2.1. Cybersecurity governance sets the agenda and boundaries for cybersecurity management and controls through defining, directing and supporting the security efforts of the DMBs and PSPs. It spells out the responsibilities of the Board of Directors, Senior Management and Chief Information Security Officer (CISO). This entails the development and enforcement of policies, procedures and other forms of guidance that the DMBs/PSPs and their stakeholders are required to follow.

2.2. The responsibility for the provision of oversight, leadership and resources to ensure that cybersecurity governance becomes an integral part of corporate

governance rests with the Board of Directors of the DMB/PSP. In this regard, the Board shall ensure that cybersecurity is completely integrated with business functions and well managed across the DMB/PSP.

2.3. Furthermore, the Board shall ensure that cybersecurity governance not only aligns with corporate and Information Technology (IT) governance, but is cyber-threat intelligence driven, proactive, resilient and communicated to all internal and external stakeholders.

2.4. The **responsibilities of the Board of Directors** are detailed below:

2.4.1. The Board of Directors through its Committees shall have oversight and overall responsibility for the DMB/PSP's cybersecurity programme. It shall provide leadership and direction for effective conduct of the processes. The Board shall ensure that cybersecurity governance is integrated into the organisational structure and relevant processes.

2.4.2. The Board shall ensure that cybersecurity processes are conducted in line with business requirements, applicable laws and regulations while ensuring security expectations are defined and met across the DMB/PSP. Furthermore, the Board shall hold Senior Management responsible for central oversight, assignment of responsibility, effectiveness of the cybersecurity processes and shall ensure that the audit function is independent, effective and comprehensive.

2.4.3. The Board shall be responsible for all cybersecurity governance documents such as cybersecurity strategy, framework and policies and ensure alignment with the overall business goals and objectives.

2.4.4. The Board shall, on a quarterly basis receive and review reports submitted by Senior Management. The report shall detail the overall status of the cybersecurity programme to ensure that Board approved risk thresholds relating to cybersecurity are being adhered to.

2.4.5. The Board of every DMB/PSP shall appoint or designate a qualified individual as the "Chief Information Security Officer" (CISO) who shall be responsible for overseeing and implementing its cybersecurity programme. In the case of banking groups, such institution may leverage on its group CISO where the bank is part of a group that has a CISO.

2.4.6. The board shall ensure that the cybersecurity budget is approved.

2.5. The **responsibilities of Senior Management** are detailed below:

2.5.1. Senior Management shall be responsible for the implementation of the Board approved cybersecurity policies, standards and the delineation of cybersecurity responsibilities.

2.5.2. Senior Management shall provide periodic reports (at a minimum quarterly); to the Board on the overall status of the cybersecurity programme of the DMB/PSP.

2.6. The **responsibilities of the Chief Information Security Officer (CISO)** are detailed below:

2.6.1. The CISO shall be responsible for the day-to-day cybersecurity activities and the mitigation of cybersecurity risks in the DMB/PSP.

2.6.2. The CISO shall focus on the DMB/PSP-wide cybersecurity risk rather than IT security risk only, and shall also be responsible for the development and implementation of the cybersecurity programme and strategy as approved by the Board.

2.6.3. A group CISO shall be responsible for establishing and maintaining an enterprise vision, strategy and program in the case of banking group where critical information security expertise and tools are maintained and controlled centrally.

2.7. The **requirements of the Chief Information Security Officer (CISO)** are detailed below:

2.7.1. The CISO shall be of senior management grade and shall possess adequate authority; experience; independence and status within the DMB/PSP to enable him/her function properly.

2.7.2. The CISO shall not report to the Head of Information Technology (IT) operations to avoid conflict of interest while ensuring segregation of duty. He/She shall report to the Managing Director/Chief Executive Officer.

2.7.3. The CISO shall meet educational and experience requirements as provided in the Fit and Proper (Approved Persons) Framework required for Assistant General Managers and above for DMBs and shall be at least senior manager for PSPs. Given the requirements of this job role, experience gained solely in the field of IT shall be deemed to be adequate.

2.7.4. In addition, the CISO shall possess relevant qualifications and in-depth experience in Information Technology with any, or combination of, Information Security Certifications such as Certified Information Systems Security Professional (CISSP), Certified Information Security Manager (CISM) and Certified Chief Information Security Officer (CCISO).

2.8. The **Information Security Steering Committee (ISSC)**:

2.8.1. Every DMB/PSP shall establish an information security steering committee that shall be responsible for the governance of the cybersecurity programme.

2.8.2. The steering committee shall consist of senior representatives of relevant departments within the DMB/PSP and shall be headed by the CISO.

2.8.3. The roles, responsibilities, scope and activities of the information security steering committee shall be clearly defined.

2.8.4. The **objectives of the Committee** shall include:

2.8.4.1.Ensuring that DMB/PSP"s security policies and processes align with the business objectives;

2.8.4.2.Evaluating, approving, and sponsoring institution-wide security investment;

2.8.4.3.Enforcing the implementation of policies for investment prioritization and security risk management; and

2.8.4.4.Providing strategic direction and cybersecurity governance for the DMB/PSP.

## **2.9. Risk Management Control Functions**

To ensure the effectiveness of a DMB/PSP"s cybersecurity governance, its processes and controls shall be reviewed at least annually. In this regard, the risk management control functions; handled by relevant department of the organization shall have their responsibility as follows:

### **2.9.1. Risk Management**

Risk Management shall independently evaluate all the risks relating to cybersecurity in a proactive way. This should include the use of appropriate tools and methodologies for risk identification, analysis and control. Appropriate reports shall be provided to Senior Management and the Board Risk Management Committee, quarterly.

### **2.9.2. Compliance**

The Compliance Department of DMBs and PSPs shall review their cybersecurity programmes and processes to ensure adherence to relevant CBN directives and other extant regulations.

### **2.9.3. Internal Audit**

A DMB/PSP"s cybersecurity programme shall be audited by the Internal Audit unit to determine the effectiveness of the controls put in place and ascertain if they are adequate for the DMB/PSP"s risk exposure. Internal audit shall be independent with the scope of cybersecurity audits clearly defined. Audit programmes shall be risk-based and provide assurance to the Board and Senior Management on the effectiveness of the cybersecurity programme.

## **2.10. Cybersecurity Strategy and Framework**

2.10.1.The Board of Directors shall approve the DMB/PSP"s information/cybersecurity strategy, which shall provide direction on how to achieve its cybersecurity goals. The strategy shall address and mitigate cyber-risk while providing compliance with the legal, contractual, statutory and regulatory requirements. The strategy shall align with the DMB/PSP"s Information Security Management System (ISMS), information technology and the overall corporate strategy.

2.10.2. A DMB/PSP shall also put in place an information/cybersecurity framework in support of its strategy which aligns policies, business and technological approaches to address cyber risks and clearly defines all cybersecurity roles and responsibilities.

2.10.3. In addition, a DMB/PSP shall develop an information/cybersecurity policy either as a separate document or as part of its cybersecurity framework or its Information Security Management System (ISMS). The policy shall clearly convey management intent and the DMB/PSP's approach to achieving its cybersecurity objectives.

2.10.4. The policy document(s) approved by the Board shall be continuously reviewed and updated annually at a minimum or when there are significant changes to the DMB/PSP's cyber-risk exposure and in the light of emerging technologies. The annual review shall ensure its suitability, adequacy and effectiveness to mitigate cyber-risk.

### **Cybersecurity Risk Management System**

3.1. Effective Risk Management serves to reduce the incidence of significant adverse impact on an organization by addressing threats, mitigating exposure, and reducing vulnerability. DMBs and PSPs shall incorporate cyber-risk management with their institution-wide risk management framework and governance requirements to ensure consistent management of risk across the institution.

3.2. The Risk Management programme shall be based on an understanding of threats, vulnerabilities, risk profile and level of risk tolerance of the organisation. The process shall also be dynamic in view of the constantly changing risk landscape. The Board and Senior Management shall support and be involved in the cyber-risk management process by ensuring that resources and capabilities are available and roles of staff properly defined in management of risks.

3.3. The Risk Management System shall cover the four basic activities below:

3.3.1. Risk assessment

3.3.2. Risk measurement

3.3.3. Risk mitigation/Risk treatment

3.3.4. Risk monitoring and reporting

3.4. Cyber risk assessments should be updated regularly to address changes or introduction of new technologies, products etc. before deployment to ensure accurate risk measurement.

3.5. Risk treatment options such as risk reduction, risk retention, risk avoidance, risk transfer and how residual risk is addressed should be selected based on the outcome of the risk assessment.

3.6. Information obtained from risk management activities shall be reported to the Senior Management and the Board of Directors to support informed decision making.

3.7. A DMB/PSP shall ensure consistent conduct of risk assessments, vulnerability assessments and threat analysis to detect and evaluate risk to the DMB/PSP's information assets and determine the appropriateness of security controls in managing risk.

3.8. IT risk shall be responsible for assessment, measurement and monitoring/reporting of risks associated with critical IT infrastructure while information/cybersecurity team shall be responsible for risk mitigation/treatment.

### **3.9. Cybersecurity Resilience Assessment**

Cybersecurity Resilience Assessment is useful in evaluating an organization's defense posture and readiness to cybersecurity risks. In view of rapid advancement in IT, interconnection between networks (internet) and multiple threats in the cyberspace, a DMB/PSP shall carry out cyber risk resilience assessment to determine its current and target cybersecurity profile.

#### **3.9.1. Determining the Current Cybersecurity Profile ("present state")**

3.9.1.1. DMBs and PSPs shall determine their "current" cybersecurity position at regular intervals by evaluating all identifiable cybersecurity vulnerabilities; threats and likelihood of successful exploit; potential impact (reputational, financial, regulatory, etc.); and the associated risks in order to estimate the amount of assets and efforts required to recover from losses/damage attributable to potential cyber incidents.

3.9.1.2. The assessment should include but not limited to adequacy of cybersecurity governance; policies, procedures and standards; inherent risks in business operations; visibility to emerging threats to information assets; capability to swiftly respond and recover from cyber-incidents; vendor risk, and efficacy of existing controls to mitigate the identified risks.

3.9.1.3. In addition to various cybersecurity assessments conducted to identify vulnerabilities, other frameworks/tools available to assist in achieving this objective at no cost are contained in Appendix II. All gaps identified shall be documented and communicated to the Executive Management and Board of Directors.

#### **3.9.2. Establishing a Target Cybersecurity Profile ("desired state")**

A DMB/PSP shall develop a detailed roadmap to timely address the gaps identified. This document shall state the vulnerability/risk treatment plan with stipulated time frame. The plan may include updating the cybersecurity policy; establishing a security operation center and cyber forensic laboratory; signing-up with external cyber threat intelligence agencies, etc.

### **3.9.3. Reporting Cybersecurity Self-Assessment**

A report of the self-assessment which shall depict the procedure/tools/framework used to conduct the cybersecurity self-assessment; identified gaps, threats, and risks; potential value at risk/impact; prioritized action plan to mitigate risks identified; and timeline for remediation; remediation status with possible residual vulnerabilities/risks shall be submitted by DMBs and PSPs to the Director, Banking Supervision Department of the Central Bank of Nigeria annually not later than March 31<sup>st</sup> . The report shall be signed and submitted by the Chief Information Security Officer after its endorsement by the Executive Management. See the reporting template in Appendix VII.

### **Cybersecurity Operational Resilience**

DMBs and PSPs are required to build, enhance, and maintain their cybersecurity operational resilience which will ultimately contribute to reducing cybercrime in Nigeria and strengthen the banking sector cyber defense.

The following are the minimum controls that a DMB/PSP shall put in place on their critical IT infrastructure to ensure the Confidentiality, Integrity and Availability (CIA) of information assets among others.

#### **4.1. Know Your Environment**

A DMB/PSP shall endeavor to be acquainted with its business environment and critical assets. It shall devise mechanisms to maintain an up-to-date inventory of authorized software, hardware (workstation, servers, network devices etc.), other network devices, and internal and external network connections. All unauthorized software and hardware device on its network shall also be identified, documented, removed and reported appropriately.

Employees and contractors providing information technology and cybersecurity functions/services shall also be identified. Details on how to improve DMB/PSP's IT infrastructure awareness is contained in Appendix III.

#### **4.2. Enhancing Cybersecurity Resilience**

A DMB/PSP shall continuously improve on its cybersecurity resilience. This is crucial for the prompt identification of system vulnerabilities; emerging threats and their associated risks; rapid cyber-incident response; increasing cybersecurity maturity level; ensuring the confidentiality, integrity and availability of information assets whilst promoting a safe and sound banking system in Nigeria.

Leveraging on the DMB/PSPs' resilient cybersecurity governance, risk management and compliance, a DMB/PSP shall adopt the measures in Appendix IV and V as the minimum cybersecurity baselines to enhance its cybersecurity resilience.

### 4.3. Cyber-Threat Intelligence

A DMB/PSP is required to possess an objective knowledge – based on fact – of all emerging threats, cyber-attacks, attack vector, mechanisms and indicators of attack/compromise to its information assets which shall be used to make informed decisions.

To this end, DMBs and PSPs are required to:

4.3.1. Establish a Cyber-Threat Intelligence (CTI) programme which shall proactively identify, detect and mitigate potential cyber-threats and risks.

4.3.2. Establish a CTI policy (as part of the cybersecurity policy) approved by the Board of Directors to aid proactive identification of emerging cyber threat, trends, patterns, risks, and possible impact.

4.3.3. Identify and document various CTI Sources. See Appendix VI for details.

4.3.4. Take informed decisions based on the CTI programme as it provides valuable information on areas susceptible to cyber-attacks, latest threats, attack vector, etc. Decisions may include: reviewing the Bring Your Own Device (BYOD) policy; conducting emergency awareness training, vulnerability assessment, and penetration testing; review of vendor source codes, cyber-incident response plan, BCP/DR plans, vendor SLA; and increased system logging, etc.

4.3.5. Promptly report all impending and challenging cyber-threats to their information assets to the Director of Banking Supervision of Central Bank of Nigeria using the Cyber-threat Intelligence Reporting template in Appendix VII after its endorsement by appropriate authorities.

### Metrics, Monitoring & Reporting

5.1. A DMB/PSP shall put in place metrics and monitoring processes to ensure compliance, provide feedback on the effectiveness of control and provide the basis for appropriate management decisions. The metrics should be properly aligned with strategic objectives and provide the information needed for effective decisions at the strategic, management and operational levels.

5.2. The metrics should assess the effectiveness of the DMB/PSP's overall cybersecurity programme and measure its performance and efficiency. Tools may be employed to achieve this include key risk indicators, key goal indicators, etc.

5.3. The Board and Senior Management of DMB/PSP shall establish an effective and reliable reporting and communication channels throughout the institution to ensure the effectiveness and efficiency of the cybersecurity programme. The cybersecurity programme reporting process shall be consistent, timely, comprehensive, transparent and reliable. The measurement process should help to identify shortcomings and failures of security activities and provide feedback on progress made in resolving issues.

5.4. A reporting process that defines reporting and communication channels shall be established for the dissemination of security-related material such as changes in policies, standards, procedures, new or emerging threats and vulnerabilities.

5.5. The Board of Directors and Senior Management shall be provided with quarterly reports to keep them abreast of the state of the cyber/information security programme and governance issues in the DMB/PSP.

5.6. A DMB/PSP is required to report all cyber-incidents (as defined in Appendix I) whether successful or unsuccessful not later than 24 hours after such incident is detected to the Director of Banking Supervision, Central Bank of Nigeria using the report format in Appendix VII. Where necessary and applicable, additional information should be provided afterwards.

### **Compliance with Statutory and Regulatory Requirements**

6.1. The Board and Senior Management of DMBs and PSPs shall ensure compliance with all relevant statutes and regulations such as the Nigerian Cybercrimes (Prohibition, Prevention etc.) Act, 2015 and all CBN directives to avoid breaches of legal, statutory, regulatory obligations related to cybersecurity and of any security requirements.

6.2. The Central Bank of Nigeria shall ensure the establishment of appropriate processes and procedures for the purpose of monitoring compliance with this framework and other extant laws and regulations.

6.3. Non-compliance with the provisions of this framework shall attract appropriate sanctions as may be determined by the Central Bank of Nigeria in accordance with the provisions of the CBN Act and BOFIA.

### **7. Compliance**

The CBN shall monitor and enforce compliance with the provisions of the Guidelines.

### **8. Effective Date**

This Guideline shall take effect from January 1, 2019

## Appendix I: Critical Systems and Cyber-Incidents

For the purpose of this framework, "critical system" shall mean any IT infrastructure (servers, applications, databases, network, ATM, POS, etc.) whose unavailability (such as failure, unplanned downtime, etc.), corruption, unauthorized access and/or interception of the information it stores, processes or transmit will result in a significant financial loss and negatively impact business operation and service to customers.

A Cyber-Incident is referred to as any incident which may result in a significant financial loss as a result of:

- I. Unplanned outage of IT system(s) such as Core Banking Application, Treasury Systems, Trade finance systems, core network devices, Internet banking systems, electronic channels (e.g. ATMs, POS, USSD, Mobile banking, etc.) and connected payment systems e.g. SWIFT, RTGS, NEFT, etc.)
- II. Cyber security incident such Distributed Denial of Service (DDOS), Ransomware/cryptoware, data breach, data destruction, web defacement, etc.
- III. Unauthorised access, disclosure, tampering or theft of banks and customers' information (personal Identifiable Information and financial data).

A significant financial loss is a loss that exceeds 0.01% of shareholders' funds unimpaired by losses.

## Appendix II: Cybersecurity Self-Assessment Tools

Below are few risk assessment tools that can guide DMBs/PSPs in achieving cyber resilience. Other suitable resources may also be adopted.

1. The FFIEC Cybersecurity Assessment Tool <https://www.ffiec.gov/cyberassessmenttool.htm>
2. US-CERT Cyber Resilience Review (CRR) <https://www.us-cert.gov/ccubedvp/assessments>
3. ICS-CERT's Cybersecurity Evaluation Tool (CSET) [https://ics-cert.uscert.gov/sites/default/files/FactSheets/ICS-CERT\\_FactSheet\\_CSET\\_S508C.pdf](https://ics-cert.uscert.gov/sites/default/files/FactSheets/ICS-CERT_FactSheet_CSET_S508C.pdf)
4. Payment Card Industry (PCI) Data Security Standard Self-Assessment Questionnaire <https://www.pcisecuritystandards.org/>
5. ISO 27001 <https://www.iso.org>
6. The CBN circulars relating to cybersecurity <https://www.cbn.gov.ng/documents/>
7. Nigerian Cybercrimes (Prohibition, Prevention etc.) Act, 2015
8. NgCERT website <https://www.cert.gov.ng/>

## **Appendix III: Know Your Environment:**

### **1. Asset Management**

**Hardware:** A DMB/PSP shall:

- 1.1 Maintain an up-to-date inventory of all authorized devices used to process, store or transmit data/information in the institution such as workstations, laptops, switches, routers, firewall, printers, scanner, photocopiers, IP Phones, surveillance cameras, etc. connected to its network. Unauthorized devices shall not be granted access to the network.
- 1.2 Ensure that all identified devices are categorized not only by the criticality and sensitivity of the data/information they store, process or transmit but also on their mobility.
- 1.3 Assess and review the profile(s) of personnel(s) and/or third parties who have unrestricted/restricted access to devices identified in "1.1" above.
- 1.4 Automate the detection of unauthorized devices as they connect to the DMB/PSP's network and ensure that only authorized devices are granted access to the network.

**Software:** A DMB/PSP shall:

- 1.5 Devise a mechanism to maintain an up-to-date inventory of all applications/software installed and/or running on all its systems. Unauthorized software/applications identified shall be removed.
- 1.6 Ensure that the installation of applications/software including patches and hotfixes to authorized workstations/laptops, servers (including those on the demilitarized zone or DMZ), and mobile devices are centrally coordinated and managed.
- 1.7 Ensure that all legacy but still-in-use software and applications are catalogued. Vulnerabilities associated with them shall be promptly identified and remediated with adequate controls and must be considered for upgrade.
- 1.8 Establish controls to prevent unauthorized modification or removal of its authorized software/applications while preventing the installation of unauthorized software/applications on its network.

**ATM and POSs:** A DMB/PSP shall:

- 1.9 Devise a mechanism to maintain an up-to-date inventory of all ATM and POS machines connected to its network.
- 1.10 Establish controls to protect all ATM and POS devices against malware, tampering, memory scrapping, and spoofing.
- 1.11 All POS merchants must be appropriately risk profiled at least annually.
- 1.12 Ensure that risks associated with these devices are regularly assessed, documented and mitigated promptly.

**Network:** A DMBs and PSPs shall:

- 1.13 Maintain an approved up-to-date network topology of their wired and wireless networks irrespective of their location;
- 1.14 Maintain a catalog of all dedicated/frequently-used network connection(s) to regulatory authorities, switches, vendors/contractors,

and wholesale customers with details of the objectives of such connections;

- 1.15 Implement Authentication, Authorization and Accounting (AAA) policies on network devices;
- 1.16 Implement secure network management and prompt reporting;
- 1.17 Devise mechanism to mitigate layer 2 and 3 attacks using Firewall, Access Control Lists (ACLs), etc. and
- 1.18 Ensure that the Internal Operating System (IOS) software of network devices such as routers are up-to-date.

**Protocols:** A DMB/PSP shall ensure that

- 1.19 Protocols used by programmers during application development and those used by endpoint and network devices for data transfer and topology advertisement are secure while meeting functional requirements.
- 1.20 Vulnerabilities associated with these protocols are regularly assessed and mitigated appropriately. This include but not limited to those used by cellular phones (via mobile network) to communicate with DMB/PSP's IT infrastructure e.g. USSD, SMS, etc.

## **2. Staff/Employee:**

The Management of a DMB/PSP shall:

- 2.1 Identify all employees whose job description is to implement, enforce, and review its physical and technical security controls; this includes but not limited to IT system, IT security administrators, security guards, etc.
- 2.2 Conduct background check on employees who implement policies, procedures used to protect sensitive information, and plausibly know ways of circumventing those control e.g. IT system administrators and security guards.
- 2.3 Ensure that risks associated with this category of employee are regularly assessed as part of the enterprise risk assessment framework. Background check shall be periodically conducted to gather reliable information about such employees.
- 2.4 Ensure that mandatory vacation/leave is adopted to thwart opportunities for fraudulent activities, and key-man risk.
- 2.5 Ensure that access rights assigned to all users is based on the principles of separation of duties and least privilege.

## **3. Vendor/Contractors/Third-parties:** A DMB/PSP shall:

- 3.1 Maintain an up-to-date inventory of services rendered by vendor/contractor/third-parties with valid Service Level Agreement (SLA).
- 3.2 Ensure that each SLA contains at minimum: details of service rendered, Non-Disclosure Agreement (NDA), Roles and Responsibilities of each party, Duration, Vendor Service Level Manager, Service Quality metric/evaluation criteria, and the Right to Audit clause.
- 3.3 Audit their vendors/contractors/third-parties in order to ensure/enforce compliance with the SLA; and promptly identify risky parties; if possible, visit their office/ IT processing facility

- 3.4 Assess the qualification, skills and/or experience of vendor staff assigned to them by their vendors/contractors/third-parties.
4. **External Connection:** A DMB/PSP shall:
  - 4.1 Identify and document all connections to third-parties - wholesale customers, vendors and switches that provide Value Added Service (VAS) - ; the objective of each connection shall be documented and reviewed regularly.
  - 4.2 Assess, document, and mitigate all risks associated with the identified external connections appropriately.
  - 4.3 Where applicable, visit the data center and network infrastructure facilities of third-parties; access their approved cybersecurity policies and ensure it addresses all cybersecurity concerns.
  - 4.4 Ensure that third-party accesses are restricted to only authorized segment of the network; only specific IP addresses from the third-party shall be allowed, and restrict connection(s) to a period of time (where applicable).
  - 4.5 Always log, monitor, and review all third-party connections to their network.
- 5 **Payment Service Providers:** Where a DMB/PSP (in a nested PSP relationship) engage a Payment Service Providers (entity); third-party for the storage, transmission, processing and security of cardholder data, the DMB/PSP shall:
  - 5.1 Identify, review and document the services provided by the entity.
  - 5.2 Determine and document the scope of the entities involvement in storing, processing, or transmission of cardholder data and the effect on the security of the Cardholder Data Environment.
  - 5.3 Identify and document the technology used by the entity for the services provided.
  - 5.4 Identify and document whether an additional third-party is used by the entity to deliver the services rendered.
  - 5.5 Identify the facilities of the entity where cardholder data/information is located.
  - 5.6 Obtain the following documentation from the entity to validate PCI DSS compliance for the service rendered: Report on Compliance (ROC); Attestation of Compliance (AOC); SelfAssessment Questionnaire (SAQ); and ASV Scan Report Attestation of Scan Compliance (AOSC).

## Appendix IV: Enhancing Cybersecurity Resilience

This section provides the minimum controls required for a DMB/PSP to continue to support and provide business services even in the event of cyber –attacks. It provides controls on access right management, secure system configuration, cybersecurity awareness , data loss prevention, system life cycle management, vulnerability management, continuous security monitoring, and enhancing incident response capabilities.

### 1. **Access Control:**

A DMB/PSP shall establish an access control policy which ensures that:

- a. There exists mechanism, standards and procedures that govern users, systems and service accounts access provisioning, identification, and authorization to all systems, network, and applications.
- b. All workstations/laptops, end-users, service accounts, network devices (internal and external), and administrators have identities and credentials to access the bank’s resources.
- c. Access to its information assets (including customer information), resources and connected services/facilities at any time are limited to only authorize users, services, processes or devices (including wireless network) based on the principle of least privilege and guided by an access control matrix.
- d. Authorizations given to users, service and system accounts are limited to the functions/ services they provide; where necessary implement logon time and days restriction.
- e. Physical access to assets is controlled based on the criticality and sensitivity of the information processed, stored and transmitted by them.
- f. The repositories of all users, administrator, and system identities and credentials are protected.

### 2. **Secure System Configuration Management:** To enhance resilience through system configuration, a DMB/PSP shall:

- a. Acquire and deploy systems/applications with in-built resilience configuration.
- b. Develop minimum security baseline configuration such as anti-malware; data loss prevention solutions; and systems security settings for workstations/laptops, servers, applications/software including network devices governed by vendor recommendations, informative references in Appendix V and the CBN guidelines.
- c. Devise mechanisms to logically apply and maintain their cybersecurity policies and security baseline configuration on systems, applications and network devices.
- d. Establish a Standard Operating Procedures (SOP) for all IT processes and activities.
- e. Audit the security configurations items on system and network devices to ensure compliance with preconfigured security settings.
- f. Devise a mechanism to monitor, detect, log and report all unauthorized system configuration changes; where possible, the mechanism shall re-apply the security configuration seamlessly.

### 3. **Cybersecurity Awareness Training:**

Educating employees, contractors and customers on cybersecurity is imperative for a secure cyberspace. To this end, a DMB/PSP shall:

- a. Develop cybersecurity awareness training contents, taking cognizance of the prevailing cyber threats, cyber risk, and various attack-vectors.
- b. Ensure that the content of the cybersecurity awareness training include information contained in the DMBs and PSPs' cyber security policy, roles and responsibilities of all parties, and emerging cyber -threats.
- c. Mandate all Board members and employees to participate the training programme.
- d. Ensure that third-party/vendor also undergo the bank's security awareness programme as well.
- e. Devise mechanisms to communicate cybersecurity awareness messages to all their customers in the language they understand irrespective of their location. To thwart social engineering attack among others, the messages shall be communicated in English and customers' understandable Nigerian local languages at least monthly or when there is an identified cyber-threat/attack vector via SMS, emails, radio, newspapers, etc.

### 4. **Data Loss Prevention:**

Protecting and controlling the accessibility and usage of customers Personal Identifiable

Information (PII) and bank's sensitive and critical information within and outside the corporate network is a major goal of cybersecurity resilience. Hence,

- a. A DMB/PSP shall develop a data loss/leakage prevention strategy to discover, monitor, and protect sensitive and confidential business and customer data/information at endpoints, storage, network, and other digital stores, whether online or offline.
- b. The strategy should provide but not limited to a mechanism that:
  - i. classifies both structured and unstructured data/information;
  - ii. discovers where sensitive/confidential data/information are stored;
  - iii. monitors how sensitive/confidential data/information are being used;
  - iv. continuously protects data whether the endpoint is on/off the corporate network;
  - v. addresses notable data loss concerns through USB, e-mail, mobile phones and web;
  - vi. takes prompt actions when a potential data breach is suspected or detected: e.g. blocking an employee's attempt to save a sensitive information to an external storage or network share drive; and
  - vii. establishes to management a reduction in data loss risk in institution.
- c. Critical and sensitive information on assets shall be formally managed throughout removal, transfers, and disposition. All assets identified for disposal shall undergo degaussing, and/or total destruction; in accordance with its approved policy.

- d.* A DMB/PSP shall validate that similar control exist at vendor managed facilities such as co-location data centers, and cloud service providers.

**5. System Life Cycle Management:**

In managing the life cycle of systems, a DMB/PSP shall:

- a.* Establish policies and procedures that consistently oversee the lifecycle (identification, acquisition/development, maintenance/update, and disposal) of applications, components, and systems.
- b.* Ensure that cybersecurity control are considered and incorporated in all stages of the system/application lifecycle. The business requirement for the acquisition/development of systems/applications shall also identify and document the security requirements. This includes but not limited to access control, access right management, authentication, event logging, audit trail, user session management, separation of duties, and least privilege, etc.
- c.* Validate that the systems/applications meet all other requirements (functional, performance, reliability, etc.) and any applicable CBN regulations before they are deployed.
- d.* Ensure that all in-house applications are developed in-line with secure coding practices such as threat modeling, input validation, least privilege, defense in-depth, and fail secure whilst mitigating against OWASP vulnerabilities. These applications shall also be thoroughly tested by a team of qualified software testers and business/application owners.
- e.* Separate the production/live environment from the development and testing environment(s).
- f.* Sanitize sensitive data in the development and testing environments by implementing a Data Masking solution to mask/fabricate bank"s and customers" sensitive information for the purpose of development, System and User Acceptance Tests.
- g.* Establish a procedure for the maintenance of on-site and remote organizational assets to prevent unauthorized access.
- h.* Adopt cryptographic controls such as public key infrastructure, hashing and encryption to guard confidential and sensitive information against unauthorized access.
- i.* Comply with the extant rules and regulations of your card schemes and associated stakeholder rules.

**6. Vulnerability Management:**

IT vulnerability management is an integral part risk management. To this end, a DMB/PSP shall promptly identify weaknesses in their IT infrastructure (database, applications, network etc.), account profiles (system administrators and privileged users), vendors, etc.

***a. Information Assets:***

To promptly identify all system vulnerabilities and cybersecurity risks to operations and IT assets, a DMB/PSP shall:

- i.* Implement a vulnerability management policy; approved by Executive Management
- ii.* Establish an automated mechanism to detect all vulnerabilities in its assets. This includes but not limited to workstations, network devices, servers

(production, test and development), etc. The vulnerabilities and threats shall be documented; potential business impact and likelihood shall also be identified.

- iii. Conduct vulnerability assessment at least quarterly or when there is a significant change (such as installation of new systems, devices, applications, etc.) to the bank's information processing infrastructure or when vulnerabilities are made known.
- iv. Further identify vulnerabilities in their assets by engaging professionals in this field to conduct Penetration Tests (PT) annually. However, PT shall be conducted frequently on internet-facing systems/applications.
- v. Continuously identify the inherent risks and vulnerabilities associated with IT platform/protocols used for business services e.g. USSD and SMS mobile Banking protocols.
- vi. Promptly categorize and resolve issues identified during vulnerability assessment based on their criticality, likelihood and impact. Subsequent validation to assess closure of such vulnerabilities shall also be done. The root cause of the identified vulnerabilities such as a flaw in security policy, system misconfiguration, inconsistent Standard Operating Procedure (SOP), noncompliance to change management processes, and superficial risk assessment shall also be addressed to thwart future occurrence.
- vii. Have a dedicated team that monitors the release of security patches/updates by their vendors / OEMs. Security updates are mandatory, and shall be deployed quickly in accordance with DMBs and PSPs' patch management policy. Patches for well-known or zero day vulnerabilities shall also be applied swiftly in accordance with its emergency patch management process.
- viii. Establish an efficient mechanism and processes to identify assets patch compliance status - on operating system and application software on users' laptops and desktop, servers (including those on the DMZ), virtual machines, etc. - and remedy patch deficiencies.

**b. System Administrators And Privileged Accounts:**

To limit exposure to insider threat, a DMB/PSP shall:

- i. Identify all employees and system/service accounts with super-privileges on each system, application, database, and device; and enforce segregation of duties and principle of least privilege for these accounts.
- ii. Where applicable, enforce password and account-management policies and practices to these accounts as-well. Use of shared default/anonymous privileged account by multiple users is highly prohibited.
- iii. Ensure that no single administrator have unfettered access to its critical systems. Logon credentials to critical systems, applications, and network shall be created and separately documented by at least 2 different employees.
- iv. Change the logon credentials of default system accounts on assets before they are connected to the network. This shall apply to test and development servers as well.

- v. Establish a strategy, mechanism and an intelligent procedure to log, monitor, and audit actions performed by these accounts. All logs/audit trails shall be preserved and regularly reviewed in accordance with each institution's account management policy.

c. **Vendors:**

A DMB/PSP shall ensure that:

- i. No vendor has unfettered access to its systems, database, network and applications (especially the core application).
- ii. If a vendor needs to access its information asset, management approval shall be sought only for the duration the access is required. Such access shall be administered by an authorized administrator.
- iii. No vendor given logged-on to its information assets shall be left unattended to. Their actions shall be logged and closely monitored at all time. If possible, conduct a background check on all vendor staff before they are granted access.

7. **Continuous Security Monitoring:**

There shall be an ongoing awareness of information security vulnerabilities and threats to support s DMB/PSPs risk management decisions. To improve surveillance, it shall:

- a. Determine what needs to be monitored by: gathering information about all systems, databases, and network that support business activities; analyze reports about cyber-incidents that have occurred in the past; evaluate the recommendations from both recent internal and third-party audits/ risk assessment of the network; and report of its cybersecurity self-evaluation.
- b. Identify the key dependent variables – people, system, database, network and services – that the technical components of the continuous monitoring strategy will depend on.
- c. Determine appropriate performance metrics for those variables; this includes but not limited to skills, system availability, event logging capability of systems to be monitored etc.
- d. Establish how the log data collected from various sources will be stored and secured.
- e. Define a continuous security monitoring policy/strategy; it shall include but not limited to the identified systems and processes, key dependent variables and their performance metrics, roles and responsibilities, duration to retain log data, events that would trigger these systems to send alerts, monitoring intervals/frequency, and how identified cyber-incidents / breaches will be contained, treated, documented, and reported.
- f. Determine a baseline of operations and expected data flows for users, systems, and network of the identified systems. This includes but not limited to logon hours, network traffic threshold, level of processor utilization, etc.
- g. Implement across all-delivery channels a risk-based transaction monitoring mechanism which shall securely notify customers of all payment or fund transfer transactions above a specified value defined by customers.
- h. Establish a non-intrusive real-time monitoring mechanism to collect, correlate, and detect anomalous user, administrator, system, and process/service

activities on critical system, database, and network in a timely manner while verifying the effectiveness of protective measures in place.

- i. Ensure that the mechanism provides Value Added Services (VAS) such as separating real events from nonimpact events (false positive), locating and containing events, sending alerts to appropriate staff for investigation, remediation, reporting, keeping historical data for the purpose of forensics, and managing operational risks.
- j. Monitor the physical environment of assets – server room, network devices, data center, disaster recovery site, and off-site storage location –to detect potential threats in a timely manner.
- k. Establish an effective and efficient non-intrusive mechanism to detect and perform remediation actions on malicious codes and unauthorized mobile codes on all systems (including those on the DMZ). For signature based solutions, frequency of update shall be at least daily.
- l. DMBs and PSPs that intends to or have cloud service providers shall be guided by the continuous security monitoring recommendation of Cloud Security Alliance (CSA).

#### 8. **Incident Response:**

This is an organized approach to addressing and managing the aftermath of a security breach or attack (also known as an „incident“) with an objective of reducing damage, recovery time and incident costs. For an effective and efficient Incident Response (IR), a DMB/PSP shall:

- a. Review its Disaster Recovery and Business Continuity plan documents (DR/BCP) with the business (stakeholders) to ensure they are adequate and effective to support cybersecurity resilience.
- b. Create a DR/BCP test calendar to ascertain the effectiveness and efficiency of the Disaster Recovery and Business Continuity plans.
- c. Test the DR/BCP. Lessons learned shall be incorporated into the DR/BCP documents as an improvement.
- d. Develop an IR policy with stakeholders. The IR policy shall stipulate:
  - i. the creation of a cyber-incident response plan; approved by the Board of Directors;
  - ii. Senior management and business process owners definition of an Acceptable Interruption Window (AIW) for all categories of cyber-incidents and performance metric at each stage of the IR process;
  - iii. the establishment of a dedicated team whose focus shall be on detecting and responding to cyber-incident;
  - iv. adequate and continuous training of the IR team on how to respond, report cyber-incidents, and conduct trend analysis to thwart future occurrence;
  - v. conducting cybersecurity drills based on the approved cyber-incident response plan and test schedule to ascertain its viability, effectiveness and efficiency;
  - vi. the adoption of automated detection tool such as network and system (endpoint) scanners; and alerts from Log Management solutions, Firewall, Intrusion Detection/Intrusion Prevention systems (ID/IPS), etc. for effective early detection of cyber-incidents;

- vii. appropriate chain of custody when collecting, analyzing and reporting cyberincident in a manner that is legally admissible; and
- viii. how crisis information shall be communicated and shared with stakeholders including the CBN and the public.

9. **Payment Service Provider Security Assurance Programme:**

To ensure that systems and data entrusted by a DMB/PSP (in a nested PSP relationship) to PSPs (entity) are maintained in a secure and compliant manner, the institution shall establish an assurance programme which shall include but not limited to:

- i. Launching a due diligence programme on proposed or existing PSP companies thorough vetting prior to establishing a relationship and after engagement to ensure that the entity holds skills and experience appropriate for the service provided.
- ii. Establishing written agreements and policies between it and the entity for consistency and mutual understanding of service provided on their respective responsibilities and obligations.
- iii. Continuous monitoring of the PSP's PCI DSS compliance status to provide an assurance of the PSP's compliance with the applicable requirements for the services provided.
- iv. Obtaining and reviewing the appropriateness of the entity's incident response, business continuity plan, and cyber-insurance coverage.
- v. Reviewing PSP compliance with your third-party security policies

## Appendix V: Informative References

ISO	Information Security Management Systems	<a href="https://www.iso.org/isoiec-27001-informationsecurity.html">https://www.iso.org/isoiec-27001-informationsecurity.html</a>
	Cybersecurity guideline	<a href="https://www.iso.org/standard/44375.html">https://www.iso.org/standard/44375.html</a>
NIST	Special Publications	<a href="https://www.nist.gov/publications/">https://www.nist.gov/publications/</a>
	Resource Center	<a href="https://beta.csrc.nist.gov/">https://beta.csrc.nist.gov/</a>
PCI Security Standard Council	Document Library	<a href="https://www.pcisecuritystandards.org/document_library">https://www.pcisecuritystandards.org/document_library</a>
COBIT 5	COBIT 5 for Information Security	<a href="https://isaca.org">https://isaca.org</a>

## Appendix VI: Cyber-Threat Intelligent Sources

### Internal Threat Intelligence (TI) sources

Internal intelligent data sources are those security events generated by the IT infrastructures of DMBs/PSPs. This includes systems and security logs, database activity logs, malware detection report, analysis of network traffic, etc.

1. A DMB/PSP shall have an approved Security Operations Center ("SOC") strategy as sub-set of the Cybersecurity framework (with clear mission, vision and objective) to support its overall business objectives, minimize cybersecurity risk, while meeting regulatory requirements.
2. The strategy shall explicitly state the model of SOC to be adopted (On-premise, In-house, Outsourced or Hybrid).
3. A DMB/PSP's approved organizational chart shall also depict the SOC structure and its team.
4. There shall be a dedicated and secure physical space for the SOC to engender teamwork, brain-storming, knowledge-sharing among members and quick response time.
5. Its ambience shall also be protected with both technical and physical controls and equipped with a TV to keep the SOC staff abreast of imminent cyber events which may affect the DMB/PSP information assets.
6. The SOC shall not just house sophisticated tools but equipped with a Security Information and Event Management (SIEM) solution that aggregates data from various security feeds to provide real-time analysis of security alert. Where applicable, the SOC shall be able to perform prompt remediation service.
7. For intuitive correlations and prompt visibility of the bank's security posture, feeds to the SIEM shall also include logs from network devices, vulnerability assessment systems; application and database scanners; penetration testing tools; IDS/IPS; and enterprise antivirus system.
8. It shall be up and manned continuously (24x7), managed and administered by skilled IT professionals with technical knowledge, experiences and suitable credentials in areas such as operating systems, networking, cryptography, database administrator, digital forensic, etc. For effective monitoring, shifts work schedule shall be adopted. At least two (2) members of the team shall manage the SOC at all time; responsibilities should be clearly defined.
9. The SOC team shall have adequate knowledge of the business, its environment and infrastructure in order to prioritize the most appropriate response when cyber-incidents occur.
10. The SOC shall have well documented processes to:
  - triage various types of cyber-incidents with appropriate response approved by the business process owners for operational consistency;
  - identify, analyze and report emerging threats; and
  - gather and preserve evidence for Forensic Investigation.
11. There shall be a capacity planning tool/process that communicates SOC infrastructure (SIEM) storage to enable the SOC team balance task workload with available resources.

12. At a minimum, the team shall comprise of a SOC Manager, Analysts and Intelligence Architects.
13. Risk and vulnerability assessment shall be conducted on the SOC infrastructure. The SOC infrastructure and processes shall be continually audited either as standalone or part of the cybersecurity process.
14. The SOC shall be able to provide input to the institution's Cybersecurity Awareness Training program based on the identified security incidents.
15. The SOC shall periodically provide cyber-incident reports to Board and Senior Management.
16. Although internal Threat Intelligence (TI) sources provide information that is peculiar to a DMB/PSP's environment, each institution is advised to subscribe to external TI sources for threats notification and possible mitigants.

**External TI sources:**

These are sources external to a DMB/PSP environment. They combine various sources of TI into a single source which is easy to understand.

1. A DMB/PSP shall subscribe to external TI providers such as data feeds from IT vendors; intelligence sharing group such as the NgCERT, FS-ISAC, ICS-CERT; other DMBs/PSPs; and relevant agencies to keep them informed of emerging cyber-threats and vulnerabilities.
2. Caution shall be exercised on open-source cyber-threat intelligence feeds due to high rate of false positive and/or false negative alerts.

## Risk-based Cybersecurity Self-Assessment Reporting for Deposit Money Banks (DMBs) and Payment Service Providers (PSPs)

### Introduction

In accordance with Section 3 of the Central Bank of Nigerian Risk-based Cybersecurity Security Framework, Deposit Money Banks (DMBs) and Payment Service Providers (PSPs) are expected to conduct a cybersecurity self-assessment. This assessment shall identify all cybersecurity vulnerabilities, threats, likelihood of successful exploit, potential impact (reputational, financial, and regulatory) to information assets; and the associated risks. The self-assessment shall include but not limited to identifying the adequacy of cybersecurity governance, policies, procedures and standards; inherent risks in the bank's business operations; visibility to all emerging threats to information assets; capability to swiftly respond and recover from cyber-incidents; and determining the potency of existing controls to mitigate the identified risks.

In-view of this extant regulation, DMBs and PSPs shall conduct and report their Risk-based Cybersecurity Self-Assessment using this template annually but not later than March 31st by the Chief Information Security Officer after its endorsement by the Executive Management. The report shall be submitted to the Director, Banking Supervision Department, Central Bank of Nigeria.

### Purpose

The objective is to determine the Cybersecurity resiliency of Nigerian DMBs and PSPs; the ability of DMBs and PSPs to maintain normal operations in spite of all threats and potential risks in the cyberspace.

Likelihood of occurrence	Impact Definition
<b>High</b>	The identified threat is active and prevalent; the DMB/PSP has little/ineffective/no controls in place to prevent the vulnerability from being exploited by the threat.
<b>Moderate</b>	The identified threat is active and prevalent; but the DMB/PSP has some controls in place which may be capable to prevent the vulnerability from being exploited by the threat.
<b>Low</b>	Identified threat does not apply to the DMB/PSP or the DMB/PSP has sophisticated and efficient controls in place which provides assurance that the risk may not crystallized.

**Definition of Terms:**

**Likelihood of occurrence:** This is the probability that an event will take place. Adopt the legend below to specify the likelihood of occurrence.

**Impact:** This is the potential damage caused by a cyber-attack (threat agent). Adopt the legend below to specify the magnitude of potential impact.

Magnitude of Impact	Impact Definition
High	Reputational damage; System down time > 6 hours for mission critical systems, loss of major tangible assets or resources; high monetary loss, violation of the CBN regulations on cybersecurity.
Moderate	Reputational damage; System down time > 1 hour but < 6 hours for mission critical systems, loss of minor tangible assets or resources; moderate monetary loss, or loss of tangible assets or resources.
Low	System down time < 1 hour for mission critical systems, insignificant monetary loss, loss of tangible assets or resources.

**Risk level:** To determine the risk level, DMBs/PSPs should consider the likelihood of a threat exploiting a vulnerability; the impact of a successful attack and the existence of security controls to mitigate the risk. Adopt the legend below to state the residual risk level.

Risk Level	Risk Level Definition
High	Corrective action(s) must be put in place immediately.
Moderate	Corrective action(s) must be put in place within a stipulated time
Low	The board shall accept the risk / determine if corrective actions are needed.

Name of Institution

Month, Year

CYBERSECURITY SELF-ASSESSMENT REPORT

Approved By: \_\_\_\_\_ Approval Date: \_\_\_\_\_

Approved By: \_\_\_\_\_ Approval Date: \_\_\_\_\_

CYBERSECURITY SELF-ASSESSMENT OF NAME OF YOUR INSTITUTION

**Scope**  
*State/ Describe the coverage of this Cybersecurity Self-Assessment*



**Cybersecurity Assessment Methodology**  
*State the tools/documents/guidelines/framework used to conduct this self-assessment*



**Identified Threats**

Threat No 1	Description of threat	Likelihood	Impact	Mitigating Control(s)	Residual Risk
		Likelihood of occurrence.	Level of impact		Risk level.
Comments to Control(s):					
Threats No 2	Description of threat	Likelihood	Impact	Mitigating Control(s)	Residual Risk
		Likelihood of occurrence.	Level of impact		Risk level.

Comments to Control(s):					
<b>Threats No 3</b>	<b>Description of threat</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigating Control(s)</b>	<b>Residual Risk</b>
		Likelihood of occurrence.	Level of impact		Risk level.
Comments to Control(s):					
<b>Threats No 4</b>	<b>Description of threat</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigating Control(s)</b>	<b>Residual Risk</b>

		Likelihood of occurrence.	Level of impact		Risk level.
Comments on Control(s):					
<b>Threat No 5</b>	<b>Description of threat</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigating Control(s)</b>	<b>Residual Risk</b>
		Likelihood of occurrence.	Level of impact		Risk level.
Comments on Control(s):					
<b>Threat No 6</b>	<b>Description of</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigating</b>	<b>Residual</b>

	<i>threat</i>			<b>Control(s)</b>	<b>Risk</b>
		Likelihood of occurrence.	Level of impact		Risk level.
<b>Comments on Control(s):</b>					
<b>Threat No 7</b>	<b>Description of threat</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigating Control(s)</b>	<b>Residual Risk</b>
		Likelihood of occurrence.	Level of impact		Risk level.
<b>Comments on Control(s):</b>					
<b>Threat No 8</b>	<b>Description of threat</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigating Control(s)</b>	<b>Residual Risk</b>
		Likelihood of occurrence.	Level of impact		Risk level.
<b>Comments on Control(s):</b>					
<b>Threat No 9</b>	<b>Description of threat</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigating Control(s)</b>	<b>Residual Risk</b>
		Likelihood of occurrence.	Level of impact		Risk level.

Comments on Control(s):						
<i>Threat No 10</i>	<i>Description of threat</i>	<i>Likelihood</i>	<i>Impact</i>	<i>Mitigating Control(s)</i>	<i>Residual Risk</i>	
		Likelihood of occurrence.	Level of impact		Risk level.	
Comments on Control(s):						
<b>Vulnerability Assessment</b>						
<i>Asset No 1</i>	<i>Description of Vulnerability</i>	<i>Threat</i>	<i>Likelihood</i>	<i>Impact</i>	<i>Mitigating Control(s)</i>	<i>Residual Risk</i>
			Likelihood of occurrence.	Level of impact		Risk level.
Comments on Control(s):					<i>Time Frame</i>	Time Frame to Close Vulnerability
<i>Asset No 2</i>	<i>Description of Vulnerability</i>	<i>Threat</i>	<i>Likelihood</i>	<i>Impact</i>	<i>Mitigating Control(s)</i>	<i>Residual Risk</i>

			Likelihood of occurrence.	Level of impact		Risk level.
<b>Comments on Control(s):</b>					<b>Time Frame</b>	Time Frame to Close Vulnerability
<b>Asset No 3</b>	<b>Description of Vulnerability</b>	<b>Threat</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigating Control(s)</b>	<b>Residual Risk</b>
			Likelihood of occurrence.	Level of impact		Risk level.
<b>Comments on Control(s):</b>					<b>Time Frame</b>	Time Frame to Close Vulnerability

<b>Asset No 4</b>	<b>Description of Vulnerability</b>	<b>Threat</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigating Control(s)</b>	<b>Residual Risk</b>
			Likelihood of occurrence.	Level of impact		Risk level.

<b>Comments on Control(s):</b>					<b>Time Frame</b>	Time Frame to Close Vulnerability
<b>Asset No 5</b>	<b>Description of Vulnerability</b>	<b>Threat</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigating Control(s)</b>	<b>Residual Risk</b>
			Likelihood of occurrence.	Level of impact		Risk level.
<b>Comments on Control(s):</b>					<b>Time Frame</b>	Time Frame to Close Vulnerability
<b>Asset No 6</b>	<b>Description of Vulnerability</b>	<b>Threat</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigating Control(s)</b>	<b>Residual Risk</b>
			Likelihood of occurrence.	Level of impact		Risk level.
<b>Comments on Control(s):</b>					<b>Duration</b>	Time Frame to Close Vulnerability

<i>Asset No 7</i>	<i>Description of Vulnerability</i>	<i>Threat</i>	<i>Likelihood</i>	<i>Impact</i>	<i>Mitigating Control(s)</i>	<i>Residual Risk</i>
			Likelihood of occurrence.	Level of impact		Risk level.
<i>Comments on Control(s):</i>					<i>Duration</i>	Time Frame to Close Vulnerability
<i>Asset No 8</i>	<i>Description of Vulnerability</i>	<i>Threat</i>	<i>Likelihood</i>	<i>Impact</i>	<i>Mitigating Control(s)</i>	<i>Residual Risk</i>
			Likelihood of occurrence.	Level of impact		Risk level.
<i>Comments on Control(s):</i>					<i>Duration</i>	Time Frame to Close Vulnerability

<i>Asset No 9</i>	<i>Description of Vulnerability</i>	<i>Threat</i>	<i>Likelihood</i>	<i>Impact</i>	<i>Mitigating Control(s)</i>	<i>Residual Risk</i>
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			Likelihood of occurrence.	Level of impact		Risk level.
<i>Comments on Control(s):</i>					<i>Duration</i>	Time Frame to Close Vulnerability
<i>Asset No 10</i>	<i>Description of Vulnerability</i>	<i>Threat</i>	<i>Likelihood</i>	<i>Impact</i>	<i>Mitigating Control(s)</i>	<i>Residual Risk</i>
			Likelihood of occurrence.	Level of impact		Risk level.
<i>Comments on Control(s):</i>					<i>Duration</i>	Time Frame to Close Vulnerability
<b>Justification</b>						
Based on the Threat Sources, Events and System Vulnerabilities Assessment completed above, the system's overall risk is Pick a Risk Level.						
<b>Reason</b>						

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*Conducted by Name & Signature*

*Title*

*Date*



**Central Bank of Nigeria**

**Cyber-Threat Intelligence Report Template for Deposit Money Banks (DMBs) and Payment Service Providers (PSPs)**

**Purpose**

The purpose of the cyber-threat intelligence reporting is to provide a risk-based approach to promptly identify emerging cyber threat, trends, patterns, risks, and their potential impact. It is not the aftermath of an incident but a proactive measure to mitigate against emerging cyber-risk.

**Definition of Terms:**

**Likelihood of Occurrence:** This is the probability that an event will take place. Adopt the legend below to specify the likelihood of occurrence.

Likelihood of occurrence	Impact Definition
High	The identified threat is active and prevalent; the DMB/PSP has little/ineffective/no controls in place to prevent the vulnerability from being exploited by the threat.
Moderate	The identified threat is active and prevalent; but the DMB/PSP has some controls in place which may be capable of preventing the vulnerability from being exploited by the threat.
Low	Identified threat does not apply to the DMB/PSP or it has sophisticated and efficient controls in place which provides assurance that the risk may not crystalize.

**Impact:** This is the potential damage caused by a cyber-attack (threat agent). Adopt the legend below to specify the magnitude of potential impact.

Magnitude of Impact	Impact Definition
<b>High</b>	Reputational damage; System down time > 6 hours for mission critical systems, loss of major tangible assets or resources; high monetary loss or violation of the CBN regulations on cybersecurity.
<b>Moderate</b>	Reputational damage; System down time > 1 hour but < 6 hours for mission critical systems, moderate monetary loss, loss of tangible assets or resources.
<b>Low</b>	System down time < 1 hour for mission critical systems, insignificant monetary loss, loss of tangible assets or resources.

**Risk level:** To determine the risk level, DMB/PSP should consider the likelihood of a threat exploiting a vulnerability; the impact of a successful attack and the existence of security controls to mitigate the risk. Adopt the legend below to state the residual risk level.

Risk Level	Risk Level Definition
<b>High</b>	Corrective action(s) must be put in place immediately.
<b>Moderate</b>	Corrective action(s) must be put in place within a stipulated time
<b>Low</b>	The board shall accept the risk / determine if corrective actions are needed.

CYBER-THREAT INTELLIGENCE REPORT OF ..... NAME OF INSTITUTION

Name of Institution

Month, Year

CYBER-THREAT INTELLIGENCE REPORT

Approved By: \_\_\_\_\_ Approval Date: \_\_\_\_\_

Approved By: \_\_\_\_\_ Approval Date: \_\_\_\_\_

**Identified Cyber-Threats**

<b>Identified Cyber-Threats</b>								
<i>S/No</i>	<i>Threat(s) Name and Description</i>	<i>Date detected</i>	<i>How was the threat identified (Internal/External Source)</i>	<i>Potential Victim(s)/ Targeted Asset</i>	<i>Likelihood</i>	<i>Impact</i>	<i>Security Controls In Place</i>	<i>Level of Residual Risk</i>
		<i>Select Date</i>			<i>Likelihood of successful attack.</i>	<i>Level of impact if successful</i>		<i>Risk level with the controls in place.</i>
<i>Comments</i>								
<i>S/No</i>	<i>Threat(s) Name and Description</i>	<i>Date detected</i>	<i>How was the threat identified (Internal/External</i>	<i>Potential Victim(s)/</i>	<i>Likelihood</i>	<i>Impact</i>	<i>Security Controls In Place</i>	<i>Risk level</i>

			<i>Source)</i>	<i>Targeted Asset</i>				
		Select Date			Likelihood of successful attack.	Level of impact if successful		Risk level with the controls in place.
<i>Comments</i>								
<i>S/No</i>	<i>Threat(s) Name and Description</i>	<i>Date detected</i>	<i>How was the threat identified (Internal/External Source)</i>	<i>Potential Victim(s)/ Targeted Asset</i>	<i>Likelihood</i>	<i>Impact</i>	<i>Security Controls In Place</i>	<i>Level of Residual Risk</i>
		Select Date			Likelihood of successful	Level of impact if successful		Risk level with the controls

					attack.			in place.
<b>Comments</b>								
<b>S/No</b>	<b>Threat(s) Name and Description</b>	<b>Date detected</b>	<b>How was the threat identified (Internal/External Source)</b>	<b>Potential Victim(s)/ Targeted Asset</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Security Controls In Place</b>	<b>Level of Residual Risk</b>
		Select Date			Likelihood of successful attack.	Level of impact if successful		Risk level with the controls in place.
<b>Comments</b>								

<i>S/No</i>	<i>Threat(s) Name and Description</i>	<i>Date detected</i>	<i>How was the threat identified (Internal/External Source)</i>	<i>Potential Victim(s)/ Targeted Asset</i>	<i>Likelihood</i>	<i>Impact</i>	<i>Security Controls In Place</i>	<i>Level of Residual Risk</i>
		Select Date			Likelihood of successful attack.	Level of impact if successful		Risk level with the controls in place.
<i>Comments</i>								
<i>S/No</i>	<i>Threat(s) Name and Description</i>	<i>Date detected</i>	<i>How was the threat identified (Internal/External Source)</i>	<i>Potential Victim(s)/ Targeted</i>	<i>Likelihood</i>	<i>Impact</i>	<i>Security Controls In Place</i>	<i>Level of Residual Risk</i>

				<b>Asset</b>				
		Select Date			Likelihood of successful attack.	Level of impact if successful		Risk level with the controls in place.
<b>Comments</b>								
<b>S/No</b>	<b>Threat(s) Name and Description</b>	<b>Date detected</b>	<b>How was the threat identified (Internal/External Source)</b>	<b>Potential Victim(s)/ Targeted Asset</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Security Controls In Place</b>	<b>Level of Residual Risk</b>
		Select Date			Likelihood of successful	Level of impact if		Risk level with the controls

					attack.	successful		in place.	
<b>Comments</b>									
<hr/> <hr/> <div style="display: flex; justify-content: space-between; margin-top: 20px;"> <div style="width: 60%;"> <p><i>Prepared by Name &amp; Signature</i></p> <p><i>Date</i></p> </div> <div style="width: 35%; text-align: right;"> <p><i>Title</i></p> </div> </div>									



## **Central Bank of Nigeria Security Incident Reporting Template For Deposit Money Banks (DMBs) and Payment Service Providers (PSPs)**

Security incidents must be reported by DMBs to the Director, Banking Supervision, Central Bank of Nigeria within the first six hours of the incident happening. Additional updates must be provided if the earlier reporting was incomplete, (i.e. new information due to investigation). Also, where necessary, additional document should be provided and appended to this form.

**CONTACT INFORMATION**

DMB's/PSP's Name:

Staff Name:

Designation:

Department:

Phone No:

Email:

Additional Contact Details:

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<b>INCIDENT DETAILS</b>	
Date & Time Incident was Discovered:	
New Incident	Update to Incident
<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
	<i>Please provide reference to previous incident:</i>
Date & time Incident was detected:	
Type of Incident Detected:	

Unauthorised Access

Advanced Persistent Threat

Phishing

Denial of Service

Inappropriate/Misuse  
of system

of Unplanned Downtime

Unauthorised  
Access or Credential Abuse

Use

Website Defacement

Malicious Code

If other, please state:

Others

Sustained Probe/Scan

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**Description of Incident:**

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**Incident Impact :**

- |  |  |
|--|--|
| <input type="checkbox"/> Outage of Critical IT System  | <input type="checkbox"/> Theft or Loss of Customer Information |
| <input type="checkbox"/> Loss of sensitive Information | <input type="checkbox"/> Outage of Infrastructure              |

<input type="checkbox"/> Financial Loss <input type="checkbox"/> Regulatory & Legal <input type="checkbox"/> Cybersecurity Incident (DOS, Ransomware etc.) <input type="checkbox"/> Others. If other, please state:	<input type="checkbox"/> <input type="checkbox"/>
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Impact	Impact Definition
High	Critical system(s), customer facing applications/systems, internal network or a combination is impacted. System downtime is experienced.
Moderate	Systems or network that can put the DMB"s/PSP"s network, critical system(s) or a combination at risk is impacted. May lead to system downtime.
Low	Non-critical system(s) was impacted.

**Please select impact:**

High

Moderate

Low

**Description of Impact:**

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<b>Impact Category</b>	<b>Low</b>	<b>Medium</b>	<b>High</b>
<b>Financial</b>			
<b>Reputation</b>			
<b>Functional/Operational</b>			
<b>Legal &amp; Regulatory</b>			

**Description of Impact Category:**


Does the affected critical system(s)/ network(s) have potential impact on another critical system/critical asset(s) of the DMB/PSP? If "Yes", please provide more details:

**Incident Notification**

Internal Management

CBN

Affected Customer

Law enforcement (Police, EFCC, etc.) Others

If other, please state:

**INCIDENT ACTIONS**

**Incident Detection: (Date, Time and Details):**

<b>Affected System or Network: (Date, Time and Details):</b>
<i>Please provide details on location, purpose of this system/ network, affected applications (including hardware, manufacturer, software developer, make/ model, operating system, database version etc.) running on the systems/networks, etc., If known, any TCP or UDP ports involved in the incident; If known, provide the affected system's IP address If known, provide the attacker's IP address:</i>

<b>Containment Measures:</b>

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<b>Evidence Collected (Systems Logs, etc.):</b>

<b>Eradication Measures:</b>

<b>Recovery Measures:</b>

**Other Mitigation Actions:**

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**Acronyms**

AIW	Acceptable Interruption Window
APT	Advanced Persistent Threat
ATM	Automated Teller Machine
AOC	Attestation of Compliance
AOSC	ASV Scan Report Attestation of Scan Compliance
BCP/DR	Business Continuity/ Disaster Recovery Plan
BYOD	Bring Your Own Device
CSA	Cloud Security Alliance
COBIT	Control Objectives for Information and related Technology
DMB	Deposit Money Bank
DMZ	Demilitarized Zone
FFIEC	Federal Financial Institutions Examination Council
FS-ISAC	Financial Services Information Sharing and Analysis Center

ICS-CERT	Industrial Control Systems Cyber Emergency Response Team
IDS	Intrusion Detection System
IP Phones	Internet Protocol Phones
IPS	Intrusion Prevention System
ISO	International Organization for Standardization
LAN	Local Area Network
NIST	National Institute of Standards and Technology
NgCERT	Nigeria Computer Emergency Response Team
OEMs	Original Equipment Manufacturer
OWASP	Open Web Application Security Project
PCI DSS	Payment Card Industry Data Security Standard
POS	Point of Sale
PSP	Payment Service Provider
ROC	Report on Compliance
SAQ	Self-Assessment Questionnaire
SMS	Short Message Service
TV	Television Set
USSD	Unstructured Supplementary Service Data

## Glossary

2-Factor Authentication	This is a process in which a user provides two different authentication factors to verify his identity.
Access Control Matrix	Access Control Matrix is a security model in computing that defines the access rights or authorization of each subject with respect to objects in the system.
Acceptable Interruption Window	This is the maximum allowable time of interrupting mission critical systems or applications before restoration.
Advanced Persistent Threat	APT is a targeted network attack in which an unauthorized malicious entity gains access to a network and remains undetected for a long period of time.
Anti-Skimming Device	This is a device that prevents fraudulent capture of personal data from the magnetic stripes cards when they are used on devices such as an ATM.
Automated Teller Machine	This is an intelligent electronic banking channel, which allows banks" customers have access to basic banking services without the aid of any bank representative.
Business Continuity/ Disaster Recovery Plan	These are planned processes that help DMB/PSP prepare for disruptive events and recover within a short period.
Bring Your Own Device	BYOD is a privilege given to employees to use their personally owned devices (laptops, smart phones, etc.) to access information and resources of their work place.
Cloud Security Alliance	A non-profit organization with a mission to "promote the use of best practices for providing security assurance within Cloud Computing, and to provide education on the uses of Cloud Computing to help secure all other forms of computing"
Cyberspace	This is an imaginary environment where communication

	over computer networks occurs
Demilitarized Zone	A demilitarized zone or DMZ in computing is a physical or logical sub-network that separates the trusted (internal local area network) from other untrusted networks (Internet). It houses external-facing servers, resources and services meant to be accessed from the internet.
False Positive	A false positive is a false alarm generated by a device, process or entity; usually based on preconfigured rules or logic.
False Negative	False negative occurs when a security device omits a vulnerability
Firewall	This is a network security system or software that has the capability to monitor and control incoming and outgoing network traffic based on preconfigured rules.
Financial Services Information Sharing and Analysis Center	This is a global financial industry's information sharing organization that provides timely authoritative information on physical and cyber security threats to help protect the critical systems and assets of its members.
Intrusion Detection System	A device or software/application that monitors a DMB/PSP's network or systems for policy violations and/or malicious activities.
Internet Protocol Phone	A phone built on Voice over IP technologies (VoIP) for transmitting
	telephone calls over an IP network, such as the Internet.
Intrusion Prevention System	This is a network threat prevention technology that examines network traffic to identify possible threats while preventing potential exploits of system vulnerabilities.
Internet	An internet is an interconnected computer networks linked by the internet protocol suite.

International Organization for Standardization	ISO is a non-governmental organization with a mission to “promote the development of standardization and related activities in the world with a view to facilitating the international exchange of goods and services, and developing cooperation in the spheres of intellectual, scientific, technological and economic activity.”
Local Area Network	A computer networking technology that links devices within a specific range.
Log Management	This is an automatic way of dealing with large volumes of system-generated logs. It usually comprises of Log collection, correlation, analysis, search, reporting and retention.
Malicious code	Any code or script developed with an intention to cause undesired effects, security breaches or damage to a system.
Mobile code	Any malicious programme, application, or script capable of moving when implanted in an email, document or website.
Nested Payment Service Provider	Any entity that is contracted for its services by another payment service provider for the purposes of providing a service.
Non-Disclosure Agreement	A legal contract or agreement between two or more parties that outlines a degree of confidentiality.
Nigeria Computer Emergency Response Team	A team of experts in the Office of the Nigerian National Security Adviser with a mission to “manage the risks of cyber threats in the Nigeria’s cyberspace and effectively coordinate incident response and mitigation strategies to proactively prevent cyber-attacks against Nigeria” .
Nigeria Cybercrime Act, 2015	This is the first cybercrime bill enacted by the National Assembly of the Federal Republic of Nigeria in 2015.
Open-source cyberthreat	A platform, blog, database that collects, stores and share information on emerging cyber threats, indicators and

intelligence	trends to its subscribers.
Open Web Application Security Project	This is a non-profit organization that provides journals, methodologies, documentation, and development of best practices, in the field of web application security at no cost.
Payment Card Industry Data Security Standard	This is an information security standard for DMB/PSPs that collect, process, store and transmit cardholder data.
Payment Service Providers	These are third-party service providers who use their infrastructure to store, process, or transmit DMB's customer information including cardholders' data.
Point of Sale terminal	This is a device that accepts payment cards for electronic funds transfers.
Privileged user	Any user who by virtue of function has super system-rights in any computer, application, database, device, etc.
Patches	These are software designed to improve the features, security, etc. of a system, device, and application/software.
Service Level Agreement	This is a contract between a service provider and a subscriber; who defines the level of service expected from such service provider.
Standard Operating Procedure	This is a step-by-step instruction on carrying out routine operations/tasks. Its purpose is to achieve uniformity of performance, efficiency and quality output at all time.
Threat	Anything that has the potential to cause damage or loss to an information asset.
Unstructured Supplementary Service Data	This is a communication technology used to send message between a mobile phone and an application on a network.
Value Added	A term used to describe non-core services of a service

Service	provider but offered to its customers.
Vendors	Provider of goods or services to DMB/PSP
Vulnerability	This is a weakness or gap in a system, application, process, device, etc.

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Central Business District  
P.M.B. 0187  
Garki. Abuja.

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09-462-3640 |

**BSD/DIR/GEN/LAB/11 /006**

March 1, 2018

## **LETTER TO ALL BANKS**

### **COMPLIANCE WITH THE CYBERCRIME (PROHIBITION, PREVENTION, ETC.), ACT 2015: COLLECTION AND REMITTANCE OF LEVY FOR THE NATIONAL CYBERSECURITY FUND**

Pursuant to the provisions of Section 44 (S.1 and 2) of the Cybercrime [Prohibition. Prevention. etc.]. Act 2015. which established the National Cyber Security Fund and mandated the payment of a levy of 0.005% into the Fund Account in the Central Bank of Nigeria. A National Cyber Security Fund account has been opened and domiciled in the Central Bank of Nigeria.

Consequently, all banks are hereby directed to comply with the statutory provision for the collection and remittance of the 0.005% levy on all electronic transactions by the businesses specified in the second schedule of the Cybercrime (Prohibition, Prevention, etc.) Act, as follows:

1. GSM Service Providers and all telecommunication companies;
2. Internet Service Providers;
3. Sanks and Other Financial Institutions;
4. Insurance Companies; and
5. Nigerian Stock Exchange.

All levies imposed under the Act should be remitted to the CBN within a period of 30 days after collection.

This directive takes immediate effect.

Yours faithfully,

**THOMPSON O. SUNDAY**

**FOR: DIRECTOR OF BANKING SUPERVISION**

Central Bank of Nigeria  
Banking Supervision Department  
Central Business District  
P.M.B. 0187  
Garki. Abuja.

E-mail: [bsd@cbn.gov.ng](mailto:bsd@cbn.gov.ng)

09-462-3640 I

REF: BSD/DIR/GEN/LAB/11/002

January 31, 2018

## **LETTER TO ALL BANKS**

### **RE: INTERNAL CAPITAL GENERATION AND DIVIDEND PAYOUT RATIO**

Please recall that the Central Bank of Nigeria issued a Circular dated October 8, 2014 referenced BSD/DIR/GEN/1.AB/07/033 on the above subject. Kindly note an addition/amendment for the Circular as in item 4.0(4). All other provisions remain unchanged.

1.0 Globally, retained earnings have been identified as an important source of growing an institutions capital. Advantages of retained earnings include: being a source of long term finance; being easier and cheaper to raise than external finance; curtailment of financial risk; and improving liquidity and profitability.

2.0 However, it has been observed that rather than take advantage of this beneficial means of capital generation, some institutions pay out a greater proportion of their profits, irrespective of their risk profile and the need to build resilience through adequate capital buffers.

3.0 Prior to now, dividend payout policy for banks has been as stipulated in Section 16(1) of BOFIA 2004 (as amended) and Prudential Guidelines for DMBs of 2010 which state that "Every Bank shall maintain a reserve fund and shall, out its net profits for each year (after due provision for taxation) and before any dividend is declared, where the amount of the reserve fund is:

a. Less than the paid-up share capital, transfer to the reserve fund a sum equal to but not less than thirty per cent of net profits; or

b. Equal to or in excess of the paid-up share capital, transfer to the reserve fund a sum equal to but not less than fifteen per cent of the net profit: provided that no transfer under this subsection shall be made until all identifiable losses have been made good.

3.1 Section 16 (3) also states that: Notwithstanding (a) and (b) of subsection (1), the Bank may, from time to time specify a different proportion of the net profits of each year, being lesser or greater than the proportion specified in paragraph (a) and (b) to be transferred to the reserve fund of a bank for the purpose of ensuring that the amount of the reserve fund of such bank is sufficient for the purpose of its business and adequate in relation to its liabilities.

3.2 Subsequently, Section (17) (!) Stipulates that no bank shall pay dividend on its shares until-

All its preliminary expenses organisational expenses share selling commission, brokerage, amount of losses incurred and other capitalised expenses not represented by tangible assets have been completely written off; and adequate provisions have been made to the satisfaction of the bank for actual and contingency losses on the risk assets, liabilities, off balance sheet commitments and such unearned incomes as are derivable therefrom.

3.3 While these regulations are aimed at building the statutory reserves of supervised banks, in view of the dynamism, rapid changes and emerging risks on the horizon, there is a need to proactively address these risks.

**4.0 In order to facilitate sufficient and adequate capital build up for banks in tandem with their risk appetite, the following directives will now apply:**

1. Any Deposit Money Bank (DMB) or Discount House (DH) that does not meet the minimum capital adequacy ratio shall not be allowed to pay dividend.

2. DMBs and DHs that have a Composite Risk Rating (CRR) of High" or a Non-Performing Loan (NPL) ratio of above 10% shall not be allowed to pay dividend.

3. DMBs and DH that meet the minimum capital adequacy ratio but have a CRR of "Above Average" or an NPL ratio of more than 5% but less than 10% shall have dividend payout ratio of not more than 30%.
4. DMBs and DHs that have capital adequacy ratios of at least 3% above the minimum requirement, CRR of "Low" and NPL ratio of more than 5% but less than 10%. Shall have dividend pay-out ratio of not more than 75% of profit after tax.
5. There shall be no regulatory restriction on dividend pay-out for DMBs and DH that meet the minimum capital adequacy ratio, have a CRR of "low" or "moderate" and an NPL ratio of not more than 5%. However, it is expected that the Board of such institutions will recommend payouts based on effective risk assessment and economic realities.
6. No DMB or DH shall be allowed to pay dividend out of reserves.
7. Banks shall submit their Board approved dividend payout policy to the CBN before the payment of dividend shall be permitted.

All ratios shall be based on financial year averages.

This circular takes immediate effect.

**AHMAD ABDULLAHI**

**Director, Banking Supervision**



**BSD/DIR/GEN/LAB/10/045**

December 11, 2017

**LETTER TO ALL BANKS**

**RE: REGULATORY REPORTING OF FGN-ISSUED TREASURY BILLS AND CBN-ISSUED OMO BILLS**

Further to our earlier circular ref: BSD/DIR/GEN/RRTB/06/027 and dated 12th June 2017 on the above subject, the CBN has noted that banks' still lump FG-issued Treasury Bills and CBN-issued OMO Bills in the daily and monthly returns through FinA as "Treasury Bills".

This practice has grave implications on the compilation and interpretation of monetary aggregates, and may lead to the adoption of time inconsistent monetary policy decisions.

Consequently, all banks are hereby reminded of the requirement to report CBN-issued OMO Bills in the DBR/ MBR 300 under Items Code 11450 to 11550; whereas FGN-issued Treasury Bills should be reported separately under Items Code 10490 to 10590.

Banks are to ensure that these reporting formats are strictly adhered to; failing which appropriate sanctions shall be appropriately meted out.

Yours faithfully,

**AHMED ABDULLAHI**  
**DIRECTOR OF BANKING SUPERVISION**



09-462-36401

**BSD/DIR/GEN/LAB/10/032**

September 6, 2017

Letter to All Banks

**FURTHER GUIDANCE TO BANKS AND DISCOUNT HOUSES ON THE IMPLEMENTATION OF IFRS 9 (FINANCIAL INSTRUMENTS) IN NIGERIA**

Further to the Guidance Notes on the Implementation of IFRS 9 (Financial Instruments) in the Nigerian banking sector issued by the Central Bank of Nigeria on December 20, 2016, banks are required to note that the commencement date for the parallel run of IAS 39 and IFRS 9 system requirements has been shifted to October 1, 2017. This is to enable banks conclude the deployment of their newly developed ECL Models and implementation of IFRS 9 accounting policies for classification and measurement as well as impairment calculations.

Also, banks are required to assess the financial impact of the implementation of IFRS 9 on their operations. The assessment reports which should detail comprehensively the expected impact on total provisions, capital and reserves as well as capital adequacy as at June 30, 2017, should reach the undersigned on or before October 31, 2017.

Yours faithfully,

**THOMPSON O. SUNDAY**  
**FOR: DIRECTOR OF BANKING SUPERVISION**



09-462-364-15

09-462-364-18

BSD/GDB/CON/NIB/01/03

August 1, 2017.

**LETTER TO ALL NON-INTEREST FINANCIAL INSTITUTIONS  
MONITORING THE DISBURSEMENT OF NON-PERMISSIBLE INCOME (NPI)**

The Financial Regulation Advisory Council of Experts (FRACE) at its 15th meeting held between 3rd and 4th May, 2017 resolved that the Advisory Committee of Experts (ACE) of all Non-interest Financial Institutions (NIFIs) are required to monitor the disposal of Non-Permissible Income generated in the course of the NIFIs operations. Specifically, FRACE had directed that it is not permissible for a NIFI, its shareholders and management staff, to benefit in any way from the NPI that is given to charity, even if that benefit is the goodwill that the NIFI will achieve as a result of publicizing the payment (Section 1a of the 10th FRACE Resolutions, February, 2015).

To this end, the ACE of all NIFIs are required to send a report of the disposal of Non-Permissible Income to the Director of Banking Supervision on a quarterly basis.

Please, be guided accordingly.

Yours Faithfully,

**K. O. BALOGUN  
FOR: DIRECTOR OF BANKING SUPERVISION**



09-462-36401

March 31, 2017

**BSD/DIR/GEN/LAB/10/016**

**LETTER TO ALL BANKS  
REVISED GUIDELINES ON BANCASSURANCE REFERRAL MODEL**

In furtherance of our efforts to ensure that banks comply with the Regulation on the Scope of Banking Activities & Ancillary Matters, No. 3, 2010, the CBN hereby issues the Revised Guidelines on Bancassurance Referral Model to address developments both in the banking and insurance sectors. These Guidelines are a replacement to the one issued in March 2015.

Banks are therefore required to ensure that their offering of Bancassurance referral services is in line with the provisions of the Guidelines effective April 1, 2017.

Please be guided accordingly.

Yours faithfully,

**AHMAD ABDULLAHI  
DIRECTOR OF BANKING SUPERVISION**

**REVISED GUIDELINES ON  
BANCASSURANCE REFERRAL MODEL**

**Banking Supervision Department  
Central Bank of Nigeria  
March, 2017**

## 1.0 Introduction

In 2010, the CBN Regulation on the Scope of Banking Activities and Ancillary Matters No. 3, 2010 was issued to repeal the Universal Banking Model, which hitherto permitted banks to engage in non-core banking financial activities either directly or indirectly through designated subsidiaries.

In the light of developments and the need to ensure synergy in the financial system, the Central Bank of Nigeria (CBN) in exercise of its power under Section 33(1) (b) of the CBN Act 2007 and the provision of Part 2, Section 3, Item (I) of the CBN Scope, Conditions & Minimum Standards for Commercial Banks Regulations No. 01, 2010 has considered it necessary to issue these guidelines on Bancassurance.

The guidelines set out the regulatory framework for the offering of bancassurance products through the non-integrated referral model. The choice of this model is premised on the fact that it does not preclude banks from focusing on their core banking businesses and does not undermine the essence of the CBN's New Banking Model.

## 2.0 Definitions

**Bancassurance** - An arrangement in which insurance companies leverage on the customer base of banks to sell insurance products to banks' customers.

**Referral Model** - In this model, a bank refers its customers to its partner insurance companies. In return, the bank receives a commission on each lead closed by the insurance company. The bank is not involved in marketing the products.

**Bancassurance Agreement** - A contract duly executed between a bank and an insurance company to engage in the referral model of bancassurance.

**Bancassurance Products** - Insurance products which fall under the General and Life insurance business that would be sold to banks' customers by the insurance company under a bancassurance referral model agreement. The product is distinct from insurance covers that serve as mitigants for losses against credit and other risks.

**Commission** - Referral fee payable to the bank by the insurance company in line with the provisions of the Bancassurance Agreement.

## 3.0 Prohibited Business

1. Banks shall not engage in any other model of bancassurance other than that permitted under these guidelines and for which approval has been obtained from the CBN.
2. Banks shall not offer banking products that incorporate insurance features.
3. Banks shall not offer free premium payments as a feature of any of their products.

4. Banks shall not provide the bancassurance referral service in a manner that contravenes this guidelines.

#### **4.0 Bancassurance Arrangement between Banks and Insurance Companies**

1. The referral model of bancassurance arrangement between a bank and an insurance company shall not be valid without an executed Bancassurance Agreement.
2. Banks shall not undertake any insurance marketing, underwriting or claim settlement. This must be clearly stated in the Bancassurance Agreement.
3. Banks shall ensure that no risks are transferred to it and shall not assume any fiduciary responsibility or liability for any consequences, financial or otherwise, arising from the subscription to insurance policies by their customers under the Bancassurance Referral Model.
4. Banks shall conduct a thorough due diligence/periodic assessment for the selection of partner insurance companies, which would be restricted to two insurance companies.
5. Banks shall ensure that only insurance products approved by NAICOM are offered by their partner insurance companies to their customers.
6. Banks shall not enter into bancassurance agreement with insurance companies who do not hold a valid operational license from National Insurance Commission (NAICOM).

#### **5.0 Approval**

The offering of bancassurance referral services by a bank is subject to the CBN's approval. A bank that intends to offer bancassurance referral services is required to submit the following alongside its application:

1. Extract of Board resolution approving the service.
2. The Bancassurance Agreement between the bank and the insurance company, which should at the minimum set out:
  - a. The bancassurance products to be offered by the insurance company;
  - b. The duties and responsibilities of each of the parties under the arrangement during and upon termination of the contract;
  - c. The conditions for the termination of the agreement;
  - d. The commission to be charged for the referral services should be as approved by NAICOM;
  - e. The duration of the contract and whether it is renewable;
  - f. Dispute resolution mechanism and measures to safeguard confidential information;
  - g. Disclaimer that the products shall be underwritten by the insurance company with no recourse to the bank in terms of claims or any legal

proceedings between the insurance company and the bank's customer;  
and

h. Other relevant information.

3. The bank's assessment of risks and mitigants put in place.

Upon approval, the bank shall forward the signed copy of the bancassurance agreement to the CBN. Upon expiration, banks shall notify the CBN of the renewal of the bancassurance agreement.

Any amendment to the bancassurance agreement shall be subject to the approval of the CBN. Upon the termination of the agreement, the bank shall notify the CBN stating the reason(s) for the termination.

#### **6.0 Marketing of Bancassurance Products and Policy Documents**

1. Banks shall only refer their customers to insurance companies. Thus, marketing of the insurance products shall be done by the staff of the insurance companies.

2. The referral document shall contain a disclaimer that the products shall be underwritten by the insurance company with no recourse to the bank in terms of claims or any legal proceedings between the insurance company and the bank's customer.

3. The insurance products to be sold shall be strictly the products of the insurance company.

4. The bank's name or logo shall not appear in any of the policy documents.

5. The insurance marketers may be allowed to occupy a space in the banking hall of the bank.

6. Banks shall maintain adequate records of all transactions which will be reviewed during supervisory activities.

#### **7.0 Premium Collection**

1. The premium paid by the customer may be paid into the insurance company's account in the bank; if the bank is a banker to the insurance company under a customer/banker relationship and with a valid instruction from the customer.

#### **8.0 Referral Commission**

1. Insurance companies shall pay to the banks all agreed commission(s) on consummated transactions as approved by NAICOM.

2. The applicable commission(s) shall be clearly stated in the Bancassurance Agreement.

#### **9.0 Claims Handling and Settlement**

1. Banks shall not be responsible for claims handling and settlement as these are the responsibilities of the insurance companies.

2. The insurance companies shall be solely responsible for the collection of necessary documents and information related to claims.

#### **10.0 Consumer Protection Safeguards**

1. The referral shall be based on the need of the customers as assessed by the banks and would be advisory in nature. This shall be made known to the customer.
2. Banks are prohibited from influencing or compelling customers in any way to take up insurance products from insurance companies they have bancassurance referral agreement with.
3. Banks shall not charge their customers service fee, processing fee, administration charge or any other fee for the referral.
4. Banks shall ensure the confidentiality of consumer data and information.
5. Banks shall ensure that the insurance company has in place an appropriate complaints redress mechanism.

#### **11.0 Annual disclosure**

Banks shall disclose in the notes to the annual financial statements referral commission earned from bancassurance services.

#### **12.0 Sanction for Non-Compliance**

Banks should ensure compliance with these guidelines as any breach of the Guidelines shall attract sanctions in accordance with Section 64(1) of the BOFIA 2004. In addition, the bank may be prohibited from offering bancassurance referral services.

**Banking Supervision Department**

**Central Bank of Nigeria**

**March, 2017**



09-462-36401 February 13, 2017

**BSD/DIR/GEN/LAB/10/009**

## **LETTER TO ALL BANKS**

### **REVIEW OF THE LIMIT ON FOREIGN BORROWING BY BANKS**

The recent depreciation in the value of the currency has led to an increase in the Naira equivalent of foreign currency denominated borrowings by banks. A major consequence of this development was the inadvertent breach of the regulatory limit for foreign currency borrowings (75% of shareholders' funds unimpaired by losses) by some banks. To address this development, banks are advised to be guided by the following requirements regarding their foreign currency exposures:

1. The aggregate foreign currency borrowing of a bank excluding inter-group and inter-bank (Nigerian banks) borrowing should not exceed 125% of shareholders' funds unimpaired by losses.
2. The Net Open Position (Long or short) of the overall foreign currency assets and liabilities taking into cognizance both on and off-balance sheet items should not exceed 10% of shareholders' funds unimpaired by losses using the Gross Aggregate Method.

In addition, banks are required to institute the following risk mitigation strategies, among others, around their foreign currency borrowings:

- All borrowings should be hedged using financial market tools acceptable to the CBN;

- Borrowings must be subordinated debts with prepayments allowable only at the instance of the bank and subject to the prior approval of the CBN; and
- All debts, with the exception of trade lines, should have a minimum fixed tenor of 5 years.

Banks are also directed to report their utilisation of all FCY borrowings to the CBN on a monthly basis.

Please note that these Guidelines take immediate effect.

Thank you.

**AHMAD ABDULLAHI**  
**DIRECTOR, BANKING SUPERVISION DEPARTMENT**



09-462-36401

**BSD/DIR/GEN/LAB/10/006**

February 6, 2017

**LETTER TO ALL BANKS AND THEIR EXTERNAL AUDITORS**

**APPLICATION OF INTERNATIONAL STANDARD ON AUDITING (ISA) 701  
(COMMUNICATING KEY AUDIT MATTERS IN THE INDEPENDENT AUDITOR'S REPORT)  
IN THE BANKING SECTOR**

The attention of all banks and their external auditors is hereby drawn to the Rule 9 (Application of International Standard on Auditing (ISA) 701 - Communicating Key Audit Matters in the Independent Auditor's Report) of the Financial Reporting Council of Nigeria (FRCN) which requires independent auditors of listed and unlisted entities to comply with the requirements of ISA 701 for audit of financial statements for periods ending on or after December 15, 2016 and June 30, 2017, respectively.

In order to create a level playing field for the implementation of ISA 701 in the Nigerian banking industry, the CBN has obtained the concurrence of the FRCN for external auditors of all banks (both listed and unlisted) to comply with the requirements of the new standard for audits of financial statements for periods ending on or after December 15, 2016.

Accordingly, the auditors' reports accompanying audited financial statements of all banks for the applicable periods should be compliant with ISA 701.

Please be guided accordingly.

Yours faithfully,

**K. O. BALOGUN**  
**FOR: DIRECTOR OF BANKING SUPERVISION**



09-462-36401

**BSD/DIR/GEN/IFR/09/130**

December 20, 2016

Letter to All Banks and Discount Houses

**GUIDANCE NOTE TO BANKS AND DISCOUNT HOUSES ON THE IMPLEMENTATION OF IFRS 9 (FINANCIAL INSTRUMENTS) IN NIGERIA**

We hereby forward the Central Bank of Nigeria's initial Guidance Note on the implementation of IFRS 9 (Financial Instruments) in the Nigerian banking sector.

The Guidance Note communicates supervisory expectations for the implementation of the new standard, especially in areas where banks are expected to exercise considerable judgment and/or elect to use simplifications and other practical expedients permitted under the standard. The Note also specifies information to be submitted to CBN not later than April 30, 2017 on IFRS 9 Implementation Projects while requiring banks to submit monthly status updates on the implementation projects starting May 2017.

To ensure a seamless implementation, the CBN has established a Project Team and banks are encouraged to seek clarifications, if any, on the Guidance Notes by contacting the Project Manager, Mr. C. D. Nwaegerue, via email on [cdnwaegerue@cbn.gov.ng](mailto:cdnwaegerue@cbn.gov.ng).

Yours faithfully,

**'TOKUNBO MARTINS (MRS)**  
**DIRECTOR OF BANKING SUPERVISION**



09-462-36401

**BSD/DIR/GEN/LAB/09/044**

December 20, 2016

**UNITED NATIONS SECURITY COUNCIL RESOLUTION 2270 (2016)**

You may recall the previous relevant UNSCR , including resolution 825 (1993), resolution 1540 (2004) resolution 1695 (2006), resolution 1718 (2006), resolution 1874 (2009), resolution 1887 (2009) , resolution 2087 (2013) and resolution 2094 (2013), as well as the statements of its President of October 6, 2006, April 13, 2009 and April 16, 2012 reaffirming that the proliferation of nuclear, chemical & biological weapons, as well as their means of delivery, constitute a threat to international peace and security.

The Council recently expressed its gravest concern at the nuclear test conducted by the Democratic People’s Republic of Korea (DPRK) on January 6, 2016 in violation of resolution 1718 (2006), 1874 (2009), 2087 (2013) and 2094 (2013), and the challenge such a test constitutes to the international efforts aimed at strengthening the global regime of non-proliferation of nuclear weapons, and the danger it poses to peace and stability in the region and beyond.

Consequently, the specific sanctions relating to banking in the UNSCR 2270 (2016) are enumerated in Article 32 to 38 of the Resolution. These Articles expanded the scope of persons, entities and activities covered by the latest sanctions such as:

- That the asset freeze imposed by paragraph 8 (d) of the resolution 1718 (2006) shall apply to all the funds, other financial assets and economic resources outside of the DPRK that are owned or controlled, directly or indirectly, by entities of the Government of the DPRK or the Worker’s Party of Korea, or by individuals or entities acting on their behalf or at their direction, or by entities owned or controlled by them;

- That States shall prohibit in their territories the opening and operation of new branches, subsidiaries, and representatives offices of DPRK banks, prohibit financial institutions within their territories or subject to their jurisdiction from establishing new joint ventures and from taking an ownership interest in, or establishing or maintaining correspondent relationship with DPRK banks;
- That States shall take the necessary measures to close existing representative offices, subsidiaries or banking accounts in the DPRK within ninety days, if the State concerned has credible information that provides reasonable grounds to believe that such financial services could contribute to the DPRK's nuclear or ballistic missile programs, or other activities prohibited by resolutions; and
- That all States shall prohibit public and private financial support from within their territories or by persons or entities subject to their jurisdiction for trade with the DPRK (including the granting of export credits, guarantees or insurance to their nationals or entities involved in such trade) where such financial support could contribute to the DPRK's nuclear or ballistic missile programs or activities prohibited by resolutions.

In view of the above, you are required to put measures in place to ensure compliance with the provisions of the UNSCR 2270 (2016).



09-462-36401

**BSD/DIR/GEN/LAB/09/043**

September 5, 2016

**LETTER TO ALL BANKS  
DISCONTINUATION OF PRUDENTIAL RETURNS RENDITION THROUGH THE  
ELECTRONIC FINANCIAL ANALYSIS AND SURVEILLANCE SYSTEM (e-FASS)**

You may recall the successful deployment of the FinA application in 2013 and the various correspondence on how to improve the returns rendition process.

Following the sustained stability of the FinA application, all banks are hereby advised to discontinue the rendition of prudential returns through the e-FASS application with effect from October 3, 2016.

However, the rendition of Trade and Exchange-related returns will continue on the e-FASS application platform until further notice.

Thank you.

Yours faithfully,

**A. O. IDRIS  
FOR: DIRECTOR OF BANKING SUPERVISION**



09-46236403/09-46236418

July 28, 2016

**REF: BSD/DIR/GEN/LAB/09/038**

**LETTER TO ALL BANKS**

**WRITE-OFF OF FULLY PROVIDED NON-PERFORMING LOANS**

The CBN acknowledges the request by banks to amend the requirements of S.3.21 (a) of the prudential Guidelines, which mandates banks to retain in their records, fully provided Non-performing Loans (NPLs) for a period of one year before write-off.

The CBN has no intention to repeal the provision of the above mentioned section of the guidelines. In view of the current macro-economic challenges however, the CBN hereby grant a one-off forbearance, this year 2016, to banks, to write-off fully provided NPLs without waiting for the mandatory one year.

**TOKUNBO MARTINS (MRS.)  
DIRECTOR OF BANKING SUPERVISION DEPARTMENT**



09-462-36401

**BSD/DIR/GEN/LAB/09/037**

July 27, 2016

## **LETTER TO ALL BANKS**

### **PROVISIONING FOR FOREIGN CURRENCY LOANS**

In continuation of the efforts to enhance efficiency, facilitate liquidity and transparency in the foreign exchange market, the CBN issued the **Revised Guidelines for the Operations of the Nigerian Inter-bank Foreign Exchange Market** on June 15, 2016.

One of the effects of the Guidelines, which liberalized the foreign exchange market, is the increase in balances on foreign currency-denominated loans and advances in the books of banks, especially facilities that had been fully provided for under the previous exchange rate regime, but were yet to be written off, per our extant regulation under **Section 3.21(a) of the Prudential Guidelines for Deposit Money Banks in Nigeria** of July 1, 2010.

Consequently, to ensure adequate and proper provisioning, banks are by this circular, required to ensure that the unprovisioned portion on all such facilities are fully provided for **immediately** in the income statements and evidence of the additional provisions forwarded to the Director of Banking Supervision within **one week** of the date of this circular.

Additionally, all foreign currency-denominated loans should be reviewed and adequate provisioning made on all delinquent ones in line with the **Prudential Guidelines for Deposit Money Banks in Nigeria** of July 1, 2010.

Please be guided accordingly.

**TOKUNBO MARTINS (MRS.)  
DIRECTOR OF BANKING SUPERVISION**



09-462-36401

BSD/DIR/GEN/LAB/09/035

July 12, 2016

## **LETTER TO ALL DEPOSIT MONEY BANKS AND DISCOUNT HOUSES**

### **MANDATORY REGISTRATION AND LISTING OF COMMERCIAL PAPERS**

Further to the Guidelines on the Issuance and Treatment of Bankers Acceptances (BAs) and Commercial Papers (CPs) issued by the Central Bank of Nigeria (CBN) on November 18, 2009, banks are hereby informed that they are only permitted to deal in CPs that are registered on Authorised Securities Exchanges with effect from July 11, 2016.

Accordingly, banks are prohibited from transacting in CPs (that are not quoted or intended for quotation on an Authorised Securities Exchange), in any capacity whatsoever, including but not limited to as Issuer; Guarantor; Issuing, Placing, Paying and Collecting Agent ("IPPCA"), Collecting and Paying Agent ("CPA"); etc., from the effective date.

The CBN having approved the quotation rules of FMDQ OTC Securities Exchange, has cleared it for the quotation of CPs in Nigeria. Deposit Money Banks and Discount Houses would be updated on subsequent clearance of additional Securities Exchanges from time to time.

Please note that this letter supersedes our letter dated July 11, 2016 on the same subject.

Yours faithfully,

**A. O. IDRIS**  
**FOR: DIRECTOR OF BANKING SUPERVISION**



09-462-36401  
09-462-36418

June 28, 2016

**BSD/DIR/GEN/LAB/09/033**

**LETTER TO ALL BANKS**

**REVIEW OF OPERATIONAL GUIDELINES FOR BLACKLISTING**

Following the spate of petitions for the reversal of blacklisted staff by banks due to failure to comply with the process of investigation and granting of fair hearing to erring staff before forwarding their names for blacklisting, the Central Bank of Nigeria (CBN) has considered it imperative to issue the "Review of Operational Guidelines for Blacklisting" to the industry.

The Guidelines provide the procedures for forwarding names to the CBN for inclusion in the Register of terminated, dismissed or convicted staff of banks and other financial institutions on the grounds of fraud, forgery and dishonesty. The Guidelines takes immediate effect.

Please be guided accordingly.

Yours faithfully,

**TOKUNBO MARTINS (MRS)**  
**DIRECTOR OF BANKING SUPERVISION**

## REVIEW OF OPERATIONAL GUIDELINES FOR BLACKLISTING

### 1.0 Preamble

Pursuant to the powers granted under “Banks and Other Financial Institutions and Central Bank of Nigeria Acts,” these guidelines are issued to provide a guide to the procedure for forwarding names to the Secretary of the Bankers’ Committee for inclusion in the Register of Terminated, Dismissed or Convicted staff of Banks and Other Financial Institutions on the grounds of fraud and dishonesty. It had been observed that details of cases rendered in the related returns were no longer limited to cases of fraud and forgeries as originally intended, but had been erroneously extended to include cases such as lateness to work, abandonment of duty, etc.

The inclusion of these other cases negates the intent and basis for blacklisting. “Blacklisting” is in furtherance to the requirements and provisions of Section 48, sub-section 4 of BOFIA CAP B3, LFN 2004 which states: “Any person whose appointment with a bank has been terminated or who has been dismissed for reasons of fraud, dishonesty or convicted for an offence involving dishonesty or fraud shall not be employed by any bank in Nigeria”.

The Central Bank of Nigeria (CBN) in recent times has been inundated with petitions for the reversal of names from the “blackbook”. This emanates from failure by the Deposit Money Banks (DMBs) to comply with the process of thorough investigation and granting of fair hearing to erring staff before a final decision is taken to either dismiss or terminate the employment of such staff.

These guidelines are therefore issued in order to give clarity to the process of rendering the above returns.

### 2.0 Introduction

Trust is the cornerstone upon which banking business is conducted. Any act of malfeasance taken by a bank or its staff that would erode the trust of the public is therefore of prime concern to the regulators and other stakeholders.

Due to the nature of banking operations, banks are frequent targets for frauds from within and outside the system. Despite the various Risk Management policies and internal control processes/procedures that have been put in place to mitigate against such incidents, the occurrence and attempts of fraud have not been abated in the banking system as evidenced by the monthly returns on fraud and forgeries submitted by the banks to the CBN.

Risk management systems and processes are only as good as the people that operate them, it is therefore imperative that only persons of integrity and proven character are employed and retained in the financial industry.

It was on this premise that the Bankers' Committee at its meeting of December 14, 1982 decided that a register be kept of staff dismissed on grounds of fraud and acts of dishonesty.

Thus the CBN maintains a register called the "blackbook" containing names and details of such staff that were dismissed or terminated, in line with Section 48 (4) of BOFIA 2004.

Every individual whose name is listed in the "blackbook" is barred from holding any employment within the financial system in Nigeria.

### **3.0 Objective of the Blackbook**

The process of blacklisting is intended to achieve the following objectives:

- To prevent discredited and fraudulent staff from being recycled within the financial system.
- That only staff with credible references are employed within the financial system.
- To serve as deterrent to other staff from committing frauds/dishonest acts.
- To hold accountable individuals that fail to meet the expected standards of integrity and professionalism required of bankers.
- To ensure operational compliance by banks and other financial institutions with Section 48 (4) of BOFIA LFN CAP B3 2004.

### **4.0 Conditions for Blacklisting**

The blacklisted person is anyone who has been terminated or dismissed strictly as a result of:

- Fraud
- Act of dishonesty
- Conviction

### **5.0 Initiation of Blacklisting Action**

- A disciplinary committee must have conducted a **thorough investigation.**
- The Disciplinary committee must have established that the staff involved had committed an act of fraud and dishonesty.

The staff must have been granted Fair **hearing through the Disciplinary committee.**

The decision of the committee must be communicated to the staff involved.

## **6.0 The Fair Hearing Process**

Upon verification of the existence of grounds for blacklisting, the financial institution shall notify the staff in writing, informing him that:

a) A complaint for blacklisting has been filed against him, stating the grounds for such and the consequences of being blacklisted;

b) The staff must be given the opportunity to present documentary or verbal testimony that may affect the decision;

c) The final decision of the Disciplinary Committee must be communicated to the staff.

## **7.0 Returns to the Cbn**

The financial institution shall forward the returns on dismissed or terminated staff (including temporary and contract) on grounds of frauds and forgeries to the CBN along with a declaration from the bank that:

It followed due process before arriving at the decision

And signed by the Managing Director.

## **8.0 Contents of the Returns**

The return shall clearly state:

i. The names of the person(s) involved (which should be written in full without any abbreviation),

ii. Date of birth

iii. Local Government of Origin

iv. State of Origin

v. Gender

vi. Offense committed.

vii. Designation/ Status

viii. Unique identification details i.e. international passport, national identity, BVN etc.

Along with the monthly returns, documents of the investigation, disciplinary committee's final decision must be submitted.

## **9.0 Blacklisting Action by the Cbn**

Upon receipt of the returns, the CBN would:

Review the documents and establish that due process was actually followed.

The Head, Bankers' Committee upon confirmation shall subsequently blacklist the persons.

## **10.0 Delisting**

10.1 A blacklisted person **CAN ONLY** be delisted upon:

- CBN's issuance of a Delisting Order consequent upon a Court's Order or
- A request from the financial institution following CBN's concurrence to the motion for reconsideration.

10.2 If the CBN determines that due process was not followed or the offence listed is not a blacklistable offence, the CBN will sanction the erring financial institution for not adhering to the provision of this guideline as empowered by Section 60 of BOFIA.

10.3 Banks and other financial institutions should note that it is their responsibility to report names of staff terminated/dismissed on grounds of Fraud and Forgeries to the CBN and are cautioned against the dangerous practice of advising such staff to "simply resign". If discovered, the CBN will regard this with even higher severity and the financial institution be sanctioned accordingly.

### **11.0 Terminations and Dismissals for Other Offences**

Banks and Other Financial Institutions are required to continue reporting terminations and dismissals for miscellaneous offences other than fraud and dishonesty. Staff in this category are not barred from future employment in the financial services industry, but full disclosure will be made to prospective employers.

### **12.0 Motion for Reconsideration**

12.1 A motion for reconsideration may be filed with the CBN, when:

- a) There is new evidence or facts which were not made available during the investigation and may probably alter the result of the investigation;
- b) Based on the above, the Disciplinary Committee of the affected institution may be asked to review the case;
- c) After the review, if it is established that the staff was not guilty of fraud or acts of dishonesty, the institution would initiate the delisting process by writing to the CBN to delist such a person from its blackbook; and
- d) The Institution is therefore expected to forward the full report of its investigation to the CBN for review after initiating the delisting process.

12.2 Without prejudice to the above, the Governor of CBN shall decide after the review of the request if the individual should be delisted or not and the decision shall become final.

12.3 After the delisting has taken place, the CBN would then communicate its action to both the financial institution and the delisted person.

### **13.0 COMMENCEMENT OF GUIDELINES**

These guidelines or any amendments made thereto shall take immediate effect.

### **GLOSSARY**

#### **1. FRAUD:**

The Black's Law Dictionary, 13th Edition defined fraud to mean "a knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment".

#### **2. DISHONESTY:**

Oxford Online British and world English Dictionary defines dishonesty as "behaving or being prone to behaving in an untrustworthy, deceitful, insincere way or intending to mislead or cheat".



09-462-36401

**BSD/DIR/GEN/LAB/08/052**

November 11, 2015

**LETTER TO ALL BANKS**

**THE NEED FOR BANKS TO BUILD ADEQUATE LOAN LOSS RESERVE**

In recent times, the adverse macro-economic environment has been a source of concern in the financial sector. It is however comforting to know that the fiscal and monetary authorities are deploying remedial policy measures to ameliorate these challenges.

Accordingly, in line with the provision of section 12.14 of the Prudential Guidelines for Deposit Money Banks 2010 (**Regulators Power over Adequacy of Provisioning**), banks are required to immediately increase the general provision on performing loans to 2% in the **prudential review** of their credit portfolios. This is an attempt to ensure that adequate buffers against unexpected loan losses are built up.

This directive is without prejudice to the relevant provisions of the International Financial Reporting Standards.

Yours faithfully,

**TOKUNBO MARTINS (MRS.)  
DIRECTOR OF BANKING SUPERVISION**



09-462-36418

BSD/DIR/GEN/LAB/08/048

September 7, 2015

**LETTER TO ALL BANKS**

**DEADLINE FOR TRANSFER OF FEDERAL GOVERNMENT FUNDS TO TREASURY SINGLE ACCOUNT**

The Federal Government of Nigeria recently gave a deadline of September 15th 2015 for all balances/receipts due to the Government or its agencies to be paid into the Treasury Single Account (TSA) maintained with the Central Bank of Nigeria.

Banks are therefore directed to ensure that all such funds are remitted in line with the directive on or before the given deadline.

Please note that the Central Bank of Nigeria will impose severe sanctions on any bank that fails to comply on or before the deadline of 15th September, 2015.

Yours faithfully,

**'Tokunbo Martins (Mrs.)**  
**Director of Banking Supervision**



09-46236403

June 30, 2015

**BSD/DIR/GEN/LAB/08/032**

**LETTER TO ALL BANKS**

**RE: PUBLIC SECTOR REVENUE ACCOUNTS WITH DEPOSIT MONEY BANKS**

Our circular referenced BSD/DIR/GEN/LAB/08/003 dated January 14, 2015, refers.

We have observed with dismay that most banks are yet to comply fully with the provisions of the circular directing banks to transfer **ALL** revenue accounts collected on behalf of the Federal Government and its Agencies to CBN account within 24 hours of the value date of such collections with effect from February 28, 2015.

Banks are therefore, by this circular, directed to ensure strict compliance with effect from the date of this circular, failing which severe financial and administrative sanctions will be imposed. For emphasis, June 30, 2015 shall be the **FINAL** deadline.

Please be guided accordingly.

**A.O. IDRIS**

**For: DIRECTOR OF BANKING SUPERVISION**



09-46236403

**BSD/DIR/GEN/BAS/08/031**

June 24, 2015

**LETTER TO ALL BANKS AND DISCOUNT HOUSES**

**REVISED GUIDANCE NOTES ON BASEL II IMPLEMENTATION AND THE REPORTING TEMPLATE FOR CAPITAL ADEQUACY RATIO**

Following the review of comments from the industry on the existing Guidance Notes and the Reporting Template on the implementation of Basel II in Nigerian Banking Industry, the CBN hereby issues Revised Guidance Notes on Regulatory Capital, Credit Risk, Market Risk, Operational Risk, Pillar 3 Disclosure Requirement and a new Reporting Template for the monthly submission of Capital Adequacy Ratio. These Revised Documents are now available on the CBN's website.

Accordingly, all banks are required to adopt the revised documents and re-submit their Capital Adequacy Ratio for three months from April to June 2015 to **[bsdreturns@cbn.gov.ng](mailto:bsdreturns@cbn.gov.ng)** on or before July 31, 2015.

In addition, all banks are required to note the amendment in Section 2.5 of the Revised Guidance Notes on Pillar 3 Disclosure Requirement which specifies the medium and frequency of disclosure for compliance.

Thank you

Yours faithfully,

**'TOKUNBO MARTINS (MRS.)  
DIRECTOR OF BANKING SUPERVISION**

# CENTRAL BANK OF NIGERIA



## Guidance Notes on Pillar III

### Market Discipline

## **1.0 Introduction**

The aim of Pillar III is to promote market discipline by allowing market participants to access information on risk exposure and risk management policies and procedures through disclosures. This document sets out the disclosure requirements with respect to procedure, frequency and content of information to be disclosed.

### **1.1 General Disclosure Principle**

Banks should have a formal disclosure policy approved by the board of directors that addresses the bank's approach for determining what disclosures it will make and the internal controls over the disclosure process. In addition, banks should implement a process for assessing the appropriateness of their disclosures, including validation and frequency of them. (BCBS June 2006, Par 821)

## **2.0 Disclosure Requirements**

### **2.1 Organization of Information and Limitation of Obligations**

The information whose disclosure is governed by these regulations is listed in Annex A.

### **2.2 Content and Procedures for Disclosing Information**

- Banks shall disclose information relating to their core activities, risks profiles and methodologies used.
- In order to ensure the comprehensiveness of disclosures, references to other sources is not allowed.
- Banks are expected to make adequate disclosure consistent with their organizational complexity and the type of business they engage in, taking into account their internal reporting systems to the board and management.

### **2.3 Disclosure Eligibility Requirements**

- For banks that adopt internal systems to calculate capital requirements for credit or operational risks and for those using credit risk mitigation techniques, compliance with specific disclosure requirements (Disclosure Eligibility Requirements) shall be a necessary condition for the recognition of

such approach and the effects of such techniques for regulatory capital purposes. These disclosure requirements are marked by an asterisk in the annexed tables.

#### **2.4 Derogations from Disclosure Requirements**

- Banks may omit the disclosure of information that is not considered material, with the exception of information that represents a disclosure eligibility requirement.
- In exceptional cases, banks may omit the disclosure of proprietary or confidential information (including information that represents a disclosure eligibility requirement), provided that they specify the information that is not disclosed and the reasons for nondisclosure, and publish more general information on the matter in question.

#### **2.5 Medium and Frequency of Disclosure**

Information on qualitative and quantitative disclosures shall be made through banks' website and in printed form to the CBN.

- Banks shall make adequate pronouncement on the means of disclosure in their financial statements.
- Disclosures shall be published on a bi-annual basis and within thirty days of publishing the financial statements. However, for banks with stable Composite Risk Rating (CRR) of "Low" and "Moderate" other than domestic systemically important banks, annual reporting will be acceptable.
- Domestic systemically important banks may be required to publish information on a more frequent basis in recognition of their level of business, international affiliations and financial sectors dynamics.

#### **2.6 Organization and Controls**

- Banks shall adopt suitable organizational arrangements to ensure the compliance with disclosure requirement under these regulations. Board and management shall independently assess and verify the quality of information. The solutions adopted shall form part of the bank's system of internal controls.
- Within this framework, banks shall establish appropriate specific procedures for verifying disclosures that are yet to be subjected to verification by external auditors or the CBN.

## Definitions of Terms

For the purposes of these regulations:

**Confidential information** shall mean information in respect of which the bank has obligations to customers or other counterparty relationships binding it to confidentiality.

**Material information** shall mean information which if omitted or misstated could change or influence the assessment or decision of a user relying on such information for the purpose of making economic decisions;

**Proprietary information** shall mean information which, if shared with the public, would undermine the bank's competitive position. It may include information regarding products or systems which, if shared with competitors, would render the bank's investment therein less valuable;

## ANNEX A

**Table 1: General Requirements**

		Description of disclosure
<b>Qualitative disclosure</b>		<p>For each risk category (including those considered in the following tables), banks shall disclose risk management objectives and policies, including:</p> <ul style="list-style-type: none"> <li>• The strategies and processes for managing such risks;</li> <li>• The structure and organization of the relevant risk management function;</li> <li>• The scope and nature of risk measurement and reporting systems;</li> <li>• The policies for hedging and mitigating risk as well as strategies and processes for monitoring their continuing effectiveness.</li> </ul>

**Table 2: Scope of Application**

		Description of disclosure
<b>Qualitative disclosure</b>	(a)	The name of the bank to which the disclosure requirement applies.
	(b)	<p>An outline of differences on the basis of consolidation for accounting and prudential purposes, with a brief description of the entities within the group which:</p> <p>i) Are fully consolidated; ii) Are proportionally consolidated; iii) Are deducted from the regulatory capital; iv) Are neither consolidated nor deducted.</p>
	(c)	Any current or potential legal or substantive impediment to the prompt rapid transfer of regulatory capital or funds within the group.
	(d)	For groups, any reduction in individual capital requirements applied to the parent entity and the Nigerian subsidiaries.

<b>Quantitative disclosure</b>	(e)	The names of all subsidiaries excluded from consolidation and aggregate amount of their capital deficiencies with respect to any mandatory capital requirements.
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**Table 3: Regulatory Capital Structure**

		<b>Description of disclosure</b>
<b>Qualitative disclosure</b>	(a)	Summary information on the main terms and conditions of the features of capital items, especially hybrid capital instrument and subordinated debt capital instruments.
	(b)	The total amount of Tier 1 capital, with separate disclosure of individual positive and negative items especially hybrid capital instruments.
	(c)	The total amount of Tier 2 capital
	(d)	Other deductions from regulatory capital, with separate disclosure – for banks using one of the IRB systems – of any negative differences between total value adjustments and expected loss.
<b>Quantitative disclosure</b>	(e)	Total regulatory capital.

**Table 4: Capital Adequacy**

		<b>Description of disclosure</b>
<b>Qualitative disclosure</b>	(a)	Summary description of the bank's approach to assessing the adequacy of its internal capital to support current and future activities.
<b>Quantitative disclosure</b>	(b)	For banks calculating credit risk-weighted exposure amounts using the standardized approach, the capital requirement for each of the exposure classes.

	<p>(c) For banks calculating credit risk-weighted exposure amounts using the IRB approach, the capital requirement for each of the exposure classes envisaged in these regulations.</p> <p>For retail exposures, separate disclosure shall be made for each of the following categories: "exposures secured by residential property", "qualifying revolving retail exposures" and "other retail exposures".</p> <p>For equity exposures, disclosure shall be made for:</p>
	<p>i) Each of the methods envisaged (simple risk weight approach, PD/LGD approach, internal models approach); in the case of the simple risk weight approach, separate disclosure shall be made for the capital requirement for:</p> <p style="padding-left: 40px;">a) exchange-traded exposures;</p> <p style="padding-left: 40px;">b) private equity exposures in sufficiently diversified portfolios; c) other exposures;</p> <p>ii) Exposures subject to supervisory transition regarding capital requirements; iii) Exposures subject to grandfathering provisions regarding capital requirements.</p>
	<p>(d) Capital requirements for market risks, with separate disclosure for:</p> <p style="padding-left: 20px;">- Assets included in the supervisory trading portfolio:</p> <p style="padding-left: 40px;">i) Position risk with specific evidence towards securitization; ii) Settlement risk - Entire balance sheet; iii) Foreign exchange risk; iv) Commodity risk;</p> <p>(e) Capital requirement for counterparty risks.</p> <p>(f) Total and Tier 1 capital ratios.</p>

Table 5: Credit risk: general disclosures for all banks

	<b>Description of disclosure</b>
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<b>Qualitative disclosure</b>	(a)	In addition to the general disclosure indicated in Table 1, the following information shall be disclosed for the exposure to credit risk and dilution risk: <sup>1</sup>  i) The definitions of “past due” and “impaired” loans used for accounting purposes; <sup>2</sup>
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		ii) A description of methods adopted for determining value <sup>2</sup> adjustments <sup>3</sup> .
<b>Quantitative disclosure</b>	(b)	Total and average gross credit risk exposures <sup>4</sup> over the period, <sup>5</sup> with separate disclosure by major types of exposure and counterparty. <sup>6</sup> The amount shall be net of permitted accounting offsets, regardless of the effects of credit risk mitigation techniques.
	(c)	Distribution of exposures by significant geographical areas, broken down by material exposure classes and further detailed if appropriate.
	(d)	Distribution of exposures by industry or counterparty type, broken down by type of exposure and further detailed if appropriate.
	(e)	Distribution by residual contractual maturity <sup>7</sup> of the entire portfolio, broken down by type of exposure and further detailed if appropriate.

<sup>1</sup> Dilution risk shall mean the possibility that the amount owed by the assigned obligor in respect of purchased receivables is reduced through credits or allowances arising from returns, disputes regarding product quality, promotional or other discounts.

<sup>2</sup> Banks shall indicate that the definition used is the same as the supervisory definition.

<sup>3</sup> Value adjustments include specific and portfolio allowances as well as provisions to cover guarantees issued or commitments undertaken with third parties.

<sup>4</sup> Where the period-end position is representative of the bank’s risk exposure during the period, the average gross exposures need not be provided.

<sup>5</sup> Where average amounts are disclosed in accordance with an accounting regulations or other requirement which specifies the calculation method to be used, that method shall be followed. Otherwise, the average exposures shall be calculated using the most frequent interval that the bank’s systems generate for management, prudential or other reasons, provided that the resulting averages are representative of the bank’s operations. The basis used for calculating averages shall be specified only if not on a daily average basis.

<sup>6</sup> This breakdown could be that applied under accounting rules.

<sup>7</sup> It is possible to use the same maturity groupings envisaged by accounting regulations.

(f)	By significant industry or counterparty type, the amount of: i) Impaired and past due exposures, shown separately; ii) Total value adjustments; iii) Value adjustments during the period.
(g)	By significant geographical areas, the amount of: 1) impaired and past due exposures, shown separately; 2) value adjustments for each geographical area, <sup>8</sup> where possible.
(h)	Reconciliation of changes in value adjustments for impaired exposures, show separately for specific and portfolio value

	<p>adjustments. The information shall include:</p> <p>i) A description of the methods used to calculate the value adjustments; ii) The opening balance of total value adjustments; iii) Charge-offs taken during the period; iv) Value adjustments made during the period; v) Amounts reversed during the period; vi) Any other adjustment, for example exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, including transfers between value adjustments; vii) The closing balance of total value adjustments.</p> <p>Charge-offs and recoveries recorded directly to the income statement should be shown separately.</p>
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<sup>8</sup> The portion of portfolio value adjustments that is not allocated to a specific geographical area shall be disclosed separately.

**Table 6: Credit risk: disclosures for portfolios treated under the standardized approach, specialized lending and equity exposures treated under IRB approaches**

		Description of disclosure
<b>Qualitative disclosure</b>	(a)	Banks calculating credit risk-weighted exposures using the standardized approach shall provide the following information for each exposure class: <ul style="list-style-type: none"> <li>i) Names of the nominated external credit assessment institutions (ECAIs), and the reasons for any changes;</li> <li>ii) The exposure classes for which each ECAI is used;</li> <li>iii) A description of the process used to transfer the issuer or issue credit ratings to comparable assets not included in the supervisory trading book.</li> </ul>
<b>Quantitative disclosure</b>	(b)	Banks calculating credit risk-weighted exposures using the standardized approach shall provide, for each exposure class, the exposure values, with and without credit risk mitigation, associated with each credit quality step as well as the exposure values deducted from the regulatory capital.
	(c)	For exposures subject to the supervisory risk weights in IRB approaches (specialized lending – equity exposures under the simple risk weight method), the exposures assigned to each credit risk class shall be provided.

**Table 7: Credit risk: disclosures for portfolios treated under IRB approaches (\*)**

		Description of disclosure
<b>Qualitative disclosure</b>	(a)	Authorization from the CBN to use the approach selected and/or to use phased roll-out.

	<p>(b) Explanation of:</p> <p>i) The structure of internal rating systems and relation between internal and external ratings; ii) The use of internal estimates for purposes other than the calculation of risk-weighted exposure amounts in accordance with IRB approaches; iii) The process for managing and recognizing credit risk mitigation techniques; iv) The control and review mechanisms for the rating systems, including discussion of independence and accountability.</p>
	<p>(c) Description of the internal ratings process, provided separately for the following exposure classes:</p> <p>i) Central governments and central banks; ii) Banks and other financial institutions;</p> <p>iii) Non-financial institutions, including SMEs, specialized lending and purchased receivables; iv) Retail exposures, for each of the categories envisaged (exposures secured by residential property; qualifying revolving retail exposures; other retail exposures); v) Equities.<sup>9</sup></p> <p>The description shall include:</p>

	<ul style="list-style-type: none"> <li>• The types of exposure included in the exposure classes;</li> <li>• The definitions, methods and data for estimation and validation of PD and, where applicable, LGD and the credit conversion factors, including assumptions employed in the derivation of these variables;<sup>10</sup></li> <li>• The description of deviations from the definition of default as permitted by prudential regulations,</li> </ul>
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<sup>9</sup> Equities shall only be disclosed here as a separate class where the bank uses the PD/LGD approach for equities held in the banking book.

<sup>10</sup> Banks shall provide a general overview of the system approach, describing definitions of the variables, and methods for estimating and validating those variables set out in the quantitative risk disclosures. This should be done for each of the classes indicated in the text. Banks should draw out any significant differences in the approaches used to estimate these variables within each class.

		where these are determined to be material, also indicating for each class the main categories of exposure affected by such deviations. <sup>11</sup>
<b>Quantitative disclosure: risk assessment</b>	(d)	Exposure values for each exposure class.  Exposures towards central governments and central banks, banks and other financial institutions, and corporates, where the banks use the IRB advanced approach, must be shown separately from exposures for which the banks do not utilise this approach.
	(e)	For each exposure class – central governments and central banks; banks and other financial institutions; corporates; equities – provide the following information, with a sufficient breakdown between PD categories (including default) to allow a significant differentiation of credit risk: <sup>12</sup>  i) Total exposures (for exposures towards central governments and central banks, banks and other financial institutions, and corporates, the sum of outstanding loans plus unutilised margins; for equities, outstanding amount); ii) For banks on the IRB advanced approach, exposure-weighted average LGD (percentage);

<sup>11</sup> Banks shall only describe the main areas where there has been material divergence from the reference definition of default such that it would affect the reader's ability to compare and understand the disclosure of exposures by PD grade.

<sup>12</sup> The PD, LGD and EAD disclosures below shall reflect the effects of collateral, netting and guarantees/credit derivatives, where recognized. Disclosure of each PD grade should include the exposure-weighted average PD for each grade. Where banks are aggregating PD grades for the purposes of disclosure, this shall be a representative breakdown of the distribution of PD grades used in the IRB approach.

		iii) Exposure-weighted average risk-weight; iv) For banks on the IRB advanced approach, the amount of unutilised margins and relative exposure-weighted average EAD. <sup>13</sup>
	(f)	For retail exposures, provide for each category envisaged:  i) The information referred to in point e) (if applicable, on a pool basis) or ii) Analysis of exposures (if applicable, on a pool basis) against a sufficient number of expected loss (EL) grades to allow for a meaningful differentiation of credit risk.
<b>Quantitative disclosure: historical results</b>	(g)	Actual value adjustments (for example, charge-offs and specific write-downs) in the preceding period for each exposure class (showing each retail exposure category separately) and how this differs from previous years.
	(h)	Discussion of the factors that impacted on the loss experience in the preceding period (for example, has the bank experienced higher than average default rates, or higher than average LGDs and credit conversion factors).
	(i)	Banks' estimates against actual outcomes over a longer period. This should at least include information on estimates of losses against actual losses in each exposure class, over a period sufficient to allow for a meaningful assessment of the performance of the internal rating processes for each exposure class (for retail exposures, the information must be given for each of the categories provided). Where necessary, banks should further decompose this to provide analysis of PD and, for banks on the advanced IRB approach, LGD and credit conversion factor outcomes against estimates provided.

*(\*) Eligibility requirements for the use of particular instruments or methodologies*

<sup>13</sup> Banks shall only provide one estimate of EAD for each exposure class. However, where banks believe it is helpful, in order to give a more meaningful assessment of risk, they may also disclose EAD estimates across a number of EAD categories, against the undrawn exposures to which these relate.

**Table 8: Risk Mitigation Techniques <sup>14</sup>(\*)**

	<b>Description of disclosure</b>	
<b>Qualitative disclosure</b>	(a)	Policies and processes for, and an indication of the extent to which the bank makes use of, on- and off-balance sheet netting.
	(b)	Policies and processes for collateral evaluation and management.
	(c)	A description of the main types of collateral taken by the bank.
	(d)	The main types of guarantor and credit derivative counterparty and their creditworthiness.
	(e)	Information about market or credit risk concentrations under the credit risk mitigation instruments used.
<b>Quantitative disclosure</b>	(f)	For banks calculating credit risk-weighted exposures in accordance with the standardized or foundation IRB approaches, separately for each exposure class, the total exposure value (if applicable, net of onbalance sheet netting and off-balance sheet netting agreements) that is covered by financial collateral and other eligible collateral, after application of haircuts. <sup>15</sup>
	(g)	For banks calculating credit risk-weighted exposures according to the standardized or foundation IRB approaches, separately for each exposure class, the total exposure (if applicable, net of on-balance sheet offsets and off-balance sheet offsetting agreements) covered by guarantees or credit derivatives. For equities such disclosure requirement applies to each method (simple risk weight method, PD/LGD approach, internal models method).

(\*) *Disclosure requirements for banks using credit risk mitigation techniques.*

<sup>14</sup>Credit derivatives treated as part of synthetic securitization transactions should be excluded from CRM disclosures and included within those relating to securitizations.

<sup>15</sup>If the comprehensive approach is applied, where applicable, the total exposure covered by collateral after haircuts should be reduced further to remove any positive adjustments that were applied to the exposure.

1.1 Table 9: Counterparty Risk<sup>16</sup>

		Description of disclosure
<b>Qualitative disclosure</b>	(a)	<p>Description of:</p> <p>i) The method used to assign the operating limits defined in terms of internal capital and credit for counterparty credit exposures; ii) Policies relating to guarantees and assessments concerning counterparty risk; iii) Policies with respect to wrong-way risk exposures; iv) The impact in terms of the amount of collateral that the bank would be required to provide given a credit rating downgrade.</p>
<b>Quantitative disclosure</b>	(b)	<p>i) Gross positive fair value of contracts; ii) Reduction in gross positive fair value due to netting; iii) Positive fair value net of netting agreements; iv) Collateral held;</p> <p>v) Positive fair value of derivative contracts net of netting and collateral agreements; vi) Measures of EAD, or value of the exposure to counterparty risk, calculated in accordance with the methods used (internal, standardized, mark-to-market models) vii) Notional amount of credit derivative hedges for counterparty risk; viii) Distribution of positive fair value of contracts by type of underlying;<sup>17</sup> ix) Notional amount of credit derivatives in the banking book and the supervisory trading book, divided by product type,<sup>18</sup> further broken down according to the role played by the bank (buyer or seller of protection) within each product group;</p> <p>x) Estimated alpha if the bank has received authorization from the CBN to estimate alpha.</p>

<sup>16</sup>Applicable to OTC derivatives (including credit derivatives) as well as securities financing transactions (repurchase agreements, securities or commodities lending and borrowing transactions, re-margining transactions based on securities or commodities, long settlement transactions).

<sup>17</sup>For example: interest rate contracts, FX contracts, equity contracts, credit derivatives, commodity/other contracts. <sup>18</sup>For example: credit default swap, total rate of return swap.

**Table 10: Securitization Transactions<sup>14</sup>**

		Description of disclosure
<b>Qualitative disclosure</b>	(a)	<p>i) Description of the bank’s objectives with regard to securitization activity; ii) For positions towards re-securitizations and third parties, the type of risks in terms of:</p> <ul style="list-style-type: none"> <li>• level of subordination of position towards the underlying securitization, or underlying assets</li> <li>• these positions towards the securitization</li> </ul> <p>iii) Description of procedures implemented to monitor changes in credit and market risks positions towards the securitization (e.g. the way in which the performance of the underlying asset affects those positions) and towards the re-securitization; iv) Description of the cover policies of the risks associated with securitization and re-securitization positions, including an indication of the main guarantee of security for each type of risk;</p>

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<sup>14</sup> Except where otherwise specified, this information must be provided separately for positions in the trading book for supervisory purposes and for those in the banking book. The reference to securitization must be understood as including resecuritizations. Where the distinction is specified, the information must be provided separately for securitizations and for resecuritizations. Credit derivatives that are treated, for the purposes of these regulations, as part of synthetic securitization structures shall be excluded from the credit risk mitigation disclosures and included within those relating to securitization.

	<p>(b) Summary of bank's accounting policies for securitization activities, specifying:</p> <p>i) Whether the transactions are treated as sales or financings; ii) Recognition of gain on sale; iii) Key assumptions for valuing securitization exposures;</p> <p>iv) Treatment of synthetic securitizations, if this is not covered by other accounting policies (for example, on derivatives).</p> <p>v) The valuation criteria of awaiting securitization assets and if they are allocated or not in the trading book for supervisory purposes; vi) the accounting policies relating to arrangements that could require the bank to provide financial support for securitised assets (eg. liabilities in the financial statements).</p>
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	<p>(c) Names of ECAs used for securitizations and the types of exposure for which each agency is used.</p> <p>(d) The description of the 'Internal Assessment Approach', including:</p> <ul style="list-style-type: none"> <li>• The internal assessment process;</li> <li>• The relation between internal assessment and external ratings;</li> <li>• The use of the internal evaluation for purposes other than the calculation of capital requirements;</li> <li>• The control mechanisms of the internal assessment process including an independence, accountability, and internal assessment process review;</li> <li>• The exposure types to which is applied the internal assessment process;</li> <li>• The stress factors used to determine the levels of credit enhancement, by type of exposure.</li> </ul> <p>(e) The explanation of significant changes to any of the quantitative information referred to in points f) to h) since the last reporting period.</p>
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<b>Quantitative disclosure</b>	(f)	<p>state the following information broken down by exposure type:</p> <p>i) Total amount of securitization transactions to be carried out by the bank as originator, divided into traditional and synthetic, and those for which the bank acts only as a promoter; ii) Total amount of securitization positions in both balance sheet and off-balance sheet;</p> <p>iii) Total amount of awaiting securitization assets; iv) The amount of securitization positions deducted from regulatory capital or subject to risk weight of 1250%;</p> <p>v) Summary of the securitization activity in the period as originator, including the amount of the underlying assets, as well as the profits or losses from the sale.</p>
	(g)	<p>i) Total amount of own securitization positions or of third party and associated capital requirements, broken down between securitization positions and positions towards re-securitizations, and further broken down into a meaningful number of risk weight bands or capital requirements for each of the used approaches (standardized approach, Supervisory Formula, etc.).</p> <p>ii) Total amount of own re-securitization positions or of third party, divided as follows:</p> <ul style="list-style-type: none"> <li>• By positions covered by credit risk mitigation (CRM) and positions not covered;</li> <li>• By creditworthiness or by name of any guarantor.</li> </ul>
	(h)	<p>Only for positions allocated in the banking portfolio and securitized assets by the bank, the underlying assets impaired and the losses recognized by the bank during the reporting period, both broken down by exposure type.</p>

**Table 11: Market risks: disclosures for banks using the internal models approach (IMA) for position risk, foreign exchange risk and commodity risk**

		Description of disclosure
<b>Qualitative disclosure</b>	(a)	For each portfolio covered by the IMA: i) Characteristics of the models used; ii) A description of stress testing applied to the portfolio; iii) A description of the approach used for backtesting and/or validating the accuracy and consistency of the internal models and modeling processes.
	(b)	The scope of acceptance by the CBN regarding the use of the internal models approach.
	(c)	Description of the level of conformity with the rules governing the systems and controls used to ensure prudent and reliable assessments of the positions included in the supervisory trading portfolio, as well as the methods used to ensure compliance with such rules.
<b>Quantitative disclosure</b>	(d)	The maximum, minimum and average value in the reference period and the value at end of the period: i) Daily VaR data; ii) Stressed VaR data; iii) The capital requirements referred to in point (a). ii).
	(e)	For each sub-portfolio the capital requirements referred to in point
		(a).ii), together with the weighted average liquidity horizon for the nominal value of the exposure.
	(f)	The comparison of the daily closing VaR with the daily changes in the actual value of the portfolio, it must show the reasons behind the changes which have occurred during the reporting period.

1.2 Table 12: Operational risk

		Description of disclosure
<b>Qualitative disclosure</b>	(a)	A description of the approach used for operational risk capital assessment.

	(b)	<p>A description of the advanced measurement approaches (AMA), if used by the bank, including a discussion of relevant internal and external factors considered in the approach adopted.</p> <p>In case of partial use of the AMA, the scope and coverage of the different approaches used should be indicated.</p>
	(c)*	<p>For banks using the AMA, a description of the use of insurance for the purpose of mitigating operational risk.</p>

(\*) Eligibility requirements for the use of particular instruments or methodologies.

**1.3 Table 13: Equity exposures: disclosures for banking book positions**

		Description of disclosure
<b>Qualitative disclosure</b>	(a)	<p>i) Differentiation between exposures according to the objectives pursued (for example, capital gains, relationships with counterparties, strategic reasons); ii) Description of accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation, as well as significant changes in these practices.</p>
<b>Quantitative disclosure</b>	(b)	<p>Value disclosed in the balance sheet and fair value; in addition, for listed securities, a comparison with market quotation where it is materially different from fair value.</p>
	(c)	<p>Type, nature and amounts of exposures, distinguishing between: i) Exposures traded in the market; ii) Exposures in private equity instruments held in sufficiently diversified portfolios; iii) Other exposures.</p>
	(d)	<p>Total cumulative realised gains and losses arising from sales and liquidations in the reporting period.</p>

	(e)	i) Unrealised gains/losses (recognised in the balance sheet but not taken to the income statement); ii) Amount of the above gains/losses included in Tier 1 or Tier 2 capital.
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**1.4 Table 14: Interest rate risk on positions in the banking book**

		Description of disclosure
<b>Qualitative disclosure</b>	(a)	i) Nature of the interest rate risk; ii) Key assumptions used in measuring and managing risk, particularly as regards loans with prepayment option and the behaviour of non-maturity deposits; iii) Frequency of measurement of this type of risk.
<b>Quantitative disclosure</b>	(b)	Consistently with the method used by management to measure interest rate risk, the increase/decline in earnings or economic capital (or other relevant indicators) – broken down by main currencies <sup>15</sup> – in case of upward or downward rate shocks.

<sup>15</sup> Non-material currencies shall be treated as a single currency.

# CENTRAL BANK OF NIGERIA



## Guidance Notes on Supervisory Review Process

### SUPERVISORY REVIEW PROCESS

## 1.0 Introduction

The Supervisory Review Process is structured along two separate but complementary stages.

- a. The Internal Capital Adequacy Assessment Process (ICAAP)<sup>1</sup>, and
- b. The Supervisory Review and Evaluation process (SREP)<sup>2</sup>

## 2.0 Internal Capital Adequacy Assessment Process (ICAAP)

- The ICAAP is based on appropriate risk management systems that require adequate corporate governance mechanisms, an organisational framework with clear lines of responsibility, and effective internal control systems because capital cannot be regarded as a substitute for addressing inadequate risk management processes.
- The ICAAP shall be documented, understood and shared by all bank structures and shall be subject to independent internal review.
- The respective banks' boards are entirely responsible for the ICAAP. They are expected to independently establish the design and organisation in accordance with the risk appetite of the bank. They are also responsible for the implementation and the annual update of the ICAAP and the resulting of internal capital in order to ensure it is still in conformity with the banks' operations and environment.
  - On an annual basis, banks shall render returns to the Central Bank of Nigeria (CBN) on the key features of the ICAAP, their risk exposure and the level of capital deemed adequate to support those risk. The report shall also contain a self--assessment of the ICAAP, areas for improvement, any deficiencies in the process and the corrective measures to be taken.

### General Rules for the ICAAP

- Banks shall have a process for determining the total capital, currently and prospectively necessary to support all material risks. This process shall be;
  - = formalized and documented,
  - = subject to internal review and approval by board and management.
  - = proportionate to the nature, scale and complexity of the business conducted.
- The calculation of total capital requires an assessment of all the risks to which a bank is or may be exposed, including those not considered in calculating the capital requirement under Pillar 1.

- Banks shall determine the risks, other than credit, counterparty, market and operational risks, for which the adoption of quantitative methodologies that can be used in determining internal capital would be appropriate<sup>3</sup>, and those for which control and mitigation measures, in combination or alternatively, would be more suitable.

## **2.2 Proportionality in the ICAAP**

The principle of proportionality shall apply to the following aspects:

- The methodologies used in measuring/assessing risks and in determining the related internal capital;
- The type and nature of the stress tests adopted;
- The treatment of correlation among risks and the determination of total internal capital;
- The organisational structure of the risk control systems;
- The scope and detail of ICAAP reporting to the CBN.

## **2.3 Features of the ICAAP**

In developing an Internal Capital Adequacy Process, banks shall take cognizance of the key supervisory principles as enunciated by the Basel Committee on Banking Supervision (BCBS July 2006 paragraphs 725---760). The main features are summarized below:

### **2.3.1 Comprehensive Identification of Risks**

- a) Banks shall independently identify the risks to which they are exposed, taking into consideration their operations and the markets in which they operate.
- b) This analysis shall consider at a minimum, the risks listed in Annex A. This list is not exhaustive: the identification of any further risk factors connected with its specific operations is left to the prudent assessment of each bank.
- c) Banks and banking groups shall clearly identify the sources of the various forms of risks and where these are to be found at the level of operating units, enterprise--- wide, within the group or from external counterparties. This makes it possible to ascertain whether the regulatory capital requirements calculated at the individual level for the most significant legal entities adequately cover the risks effectively faced by these entities.



### 2.3.2 Sound Capital Assessment

- In order to calculate internal capital banks should have:
  - a) Designed policies and procedures that clearly identify, measure and report all material risks;
  - b) A process that relates capital adequacy to the level of risks assumed;
  - c) A process that relates capital adequacy goal with the banks' strategic focus and business plan;
  - d) A process of internal controls that reviews and audits continuously the activities of the banks to ensure robustness and integrity of the overall risk management process;
- In addition, banks are required to quantify all material risks they are exposed to using methodologies they deem appropriate in relation to their organisational and operational features.
- For credit, counterparty, market and operational risks, a methodological starting point is provided by the regulatory systems for calculating capital requirements for such forms of risk;
- With regard to interest rate risk, all banks shall assess the impact of hypothetical shocks on the interest rate exposure of the banking book. Where this should cause a significant reduction of a bank's regulatory capital, the CBN shall examine the results with the bank and may adopt appropriate actions; and,
- The ICAAP of banks must be able to show how total capital reconciles with the definition of regulatory capital. Specifically, they shall explain the use of capital instruments that may not be included in regulatory capital but are included in the calculation of internal capital

### 2.3.3 Stress Testing

- Banks shall conduct stress testing of their risk mitigation and control systems and, where necessary, the adequacy of their internal capital, in order to enhance the assessment of their exposure to risks.
- Stress tests are quantitative and qualitative techniques used by banks to assess their vulnerability to exceptional, but plausible, events. They involve assessing the impact on banks' exposures of specific events (sensitivity analysis) or joint movements of a set of economic and financial variables under adverse scenarios (scenario analysis).



### **2.3.4 Corporate Governance in the ICAAP**

- The board and management of banks shall be responsible for the ICAAP.
- They shall establish a framework for assessing the various risks, develop a system to relate risk to banks' capital level, and establish a method for monitoring compliance with internal policies. It is likewise important that the board of directors adopts and supports strong internal controls and written policies and procedures and ensures that management effectively communicates these throughout the organization. (BCBS July 2006, Par 730)

### **2.3.5 Monitoring and Reporting**

Banks should have a system for monitoring and reporting risk exposures and assessing how their changing business risk profiles affect their capital needs. They are therefore required to:

- a) Evaluate the level and trend of material risks and their effects on capital levels;
- b) Evaluate the sensitivity and reasonableness of the key assumptions used in capital assessment;
- c) Determine that they hold sufficient capital against the various risks and ensure compliance with established capital adequacy goals; and,
- d) Assess future capital requirements based on reported risk profiles and indicate any necessary adjustments to be made to the banks' strategic plan based on that assessment.

### **2.3.6 Internal Control Review**

- An effective ICAAP requires that the relationship between risks and capital levels is monitored
- The board should ensure that its system of internal control can monitor its business environment
- The bank should ensure conduct of periodic review to ensure integrity, accuracy and reasonableness of its risk management process. Such reviews should cover:
  - a) Appropriateness of the ICAAP
  - b) Large exposures and risk concentration
  - c) Accuracy and completeness of data input
  - d) Reasonableness and validity of scenarios used in the assessment
  - e) Stress testing and analysis of assumptions / inputs



## **2.4 Regulatory Reporting of the ICAAP**

### **2.4.1 Content and Structure**

- a) The ICAAP report will enable the CBN to conduct a complete, documented assessment of the key qualitative features of the capital planning process, the overall exposure to risks and the consequent calculation of total internal capital.
- b) The report is transmitted to the CBN along with the relevant board resolutions and senior management reports containing their comments on the ICAAP, in accordance with their respective responsibilities and functions.
- c) The report shall be organised, at a minimum, into the areas specified in Annex B.

### **2.4.2 Frequency of ICAAP Reporting**

- On an annual basis, banks shall, not later than the end of April, submit to the CBN the ICAAP report as at 31 December of the previous year.
- Based on the capital reported at the close of the previous year, the ICAAP document shall provide the bank's strategies for taking on risk and ensuring that the related capital needs through the end of the current year are met.

## **3.0 Supervisory Review and Evaluation Process (SREP)**

### **3.1 General Rules for the SREP**

The SREP shall be conducted for banks and banking groups on an annual basis in order to verify that they have established capital and organisational arrangements that are appropriate for the risks they face and ensures overall operational equilibrium.

### **3.2 Stages of the SREP**

The SREP is organised into the following main stages:

- a) Analysis of exposure to all material risks and the relative control systems;
- b) Verification of compliance with capital requirements and other supervisory rules;
- c) Assessment of the procedure for calculating total internal capital and of the adequacy of total capital in relation to the bank's risk profile;
- d) Issuance of specific opinions for each form of risk and of an overall opinion on the situation of the bank;
- e) Determination of any supervisory response



### 3.3 Proportionality in the SREP

The supervisory review and evaluation process is also informed by the principle of proportionality, under which:

- a) Corporate governance systems, risk management processes, internal control mechanisms and the determination of capital deemed adequate to cover risks shall be proportionate to the nature, scale and complexity of the business conducted by the banks;
- b) The frequency and the comprehensiveness of the SREP shall have regard to the systemic importance, nature, size and complexity of banks.

The CBN, as part of its Risk-Based Supervisory process, will review and evaluate the soundness of banks' ICAAP against the expectations set out under the features of ICAAP in this guideline. This review will also consider the comprehensiveness of the ICAAP and the quality of risk management to form a view on the appropriateness of the banks' internal capital targets and its capacity for meeting the targets. Based on these reviews, the CBN may require any bank to, among other things, take action to improve its capital and risk management processes if it is not satisfied with the bank's ICAAP.

While the board and senior management of banks maintains primary responsibility for their institution's capital adequacy, the CBN reserves the power to intervene at an early stage to prevent a bank's capital from falling below the level that it deems adequate to support its risks. The CBN may require rapid remedial action if adequate capital is not maintained or restored. This may include the following:

- a) Altering the risk profile of the bank through business or operational restrictions;
- b) Directing banks to raise additional capital;
- c) Strengthening of the systems, procedures and processes concerning risk management, control mechanisms and internal assessment of capital adequacy;
- d) Prohibition of distribution of profits or other elements of capital;
- e) Directing the bank to hold an amount of regulatory capital greater than the legal minimum for credit risk, counterparty risk, market risk and operational risk;
- f) Using other measures as contained in the CBN Supervisory Intervention Framework (SIF) and the BOFIA



## **ANNEX A: Risks Subject To the Internal Capital Adequacy Assessment Process (ICAAP)**

### **1. Pillar 1 Risks**

- a) Credit risk (including counterparty risk,);
- b) Market risks;
- c) Operational risk.

### **2. Other Risks**

- a) Concentration risk: the risk arising from exposures to counterparties, groups of connected counterparties, and counterparties in the same economic sector or which engage in the same activity or are from the same geographic region;
- b) Interest rate risk in the banking book: the risk arising from potential changes in interest rates;
- c) Residual risk: the risk that recognized credit risk mitigation techniques used by the bank may be less effective than planned;
- d) Securitization risk: the risk that the economic substance of a securitization operation is not fully reflected in risk assessment and management decisions;
- e) Business and Strategic risk: the current or prospective risk of a decline in profits or capital caused by changes in the business environment or erroneous decisions, the inadequate implementation of decisions or poor responsiveness to competitive developments;
- f) Reputational risk: the current or prospective risk of a decline in profits or capital should customers, counterparties, shareholders, investors or supervisors take a negative view of the bank;
- g) Liquidity risks; Banks' liquidity profile and the liquidity of the markets in which they operate.
- h) Compliance with minimum standards and disclosure requirements;
- i) Factors external to the bank, e.g., business cycle effects



## **ANNEX B: Guide FOR ICAAP Reporting**

- 1. Strategies and Forecasting Horizon Adopted**
  - a) Business plan and annual budgets; schedule of reviews of business plan and its components; extraordinary events necessitating review;
  - b) Reconciliation between time horizon of business plan and capital plan;
  - c) Ordinary and extraordinary sources of capital.
- 2. Corporate Governance, Organizational Arrangements and Internal Control Systems Connected with the ICAAP**
  - a) Description of the process for the preparation and updating of the ICAAP;
  - b) Description of the process for reviewing the ICAAP;
  - c) Definition of the role and functions assigned to the board and senior management bodies for the purposes of the ICAAP;
  - d) Definition of the role and functions assigned to various corporate functions for the purposes of the ICAAP (for example, internal auditing, compliance, planning, risk management, and other units such as head office and branch network commercial units, accounting and audit);
  - e) Description of organizational and contractual safeguards relating to any elements of the ICAAP that is outsourced;
  - f) Indication of internal regulations relevant to the ICAAP.
- 3. Risk Exposures, Risk Measurement and Aggregation Methodologies, Stress Testing**
  - a) Risk mapping: illustration of the position of the bank in respect of Pillar 1 and Pillar 2 risks;
  - b) Risk mapping in relation to bank's operating units and/or legal entities of the group;
  - c) Techniques for risk measurement, internal capital determination and stress testing;
  - d) Description, for every category of measurable risk, of the main characteristics of the main risk control and mitigation instruments;
  - e) General description of systems for control and mitigation of non measurable risks.
- 4. Components, Estimation and Allocation of Internal Capital**
  - a) Quantification of internal capital for each risk and total internal capital;
  - b) Any methods for allocating internal capital (by operating unit and/or legal entity).

5. **Reconciliation of Internal Capital, Regulatory Requirements and Regulatory Capital**
  - a) Reconciliation of total internal capital and regulatory requirements;
  - b) Listing and definition of capital components covering internal capital;
  - c) Eligibility of components covering internal capital to be calculated for supervisory purposes; explanation of inclusion of ineligible components;
  - d) Estimate of cost of using other capital sources in addition to those used.
6. **Self-Assessment of ICAAP**
  - a) Identification of the areas of the process amenable to improvement;
  - b) Planning of capital or organisational actions.
7. **Organization of the ICAAP Report**
  - i. Executive Summary
  - ii. Structure and Operations
  - iii. Governance Structure
  - iv. Risk Assessment and Capital Adequacy
  - v. Stress Testing
  - ii. Capital Planning
  - iii. Design, Approval, Review, and Use of ICAAP
  - iv. Challenges and Further Steps
  - v. Summary of Internal Capital Adequacy Assessment Process
  - vi. Risk Appetite Statement
  - vii. Use of Internal Models for Capital Assessment
  - viii. Review of ICAAP

# CENTRAL BANK OF NIGERIA



## Guidance Notes on the Calculation of Capital Requirement for Operational Risk

### Basic Indicator Approach (BIA) and the Standardized Approach (TSA)

## **1. Operational Risk Capital Requirement**

### **1.1 Introduction**

In calculating the capital requirements to cover operational risk, banks are required to assess the correlations among the various types of risk and identify their possible impact in terms of operational risk. Ensuring full compliance with the regulations would also play an important role in mitigating operational risk.

### **1.2 Calculation Approaches**

This guidance notes make provision for two methods of calculating operational risk capital charge; the Basic Indicator Approach (BIA) and the Standardized Approach (TSA).

- Banks using the BIA are required to calculate their capital requirement by multiplying an indicator of a bank's volume of business, gross income, by a specified regulatory percentage. Banks using the BIA must hold capital for operational risk equal to the average over the previous three years of a fixed percentage of positive annual gross income.
- Banks using TSA are required to calculate their capital requirement by multiplying gross income by separate regulatory percentages for each of the eight business lines into which banks' activities are divided (corporate finance, trading and sales, retail banking, commercial banking, payment and settlement, agency services, asset management and retail brokerage)

TSA uses the gross income from the above business lines as a proxy for the scale of business operations and thus the likely scale of operational risk exposure within each of these business lines. The capital charge for each business line is then calculated by multiplying gross income by the factor assigned to that business line.

### **1.3 Adoption of Approaches**

Banks and banking groups are expected to adopt the BIA at the commencement date of this regulation and may seek approval to move to TSA which requires more stringent operational risk management processes.

## **2. Governance and Management of Operational Risks**

### **2.1 Board and Management**

The board of directors plays a key role in establishing an effective and efficient operational risk management and control system and to this end the board and senior management shall;

- a) Establish the general framework of the system

- b) be responsible for its implementation,
- c) supervise its operation and
- d) Verify its overall functionality and compliance with regulatory requirements.

## 2.2 Processes and Procedure

Specific attention shall be paid to the processes, functions and other aspects involved in the calculation of the capital requirement. Accordingly, banks' board and management shall have the specific responsibility for:

- a) Identifying and measuring infrequent, yet severe loss events,
- b) Identifying the various forms and manner in which operational risks may materialize,
- c) Assessing the operational risks associated with the introduction of new products, activities, processes and systems.
- d) Adopting contingency and business continuity plans that ensure their operational resilience and limit losses in the event of severe business disruptions.

## 2.3 Reversion of Approaches

Banks that have adopted TSA are not allowed to revert to the BIA without the approval of the CBN. However, if the CBN discovers that a bank using TSA no longer meets the qualifying criteria for the approach, it may require the bank to revert to the BIA until it meets the conditions specified by the supervisor before returning to TSA.

## 2.4 Sound Practices for Operational Risk Management

Regardless of the operational risk capital computation approach adopted, banks are required to comply with principles in *"Sound Practices for the Management and Supervision of Operational Risk"* (BCBS, February 2003).

## 3. Basic Indicator Approach (BIA)

### 3.1 Calculation Method

- a) The capital requirement using the BIA shall be equal to 15% of the average of the last three years positive observations of the relevant indicator (i.e. gross income). The formula for the calculation is given below:

$$KBIA = [Gl_{i...n} * \alpha] / \eta$$

Where:

KBIA = the capital charge under the Basic Indicator Approach

GI = positive annual gross income for the previous three years

$\eta$  = number of the previous three years for which gross income is positive

$\square$  =15%,

b) Gross income under this guideline includes the sum of a bank's

- Net interest income, and
- Net non-interest income;  
All of which shall be gross of:
- Any provisions (example unpaid interest); and write-offs made during the year
- Any operating expenses, including fees paid to outsourcing service providers; in addition to fees paid for services that are outsourced, fees received by banks that provide outsourcing services shall be included in the definition of gross income

But shall exclude:

- Realized or unrealized profits/losses from the sale or impairment of securities in the banking book;
- Extraordinary or irregular items;
- Income derived from insurance recoveries.
- exclude reversal during the year in respect of provisions and write-offs made during the previous year(s);
- exclude income from legal settlements in favour of the bank;

c) However, if, for any given observation, the value of the relevant indicator is negative or equal to zero, this figure shall not be taken into account in calculating the total capital requirement. **The requirement shall be calculated as the average for the positive observations only.**

d) Where data on the relevant indicator is not available for certain observations during the applicable three-year period, the calculation of the requirement shall be based on the average of the available observations only.

e) If the relevant indicator or its components are related to a period less than 12 months (e.g. in the case of newly formed banks, mergers and acquisitions), this value must be annualized linearly.

f) Banks shall be required to reconcile the gross income used in capital computation and the gross income reported in returns made to CBN.

## **4. The Standardized Approach (TSA)**

### **4.1 Approval Process**

- Banks seeking the approval of CBN for the use of TSA must show that their boards are actively involved in the oversight of operational risk management system; the system is conceptually sound and implemented with integrity and must have sufficient resources to support the use of the approach. They would therefore be required to submit the following in support of their application:
  - a) Organization charts that specify the tasks and responsibilities of the operational risk management and control functions;
  - b) A board certification of compliance with qualifying criteria;
  - c) A document describing the self-assessment process and the related findings; and
  - d) The internal audit report on the adequacy of the operational risk management system.
- Banks authorized to use TSA shall send to the CBN annually, a formal certification of compliance with the qualifying criteria and the internal audit report on the adequacy of the operational risk management system.

### **4.2 Qualifying Criteria for the Standardized Approach**

In order to obtain authorization to use the Standardized Approach, banks shall have adequate internal control procedures and an effective operational risk management system (specified below) in addition to adequate corporate governance mechanisms.

#### **4.2.1 Internal Controls**

##### **a) The Self-Assessment Process**

- The self-assessment process shall consist of a formalized set of procedures and activities to:
  - a) assess the quality of the operational risk management system, as well as
  - b) its continuing compliance with regulatory requirements, and;
  - c) appropriateness to operational needs and market developments.
- The procedures for conducting the self-assessment and the related findings shall be adequately documented and reported to senior management and board. The report shall place specific emphasis on any aspect of the operational risk management system that requires improvement, including

changes in bank structure and operations, and on the assessment of compliance with the qualifying criteria.

**b) The Internal Audit Function**

- The internal audit unit shall carry out periodic reviews of the operational risk management system and the self-assessment process at least once every year with a view to evaluating their effectiveness and compliance with the qualifying criteria.
- The unit shall forward its reports on the review of operational risk to the board of directors for necessary corrective actions.

**4.2.2 Operational Risk Management System**

The key features of the operational risk management system are:

**a) The Mapping of Activities into Regulatory Business Lines<sup>16</sup>**

- For the purpose of calculating the capital requirement, the bank shall map its activities into eight regulatory business lines, listed in the table below, in accordance with the following principles:
  - i) All activities shall be mapped into the business lines in a mutually exclusive and jointly exhaustive manner;
  - ii) Any activity that forms an integral or ancillary part of another shall be allocated in accordance with the mapping criteria for the main activity;
  - iii) An activity belonging to more than one business line shall be mapped to the dominant business line;
  - iv) Where an activity cannot be mapped on the basis of a dominant business line, it shall be mapped to the business line yielding the highest percentage. The same rule shall apply to any associated ancillary activity;
  - v) A compound activity shall be divided into its significant components, which shall be mapped to the most appropriate business lines on the basis of their nature and characteristics;
  - vi) Banks may use internal transfer pricing methods to allocate the relevant indicator to the various business lines;<sup>17</sup>
  - vii) The mapping of activities into business lines shall be consistent with the categories adopted for credit and market risks.

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<sup>16</sup> Business lines shall be in line with the permissible activities prescribed in the CBN banking model.

<sup>17</sup> For example, the retail business line may carry out lending transactions making use of funds raised with activities typical of other business lines such as interbank funding, which is included in the trading and sales line. In this case, internal transfer prices can be used to reallocate the cost components from trading and sales to retail.

- viii) The mapping criteria shall be reviewed and adjusted in line with current business activities and the bank's risk profiles.
- ix) The process of mapping activities into business lines shall be subject to internal review and documented.
- x) In mapping activities into business lines, banks shall take account of the table contained in Annex A.

#### **b) Supplementary Business Line Mapping Guidelines**

- i) There are a variety of valid approaches that banks can use to map their activities to the eight business lines, provided the approach used meets the business line mapping principles. The following is an example of one possible approach that could be used by a bank to map its gross income:
- ii) Gross income for retail banking consists of net interest income on loans and advances to retail customers and SMEs treated as retail, plus fees related to traditional retail activities, net income from swaps and derivatives held to hedge the retail banking book, and income on purchased retail receivables. To calculate net interest income for retail banking, a bank takes the interest earned on its loans and advances to retail customers less the weighted average cost of funding of the loans (from whatever source).
- iii) Similarly, gross income for commercial banking consists of the net interest income on loans and advances to corporate (plus SMEs treated as corporate), interbank and sovereign customers and income on purchased corporate receivables, plus fees related to traditional commercial banking activities including commitments, guarantees, bills of exchange, net income (e.g. from coupons and dividends) on securities held in the banking book, and profits/losses on swaps and derivatives held to hedge the commercial banking book. Again, the calculation of net interest income is based on interest earned on loans and advances to corporate, interbank and sovereign customers less the weighted average cost of funding for these loans (from whatever source).
- iv) For trading and sales, gross income consists of profits/losses on instruments held for trading purposes (i.e. in the mark-to-market book), net of funding cost, plus fees from wholesale broking.
- v) For the other five business lines, gross income consists primarily of the net fees/commissions earned in each of these businesses. Payment and

settlement consists of fees to cover provision of payment/settlement facilities for wholesale counterparties.

Asset management is management of assets on behalf of others.

### **c) The Operational Risk Data Collection and Storage System**

- Banks are required to establish an operational risk data collection and storage system, which at a minimum shall include material losses and any related recoveries, which are capable of ensuring the effectiveness of the risk management system.
- The system shall ensure on a continuing basis that the data are relevant, reliable and up to date. For this purpose, banks shall:
  - i) Develop information systems capable of ensuring the integrity, confidentiality and availability of the data over time;
  - ii) Carry out periodic reviews of the operational risk data collection and storage system.

### **d) Assessment of Exposure to Operational Risks**

- At least once a year, banks shall conduct an assessment of their exposure to operational risks for the entire bank and significant operating segments.
- The results of the assessment shall form an integral part of the process of controlling the bank's operational risk profile and shall be reported to the board and management, and within the scope of their duties, to the managers of the operating segments involved.
- The results of the assessment shall be used for management purposes to mitigate operational risks.

### **e) The Reporting System**

Banks shall establish a reporting system which ensures that the board, management and all the functions involved have access to appropriate information on operational risk. At a minimum, the information shall include:

- i) Results of the assessment of operational risk exposure;
- ii) Material losses and related recoveries;
- iii) Description of actions taken to prevent and mitigate operational risks, with information on their effectiveness.

### 4.3 Calculation of the Capital Requirement Using TSA

- Under the Standardized Approach, the capital requirement for operational risk shall be equal to the average of the last three years observations of the Standardized Approach amount.
- The Standardized Approach amount shall be calculated for each year as the sum of the relevant indicators (gross income as defined under BIA) for the business lines weighted on the basis of the percentages indicated below.

Business line	Percentage ( $\beta$ )
Corporate finance	18%
Trading and sales	18%
Retail banking	12%
Commercial banking	15%
Payment and settlement	18%
Agency services	15%
Asset management	12%
Retail brokerage	12%

- The total capital charge under TSA may be expressed as follows:

$$KTSA = \frac{\sum_{years\ 1-3} \max[\sum(GI_{1-8} * \beta_{1-8}), 0]}{3}$$

Where:

KTSA = Capital charge under TSA

GI<sub>1-8</sub> = Annual gross income in a given year for the eight business lines in the table above.

$\beta_{1-8}$  = The fixed percentages for the business lines indicated in the table above.

- Where the weighted relevant indicator of a business line is negative, it shall be included in calculating the Standardized Approach amount. Where the Standardized Approach amount for a given year is negative, then the result for that year shall be zero and shall be included in the calculation of the three-year average.

- In any given year, negative capital charges (resulting from negative gross income) in any business line may offset positive capital charges in other business lines without limit.
- Where data on the relevant indicator is not available for certain observations during the applicable three-year period, the calculation of the requirement shall be based on the average of the available observations only.<sup>18</sup>
- If the relevant indicator or its components are related to a period less than 12 months (e.g. in the case of newly formed banks, mergers and acquisitions), this value must be annualized linearly.
- In the event that a bank or banking group migrates from the basic indicator approach to the standardized approach during the year, the capital requirement is calculated by using the new method from the first reporting date.

Annex B shows an example of using standardized approach for calculating capital requirement for operational risk.

## 5. Definition of Terms

**Relevant indicator** shall mean gross income

**Business lines** shall mean the lines of business into which a bank's activities shall be classified in accordance with the criteria set out in the Standardized Approach for computation of capital charge for operational risk.

**Operational loss** shall mean the adverse financial effects generated by operational events that have been recognized in the bank's accounts and that have or may have an impact on the bank's income statement.

**Legal risk** shall mean the risk of losses resulting from violations of law or regulations, from contractual or constructive liability or from other disputes.

**Operational risk** shall mean the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.

**Operating segment** shall mean any area of activity such as a business line, an organizational unit, a legal entity or a geographical area.

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<sup>18</sup> Only values for the relevant indicator determined on the basis of the International Accounting Standards shall be used in calculating the capital requirement.

**Standardized approach amount** shall mean the algebraic sum of each of the eight business lines divided by 3 years. Where the weighted relevant indicator of a business line is negative, it shall be included in calculating the Standardized Approach amount. Where the Standardized Approach amount for a given year is negative, then the result for that year shall be zero and shall be included in the calculation of the three-year average

**6. ANNEX A: Standardized Approach – Mapping of Business Lines to Bank Activities**

Business lines	List of activities
Corporate finance	Mergers, acquisitions, placements (public tenders and offerings, private placements, bond issues). Investment banking activities involving equity and debt capital (IPOs, privatizations, syndications, secondary private placements, underwriting, etc.). Business appraisals. Securitizations on behalf of third parties. Corporate financial management. Capital increases (lead manager only). Advisory and research services (capital structure, industrial strategy, undertakings, reorganizations, etc.). Investment advice as a specific business.
Trading and sales	Dealing on own account. Treasury management and funding on own account (asset & liability management, etc.). Securitization on own account. Reception, transmission and execution of orders for corporate and professional clients. Advice, underwriting, placement of financial instruments (investment funds, securities and fund portfolio products, equities, bonds, derivatives, etc.) with corporate and professional clients.

Retail banking	Acceptance of deposits and lending. Guarantees and commitments. Consumer credit for retail customers. Leasing and factoring. Other transactions with retail counterparties not allocated to other business lines. Ancillary services such as collection and payment (issuing debit and credit cards, funds transfer and other payments on behalf of customers, exchanging foreign currency, etc.) and custodianship and administration of financial instruments.
Commercial banking	Acceptance of deposits and lending. Guarantees and commitments. Leasing and factoring. Export and trade credit. Other transactions with
	corporate counterparties not allocated to other business lines. Ancillary services such as collection and payment (issuing debit and credit cards, funds transfer and other payments on behalf of customers, foreign exchange, etc.) and custodianship and administration of financial instruments. Net income (for example, coupons and dividends) on nontrading books.
Payment settlement and	Payment, settlement and clearing services and systems (RTGS, NIBSS, SWIFT, MASTERCARD, VISA, CSCS etc.). Issuing and administering means of payment and funds transfer as a specific business. Correspondent banking.
Agency services	Depository bank. Custodianship and related services (cash/collateral management, deposits with third parties, etc.) as a specific business. Tax collection services. Treasury services for government entities. Trust services.

Asset management	Portfolio management and other forms of asset management (investment funds, pension funds, securities and fund portfolio products, hedge funds, etc.). This refers only to the production, and not the distribution, of asset management products, except for placement with professional clients by specialized companies.
Retail brokerage	Reception, transmission and execution of orders for retail customers. Advice, underwriting, placing of financial instruments and insurance products (bank insurance, investment funds, securities and fund portfolio products, equities, bonds, derivatives, etc.) with retail customers.

**ANNEX B: STANDARDIZED APPROACH – Example of the Calculation of the Capital Requirement**

Business line	Step 1			Beta Factor	Step 2		
	Annual Gross Income by Business Lines				Calculation of the weighted relevant indicator by business		
	Yr 1	Yr 2	Yr 3		Yr 1	Yr 2	Yr 3
Corporate finance	10	10	10	18%	1.80	1.80	1.80
Trading & sales	20	-60	30	18%	3.60	-10.80	5.40
	20	20	30	12%	2.40	2.40	3.60
Retail banking	20	15	10	15%	3.00	2.25	1.50
Commercial banking	10	-40	10	18%	1.80	-7.20	1.80
Payment and Settlement	20	15	0	15%	3.00	2.25	0.00
Agency services							

Asset Management	0	20	30	12%	0.00	2.40	3.60
Retail brokerage	-10	10	20	12%	-1.20	1.20	2.40
					Step 3		
					Algebraic sum for the year		
					14.40	-5.70	20.10
					Step 4		
					Calculation of the Standardized Approach amount		
					14.40	0.00	20.10
					Step 5		
					Standardized Approach capital requirement		
					11.50		

1. Calculate the relevant indicator on an annual basis for each business line (the result may be either positive or negative).
2. Multiply the relevant indicator of each business line by the corresponding percentage (the result may be either positive or negative).
3. Sum the weighted relevant indicators of the eight business lines, offsetting the positive amounts against the negative amounts. If the total result for the year is negative, set it equal to zero.
4. Calculate the Standardized Approach amount for each of the three years (the result may be either positive or equal to zero).
5. Calculate the total capital requirement as the simple average of the Standardized Approach amounts for the three years.

**CENTRAL BANK OF NIGERIA**



**Guidance Notes on the Calculation of Capital Requirement  
for Credit Risk**

**STANDARDIZED APPROACH**



## CHAPTER ONE: CREDIT RISK – STANDARDIZED APPROACH

### 1.0 Introduction

The application of the standardized approach for calculating the capital requirement for credit risk is supported by external credit assessments and it entails:

- a) the classification of exposures to different classes based on the nature of the counterparty or the technical characteristics of the transaction or the manner in which it is carried out, and
- b) the assignment of diversified risk weights to each portfolio, based on the ratings provided by the External Credit Assessment Institutions (ECAI) or the risk weights specified for certain exposure categories under this framework.

All unrated exposures shall be assigned a risk weight of 100% where any of the under listed two conditions holds

- c) The bank does not intend to use a rating assigned by an ECAI; and
- d) Where ECAI selected by the bank has not issued a rating for the exposure.

### 2.0 External Credit Assessments

External credit assessments (or external ratings) on the borrowers or specific exposures are the basis for the determination of risk weights under the standardized approach for exposures to sovereigns, central banks, public sector entities, banks, corporates as well as certain specific exposures<sup>1</sup>. The risk weights for other categories of exposures that are not subject to external ratings are specified in this framework.

#### 2.1 Rules on the use of external ratings

The rules for the use of external ratings are as follows;

- a) Banks that intend to use credit assessments from ECAs shall furnish the CBN with a list of such ECAs.
- b) Banks are not allowed to use credit assessments issued by connected ECAs.
- c) Credit assessments shall be used consistently; therefore, banks that decide to use credit quality assessments from an ECAI for a certain class of exposures shall use them for all the exposures belonging to that class.
- d) Banks shall use only credit quality assessments of ECAs that take account of total exposure i.e. principal and interest.
- e) External ratings for an entity within a group cannot be used to risk weight other entities within the same group.



## 2.2 Single and Multiple assessments

- Where there is only one assessment by an ECAI chosen by a bank for a particular exposure, that assessment should be used to determine the risk weight of the exposure.
- Where separate assessments by two different ECAIs result in different risk weights, the higher risk weight will be applied.
- Where there are three or more assessments with different risk weights, the assessments with the two lowest risk weights should be selected and the higher of those two risk weights will be applied.

## 2.3 Unsolicited Ratings

As a general rule, banks should only use solicited ratings from recognized ECAIs for the purposes of calculating capital requirement under the standardized approach. Where it is expedient for any bank to use unsolicited ratings, such bank shall obtain the CBN approval and the quality of the unsolicited ratings must not fall below that of solicited ratings.

## 2.4 Revocation of ECAI's recognition

Where the recognition of an ECAI is revoked, banks that use the ratings provided by such ECAI shall adjust their exposure risk weights within 30 days.

## 2.5 Issuer and Issues Assessment

Where a bank invests in a particular security, which has an issue-specific rating, the risk weight for this exposure will be based on this rating. Where the bank has an investment which does not have an issue-specific rating, the following principles shall apply:

- a) Where the bank's exposure is to a borrower which does not have its own issuer rating, but the same borrower has a rating on other obligations (such as a debt security) to which the bank is not exposed, the bank shall use that debt security rating in determining the appropriate risk weight for the exposure to the borrower. However, this is subject to the condition that the bank's exposure ranks *pari passu* or senior in all respects to the debt security which has a rating, otherwise, the claim will receive the risk weight for unrated exposures;
- b) Where a borrower has its own issuer rating, this rating typically applies to senior unsecured exposures on that borrower. Thus, only senior exposures on that borrower will be able to utilise this rating. Other exposures will be treated as unrated; and
- c) Where either the issuer or a single security has a low quality rating which maps into a risk weight equal to or higher than that which applies to unrated exposures, an unrated exposure on the same borrower or issuer



will be assigned the same risk weight as is applicable to the low quality rating (instead of the risk weight for unrated exposures).

## **2.6 Domestic and Foreign Currency Exposures**

- A credit assessment that refers to an item denominated in the borrower's domestic currency cannot be used to derive a risk weight for another exposure to that same borrower that is denominated in a foreign currency.
- Where unrated exposures are risk weighted based on the rating of an equivalent exposure to that borrower, the general rule is that foreign currency ratings would be used for exposures in foreign currency. Domestic currency ratings, if separate, would only be used to risk weight claims denominated in the domestic currency<sup>2</sup>.

## **2.7 Short---Term and Long---Term Credit Assessments**

- Where a short---term exposure is assigned a 150% risk weight, all unrated exposures to the counterparty whether short---term or long---term shall receive a 150% risk weight;
- Where a short---term exposure is assigned a 50% risk weight, no unrated short---term exposure shall receive a risk weight of less than 100%.
- When a specific short---term assessment for a short---term exposure on a bank maps into a less favourable (higher) risk weight than the general preferential treatment for short---term exposures, the general short---term preferential treatment for interbank exposures cannot be used. All unrated short---term exposures should receive the same risk weighting as that implied by the specific short---term assessment.

## **3.0 Exposures and Risk Weights Categories**

The following part defines the various categories of exposures and their corresponding risk weights under the standardized approach. On---balance sheet exposures shall be multiplied by the appropriate risk weight to determine the risk--- weighted asset amount, while off---balance sheet exposures shall be multiplied by the appropriate credit conversion factor (CCF) before applying the respective risk weights. Specifically, all exposures subject to the standardized approach should be risk---weighted net of specific provisions<sup>3</sup>

### **3.1 Exposures to Central Governments and Central Banks**

- Exposures to Central Governments and Central Banks shall be assigned risk weights based on the rating assigned by an ECAI/Export Credit Agency (ECA) as follows;

<b>Credit Assessment (ECAI)</b>	<b>AAA to AA---</b>	<b>A+ to A –</b>	<b>BBB+ to BBB---</b>	<b>BB+ to B---</b>	<b>Below B---</b>	<b>Unrated</b>
<b>Risk Scores (ECA)</b>	1	2	3	4---5	6	Unrated
<b>Risk Weight</b>	0%	20%	50%	100%	150%	100%

- Notwithstanding the provisions of this paragraph, a risk weight of 0% shall be assigned to the following:
  - a. Exposures to Federal Government of Nigeria (FGN) and Central Bank of Nigeria (CBN) denominated in Naira (NGN) and funded in that currency.
  - b. Exposures, including inter---bank transactions guaranteed by the FGN or CBN.
  - c. Inter---bank transactions among supervised institutions collateralized by FGN Bonds or Treasury Bills.

### **3.2 Exposures to non---Central Government Public Sector Entities**

- Exposures to Public Sector Entities (*PSEs*<sup>4</sup>) shall be assigned a risk weight of 100% regardless of the length of the residual maturities of the exposures.
- Where a PSE is located in other jurisdiction, the risk weight of the sovereign rating of that jurisdiction shall be applied.

### **3.3 Exposures to State Governments and Local Authorities**

- Exposures to State and Local Governments in Nigeria shall receive the following risk weights:
  - a) 20% risk weight for State Government bonds that meet the eligibility criteria for classification as liquid assets by the CBN
  - b) 100% risk weight for other State and Local Government bonds and exposures
- State and Local Governments of other jurisdictions shall be assigned the sovereign risk weight of those jurisdictions.



### 3.4 Exposures to Multilateral Development Banks (MDBs)

- Exposures to multilateral development banks shall be risk weighted on the basis of the rating assigned by an ECAI, as set out in the table below;

Credit Assessment for	AAA	A+ to	BBB+	BB+ to	Below	unrated
MDBs	to AA-	A -	to BBB---	B---	B---	
	--					
Credit quality steps	1	2	3	4 and 5	6	Unrated
Risk Weight	20%	50%	50%	100%	150%	50%

- However, a risk weight of **0%** shall apply to exposures to the following MDBs, regardless of any external credit rating assigned:
  - International Bank for Reconstruction and Development (IBRD);
  - International Finance Corporation (IFC);
  - African Development Bank (ADB);
  - Asian Development Bank (ADB)
  - European Bank for Reconstruction and Development (EBRD)
  - Inter---American Development Bank (IADB)
  - European Investment Bank (EIB)
  - European Investment Fund (EIF)
  - Nordic Investment Bank (NIB)
  - Caribbean Development Bank (CDB)
  - Islamic Development Bank (IDB)
  - Council of Europe Development Bank (CEDB)
  - International Islamic Liquidity Management Corporation (IILMC)
  - Any other MDBs that may be specified from time to time by the CBN.

### 3.5 Exposures to Supervised Institutions

- Exposures to banks incorporated in a given country will be assigned a risk weight one category less favourable than that assigned to exposures on the sovereign of that country as shown in the following table.

	AAA to	A+ to	BBB+	BB+ to	Below	unrated
Credit Assessment	AA---	A -	to BBB---	B---	B---	
Credit quality steps	1	2	3	4 and 5	6	unrated
Risk Weight	20%	50%	100%	100%	150%	100%

- Short-term exposures to supervised institutions in Nigeria with an original maturity of three months or less shall be assigned a risk weight of 20% while a risk weight of 100% shall be assigned to long-term exposures.
- Shareholdings, hybrid and subordinated capital instruments issued by supervised institutions shall be assigned a risk weight of 100% where they are not deducted from regulatory capital.<sup>5</sup>

### 3.6 Exposures to Corporates and Other Persons

- This class includes exposures to entities other than those referred to in the above subsections as well as exposures to natural persons and small and medium-sized enterprises that cannot be classified under retail exposures as provided below.
- Exposures to corporates other than small and medium-sized enterprises shall be risk weighted on the basis of a credit assessment assigned by an ECAI as follows;

	AAA to	A+ to	BBB+ to	Below	unrated
Credit Assessment	AA---	A -	BBB---	B---	
Credit quality step	1	2	3 and 4	5 and 6	unrated
Risk Weight	20%	50%	100%	150%	100%



- Exposures to insurance companies, securities firms, and collective investment schemes shall be treated as exposures to corporates.

### 3.7 Regulatory Retail Portfolio

Exposures included in the regulatory retail portfolio shall be risk-weighted at **75%**. To qualify to be included in the regulatory retail portfolio, such exposures must meet the following criteria:

- Orientation criterion** – the exposure is to an individual person or persons or to a small business. (small businesses may include sole proprietorships, partnerships or small and medium-scale enterprises (SMEs<sup>6</sup>))
- Product criterion** --- the exposure takes the form of any of the following: revolving credits and lines of credit (including credit cards and overdrafts), personal term loans and other term loans (for example installment loans, auto financing loans, student and educational loans, personal finance) and small business facilities. Investment in debt and equity securities, whether listed or not, are excluded from this portfolio. Mortgage loans are excluded to the extent that they qualify for treatment as exposures secured by residential property.
- Granularity criterion**<sup>7</sup> --- the aggregate exposure<sup>8</sup> to one counterpart cannot exceed 0.2% of the overall regulatory retail portfolio;
- Low value of individual exposures** --- the aggregate retail exposure to one counterpart cannot exceed an absolute threshold of N100 million.

### 3.8 Exposures secured by Mortgages on Residential Property

- A risk weight of **100%** shall be applied to exposures secured by mortgages on residential property provided that:
  - a) The residential property will be occupied or rented out. The borrower's capacity to repay does not materially depend on cash flows generated by the property serving as collateral, but rather on the capacity of the borrower to repay the debt from other sources<sup>9</sup>;
  - b) The amount of the exposure does not exceed 80% of the value of the property<sup>10</sup>. The loan to value ratio may be raised to 100% if supplemental guarantees are provided. In order to enable lending banks to obtain an effective benefit from the reduction in credit risk, the supplemental guarantees shall meet the general requirements specified under the rules governing credit risk mitigation.

### **3.9 Exposures Secured by Mortgages on Commercial Real Estate**

Exposures secured by mortgages on commercial real estate (property for use as office space, distribution or other economic activities) located in Nigeria are risk-weighted at **100%**.

#### **Other Conditions for Exposures Secured by Real Estate Property**

Exposures secured by real estate property shall include exposures secured by a mortgage on real estate or connected with real estate leasing contracts, in accordance with the procedures set out in this section, provided that the following conditions, in addition to those under subsection 3.8 and 3.9 above:

- a) The value of the property does not materially depend upon the credit quality of the debtor;<sup>11</sup>
- b) The property is appraised by an independent valuer<sup>12</sup> at a value that does not exceed the market value;<sup>13</sup>
- c) The claim on the collateral is legally enforceable in all relevant jurisdictions and may be realized in a reasonable period of time.
- d) The property value shall be adequately monitored. Thus;
  - i. the value of the property shall be verified at least once every three years for residential property and once every year for commercial real estate, or more frequently where the market is subject to significant changes in conditions;  
where the verifications under point i) reveal a material decline in the value of the property, a valuation shall be made by an independent valuer, based on a value that shall not exceed the market value;<sup>14</sup>  
the property valuation shall be reviewed by an independent valuer at least once every three years for exposures exceeding 5% of the bank's regulatory capital<sup>15</sup>;
- e) The types of property accepted as collateral and the related lending policies shall be clearly documented;
- f) The property serving as collateral shall be adequately insured against damage.

### **3.10 Past Due Exposures<sup>16</sup>**

The treatment of exposures classified as past due (defaulted) is provided below.

- The risk weights for the unsecured portion of past due exposures (other than qualifying residential mortgage loans and higher risk assets, net of specific provisions<sup>17</sup> (including partial write-offs) are as follows:



- i) 150% risk weight when specific provisions are less than 20% of the outstanding amount of the exposure;
- ii) 100% risk weight when specific provisions are no less than 20% of the outstanding amount of the exposure.

For the purpose of defining the secured portion of past due exposures, eligible collateral and guarantees will be the same as for credit risk purposes. Qualifying residential mortgage loans that are past due shall be risk weighted, net of specific provisions (including partial write-offs) as follows:

- i) 100% when specific provisions are less than 20% of the outstanding amount of the exposure; and
- ii) 50% when specific provisions are 20% or more of the outstanding amount of the exposure.

### **3.11 Higher Risk Exposures**

The following exposures are regarded as higher risk exposures and are assigned specific risk weights<sup>18</sup> as follows:

- a) Unrated securitization shall be risk weighted 1000%
- b) Unrated securitization for internationally active banks (to which capital adequacy ratio of 15% applies) shall be risk weighted 667%
- c) Securitization tranches that are rated between BB+ and BB- will be risk weighted at 350%
- d) Investment in non-financial firms with negative financial results over the past two years; will be weighted at 200%.
- e) Investments in venture capital firms will be risk weighted 150%
- f) Non-publicly traded equity investments will be risk-weighted at 150%
- g) Residential mortgage loans for abandoned housing development project or construction will be risk-weighted at 150%; and
- h) Exposures to sovereigns, PSEs, banks, and securities firms rated below B- as well as exposures to corporates rated below BB- will be risk weighted at 150%
- i) Where exposure to a particular industry within a sector (as defined by the International Standard Industrial Classification of Economic Sectors as issued by the CBN) is in excess of 20% of total credit facilities of a bank, the risk weight of the entire portfolio in that industry shall be 150%. If for instance the total exposure of a bank to the food manufacturing industry within the Manufacturing sector is in excess of 20% of total credit facilities, the entire portfolio of exposure to the food manufacturing industry would be risk weighted 150%.



- j) The treatment of both defaulted and non---defaulted exposures of these higher risk items shall be the same.

### 3.12 Other Assets

- **0% Risk Weight**

- i) Cash in hand and equivalent cash items shall be assigned a 0% risk weight.
- ii) Gold bullion held in own vaults or on an allocated basis to the extent backed by bullion liabilities shall be assigned a 0% risk weight.
- iii) All exposures deducted from capital

- **20% Risk Weight**

- i) Cheques and Cash items in transit shall be assigned a 20% risk weight.

- **100% Risk Weight**

- i) Property, plant and equipment and other fixed assets
- ii) Prepayments
- iii) Investments in equity or regulatory capital instruments issued by banks, other financial institutions and other entities unless deducted from capital base.
- iv) Investments in collective investment schemes.
- v) Real estate and other investments (including non---consolidated investment participation in other companies)
- vi) Bank lending to subsidiaries in the same group: --- where the loan is fully secured, it would be assigned a risk weight of 100%, otherwise it would be deducted from the capital when computing capital adequacy.
- vii) Any other assets not specified above.

### 3.13 Off---Balance---Sheet Exposures:

#### Guarantees and Commitments

- In order to calculate the credit risk associated with guarantees and commitments issued, banks shall first convert the exposures to credit equivalent amount by multiplying the exposures by the related credit conversion factors (CCF). Then, capital requirement is derived by multiplying the credit equivalent amount by the specific risk weight of the counterparty. Specifically, the credit conversion factors as provided in Annex B shall be applied to the exposures.
- In the case of **asset sale and repurchase agreements** and **outright forward purchases**, the risk weights shall be that of the assets in question and not that of the counterparties to the transactions.



### 3.1.4 Securitization Positions

The risk-weights for securitized exposures are set out in chapter two of this framework.

## CHAPTER TWO: SECURITIZATION POSITIONS

### 1.0 Introduction

- This section describes the various approaches in determining regulatory capital requirements on exposures arising from securitization (traditional and synthetic) held in the banking book and the operational requirements for allowing regulatory capital reduction for banks.
- All banks, whether acting as originators or as third-party investors, must hold regulatory capital against all securitization exposures (on- or off-balance sheet) in the banking book arising from traditional and synthetic securitizations or structures that contain features similar to both. Such securitization exposures may arise from the following activities of the banks among others:
  - i) investments in any securitization issue, including retention or repurchase of one or more securitization positions;
  - ii) provision of credit risk mitigants or credit enhancement to parties to securitization transactions;
  - iii) provision of liquidity facilities or other similar facilities;
  - iv) obligations due to early amortization features in a securitization; or
  - v) entitlements to future income, generated by a securitization through various forms of arrangements such as deferred purchase price, excess servicing income, gain-on-sale, future margin income, cash collateral accounts or other similar arrangements.
- The framework specifies a number of methods for calculating the risk-weighted value of securitization positions. For banks that adopt the standardized approach in calculating the capital requirement for credit risk, the risk-weighted amount of the securitized assets underlying the securitization position shall be calculated using risk weights assigned by an ECAI to securitization exposures.
- For regulatory capital purposes, banks may use credit risk mitigation techniques to reduce the capital requirement for securitization positions. The methods for using these techniques are described in the section on credit risk mitigation.



## **2.0 Operational Requirements for the Recognition of Credit Risk Transfer**

- This section establishes the minimum requirements for the recognition of the transfer of credit risk and the regulatory capital treatment that the originating bank shall apply to securitize assets. Where the requirements set out in this section are not met, the securitization shall not be recognized for regulatory capital purposes.
- Banks should understand the inherent risks of the activity and be competent in structuring and managing such transactions. The terms and conditions of all transactions between the originating banks and the Special Purpose Vehicle (SPV) should be at market terms and conditions (all fees payable, should be in a timely manner) and meet the institution's normal credit standards.
- An institution's capital and liquidity plans should take into account the potential need to finance an increase in assets on its balance sheet as a result of early amortization or maturity events. The CBN may, if deemed necessary, increase the institution's capital requirement.

### **2.1 Operational Requirements for Traditional Securitizations**

Under a traditional securitization, an originating bank may exclude the securitized exposures from the calculation of the credit risk-weighted assets only if all the following requirements are met on an ongoing basis:

- a) Significant credit risks associated with the securitized exposures has been transferred to third parties.
- b) The securitized exposures are not subject to claims by the originating bank and its creditors, even in the event of bankruptcy proceedings or receivership against the originating bank. Compliance with this condition shall be supported by an opinion provided by a qualified legal counsel with relevant experience in the sector;
- c) The transferee is a special-purpose vehicle (SPV) and the holders of the beneficial interests in that entity have the right to pledge or exchange the interests without restriction;
- d) The securities issued on the securitized exposures are not obligations of the originating bank. Thus, investors who purchase the securities have recourse only to the underlying pool of exposures.
- e) The originating bank does not maintain effective or indirect control over the transferred exposures. The originating bank is deemed to have maintained effective or indirect control over the transferred credit risk exposures if it;



- has right to repurchase from the transferee (i.e. SPV) the previously transferred exposures in order to realize their benefits; or
  - is obligated to re-assume the risk of the transferred exposures. The originating bank's retention of servicing rights to the exposures will not necessarily constitute indirect control of the exposures.
- f) Clean-up call options shall be permitted, provided they satisfy the conditions set out in sub-section 2.3.
- g) The contracts that govern the securitization do not contain clauses that;
- require the originating bank to improve the credit quality of securitization positions by altering the securitized assets
  - allow for increases in a retained first loss position or credit enhancement provided by the originating banking institution after the inception of the transaction; or
  - increase the yield payable to parties other than the originating bank, such as investors and third-party providers of credit enhancements, in response to a deterioration in the credit quality of the securitized assets.

Where the traditional securitization complies with the significant credit risk transfer requirement for regulatory capital purposes, but does not pass the de-recognition test under IAS 39, the value of any securitization positions held by the originating bank shall be determined as if the transferred assets had been derecognized and the securitization positions recognized.

## **2.2 Operational Requirements for Synthetic Securitizations**

Under a synthetic securitization, an originating bank may recognize the use of Credit Risk Mitigation (CRM) techniques such as collateral, guarantees or credit derivatives for capital relief purpose, if all the following requirements in addition to the conditions set out under traditional securitization are met on an ongoing basis:

- a) The credit protection by which the credit risk is transferred complies with conditions under credit risk mitigation. For this purpose, special-purpose vehicles shall not be recognized as eligible unfunded credit protection providers<sup>19</sup>;
- b) The instruments used to transfer credit risk do not contain terms or conditions that:
- impose significant materiality thresholds below which credit protection is deemed not to be triggered if a credit event occurs;
  - allow for the termination of protection due to deterioration of the credit quality of the underlying exposures;



- require positions in the securitization to be improved by the bank;
- increase the bank's cost of credit protection or the yield payable to holders of positions in the securitization in response to a deterioration in the credit quality of the underlying pool;
- c) Securitization structures that include a clean-up call feature must satisfy the conditions set out in sub-section 2.3.
- d) A written opinion is obtained from qualified legal counsel that confirms the enforceability of the credit protection in all relevant jurisdictions.

### **2.3 Operational Requirements and Treatment of Clean-Up Calls**

- For securitization transactions that include a clean-up call, no capital will be required due to the presence of a clean-up call if the following conditions are met:
  - a) the exercise of the clean-up call must not be mandatory, in form or in substance, but rather must be at the discretion of the originating bank;
  - b) the clean-up call must not be structured to avoid allocating losses to credit enhancements or positions held by investors or otherwise structured to provide credit enhancement; and
  - c) the clean-up call must only be exercisable when 10% or less of the original underlying portfolio, or securities issued remain, or, for synthetic securitizations, when 10% or less of the original reference portfolio value remains.
- Securitization transactions that include a clean-up call that does not meet all of the requirements above, shall be subject to the following treatment:
  - a) For a traditional securitization, the underlying exposures must be treated as if the exposures were not securitized. Banks must not recognize in regulatory capital any income in equity capital resulting from a securitization transaction, such as that associated with expected future margin income resulting in a gain-on-sale; and
  - b) For synthetic securitizations, the purchaser of protection must hold capital against the entire amount of the synthetically securitized exposures as if it had not benefited from any credit protection.
- If a clean-up call, when exercised, is found to serve as a credit enhancement, the exercise of the clean-up call must be considered a form of implicit support provided by the bank and must be treated in accordance with the supervisory guidance pertaining to securitization transactions.



## 2.4 Treatment of Implicit Support

Where the originating bank provides implicit support<sup>20</sup> to a securitization, it shall;

- a) Calculate capital requirement for all of the exposures associated with the securitization transaction as if the exposures had not been securitized or as if the transaction did not benefit from any credit protection (in the case of synthetic securitization);
- b) Deduct from Tier 1 Capital any income in equity capital resulting from a securitization transaction, such as that associated with expected future margin income resulting in a gain-on-sale; and
- c) Disclose the details of the implicit support and the impact of such support on its regulatory capital in accordance with the disclosure requirements under Pillar III.

## 3.0 Standardized Approach for Securitization Exposures

- Banks are required to hold regulatory capital against all of their securitized exposures using the guidelines contained in this section.
- Banks that apply the standardized approach for calculating credit risk capital requirements for the type of the underlying exposure(s), securitized are also required to use the same approach for calculating the capital requirements for the securitization exposures.

### 3.1 Risk Weights for Securitization Exposures

- The risk-weighted asset amount of an on-balance sheet securitization exposure is computed by multiplying the amount of the securitization exposure by the appropriate risk weight as provided in the table below:

	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ and below
External Credit Assessment					



					unrated
<b>Securitization</b>	20%	50%	100%	350%	1250%
<b>Exposures</b>					
<b>Re---securitization</b>	40%	100%	225%	650%	1250%
<b>Exposures</b>					

- For off---balance sheet exposures, unless otherwise specified, the credit exposure equivalent of the off---balance---sheet securitization positions (such as guarantees issued and loan commitments) shall be equal to the nominal value multiplied by a credit conversion factor of 100%.

### 3.2 Use of Assessments

- Where the credit assessment made by an ECAI takes account of a credit risk mitigation instrument provided for the entire securitization that is recognized for regulatory capital purposes, the assessment may be used to determine the position's risk weight; otherwise, the assessment may not be taken into consideration.
- Where credit risk protection is provided directly to an individual securitization position, a credit assessment made by an ECAI that reflects such protection shall not be considered. In this case, the general rules on the recognition of credit risk mitigation instruments shall apply.
- The bank that holds the position cannot use the ECAI evaluations based on the credit enhancement provided by the bank itself or by another member of the banking group through guarantees, credit derivatives, credit lines, etc. In this case, the bank shall consider the position as unrated and apply the treatment provided for these positions.
- The use of assessments by different ECAIs for positions in different tranches of the same securitization is not permitted.

### 3.3 Exceptions to Risk Weight for Unrated Securitization Exposures

A 1250% risk weight is required for unrated positions with the exception of the circumstances described under:

- a) Look---through approach
- b) Positions connected with Asset---Backed Commercial Paper (ABCP) programmes
- c) Eligible Liquidity Facilities



### **3.4 Treatment of Unrated Most Senior Securitization Exposures (Look-Through Approach)**

- Where a bank holds or guarantees the most senior exposure in a traditional or synthetic securitization that is unrated, it may apply the “look-through” approach to determine the risk weight of the underlying exposures provided the composition of the underlying pool is known at all times. Under this approach, the unrated most senior position receives the average risk weight<sup>21</sup> of the underlying exposures subject to supervisory review.
- If the resulting weighted average risk weight is higher than the risk weight of the securitization exposure below it, then the risk weight of the latter shall apply. However, where the bank is unable to determine the risk weights assigned to the underlying credit risk exposures, the unrated position must be risk weighted at 1250%.

### **3.5 Treatment of Exposures in a Second Loss or Better Position In an Asset-Backed Commercial Paper (ABCP) Programmes**

Where a bank holds unrated securitization exposures that is connected with an ABCP programme, such exposure will be subject to a risk weight which is the higher of 100% or the highest risk weight assigned to any of the underlying individual exposures covered by the facility provided that the following requirements are satisfied:

- a) The exposure is economically in a second loss or better position and the first loss position provides significant credit protection to the second loss position;
- b) The associated credit risk is the equivalent of investment grade or better; and
- c) The bank that holds such unrated securitization exposure does not also hold or retain the first loss position in the same ABCP programme.

### **3.6 Risk Weights for Eligible Liquidity Facilities**

- Liquidity facilities shall be deemed eligible where the following conditions are satisfied:
  - a) The contractual clauses relating to the liquidity facility clearly identify and limit the circumstances under which the facility may be drawn;
  - b) It is not possible for the liquidity facility to be drawn so as to provide credit enhancement by covering losses already incurred at the time of draw-down (for example, by providing liquidity in respect of assets in default at the time of draw-down or by acquiring assets at more than fair value);

- c) The liquidity facility is not used to provide permanent or regular funding for the securitization;
- d) Repayment of utilized liquidity facilities are not subordinated to the claims of other creditors of the securitization, except for payments arising in respect of interest rate or currency derivative contracts, fees or other such payments that are subject to waiver or deferral;
- e) It is not possible for the liquidity facility to be drawn after all applicable credit enhancements from which the facility would benefit (specific or general) are exhausted;
- f) The facility includes a specific provision that:
  - i) Provides for an automatic reduction in the amount that can be drawn equal to the amount of the assets in default; or,
  - ii) Where the securitized portfolio consists of rated assets, terminates the facility if the average quality of the securitized assets falls below the equivalent of investment grade.
- Where the above conditions are met, the bank may apply a 50% CCF to the eligible liquidity facility regardless of the maturity of the facility. However, if an external rating of the facility itself is used for risk-weighting the facility, a 100% CCF must be applied.
- A conversion factor of 0% shall apply to liquidity facilities that are unconditionally revocable without advance notice, provided that the conditions set out above are satisfied and the repayment of utilized facility are senior to any claims on the cash flows arising from the securitized assets.

### **3.7 Treatment of Overlapping Exposures**

Where a bank has two or more overlapping positions in a securitization that may be drawn under various conditions (e.g. provision of a liquidity facility and a credit enhancement in a securitization transaction), they shall be treated as a single position to the extent they overlap<sup>22</sup>. Where the overlapping facilities are subject to different capital treatments, the treatment that results in the highest capital charge should be applied on the overlapping portion.

- However, if overlapping facilities are provided by different banks, each bank must hold capital for the maximum amount of the facility.

### **3.8 Treatment of Securitizations of Revolving Underlying Exposures with Early Amortization Provisions**

- In the case of the sale of revolving assets through a securitization transaction that contains an early amortization provision, the originating bank shall calculate a capital requirement to cover the risk underlying the repurchase



of the securitized assets in addition to the capital requirement for the securitization positions.

- Where the securitized assets include both revolving and non-revolving items, the originating banks shall apply the additional capital requirement to that portion of the securitized pool that contains the revolving assets. In calculating the additional capital requirement, a distinction shall be made between the originator's interest and the investors' interest. The originator's interest shall not be subordinate to the investors' interest.
- The exposure of the originating bank associated with its rights in respect of originator's interest shall not be considered a securitization position but as a proportionate exposure to the securitized assets as if they had not been securitized and included in the calculation of the capital requirement for credit risk.
- In determining the additional capital requirement, the risk-weighted amount shall be obtained by multiplying the amount of the **investors' interest** by the product of the appropriate conversion factor and the average risk weight for the securitized assets, calculated under the standardized approach as if the assets had not been securitized.

**Capital requirement for originating banks = (Investors' interest) x CCF x (Risk weight of underlying exposures)**

- The appropriate conversion factors (CCF) to be applied shall be based on the following factors:
  - i) The speed of the repayment mechanism, i.e. whether the early amortization repays investors through a controlled or non-controlled mechanism;
  - ii) The type of revolving assets securitized, i.e. whether or not they are unconditionally cancellable without notice by the originating bank.
- An early amortization provision shall be considered to be "controlled" where the following conditions are met:
  - a) The originating bank has an appropriate capital and liquidity management plan in place to ensure that it has sufficient capital and liquidity available in the event of an early amortization;
  - b) Throughout the duration of the transaction there is a pro-rata sharing between the originator's interest and the investors' interest of payments of interest and principal, expenses, losses and recoveries based on the



value of the assets securitized at one or more reference points during the month;

- c) The amortization period is sufficient to repay or recognize as in default at least 90% of the total debt (the sum of the originator's interest and the investors' interest) outstanding at the beginning of the early amortization period;
- d) During the amortization period, the speed of repayment shall be no more rapid than would have been achieved using straight-line amortization.
  - Securitization transactions with early amortization clauses that do not satisfy the conditions above will be treated as a non-controlled early amortization

### **3.8.1 Determination of CCFS for Controlled and Non-Controlled Early Amortization Features**

- In the case of securitizations involving **retail revolving assets that are unconditionally cancellable without notice** and are subject to an early amortization provision that is triggered when the excess spread falls to a certain level, the appropriate conversion factor shall be based on a comparison between the three-month average excess spread and the contractually established excess spread level at which excess spread is required to be trapped.
  - Where the securitization does not contractually provide for excess spread to be trapped, the trapping point shall be deemed to be 4.5% points greater than the excess spread level that triggers early amortization.
  - The appropriate conversion factor shall be determined separately for each retail securitization transaction with controlled and non-controlled early amortization provisions (see table below), expressed as the ratio between the three-month average excess spread and trapping level excess spread.

**Conversion Factor for Calculating the Additional Requirement**

Ratio between the average excess spread and trapping level excess spread	Securitized with "controlled" early amortization provisions	Securitized with "uncontrolled" early amortization provisions
Greater than 133.33%	0%	0%
From less than 133.33% to 100%	1%	5%
From less than 100% to 75%	2%	15%
From less than 75% to 50%	10%	50%
From less than 50% down to 25%	20%	100%
Less than 25%	40%	100%



- All other securitized revolving exposures (i.e. those that are committed and all non--- retail exposures) with controlled early amortization features will be subject to a **CCF of 90%** against the off---balance sheet exposures.
- All other securitized revolving exposures (i.e. those that are committed and all non--- retail exposures) with non---controlled early amortization features will be subject to a **CCF of 100%** against the off---balance sheet exposures.
- The total capital requirement for all the originating bank's positions involving early amortization will be subject to a maximum capital requirement equal to the greater of:
  - i) the capital required for retained securitization exposures; or
  - ii) the capital requirement that would apply had the exposures <sup>23</sup> not been securitized<sup>24</sup>
- Originating banks shall not be required to calculate any additional capital requirement for:
  - i) Securitizations of revolving assets whereby investors remain fully exposed to the credit risk of future draws, so that the risk on the securitized assets does not return to the originating bank even after an early amortization event has occurred; this occurs even where the early amortization provisions mirror the time structure of the revolving assets transferred;
  - ii) Securitizations where any early amortization provision is triggered solely by events not related to the financial performance of the securitized assets or of the originating bank, such as, material changes in tax laws or other regulations.

## CHAPTER THREE: CREDIT RISK MITIGATION

### 1.0 Introduction

- Credit Risk Mitigation (CRM) techniques consist of the use of relevant financial collateral, guarantees, derivatives, estate mortgages and lease transactions or other instruments in relation to all banking book exposures and asset classes, that, would reduce the risk recognised in calculating the bank's capital requirements.



- Where a rating has already taken into account a particular guarantee which has been pledged by a borrower, then such guarantee cannot be considered any longer for purposes of credit risk mitigation.
- Banks must demonstrate to the CBN that they have adequate risk management policies and procedures to control risk arising from the use of CRM techniques

## **2.0 Credit Risk Mitigation Categories**

- Unless otherwise specified, two categories of credit risk mitigation are recognised for standardized credit risk capital requirement calculation methods: funded and unfunded credit risk mitigation.

### **2.1 Funded Credit Risk Mitigation:**

- a) Financial collateral;
- b) Master netting agreements;
- c) On-balance-sheet netting;
- d) Other funded credit protection

### **2.2 Unfunded Credit Risk Mitigation:**

- a) Guarantees and counter guarantees;
- b) Credit derivatives<sup>25</sup>.

## **3.0 General Requirements for Accepting Instruments as Credit Risk Mitigants for Capital Calculation<sup>26</sup>**

The requirements for any of the credit risk mitigants to be used must have been met at the time the credit protection is established and compliance shall continue over its duration.

- The general requirements<sup>27</sup> seek to ensure the legal certainty and effectiveness of credit protection, including:
  - i) The binding nature of the legal commitment between the parties,
  - ii) Its enforceability and validity in the local jurisdiction
  - iii) Completeness of documentation,
  - iv) Enforceability of the protection in all relevant jurisdictions against third parties and
  - v) The timeliness of liquidation in the event of breach.

### **3.1 Legal Certainty**

- Credit protection acquired by a bank shall be legally valid, effective, binding on the protection provider and enforceable in all relevant



jurisdictions, including in the event of the insolvency or bankruptcy of the underlying borrower and/or protection provider<sup>28</sup>.

- In particular, the bank shall:
  - a) Ensure in advance that the instrument used confers a full and freely enforceable right to activate the protection.
  - b) Fulfil any requirements to ensure that the credit protection is valid, effective, binding and enforceable under the applicable law. These shall include, but not limited to:
    - i) registration and perfection of deeds of mortgage,
    - ii) establishing proper liens on property and other collateral or instruments acquired or created for credit protection, and
    - iii) obtaining and conserving appropriate documentation explicitly establishing the existence of the credit protection;
  - c) Ensuring compliance with all relevant laws and regulations that may void the validity, effectiveness, binding and enforceability of the protection.

### **3.2 Organisational Requirements**

- Banks shall establish appropriate policies and processes taking account of the complexity of its organisational structure.
- Credit Protection must be managed by a system, which governs the entire process of obtaining, valuing, controlling and realising the CRM instruments used. Credit protection buyers must have in place documented policies and procedures that will:
  - i) Specify the types of CRM instruments eligible for regulatory capital purposes.
  - ii) Value and assess the impact of instrument on the overall risk profile of the exposure.
  - iii) Ensure that banks continue to perform a complete assessment of the credit risk of the protected exposure, even when the CRM has been recognised for regulatory capital purposes.
  - iv) Establish the appropriate means of measuring, managing and controlling concentration risk and residual risks arising from the CRM instruments e.g. failure, reduction or termination of protection.
  - v) Provide appropriate operational structures for ensuring compliance with the requirements for the recognition of CRM techniques for regulatory capital purposes.
  - vi) Ensure periodic reviews of the status of the legal documentation, the impact of any changes in the law and any consequent actions to be taken.



vii) Adopt specific measures to ensure the uniformity of local structure's assessments and operational procedures.

### **3.3 Timely Liquidation**

Credit Protection acquired by banks must be easily liquidated or realizable in a timely manner. To this end, each bank should have in place appropriate policies and procedures for the disposal and realisation of any acquired credit protection should the need arise.

### **3.4 Disclosure**

The recognition of CRM techniques for regulatory capital purposes shall be subject to the relevant disclosure requirements prescribed for financial institutions under Pillar III disclosure requirements.

## **4.0 Standardized Approach for Funded Credit Protection**

### **4.1 Financial Collateral**

#### **4.1.1 Specific Requirements**

For regulatory capital purposes, financial collateral shall have the characteristics described below:

#### **1. Correlation**

- There shall be no positive material correlation between the value of the financial collateral and the credit quality of the borrower.
- In all cases, securities issued by the borrower, or any related group entity, shall not be eligible to be financial collateral.

#### **2. Fair Value**

- Banks should calculate the fair value of the collateral and revalue it at least once every six months or whenever they have reason to believe that a significant decrease in its fair value has occurred.

#### **3. Segregation**

- Where the financial collateral is held by a third party, banks shall ensure segregation of the assets of the third party from the collateral (external segregation) and the segregation of assets belonging to other parties held by the same custodian (internal segregation)<sup>29</sup>.



#### 4.1.2 Methods of Calculating Capital Requirement

In calculating the capital requirement for credit exposures secured by eligible financial collateral, banks may use;

##### a) The Simple Method

The risk weight associated with the instrument provided as credit protection shall be applied to the collateralised portion of the exposure. Maturity mismatching is not permitted under this method. **The collateral must be pledged for at least the entire life of the exposure, it must be marked to market and re-valued at a minimum frequency of six months.** The portion of the exposure collateralised by the market value of the recognised collateral will receive a risk weight applicable to the collateral instrument.

##### b) The Comprehensive Method

Under this method, the amount of the exposure shall be reduced by the value of the collateral. In calculating the capital requirement, the value of the exposure and that of the **collateral shall be adjusted to take account of market price volatility** by applying appropriate haircuts to both amounts (collateral value and exposure value)<sup>30</sup>.



If the exposure and the collateral are denominated in different currencies, the value of the collateral shall be further reduced by an appropriate adjustment that reflects possible fluctuations in the exchange rate.

Once the calculation method is elected, it shall be adopted for all exposures.

The methods described in this sub-section shall also apply to amounts paid to the lending bank in respect of the issue of credit linked notes and to eligible collateral given as part of securities or commodities repurchase transactions and securities or commodities lending or borrowing transactions, provided that they are assigned to the banking book.

See Annex D on the application of the calculation methods.

## 4.2 Master Netting Agreements

### 4.2.1 Specific Requirements

The effects of the reduction of credit risk due to bilateral netting contracts between the bank and a single counterparty relating to securities financing transactions shall be recognised, provided that in addition to the general requirements relating to legal certainty set out above, the contracts:

- Give the non-defaulting party the right to terminate and close-out in a timely manner all transactions under the agreement in the event of default, including in the event of the bankruptcy or insolvency of the counterparty;
- Provide for the netting, or other equivalent effect, of reciprocal debtor and creditor positions on transactions closed out under a master agreement so that a single net amount is owed by one party to the other.



The specific requirements for financial collateral where applicable must also be met.

The netting of banking book and trading book positions shall be permitted only where the transactions covered by the agreement satisfy the following conditions:

- a) All the transactions are re-valued daily at current market prices;
- b) The instruments used as collateral for the transaction are among those eligible as financial collateral (see Annex C).

These regulations shall apply to master netting agreements involving similar transactions (single-product netting) and master netting agreements involving different products (cross-product netting).

#### **4.2.2 Methods of Calculating Capital Requirement**

In calculating the capital requirement for credit exposures secured by master netting agreements under the standardized approach, banks are expected to use the comprehensive method only.

### **4.3 On-Balance Sheet Netting**

#### **4.3.1 Specific Requirements**

The recognition of the effects of on-balance-sheet netting shall be subject to the following specific requirements:

- i) The netting agreement shall be in writing, which shall specifically identify the assets (loans) and liabilities (deposits) subject to netting.
- ii) The bank shall be able to identify at any time, all the loans (assets) and deposits (liabilities) in respect of the same counterparty that are subject to the netting agreement;
- iii) In adopting precautions to preserve the effective availability of the liabilities (deposits) to be offset against the assets (loans), restrictions on the disposal of the liabilities shall be established.
- iv) The bank shall monitor and control relevant exposures on a net basis.



### **4.3.2 Methods of Calculating Capital Requirement**

In calculating the capital requirement for credit exposures secured by on-balance netting agreements, banks may:

- i) In respect of liabilities (deposits) of the lending bank, apply the same treatment provided for cash collateral.
- ii) Where the liabilities subject to the netting agreement mature sooner than the asset, apply the provisions regarding maturity mismatch.

### **4.4 Other Funded Credit Protection**

The instruments described below may be recognised for credit risk mitigation purposes. In calculating the credit risk mitigation, the unfunded credit protection calculation method shall be applied.

#### **4.4.1 Deposits with Third Party Institutions**

The cash in the supervised institutions or similar instruments held by those outside of a custodial service and pledged in favour of the bank that calculates the requirement may be considered as a guarantee issued by the institution itself provided that:

- i) The borrower's claim against the third party institution is openly pledged or assigned to the bank and the pledge is legally effective and enforceable in all relevant jurisdictions;
- ii) The third party institution is notified of the pledge or assignment; and is able to make payment solely to the bank or to other parties with the bank's consent;
- iii) The pledge is unconditional and irrevocable.

#### **4.4.2 Life Insurance**

Insurance policies pledged to the bank may be treated as protection given by the company issuing the policy, provided that:

- a) The company providing the life insurance can be recognised as an eligible guarantor.
- b) The life insurance policy is openly pledged or assigned to the bank.
- c) The company providing the insurance is notified of the pledge or assignment and as a result may not pay the amount payable under the contract without the bank's consent.
- d) The declared surrender value of the policy is non-reducible;



- e) The bank has the right to cancel the policy and receive the surrender value in a timely fashion in the event of borrower default;
- f) The bank is informed of any non-payments under the policy by the policyholder;
- g) The credit protection is provided for the maturity of the loan. Where the insurance relationship ends before the loan relationship expires, the bank shall ensure that the amount deriving from the insurance contract serves as security until the end of the duration of the credit agreement;
- h) The pledge or assignment shall be legally effective and enforceable in all jurisdictions, which are relevant at the time of the conclusion of the credit agreement.

The value of the credit protection shall be the surrender value of the policy.

#### **4.2.3 Financial Instruments Issued by Third Parties**

- Financial instruments issued by supervised institutions that the issuer has undertaken to repurchase at the request of the bearer may be treated as a guarantee of the issuer.
- The value of the credit protection recognised shall be as follows:
  - a) Where the instrument will be repurchased at face value, the value of the protection shall be that amount.
  - b) Where the instrument will be repurchased at market price, the value of the protection shall be the value of the instrument calculated in accordance with the rules applicable to unrated debt securities.

### **5.0 Standardized Approach for Unfunded Credit Protection**

#### **5.1 Guarantees<sup>31</sup> and Counter-Guarantees**

##### **5.1.1 Specific Requirements**

Without prejudice to the general requirements set out for the recognition of the credit risk mitigation, the following additional conditions will apply for the recognition of the effects of guarantees for regulatory capital purposes:

- a) The credit protection shall be direct;
- b) The extent of the credit protection shall be clearly defined and incontrovertible;
- c) The credit protection contract shall not contain any clause that could allow the protection provider to unilaterally cancel the protection. If the contract allows the protection provider to withdraw, the agreement



- between the parties shall safeguard the coverage and all obligations arising, prior to the exercise of the withdrawal;
- d) The credit protection contract shall not contain any clause, the fulfilment of which is outside the direct control of the lending bank, which could have one of the following effects:
    - i) To increase the effective cost of the protection as a result of deteriorating credit quality of the protected exposure;
    - ii) To prevent the protection seller from being obliged to pay out in a timely manner in the event the original borrower fails to make any payments due;
    - iii) To allow the protection seller to reduce the maturity of the credit protection;
  - e) In the event of default of the counterparty, the bank shall have the right to recoup, in a timely manner, any claim due under the guarantee<sup>32</sup>. In particular, payment shall not be subject to the lending bank having to pursue the borrower.
  - f) The guarantee shall cover all payments the borrower is required to make in respect of the claim. Where certain types of payments are excluded from the guarantee, the recognised value of the guarantee shall be adjusted to reflect the limited coverage;
  - g) The guarantee shall be an explicitly documented obligation assumed by the guarantor.

In the event of an asset mismatch, guarantee contracts shall contain a cross default clause under which default in respect of a specific credit exposure of a given borrower shall extend to all exposures to the same person.

### **5.1.2 Eligible Guarantors**

Guarantees issued by parties falling within the categories listed below shall be recognised:

- a) Central governments and central banks;
- b) Public sector entities and regional and local authorities;
- c) Multilateral development banks;
- d) Supervised institutions;
- e) Corporates that have a credit assessment by an ECAI associated with credit quality step 2 or above.



### 5.1.3 Methods of Calculating Capital Requirement

In calculating the capital requirement:

- a) Banks may substitute the risk weight of the borrower with that of the guarantor.
- b) The value of the credit protection provided by a guarantee shall be the amount that the protection provider has undertaken to pay in the event of the default of the borrower.
- c) Where the guarantee is denominated in a currency different from that in which the exposure is denominated (currency mismatch) the value of the credit protection shall be reduced as provided for in Annex F.
- d) In calculating the capital requirements, a guaranteed exposure with respect to borrowers assigned to the retail exposure portfolio may be valued as if it were assigned to the portfolio in which the guarantor is classified.
- e) The regulations set out in this section shall apply in the event of maturity mismatch.
- f) Where the protected amount is less than the exposure value and the secured and unsecured portions are of equal seniority (i.e. the bank and the protection provider share the losses on a pro-rata basis), the capital requirements shall be reduced proportionately.
- g) Where the protected amount is less than the exposure value and the secured and unsecured portions are of unequal seniority (i.e. the bank and the protection seller are liable for losses with different levels of seniority), with the risk being segmented (tranching transactions), the regulations governing securitisation operations shall apply.

### 5.1.4 Counter-Guarantees and Indirect Guarantees

- Where an exposure is covered by a guarantee that is counter-guaranteed by one of the entities in categories a) through c) listed above, the exposure may be treated as covered by a guarantee provided by the counter-guarantor, provided that the following conditions are met:
  - a) The counter-guarantee covers all the credit risk elements of the protected exposure;
  - b) Both the original guarantee and the counter-guarantee meet the requirements for guarantees, except that the counter-guarantee need not be direct;



- c) The bank is able to demonstrate that the cover is robust and that nothing in the historical evidence suggests that the coverage of the counter-guarantee is less than effectively equivalent to that of a direct guarantee by the counter guarantor.
- A counter-guarantee provided by one of the protection providers listed above shall be recognised even where it does not guarantee the direct guarantee of the exposure but rather a counter-guarantee of the direct guarantee provided by a protection seller that is not an eligible counter-guarantor.

## **5.2 Credit Derivatives**

### **5.2.1 Eligible Instruments**

For the purposes of these regulations, the following types of credit derivatives and instruments that may be recognised:

- a) Credit default swaps;
- b) Total return swaps;
- c) Credit linked notes.

In order to be recognised for regulatory capital purposes, the protection shall be provided by a protection provider belonging to one of the categories listed in the section on eligible guarantors.

Where a bank uses a credit derivative in the supervisory trading book to hedge exposures in the banking book (internal hedges), the protection shall be recognised only if the credit risk transferred to the trading book is, in turn, transferred to one or more third parties through credit derivatives that satisfy the eligibility requirements provided for in these regulations.

### **5.2.2 Specific Requirements**

Without prejudice to the general requirements set out on CRM, recognition of credit derivatives shall be subject to the specific requirements applicable to guarantees and the following conditions:

- a) Subject to point b) below, the credit events specified under the credit derivative shall at a minimum include all the cases listed below, under the conditions specified:
  - i) The failure to pay the amounts due under the terms of the underlying obligation that are in effect at the time of such failure (with a grace

- period that is closely in line with or shorter than the grace period in the underlying obligation);
- ii) The bankruptcy, insolvency or inability of the borrower to pay its debts, or its failure or admission in writing of its inability generally to pay its debts as they become due, and analogous events;
  - iii) The restructuring of the underlying obligation involving forgiveness or postponement of principal, interest or fees that results in a credit loss event (i.e. value adjustment or other similar debit to the income statement);
- b) Where the credit events specified under the credit derivative do not include restructuring of the underlying obligation as described in point (a)(iii) above, the credit protection may nonetheless be allowed subject to a reduction in the recognised value;
  - c) In the case of credit derivatives providing for cash settlement, a robust valuation process shall be in place in order to estimate loss reliably. There shall be a clearly specified period for obtaining post---credit---event valuations of the underlying obligations;
  - d) If the protection buyer's right and ability to transfer the underlying obligation to the protection provider is required for settlement, the terms of the underlying obligation shall provide that any required consent to such transfer may not be unreasonably withheld;
  - e) The identity of the parties responsible for determining whether a credit event has occurred shall be clearly defined. This determination shall not be the sole responsibility of the protection seller. The protection buyer shall have the right or ability to inform the protection provider of the occurrence of a credit event.

An asset mismatch under a credit derivative shall only be allowed if:

- a) The reference obligation or the obligation used for purposes of determining whether a credit event has occurred, as the case may be, ranks *paripassu* with or is junior to the underlying obligation;
- b) The underlying obligation and the reference obligation or the obligation used for purposes of determining whether a credit event has occurred, as the case may be, share the same borrower (i.e. the same legal entity) and there are in place legally enforceable cross---default or cross---acceleration clauses.



### 5.3.3 Method of Calculating Capital Requirement

Without prejudice to the provisions of the following sub-section, treatment of credit default swaps and total rate of return swaps for regulatory capital purposes shall be the same as that for guarantees.

In the case of credit derivatives that do not include as a credit event restructuring of the underlying obligation involving forgiveness or postponement of principal, interest or fees that result in a credit loss event (e.g. the making of a value adjustment or other similar debits to the income statement), the value of the credit position:

- a) Shall be reduced by 40% where the amount that the protection seller has undertaken to pay is not higher than the exposure value;
- b) Shall be no higher than 60% of the exposure value where the amount that the protection provider has undertaken to pay is higher than the exposure value.

Credit linked notes issued by the lending bank shall be treated as cash collateral up to the amount collected.

### 5.3.4 Unfunded Mutual Guarantees

Where mutual guarantee systems provide unfunded credit protection, the specific requirement for guarantees shall be deemed satisfied where either of the following conditions are met:

- a) The bank has the right to obtain in a timely manner a provisional payment by the guarantor calculated to represent a robust estimate of the amount of the economic loss, including losses resulting from the non-payment of interest and other types of payment which the borrower is obliged to make, likely to be incurred by the bank proportional to the coverage of the guarantee. The bank shall establish the appropriateness of the payment with respect to the losses incurred.
- b) The loss-protecting effects of the guarantee, including losses resulting from the non-payment of interest and other types of payments which the borrower is obliged to make, justify treatment as a guarantee.



## 6.0 Maturity Mismatches

### 6.1 Rules for recognition of maturity

- a) Subject to a maximum of 5 years, the effective maturity of the protected asset shall be the longest possible remaining time before the borrower is scheduled to fulfil its obligations.
- b) Subject to the following paragraph, the maturity of the credit protection shall be the time to the earliest date at which the credit protection may terminate or be terminated.
- c) Where there is an option to terminate the protection that may be exercised at the discretion of the protection provider, the maturity of the protection shall be taken to be the time to the earliest date at which that option may be exercised.
- d) Where there is an option to terminate the protection that may be exercised at the discretion of the protection buyer and the terms of the arrangement at origination of the protection contain a positive incentive for the bank to call the transaction before contractual maturity, the maturity of the protection shall be taken to be the time to the earliest date at which that option may be exercised; otherwise such an option may be considered not to affect the maturity of the protection.
- e) Where a credit derivative is not prevented from terminating prior to expiration of any grace period required for a default on the underlying obligation to occur, the maturity of the protection shall be reduced by the amount of the grace period.

### 6.2 *Effects on the Valuation of Credit Protection*

- a) Protection of less than three months residual maturity, the maturity of which is less than that of the underlying exposure, shall not be recognised.
- b) Where there is a maturity mismatch, the credit protection shall not be recognised where the original maturity of the protection is less than one year.
- c) Unfunded credit protection shall be recognised in the amount adjusted in accordance with Annex G for all banks.
- d) Where the bank uses the simple method in the prudential treatment of financial collateral, the residual maturity of the guarantee shall not be less than that of the exposure.



## Definition of Terms

- **Asset mismatch** shall mean a situation in which the underlying asset differs from the reference obligation due to liquidity or changes in interest or exchange rates;
- **Asset---backed commercial paper (ABCP)** is a process by which an SPV (conduit) issues a commercial paper and uses the proceeds of such issuance primarily to obtain interests in various types of assets either through asset purchase or secured lending transactions. An ABCP programme includes several parties that provide services for the SPV; credit enhancement that provides loss protection and liquidity facilities that assist in the timely repayment of the commercial paper;
- **Asset---backed securities (ABS)** shall mean securities issued by securitization vehicles as part of securitization transactions having different levels of subordination in supporting losses;
- **Capital market-driven transaction** shall mean transactions giving rise to an exposure secured by collateral, which include a provision conferring upon the bank the right to receive margin frequently. These include margin lending and over-the-counter (OTC) derivatives with the exchange of margins between counterparties;
- **Cash assimilated instrument** shall mean certificates of deposit or other similar instruments issued by the bank that acquires protection;
- **Central government** shall mean the central government of a sovereign state;
- **Clean-up call option** shall mean a contractual option that permits the originating bank to repurchase or extinguish the securitization positions before all of the securitized assets have been repaid, when the amount of outstanding exposures falls below a certain threshold. In a traditional securitization, this is usually achieved through the repurchase of the remaining securitization positions. In a synthetic securitization, the option usually takes the form of a clause that extinguishes the credit risk protection of the securitized asset;
- **Collective Investment Schemes** shall mean a scheme in whatever form, including an open---ended investment company, in pursuance of which members of the public are invited to invest money or other assets in a portfolio, and in terms of which:
  - i) two or more investors contribute money or other assets and hold a participatory interest;



- ii) The investors share the risk and benefit of investment in proportion to their participatory interest in a portfolio of a scheme or any other basis determined in the deed, but not a collective investment scheme authorized by another act.

The types of collective investment schemes applicable in Nigeria are;

- i) Unit Trust (open-ended or closed ended)
  - ii) Venture capital funds
  - iii) Open-ended Investment Companies
  - iv) Real Estate Investment Schemes
  - v) Specialized funds
- **Credit derivatives** shall mean contracts in which the protection provider is required to perform a contractually-agreed obligation triggered by a specified credit event; such obligation consists of paying an amount equal to: i) the decline in the value of the reference obligation with respect to the initial value ("cash settlement variable"); ii) the entire notional value of the reference obligation in exchange for physical delivery of the reference obligation or another equivalent financial instrument ("deliverable obligation") specified in the contract; iii) a specified fixed amount ("binary payout");
  - **Credit enhancement** shall mean a contractual arrangement whereby the credit quality of a securitization position is better than what it would have been in the absence of this enhancement. Credit enhancement may be provided by more junior tranches in the securitization and other types of credit protection;
  - **Credit event** shall mean an event agreed by the parties that triggers the protection provider's obligation to fulfil the undertaking established in the contract;
  - **Early amortization provision** in securitized positions shall mean a contractual provision that, upon the occurrence of specified events, triggers repayment of investors' securitization positions prior to the originally stated maturity of the securities issued;
  - **Excess spread** shall mean the difference between the revenue flows from the securitized assets and the costs and expenses connected with the securitization (for example, interest paid to holders of the ABS securities and servicing commissions);
  - **Exposures** shall mean on-balance sheet assets (for example, loans, shares, bonds, subordinated loans) and off-balance-sheet assets (for example, guarantees issued). Exposures shall not include assets



deducted from regulatory capital and those allocated to the supervisory trading book subject to capital requirements for market risk;

- **External Credit Assessment Institution (ECAI)** shall mean a credit assessment agency recognized by the Central Bank of Nigeria;
- **Fair value** shall mean the amount at which an asset may be exchanged, or a liability settled, in a free transaction between knowledgeable, independent parties.
- **Federal government** shall mean the government of the Federal Republic of Nigeria;
- **First losses** in securitized positions shall mean losses on securitized portfolios, the amount of which reduces the right of securitization positions to receive payments, starting with that with the highest degree of subordination;
- **First-to-default derivatives** shall mean contracts referring to a number (basket) of borrowers under the terms of which the protection provider's payment obligation is triggered by the first default in the basket and that this credit event terminates the protection afforded by the derivative contract;
- **Funded credit protection** shall mean the credit risk mitigation techniques that give the protection buyer the right to satisfy its claim with specified assets or cash amounts. These include financial collateral, real estate collateral and movable property collateral (other physical collateral), credit linked notes, trade receivables, on- and off-balance sheet netting; other types of protection are listed in sub-section 4.4 of this chapter. Funded credit protection shall also include guarantees given through securities repurchase and lending/borrowing transactions and the related master netting agreements, as well as leasing transactions;
- **Future margin income (FMI)** shall mean the amount of income anticipated to be generated by the relevant exposures over a certain period of time that can reasonably be assumed to be available to cover potential credit losses on the exposures (i.e. after covering normal business expenses). FMI usually does not include income anticipated from new accounts.
- **Gain-on-sale** shall mean any residual interest retained by the originating bank that is, an on-balance sheet asset that represents a retained beneficial interest in a securitization accounted for as a sale, and that exposes the originating bank to any credit risk directly or



indirectly associated with the transferred asset, that exceeds a pro rata share of that originating bank's claim on the asset.

- **Implicit support** securitized positions shall mean credit enhancement provided by the originator or by the sponsor in excess of its contractual obligations to reduce actual or potential losses by holders of securitization positions.
- **Investment grade:** A securitization exposure is deemed to be of investment grade if an ECAI recognized by the bank has assigned it a rating within credit quality steps 1 to 3.
- **Investor** shall mean the person that holds a risk position in a securitization;
- **Investors' interest** shall mean the portion of the pool of revolving assets that forms the complement to the originators' interest.
- **Loan to value ratio** shall mean a ratio used by lenders to express the ratio of loan to the value of an asset purchased. The higher the ratio, the more riskier the loan will be considered to the lender.
- **Liquidity facility** shall mean a securitization position arising from a contractual agreement to provide funding to ensure the timeliness of cash flows to investors;
- **Margin lending** shall mean credit extended by an intermediary in connection with the purchase, sale, carrying or trading of securities by the counterparty for which an exchange of margins is required. Margin lending shall not include traditional financing collateralised by securities;
- **Master netting agreements** are legal agreements between two parties that have multiple derivatives contracts with each other that provide for the net settlement of all contracts through a single payment, in a single currency, in the event of default or termination of any one contract.
- **Maturity mismatch** shall mean a situation where the residual maturity of the credit protection is less than that of the protected exposure;
- **N<sup>th</sup>---to---default derivatives** shall mean contracts referring to a number (basket) of borrowers under the terms of which the protection provider's payment obligation is triggered by the nth default in the basket; borrowers may be assigned different settlement amounts;
- **Originating bank:** A bank shall be considered an originating bank in a securitization transaction if it meets either of the following conditions:
  - i) The bank originates directly or indirectly (e.g. a bank purchases a third party financial instrument via its balance sheet or acquires credit risk through credit derivatives and subsequently sells or



transfers to an SPV) the underlying exposures included in the securitization; or

ii) The bank serves as a **sponsor** of an ABCP conduit or similar programme that acquires exposures from third-party entities. In the context of such a program, a bank would generally be considered a sponsor and, in turn, an originator if it, in fact or in substance, manages or advises the programme, places securities into the market, or provides liquidity and/or credit enhancements.

- **Originator's interest** shall mean the value of the portion held by the originating bank in a portfolio of revolving exposures, the drawn amounts of which have been securitized. This portion shall be equal to the ratio between the amount of the securitized drawn amounts whose cash flows are not available to repay investors in the securitization and total securitized drawn amounts. The undrawn amounts shall also be multiplied by this ratio to determine the portion of the available margin attributable to the originator and the portion attributable to the investors.
- **Protection buyer** shall mean the party that purchases protection against credit risk (or sells the credit risk);
- **Protection provider** shall mean the party that sells the credit risk protection (or purchases the credit risk);
- **Rating** shall mean the credit assessment assigned by an ECAI;
- **Reference entity** shall mean the party/parties or country (in the case of sovereign risk) to which the reference obligation refers;
- **Reference obligation** shall mean the obligation used to determine the cash settlement value or the deliverable obligation;
- **Reference rate** shall mean the market interest rate increased or decreased by a specified spread;
- **Revolving underlying exposures** involve exposures where the borrower is permitted to vary the drawn amount and repayments within an agreed limit under a line of credit (e.g. credit card receivables and corporate loan commitments)
- **Securities financing transactions** shall mean securities or commodities repurchase/reverse repurchase transactions, securities or commodities lending/borrowing transactions and margin lending transactions;
- **Securitization position** shall mean any type of exposure to a securitization, such as securities issued by special-purpose vehicles, liquidity facilities, subordinated loans, interest rate or currency derivative transactions performed as part of a re-securitization;



- **Securitization** shall mean a transaction that divides the credit risk of an asset or portfolio of assets into two or more tranches and in which:
  - i) Payments in the transaction are dependent on the performance of the asset or portfolio of assets in question;
  - ii) Tranches have different degrees of subordination in supporting the losses of the securitized assets or portfolio;
- **Securitized assets** shall mean individual assets or groups of assets that have been securitized. These include loans, debt securities, equity securities, ABS securities and loan commitments.
- **Solicited rating** shall mean a rating assigned for a fee following a request from the entity evaluated. Ratings assigned without such a request shall be treated as equivalent to solicited ratings if the entity had previously obtained a solicited rating from the same ECAI;
- **Special---purpose vehicle (SPV)** shall mean the company or other legal entity other than the bank, organized for the purpose to carrying out one or more securitizations which possess the following characteristics:
  - i) its activities are limited solely to those appropriate to accomplishing that objective;
  - ii) the structure of the vehicle is designed to isolate the obligations of the vehicle from that of the originating bank, and;
  - iii) the holders of the beneficial interests in it may pledge or exchange those interests without restriction.
- **Supervised institutions** shall mean deposit money banks, discount houses and other financial institutions under the supervisory purview of the CBN.
- **Synthetic securitization** shall mean a securitization transaction in which the transfer of credit risk in two or more tranches is achieved through the use of credit derivatives or guarantees with no transfer of the asset or portfolio of assets. Synthetic securitizations shall include transactions in which it is possible, using credit protection, to isolate within a portfolio composed of one or more assets a risk component that supports the first--loss portion of the portfolio (tranching transactions);
- **Total rate of return swaps (“TRORs”)** shall mean contracts under which the protection buyer (also called the “total return payer”) agrees to transfer all the cash flows generated by the reference obligation to the protection provider (also called the “total return receiver”), who agrees to transfer the cash flows associated with changes in a reference rate to the protection buyer. On the payment dates (or the termination date of the contract), the total return payer pays the total return receiver any



increase in the value of the reference obligation (i.e. the positive difference between the market value and the initial value of the reference obligation). In the case of a decline in the value of the reference obligation, the total return receiver pays the equivalent amount to the total return payer<sup>33</sup>;

- **Traditional securitization** shall mean a securitization through which credit risk is transferred by selling the securitized assets to a special-purpose vehicle that issues securities (ABS) that do not represent payment obligations of the originating bank. Traditional securitizations shall include the transfer of credit risk by means of loans granted by the vehicle to the originating bank (sub-participation);
- **Tranches** shall mean contractually established segments of credit risk associated with an exposure or a number of exposures, in which each segment is associated with a greater or lesser degree of subordination in supporting losses than another segment, without taking account of any credit protection provided by third parties directly to holders of positions in the tranches. Securitization exposures that cover the “first loss” incurred by the securitized portfolio represent the junior risk (for example, junior securities, subordinated loans);
- **Underlying asset** shall mean the on-balance-sheet asset for which protection has been acquired;
- **Unfunded credit protection** shall mean the credit risk mitigation techniques based on the undertaking of a third party to pay a specified amount in the event of the default of the borrower or on the occurrence of other specified credit events. These include guarantees and credit derivatives, with the exception of credit linked notes;
- **Unsolicited rating** shall mean a rating assigned without a request from the entity evaluated and without payment of a fee.

#### **Definition of Past Due or Defaulted Exposures**

Past due or defaulted exposures shall include; bad debts, substandard loans, and restructured exposures. Specifically, a default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place:--

- i) The bank considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the bank to actions such as realizing security (if held).
- ii) The obligor is past due more than 90 days on any material credit obligation to the banking group.



The elements to be taken as indications of unlikelihood to pay include but are not limited to the following:

- The bank puts the credit obligation on non-accrued status (e.g. suspended interest).
- The bank makes a charge off or an account-specific provision or impairment resulting from a significant decline in credit quality subsequent to taking on the exposure (impairment provisions on equity exposures set aside for price risk do not signal default).
- The bank sells the credit obligation at a material credit related economic loss. (For securities financing, the facility should not be recorded as a default if the collateral is liquidated not due to the deterioration of an obligor's creditworthiness but to restore an agreed collateral coverage ratio given a fall in the value of collateral and this has been disclosed to the customer in writing at the granting of this facility).
- The bank consents to a restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness, or postponement of principal, interest or (where relevant) fees. This constitutes a granting of a concession that the bank would not otherwise consider.
- Default of a related obligor. Banks must review all related obligors in the same group to determine if that default is an indication of unlikelihood to pay by any other related obligor. Banks must judge the degree of economic interdependence between the obligor and its related entities.
- An obligor is in significant financial difficulty. An indication could be a significant downgrade of a borrower's credit rating.
- Default by the obligor on credit obligations to other financial creditors, e.g. other banks or other financial institutions.
- The bank has filed for the obligor's bankruptcy or a similar order in respect of the obligor's credit obligation to the banking group.
- The obligor has sought or has been placed in bankruptcy or similar protection where this would avoid or delay repayment of the credit obligation to the banking group.

### **Default at Facility Level**

For retail exposures, banks are allowed to apply the definition of default at facility level, rather than at borrower level. For example, a borrower might default on a credit card obligation and not on other retail obligations. As such, default by a borrower on one obligation does not require a bank to treat all other obligations to the banking group as defaulted. However, banks should be



vigilant and consider a borrower's cross-default of facilities if a default on one facility is representative of his incapacity to fulfill other obligations.

### **Re-ageing**

The bank must have clearly articulated and documented policies in respect of the counting of days past due, in particular in respect of the re-ageing of the facilities and the granting of extensions, deferrals, renewals and rewrites to existing accounts. At a minimum, the re-ageing policy must include:

- approval authorities and reporting requirements;
- minimum age of a facility before it is eligible for re-ageing;
- delinquency levels of facilities that are eligible for re-ageing;
- maximum number of re-ageings per facility; and
- a reassessment of the borrower's capacity to repay.

These policies must be applied consistently over time, and must support the 'use test' (i.e. if a bank treats a re-aged exposure in a similar fashion to other delinquent exposures more than the past-due cut off point, this exposure must be recorded as in default for IRB purposes). Some supervisors may choose to establish more specific requirements on re-ageing for banks in their jurisdiction.

### **Treatment of Overdrafts**

Overdrafts must be subject to a credit limit and brought to the knowledge of the borrower. Breaches of the limit must be monitored. If the account was not brought under the limit after 90 days (subject to the applicable past-due trigger), it would be considered as defaulted. Banks must have in place rigorous internal policies for assessing the creditworthiness of customers who are offered overdraft accounts.



## **ANNEX A: EXTERNAL CREDIT ASSESSMENT INSTITUTIONS**

### **Introduction**

For the purposes of determining risk weights under the standardized approach, the Central Bank of Nigeria shall recognize ECAs to formulate opinions and make credible and transparent credit assessments.

The verification of compliance with the requirements and mapping of ratings to risk weight classes shall be performed by the CBN on the basis of the criteria specified in this section.

Recognition may be requested for in any one of the following categories:

- a) Solicited ratings;
- b) Unsolicited ratings provided that the ECA only issues credit assessments of this kind.

### **1. Requirements for Recognizing External Credit Assessment Institutions**

- The Central Bank of Nigeria will only recognize legal persons as ECAs.
- An ECA may also request recognition for its subsidiaries in a single application, provided that the latter adopts analogous methodologies such that the assessments they issue can be considered equivalent to those of the applicant.
- ECAs shall satisfy the following requirements for the purposes of receiving recognition:

#### **a) Objectivity**

- i. The methodology adopted shall take into account the factors material to differentiating the specific characteristics of the different positions assessed and is supported by statistical evidence from its use in the past
- ii. The robustness of the methodology shall be adequately supported by the available data concerning the default rates recorded for individual rating grades and the migration rates between different rating grades.
- iii. The methodology must have been applied in a consistent manner to all exposures in a given class and adequately discriminate between exposures in different classes;
- iv. The methodology must have been validated internally on the basis of historical experience;
- v. The methodology is usually calibrated in the light of systematic errors highlighted by the backtesting of outputs.

#### **b) Independence**

The formulation of ratings shall be free from external interference, and conflicts of interest with regard to ownership, customers and other



activities performed by the ECAI and its analysis shall be managed appropriately. For this purpose, ECAIs applying for recognition shall certify and demonstrate that:

- i. Measures have been taken to ensure independence from ownership and to prevent external political or economic pressures or constraints from jeopardizing the objectivity of credit assessments;
- ii. The organizational structure provides for the operational, human resource and, possibly, legal separation of rating activity from other activities, such as consulting and marketing, that could affect the objectivity of the assessments;
- iii. Internal rules are in place to prevent conflicts of interest concerning persons involved in assigning ratings;
- iv. Rating activities are profitable and adequate financial resources are available;
- v. The structure of fees charged the rated entities and the compensation of staff responsible for assigning ratings is not a function of the outcome of the assessment;
- vi. Measures have been taken to ensure the independence of the ratings concerning major customers that generate a significant share of revenues (greater than 5%);
- vii. They have sufficient staff with an appropriate level of professional expertise and experience in performing credit assessments (for example, at least one of the persons participating in the rating decision process should have at least three years of experience).
- viii. Internal corporate governance rules are clearly formalized;
- ix. They make adequate disclosure of any conflicts of interest;
- x. They have an internal audit function (or other similar function) that is hierarchically independent of the persons responsible for assigning ratings and is charged with verifying the effective application of the independence conditions.

**c) Regular Review**

- i) ECAIs shall have procedures to monitor any changes in the assessed entity's position that could lead to significant change in the rating and, if necessary, to amend the rating promptly;
- ii) ECAIs shall have a proven back---testing procedure;
- iii) Credit assessments shall be reviewed at least once a year.



**d) Market Credibility**

- i) The degree to which an ECAI's ratings are accepted at the international level;
- ii) Where an ECAI operates exclusively or primarily in its domestic market, it should provide evidence of reliance of its ratings by banks not belonging to the same banking group.

**e) Transparency of Methodologies and Ratings.**

- i) ECAs shall disclose the principles underlying their rating methodology and any changes in the methodology in a manner that is understandable to users of the credit assessments
- ii) Credit assessments shall be accessible in a timely manner to all banks and, where banks are required to pay a commission, such commission shall be set in a transparent manner. The effective default rates and, where available, the theoretical probabilities of default associated with the individual rating grades shall also be accessible.

In assessing compliance with these requirements, the CBN shall consider the adoption of a code of conduct based on international best practices.

**Recognition Process**

The application for recognition may be submitted by the ECAI or the bank that intends to use such ECAI. For ECAs already recognized in other jurisdictions, such evidence shall be submitted to the CBN by the ECAI or the bank.

The application for recognition shall specify:

For which of the following sectors recognition is requested:<sup>34</sup>

- a) Public finance;
- b) Commercial entities;
- c) Structured finance (including securitization positions)

Whether recognition is requested for solicited or unsolicited ratings

The application shall provide the information requested in sufficient detail, compliance with all the requirements for recognition indicated above. If the application is submitted by an ECAI, it shall be accompanied by:

- a) Certification by an independent external entity with proven professional expertise and high standing affirming the compliance of an ECAI with all the requirements for recognition. The entity shall also certify that, where



the ratings are not accessible to the public, they correspond to those for the period in which they were produced;

- b) Certification of the banks that plan to use the ratings.
- c) Evidence that such ECAI is registered by the appropriate regulatory agencies as an eligible rating agency.

Where the application for recognition is submitted by a bank, the CBN may request the cooperation of the ECAI for the purposes of recognition as well as the certification referred to in point a) above.

The CBN may also consider other information in addition to that submitted in the application for recognition if it is deemed material and significant in evaluating the application.

The CBN shall publish the list of recognized ECAIs and the related mapping through the appropriate channels.

#### **4. Mapping**

The credit assessments issued by ECAIs shall be associated with the risk weight classes established in these regulations (mapping).

Mapping shall be carried out by the Central Bank of Nigeria, taking account of quantitative and qualitative factors, with the latter including the definition of default used.

#### **5. Ongoing Review**

The CBN shall ascertain ongoing compliance with the recognition requirements. For this purpose, ECAIs shall provide the CBN with:

- i) Notice of any material change in their rating systems that would produce a change in the ratings of a significant portion of the entities rated in a given segment;
- ii) Mapping data updated on an annual basis
- iii) Update responses to the questionnaire set out below at least every four years (including certification by an expert as provided for in sub-section 2 – Recognition Process).
- iv) Any other material information which may assist the CBN in its continuous review.



## INFORMATION THAT EXTERNAL CREDIT ASSESSMENT INSTITUTIONS SHALL PROVIDE IN THE APPLICATION FOR RECOGNITION (QUESTIONNAIRE)

### General Information

- Type of application:
  - a) for use in the standardized approach;
  - b) for risk weighting securitizations;
- Market segments for which recognition is requested:
  - a) Public finance;
  - b) Commercial entities;
  - c) Structured finance;
- Types of credit assessments to be issued (solicited or unsolicited), where both solicited and unsolicited ratings are issued, a brief description of the rationale behind the policy shall be provided;
- Countries where the applicant is active.

### Presentation of the Applicant

- Legal form and structure of the group to which the applicant belongs, if any;
- Ownership structure, list of shareholders that hold 10% or more of the share capital and/or exercise significant influence;
- Total number of employees specifying qualification and experience
- Total number of major customers<sup>35</sup> and the percentage of total revenues from services rendered to them;
- Financial information: financial statements for the past three years and forecasts for the next three years, where available.

### Requirements

#### Objectivity

- A high-level description of the credit assessment methodology and the procedures through which it is applied (in a consistent manner) and reviewed.
- An explanation shall also be provided of the role and operation of any committees that approve the assessments and the significance of non-public information obtained from rated entities;
- For each of the borrower or exposure group for which a core methodology is applied,<sup>36</sup> a high-level description of the quantitative and qualitative inputs;
- A brief explanation by geographical area of the differences in the methodologies;



- A description of the procedures used to verify the consistency and discriminatory power of the methodologies, with details on the results generated by such analysis;
- A Comparison of theoretical default probabilities – where available – and effective default rates;<sup>37</sup>
- The results of internal validation.

#### **Independence**

- Identification and detailed description of all factors demonstrating compliance with the independence requirements for which specific certification is required. Evidence demonstrating that the requirements have been met shall also be attached.

#### **Regular Review**

- General information on the frequency and scope of regular reviews, people involved, means used to ensure timely updating of data and assessments, automatic warning systems, mechanisms to enable systematic errors to feedback into changes in the methodology;
- A summary of the reviews carried out;
- An explanation of the methods for performing back---testing and certification that have been in use for at least one year.

#### **Transparency**

- Explanation and demonstration of the way in which the principles of the methodologies employed and changes made to them are disclosed to the banks involved.

#### **Reputation**

- Information demonstrating widespread reliance by the international market on the ratings issued. For example, the following factors may be considered:
- Market share, revenues generated by rating activities, and, more generally, financial resources available, any pricing based on the rating, the use of the ratings by banks for bond issues or assessing credit risk;
- Where an ECAI operates exclusively or primarily in its domestic market, it should provide evidence of reliance on its ratings by banks not belonging to the same banking group.

#### **Disclosure of Credit Assessments**

- Accessibility to the ratings on the part of banks;
- Where both solicited and unsolicited ratings are issued, the methods employed to enable banks to distinguish between the two shall be disclosed;



- Where access to ratings or other information needed for their use is granted in exchange for payment, the criteria used to determine the price and certification that pricing is transparent shall be described.

### **Mapping of Ratings for Commercial Entities and Public Finance**

This shall specify the following:

- The definition of default used and the time horizon;
- Most recent two three---year cumulative default rates (CDR);
- Average three---year CDR based on a five---year time series;
- Description of the methodology for calculating CDRs: method of aggregating defaults (weighting mechanism), selection of pool (static or dynamic, adjusted), etc.;
- For each rating grade, the number of defaults actually registered each year and the annual default rates based on a five---year data time series;
- Comparison between the actual and theoretical (where available) annual default rates;
- Transition matrices with the size of the cohorts or pool of issuers and the number of ratings withdrawn for each rating grade;
- Dynamic characteristics of the rating methodology (point---in---time or through---the--- cycle);
- The rating scale adopted and the meaning of the rating categories;
- The geographic coverage of the rating system;

### **Mapping of Securitization Ratings**

- Definition of default/impairment on which the default/impairment rates are calculated and the time horizon;
- Analysis of the performance of the rating system and description of its main features (choice of the time horizon, impact of withdrawn and cured ratings on default rates, how economic cycles are taken into account);
- Data on the default and/or loss/recovery rates based on a time series of at least ten years;
- Transition matrices with the size of the cohorts and the number of ratings withdrawn for each rating grade;
- The rating scale adopted and the meaning of the rating categories;
- The geographic coverage of the rating system.

## **ANNEX B: CLASSIFICATION OF GUARANTEES AND COMMITMENTS**

### **HIGH RISK: CCF: 100%**

- i. Guarantees having the character of credit substitutes;
- ii. Credit derivatives: commitments in respect of the trading of credit derivatives as a protection seller;
- iii. Acceptances;
- iv. Endorsements on bills not bearing the name of another bank;
- v. Irrevocable standby letters of credit having the character of credit substitutes;
- vi. Spot and forward purchase commitments for securities and other financial instruments other than foreign exchange, except for those allocated to the supervisory trading book and subject to the capital requirements for market risk as well as those with own equity instruments as the underlying;<sup>38</sup>
- vii. Spot and forward deposits and loans to be made;
- viii. The unpaid portion of partly paid-up shares and securities, except for those allocated to the supervisory trading book and subject to the capital requirements for market risk;
- ix. Assets transferred with option for repurchase upon demand by transferee;<sup>39</sup>
- x. Written put options on securities and financial instruments other than foreign exchange, except for written put options allocated to the supervisory trading book and subject to the capital requirements for market risk, as well as those with own equity instruments as the underlying;<sup>40</sup>
- xi. Other lending commitments of certain utilization.

### **ABOVE AVERAGE RISK: CCF --- 50%**

- i. Irrevocable or confirmed documentary credits except for those in which the shipment of the goods serves as collateral or other self-liquidating transactions;
- ii. Guarantees not having the character of credit substitutes;
- iii. Warranties and indemnities (including tender, performance, customs and tax bonds) and other guarantees;
- iv. Irrevocable standby letters of credit not having the character of credit substitutes;
- v. Facilities supporting securities issues (Notes Issuance Facility (NIF); and Revolving Underwriting Facility (RUF));



- vi. Undrawn credit facilities (lending commitments of uncertain utilization, <sup>41</sup> commitments to provide guarantees or acceptance facilities) with an original maturity of more than one year.

**Moderate Risk: CCF: 20%**

- i. Irrevocable or confirmed documentary credits in which the shipment of the goods serves as collateral or other self-liquidating transactions;
- ii. Undrawn credit facilities (lending commitments of uncertain utilization, <sup>42</sup> commitments to provide guarantees or acceptance facilities) with an original maturity of up to one year, which may not be revoked unconditionally at any time without notice or that do not provide for automatic revocation due to deterioration in a borrower's creditworthiness;
- iii. Other medium/low risk assets.

**Low Risk: CCF is 0%**

- i. Undrawn credit facilities (agreements to lend, purchase securities, provide guarantees or acceptance facilities) which may be revoked unconditionally at any time without notice, or that provide for automatic cancellation due to deterioration in a borrower's creditworthiness.
- ii. Retail credit lines may be considered as unconditionally revocable where the terms permit the bank to cancel them to the full extent allowable under consumer lending laws;
- iii. Other low-risk items

For banks to apply low risk CCF for guarantees and other commitments, the following conditions must be satisfied;

- The bank has legal ability to cancel the exposure without prior notice
- The internal controls and monitoring mechanism can immediately detect any deterioration in the borrowers' credit worthiness
- No legal actions are instituted against the bank in respect of the exposures.



## ANNEX C: FINANCIAL COLLATERAL

### Eligible Instruments

The following instruments may be recognised as eligible financial collateral:

- a) Gold;
- b) Cash on deposit and cash equivalent instruments held by the bank purchasing protection; these include credit--linked notes issued by the bank purchasing protection.
- c) Debt securities issued by:
  - i. Central governments and their central banks, which securities have a specific rating from an ECAI of a credit quality step of between 1 and 4;
  - ii. International organisations and multilateral development banks to which a 0% risk weight is assigned;
  - iii. Public sector entities and state or local governments whose exposures meet the eligibility criteria for classification as liquid assets by the CBN;
  - iv. Multilateral development banks other than those under point ii), public sector entities and regional or local governments other than those under point iii) whose securities have a specific rating from an ECAI of a credit quality step of between 1 and 3;
  - v. Other entities whose securities have a specific rating from an ECAI of a credit quality step of between 1 and 3;
- d) Debt securities issued by supervised institutions and corporates, with a specific rating from an ECAI of a credit quality step of between 1 and 3 applicable to short term exposures;
- e) Unrated debt securities issued by entities whose exposures are treated as exposures to supervised institutions, provided that:
  - i. They are listed on a recognised exchange;
  - ii. They qualify as senior debt;
  - iii. All other issues of the same seniority by the issuing institution have a rating associated with credit quality steps 1 through 3;
  - iv. The bank has no information to suggest that the issue would justify a rating, if applicable, below that indicated in the preceding indent;
  - v. The bank can demonstrate that the instrument has sufficient market liquidity;

- f) Equities and convertible bonds included in All Share Index (ALSI);
- g) Units in Collective Investment Schemes which have a daily public price quote and the Collective Investment Scheme's assets are invested in the instruments listed above.
- h) If the comprehensive method is used for the prudential treatment of financial collateral, the latter may also include:
  - i. Equities and convertible bonds not included in the All Share Index (ALSI) but traded on a recognised exchange;
  - ii. Units in Collective Investment Schemes if they have a daily public price quote and the unit trust's assets are invested in instruments listed above.



## ANNEX D: COLLATERAL UNDER THE STANDARDISED APPROACH

### Calculation Methods

#### 1. Simple Method

1. The risk weight envisaged for instruments provided as collateral shall apply, entirely or proportionately, to exposures secured, respectively, in whole or in part by financial collateral. The unsecured portion of the exposure shall receive the counterparty's (borrower's) risk weight.
2. The risk weight applied to the collateralised portion of the exposure shall be at least 20%, except in the cases expressly provided below.
3. The collateral shall be assigned a value equal to the fair value of the underlying instrument.

#### 1.1. Risk Weights: Exceptions to the 20% Minimum Threshold

The secured portion of the following transactions may receive a risk weight of 0% provided that the conditions listed below are met.

1. Repurchase transactions and securities lending and borrowing transactions, where:
  - a) Both the exposure and the collateral are cash or debt securities issued by the persons listed in Annex A, letter c), points i) through iii) and receive a risk weight of 0% for the purposes of calculating the capital requirement;
  - b) Both the exposure and the collateral are denominated in the same currency;
  - c) Either the maturity of the transactions does not exceed one day or both the exposure and the collateral are subject to daily marking-to-market or daily re-margining;
  - d) The time between the last marking-to-market before a failure to re-margin by the counterparty and the liquidation of the collateral does not exceed four business days;
  - e) The settlement of the transactions occurs within a settlement system proven for that type of transaction;
  - f) The documentation covering the agreement is standard market documentation for these types of transactions;
  - g) The documentation governing the transaction provides for immediate termination in the event the counterparty fails to physically deliver cash, securities or margins or otherwise defaults;



h) Upon any default event, regardless of whether the counterparty is insolvent or bankrupt, the bank has the unfettered, legally enforceable right to immediately seize and liquidate the collateral for its benefit.

i) The counterparty is a core market participant.

For the purposes of the application of these rules, the category of core market participants shall include:

- a. The Federal Government of Nigeria;
- b. Central Bank of Nigeria, and
- c. Licensed banks and discount houses in Nigeria

2. Over-the-counter derivatives transactions listed in the regulations governing counterparty risk whose exposure is calculated in accordance with such regulations, subject to daily marking---to---market, collateralised by cash or cash--- equivalent instruments where there is no currency mismatch.

3. Transactions in which the exposure and the collateral are denominated in the same currency and the collateral is either:

- i. Cash on deposit or a cash equivalent instrument;
- ii. Debt securities issued by one of the entities eligible to issue financial collateral, excluding public sector entities, if such securities have a 0% risk weight for the purpose of calculating the capital requirement<sup>43</sup> and their fair value has been discounted by 20%.

Banks shall apply a 10% risk weight to the secured portion of exposures connected with the transactions specified in point i) where the counterparty is not a core market participant (see box). The transactions specified in point ii) shall also be subject to the same risk weight if they are secured by debt securities issued by one of the entities eligible to issue financial collateral, excluding public sector entities, if such securities have a 0% risk weight for the purpose of calculating the capital requirement.

## 2. Comprehensive Method

The exposure value under the comprehensive method shall be calculated as follows:

### Formula 1

$$E^* = \max \{0, [E \times (1 + H_e) - C \times (1 - H_c - H_{fx})]\}^{44}$$



Where:

$E^*$  = The exposure value after risk mitigation

$E$  = Current value of the exposure

$H_e$  = Haircut appropriate to the exposure

$C$  = The current value of the collateral received

$H_c$  = Haircut appropriate to the collateral

$H_{fx}$  = Haircut for currency mismatch between the collateral and exposure

In the case of exposures represented by loans and derivatives, “ $H_e$ ” shall be equal to zero. Banks may apply a haircut of zero to repurchase transactions and securities lending and borrowing transactions only where they possess the characteristics set out in sub-section 1.1 of this Annex<sup>45</sup>.

Where the collateral consists of a number of eligible instruments (basket of assets), the haircut on the basket shall be  $H = \sum a_i H_i$ , where  $a_i$  is the weight of the asset (as measured by units of currency) in the basket and  $H_i$ , the haircut applicable to that asset.

When the frequency of re-margining or revaluation is longer than the minimum, the minimum haircut numbers will be scaled up depending on the actual number of business days between re-margining or revaluation using the square root of time formula below:

### Formula 2

$$H = HM \sqrt{\left( 1 + \left( \frac{NR}{TM} - 1 \right) \right)}$$

Where:

$H$  = haircut

$HM$  = haircut under the minimum holding period

$TM$  = minimum holding period for the type of transaction

$NR$  = actual number of business days between re-margining for capital market transactions or revaluation for secured transactions.



## 2.1 Standard supervisory haircut approach

In the case of daily revaluation, the haircuts to be applied to exposures and collateral consisting of debt securities, equity securities, cash and gold are those specified in Tables 1 through 4 below. Such haircuts are broken down by:

- a) The type of instrument
- b) The liquidation period of the transaction
- c) The credit quality step,
- d) The residual maturity
- e) The issuer category for debt securities.

In the case of less-than-daily revaluation, the haircut shall be scaled up using formula (2) under the comprehensive calculation method above.

The minimum holding period for various products is summarised in the following table.

Transaction Type	Minimum Holding Period	Condition
Repo Style Transactions	Five Business Days	Daily Re margining
Other Capital Market Transactions	Ten Business Days	Daily Re margining
Secured Lending	Twenty Business Days	Daily Revaluation

For the purposes of determining credit quality steps, the provisions of Annex C concerning the identification of the various categories of eligible securities shall apply.

With regard to the other types of instruments:



- For non-eligible securities or commodities repurchase transactions and lending and borrowing transactions, the haircut applicable to non-main index equities listed on a recognised exchange shall apply;
- The haircuts applicable to eligible units in collective investment schemes shall be the weighted average haircuts that would apply to the assets, in which the fund has invested, having regard to the liquidation period for capital market-driven transactions. If the bank does not know the instruments in which the fund has invested, it shall use the highest haircut that would apply to any of the assets in which the fund may invest on the basis of its rules;
- Unrated debt securities issued by entities whose exposures are treated as exposures to supervised institutions that satisfy the eligibility criteria under point e of this Annex), shall receive a haircut that is the same as that for securities issued by such entities or by corporate with a rating associated with credit quality steps 2 or 3 as provided for under the standardized approach to credit risk.

**Table 1: Debt securities other than those with short-term ratings**

Credit quality step	Residual maturity	Debt securities issued by			Debt securities issued by		
		Sovereigns,	PSE	and others	Multilateral Development agencies to which risk weight of zero per cent is assigned	others	others
		Liquidation period (%)			Liquidation period (%)		
		20 days	10 days	5 days	20 days	10 days	5 days

1	≤ 1 year	0.707	0. 5	0.354	1.414	1	0.707
	> 1 and ≤ 5 years	2.828	2	1.414	5.657	4	2.828
	> 5 years	5.657	4	2.828	11.314	8	5.657
2 – 3	≤ 1 year	1.414	1	0.707	2.828	2	1.414
	> 1 and ≤ 5 years	4.243	3	2.121	8.485	6	4.243
	> 5 years	8.485	6	4.243	16.971	12	8.485
4	≤ 1 year	21.213	15	10.607	NA	NA	NA
	> 1 and ≤ 5 years	21.213	15	10.607	NA	NA	NA
	> 5 years	21.213	15	10.607	NA	NA	NA

Table 2: Debt securities with short-term ratings.



Credit quality step	Debt securities described in Annex A, letter c), points I through iii	Debt securities described in Annex A, letter c), points iv and v
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	Liquidation period (%)			Liquidation period (%)		
	20 days	10 days	5 days	20 days	10 days	5 days
1	0.707	0.5	0.354	1.414	1	0.707
2 – 3	1.414	1	0.707	2.828	2	1.414

78

Table 3: Equity instruments, cash and gold

Type of instruments or exposures	Liquidation period (%)		
	20 days	10 days	5 days
Main index equities and main index convertible bonds	21.213	15	10.607

Other equities and convertible bonds	35.355	25	17.678
listed on a recognised exchange			
Cash	0	0	0
Gold	21.213	15	10.607

**Table 4: Haircuts for currency mismatches**

Liquidation period (%)		
20 days	10 days	5 days
11.314	8	5.657



## ANNEX E: MASTER NETTING AGREEMENTS

### Calculation Methods

#### 1. Comprehensive Method

The exposure value fully adjusted for the volatility ( $E^*$ ) of exposures subject to a master netting agreement recognised for regulatory capital purposes with respect to securities financing transactions shall be calculated using the supervisory haircut approach, as contained in the description of the treatment of financial collateral under the comprehensive method.

The fully adjusted exposure value  $E^*$  is obtained by netting the exposures under the agreement and the collateral as well as an increase that reflects the possible changes in the price of underlying securities and any foreign exchange risk.

This can be computed using the following formula:

$$E^* = \max \{0, [(\sum (E) - \sum (C)) + \sum (E_s \times H_s) + \sum (E_{fx} \times H_{fx})]\}$$

Where:

$E^*$  = the exposure value after risk mitigation

$E$  = current value of the exposure

$C$  = the value of the collateral received

$E_s$  = absolute value of the net position in a given security

$H_s$  = haircut appropriate to  $E_s$

$E_{fx}$  = absolute value of the net position in a currency different from the settlement currency

$H_{fx}$  = haircut appropriate for currency mismatch

$\Sigma(E)$  is the sum of all the exposures ( $E$ ) under the agreement;

$\Sigma(C)$  is the sum of all forms of collateral ( $C$ ) under the agreement;

The net position in each type of security<sup>46</sup> or commodity ( $E_s$ ) shall be calculated by subtracting from the total value of the securities or commodities of that type lent, sold or provided under the master netting agreement, the total value of securities or commodities of that type borrowed, purchased or received under the agreement.

The net position in each currency, other than the settlement currency of the master netting agreement (Efx), shall be calculated by subtracting from the total value of securities denominated in that currency lent, sold or provided under the master netting agreement added to the amount of cash in that currency lent or transferred under the agreement, the total value of securities denominated in that currency borrowed, purchased or received under the agreement added to the amount of cash in that currency borrowed or received under the agreement.

The haircut appropriate to a given type of security or cash position (Hs) shall be applied to the absolute value of the positive or negative net position in the securities of that type.

The foreign exchange risk haircut (Hfx) shall be applied to the net positive or negative position in each currency other than the settlement currency of the master netting agreement.

## **ANNEX F: UNFUNDED CREDIT PROTECTION**

### **Treatment of Currency Mismatches**

Where unfunded credit protection is denominated in a currency different from that in which the exposure is denominated (a currency mismatch) the value of the credit protection shall be reduced by the application of a haircut (HFX) as follows:

$$G^* = G \times (1 - HFX)$$

Where;

- G is the nominal amount of the credit protection;
- G\* is G adjusted for any foreign exchange risk;
- HFX is the haircut for any currency mismatch between the credit protection and the underlying obligation.



## ANNEX G: MATURITY MISMATCHES

### Valuation of Credit Protection

#### 1. Funded Credit Protection for Banks that apply the Comprehensive Method to Financial Collateral

The maturity of the credit protection and that of the exposure shall be reflected in the adjusted value of the collateral using the following formula:

$$CVAM = CVA \times (t - 0.25) / (T - 0.25^*)$$

Where:

- CVA is the volatility adjusted value of the collateral as specified in the comprehensive method for calculating exposure value ( $[C(1 - HC - HFX)]$ ) or the amount of the exposures, whichever is lower;
- t is the number of years remaining to the maturity date of the credit protection calculated in accordance with the rules contained under the definition of maturity, or the value of T, whichever is lower;
- T is the number of years remaining to the maturity date of the exposure calculated in accordance with the rules contained under the definition of maturity, or 5 years, whichever is lower;
- t\* is 0.25.
- CVAM shall be taken as CVA further adjusted for maturity mismatch to be included in the formula for the calculation of the fully adjusted value of the exposure (E\*) as set out under the comprehensive method.

#### 2. Unfunded Credit Protection for all Banks

When there is a maturity mismatch with recognised credit risk mitigants (collateral, on-balance sheet netting, guarantees and credit derivatives) the following adjustment will be applied to derive the adjusted value of the credit protection:

$$PA = P^* \times (t - 0.25) / (T - 0.25)$$

Where:

- P\* is the amount of the protection adjusted for any currency mismatch;
- PA is P\* adjusted for any maturity mismatch;

- $t$  is the number of years remaining to the maturity date of the credit protection calculated in accordance with the rules contained under the definition of maturity, or the value of  $T$ , whichever is lower;
- $T$  is the number of years remaining to the maturity date of the exposure calculated in accordance with the rules contained under the definition of maturity, or 5 years, where the former is higher;
- PA is then taken as the value of the protection for the purposes of calculating the value of the protection.

# CENTRAL BANK OF NIGERIA



## Guidance Notes on Regulatory Capital

## Introduction

This document lays down the new supervisory regulations for assessing the capital adequacy levels of all banks in Nigeria. The Rules governing regulatory capital, its components and required deductions to the capital levels, shall be applied by banks for assessment of qualifying capital.

Banks are required to maintain a minimum regulatory capital adequacy ratio (CAR) of 10%/15%<sup>19</sup> on an on-going basis. The Central Bank of Nigeria (CBN) will take into account the relevant risk factors and the internal capital adequacy assessments of each bank to ensure that the capital held by a bank is commensurate with the bank's overall risk profile. This would include, among others, the effectiveness of the bank's risk management systems in identifying, assessing / measuring, monitoring and managing various risks including interest rate risk in the banking book, liquidity risk, concentration risk and residual risk. Accordingly, CBN will consider prescribing a higher level of minimum capital ratio for each bank under the Pillar 2 framework on the basis of their respective risk profiles and their risk management systems. Furthermore, in terms of the Pillar 2 requirements of the capital adequacy framework, banks are expected to operate at a level well above the minimum requirement.

A bank shall compute its regulatory capital adequacy ratio in the following manner:

$$\text{Regulatory CAR} = \frac{\text{Qualifying Capital}}{\text{Total RWA (Credit RWA + Market RWA + Operational RWA)}}$$

Where total risk-weighted assets are calculated as the sum of:

- 1) risk-weighted on-balance sheet and off-balance sheet assets computed according to Standardised Approach for credit risk
- 2) 12.5 times the sum of the capital charges determined for market risk and operational risk; and

Qualifying capital is broadly classified as Tier 1 and Tier 2 capital. Elements of Tier 2 capital will be limited to a maximum of one-third (i.e. 33.33%) of Tier 1 capital, after making deductions for goodwill, deferred tax asset (DTA) and other intangible assets but before deductions of investments.

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<sup>19</sup> A minimum regulatory capital adequacy ratio (CAR) of 15% will be applicable to banks with international authorisation and Systemically Important Banks (SIBs) while a CAR of 10% will be applicable to other banks.

Banks are to note that Regulatory Risk reserve is not recognized as a component of qualifying capital. However, any balance, should be netted off against the Total RWA and such balance must be based on the last audited financial statement.

### **Tier 1 Capital**

This includes only permanent shareholders' equity (issued and fully paid ordinary shares/common stock and perpetual non-cumulative preference shares) and disclosed reserves (created or increased by appropriations of retained earnings or other surpluses).

#### **Tier 1 capital would include the following elements:**

- 1) Paid-up share capital;
- 2) Irredeemable preference shares;
- 3) Share premiums;
- 4) General reserve (retained profit),
- 5) SMEEIS reserves,
- 6) Statutory reserve;
- 7) Other reserves as may be determined by the CBN.

For an instrument to be treated as paid-up share capital, it must satisfy following criteria:

- 1) Represents the most subordinated claim in liquidation of the bank;
- 2) The investor is entitled to a claim on the residual assets that is proportional with its share of issued capital, after all senior claims have been paid in liquidation (i.e. has an unlimited and variable claim, not a fixed or capped claim);
- 3) The principal is perpetual and never repaid outside of liquidation;
- 4) Distributions are paid out of distributable profit or retained earnings;
- 5) There are no circumstances under which the distributions are obligatory;
- 6) Distributions are paid only after all legal and contractual obligations have been met and payments on more senior capital instruments have been made. This means that there are no preferential distributions, including in respect of other elements classified as the highest quality issued capital;
- 7) It is in the form of issued capital that takes the first and proportionately greatest share of any losses as they occur. Within the highest quality of capital, each instrument absorbs losses on a going concern basis proportionately and *pari passu* with all the others;
- 8) It should be classified as equity instruments in accordance with IFRS.

There is no limit on the inclusion of Tier 1 capital for the purpose of calculating regulatory capital.

## **Tier 2 Capital**

### **Hybrid Capital Instruments**

Hybrid debt capital instruments, in this category combine certain characteristics of equity and debt. Each has a particular feature, which can be considered to affect its quality as capital. Where these instruments have close similarities to equity, in particular when they are able to support losses on an on-going basis without triggering liquidation, they may be included in Tier 2 capital. Essentially, hybrid capital instruments should meet the following requirements: a) they are unsecured, subordinated and fully paid-up;

b) they are not redeemable at the initiative of the holder or without the prior consent of the CBN;

c) they are available to participate in losses without the bank being obliged to cease trading (unlike conventional subordinated debt);

d) although the capital instrument may carry an obligation to pay interest that cannot permanently be reduced or waived (unlike dividends on ordinary shareholders' equity), it should allow service obligations to be deferred (as with cumulative preference shares) where the profitability of the bank would not support payment;

e) Hybrid capital instruments that are redeemable must have an original maturity of at least 10 years. The contract must clearly specify that repayment is subject to authorization by the Central Bank of Nigeria.

Cumulative preference shares, having these characteristics, would be eligible for inclusion in this category.

### **Subordinated Debt**

A capital instrument of the bank shall qualify as subordinated debt for inclusion as Tier 2

Capital when it satisfies the following conditions -

a) the capital instrument is issued and fully paid-up in cash;

b) the capital instrument is subordinated to depositors and general creditors of the bank;

c) the paid-up amount is not secured or covered by a guarantee of the bank or any of its subsidiaries, or any other arrangement, that legally or economically enhances the seniority of the claim vis-a-vis the bank's creditors and depositors;

d) with regard to the maturity of the capital instrument:

i. the capital instrument has a minimum original maturity of at least 5 years;

- ii. recognition of capital instrument in Tier 2 capital in its final five years to maturity is amortised on a straight-line basis by 20% per annum in accordance with table 1 below;

**Table 1: Progressing discounting of debt capital instrument**

<b>Remaining Maturity of Instruments</b>	<b>Rate of Discount (%)</b>
Less than one year	100
One year and more but less than two years	80
Two years and more but less than three years	60
Three years and more but less than four years	40
Four years and more but less than five years	20

- iii. there are no step-ups or other provisions that mandate or create an incentive for the bank to redeem the capital instrument;
- e) the capital instrument is callable at the option of the bank only after a minimum of five years from the issue date, subject to the following requirements:
- i. a call option may be exercised only with the prior approval of the CBN;
  - ii. the bank shall not exercise a call option unless the bank demonstrates that its capital position is well above the minimum capital requirements after the call option is exercised;
- f) the holder of the capital instrument has no rights to accelerate the repayment of future scheduled payments (either coupon or principal), except in a bankruptcy or liquidation of the bank;
- g) The capital instrument does not have a credit sensitive dividend feature. In this regard, the capital instrument shall not have a dividend or coupon that is reset periodically, based in whole or in part on the credit standing of the bank or any banking group entity;
- h) the main features of the capital instrument are disclosed clearly and accurately; the agreement governing the issuance of the capital instrument shall not be changed without the prior approval of the CBN where such proposed changes could impact its eligibility as Tier 2 Capital;

- i) Where a bank issues the capital instrument in a foreign currency, the capital instrument shall be re-valued periodically (at least monthly) in terms of Naira at the prevailing exchange rates. Where the bank intends to use a swap to hedge the foreign exchange exposure arising from the foreign currency capital instrument, it shall consult the CBN on the capital treatment applicable to the hedge prior to such use.

### **Other Comprehensive Income Items**

Other comprehensive income items other than fixed asset revaluation reserves that are created by the adoption of the International Financial Reporting Standards (IFRS) may be accepted as part of the Tier 2 capital subject to the limitations that will be specified by the CBN from time to time.

### **Deductions from Capital**

All items that are deducted from capital are excluded from total assets in calculating the capital adequacy ratio.

If a bank is required to make a deduction from Tier 2 capital and it does not have sufficient capital to make that deduction, the shortfall will be deducted from Tier 1 capital.

### **Goodwill, other Intangibles and Deferred Tax Assets (DTA)**

- a. Intangible assets and losses in the current period and those brought forward from previous periods should be deducted from Tier 1 capital.
- b. DTA associated with accumulated losses should be deducted from Tier 1 capital.

### **Under Impairment**

Any shortfall in specific and collective impairment is to be deducted from Tier 1 capital.

### **Treasury Shares**

It represents own shares purchased and held by the bank and shall be deducted from Tier 1 capital.

### **Securitization Transactions**

- a. Increases in equity capital resulting from securitization transactions (e.g. capitalized future margin income, gains on sale) shall be deducted from Tier 1 capital.
- b. Securitisation exposures, eligible for deduction from capital, shall be deducted 50 per cent from Tier 1 and 50 per cent from Tier 2, except where expressly provided otherwise. Deductions from capital may be calculated net of any specific provisions maintained against the relevant securitisation exposures.

## **Reciprocal Cross Holdings in the Common Shares of Banking, Financial and Insurance Entities**

Reciprocal cross holdings in common shares (e.g. Bank A holds shares of Bank B and Bank B in return holds shares of Bank A) will be fully deducted from Tier 1 capital.

## **Investments in the Capital of Banking and Financial Institutions**

A bank's aggregate investment in all types of capital eligible instruments, issued by banks and financial institutions (except its financial subsidiaries) should not exceed 10 per cent (prudential limit) of the investing bank's capital funds (Tier 1 plus Tier 2 before deductions for investments). Any investment in excess of this limit shall be deducted at 50 per cent from Tier 1 and 50 per cent from Tier 2 capital.

A banks' investment in the following instruments issued by financial institutions will be included in the prudential limit of 10 per cent, referred to above.

- Equity shares;
- Hybrid debt capital instruments
- Subordinated debt instruments; and
- Any other instrument approved by the CBN having the nature of capital.

Financial institutions whose instruments shall qualify for capital purposes shall be as defined in the Regulation on the Scope of Banking Activities and Ancillary Matters No. 3 and any other extant regulations issued by the CBN.

## **Investment in Capital of Financial Subsidiaries**

In the case of investment in financial subsidiaries, the treatment will be as stated below for the purpose of capital adequacy:

- i. A bank's aggregate investment in capital eligible instruments, issued by its financial subsidiaries that are outside the scope of regulatory consolidation, shall be deducted at 50 per cent from Tier 1 and 50 per cent from Tier 2 capital.
- ii. Banks should ensure that majority owned financial entities that are not consolidated for capital purposes and for which the investment in equity and other instruments eligible for regulatory capital status is deducted, meet their respective regulatory capital requirements.

## Annexure I: Illustration of Capital Adequacy Computation

### A. Particulars

The table below represents an illustrative balance sheet of the Bank A.

(Naira million)

Statement of financial position			
Cash	2,300	Deposits	14,030
FGN bonds	3,500	Call borrowing	130
Loans secured by mortgage of residential properties	4,250	Other liabilities	520
Loans to individuals under Regulatory retail portfolio (credit risk mitigation in the form of deposits provided – N 130 million)	650	Share holders' equity	2,300
Loans to corporate entities (The amount of undrawn credit limits in overdraft accounts (revolving credits), all maturing within a year, totals N 1850 million)	6,050		
Properties, plants and equipment	230		
Total Assets	16,980	Total liabilities and Equity	16,980
Performance bonds	8,400		
Documentary credit	6,500		

### B. Other Data:

1. Capital for market risk – N 45 million
2. Average annual gross income – N 320 million
3. All loans are unrated
4. Risk weight for all residential exposure – 75%
5. Performance bonds and LCs are extended to unrated corporate

## C. Solution

### 1. Credit Equivalent Amount of Off-Balance Sheet Exposures

Serial no	Exposure particulars	Amount	CCF (%)	Credit equivalent amount
1	Revolving credits (Undrawn credit limits)	1,850	20	370
2	Performance bonds	8,400	50	4,200
3	Documentary credit	6,500	20	1,300
	<b>Total</b>			<b>5,870</b>

### 2. Risk Weighted Assets of On-Balance Sheet Exposure:

Exposures details	Gross exposure before CRM	Credit risk mitigation (CRM)	Net exposure after CRM	Risk weight (%)	RWA
Cash	2,300		2,300	0	0
FGN bonds	3,500		3,500	0	0
Loans secured by mortgage of residential properties	4,250		4,250	75	3,187
Regulatory retail portfolio	650	130	520	75	390
Corporate exposure	6,050		6,050	100	6,050
Corporate exposure (Revolving credits)	370		370	100	370
Properties, plants and equipment	230		230	100	230
Performance bonds	4,200		4,200	100	4,200
Documentary credit	1,300		1,300	100	1,300
<b>Total risk weighted assets</b>					<b>15,727</b>

### 3. Calculate Operational Risk Capital Charge:

= Relevant Indicator (gross income) x □ (15%)

= N 320 million x 15%

= N 48 million

### 4. Calculate the Total Eligible Capital (i.e., Tier 1 + Tier 2)

= Shareholders' Equity

= N 2300 million

### 5. Calculate the Capital Adequacy Ratio (CAR)

*Regulatory CAR*

$$= \frac{\text{Eligible Capital}}{\text{Credit Risk RWA} + \text{Market Risk RWA} + \text{Operational Risk RWA}} \times 100$$

$$\text{Capital Adequacy Ratio} = \frac{2300}{15727 + 12.5 * (45 + 48)} \times 100$$

= 13.62%

# CENTRAL BANK OF NIGERIA



## Guidance Notes on the Calculation of Capital Requirement for Credit Risk

### STANDARDIZED APPROACH

## Chapter 1 Overview

This guideline establishes methodologies for the calculation of capital requirement for credit risk exposures under “Pillar 1” using the Standardised Approach.

Under this approach, a bank shall apply risk-weights to its on-balance sheet and off-balance sheet exposures in accordance with the risk classes set out in this guideline for regulatory capital purposes. Risk-weights are based on credit rating grades or fixed risk-weights as provided in this guideline and are broadly aligned with the supervisory view of the likelihood of counterparty default. A bank shall, where appropriate, use the ratings of External Credit Assessment Institutions (ECAIs) recognized<sup>20</sup> by the Central Bank of Nigeria (CBN) or as otherwise specified to determine the credit rating grades of an exposure.

A bank may use eligible credit risk mitigation (CRM) techniques in determining the capital requirement for an exposure as specified in Chapter 4 of this guideline.

## Chapter 2 Standardized Approach for Credit Risk

### 1. Introduction

For the purpose of capital computation for credit risk under Standardized Approach, a bank shall take into account all on-balance sheet and off-balance sheet exposures in the banking book except where such exposures;

- a. are required to be deducted from bank’s capital; or
- b. are treated as “securitization exposure”

A bank’s exposure to counterparties under OTC derivative contracts, credit derivative contracts or repo-style transactions booked in its trading book are also subjected to credit risk capital charge under standardised approach.

### 2. External Credit Assessment

#### 2.1 Scope of application of external credit assessments institutions

A bank shall use its chosen ECAIs and their external credit assessments consistently for each type of exposure, for both risk weighting and risk management purposes. A Bank shall not

“cherry-pick” the assessments provided by different ECAIs.

A bank shall not recognise the effects of CRM if such CRM is already reflected in the issuespecific external credit assessment of the exposure.

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<sup>20</sup> CBN will publish the names of approved ECAI from time to time.

## **2.2 Use of Single and Multiple Assessment**

Where a bank has two external credit assessments which map into different credit quality grades, it shall assign the exposure to the credit rating associated with the higher risk weight. Where a bank has three or more external credit assessments which map into two or more different credit grades, it shall assign the exposure to the credit grade associated with the higher of the two lowest risk weights. For illustration, if there are three external credit assessments mapping into credit grades with risk weights of 0%, 20% and 50%, and then the applicable risk weight is 20%.

## **2.3 Use of Unsolicited Rating**

A rating would be treated as solicited only if the issuer of the instrument has requested the ECAI for the rating and has accepted the rating assigned by the agency. As a general rule, banks should use only solicited rating from the chosen ECAI. No ratings issued by the ECAI on an unsolicited basis should be considered for risk weight calculation as per the Standardized Approach without the approval of the CBN.

## **2.4 Issuer and Issue Rating**

Where an exposure has an issue-specific external credit assessment, a bank shall use such assessment. Where an exposure does not have an issue-specific external credit assessment the following principles shall apply:

- a) if there is an issue-specific external credit assessment for another exposure to the same obligor which maps to a risk weight that is lower than that applicable to an unrated exposure, a bank may use the issue-specific assessment for the other exposure only if the exposure without an issue-specific assessment ranks pari-passu with or is senior to the exposure with the issue-specific assessment in all respects;
- b) if the obligor has an issuer external credit assessment which maps to a risk weight that is lower than that applicable to an unrated exposure, a bank may use the issuer assessment of the obligor only if the exposure is a senior claim;

Where either the issuer or a single security has a low quality rating which maps into a risk weight equal to or higher than that which applies to unrated exposures, an unrated exposure on the same borrower or issuer will be assigned the same risk weight as is applicable to the low quality rating (instead of the risk weight for unrated exposures).

## **2.5 Domestic and Foreign Currency Exposures**

A credit assessment that refers to an item denominated in the borrower's domestic currency cannot be used to derive a risk weight for another exposure to that same borrower that is denominated in a foreign currency.

Where unrated exposures are risk weighted based on the rating of an equivalent exposure to that borrower, the general rule is that foreign currency ratings would be used for exposures in foreign currency. Domestic currency ratings, if separate, would only be used to risk weight claims denominated in the domestic currency<sup>21</sup>.

## **2.6 Short Term and Long Term Credit Assessment**

Where a short-term exposure is assigned a 150% risk weight, all unrated exposures to the counterparty whether short-term or long-term shall receive a 150% risk weight. Where a short-term exposure is assigned a 50% risk weight, no unrated short-term exposure shall receive a risk weight of less than 100%.

When a specific short-term assessment for a short-term exposure on a bank maps into a less favourable (higher) risk weight than the general preferential treatment for short-term exposures, the general short-term preferential treatment for interbank exposures cannot be used. All unrated short-term exposures should receive the same risk weighting as that implied by the specific short-term assessment.

## **3. Classification of Exposure and Risk Weight Determination**

A bank shall classify each of its exposures, according to obligor or nature of the exposure, into one of the following classes:

- 1) Exposures to central governments or central banks;
- 2) Exposures to public sector entities;
- 3) Exposures to state governments and local authorities;
- 4) Exposures to multilateral development banks;
- 5) Exposures to supervised institutions;
- 6) Exposures to corporate and other persons
- 7) Regulatory retail portfolio
- 8) Exposures secured by mortgages on residential properties
- 9) Exposures secured by mortgages on commercial real estates

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<sup>21</sup> Notwithstanding the above, where an exposure arises through a bank's participation in a loan extended, or has been guaranteed against convertibility and transfer risk, by a multilateral development bank whose preferred creditor status, is recognized in the market, the credit assessment on the borrower's domestic currency item may be used for risk weight purposes, to the extent guaranteed by the MDB.

- 10) Past Due exposures
- 11) High risk exposures
- 12) Unsettled and failed transactions
- 13) Other exposures

### 3.1 Exposures to Central Governments or Central Banks

Exposures to central governments and central banks will be risk weighted in accordance with the table 1 below:

**Table 1: Risk Weights for Central Governments & Central Banks**

Credit rating	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
ECA risk score	1	2	3	4-5	6	Unrated
Risk weight	0%	20%	50%	100%	150%	100%

Notwithstanding the provisions of this paragraph, a risk weight of 0% shall be assigned to the following:

- a. Exposures to Federal Government of Nigeria (FGN) and Central Bank of Nigeria (CBN);
- b. Instruments issued by other entities backed by express guarantee of the FGN;
- c. Inter-bank transactions guaranteed by the FGN or CBN; and
- d. Inter-bank transactions among supervised institutions collateralized by FGN Bonds, Treasury Bills or other similar sovereign bills.

### 3.2 Exposures to Public Sector Entities

Exposures to domestic Public Sector Entities (PSEs<sup>22</sup>) shall be assigned a risk weight of 100% regardless of the length of the residual maturities of the exposures. Public sector entities include both commercial and non-commercial entities owned by federal government, state government or a local government.

The exposure on a foreign PSE shall be risk weighted according to the credit rating grade applicable to the jurisdiction where the PSE is located.

### 3.3 Exposures to state governments and local authorities

Exposures to State and Local Governments in Nigeria shall receive the following risk weights:

<sup>22</sup> The CBN may adjust the risk weights applicable to these entities when deemed necessary.

- a) 20% risk weight for State Government bonds that meet the eligibility criteria for classification as liquid assets by the CBN;
- b) 100% risk weight for other State and Local Government bonds and exposures.

Exposures to foreign state governments and local governments will be assigned sovereign risk weight of their jurisdictions.

### 3.4 Exposures to Multilateral Development Banks

Exposures to Multilateral Development Banks (MDBs) will be assigned risk weights according to the credit ratings as set out in table 2 below.

**Table 2: Risk weights for exposures on multilateral development banks**

Credit rating	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Credit quality grade	1	2	3	4-5	6	Unrated
Risk weight	20%	50%	50%	100%	150%	100%

However, a risk weight of **0%** shall apply to exposures to the following MDBs, regardless of any external credit rating assigned:

- a) International Bank for Reconstruction and Development (IBRD);
- b) International Finance Corporation (IFC);
- c) African Development Bank (ADB);
- d) Asian Development Bank (ADB)
- e) European Bank for Reconstruction and Development (EBRD)
- f) Inter-American Development Bank (IADB)
- g) European Investment Bank (EIB)
- h) European Investment Fund (EIF)
- i) Nordic Investment Bank (NIB)
- j) Caribbean Development Bank (CDB)
- k) Islamic Development Bank (IDB)
- l) Council of Europe Development Bank (CEDB)
- m) International Islamic Liquidity Management Corporation (IILMC)
- n) Any other MDBs that may be specified from time to time by the CBN.

### 3.5 Exposures to Supervised Institutions

Exposures to banks incorporated in a given country, other than Nigeria, will be assigned a risk weight one category less favourable than that assigned to exposures on the sovereign of that country as set out in table 3 below.

**Table 3: Risk weights for exposures on supervised institutions**

Credit rating	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Credit quality grade	1	2	3	4-5	6	Unrated
Risk weight	20%	50%	100%	100%	150%	100%

Short-term exposures to supervised institutions in Nigeria with an original maturity of three months or less shall be assigned a risk weight of 20% while a risk weight of 100% shall be assigned to long-term exposures.

For capital adequacy purpose, a bank's aggregate exposure in eligible capital instruments of other banks and financial institutions (other than subsidiaries<sup>23</sup>) shall not exceed 10% of its own capital (i.e. Tier 1 capital after regulatory adjustment). The amount in excess of 10% of capital will be deducted from investor bank's capital (50% from T 1 capital and 50% from T 2 capital). Investments in capital eligible instruments to the extent of permissible limit, issued by supervised institutions, will be assigned risk weight of 100% where they are not deducted from regulatory capital.

### 3.6 Exposures to Corporate and Other Persons

This class includes exposures to corporate, insurance companies and collective investment schemes. Exposures to natural persons and small and medium sized entities (SMEs), which cannot be classified under "regulatory retail", shall also be treated as exposure to corporate.

The table 4 below specifies the credit ratings with the risk weights for corporate exposures.

<sup>23</sup> For exposure on capital eligible instruments of subsidiary, please refer to Para 4.7 of "Guidance Note on Regulatory Capital"

However, all corporate exposures will, in the interim, be treated as unrated.

**Table 4: Risk weights for corporate exposures**

Credit rating	AAA to AA-	A+ to A-	BBB+ to BB-	Below BB-	Unrated
Credit quality grade	1	2	3-4	5-6	Unrated
Risk weight	20%	50%	100%	150%	100%

### 3.7 Regulatory Retail Portfolio

Claims included in the regulatory retail portfolio shall be assigned a risk weight of 75% provided they meet the following criteria:

**a) Orientation Criterion** – The exposure is to an individual person or a group of persons or to a small business. Small business will include sole proprietorship, partnership or small and medium-size enterprises (SMEs).

**b) Product Criterion** - the exposure takes the form of any of the following:

- i. A revolving credit exposure or line of credit including exposure relating to overdraft facilities;
- ii. A personal term loan or lease, including instalment loan, vehicle finance or lease, student and educational loans and personal finance; or
- iii. Small business facilities or commitments.

The following exposures will not be included as part of regulatory retail portfolio:

1. securities such as bond and equities, listed or not;
2. mortgage loan that qualify for inclusion in “exposures secured by mortgage on residential property”;
3. past due exposures;

**c) Granularity Criterion**

In order to ensure that the regulatory retail portfolio of a bank is sufficiently diversified, no aggregate amount of all form of exposures to counterparty

(even those that individually satisfy other conditions above) shall exceed 0.20% of the aggregate amount of the bank's regulatory retail portfolio.

In relation to granularity criterion, aggregate exposure (gross exposure without taking any form of credit risk mitigation into account) to counterparty will be computed on the assumption that:

- i. In the case of on-balance sheet exposure, the amount of the exposure is the outstanding balance and for revolving credit, outstanding balance or the limit whichever is higher;
- ii. In the case of off-balance sheet exposure, other than OTC derivative transaction and credit derivative contract, the amount of exposure is the credit equivalent amount (notional amount, net of specific provision, multiplied by the CCF);
- iii. In the case of OTC derivative transactions and credit derivative contracts, the amount of exposure is the credit equivalent amount of the exposure.

All past due exposures will be excluded while computing the amount of aggregate exposure in relation to granularity criterion.

#### **d) Low Value of Individual Exposures**

The maximum aggregate retail exposure (before the effect of credit risk mitigation) to one counterparty and its related counterparties must not exceed an absolute threshold of 100 million naira.

### **3.8 Exposures Secured by Mortgages on Residential Properties**

Exposures secured by residential property for purchase/construction in Nigeria, except past due exposures, shall be risk-weighted **75%** subject to the under-listed conditions;

- i. The loan to value ratio (LTV) is less than or equal to 80%;
- ii. Lending must be fully secured by first legal mortgages on residential property;
- iii. The residential property must be occupied or intended to be occupied by the borrower or rented/to be rented by the borrower to a third party;
- iv. the residential property must be valued according to prudent valuation rules prescribed by the CBN;
- v. the bank must be satisfied that the risk of the borrower is not dependent solely on the performance of the underlying property serving as collateral but rather on the capacity of the borrower to repay the debt from other sources;

- vi. the value of the property must be monitored on a frequent basis and at a minimum once every three years and more frequently where there are indications that there are significant changes in market conditions; and
- vii. the property must be adequately insured;

**Where these conditions are not satisfied, the exposure shall attract a risk weight of 100%.**

LTV ratio should be computed as a percentage of the total outstanding in the account (without any netting) as the numerator and the realisable value of the residential property mortgaged to the bank as the denominator.

Bank's exposure to one counterparty up to two properties will be categorised under "exposures secured by mortgage on residential property" whereas exposure for the third property and above will be treated as commercial real estate.

### **3.9 Exposures Secured by Mortgages on Commercial Real Estates**

Exposures secured by mortgages on commercial real estate located in Nigeria will be riskweighted at 100%.

### **3.10 Past Due Exposures**

The unsecured portion of past due exposures (other than a qualifying residential mortgage loan), net of specific provisions (including partial write-offs), will be risk-weighted as follows:

- a) 150% weight when specific provisions are less than 20% of the outstanding amount of the past due exposure ;
- b) 100% weight when specific provisions are at least 20% of the outstanding amount of the past due exposure.

Qualifying residential mortgage loan that are past due, will be risk-weighted net of specific provisions (including partial write-offs), as follows:

- a) 100% risk weight when specific provisions are less than 20% of the outstanding amount of the exposure;
- b) 50% risk weight when specific provisions are at least 20% of the outstanding amount of the exposure.

For the purpose of computing the level of specific provisions in past due exposures for deciding the risk-weighting, all past due exposures of a single counterparty (without netting the value of the eligible collateral) should be considered in the denominator.

Past due or defaulted exposures shall include; bad debts, substandard loans, and restructured exposures. Specifically, a default is considered to have

occurred with regard to a particular obligor when either or both of the two following events have taken place.

- i. The bank considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the bank to actions such as realizing security (if held).
- ii. The obligor is past due more than 90 days on any material credit obligation to the banking group. Overdrafts will be considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than current outstanding.

For the purpose of defining the secured portion of the past due exposures, eligible collateral will be the same as recognised for credit risk mitigation purposes.

### **3.11 High Risk Exposures**

The following exposures are regarded as high risk exposures and are assigned specific risk weights as follows:

- a) Investments in venture capital firms will be risk weighted 150%;
- b) Non-publicly traded equity investments will be risk-weighted at 150%;
- c) Investment in non-financial firms with negative financial results over the past two years, will be risk-weighted at 200%.
- d) Where exposure to a particular industry within a sector (as defined by the International Standard Industrial Classification of Economic Sectors as adopted by CBN) is in excess of 20% of total credit facilities of the bank, the risk weights of the entire exposures to that industry will be 150%. If, for instance, the total exposure of a bank to food manufacturing industry within the manufacturing sector is in excess of 20% of the total credit facilities, the entire exposure to food manufacturing industry will be risk weighted at 150%.

### **3.12 Unsettled and Failed Transactions**

A bank shall comply with the requirements, described below, to calculate the credit-risk weighted exposure amount for any unsettled transaction on securities, foreign exchange instruments and commodities.

#### **3.12.1 Delivery vs. Payment (DVP) Transactions**

A bank shall apply a risk weight to any exposure arising from receivables that remains unpaid or undelivered in respect of an unsettled DVP transaction in accordance with Table 5 below.

**Table 5: Risk weight to exposure on failed transactions**

Number of Business Days after Agreed Settlement Date	Risk weight
From 0 to 4	0%
From 5 to 15	100%
From 16 to 30	625%
From 31 to 45	937.50%
46 day or more	1250%

### **3.12.2 Non-DVP Transactions**

A bank, which has fulfilled its obligations under the first contractual payment or delivery leg of a non-DVP transaction, shall regard as a loan exposure to its counterparty any outstanding receivables after the end of the first contractual payment or delivery date. If the receivables remain unpaid or undelivered after the second contractual payment or delivery date, the bank shall risk weight the exposure arising from receivable in the following manner:

- a) according to the risk weight of the counterparty under the credit risk framework if the exposures remain unpaid or undelivered up to and including the fourth business day after the second contractual payment or delivery date;
- b) 1250% risk weight to such receivables and replacement cost if the receivable remain unpaid or undelivered on or after the fifth business day after the second contractual payment or delivery date.

### **3.13 Other Exposures**

#### **0% risk weight**

- i. Cash and gold bullion held in bank's own vault;

#### **20% risk weight**

- i. Cheques and other items in transit.

#### **100% risk weight**

- i. Investment in premises, plant and equipment and other fixed assets;
- ii. Prepayments;
- iii. Any other assets not specified above.

#### 4. Measurement of Off-Balance Sheet Exposures

##### 4.1 Off-Balance Sheet Exposures Other than OTC Derivative Transactions

The notional amount of an off-balance sheet instrument does not always reflect the amount of the credit risk. The notional amount of the instrument must be multiplied by a credit conversion factor to derive a credit equivalent amount. Broad types of credit conversion factors are detailed in the table below.

**Table 6: Credit conversion factors for non-market-related off-balance sheet transactions**

Nature of transaction	Credit conversion factor (%)
Direct credit substitutes	100
Performance-related contingencies such as bid bonds, performance bonds, etc.	50
short-term, self-liquidating trade-related contingencies;	20
unutilised portions of commitments with an original maturity of one year or less, or that are unconditionally cancellable at any time	0

The resulting credit equivalent amount is then treated as an on-balance sheet instrument and is assigned the weight appropriate to the counterparty or, if relevant, the weight assigned to the guarantor or the collateral security.

The categories of credit conversion factors are outlined below.

##### **High Risk: CCF – 100%**

- i. Guarantees having the character of credit substitutes;
- ii. Acceptances;
- iii. Endorsements on bills not bearing the name of another bank;

- iv. Irrevocable standby letters of credit having the character of credit substitutes;
- v. Spot and forward purchase commitments for securities and other financial instruments other than foreign exchange;
- vi. Spot and forward deposits and loans to be made;
- vii. The unpaid portion of partly paid-up shares and securities,
- viii. Assets transferred with option for repurchase upon demand by transferee; ix. Other lending commitments of certain utilization.

**Above Average Risk: CCF- 50%**

- i. Transaction-related contingencies (for example, bid bonds, performance bonds, warranties, and standby letters of credit related to a particular transaction);
- ii. Commitments with an original maturity exceeding one year, including underwriting commitments and commercial credit lines;
- iii. Revolving underwriting facilities (RUFs), note issuance facilities (NIFs) and other similar arrangements;
- iv. Undrawn credit facilities (lending commitments of uncertain utilization, commitments to provide guarantees or acceptance facilities) with an original maturity of more than one year.

**Moderate Risk: CCF- 20%**

- i. Short-term, self-liquidating trade-related contingencies, including commercial/ documentary letters of credit;
- ii. Undrawn credit facilities with original maturity up to 1 year

**Low Risk: CCF- 0%**

- i. Undrawn credit facilities that provide for automatic cancellation due to deterioration in a borrower's creditworthiness;
- ii. Commitments with an original maturity of one year or less or that are unconditionally cancellable at any time without prior notice.

**4.2 OTC Derivative Transactions**

A bank is not exposed to credit risk for the full notional amount of their contracts (notional principal amount), but only to the potential cost of replacing the cash flow (on contracts showing a positive value) if the counterparty defaults. In calculating a bank's pre-settlement counterparty credit risk exposures arising from interest rate and foreign exchange rate related OTC derivative transactions for capital adequacy purposes, the bank shall include all its OTC

derivative transactions held in the banking and trading books which give rise to pre-settlement counterparty credit risk.

The credit equivalent amounts are calculated using either the Original Exposure Method or the Current Exposure Method and are assigned the risk weight appropriate to the counterparty.

#### 4.2.1 Original Exposure Method

The credit equivalent amount of an interest rate and foreign exchange rate related OTC derivative transaction shall be determined by multiplying the notional principal amount of the transaction by the appropriate CCF according to the nature of the derivative transaction and its maturity, as specified in table 7 below.

**Table 7: Conversion factors for Original Exposure Method**

	OTC Derivative Transaction	Original maturity		
		One year or less	From one to two years	For each additional year
a	Interest Rates	0.50%	1.00%	1.00%
b	Foreign Exchange Rate and Gold	2.00%	5.00% (i.e. 2% + 3%)	3.30%

#### 4.2.2 Current Exposure Method

A bank using the current exposure method shall calculate exposure, for the pre-settlement counterparty exposure arising from an OTC derivative transaction that is not covered by a qualifying bilateral netting agreement, by adding –

- a) the replacement cost (obtained by marking-to-market) of the OTC derivative transaction or in the case of a transaction with negative replacement cost, a value of zero; and
- b) the amount for potential future exposure obtained by applying the appropriate add-on factor set out in Table 8 to the notional amount of the OTC derivative transaction;

$$E = \text{Max} (\text{RC or } 0) + \text{NA} * \text{Add-on factor}$$

Where E = exposure,

RC = replacement cost and

NA = notional amount

**Table 8: Add-on Factors for computation of Potential Future Exposure (Add-on)**

	OTC Derivative Transaction	Remaining maturity		
		One year or less	Over one year to five years	Over five years
a	Interest Rates	0.00%	0.50%	1.50%
b	Foreign Exchange Rate and Gold	1.00%	5.00%	7.50%

For an OTC derivative transaction to a single counterparty that is covered by a qualifying bilateral netting agreement, a bank, using the current exposure method, shall calculate exposure for the pre-settlement counterparty exposure arising from that netting by adding –

- a) the net replacement cost (obtained by marking-to-market) of all OTC derivative transactions with that counterparty or in the case where there is a negative replacement cost, a value of zero; and
- b) an add-on,  $A_{NET}$  for potential future exposure (Add-on) which is calculated as follows:

$$A_{NET} = 0.4 \times A_{GROSS} + 0.6 \times NGR \times A_{GROSS}$$

Where -

- i. "**A<sub>GROSS</sub>**" refers to the sum of individual add-on amounts (calculated by multiplying the notional amount of each OTC derivative transaction by the appropriate add-on factor set out in Table 8 of all OTC derivative transactions with that counterparty; and
- ii. "**NGR**" refers to the ratio of the net current replacement cost to the gross current replacement cost for all OTC derivative transactions subject to qualifying bilateral netting agreements with that counterparty.

No potential future exposure would be calculated for single currency floating/floating interest rate swaps. The exposure on these contracts would be

evaluated solely on the basis of their current exposure, i.e. the replacement cost.

## **Chapter 3 Standardised Approach for Securitization Exposures**

### **1. Operational Requirements for Recognition of Risk Transfer**

#### **1.1 Operational Requirements for Traditional Securitizations**

An originating bank may exclude securitised exposures from the calculation of risk-weighted assets only if all of the following conditions have been met. Banks meeting these conditions must still hold regulatory capital against any securitization exposures they retain.

- a) Significant credit risk associated with the securitised exposures has been transferred to third parties;
- b) The transferor does not maintain effective or indirect control over the transferred exposures. The assets are legally isolated from the transferor in such a way that the exposures are put beyond the reach of the transferor and its creditors, even in bankruptcy or receivership. These conditions must be supported by an opinion provided by a qualified legal counsel. The transferor is deemed to have maintained effective control over the transferred credit risk exposures if it: (i) is able to repurchase from the transferee the previously transferred exposures in order to realize their benefits; or (ii) is obligated to retain the risk of the transferred exposures. The transferor's retention of servicing rights to the exposures will not necessarily constitute indirect control of the exposures;
- c) The securities issued are not obligations of the transferor. Thus, investors who purchase the securities only have claim to the underlying pool of exposures.
- d) The transferee is an SPE and the holders of the beneficial interests in that entity have the right to pledge or exchange them without restriction.
- e) Clean-up calls must satisfy the conditions set out in paragraph 1.2
- f) The securitization does not contain clauses that –
  - i. require the originating bank to alter systematically the underlying exposures such that the pool's weighted average credit quality is improved unless this is achieved by selling assets to independent and unaffiliated third parties at market prices;
  - ii. allow for increases in a retained first loss position or credit enhancement provided by the originating bank after the transaction's inception; or

- iii. increase the yield payable to parties other than the originating bank, such as investors and third-party providers of credit enhancements, in response to a deterioration in the credit quality of the underlying pool;

## **1.2 Operational Requirements and Treatment of Clean-Up Calls**

If a securitization includes a clean-up call, the bank which has the ability to exercise the clean-up call shall ensure that:

- a) the exercise of the clean-up call is at its discretion;
- b) the clean-up call is not structured to avoid allocating losses to credit enhancements or positions held by investors or in any way structured to provide credit enhancement; and
- c) the clean-up call is exercisable by the bank only when 10% or less of the original underlying exposures or securities issued remain or, for synthetic securitization, the bank purchasing protection must hold capital against the entire amount of the securitized exposures as if they did not benefit from any credit protection.

Securitization transactions, that include a clean-up call that does not meet all of the criteria stated above, result in a capital requirement for the originating bank. For a traditional securitization, the underlying exposures must be treated as if they were not securitised. Additionally, banks must not recognise any gain-on-sale in regulatory capital. For synthetic securitizations, the bank purchasing protection must hold capital against the entire amount of the securitised exposures as if they did not benefit from any credit protection.

If a clean-up call, when exercised, is found to serve as a credit enhancement, the exercise of the clean-up call must be considered a form of implicit support provided by the bank and capital will be maintained for the implicit support along with adequate disclosure as required by supervisory guidelines.

## **2. Deductions from Capital**

A bank shall deduct from its capital (Tier 1 and Tier 2 capital) -

- a) Any gain-on-sale in a securitization transaction where the bank is an originating bank;
- b) Any credit enhancing interest-only strip recorded by the bank as originating bank in a securitization transaction;
- c) Any rated securitization exposure of the bank with –
  - i. long term credit quality grade of 4 or 5 where the bank is the originator;
  - ii. long term credit quality grade of 5 where the bank is the investor;

- d) Any unrated securitization of the bank except where the securitization exposure is-
- i. the most senior tranche in the securitization transaction;
  - ii. To a second loss tranche or better in an ABCP programme.
  - iii. In respect of a liquidity facility which is not an eligible liquidity facility.

Any of the above deductions shall be:

- a) based on outstanding book value in case of an on-balance sheet securitization exposure and credit equivalent amount in case of an off-balance sheet exposure;
- b) 100% from Tier 1 if the deductible item is gain-on-sale in a securitization transaction;
- c) 50% from Tier 1 and 50% from Tier 2 for all other exposures.

### 3. Risk Weights

The risk-weighted asset amount of a securitization exposure is computed by multiplying the amount of the position by the appropriate risk weight determined in accordance with the following tables. For off-balance sheet exposures, banks must apply a CCF and then risk weight the resultant credit equivalent amount. If such an exposure is rated, a CCF of 100% must be applied. Risk weights for long term and short term securitization exposures are set out in the tables 9 and 10 below.

**Table 9: Risk weight - long term securitization exposure**

External Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ and below or unrated
Securitization Exposures	20%	50%	100%	350%	1250%
Re-Securitization Exposures	40%	100%	225%	650%	1250%

**Table 10: Risk Weights - Short-term securitization exposure**

External Credit Assessment	A-1/P-1	A-2/P-2	A-3/P-3	All other ratings or unrated
Securitization Exposures	20%	50%	100%	1250%
Re-securitization Exposures	40%	100%	225%	1250%

#### **4. Exceptions to General Treatment of Unrated Securitization Exposures**

The unrated securitization exposures must be risk weighted at 1250% with the following exceptions:

- i. the most senior exposure in an unrated securitization,
- ii. exposures that are in a second loss position or better in ABCP programs; and
- iii. eligible liquidity facilities;

##### **4.1 Treatment of Unrated Most Senior Securitization Exposures**

If the most senior exposure in a securitization of a traditional or synthetic securitization is unrated, a bank that holds or guarantees such an exposure shall determine the risk weight by applying the “look-through” treatment, provided the composition of the underlying pool is known at all times. A bank is not required to consider interest rate or currency swaps when determining whether an exposure is the most senior in a securitization for the purpose of applying the “look-through” approach.

In the look-through treatment, the unrated most senior position receives the average risk weight of the underlying exposures subject to supervisory review. Where the bank is unable to determine the risk weights assigned to the underlying credit risk exposures, the unrated position must be risk weighted at 1250%.

##### **4.2 Treatment of Exposures in a Second Loss Position or Better in ABCP Programmes**

A risk weight of 1250% is not required for those unrated securitization exposures provided by a sponsoring bank to ABCP programs, that satisfy the following requirements:

- a) The exposure is economically in a second loss position or better and the first loss position provides significant credit protection to the second loss position;

- b) The associated credit risk is the equivalent of investment grade or better; and
- c) The bank holding the unrated securitization exposure does not retain or provide the first loss position.

Where these conditions are satisfied, the risk weight is greater of (i) 100% or (ii) the highest risk weight assigned to any of the underlying individual exposures covered by the facility.

### **4.3 Credit Conversion Factors for Off-Balance Sheet Exposures**

A bank must determine whether, according to the criteria outlined below, an off-balance sheet securitization exposure qualifies as an 'eligible liquidity facility'. All other off-balance sheet securitization exposures will receive a 100% CCF.

#### **4.3.1 Eligible Liquidity Facilities**

A liquidity facility, provided by a bank as part of a securitization transaction, is an eligible liquidity facility where:

- a) Facility documentation clearly identifies and limits the circumstance under which the facility may be drawn;
- b) Drawings under the facility are limited to the amount which is likely to be paid from the liquidation of the underlying exposures of the securitization transaction and any credit enhancement provided by the originating bank. In addition, the facility must not cover any losses incurred in the underlying pool of exposures prior to a draw, or be structured such that draw-down is certain (as indicated by regular or continuous draws);
- c) The facility is subject to an asset quality test which precludes it from being drawn to cover credit risk exposures that are already in default. In addition, if the exposures that a liquidity facility is required to fund are externally rated securities, the facility can only be used to fund securities that are externally rated investment grade at the time of funding;
- d) The facility cannot be drawn after all applicable (e.g. transaction-specific and programmewide) credit enhancements from which the liquidity would benefit have been exhausted;
- e) The facility is not capable of being drawn after all credit enhancements of the securitization exposure, have been exhausted; and
- f) Repayment of drawing on the facility is not subordinated to the claims of investors in the securitization issues.

Where these conditions are met, a bank shall apply-

- a) a 20% CCF to the undrawn portion of the eligible liquidity facility if the facility has original maturity of one year or less; and

- b) a 50% CCF to undrawn portion of the eligible liquidity facility if the facility has original maturity of more than one year;

However, if an external rating of the facility itself is used for risk-weighting the facility, a 100% CCF must be applied.

The bank shall apply a CCF of 0% to the undrawn portion of the eligible liquidity facility, if the facility is available:

- a) in the event of general market disruption;
- b) to advance funds to pay investors in the securitization issue (in the event of general market disruption) and which, once drawn, is secured by underlying assets, and must rank at least *pari-passu* with the claims of holders of the capital market instruments.

A bank shall deduct the undrawn portion of a liquidity facility, which is not an eligible liquidity facility and is unrated, from its capital.

#### **4.3.2 Overlapping Exposures**

A bank may provide two or more facilities which may be drawn in respect of the same securitization transaction leading to duplicate coverage provided by the bank to the underlying exposures. In other words, the facilities provided by a bank may overlap since a draw on one facility may preclude (in part) a draw under the other facility. In the case of overlapping facilities provided by the same bank, it is only required to hold capital once for the position covered by the overlapping facilities (whether they are liquidity facilities or credit enhancements).

Where the overlapping facilities are subject to different conversion factors, the bank must attribute the overlapping part to the facility with the highest conversion factor. However, if overlapping facilities are provided by different banks, each bank must hold capital for the maximum amount of the facility.

#### **4.4 Capital Requirement for Early Amortisation Provisions**

Early amortisation provisions are mechanisms that, once triggered, allow investors to be paid out prior to the originally stated maturity of the securities issued.

An originating bank is required to hold capital against all or a portion of the investors' interest (i.e. against both the drawn and undrawn balances related to the securitised exposures) when:

- a) it sells exposures into a structure that contains an early amortisation feature; and

- b) The exposures sold are of a revolving nature. These involve exposures where the borrower is permitted to vary the drawn amount and repayments within an agreed limit under a line of credit (e.g. credit card receivables and corporate loan commitments);

For a bank subject to the early amortisation treatment, the total capital charge for all of its positions will be subject to a maximum capital requirement (i.e. a “cap”) equal to the greater of

- (i) that required for retained securitization exposures, or
- (ii) The capital requirement that would apply had the exposures not been securitised;

In addition, banks must deduct the entire amount of any gain-on-sale and risk weight the credit enhancing interest-only strip (I/Os) arising from the securitization transaction.

A bank is not required to calculate a capital requirement for early amortisations in the following situations:

- a) Replenishment structures where the underlying exposures do not revolve and the early amortisation ends the ability of the bank to add new exposures;
- b) Transactions of revolving assets containing early amortisation features that mimic term structures (i.e. where the risk on the underlying facilities does not return to the originating bank);
- c) Structures where a bank securitises one or more credit line(s) and where investors remain fully exposed to future draws by borrowers even after an early amortisation event has occurred;
- d) The early amortisation clause is solely triggered by events not related to the performance of the securitised assets or the selling bank, such as material changes in tax laws or regulations.

The capital requirement for securitization exposures shall reflect the type of mechanism through which an early amortization is triggered. For risk-based capital purposes, an early amortization provision will be considered either controlled or non-controlled.

#### **4.4.1 Determination of CCFs for Controlled and Non-Controlled Early Amortisation Features**

A controlled early amortisation provision must meet all of the following conditions.

- a) The bank must have an appropriate capital/liquidity plan in place to ensure that it has sufficient capital and liquidity available in the event of an early amortisation;

- b) Throughout the duration of the transaction, including the amortisation period, there is the same pro rata sharing of interest, principal, expenses, losses and recoveries based on the bank's and investors' relative shares of the receivables outstanding at the beginning of each month;
- c) The bank must set a period for amortisation that would be sufficient for at least 90% of the total debt outstanding at the beginning of the early amortisation period to have been repaid or recognised as in default; and
- d) The pace of repayment should not be any more rapid than would be allowed by straightline amortisation over the period set out in criterion (c).

An early amortisation provision that does not satisfy the conditions for a controlled early amortisation provision will be treated as a non-controlled early amortisation provision.

In the case of securitizations involving retail revolving assets that are unconditionally cancellable without notice and are subject to an early amortization provision that is triggered when the excess spread falls to a certain level, the appropriate conversion factor shall be based on a comparison between the three-month average excess spread and the contractually established excess spread level at which excess spread is required to be trapped.

In cases where such a transaction does not require excess spread to be trapped, the trapping point is deemed to be 4.5 percentage points.

The bank must divide the excess spread level by the transaction's excess spread trapping point to determine the appropriate segments and apply the corresponding conversion factors, as outlined in table 11.

The appropriate conversion factor shall be determined separately for each retail securitization transaction with controlled and non-controlled early amortization provisions, expressed as the ratio between the three-month average excess spread and trapping level excess spread. Table 11 below sets out the CCF for securitization exposures;

**Table 11: Credit Conversion Factor (CCF) for Securitization Exposure**

3-month average excess spread Credit Conversion Factor (CCF)		
Ratio between the average excess spread and trapping level excess spread	Securitizations with "controlled" early amortization provisions	Securitizations with "non-controlled" early amortization provisions

133.33% of trapping point or more	0%	0%
less than 133.33% to 100% of trapping point	1%	5%
less than 100% to 75% of trapping point	2%	15%
less than 75% to 50% of trapping point	10%	50%
less than 50% to 25% of trapping point	20%	100%
less than 25%	40%	100%

All other securitized revolving exposures (i.e. those that are committed and all non-retail exposures) with controlled early amortization features will be subject to a CCF of 90% against the off-balance sheet exposures.

All other securitized revolving exposures (i.e. those that are committed and all non-retail exposures) with non-controlled early amortization features will be subject to a CCF of 100% against the off-balance sheet exposures.

## Chapter 4 Credit\_risk Mitigation

### 1. Introduction

This section of the guideline sets out the principles for the recognition of credit risk mitigation (CRM) techniques that a bank may use under the Standardised Approach to Credit Risk for the purpose of calculating its capital requirements. Banks use a number of techniques to mitigate the credit risks to which they are exposed. The framework set out in this chapter is applicable to the banking book exposures in the standardised approach. The use of CRM techniques reduces or transfers credit risks but it may simultaneously increase other risks (residual risks). Banks should employ robust procedures and processes to control these risks. If there are significant residual risks including concentration risk, arising from use of CRM techniques, banks are required to maintain additional capital under pillar

### 2. CRM Approaches

The types of CRM techniques described in the guidelines are listed below:

- a) Financial collaterals

- b) Netting
- c) Guarantee and credit derivatives

### **2.1 Treatment of Pools of CRM Techniques**

In the case where a bank has multiple CRM techniques covering a single exposure (e.g. a bank has both collateral and guarantee partially covering an exposure), the bank will be required to subdivide the exposure into portions covered by each type of CRM technique (e.g. portion covered by collateral, portion covered by guarantee) and the risk-weighted assets of each portion must be calculated separately. When credit protection provided by a single protection provider has differing maturities, they must be subdivided into separate protection as well.

### **2.2 Minimum Requirements for Recognition of CRM Techniques**

In order for a bank to obtain capital relief from the use of any CRM technique, the following conditions shall be met under the comprehensive approach:

- a) All documentation used in collateralised transactions and for documenting on-balance sheet netting and guarantees must be binding on all parties and legally enforceable in all relevant jurisdictions. A bank must have undertaken sufficient legal review to be satisfied with the legal enforceability of the documentation and shall be expected to undertake periodic reviews to ensure on-going enforceability.
- b) Where a bank, acting as an agent, arranges a repo-style transaction (i.e. repurchase/reverse repurchase and securities lending/borrowing transactions) between a customer and a third party and provides a guarantee to the customer that the third party will perform on its obligations, then the risk to the bank is the same as if the bank had entered into the transaction as a principal. In such circumstances, a bank shall be required to calculate capital requirements as if it were itself the principal.

### **3. Financial Collaterals in CRM**

A bank shall apply Comprehensive Approach to all its on- and off-balance sheet banking book exposures that are subject to credit risk mitigation using eligible financial collaterals.

Comprehensive Approach allows offset of collateral against exposures, by effectively reducing the exposure amount by the value ascribed to the collateral. Mismatches in the maturity of the underlying exposure and the collateral shall be allowed under the comprehensive approach. A capital requirement shall be applied to a bank on both sides of a collateralised

transaction, e.g. both repo and reverse repo agreements shall be subject to capital requirements.

### **3.1 Minimum Conditions for Use of Financial Collaterals**

- a) There must be a formal written contractual agreement between the lender and the party lodging the collateral which establishes the lender's direct, explicit, irrevocable and unconditional recourse to the collateral. In the case of cash collateral, this may include a contractual right of set-off on credit balances, but a common law right of set-off is insufficient on its own to satisfy this condition.
- b) The legal mechanism by which collateral is pledged or transferred must allow the bank the right to liquidate or take legal possession of the collateral in a timely manner. The bank must take all steps necessary to satisfy the legal requirements applicable to its interest in the collateral. This would include clear and robust procedures for the timely liquidation of collateral to ensure that any legal conditions required for declaring the default of the counterparty and liquidating the collateral are observed and that the collateral can be liquidated promptly.
- c) In the event of default, any requirement on the lender to serve notice on the party lodging the collateral must not unnecessarily impede the lender's recourse to the collateral.
- d) A bank must have clear and robust procedures for the timely liquidation of collateral to ensure that any legal conditions required for declaring the default of the counterparty and liquidating the collateral are observed and that the collateral can be liquidated promptly.
- e) Where the collateral is held by an independent custodian or an equally independent third party, the bank must take reasonable steps to ensure that the custodian segregates the collateral from its own assets. Deposits held with banks other than the lending bank shall be recognised as eligible collateral if they are openly pledged or assigned to the lending bank and such pledge or assignment is legally effective and enforceable in all relevant jurisdictions.
- f) Collateral in the form of securities issued by the counterparty to the credit exposure (or by any person or entity related or associated with the counterparty) is considered to have a material positive correlation with the credit quality of the original counterparty and is therefore not eligible collateral.

### 3.2 Eligibility of Financial Collateral

The following collateral instruments, mentioned in table 12 below, are eligible for recognition in the comprehensive approach:

Table 12: Eligible collateral for comprehensive approach.

Collateral instruments that are eligible under the <i>Comprehensive Approach</i>	
1	Deposits with the bank (as well as certificates of deposit or comparable instruments issued by the lending bank) which is incurring the counterparty exposure
2	Gold
3	Debt securities issued by FGN, State Governments and Supervised Institutions;
4	Debt securities rated by an ECAI where these are either:  <div style="text-align: center;">                     i. at least BBB- and above when issued by entities other than FGN and Supervised Institutions ; or                      ii. at least A-3/P-3 for short-term debt instruments                 </div> In all other cases, banks will seek the approval of CBN before recognising such instruments as eligible collateral.
5	Equities (including convertible bonds) that are listed in exchanges in Nigeria.
	Banks will seek the approval of CBN for using equity shares, as CRM, traded in exchanges in other countries.

### 3.3 Comprehensive Approach

In the comprehensive approach, a bank shall calculate its adjusted exposure to a counterparty for capital adequacy purposes in order to take account of the effects of collaterals. Using haircuts, a bank is required to adjust both the amount of the exposure to the counterparty and the value of any collateral received in support of that counterparty to take account of possible future fluctuations in the value of either, due to movement in risk factors in the market. This will produce volatility adjusted amounts for both exposure and collateral. Unless either side of the transaction is cash, the volatility adjusted amount for the exposure will be higher than the exposure and for the collateral it will be lower.

### 3.3.1 Calculation of Net Credit Exposure

**On-balance sheet exposure** - A bank shall calculate net credit exposure of on-balance sheet exposure using credit risk mitigation by applying the following formula:

$$E^* = \max \{0, [E \times (1 + H_e) - C \times (1 - H_c - H_{fx})]\}$$

Where:

$E^*$  = the net exposure value after risk mitigation

$E$  = the current value of the exposure

$H_e$  = haircut appropriate to the exposure

$C$  = the current value of the collateral received

$H_c$  = haircut appropriate to the collateral

$H_{fx}$  = haircut appropriate for currency mismatch between the collateral and exposure

**Off-balance sheet exposure (other than OTC derivative transaction)**—A bank shall calculate net credit exposure of off-balance sheet exposure using credit risk mitigation by applying the following formula:

$$E^* = \max \{0, [E \times (1 + H_e) - C \times (1 - H_c - H_{fx})]\} \times CCF$$

Where:

$E^*$  = the net exposure value after risk mitigation

$E$  = the current value of the exposure

$H_e$  = haircut appropriate to the exposure

$C$  = the current value of the collateral received

$H_c$  = haircut appropriate to the collateral

$H_{fx}$  = haircut appropriate for currency mismatch between the collateral and exposure  
 $CCF$  = CCF applicable to the off-balance sheet exposure

**OTC derivative transaction** - A bank shall calculate net credit exposure to an obligor in respect of an OTC derivative transaction using credit risk mitigation by applying the following formula:

$$E^* = \max \{0, [E - C \times (1 - H_c - H_{fx})]\}$$

Where:

$E^*$  = the net exposure value after risk mitigation

$E$  = credit equivalent amount of the OTC derivative transaction (aggregating current market value and the potential future exposure (add-on))

$H_e$  = haircut appropriate to the exposure

$C$  = the current value of the collateral received

$H_c$  = haircut appropriate to the collateral

$H_{fx}$  = haircut appropriate for currency mismatch between the collateral and exposure

Where the collateral is a basket of assets, the haircut on the basket shall be

$$H = \sum a_i H_i$$

Where  $a_i$  is the weight of the asset in the basket (as measured by units of currency) and  $H_i$  is the haircut applicable to that asset.

### 3.3.2 Standard Supervisory Haircuts

The standard supervisory haircuts are applied to the security ( $H_c$ ) with reference to the rating of the issuer and to the exposure ( $H_e$ ) with reference to the rating of the counterparty.

The standard supervisory haircuts (assuming daily mark-to-market, daily re-margining and a 10 business day holding period) are expressed as percentages in table 13 below:

**Table 13: Standard Supervisory Haircuts**

Issue rating by ECAI for debt securities	Residual Maturity	Sovereigns (%)	Other issuers (%)
AAA to AA-/A-1 (long and short positions), FGN bonds & T-bills and State Government bonds	=< 1 year	0.50	1.00
	>1 year, < 5 years	2.00	4.00
	> 5 Years	4.00	8.00
A+ to BBB-/A-2/A-3/P-3 and unrated bank securities	=< 1 year	1.00	2.00
	>1 year, < 5 years	3.00	6.00
	> 5 Years	6.00	12.00
BB+ to BB-		15	NA
Main index equities (including convertible bonds) and Gold		15	
Other equities (including convertible bonds) listed on a recognized exchange.		25	
Cash in the same currency		0	

The standard supervisory haircut for currency risk where exposure and collateral are denominated in different currencies is 8% (also based on a 10-business day holding period and daily mark-to-market).

For transactions in which the bank lends non-eligible instruments (e.g. non-investment grade corporate debt securities), the haircut to be applied on the exposure should be the same as the one for equity traded on a recognised exchange that is not part of a main index.

Adjustment for different holding periods and non-daily mark-to-market or re-margining.

For some transactions, depending on the nature and frequency of the revaluation and remargining provisions, different holding periods are appropriate. The framework for collateral haircuts distinguishes between repo-style transactions (i.e. repo/reverse repos and securities lending/borrowing), other capital-market-driven transactions (i.e. OTC derivatives transactions and margin lending) and secured lending. In capital-market-driven transactions and repo-style transactions, the documentation contains re-margining clauses; in secured lending transactions, it generally does not.

The minimum holding period for various products is summarised in the following table 14:

**Table 14: Transaction Type and Minimum Holding Period**

Transaction type	Minimum holding period	Condition
Repo-style transaction	five business days	daily re-margining
Other capital market transactions	ten business days	daily re-margining
Secured lending	twenty business days	daily revaluation

When the frequency of re-margining or revaluation is longer than the minimum, the minimum haircut numbers will be scaled up depending on the actual number of business days between remargining or revaluation using the square root of time formula below:

$$H = \frac{H_M \sqrt{\{NR + (T_M - 1)\}}}{\sqrt{T_M}}$$

Where:

$H$  = haircut

$H_M$  = haircut under the minimum holding period

$T_M$  = minimum holding period for the type of transaction

$NR$  = actual number of business days between re-margining for capital market transactions or revaluation for secured transactions.

When a bank calculates the volatility on a  $T_N$  day holding period which is different from the specified minimum holding period  $T_M$ , the  $H_M$  will be calculated using the square root of time formula:

$$H_M = \frac{H_N \sqrt{T_M}}{\sqrt{T_N}}$$

Where:

$T_N$  = holding period used by the bank for deriving  $H_N$

$H_N$  = haircut based on the holding period  $T_N$

For example, for banks using the standard supervisory haircuts, the 10-business day haircuts provided in Table 13, will be the basis and this haircut will be scaled up or down depending on the type of transaction and the frequency of re-margining or revaluation using the formula below:

$$H = \frac{H_{10} \sqrt{\{NR + (T_M - 1)\}}}{\sqrt{10}}$$

Where:

$H$  = haircut

$H_{10}$  = 10-business day standard supervisory haircut for instrument

$NR$  = actual number of business days between re-margining for capital market transactions or revaluation for secured transactions.

$T_M$  = minimum holding period for the type of transaction

#### **Conditions for Zero Haircut**

For repo-style transactions where the following conditions are satisfied, and the counterparty is a **core market participant** (i.e. FGN, CBN, or licensed banks in

Nigeria), a bank may choose not to apply the haircuts specified in the comprehensive approach and may instead apply a haircut of zero:

- a) Both the exposure and the collateral are cash or a sovereign security qualifying for a 0% risk weight in the standardised approach;
- b) Both the exposure and the collateral are denominated in the same currency;
- c) Either the transaction is overnight or both the exposure and the collateral are marked-to-market daily and are subject to daily re-margining;
- d) Following a counterparty's failure to re-margin, the time that is required between the last mark-to-market before the failure to re-margin and the liquidation of the collateral is considered to be no more than four business days;
- e) The transaction is settled across a settlement system proven for that type of transaction;
- f) The documentation covering the agreement is standard market documentation for repo-style transactions in the securities concerned;
- g) The transaction is governed by documentation specifying that if the counterparty fails to satisfy an obligation to deliver cash or securities or to deliver margin or otherwise defaults, then the transaction is immediately terminable; and
- h) Upon any default event, regardless of whether the counterparty is insolvent or bankrupt, the bank has the unfettered, legally enforceable right to immediately seize and liquidate the collateral for its benefit.

### 3.3.3 Collateralised OTC derivatives transactions

Under the Current Exposure Method, the calculation of the counterparty credit risk capital charge for an OTC derivative transaction will be as follows:

$$\text{Capital charge} = [(\text{RC} + \text{add-on}) - \text{CA}] \times r \times 10\% \text{ or } 15\%$$

Where:

RC = the replacement cost,

Add-on = the amount for potential future exposure,

CA = the volatility adjusted collateral amount under the comprehensive approach or zero if no eligible collateral is applied to the transaction,

and  $r$  = the risk weight of the counterparty.

### 3.3.4 Maturity Mismatch

A maturity mismatch exists where the residual maturity of the term of lodgement of the collateral is less than the maturity of the exposure covered by the collateral. Where there is a maturity mismatch, the collateral may only

be recognised for capital adequacy purposes where the original maturity of the term of lodgement of the collateral is greater than or equal to 12 months. If the original maturity of the term of lodgement of the collateral is less than 12 months, the collateral will not be eligible unless the term of lodgement matches the maturity of the underlying exposure. In all cases where there is a maturity mismatch, the collateral will not be eligible where it has a residual maturity of three months or less.

Where there is a maturity mismatch between collateral and the underlying exposure, for capital adequacy purposes a bank must apply the following adjustment:

$$P_a = P \times \{(t-0.25)/(T-0.25)\}$$

Where:

$P_a$  = value of the collateral adjusted for maturity mismatch  
 $P$  = collateral amount adjusted for any haircuts

$t$  = min (T, residual maturity of the term of lodgement of the collateral) expressed in years  
 $T$  = min (5, residual maturity of the exposure) expressed in years.

## **4. Netting**

### **4.1 On-balance Sheet Netting**

For capital adequacy purpose, a bank may compute net exposure of loans and deposit of a specific obligor using the comprehensive approach for on-balance sheet exposure. Assets (loans) are treated as exposure and liabilities (deposits) as collateral. The haircuts will be zero except when a currency mismatch exists.

A bank shall ensure that the following conditions are met for eligibility for using on-balance sheet netting as a CRM metric:

- a) The bank has a well-founded legal basis for concluding that the netting or offsetting agreement is enforceable in each relevant jurisdiction regardless of whether the counterparty is insolvent or bankrupt;
- b) The bank is able at any time to determine those assets and liabilities with the same counterparty that are subject to the netting agreement;
- c) The bank monitors and controls its roll-off risks; and
- d) The bank monitors and controls the relevant exposures on a net basis,

### **4.2 Netting of Repo-style and OTC Derivative Transactions**

A bank shall recognise the effects of bilateral netting agreements covering repo-style transactions on a counterparty-by-counterparty basis if the agreements are legally enforceable in each relevant jurisdiction upon the

occurrence of an event of default and regardless of whether the counterparty is insolvent or bankrupt.

In addition, netting agreements must:

- a) provide the non-defaulting party the right to terminate and close-out in a timely manner all transactions under the agreement upon an event of default, including in the event of insolvency or bankruptcy of the counterparty;
- b) provide for the netting of gains and losses on transactions (including the value of any collateral) terminated and closed out under it so that a single net amount is owed by one party to the other;
- c) allow for the prompt liquidation or set-off of collateral upon the event of default; and
- d) In addition to the provisions required in (a) to (c) above, be legally enforceable in each relevant jurisdiction upon the occurrence of an event of default and regardless of the counterparty's insolvency or bankruptcy.

The master netting agreement, for OTC derivatives and repo-style transactions, is an agreement, in writing, between two parties, that sets out standard terms that apply to all the transactions entered into between those parties. Each time that a transaction is entered into, the terms of the master agreement do not need to be re-negotiated and apply automatically. Under the master netting arrangement, a bank can net its positive and negative exposures with the counterparty to a single netted exposure for capital adequacy purpose.

For a bank using the standard supervisory haircuts or own-estimate haircuts, the framework below shall apply to take into account the impact of master netting agreements:

$$E^* = \max \{0, [(\Sigma (E) - \Sigma (C)) + \Sigma (E_s \times H_s) + \Sigma (E_{fx} \times H_{fx})]\}$$

Where:

$E^*$  = the exposure value after risk mitigation

$E$  = current value of the exposure

$C$  = the value of the collateral received

$E_s$  = absolute value of the net position in a given security

$H_s$  = haircut appropriate to  $E_s$

$E_{fx}$  = absolute value of the net position in a currency different from the settlement currency  $H_{fx}$  = haircut appropriate for currency mismatch

For OTC derivative transactions, a bank shall calculate the credit equivalent amount of its net credit exposure to counterparty by adding together the net

current exposure and the net potential exposure as described under comprehensive approach for treatment of CRM.

## **5. Guarantee and Credit Derivative Contracts**

### **5.1 Operational Requirements for Guarantee**

The following conditions must be met for the credit protection deriving from a guarantee (counter-guarantee) or credit derivative to be recognised:

- a. the credit protection must be direct;
- b. the extent of the credit protection must be clearly defined and incontrovertible;
- c. the credit protection contract must not contain any clause, the fulfilment of which is outside the direct control of the lender, that
  - i. would allow the protection provider to unilaterally cancel the protection;
  - ii. would increase the effective cost of protection as a result of deteriorating credit quality of the protected exposure;
  - iii. would prevent the protection provider from being obliged to pay out in a timely manner in the event that the original obligor fails to make any payments due; or
  - iv. could allow the maturity of the credit protection to be reduced by the protection provider; and
- d. it must be legally effective and enforceable in all jurisdictions which are relevant at the time of the conclusion of the credit agreement.

In addition to the legal certainty requirements, for a guarantee to be recognised, the following conditions must be satisfied:

- a) on the qualifying default/non-payment of the counterparty, the bank must have the right to pursue in a timely manner the guarantor for any monies under the claim in respect of which the guarantee is provided;
- b) the guarantor may make one lump sum payment of all monies under the claim to the bank or the guarantor may assume the future payment obligations of the counterparty covered by the guarantee;
- c) the bank must have the right to receive any such payments from the guarantor without first having to take legal actions in order to pursue the counterparty for payment;
- d) the guarantee must be an explicitly documented obligation assumed by the guarantor;
- e) the guarantee must cover all types of payments the underlying obligor is expected to make in respect of the claim; and

- f) Where a guarantee covers payment of principal only, interest and other amounts not covered by the guarantee must be treated as the uncovered portion.

## **5.2 Operational Requirements for Credit Derivative Contract**

In order for a credit derivative contract to be recognised, the following conditions must also be satisfied:

- a. the credit events specified by the contracting parties must, at a minimum, cover:
  - i. failure to pay the amounts due under terms of the underlying obligation that are in effect at the time of such failure (with a grace period that is closely in line with the grace period in the underlying obligation);
  - ii. bankruptcy, insolvency or inability of the obligor to pay its debts, or its failure or admission in writing of its inability generally to pay its debts as they become due, and analogous events; and
  - iii. restructuring of the underlying obligation involving forgiveness or postponement of principal, interest or fees that results in a credit loss event (i.e. charge-off, specific provision or other similar debit to the profit or loss account)
- b. the credit derivative shall not terminate prior to expiration of any grace period required for a default on the underlying obligation to occur as a result of a failure to pay, subject to the provisions of paragraph covering maturity mismatch;
- c. In the case of credit derivatives allowing for cash settlement, a robust valuation process must be in place in order to estimate loss reliably. There must be a clearly specified period for obtaining post-credit-event valuations of the underlying obligation.
- d. if the protection purchaser's right/ability to transfer the underlying obligation to the protection provider is required for settlement, the terms of the underlying obligation must provide that any required consent to such transfer may not be unreasonably withheld;
- e. The identity of the parties responsible for determining whether a credit event has occurred must be clearly defined. This determination must not be the sole responsibility of the protection provider. The protection buyer must have the right/ability to inform the protection provider of the occurrence of a credit event.

### 5.3 Eligible Guarantor and Credit Protection Provider

Guarantee and credit protection provided by sovereign entities, central banks and banks will be recognised for treatment of CRM. For determining the risk weight of the foreign banks incorporated outside Nigeria, the rating of the respective foreign sovereign with one rating grade less favourable, will be taken.

For the purposes of credit risk mitigation, the following types of credit derivatives and instruments are recognised:

- a) Credit default swaps;
- b) Total return swaps;
- c) Credit linked notes;

### 5.4 Currency Mismatch

Where the credit protection is denominated in a currency different from that in which the exposure is denominated (i.e. there is a currency mismatch), the amount of the exposure deemed to be protected (GA) shall be reduced by the application of a haircut  $H_{FX}$  as follows:

$$GA = G \times (1 - H_{FX})$$

Where:

G = nominal amount of the credit protection

$H_{FX}$  = haircut appropriate for the currency mismatch between the credit protection and the underlying obligation

### 5.5 Maturity Mismatch

For the purposes of calculating risk-weighted assets, a maturity mismatch occurs when the residual maturity of a guarantee/credit protection is less than the maturity of the underlying exposure.

#### Definition of Maturity

Under all CRM treatments, effective maturity of the underlying exposure and of the guarantee/collateral is defined as:

- a) the longest possible remaining time before the counterparty is scheduled to fulfil its obligation, taking into account any grace period; and
- b) the shortest possible maturity for the guarantee/collateral, taking into account embedded options that may reduce the term of the credit protection;

A guarantee/collateral shall be recognised only when its original maturity is greater than or equal to 12 months.

The maturity of guarantee/collateral for exposures with original maturities of less than 12 months must be matched in order to be recognized.

In all cases, guarantee/collateral with maturity mismatches shall not be recognised when it has a residual maturity of 3 months or less.

### **Adjustment for Maturity Mismatch**

Where there is a maturity mismatch between the exposure and the credit protection, the following adjustment shall be applied:

$$Pa = P \times (t - 0.25) / (T - 0.25)$$

Where:

Pa = value of the credit protection adjusted for maturity mismatch

P = credit protection (e.g. collateral amount, guarantee amount) adjusted for any haircuts

t = min (T, residual maturity of the credit protection arrangement) expressed in years  
T = min (5, residual maturity of the exposure) expressed in years.

### **Annexure 1 Categories of Off-Balance Sheet Exposures**

The definitions in this section apply to off-balance sheet exposures. The term “off-balance sheet exposures”, as used in this guideline, encompasses guarantees, commitments, derivatives, and similar contractual arrangements whose full notional principal amount may not necessarily be reflected on the balance sheet. Such exposures are subject to a capital charge irrespective of whether they have been recorded on the balance sheet at market value or not.

The credit equivalent amount of Securities Financing Transactions (SFT) and derivatives that expose a bank to counterparty credit risk is to be calculated. SFT are transactions such as repurchase agreements, reverse repurchase agreements, security lending and borrowing, and margin lending transactions, where the value of the transactions depends on the market valuations and the transactions are often subject to margin agreements.

The counterparty credit risk is defined as the risk that the counterparty to a transaction could default before the final settlement of the transaction’s cash flows. An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive economic value at the time of default. Unlike a bank’s exposure to credit risk through a loan, where the exposure to credit risk is unilateral and only the lending bank faces the risk of loss, the counterparty credit risk creates a bilateral risk of loss: the market value of the transaction can be positive or negative to either counterparty to the

transaction. The market value is uncertain and can vary over time with the movement of underlying market factors.

## **Off-Balance Sheet Items (Other than OTC Derivative)**

### **Direct Credit Substitutes**

Direct credit substitutes include guarantees or equivalent instruments backing financial claims. With a direct credit substitute, the risk of loss to the bank is directly dependent on the creditworthiness of the counterparty. Examples of direct credit substitutes include:

- 1) guarantees given on behalf of customers in respect of their financial obligations and to satisfy these obligations should the customer fail to do so; for example, guarantees of:
  - i. payment for existing indebtedness for services
  - ii. payment with respect to a purchase agreement
  - iii. lease, loan or mortgage payments
  - iv. payment of uncertified cheques
  - v. remittance of (sales) tax to the government
  - vi. payment of existing indebtedness for merchandise purchased
  - vii. payment of an unfunded pension liability
- 2) standby letters of credit or other equivalent irrevocable obligations, serving as financial guarantees, such as letters of credit supporting the issue of commercial paper,
- 3) risk participation in bankers' acceptances and risk participation in financial letters of credit (Financial letter of credit is a legal instrument which provides assurance to the beneficiary that payment will be made to the beneficiary in the event of failure of the seller or service provider to discharge his obligation under the contract). Risk participation constitutes guarantees by the participating bank such that, if there is a default by the underlying obligor, they will indemnify the selling bank for the full principal and interest attributable to them,
- 4) securities lending transactions, where the bank is liable to its customer for any failure to recover the securities lent, and
- 5) credit derivatives in the banking book where a bank is selling credit protection;

### **Transaction-Related Contingencies**

Transaction-related contingencies relate to the on-going business activities of counterparty, where the risk of loss to the reporting bank depends on the

likelihood of a future event that is independent of the creditworthiness of the counterparty. Essentially, transaction-related contingencies are guarantees that support particular performance of non-financial or commercial contracts or undertakings, rather than supporting customers' general financial obligations. Performance-related guarantees specifically exclude items relating to non-performance of financial obligations.

Performance-related and non-financial guarantees include items such as:

- 1) Performance bonds, warranties and indemnities. Performance standby letters of credit represent obligations backing the performance of non-financial or commercial contracts or undertakings. These include arrangements backing:
  - i. subcontractors' and suppliers' performance
  - ii. labour and material contracts
  - iii. delivery of merchandise, bids or tender bonds
  - iv. guarantees of repayment of deposits or prepayments in cases of non-performance,
- 2) Customs and excise bonds. The amount recorded for such bonds should be the bank's maximum liability.

### **Trade-Related Contingencies**

These include short-term, self-liquidating trade-related items such as commercial and documentary letters of credit issued by the bank that are, or are to be, collateralized by the underlying shipment.

Letters of credit issued on behalf of counterparty back-to-back with letters of credit of which the counterparty is a beneficiary ("back-to-back" letters) should be reported as documentary letters of credit.

Letters of credit advised by the bank for which the bank is acting as reimbursement agent should not be considered as a risk asset.

### **Sale and Repurchase Agreements**

A repurchase agreement is a transaction that involves the sale of a security or other asset with the simultaneous commitment by the seller that, after a stated period of time, the seller will repurchase the asset from the original buyer at a pre-determined price. A reverse repurchase agreement consists of the purchase of a security or other asset with the simultaneous commitment by the buyer that, after a stated period of time, the buyer will resell the asset to the original seller at a pre-determined price. In any circumstance where they are not reported on balance sheet, they should be reported as an off-balance sheet exposure with a 100% credit conversion factor.

### **Forward Asset Purchases**

A commitment to purchase a loan, security, or other asset at a specified future date, usually on pre-arranged terms.

### **Forward/Forward Deposits**

An agreement between two parties whereby one will pay and the other receive an agreed rate of interest on a deposit to be placed by one party with the other at some pre-determined date in the future. Such deposits are distinct from future forward rate agreements in that, with forward/forwards, the deposit is actually placed.

### **Partly Paid Shares and Securities**

These are transactions where only a part of the issue price or notional face value of a security purchased has been subscribed and the issuer may call for the outstanding balance (or a further instalment), either on a date pre-determined at the time of issue or at an unspecified future date.

### **Note Issuance/Revolving Underwriting Facilities**

These are arrangements whereby a borrower may issue short-term notes, typically three to six months in maturity, up to a prescribed limit over an extended period of time, commonly by means of repeated offerings to a tender panel. If at any time the notes are not sold by the tender at an acceptable price, an underwriter (or group of underwriters) undertakes to buy them at a prescribed price.

### **Over-the-counter (OTC) Derivative Contracts**

#### **Future/Forward Rate Agreements**

These are arrangements between two parties where at some pre-determined future date a cash settlement will be made for the difference between the contracted rate of interest and the current market rate on a pre-determined notional principal amount for a pre-determined period.

#### **Interest Rate Swaps**

In an interest rate swap, two parties contract to exchange interest service payments on the same amount of notional indebtedness. In most cases, fixed interest rate payments are provided by one party in return for variable rate payments from the other and vice versa. However, it is possible that variable interest payments may be provided in return for other variable interest rate payments.

## **Interest Rate Options and Currency Options**

An option is an agreement between two parties where the seller of the option for compensation (premium/fee), grants the buyer the future right, but not the obligation, to buy from the seller, or to sell to the buyer, either on a specified date or during a specified period, a financial instrument or commodity at a price agreed when the option is arranged. Other forms of interest rate options include interest rate cap agreements and collar (floor/ceiling) agreements.

## **Forward Foreign Exchange Contracts**

A forward foreign exchange contract is an agreement between a bank and a counterparty in which the bank agrees to sell to or purchase from the counterparty a fixed amount of foreign currency at a fixed rate of exchange for delivery and settlement at a specified date in the future or within a fixed optional period.

## **Cross Currency Swaps**

A cross currency swap is a transaction in which two parties exchange currencies and the related interest flows for a period of time. Cross currency swaps are used to swap fixed interest rate indebtedness in different currencies.

## **Cross Currency Interest Rate Swaps**

Cross currency interest rate swaps combine the elements of currency and interest rate swaps.

## **Financial and Foreign Currency Futures**

A future is a standardized contractual obligation to make or take delivery of a specified quantity of a commodity (financial instrument, foreign currency, etc.) on a specified future date at a specified future price established in a central regulated marketplace.

## **Precious Metals Contracts and Financial Contracts on Commodities**

Precious metals contracts and financial contracts on commodities can involve spot, forward, futures and option contracts. Precious metals are mainly gold, silver, and platinum. Commodities are bulk goods such as grains, metals and foods traded on a commodity exchange or on the spot market. For capital purposes, gold contracts are treated the same as foreign exchange contracts.

## **Annexure 2 Securitization – Definitions and Terminologies**

ABCP program – Asset backed commercial paper (ABCP) means a program where commercial paper with an original maturity of one year or less which is

backed by assets or other exposures held in a bankruptcy-remote SPE is predominantly issued.

- Banking book - means all on-balance sheet and off-balance sheet exposures of a bank other than its trading book positions.
- Clean-up call – A clean-up call is an option which permits the originator in the securitization transaction to repurchase the outstanding securitization issues once the amount of the outstanding securitization issues, or of the underlying exposures that have not been repaid, has fallen below a level specified in the documentation.  
In the case of traditional securitizations, this is generally accomplished by repurchasing the remaining securitization exposures. In the case of a synthetic transaction, the clean-up call may take the form of a clause that extinguishes the credit protection.
- Credit derivative - means any contract which transfers the credit risk of a reference obligation or set of reference asset(s) from the protection buyer to the protection seller, such that the protection seller has an exposure to the reference asset(s).
- Credit enhancement - means a contractual arrangement in which a bank retains or assumes a securitization exposure that, in substance, provides some degree of credit protection to other parties to the securitization.
- Credit-enhancing interest-only strip - A credit-enhancing interest-only strip (I/O) is an onbalance sheet asset that (i) represents a valuation of cash flows (expected future excess spread) related to future margin income, and (ii) is subordinated to the claims of other parties to the transaction.
- Credit risk mitigation (CRM) - means any technique used by a bank to reduce the credit risk associated with any exposure which the bank holds.
- Early amortisation provision- means a contractual clause which requires on the occurrence of defined events, an investor's position to be redeemed prior to the original maturity of the securities issued.
- Eligible liquidity facility – It means an off-balance sheet securitization exposure of the bank arising from a contractual agreement under which the bank provides funding in respect of the securitization transaction to ensure the timeliness of cash flows to investors in the securitization issues in the transaction.

- Excess spread - means any gross finance charge collections and other income received by the trust or SPE after deducting certificate interest, servicing fees, charge-offs, and other senior trust or SPE expenses.
- Gain-on sale - means any increase in the equity capital of a bank which is an originator resulting from the sale of underlying exposures in a securitization.
- Implicit support – means any support that a bank provides to a securitization in excess of its predetermined contractual obligations.
- Netting - means bilateral netting, including –
  - i. netting by novation, where obligations between two counterparties to deliver a given currency on a given value date under a transaction, are automatically amalgamated with all other obligations under other transactions to deliver on the same currency and value date, thereby extinguishing former transactions with a single legally binding new transaction; and
  - ii. close-out netting, where some or all of the on-going transactions between two counterparties are terminated due to the default of either counterparty or upon the occurrence of a termination event as defined in the netting agreement, whereupon the values of such transactions are combined and reduced to a single payable sum.
- NGR - means the ratio of the net current replacement cost to the gross current replacement cost
- OTC derivative transaction - means an exchange rate contract, interest rate contract, equity contract, precious metal or other commodity contract or credit derivative contract which is not traded on an exchange.
- Reference asset - means any asset specified under a credit derivative contract used for purposes of either determining cash settlement value or the deliverable asset.
- Re-securitization exposure - means any transaction or scheme involving the tranching of credit risk associated with an exposure or a pool of exposures and which has the following characteristics:
  - a) payments in the transaction or scheme depend on the performance of the exposure or pool of exposures;
  - b) the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme; and

- c) junior tranches can absorb losses without interrupting contractual payments to more senior tranches;
- Securitization exposure - means any exposure of a bank to a securitization, and includes -
  - a) any on-balance sheet exposure to securities issued pursuant to a securitization (e.g. asset-backed securities, mortgage backed securities and collateralised debt obligations);
  - b) any off-balance sheet exposure to a securitization (e.g. through credit enhancements, liquidity facilities, credit derivatives, tranching, interest rate swap or currency swap), regardless of whether it was retained by the bank at, or repurchased by the bank after, the origination of the securitization; and
  - c) reserve accounts (e.g. cash collateral accounts) recorded as an asset by the originating bank
- Security financing transaction (SFT) - means a securities or commodities financing transaction comprising any one of the following:
  - a) repo or reverse repo;
  - b) securities or commodities lending transaction or securities or commodities borrowing transaction;
  - c) Margin lending transaction, for which the value of the transaction depends on market valuation and the transaction is often subject to margin agreements.
- Special purpose entity (SPE) - means a corporation, trust, or other entity established for a specific purpose, the activities of which are limited to those appropriate to accomplish that purpose, and the structure of which is intended to isolate the SPE from the credit risk of an originator or seller of exposures.
- Synthetic securitization transaction – means a securitization transaction where the credit risk of reference pool of underlying exposures are transferred, whole or in part, through the use of credit protection afforded the underlying exposures.
- Traditional securitization transaction – means a securitization transaction where-
  - a) The pool of underlying exposures, is sold by the originator, in the transaction to an SPE; and
  - b) The cash flows from the pool of underlying exposures are used to service payment to investors or other parties to the transaction.

- Underlying exposure – in relation to a securitization transaction, means one or more onbalance sheet or off-balance sheet exposures in respect of which credit risk is transferred by the originator to other persons in the transaction.

### **Annexure 3 Illustration on Computation of Exposure for Collateralized Transaction with Revised Haircut**

#### **A. Particulars of the Transactions:**

An illustration on computation of exposure for the collateralized transaction with revised haircut is shown below:

<b>Bank has borrowed from counterparty</b>	N 10 billion
<b>Collateral Provided by the Bank</b>	7th FGN Bond 2030 Series
<b>Face Value of the FGN Bond</b>	N 12 billion
<b>Coupon</b>	10%
<b>Market value of the FGN Bond</b>	N 10.1688 billion
<b>Minimum Holding Period (assumed by the bank)</b>	15 Days
<b>Re-margining Period</b>	Weekly (7 days)
<b>Supervisory Haircut on Security</b>	4% (sovereign bond with remaining maturity of more than 5 years with 10 day minimum holding period)
<b>Haircut on Cash</b>	0%

## B. Formula

$$H = \frac{HM \sqrt{\{NR + (TM - 1)\}}}{\sqrt{TM}}$$

Where:

$H$  = haircut

$H_M$  = haircut under the minimum holding period

$T_M$  = minimum holding period for the type of transaction

$N_R$  = actual number of business days between re-margining for capital market transactions or revaluation for secured transactions.

## C. Computation of Exposures for Collateralized Transactions with Revised Haircut

(In this case, the security lent is the exposure of the bank while cash borrowed is the collateral)

Sl. No	Items	Particulars	Amounts (in billion Naira)
1	<b>Exposure (before haircut)</b>	Market value of security	10.1688
2	<b>Collateral</b>	Amount borrowed	10
3	<b>Haircut on Security (HM)</b>	4% Under minimum holding period	
4	<b>Re-margining period (NR)</b>	Actual number of business days between re-margining for capital market transactions or revaluation for secured transactions.	7 days
5	<b>Minimum holding period (TM)</b>		15 days

6	<b>Revised Haircut (H)</b> Use the formula in section B	$4\% * [((7 + (151))/10)^{0.5}]$	5.7966%
7	<b>Exposure Amount (after haircut)</b>	$10.1688 * (1+5.7966\%)$	10.7582
8	<b>Collateral Amount (after haircut)</b>	$10 \times 1.00$ [haircut being 0% for cash]	10
9	<b>Net Exposure after adjustment of collateral [7 - 8]</b>	$10.7582 - 10$	0.7582

#### Annexure 4 Illustration on computation of RWA of exposure with financial collateral as credit risk mitigation

##### A. Particulars of the Transactions:

An illustration on net exposure computation with financial collateral as credit risk mitigation as seen below:

<b>Type of Facility (extended by the bank to a corporate entity)</b>	Term Loan
<b>Facility Amount (exposure)</b>	N 15 billion
<b>Haircut for Exposure (Cash)</b>	0%
<b>Collateral provided by the borrower</b>	Lagos State Government Bonds Series 2025
<b>Coupon</b>	12.50%
<b>Face value of the bond (collateral)</b>	N 8 billion
<b>Market value of the bond (collateral)</b>	N 8.5 billion
<b>Risk Weight of the above bond issuer (the bond is a liquid security as notified by CBN)</b>	20%
<b>Haircut for collateral (Lagos State Government bond)</b>	4%

## B. Formula

$$E^* = \max \{0, [E \times (1 + H_e) - C \times (1 - H_c - H_{fx})]\}$$

Where:

$E^*$  = the net exposure value after risk mitigation

$E$  = the current value of the exposure

$H_e$  = haircut appropriate to the exposure

$C$  = the current value of the collateral received

$H_c$  = haircut appropriate to the collateral

$H_{fx}$  = haircut appropriate for currency mismatch between the collateral and exposure

## C. Computation of RWA for Exposure with Financial Collateral as Credit

### Risk mitigation

#### Comprehensive Approach

Sl. No	Items	Particulars	Amounts (in billion Naira)
1	Exposure (credit facility)	Haircut as 0%	15
2	Haircut for collateral (Lagos State Government bond)	4%	
3	Collateral value		8.5
4	Haircut adjusted collateral value	$8.5 \times (1 - 0.04)$	8.16
5	Net exposure [1 - 4]	$15 - 8.16$	6.84
6	Risk weight of unrated corporate	100%	
7	RWA of net exposure [5 x 6]	$6.84 \times 100\%$	6.84

CENTRAL BANK OF NIGERIA



Guidance Notes on Supervisory Review Process

## **SUPERVISORY REVIEW PROCESS**

### **1.0 Introduction**

The Supervisory Review Process is structured along two separate but complementary stages.

- i) The Internal Capital Adequacy Assessment Process (ICAAP)<sup>24</sup>, and
- ii) The Supervisory Review and Evaluation process (SREP)<sup>25</sup>

### **2.0 Internal Capital Adequacy Assessment Process (ICAAP)**

- The ICAAP is based on appropriate risk management systems that require adequate corporate governance mechanisms, an organisational framework with clear lines of responsibility, and effective internal control systems because capital cannot be regarded as a substitute for addressing inadequate risk management processes.
- The ICAAP shall be documented, understood and shared by all bank structures and shall be subject to independent internal review.
- The respective banks' boards are entirely responsible for the ICAAP. They are expected to independently establish the design and organisation in accordance with the risk appetite of the bank. They are also responsible for the implementation and the annual update of the ICAAP and the resulting calculation of internal capital in order to ensure it is still in conformity with the banks' operations and environment.
- On an annual basis, banks shall render returns to the Central Bank of Nigeria (CBN) on the key features of the ICAAP, their risk exposure and the level of capital deemed adequate to support those risks. The report shall also contain a self-assessment of the ICAAP, areas for improvement, any deficiencies in the process and the corrective measures to be taken.

#### **2.1 General Rules for the ICAAP**

- i) Banks shall have a process for determining the total capital, currently and prospectively necessary to support all material risks. This process shall be;
  - formalized and documented,

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<sup>24</sup> The ICAAP requires banks to perform an independent and complete assessment of the risks to which they are exposed and calculate an internal capital requirement

<sup>25</sup> SREP is performed by the CBN, who reviews the ICAAP, formulates an overall opinion about the bank and, where necessary, takes remedial measures. The SREP is the process by which the CBN reviews and assesses the ICAAP, analyses the bank's own assessment of its risk profile, the corporate governance system as it relates to the ICAAP and the internal control system, and verifies overall compliance with prudential rules in calculating internal capital

- subject to internal review and approval by board and management.
  - proportionate to the nature, scale and complexity of the business conducted.
- ii) The calculation of total capital requires an assessment of all the risks to which a bank is or may be exposed, including those not considered in calculating the capital requirement under Pillar 1.
- iii) Banks shall determine the risks, other than credit, counterparty, market and operational risks, for which the adoption of quantitative methodologies that can be used in determining internal capital would be appropriate<sup>26</sup>, and those for which control and mitigation measures, in combination or alternatively, would be more suitable.

## **2.2 Proportionality in the ICAAP**

The principle of proportionality shall apply to the following aspects:

- i) The methodologies used in measuring/assessing risks and in determining the related internal capital;
- ii) The type and nature of the stress tests adopted;
- iii) The treatment of correlation among risks and the determination of total internal capital;
- iv) The organizational structure of the risk control systems;
- v) The scope and detail of ICAAP reporting to the CBN.

## **2.3 Features of the ICAAP**

In developing an Internal Capital Adequacy Process, banks shall take cognizance of the key supervisory principles as enunciated by the Basel Committee on Banking Supervision (BCBS July 2006 paragraph 725---760). The main features are summarized below:

### **2.3.1 Comprehensive Identification of Risks**

- a) Banks shall independently identify the risks to which they are exposed, taking into consideration their operations and the markets in which they operate.

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<sup>26</sup> For the purposes of the provisions of this Regulation, “internal capital” shall mean capital at risk, i.e. the amount of capital related to a given risk that the bank deems necessary to cover losses exceeding a given expected level (this definition assumes that the expected loss shall be covered by net value adjustments—specific and portfolio of equal amount; where the latter is lower, internal capital shall also cover this difference).

“Total internal capital” shall mean the internal capital related to all material risks faced by the bank, including any internal capital associated with strategic factors. “Capital” and “total capital” shall mean the capital elements that the bank feels it can use to cover “internal capital” and “total internal capital”, respectively.

- b) This analysis shall consider at a minimum, the risks listed in Annex A. This list is not exhaustive: the identification of any further risk factors connected with its specific operations is left to the prudent assessment of each bank.
- c) Banks and banking groups shall clearly identify the sources of the various forms of risks and where these are to be found at the level of operating units, enterprise-wide, within the group or from external counterparties. This makes it possible to ascertain whether the regulatory capital requirements calculated at the individual level for the most significant legal entities adequately cover the risks effectively faced by these entities.

### **2.3.2 Sound Capital Assessment**

- In order to calculate internal capital banks should have:
  - a) Designed policies and procedures that clearly identify, measure and report all material risks;
  - b) A process that relates capital adequacy to the level of risks assumed;
  - c) A process that relates capital adequacy goal with the banks' strategic focus and business plan;
  - d) A process of internal controls that reviews and audits continuously the activities of the banks to ensure robustness and integrity of the overall risk management process;
- In addition, banks are required to quantify all material risks they are exposed to using methodologies they deem appropriate in relation to their organisational and operational features.
- For credit, counterparty, market and operational risks, a methodological starting point is provided by the regulatory systems for calculating capital requirements for such forms of risk;
- With regard to interest rate risk, all banks shall assess the impact of hypothetical shocks on the interest rate exposure of the banking book. Where this should cause a significant reduction of a bank's regulatory capital, the CBN shall examine the results with the bank and may adopt appropriate actions; and,
  - The ICAAP of banks must be able to show how total capital reconciles with the definition of regulatory capital. Specifically, they shall explain the use of capital instruments that may not be included in regulatory capital but are included in the calculation of internal capital

### **2.3.3 Stress Testing**

- Banks shall conduct stress testing of their risk mitigation and control systems and, where necessary, the adequacy of their internal capital, in order to enhance the assessment of their exposure to risks.

- Stress tests are quantitative and qualitative techniques used by banks to assess their vulnerability to exceptional, but plausible, events. They involve assessing the impact on banks' exposures of specific events (sensitivity analysis) or joint movements of a set of economic and financial variables under adverse scenarios (scenario analysis).

#### **2.3.4 Corporate Governance in the ICAAP**

- The board and management of banks shall be responsible for the ICAAP.
  - They shall establish a framework for assessing the various risks, develop a system to relate risk to banks' capital level, and establish a method for monitoring compliance with internal policies. It is likewise important that the board of directors adopts and supports strong internal controls and written policies and procedures and ensures that management effectively communicates these throughout the organization. (BCBS July 2006, Par 730)

#### **2.3.5 Monitoring and Reporting**

Banks should have a system for monitoring and reporting risk exposures and assessing how their changing business risk profiles affect their capital needs. They are therefore required to:

- a) Evaluate the level and trend of material risks and their effects on capital levels;
- b) Evaluate the sensitivity and reasonableness of the key assumptions used in capital assessment;
- c) Determine that they hold sufficient capital against the various risks and ensure compliance with established capital adequacy goals; and,
- d) Assess future capital requirements based on reported risk profiles and indicate any necessary adjustments to be made to the banks' strategic plan based on that assessment.

#### **2.3.6 Internal Control Review**

- An effective ICAAP requires that the relationship between risk and capital level is monitored
- The board should ensure that its system of internal control can monitor its business environment
- The bank should ensure conduct of periodic review to ensure integrity, accuracy and reasonableness of its risk management process. Such reviews should cover:
  - a) Appropriateness of the ICAAP
  - b) Large exposures and risk concentration
  - c) Accuracy and completeness of data input
  - d) Reasonableness and validity of scenarios used in the assessment

- e) Stress testing and analysis of assumptions/inputs

## **2.4 Regulatory Reporting of the ICAAP**

### **2.4.1 Content and Structure**

- a) The ICAAP report will enable the CBN to conduct a complete, documented assessment of the key qualitative features of the capital planning process, the overall exposure to risks and the consequent calculation of total internal capital.
- b) The report is transmitted to the CBN along with the relevant board resolutions and senior management reports containing their comments on the ICAAP, in accordance with their respective responsibilities and functions.
- c) The report shall be organized, at a minimum, into the areas specified in Annex B.

### **2.4.2 Frequency of ICAAP Reporting**

- On an annual basis, banks shall, not later than the end of April, submit to the CBN the ICAAP report as at 31 December of the previous year.
- Based on the capital reported at the close of the previous year, the ICAAP document shall provide the bank's strategies for taking on risk and ensuring that the related capital needs through the end of the current year are met.

## **3.0 Supervisory Review and Evaluation Process (SREP)**

### **3.1 General Rules for the SREP**

The SREP shall be conducted for banks and banking groups on an annual basis in order to verify that they have established capital and organizational arrangements that are appropriate for the risks they face and ensures overall operational equilibrium.

### **3.2 Stages of the SREP**

The SREP is organized into the following main stages:

- a) Analysis of exposure to all material risks and the relative control systems;
- b) Verification of compliance with capital requirements and other supervisory rules;
- c) Assessment of the procedure for calculating total internal capital and of the adequacy of total capital in relation to the bank's risk profile;
- d) Issuance of specific opinions for each form of risk and of an overall opinion on the situation of the bank;
- e) Determination of any supervisory response

### 3.3 Proportionality in the SREP

The supervisory review and evaluation process is also informed by the principle of proportionality, under which:

- a) Corporate governance systems, risk management processes, internal control mechanisms and the determination of capital deemed adequate to cover risks shall be proportionate to the nature, scale and complexity of the business conducted by the banks;
- b) The frequency and the comprehensiveness of the SREP shall have regard to the systemic importance, nature, size and complexity of banks. The CBN, as part of its Risk Based Supervisory process, will review and evaluate the soundness of banks' ICAAP against the expectations set out under the features of ICAAP in this guideline. This review will also consider the comprehensiveness of the ICAAP and the quality of risk management to form a view on the appropriateness of the banks' internal capital targets and its capacity for meeting the targets. Based on these reviews, the CBN may require any bank to, among other things, take action to improve its capital and risk management processes if it is not satisfied with the bank's ICAAP.

While the board and senior management of banks maintains primary responsibility for their institution's capital adequacy, the CBN reserves the power to intervene at an early stage to prevent a bank's capital from falling below the level that it deems adequate to support its risks. The CBN may require rapid remedial action if adequate capital is not maintained or restored. This may include the following:

- a) Altering the risk profile of the bank through business or operational restrictions;
- b) Directing banks to raise additional capital;
- c) Strengthening of the systems, procedures and processes concerning risk management, control mechanisms and internal assessment of capital adequacy;
- d) Prohibition of distribution of profits or other elements of capital;
- e) Directing the bank to hold an amount of regulatory capital greater than the legal minimum for credit risk, counterparty risk, market risk and operational risk;
- f) Using other measures as contained in the CBN Supervisory Intervention Framework (SIF) and the BOFIA.

## **ANNEX A: RISKS SUBJECT TO THE INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)**

### **1. Pillar 1 Risks**

- a) Credit risk (including counterparty risk,);
- b) Market risks;
- c) Operational risk.

### **2. Other Risks**

- a) Concentration risk: the risk arising from exposures to counterparties, groups of connected counterparties, and counterparties in the same economic sector or which engage in the same activity or are from the same geographic region;
- b) Interest rate risk in the banking book: the risk arising from potential changes in interest rates;
- c) Residual risk: the risk that recognized credit risk mitigation techniques used by the bank may be less effective than planned;
- d) Securitization risk: the risk that the economic substance of a securitization operation is not fully reflected in risk assessment and management decisions;
- e) Business and Strategic risk: the current or prospective risk of a decline in profits or capital caused by changes in the business environment or erroneous decisions, the inadequate implementation of decisions or poor responsiveness to competitive developments;
- f) Reputational risk: the current or prospective risk of a decline in profits or capital should customers, counterparties, shareholders, investors or supervisors take a negative view of the bank;
- g) Liquidity risks; Banks' liquidity profile and the liquidity of the markets in which they operate.
- h) Compliance with minimum standards and disclosure requirements;
- i) Factors external to the bank, e.g., business cycle effects

## **ANNEX B: GUIDE FOR ICAAP REPORTING**

- 1. Strategies and Forecasting Horizon Adopted**
  - a) Business plan and annual budgets; schedule of reviews of business plan and its components; extraordinary events necessitating review;
  - b) Reconciliation between time horizon of business plan and capital plan;
  - c) Ordinary and extraordinary sources of capital.
- 2. Corporate Governance, Organizational Arrangements and Internal Control Systems Connected with the ICAAP**
  - a) Description of the process for the preparation and updating of the ICAAP;
  - b) Description of the process for reviewing the ICAAP;
  - c) Definition of the role and functions assigned to the board and senior management bodies for the purposes of the ICAAP;
  - d) Definition of the role and functions assigned to various corporate functions for the purposes of the ICAAP (for example, internal auditing, compliance, planning, risk management, and other units such as head office and branch network commercial units, accounting and audit);
  - e) Description of organizational and contractual safeguards relating to any elements of the ICAAP that is outsourced;
  - f) Indication of internal regulations relevant to the ICAAP.
- 3. Risk Exposures, Risk Measurement and Aggregation Methodologies, Stress Testing**
  - a) Risk mapping: illustration of the position of the bank in respect of Pillar 1 and Pillar 2 risks;
  - b) Risk mapping in relation to bank's operating units and/or legal entities of the group;
  - c) Techniques for risk measurement, internal capital determination and stress testing;
  - d) Description, for every category of measurable risk, of the main characteristics of the main risk control and mitigation instruments;
  - e) General description of systems for control and mitigation of non-measurable risks.
- 4. Components, Estimation and Allocation of Internal Capital**
  - a) Quantification of internal capital for each risk and total internal capital;
  - b) Any methods for allocating internal capital (by operating unit and/or legal entity).

**5. Reconciliation of Internal Capital, Regulatory Requirements and Regulatory Capital**

- a) Reconciliation of total internal capital and regulatory requirements;
- b) Listing and definition of capital components covering internal capital;
- c) Eligibility of components covering internal capital to be calculated for supervisory purposes; explanation of inclusion of ineligible components;
- d) Estimate of cost of using other capital sources in addition to those used.

**6. Self-Assessment of ICAAP**

- a) Identification of the areas of the process amenable to improvement
- b) Planning of capital or organizational actions.

**7. Organization of the ICAAP Report**

- 1. Executive Summary
- 2. Structure and Operations
- 3. Governance Structure
- 4. Risk Assessment and Capital Adequacy
- 5. Stress Testing
- 6. Capital Planning
- 7. Design, Approval, Review, and Use of ICAAP
- 8. Challenges and Further Steps
- 9. Summary of Internal Capital Adequacy Assessment Process
- 10. Risk Appetite Statement
- 11. Use of Internal Models for Capital Assessment
- 12. Review of ICAAP



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**BANKING AND PAYMENTS SYSTEM DEPARTMENT**

**BPS/DIR/GEN/CIR/02/004**

**June 11, 2015**

**TO ALL DEPOSIT MONEY BANKS, SWITCHES AND PAYMENTS SERVICE PROVIDERS**

**ESTABLISHMENT OF INDUSTRY FRAUD DESKS**

The Central Bank of Nigeria, in furtherance of its efforts at combating fraud within the Banking Industry, established the Nigeria Electronic Fraud Forum (NeFF) to proffer solutions towards addressing frauds arising from the increased adoption of electronic payments. Following submissions to the Bank by NeFF and consultations with DMBs and electronic payments service providers, it has become imperative that an effective mechanism for receiving and responding promptly to fraud alerts be set up within the Nigerian Banking industry, towards managing and reducing successful electronic payments fraud rate in the Nigerian Banking Industry.

To this end, all DMBs, MMOs, Switches and all payments service providers are hereby directed to maintain a dedicated Fraud Desk in their respective organisations. The Fraud Desk shall be appropriately staffed with personnel that have requisite training on emerging fraud trends on various electronic payments channels. The desk shall, at a minimum, offer the following services:

1. Provide support to customers on electronic frauds with a minimum of 10 dedicated phone lines, manned and available to customers at all times;
2. Make available the option for calls to contact centre, in respect of fraud alerts or complaints, to be redirected to fraud desk;
3. Block and/or Place No Debit restrictions on accounts upon receipt of fraud complaint;
4. Receive customers' stop-transaction instructions to block their accounts through short codes service provided to customers by the banks;
5. Log all customer fraud alert and/or complain and escalate in line with internally predefined escalation path'

6. Submit reports to the Nigeria Inter-Bank Settlement System (NIBSS) Plc on fraud information logged by the fraud desk;
7. Honour "hold" instructions from NIBSS with respect to fraud matters and grant NIBSS permissions to view details on logged transactions
8. Sensitise customers on e-Fraud and Fraud Desk services;
9. Manage/Resolve all intra-bank fraud issues leveraging an enterprise fraud management system
10. Maintain a mail group mapped to members of the fraud desk team.

The Nigeria Inter-Bank Settlement System (NIBSS) Plc shall have responsibility as industry coordinator of the fraud desks across all banks, mobile money operators, switches and payments service providers and shall provide the following services:

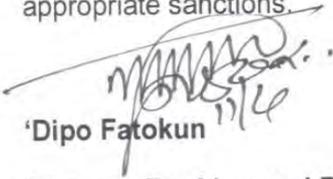
1. Provide electronic platform for fraud desks in Banks, MMOs, Switches and Payment Service Providers to log frauds;
2. Maintain direct and dedicated phone lines and email contacts to all banks, mobile money operators, switches and payments service providers' fraud desks for the purpose of exchange of information and coordination of industry response to fraud attempts/incidents;
3. Avail DMBs with an enhanced e-fraud portal/instant payment platform, with capabilities for banks to initiate "block" or "hold funds" electronic messages from a bank's fraud desk to the other;
4. Provide operational rules for the industry coordination of fraud desks and sign Service Level Agreements with DMBs, MMOs, Switches and Payments Service Providers
5. Issue "hold" instructions to any bank with regards to fraud matters and have the account frozen accordingly.

Further to the above:

1. All interbank transactions on all e-channels shall be passed through the central anti-fraud solution in NIBSS;
2. NIBSS shall have access to each bank record of fraudulent transactions and provide monthly reports to CBN

3. Banks shall implement across all electronic channels, an enterprise fraud monitoring system, which ensures behavioural monitoring, patterns and hold/block controls on transactions suspected to be fraudulent, etc. Banks may subscribe to NIBSS' central anti-fraud solution for this purpose.

The provisions of this circular shall take effect from July 1, 2015 and failure to comply shall attract appropriate sanctions.



'Dipo Fatokun

**Director, Banking and Payments System Department**



09- 462-36401

**BSD/DIR/GEN/LAB/08/024**

**May 20, 2015**

**LETTER TO ALL BANKS**

**RE: NEW CASH RESERVE REQUIREMENT**

Further to our earlier letter referenced BSD/DIR/GEN/LAB/08/009 and dated February 11, 2015, all banks are invited to note the following changes to the cash reserve requirement (CRR) regime as decided at the 244th Monetary Policy Committee meeting held on May 18 & 19, 2015;

1. CRR rates on all banks' deposits are now harmonized at 31.0 per cent.
2. The maintenance period will be weekly, commencing on Thursday May 21, 2015.
3. The CRR rate will be applied on the average adjusted deposits for the preceding maintenance period and not on the incremental deposits.
4. The computed Cash Reserve would be maintained for the subsequent period.

Please be guided accordingly.

**'TOKUNBO MARTINS (MRS.)  
DIRECTOR, BANKING SUPERVISION**



09-462-36401

**BSD/DIR/GEN/LAB/08/022**

**April 22, 2015**

## **LETTER TO ALL BANKS AND DISCOUNT HOUSES**

### **RECOVERY OF DELINQUENT CREDIT FACILITIES**

The Central Bank of Nigeria has observed the rising trend of non-performing loans (NPL) in the industry. In order to ensure that the industry NPL ratio does not exceed the prudential limit of 5%, and to improve the credit culture in the banking industry, banks and discount houses are directed to observe prudent credit underwriting and monitoring standards.

Furthermore, banks and discount houses are required with effect from May 1st 2015 to:

- i. Give the delinquent debtors three months of grace to turn their accounts from non-performing to performing status.
- ii. Publish the list of delinquent debtors that remain non-performing in at least three national daily newspapers quarterly (The delinquent debtors are those whose accounts have been classified lost and include the persons, entities, directors, subsidiaries and other related parties). The list must be sent to the CBN as soon as the publication is made.

Banks and Discount houses are also to note that delinquent debtors in the category described above will be blacklisted by the CBN and are therefore:

- i. Banned from participating in the Nigerian foreign exchange market.
- ii. Banned from participating in the Nigeria Government securities market.

Please be guided accordingly.

**'TOKUNBO MARTINS (MRS.)**  
**DIRECTOR OF BANKING SUPERVISION**



09-462 36403

**BSD/DIR/GEN/LAB/08/013**

April 17, 2015

**LETTER TO ALL BANKS**

**CURRENCY SUBSTITUTION AND DOLLARISATION OF THE NIGERIAN ECONOMY**

The Central Bank of Nigeria (CBN) is aware of the rising trend of currency substitution and dollarization of the economy in recent time. The CBN condemns this development and hereby reiterates that the Naira currency remain the only legal tender in Nigeria.

Please be reminded that Section 15 of the CBN Act 2007 provides that the unit of currency in Nigeria shall be the Naira. Section 20 (1) of the same Act provides that the currency notes issued by the Bank shall be legal tender in Nigeria at their face value for the payment of any amount and Section 20 (5) further provides that a person who refuses to accept the Naira as a means of payment is guilty of an offence and liable on conviction to a fine or 6 months imprisonment.

Based on the above provision the general public is hereby warned that it is illegal to price or denominate the cost of any product or service (Visible or Invisible) in any foreign currency in Nigeria and no business offer or acceptance should be consummated in Nigeria in any currency other than the Naira.

Consequently, deposit money banks operating in Nigeria are advised to desist from the collection of foreign currencies for payment of domestic transactions on behalf of their customers and the use of their customers' domiciliary accounts for making payments for visible and invisible transactions (fees, charges, licenses e.t.c) originating and consummated in Nigeria.

This however is without prejudice to foreigners, visitors and tourists who are encouraged to use their cards for payments or exchange their foreign currency for local currency at any of the authorized dealers' outpost including hotels.

Appropriate sanctions shall be meted on any bank that breaches this regulation.

Please note that this circular supersedes the provisions of Memorandum 16 of the Central Bank of Nigeria Foreign Exchange Manual and Paragraph (XI) Section 4.2.1 of the Monetary, Credit, Foreign Trade and Exchange Policy Guidelines for Fiscal Years 2014/2015.

Yours faithfully,

**K. O. BALOGUN**  
**FOR: DIRECTOR OF BANKING SUPERVISION**



09-462-36401

**BSD/DIR/GEN/MCF/08/20**

[www.cenbank.gov.ng](http://www.cenbank.gov.ng)

April 14, 2015

**LETTER TO ALL BANKS**

**CESSATION OF RENDITION OF RETURNS ON MICRO CREDIT FUND**

You may recall that the Micro Credit Fund (MCF) which had been in operation since February 8, 2008 was discontinued through the decision reached at the 298th Bankers' Committee Meeting of March 15, 2010.

This decision was borne out of the fact that after two years of its existence, deposit money banks were not forthcoming in their contributions to the fund and in the same vein, only few states responded to the programme.

Consequently, the Bankers' Committee decided to discontinue its operations. We however, observed that some banks still render returns on MCF to the Central Bank of Nigeria more than five years after the discontinuation of the scheme.

Banks are hereby directed to stop forthwith, the rendition of this return to the CBN

Thank you.

**TOKUNBO MARTINS (MRS)**  
**DIRECTOR OF BANKING SUPERVISION**



09-46236454

**BSD/DIR/GEN/LAB/08/017**

April 2, 2015

**LETTER TO ALL BANKS AND DISCOUNT HOUSES  
REPORTING UNETHICAL CONDUCT/WHISTLE BLOWING**

The Central Bank of Nigeria (CBN) wants to reiterate its commitment to its established policy of zero tolerance standard of honesty and integrity as it relates to its members of staff performing their duties in your institution. To uphold the standard, a monitoring procedure to ensure that business ethics and professionalism have been established.

Your full cooperation is hereby solicited, by reporting any unethical practice(s) that borders on dishonesty and lack of integrity among others, in the action/behavior of CBN staff that visit your institution in the course of performing his/her duty.

Such report(s) or observation(s), which should contain detailed information to enable us act promptly, should be send **Directly, Confidentially or anonymously** by post to:

**Head, Ethics & Anti-Corruption Office  
Governors' Department  
Central Bank of Nigeria  
No. 31 Tafawa Balewa Street  
Central Business District  
Abuja, FCT**

Alternatively, the report could be sent by **e-mail** to:

- a) anticorruptionunit@cbn.gov.ng
- b) ethicsoffice@cbn.gov.ng
- c) or by telephone to 09-46239246 & 09-46236000

Yours faithfully,

**TOKUNBO MARTINS (MRS)  
DIRECTOR OF BANKING SUPERVISION**



09-46236418/ 09-46236415

**BSD/DIR/GEN/LAB/08/016**

March 31, 2015

**LETTER TO ALL BANKS**

**NEED TO IMPLEMENT MEASURES TO DISSUADE THE ISSUANCE OF DUD CHEQUES IN THE NIGERIAN BANKING SYSTEM.**

The Central Bank of Nigeria (CBN) has noted with great concern the impunity with which some customers of banks issue dud cheques on their accounts despite the provisions of the Dishonoured (Dud) Cheques Act of 1977 and CBN's recent directives to banks' customers to desist from such practice.

In order to sustain the positive achievements already recorded in the Nigerian Payment System, it is essential that confidence and integrity in our negotiable instruments, especially cheques, should be restored and enhanced.

Consequently, it has therefore become imperative for the CBN to implement further measures to dissuade the issuance of dud cheques to the barest minimum.

Therefore, in furtherance to our directives via our letters dated **5th July 2013** and May 13, 2014 reference no. **FPR/DIR/CIR/GEN/03 /005** and **BSD/DIR/GEN/LAB/07/012** respectively, the CBN has put in place additional regulatory measures against dud cheque issuers. Upon CBN's compilation and dissemination of information on serial issuers of dud cheques based on bank' returns, banks would be required to;

1. Recall/cancel all unused cheque books issued to serial issuers of dud cheques.

2. Bar the affected customers from use of the clearing system for a period of five (5) years.
3. Forward the names of Dud Cheque offenders to the three Private Credit Bureaux and the Credit Risk Management System (CRMS). The customers' names would be listed on the database of the private credit bureaux and CRMS for a period of five (5) years from the date of submission, after which offenders will be eligible for removal. However, if the offender is found wanting after the name is removed, such an offender shall be permanently reinstated in the data base of both the three (3) Credit Bureaux and the CRMS.
4. Bar the serial issuers of dud cheques from accessing credit facilities from the banking system for a period of five (5) years. No institution shall, **EXCEPT** with the prior written approval of the CBN, remove such a person's name from the three Credit Bureaux and the Credit Risk Management System (CRMS).
5. Perform status check on a potential customer from CRMS and at least two Credit Bureaux **BEFORE** on-boarding a customer.
6. Where an Institution fails to report a serial dud cheque issuer in its return to the CBN CRMS and Private Credit Bureaux as required, it shall be considered as concealment and misrepresentation of material fact and the affected institution shall be penalized in accordance with the relevant provisions of the Banks and Other Financial Institutions Act, LFN 2004 CAP B3 (BOFIA). In addition, the Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Compliance Officer (CCO) and Chief Risk Officer (CRO) shall be liable to sanctions in line with the relevant provisions of the BOFIA. Any Institution that contravenes the above directives shall be appropriately sanctioned.

The measures are effective from the 1st of April 2015.

Yours faithfully,

**TOKUNBO MARTINS (MRS)**  
**DIRECTOR OF BANKING SUPERVISION**



09-462-36403

**REF: BSD/DIR/GEN/LAB/08/014**

March 16, 2015

**LETTER TO ALL BANKS  
GUIDELINES ON BANCASSURANCE PRODUCTS- REFERRAL MODEL**

In the light of developments and the need to ensure synergy in the financial system, the Central Bank of Nigeria in exercise of its power under Section 33(1)(b) of the CBN Act 2007 and the provision of Part 2, Section 3, Item (I) of the CBN Scope, Conditions & Minimum Standards for Commercial Banks Regulations No. 01, 2010, considered it necessary to issue the attached guidelines on Bancassurance Products.

The guidelines, which set out the regulatory framework for the offering of Bancassurance products through the non-integrated referral model, takes immediate effect.

Please be guided accordingly.

Yours faithfully,

**TOKUNBO MARTINS (MRS)  
DIRECTOR OF BANKING SUPERVISION**

## **GUIDELINES ON BANCASSURANCE PRODUCTS - REFERRAL MODEL**

### **1.0 Introduction**

In 2010, the CBN Regulation on the Scope of Banking Activities and Ancillary Matters No. 3, 2010 was issued to repeal the Universal Banking Model, which hitherto permitted banks to engage in non-core banking financial activities either directly or indirectly through designated subsidiaries.

In the light of developments and the need to ensure synergy in the financial system, the Central Bank of Nigeria (CBN) in exercise of its power under Section 33(1)(b) of the CBN Act 2007 and the provision of Part 2, Section 3, Item (I) of the CBN Scope, Conditions & Minimum Standards for Commercial Banks Regulations No. 01, 2010 has considered it necessary to issue these guidelines on Bancassurance.

The guidelines set out the regulatory framework for the offering of bancassurance products through the non-integrated referral model. The choice of this model is premised on the fact that it does not preclude banks from focusing on their core banking businesses and does not undermine the essence of the CBN's New Banking Model.

### **2.0 Definitions**

**Bancassurance** - An arrangement in which insurance companies leverage on the customer base of banks to sell insurance products to banks' customers.

**Referral Model** - In this model, a bank refers its customers to its partner insurance companies. In return, the bank receives a commission on each lead closed by the insurance company. The bank is not involved in marketing the products.

**Bancassurance Agreement** - A contract duly executed between a bank and an insurance company to engage in the referral model of bancassurance.

**Bancassurance Products** - Insurance products which fall under the General and Life insurance business that are sold to banks' customers by the insurance company under a bancassurance referral model agreement. The product is distinct from insurance covers that serve as mitigants for losses against credit and other risks.

**Commission** - Referral fee payable to the bank by the insurance company in line with the provisions of the Bancassurance Agreement.

### **3.0 Prohibited Business**

1. Banks shall not engage in any other model of bancassurance other than that permitted under these guidelines and for which approval has been obtained from the CBN.
2. Banks shall not offer banking products that incorporate insurance features.
3. Banks shall not offer free premium payments as a feature of any of their products.
4. Banks shall not provide the bancassurance products in a manner that contravenes these guidelines or any other statutory provision or law that applies to insurance products and services.

### **4.0 Bancassurance Arrangement between Banks and Insurance Companies**

1. The referral model of bancassurance arrangement between a bank and an insurance company shall not be valid without an executed Bancassurance Agreement.
2. Banks shall not undertake any insurance marketing, underwriting or claim settlement. This must be clearly stated in the Bancassurance Agreement.
3. Banks shall ensure that no risks are transferred to it and shall not assume any fiduciary responsibility or liability for any consequences, financial or otherwise, arising from the subscription to insurance policies by customers.
4. Banks shall conduct a thorough due diligence/periodic assessment for the selection of partner insurance companies, which would be restricted to two insurance companies.
5. Banks shall ensure that only bancassurance products approved by relevant regulatory authority are offered to their customers by the insurance companies.
6. Banks shall not enter into bancassurance agreement with insurance companies who do not hold a valid operational license from National Insurance Commission (NAICOM).

### **5.0 Approval**

The offering of bancassurance products by a bank is subject to the CBN's approval. A bank that intends to offer bancassurance products is required to submit the following alongside its application:

1. Extract of Board resolution approving the bancassurance product (approved by NAICOM) and the insurance companies it proposed to partner with.
2. Draft Bancassurance Agreement between the bank and the insurance company, which should at the minimum set out:
  - a. The bancassurance products to be offered;

- b. The duties and responsibilities of each of the parties under the arrangement during and upon termination of the contract;
  - c. The conditions for the termination of the agreement;
  - d. Commissions and fees to be charged (as approved by NAICOM and CBN);
  - e. The duration of the contract and whether it is renewable;
  - f. Dispute resolution mechanism and measures to safeguard confidential information;
  - g. Disclaimer that the products shall be underwritten by the insurance company with no recourse to the bank in terms of claims or any legal proceedings between the insurance company and the bank's customer; and
  - h. Other relevant information.
3. The bank's assessment of risks and mitigants put in place.
  4. The product brochure, stating features and benefits of the product.
  5. The evidence of "no objection" obtained by the insurance companies from NAICOM.
  6. The Referral Agent approval obtained by the bank from NAICOM.

Upon approval, the bank shall forward the signed copy of the bancassurance agreement to the CBN. Banks shall notify the CBN on renewal of the bancassurance agreement. Any amendment to the bancassurance agreement shall be subject to the approval of the CBN. Upon the termination of the contract, the bank shall notify the CBN stating the reason(s) for the termination.

## **6.0 Marketing of Bancassurance Products and Policy Documents**

1. Banks shall only refer their customers to insurance companies. Thus, marketing of the insurance products shall be done by the staff of the insurance companies.
2. The referral document shall contain a disclaimer that the products shall be underwritten by the insurance company with no recourse to the bank in terms of claims or any legal proceedings between the insurance company and the bank's customer.
3. The insurance products to be sold shall be strictly the products of the insurance company.
4. The bank's name or logo shall not appear in any of the policy documents.
5. The Insurance marketers may be allowed to occupy a space in the banking hall.
6. Banks shall maintain adequate records of all transactions which will be reviewed during supervisory activities.

## **7.0 Premium Collection**

1. The premium paid, may be collected by banks as collecting agents for the insurance companies and paid into the company's account with the bank.
2. Banks shall not share in the premium paid by the insured/policy holder to the insurance company.

## **8.0 Referral Commission**

1. Insurance companies shall pay to the banks all agreed commission(s) on consummated transactions as approved by NAICOM.
2. The applicable commission(s) shall be clearly stated in the Bancassurance Agreement.

## **9.0 Claims Handling and Settlement**

1. Banks shall not be responsible for claims handling and settlement as these are the responsibilities of the insurance companies.
2. The insurance companies shall be solely responsible for the collection of necessary documents and information related to claims.

## **10.0 Consumer Protection Safeguards**

1. The referral shall be based on the need of the customers as assessed by the banks and would be advisory in nature. This shall be made known to the customer.
2. Banks are prohibited from influencing or compelling customers in any way to take up insurance products from insurance companies they have bancassurance referral agreement with.
3. Banks shall not charge their customers service fee, processing fee, administration charge or any other fee for the referral.
4. Banks shall ensure the confidentiality of consumer data and information.
5. Banks shall ensure that the insurance company has in place an appropriate complaints redress mechanism.

## **11.0 Annual Disclosure**

Banks shall disclose in the notes to the annual financial statements referral commission earned from bancassurance products.

## **12.0 Sanction for Non-Compliance**

Banks should ensure compliance with these guidelines as any breach of the Guidelines shall attract sanctions in accordance with Section 64(1) of the BOFIA

2004. In addition, the bank may be prohibited from offering bancassurance products.

**BANKING SUPERVISION DEPARTMENT  
CENTRAL BANK OF NIGERIA  
MARCH, 2015**



09-462-36401

**BSD/DIR/GEN/LAB/08/009**

**February 11, 2015**

**LETTER TO ALL BANKS**

**RE: CASH RESERVE REQUIREMENT MAINTENANCE CALENDAR FOR 2015**

Further to our earlier letter referenced BSD/DIR/GEN/LAB/08/001 and dated 5th January 2015 on the above subject, all banks are invited to note the following changes to the cash reserve regime:

1. Henceforth, cash reserve requirement (CRR) would be computed on a fortnightly basis and effected every Thursday, commencing on 12th February 2015.
2. All banks should note that the CRR would be computed based on the incremental average deposits over the prior fortnight period.

Please be guided accordingly.

**'TOKUNBO MARTINS (MRS.)  
DIRECTOR, BANKING SUPERVISION**



234 – 09 – 46236403

**BSD/DIR/GEN/LAB/08/008**

February 5, 2015

**LETTER TO ALL BANKS AND DISCOUNT HOUSES**

**Dear Sir/Madam,**

**RE-PROHIBITION FROM BORROWING TO CAPITALIZE BANKS**

It has become imperative to remind financial institutions of the currency of the provisions of our circular titled "Prohibition from Borrowing to Capitalize Banks" dated November 9, 2000.

For the avoidance of doubt, the requirement that funds for the (re) capitalization of financial institutions should NOT be sourced from borrowings within the banking system still subsists. In this regard, funds raised for the recapitalization of financial institutions must not be borrowed from the banking system and where such funds are borrowed outside the banking system, they must be of the type and nature that qualify as part of capital in accordance with our Guidance Notes on the Calculation of Regulatory Capital.

All capital raising exercises will continue to be subjected to verification by the CBN and failure to meet any of our requirements will constitute a ground for the rejection of the funds.

Financial institutions are advised to strictly adhere to the above, as breaches will be met with severe regulatory sanctions.

Yours faithfully,

**'TOKUNBO MARTINS (MRS.)  
DIRECTOR OF BANKING SUPERVISION**



09-462 36403

January 28, 2015

**BSD/DIR/GEN/LAB/08/006**

**LETTER TO ALL BANKS  
DAILY RENDITION OF NET OPEN POSITION**

Please recall that the Central Bank of Nigeria issued a circular dated October 24, 2014 and referenced BSD/DIR/GEN/LAB/07/037, titled "Prudential Regulation for the Management of Foreign Exchange Risks of Banks".

The regulation provides among others that the Net Open Position (NOP) of foreign currency assets and liabilities (on and off-balance sheet) of a bank should not exceed 20% of its shareholders' funds unimpaired by losses. In this regard, banks were required to compute the NOP on a monthly basis using the Gross Aggregate method.

However, the CBN has considered it necessary that banks should henceforth compute the NOP on a daily basis and forward same to BSDReturns@cbn.gov.ng.

This circular takes immediate effect.

Please be guided accordingly.

Yours faithfully,

**'TOKUNBO MARTINS (MRS.)  
DIRECTOR OF BANKING SUPERVISION**



09-462-36401

**January 7, 2015**

**BSD/DIR/GEN/LAB/08/002**

**LETTER TO ALL BANKS**

**OIL AND GAS INDUSTRY CREDIT RISK MITIGATION**

Please refer to our letter titled "Oil and Gas Industry Credit Risk Mitigation" dated December 10, 2014.

In view of the on-going implementation of the Basel II/III capital adequacy framework, the application of this regulation has been deferred till further notice. A new date would be advised to all banks in due course.

However, the banks are required to put in place adequate risk mitigating techniques for the management of their Oil and Gas risk exposures which would be reviewed during our regular risk-based supervision activities.

Please be guided accordingly.

**K. O. BALOGUN**

**For: DIRECTOR OF BANKING SUPERVISION**



09-462-36401

**BSD/DIR/GEN/LAB/08/001**

**January 5, 2015**

**LETTER TO ALL BANKS**

**CASH RESERVE REQUIREMENT MAINTENANCE CALENDAR FOR 2015**

Further to the implementation of the cash reserve regime, find below the calendar for year 2015 for your information.

<b>SN</b>	<b>START DATE</b>	<b>END DATE</b>
1	Wednesday, January 07, 2015	Tuesday, February 03, 2015
2	Wednesday, February 04, 2015	Tuesday, March 03, 2015
3	Wednesday, March 04, 2015	Tuesday, April 07, 2015
4	Wednesday, April 08, 2015	Tuesday, May 05, 2015
5	Wednesday, May 06, 2015	Tuesday, June 02, 2015
6	Wednesday, June 03, 2015	Tuesday, July 07, 2015
7	Wednesday, July 08, 2015	Tuesday, August 04, 2015
8	Wednesday, August 05, 2015	Tuesday, September 08, 2015
9	Wednesday, September 09, 2015	Tuesday, October 06, 2015
10	Wednesday, October 07, 2015	Tuesday, November 03, 2015
11	Wednesday, November 04, 2015	Tuesday, December 08, 2015
12	Wednesday, December 09, 2015	Tuesday, January 05, 2016

Please be guided accordingly.

**K. O. BALOGUN**

**For: DIRECTOR OF BANKING SUPERVISION**



## CENTRAL BANK OF NIGERIA

Banking Supervision Department  
Central Business District  
P.M.B. 0187  
Garki, Abuja.

Tel.....09-462 36401 & 09-462 36403  
E-mail: [bsd@cbn.gov.ng](mailto:bsd@cbn.gov.ng)  
BSD/DIR/GEN/LAB/OAG/07/046

December 10, 2014.

### LETTER TO ALL BANKS

#### OIL AND GAS INDUSTRY CREDIT RISK MITIGATION

As you are aware, falling oil prices and the potential for a further decline has been a major concern in recent times. Oil prices have declined from US\$ 107.89/bbl in June 2014 to US\$ 85.06/bbl in October 2014, and currently trading at US\$ 67.33/bbl. The possibility of a further decline should not be underestimated.

Considering the quantum of exposure to the oil & gas sector, combined with risk management deficiencies revealed by the recent Risk Based Supervision exercise, there is a need to proactively guard against a crystallization of these risks. The Central Bank of Nigeria therefore considers it essential to ensure that banks have sufficient capital buffers to mitigate these escalating risk taking activities.

Consequently, as a follow up to our circular of April 2, 2013 referenced BSD/DIR/GEN/LAB/06/017, and titled "RE: REVIEW OF RISK WEIGHTS ON CERTAIN INDUSTRY EXPOSURES IN THE COMPUTATION OF CAPITAL ADEQUACY", the following revision will now apply:-

"Where exposure to the oil & gas sector (as defined by the International Standard Industrial Classification of Economic Sectors as issued by the CBN) is in excess of 20 per cent of total credit facilities of a bank, the risk weight of the entire portfolio in that sector will attract a risk weight of 125% for the purpose of capital adequacy computation".

Banks are to note that these risk weights are dynamic and may be reviewed as economic conditions dictate.

In addition, licensed banks are required to:

1. Prepare and forward to the Central Bank of Nigeria, as at December 8, 2014, the computations and results of a single-factor sensitivity stress test, using the attached template and guidelines, on the impact of volatile and falling crude oil prices on the bank's financial position, performance, liquidity, and prudential ratios.
2. Ensure that:
  - a. The projections for volumes of crude oil sales for upstream obligors are backed by independent and professionally prepared reserves estimation reports.

- b. Adequate technical data is provided by the obligor for the management of obligor credit risk, including a copy of the feasibility study of the project being financed.
- c. Collateral documentations are perfected and copies placed in the obligor's credit file.
- d. There is a documented improvement in their monitoring activities of Oil and Gas Exploration & Production exposures.
- e. Oil and gas customers have a robust and effective enterprise risk management policy and system. Of key importance is a price risk hedging policy.
- f. There is a documented improvement in the mechanisms for continuous gathering, storage, and analyses of information about the state and trends of the oil and gas industry both locally and globally.
- g. A comprehensive review exercise on oil and gas obligors is conducted on a periodic basis.
- h. Adequate training in credit appraisal is provided for the marketing, and credit risk management units.
- i. There is an improvement in the quality of credit file contents, organization and indexing, presentation, maintenance, management, and oversight.

Furthermore, banks are reminded of their responsibility to comply with the sections 3.3 and 3.9 of the Prudential Guidelines 2010.

It should be noted that banks will be assessed for compliance with the above directives as part of the periodic Risk Based Supervision review.

Yours faithfully,

  
TOKUNBO MARTINS (MRS.)  
DIRECTOR OF BANKING SUPERVISION

## GUIDELINES AND TEMPLATE FOR PROPOSED SINGLE - FACTOR SENSITIVITY STRESS TEST

The Single – factor sensitivity testing is a form of stress testing that usually involves an incremental change in a risk factor holding other risk factors constant. Shocks can be assumed to occur instantaneously, and it can be used as a simpler technique for assessing the impact of a change in risks when a quick response is needed.

### Guidelines

- A. Four (4) price points are to be used for the stress tests as follows: US\$ 50.00/bbl, US\$ 55.00/bbl, US\$ 60.00/bbl, and US\$ 65.00/bbl.
- B. Impact is assumed to be instantaneous, and current credit risk mitigation is not taken into account.
- C. Focus of this sensitivity test is on transmission of crude oil price shock through deteriorating Oil and Gas, and Public sector credit quality (on-and off-balance sheet risk assets), resulting in elevated NPL levels for the aggregate credit portfolio, and a requirement for additional prudential provisioning.
- D. Banks are to use the table below to determine the level of additional provisioning required as a result of the deterioration in the quality of the specified credit portfolios at the various price points. Banks must clearly provide a description of the model used to determine classification category of the increased NPLs, and the additional loan loss provisions, methodologies, and underlying assumptions.

S/N	CRUDE OIL PRICE LEVEL	IMPACT OF SHOCK ON OIL AND GAS SECTOR CREDIT PORTFOLIO FROM BASE CASE	IMPACT OF SHOCK ON PUBLIC SECTOR CREDIT PORTFOLIO FROM BASE CASE	ADDITIONAL LOAN LOSS PROVISIONING REQUIRED
1	US\$ 70.00/bbl	25% of portfolio becomes non-performing.	15% of portfolio becomes non-performing.	To be determined by banks loan loss provisioning model.
2	US\$ 65.00/bbl	40% of portfolio becomes non-performing.	30% of portfolio becomes non-performing.	To be determined by banks loan loss provisioning model.
3	US\$ 60.00/bbl	55% of portfolio becomes non-performing.	45% of portfolio becomes non-performing.	To be determined by banks loan loss provisioning model.
4	US\$ 50.00/bbl	65% of portfolio becomes non-performing.	60% of portfolio becomes non-performing.	To be determined by banks loan loss provisioning model.

E. The impact of additional loan loss provisioning is to be transmitted into the bank's Statement of Financial Position, Income Statement, Statement of Cash flow, and in the computation of selected ratios using the template below. Note that:

- a) The financial statements and ratios in the template should incorporate all CBN advised additional prudential provisions subsequent to the last Risk Based Supervision examination.
- b) The base case refers to the actual position of the bank as at November 30, 2014. Each stress test shall be referenced to the base case.
- c) The template should be strictly followed. The Statement of Financial Position and Income Statement should be prepared using the Efass line codes as specified.
- d) Ratios should be computed in accordance with Central Bank of Nigeria guidelines, and spread sheets/computations should be provided, if necessary in a concise but clear form.
- e) The completed template with a commentary on the results, description of methodology and loan loss model used, assumptions made with rationale, and a risk mitigation plan should be submitted to the Director, Banking Supervision Department, and soft copies to [BSDReturns@cbn.gov.ng](mailto:BSDReturns@cbn.gov.ng) within 2 weeks of the date of this letter.

NAME OF BANK:		STRESS DATE:				
RESULTS OF STRESS TEST ON BANKS FINANCIAL HEALTH AT VARIOUS CRUDE OIL PRICES		Base Case (No Stress) November 30, 2014	Shocked Case PRICES - US\$/bbl			
			65.00	60.00	55.00	50.00
		N	N	N	N	N
<b>1</b>	<b>STATEMENT OF FINANCIAL POSITION</b>					
10130	Total Cash					
10370	Total due from CBN, other banks in Nigeria, banks outside Nigeria etc.					
10450	Total Short-Term Investments					
10540	Total Certificates of Deposits Held					
10650	Total Bills Discounted					
10750	Total Other Financial Instruments Held					
10810	Loans and Advances/Leases - Other Banks in Nigeria					

10820	Loans and Advances/Leases - Other Banks outside Nigeria					
10830	Loans and Advances/Leases - Affiliate Companies of bank in Nigeria					
10845	Total Loans & Advances to Govts. In Nigeria					
10850	Other Customers					
10870	Advances Under Leases					
10880	Factored Debts					
10900	Specific Loans/Leases Loss Provision					
10901	General Loans/Leases Loss Provision					
11100	Total Investment					
11230	Other Assets (Net)					
11400	TOTAL ASSETS					
11550	Total Off-Balance Sheet Engagements					
20290	Total Deposits and Takings					
20350	Total Due To Central Bank, other Banks in Nigeria, other Banks Outside Nigeria, offices and Branches of the bank outside Nigeria.					
20440	Total Certificates of Deposits					
20500	Other Liabilities					
20670	Total Loans and Advances From					
20750	Total Debentures/Loans Stock					
20830	Total Capital					
20900	Total Reserves					
20920	Fixed Asset Revaluation Reserve					
20930	Minority Interest					
20950	TOTAL LIABILITIES					
21050	Total Off-Balance Sheet Engagements					
<b>2</b>	<b>INCOME STATEMENT</b>					
30150	Total interest Income					
30240	Total Interest Expense					
30300	Net Interest Income					
30480	Total Non-Interest Income					
30500	Operating Income					
30600	Recoveries					
30700	Total Operating Income					
30860	Total Overhead Expenses					
30881	Provision for Credit Losses - Specific					



09-46236403

09-46236413

BSD/DIR/GEN/LAB/07/008

March 11, 2014.

## LETTER TO ALL BANKS AND DISCOUNT HOUSES

### TRANSFER OF ALL NON-PROPRIETARY ASSETS TO LICENSED CUSTODIANS

The Central Bank of Nigeria has observed with dismay, the apathy by money market operators in appointing custodians as stipulated in the Guidelines for Custodianship in Money Markets and Other Fixed Income Instruments issued in 2007. This has resulted in the assets of banks and discount houses being comingled with those of their clients/customers. Consequently, this has made it difficult for the Central Bank of Nigeria to segregate the assets of banks and discount houses from those of their clients/customers. Consequently, to ensure full compliance with the provisions of the above guideline, the Central Bank of Nigeria, in exercise of the powers conferred on it by section 57 (2) of BOFIA 2004 directs as follows:

- All Deposit Money Banks and Discount Houses are required to appoint a licensed Custodian, **not later than March 31, 2014**.
- All non-proprietary financial assets (e.g. Treasury Bills and Bonds) in the custody of Deposit Money Banks and Discount Houses should be transferred to the Custodian so appointed, **not later than April 30, 2014**.
- All Deposit Money Banks and Discount Houses shall notify their clients/customers, **not later than April 30, 2014**, the Custodian to which their financial assets have been transferred. Subsequently, investors should be notified of the Custodian at the time of making the investment.

- All Deposit Money Banks and Discount Houses shall display to the public, in a conspicuous place, in the head office and all branches, a notice that
  - Brokerage will be charged for purchase of financial assets on their behalf in line with the Guidelines for Custodianship in Money Markets and Other Fixed Income Instruments issued in 2007
  - Custody of customers' investments in financial assets (e.g. Treasury Bills and Bonds) shall be transferred to a named licensed Custodian and
- A Client or customer who makes an investment in financial assets subsequent to the issuance of this circular reserves the right to choose a custodian for his investment.
- In all cases, an investor in financial assets has the right to change his/her custodian at no extra fee.

Failure to appoint a Custodian or transfer all non-proprietary financial assets, as stipulated in this Circular, shall constitute an infraction and attract sanctions, which may include, among others, the loss of money market dealership. In addition, 50% of the financial assets portfolio of such Deposit Money Bank or Discount House shall be regarded as non-proprietary and, consequently, be excluded from the computation of its Liquidity Ratio.

A list of licensed custodians can be obtained from the Central Bank of Nigeria's website.

Please be guided accordingly.

Yours faithfully,

**'TOKUNBO MARTINS (Mrs.)**

**DIRECTOR BANKING SUPERVISION**



09 – 46236403

**BSD/DIR/GEN/LAB/07/034**

October 10, 2014

**LETTER TO ALL DEPOSIT MONEY BANKS (DMBs)**

**GUIDELINES FOR PROCESSING REQUESTS FROM DMBs TO EXTEND NEW/ADDITIONAL CREDIT FACILITIES TO LOAN DEFAULTERS AND AMCON OBLIGORS**

Following the issuance of our circular of June 30, 2014 titled "Prohibition of Loan Defaulters from Further Access to Credit Facilities in the Nigerian Banking System", the CBN has received several requests from DMBs seeking approval to extend further credit facilities to the above concerned obligors.

Having consideration of the various points raised by the DMBs, the CBN in this regard is issuing the following guidelines for the process of considering such requests.

**1) AMCON OBLIGORS**

An institution, having done a credit appraisal on the delinquent obligor and is desirous of extending a new facility to the obligor; should approach AMCON and obtain the following:

- a. The value of the obligor's EBA purchased by AMCON;
- b. The terms of settlement reached between the obligor and AMCON, including a copy of the offer letter issued by AMCON upon restructuring of the facility;
- c. The current performance status of the obligors' facility (ies) with AMCON and details of repayments so far made with dates;

- d. Obligor's good faith payment made (if any) and collaterals held; and
- e. A letter from AMCON expressing no objection (not guarantee) for the grant of the new/additional facility by the DMB.

After obtaining AMCON's expression of no objection, the Financial Institution should write to the CBN seeking an exception for the obligor. The letter should be forwarded along with the following:

- a) The above information received from AMCON and AMCON's letter of no objection (not guarantee) for the grant of the new/additional facility;
- b) Details on the proposed additional facility and the purpose of the facility. The institution's request should include reasons advanced by the obligor for non-repayment of initial facility(ies) availed;
- c) Details on how the new facility would positively impact on the obligor's outstanding indebtedness to AMCON or on any other delinquent facility (ies);
- d) Details of the collateral/credit risk mitigants proposed for the new facility and the level of perfection of title. This should also include valuation reports, from two independent valuers, indicating the open market value and forced sale value of the proposed collateral. The security/collateral should be distinct from whatever collateral is being held by AMCON for the EBA (Eligible Bank Asset) or where not different, details of agreements reached in this regard; and
- e) The sign-off of the bank's Chief Risk Officer (CRO).

## **2) OTHER CATEGORIES OF DELINQUENT OBLIGORS**

The Institutions' request to the CBN should contain the following information:

- a. Details on the proposed additional facility and the purpose of the facility. The institution's request should include reasons advanced by the obligor for non-repayment of initial facility(ies) availed;
- b. Details on how the new facility would positively impact on the obligor's outstanding indebtedness to any other financial institution;
- c. Details of the collateral/credit risk mitigants proposed for the new facility and the level of perfection of title. This should also include valuation reports, from two independent valuers, indicating the open market value and forced sale value of the proposed collateral;
- d. Evidence of the institution's board approval for the new facility which shows that the board is aware that the borrower had defaulted on its

previous loans and the institution is desirous of extending an additional facility to the obligor; and

e. The sign-off of the bank's CRO.

1) In addition to the requirements for AMCON obligors and other delinquent obligors above, the lending Institutions must meet the following prudential requirements:

a. The Institutions must have met the minimum regulatory and internal economic capital adequacy ratio and liquidity ratio requirements for 6 months prior to the request;

b. The non-performing loans ratio of the institution should not have exceeded 5% in the last 6 months prior to the request; and

c. The bank would be required to make a provision of 50% on the loan from the onset of the loan irrespective of performance status and 150% if for any reason the loan later turns out to be non-performing.

After a review of the bank's request, the CBN would either note the bank's submission or decline. Institutions should be aware that the CBN's position does not compel the bank to avail any facility to the obligor.

Please be guided accordingly.

**TOKUNBO MARTINS (MRS.)**

**DIRECTOR OF BANKING SUPERVISION**



09-46236401  
Tel. 09-46236418 .....  
E-mail: fsd@cbn.gov.ng

## CENTRAL BANK OF NIGERIA

Banking Supervision Department  
Central Business District  
P.M.B. 0187  
Garki, Abuja

8<sup>th</sup> October, 2014

REF: BSD/DIR/GEN/LAB/07/033

LETTER TO BANKS AND DISCOUNT HOUSES

### INTERNAL CAPITAL GENERATION AND DIVIDEND PAYOUT RATIO

- 1.0 Globally, retained earnings have been identified as an important source of growing an institution's capital. Advantages of retained earnings include: being a source of long term finance; being easier and cheaper to raise than external finance; curtailment of financial risk; improving liquidity and profitability.
- 2.0 However it has been observed that rather than take advantage of this beneficial means of capital generation, some institutions pay out a greater proportion of their profits, irrespective of their risk profile and the need to build resilience through adequate capital buffers.
- 3.0 Prior to now, dividend payout policy for banks has been as stipulated in Section 16 (1) of BOFIA 2004 (as amended) and Prudential Guidelines for DMBs of 2010, which state that "Every Bank shall maintain a reserve fund and shall, out of its net profits for each year (after due provision made for taxation) and before any dividend is declared, where the amount of the reserve fund is:
  - a. Less than the paid-up share capital, transfer to the reserve fund a sum equal to but not less than thirty per cent of net profits; or
  - b. Equal to or in excess of the paid-up share capital, transfer to the reserve fund a sum equal to but not less than fifteen per cent of the net profit; provided that no transfer under this subsection shall be made until all identifiable losses have been made good.
- 3.1 Section 16 (3) also states that; Notwithstanding (a) and (b) of subsection (1), the Bank may, from time to time specify a different proportion of the net profits of each year, being lesser or greater than the proportion specified in paragraph (a) and (b) to be transferred to the reserve fund of a bank for the purpose of ensuring that the amount of the reserve fund of such bank is sufficient for the purpose of its business and adequate in relation to its liabilities

3.2 Subsequently Section 17 (1) stipulates that no bank shall pay dividend on its shares until-

All its preliminary expenses, organizational expenses, shares, selling commission, brokerage, amount of losses incurred and other capitalized expenses not represented by tangible assets have been completely written off; and adequate provisions have been made to the satisfaction of the bank for actual and contingency losses on the risk assets, liabilities, off balance sheet commitments and such unearned incomes as are derivable therefrom.

3.3 While these regulations are aimed at building statutory reserves for supervised banks, in view of the dynamism, rapid changes and emerging risks on the horizon, there is a need to proactively address these risks.

4.0 In order to facilitate sufficient and adequate capital build up for banks in tandem with their risk appetite, the following directives will now apply:

1. Any Deposit Money Bank (DMB) or Discount House (DH) that does not meet the minimum capital adequacy ratio shall not be allowed to pay dividend.
2. DMBs and DHs that have a Composite Risk Rating (CRR) of "High" or a Non Performing Loan (NPL) of above 10% shall not be allowed to pay dividend.
3. DMBs and DHs that meet the minimum capital adequacy ratio but have a CRR OF "Above Average" or an NPL ratio of more than 5% but less than 10% shall have dividend pay-out ratio of not more than 30%.
4. There shall be no regulatory restriction on dividend pay-out for DMBs and DHs that meet the minimum capital adequacy ratio, have a CRR of "low" or "moderate" and a NPL ratio of not more than 5%. However it is expected that the Board of such institutions will recommend payouts based on effective risk assessment and economic realities.
5. No DMB or DH shall be allowed to pay dividend out of reserves.
6. Banks shall submit their Board approved dividend payout policy to the CBN before the payment of dividend shall be permitted.

All ratios shall be based on financial year averages.

This circular takes immediate effect.



**TOKUNBO MARTINS (MRS)**  
**DIRECTOR OF BANKING SUPERVISION DEPARTMENT**



09-462 36401

**BSD/DIR/GEN/LAB/02/032**

October 3, 2014

**LETTER TO ALL BANKS**

Dear Sir,

**RE: INCESSANT REQUEST FOR ISPO BY BANKS TO LEND TO STATES, LOCAL GOVERNMENTS AND COMMUNITY ASSOCIATIONS**

We refer to a letter dated June 4, 2014 forwarded to all banks by the Debt Management Office (DMO), which specified the guidelines on the above subject.

The Central Bank of Nigeria has noted with serious concern that some banks have failed to adhere to the guidelines specified by the DMO in relation to lending to any tiers of government.

It is in this regard that we write to direct banks to be guided by the guidelines and all extant laws and regulations on this matter and henceforth, desist from inundating the DMO with requests for ISPOs.

Banks are warned to be guided accordingly as the CBN will not hesitate to impose **SEVERE** penalties on erring banks.

Yours faithfully,

**A.O. IDRIS**

**For: DIRECTOR OF BANKING SUPERVISION**



09-462-36401

October 24, 2014

**BSD/DIR/GEN/LAB/07/037**

**LETTER TO ALL BANKS**

**PRUDENTIAL REGULATION FOR THE MANAGEMENT OF FOREIGN EXCHANGE RISKS OF BANKS**

The Central Bank of Nigeria has noted with concern the growth in foreign currency borrowings of banks through foreign lines of credit and issuance of foreign currency denominated bonds (Eurobonds). The lower interest rate on foreign debt has created an incentive for banks to borrow abroad, and this has the advantage of providing fairly stable and long term funds to extend credit facilities in foreign currency and enhance their capital base. However, this also exposes banks to foreign exchange risks and other risks.

Therefore, to ensure that these risks are well managed and avoid losses that could pose material systemic challenges, the CBN issues the following prudential and hedging requirements:

**Prudential Requirements**

- a. The aggregate foreign currency borrowing of a bank excluding intergroup and inter-bank (Nigerian banks) borrowing should not exceed 75% of its shareholders' funds unimpaired by losses. The 75% limit supersedes the 200% specified in Section 6 of our Guidelines for Foreign Borrowing for on-Lending by Nigerian Banks issued on November 26, 2001.
- b. The Net Open Position (long or short) of the overall foreign currency assets and liabilities taking into cognizance both those on and offbalance sheet should not exceed 20% of

shareholders' funds unimpaired by losses using the Gross Aggregate Method. Banks whose current NOP exceed 20% of their shareholders' funds are required to bring them to prudential limit within six (6) months. Banks are required to compute their monthly NOP using the attached template.

c. The current NOP limit of 1% of shareholders' funds has been renamed as Foreign Currency Trading Position. This will continue to subsist in line with guidelines issued by the CBN.

d. Banks are required to have adequate stock of high-quality liquid foreign assets i.e cash and government securities in each significant currency to cover their maturing foreign currency obligations. In addition, banks should have in place a foreign exchange contingency funding arrangement with other financial institutions.

#### **Hedging and Other Requirements**

a. Banks should borrow and lend in the same currency (natural hedging) to avoid currency mismatch associated with foreign currency risk.

b. The basis of the interest rate for borrowing should be the same as that of lending i.e. there should be no mismatch in floating and fixed interest rates, to mitigate basis risk associated with foreign borrowing interest rate risk.

c. With respect to Eurobonds, any clause of early redemption should be at the instance of the issuer and approval obtained from the CBN in this regard, even if the bond does not qualify as tier 2 capital.

Banks are required to adhere to the provisions of this circular with immediate effect.

Yours faithfully,

**TOKUNBO MARTINS (MRS.)**

**DIRECTOR OF BANKING SUPERVISION**

**Monthly Computation of Net Open Position (Gross Aggregate Method)**

	US Dollars	Euro	Pound	Others	Total
<b>FOREIGN ASSETS</b>					
<b>BALANCE SHEET ITEMS:</b>					
Holdings of Foreign Currency					
Balances held with Foreign Banks					
Placement with Foreign Banks					
Balances held with Offices & Branches Abroad					
Treasury Securities of Foreign Governments					
Other financial Instruments in foreign currency					
Loans and Advances in foreign currency					
Other Foreign Assets (not captured above)*					
<b>OFF BALANCE SHEET ITEMS:</b>					
Undelivered spot purchases					
Forward purchases					
Others					
<b>TOTAL FOREIGN ASSETS [A]</b>					
<b>FOREIGN LIABILITIES</b>					
<b>BALANCE SHEET ITEMS:</b>					
Balances Held for Foreign Banks					
Takings from Foreign Banks					
Balances Held for Offices and Branches Abroad					
Foreign currency Deposits					
Financial Instruments Issued in foreign currency					
Loan and advances in foreign currency					

Other Foreign Liabilities (not captured above)*					
<b>OFF BALANCE SHEET ITEMS:</b>					
Undelivered spot sales					
Forward sales					
Others					
<b>TOTAL FOREIGN LIABILITIES [B]</b>					
<b>NET OPEN POSITION (A-B)</b>					
<b>AGGREGATE LONG POSITION [C]</b>					
<b>AGGREGATE SHORT POSITION [D]</b>					
<b>GROSS AGGREGATE POSITION (Absolute values) [C+D]</b>					
<b>SHAREHOLDERS' FUNDS UNIMPAIRED BY LOSSES</b>					
<b>GROSS AGGREGATE OPEN POSITION AS PERCENTAGE OF SHAREHOLDERS' FUNDS</b>					

\*Including derivative contracts

All figures are to be reported in Naira equivalent using mid-market spot rate of the reporting date with the rates presented below:

US dollars

Euro

Pounds

Others



09-46236403

October 23, 2014

BSD/DIR/GEN/LAB/07/036

## **LETTER TO ALL BANKS AND DISCOUNT HOUSES**

### **RE: TRANSFER OF ALL NON-PROPRIETARY ASSETS TO LICENSED CUSTODIANS**

The recently concluded Risk Based Examination of banks revealed that some banks have ignored with impunity our directive on transfer of non-proprietary assets to custodians as contained in our circular BSD/DIR/GEN/LAB/07/008 dated March 11, 2014. You will recall that compliance was required no later than 30<sup>th</sup> April 2014. You will also recall that the sanctions for non-compliance within the stipulated period included possible loss of money market dealership, exclusion of 50% of the financial assets portfolio from the calculation of Liquidity Ratio, as this will be deemed non-proprietary, amongst others.

In line with the CBNs stance of non-tolerance of regulatory infractions or treating regulatory directives with levity, these banks shall be sanctioned in line with the circular and the provisions of BOFIA.

Banks are once again reminded to immediately comply with this circular and ensure compliance on an on-going basis. You are however to note that compliance at this time will not preclude the CBN from penalizing the period of non-compliance.

Please be advised that compliance is in the best interest of your bank.

Yours faithfully,

**'TOKUNBO MARTINS (MRS)**  
**DIRECTOR BANKING SUPERVISION**



09-462-36425

**BSD/DIR/CON/LAB/07/026**

September 5, 2014

**LETTER TO THE DOMESTIC SYSTEMICALLY IMPORTANT BANKS IN NIGERIA**

**FRAMEWORK FOR THE REGULATION AND SUPERVISION OF DOMESTIC SYSTEMICALLY IMPORTANT BANKS (SIBs) IN NIGERIA**

In line with global trends, and as part of reform efforts to foster financial stability, the Central Bank of Nigeria (CBN) and the Nigeria Deposit Insurance Corporation (NDIC) have developed the attached Framework for the Regulation and Supervision of Domestic Systemically Important Banks in Nigeria. The Framework specifies among others, the assessment methodology for identifying the SIBs, higher loss absorbency and additional regulatory requirements such as liquidity, stress testing, disclosure and reporting requirements.

The Framework takes effect from March 1, 2015.

Yours faithfully,

**TOKUNBO MARTINS (MRS.)**

**DIRECTOR, BANKING SUPERVISION DEPARTMENT**

**Framework for Regulation and Supervision of Domestic  
Systemically Important Banks**

**Central Bank of Nigeria  
Nigeria Deposit Insurance Corporation**

**September 2014**

## **1.0 Preamble**

The global financial crises, which started in 2007, have led to the need for the strengthening of the regulation of Systemically Important Financial Institutions (SIFIs). The failure of large and complex financial institutions generates severe undesirable externalities that include disruption of the financial system and the real economy. One of the fall-outs of the meltdown is the call for measures to deal with this class of institutions. Consequently, the G20 leaders at their meeting of November 2011 requested the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB) to develop a framework for Domestic Systemically Important Banks (D-SIBs)<sup>1</sup> in addition to the Global Systemically Important Financial Institutions (G-SIFIs).

When Systemically Important Banks (SIBs) were in danger of failure in the past, only one model of rescue had been followed which was government capital injections/bailouts and guarantees to keep the financial system stable, while shareholders lost out, as a result of dilution in shareholding. This has warranted the need for enhanced supervisory measures for D-SIBs which current regulatory policies do not adequately address.

SIBs have become the target of legislation and regulatory reforms as a result of the financial crises, which has led to increase in bank capital requirements and introduction of higher capital surcharges. Hence, the Central Bank of Nigeria (CBN) and Nigeria Deposit Insurance Corporation (NDIC), have developed a supervisory framework for D-SIBs in Nigeria. This initiative is in tandem with BCBS and other global initiatives where each jurisdiction or country designs a policy framework for the identification and regulation of their D-SIBs so as to limit the economic impact of bank distress and promote financial system stability.

<sup>1</sup>The Basel Committee as well as the Financial Stability Board do not establish laws, regulations or rules for any financial institution directly but are only policy research and development entities; therefore they act in an advisory capacity. Thus, each country's regulators responsibilities to enact whatever portions of the recommendations they deem appropriate and define what a Systemically Important Financial Institution is.

## **2.0 Definition**

The Financial Stability Board described G-SIFIs as "financial institutions whose distress or disorderly failure, because of their size, complexity and systemic interconnectedness, would cause significant disruption to the wider financial system and economic activity"<sup>2</sup>. A SIFI can be a bank, an insurance company, or any other financial institution whose failure might trigger a financial crisis. The

BCBS has identified factors for assessing a financial institution as systemically important based on size, interconnectedness, substitutability, cross-jurisdictional activity and complexity. In Nigeria, due to the dominance of banks in the financial system, this framework shall focus on the enhanced supervision of SIBs. This framework has adopted similar indicators used in determining G-SIFIs by the BCBS in the identification and supervision of SIBs in Nigeria.

### **3.0 Objective**

The objective of this framework is to ensure that all SIBs are subjected to appropriate degree of oversight and regulation. This entails defining the regulatory parameters and calibrating the intensity of oversight by the regulators.

The overall goal of this framework is to:

- I. comply with the BCBS requirements on Supervision of D-SIBs,
- II. ensure transparent assessment of the basis for their regulation,
- III. create incentives for stronger risk management practices that would reduce the systemic risk which SIBs pose to the system, and
- IV. Limit the impact of external negativities on the financial system.

<sup>2</sup>The FSB designates banks as G-SIBs annually based on emerging data and publish the G-SIBs every November.

### **4.0 Assessment Methodology**

The BCBS suggested several methodologies for identifying SIBs which include the indicator-based measurement approach, bucketing approach, supervisory judgement, periodic review and refinement. However, in this framework, the indicator-based measurement approach as well as supervisory judgement were used to determine SIBs in Nigeria.

#### **4.1 Indicator-Based Measurement Approach**

The indicator-based measurement approach considers the following factors in the classification of SIBs:

- I. Size
- II. Interconnectedness
- III. Substitutability
- IV. Complexity

## **Size**

The size of a bank is of critical importance to the stability of the financial system and the economy. Since there is no uniform global standard for the assessment of the size of a bank, this framework adopted total assets as the principal determinant in the assessment of size.

In Nigeria, when banks are compared according to their size as measured by total assets, the data showed that the eight (8) largest banks accounted for more than 70% of the total industry assets.

## **Interconnectedness**

The more interconnected a bank is to other financial institutions, the greater the potential for the failure of that bank to transmit distress through the financial system and the broader economy. The systemic impact of a bank greatly depends on its degree of interconnectedness with other financial institutions and can be measured by the volume of its intra financial systems assets and liabilities<sup>3</sup>, short-term financing by interbank and money market operations. In this framework, the determinant of interconnectedness is net-interbank transactions.

## **Substitutability**

The systemic impact of a bank's distress is greater when it cannot easily be replaced in a short term period either as a market participant or financial service provider. Typical determinants of substitutability are value of assets under custody, payments cleared and settled through payment systems, values of underwritten transactions in debt and equity markets and quantum of lending and deposits of a particular bank. This framework identified total net credits and total deposits of a bank as the determinants of its substitutability.

## **Complexity**

The systemic impact of a bank would be higher if its business model, structure and operations make it difficult or very costly to liquidate by the regulatory authorities. Complexity can be viewed from the network of both domestic and foreign subsidiaries as well as its affiliation with institutions in other sectors of the financial system, which can complicate the process of liquidation of the bank. In tandem with Nigeria's current banking model, the major determinants considered were the branch network and number of foreign subsidiaries.

## **Weights**

In adopting the indicator-based measurement approach, weight of 30% each was assigned to size and substitutability, while complexity and interconnectedness were weighted 25% and 15%, respectively. The

determinants within complexity were assigned 12.5% each whereas determinants under substitutability were each assigned 15% weight.

#### **4.2 Supervisory Judgement**

The Central Bank of Nigeria applied supervisory judgement in arriving at the results that were derived from the indicator-based measurement approach of the assessment methodology. While the BCBS Indicator-based measurement approach assigned equal weights to all factors, this framework has taken into cognizance the domestic environment in assigning varied weights to the factors.

#### **5.0 Identified SIBs**

For a bank to be continually classified as SIB, the assessment criteria must be met for six (6) consecutive months. Any bank classified as SIB would remain as such for a period of 6 months after which a re-assessment would be carried out by the CBN.

For a bank to be considered as a SIB, its "cumulative score"<sup>4</sup> should be at least 5% using the indicator-based measurement approach, subject to review by the Central Bank of Nigeria from time to time. A bank that had total assets of at least 5% as well as minimum total credits and deposit liabilities of 6% each of the industry in the past six (6) months can be considered as a SIB.

#### **6.0 Higher Loss Absorbency**

The capital adequacy ratio (CAR) for banks in Nigeria currently stands at 10% and 15% for national/regional banks and banks with international banking licence, respectively. In the computation of CAR recommended by BCBS, Tier 2 capital should not constitute more than 50% of the qualifying capital, that is, 100% of Tier 1. However, banks designated as SIBs would be required to maintain a minimum CAR of 15% out of which Tier 2 capital should not constitute more than 25% of the qualifying capital. In other words, Tier 1 capital should be at least 75% of the bank's qualifying capital. In addition, SIBs in Nigeria would be required to set aside Higher Loss Absorbency<sup>5</sup> (HLA) or additional capital surcharge of 1% to their respective minimum required CAR. This should be met with Common Equity Tier 1 (CET1) capital<sup>6</sup>. The aim of the additional loss absorbency requirement is to ensure that the SIBs have a higher share of their balance sheet funded by instruments that re-enforce the resilience of the institution as a going concern.

In a situation where the foreign subsidiary of a Nigerian bank is considered systemically important by the host authority, the Central Bank of Nigeria and

the host authorities would make arrangements to coordinate and cooperate on the appropriate HLA requirement, within the constraints imposed by the relevant laws in the host jurisdiction.

## **7.0 Additional Requirements**

In addition to the HLA requirement for systemically important banks in Nigeria, the following additional requirements and policy measures are considered appropriate to address the risks posed by the SIBs.

### **Liquidity Standards**

The current liquidity ratio requirement for banks shall be imposed on the SIBs; however, this would be subject to change from time to time.

### **Stress Testing**

Stress testing requirements are designed to work in tandem with the capital plan. The results of the test would be used to make appropriate changes to the bank's capital structure. The CBN and NDIC shall conduct periodic analysis of the capital of each SIB to evaluate its ability to absorb losses in situations of adverse economic and financial conditions.

The SIBs would be required to carry out stress test of their capital and liquidity on a quarterly basis and the result of the stress test would be reviewed by the Central Bank of Nigeria

### **Recovery and Resolution Planning**

The SIBs shall be required to develop specific recovery plan which shall be submitted to the Central Bank of Nigeria and Nigeria Deposit Insurance Corporation by 1<sup>st</sup> January of every year.

### **Enhanced Supervision**

There shall be greater frequency and intensity of on-site and off-site supervision of SIBs. Monthly monitoring of the key performance indicators of the SIBs shall be carried out by the CBN in order to ensure their safety and soundness as well as the going concern status of the banks. Banks shall be expected to provide high quality data to the regulatory authorities for the purpose of the enhanced supervision. In the event that an SIB has a High Composite Risk rating, half-yearly meetings shall be held with the board and management to address issues of supervisory concern.

### **Disclosure Requirements**

The SIBs shall make quarterly disclosures of their financial condition and risk management activities to the regulators as prescribed by the Central Bank of Nigeria. The disclosures shall include but not limited to the following areas:

- I. Risk governance and risk strategies/business model
- II. Capital adequacy and risk weighted assets
- III. ICAAP Policy and Computation
- IV. Liquidity/Funding
- V. Market risk
- VI. Credit risk
- VII. Operational risk
- VIII. Other identified risks

SIBs are expected to adopt international bank risk disclosure best practices.

### **Addendum to Monthly SIB Report**

The current monthly report captures the following:

- 1) Total Credit and their classification, growth, sectoral spread or concentration.
- 2) Non-performing credit to Total credit.
- 3) Director-related credit.
- 4) Recoveries.
- 5) Top 100 Users of fund.
- 6) Liquidity Ratio.
- 7) Capital Adequacy Ratio.
- 8) Net-Interbank placement.
- 9) Government Bond and Treasury Bills holding and their Mark to Market gain/loss.
- 10) Unaudited Profit/Loss.
- 11) Net Open Position.
- 12) Shareholders' Fund.
- 13) Gain/Loss on Foreign Exchange Derivative.

In addition to the above, the under-listed shall also be monitored:

1. The top 100 users of funds should be further analyzed and related to the industry.
2. Top 50 providers of funds.
3. Government (public sector) deposits.
4. Corporate Governance issues should be reported on.
5. Liquidity Contingency Funding Plan.
6. Analysis of Contingent Assets and Liabilities containing the trend and comparison to the Total Assets and Total Credit.

7. Quarterly management report of Off-shore subsidiaries should be reviewed and reported on.
8. Details of placement with off-shore banks to be compared with the lines of credit from the correspondent banks (from FX Group).
9. Recovery plan should be monitored and reported on.
10. The quarterly disclosures of a SIB's financial condition and risk management activities should be reviewed and monitored.
11. SIBs should render monthly returns on the extent of compliance with the Basel framework. This should include risk measures, targets, violations and other measures as suggested by Basel II.
12. Quarterly unaudited financial statement.

**8.0 Sanctions** Appropriate sanctions shall be imposed for non-compliance with the requirements of this Framework.



09-462-36401

**BSD/DIR/GEN/LAB/07/021**

August 5, 2014

**LETTER TO ALL BANKS AND DISCOUNT HOUSES**

**Exclusion of Non-Distributable Regulatory Reserve and Other Reserves in the Computation of Regulatory Capital of Banks and Discount Houses**

As part of the ongoing reforms by the Central Bank of Nigeria (CBN) aimed at ensuring more prudent assessment of the regulatory capital of Nigerian banks and in line with global efforts aimed at raising the quality and loss absorbency of the capital base of banks, the CBN hereby informs banks on the exclusion of following reserves in the computation of total qualifying capital:

1. The Regulatory Risk Reserve created pursuant to Section 12.4 (a) of the Prudential Guidelines which was effective on July 1, 2010 will henceforth be excluded from regulatory capital for the purposes of capital adequacy assessment;
2. Collective impairment on loans and receivables and other financial assets will henceforth not form part of Tier 2 capital; and
3. Other Comprehensive Income (OCI) Reserves will be recognized as part of Tier 2 capital subject to the limits set in paragraph 3.2 of the CBN Guidance Notes on the Calculation of Regulatory Capital. For the avoidance of doubt, total Tier 2 capital (including OCI Reserves) is limited to 33.33% of total Tier 1 capital. Also, banks are required to note that unaudited OCI gains will not be recognized as part of capital while unaudited OCI losses shall be deducted from the institution's capital in arriving at total qualifying capital.

The provisions of this circular supersede the provisions of S. 12.4 (b) of the Prudential Guidelines as well as S. 2 of our Guidance Notes on the Calculation of Regulatory Capital.

Please note that the requirements of this circular take immediate effect.

**TOKUNBO MARTINS (MRS)**

**DIRECTOR OF BANKING SUPERVISION**



09-462 36401

09-462 36403

**BSD/DIR/GEN/LAB/07/19**

July 10, 2014.

**LETTER TO ALL BANKS, DISCOUNT HOUSES, AND DEVELOPMENT FINANCE INSTITUTIONS**

**RESPONSIBILITY OF ALL BANKS, DISCOUNT HOUSES, AND DEVELOPMENT FINANCE INSTITUTIONS WITH RESPECT TO HUMAN RIGHTS UNDER THE NIGERIAN SUSTAINABLE BANKING PRINCIPLES (NSBP)**

It has come to the notice of the Central Bank of Nigeria that banks, discount houses, and development finance institutions are not in full compliance with the spirit and letter of Principle 3 of the NSBP on 'Human Rights' which states that "We will respect human rights in our Business Operations and Business Activities". The Principle further provides that:

1. A sustainable banking approach recognizes and respects human and labour rights in a bank's business operations as well as its business activities.
2. A bank's approach to human rights should be consistent with promoting the requirements, and improving the enforcement, of: the Nigerian Constitution, the United Nations Declaration on Human Rights, and other international treaties to which Nigeria is a signatory.
3. Key policies and requirements should include recognition of employees' entitlement to safe and fair labour conditions and to exercise collective and individual rights to associate and speak freely, as allowed by national law.

Consequently, banks, discount houses, and development finance institutions are advised to note that their staff/employees are at liberty to freely associate in furtherance of their rights as allowed by national regulations and laws, and international conventions and treaties Nigeria is a signatory to. It shall constitute

an infraction which will attract sanctions where a bank, discount house, or development finance institution is found in any manner to hinder or prevent its staff/employees from exercising their rights to free association, as required under Principle 3 and other extant regulations and laws.

Please be guided accordingly.

Yours faithfully,

**TOKUNBO MARTINS (MRS.)**

**DIRECTOR OF BANKING SUPERVISION**



09-46236401

09-46236418

**BSD/DSIR/GEN/LAB/07/017**

July 4, 2014

**LETTER TO ALL BANKS**

**BANCASSURANCE AND OTHER NON-PERMISSIBLE ACTIVITIES**

The Central Bank of Nigeria has noted with concern that some banks engage in non-permissible activities including bancassurance in contravention of the regulation on the CBN Scope, Conditions & Minimum Standards for Commercial Banks Regulations No. 01, 2010.

Banks are therefore directed to henceforth cease such activities as the CBN will not hesitate to impose **SEVERE** sanctions on erring banks.

Please be guided by the provisions of the above regulation.

Yours faithfully,

**'TOKUNBO MARTINS (MRS.)**

**DIRECTOR OF BANKING SUPERVISION**



09-46236425

09-46236418

**BSD/GCA/BAS/CON/01/115**

July 02, 2014

**LETTER TO ALL BANKS AND DISCOUNT HOUSES**

**EXTENSION OF PARALLEL RUN OF PILLAR I OF BASEL II IMPLEMENTATION**

It would be recalled that the Central Bank of Nigeria (CBN) released the guidelines on the implementation of Basel II/III for the Nigerian Banking Sector in December 2013 and directed banks to commence the parallel run of Pillar I in January, 2014 while the full adoption was intended to commence by the end of June, 2014.

However, the initial challenges observed in the parallel run have necessitated for an extension of the parallel run particularly with regards to the requirements of reporting capital charge for credit, market and operational risks.

Consequently, banks are hereby directed to continue the parallel run for an additional period of three (3) months while the full adoption will commence on 1st October, 2014.

Meanwhile, banks are required to use this period to re-assess their current capital levels with a view of complying at full adoption, with the minimum capital requirements.

Finally, all banks are reminded to continue to submit their monthly returns to [bsdreturns@cbn.gov.ng](mailto:bsdreturns@cbn.gov.ng) on or before the fifth working day after each reporting month.

Thank you.

Yours faithfully,

**TOKUNBO MARTIN (MRS)**

**DIRECTOR OF BANKING SUPERVISION**



Tel:.....09-462-36425.....

Fax:.....09-462-36418.....

BSD/DIR/GEN/LAB/07/015

30<sup>th</sup> June, 2014

**Letter to All Deposit Money Banks, Development Finance Institutions and the Asset Management Corporation of Nigeria.**

**PROHIBITION OF LOAN DEFAULTERS FROM FURTHER ACCESS TO CREDIT FACILITIES IN THE NIGERIAN BANKING SYSTEM**

The Central Bank of Nigeria(CBN) has noted with concern the impunity with which some borrowers default on their loans in some Institutions and yet are availed further credit facilities by other Institutions under the same or sometimes, different identity.

This could have the effect of triggering serial defaults and a buildup of non-performing loans which could negatively impact liquidity in the financial sector and ultimately hamper its stability.

In order to proactively avert the menace of resurgence of non-performing loans, and in furtherance of the CBN's mandate of maintaining a safe and sound financial system, the Bank hereby directs as follows:

1. No Institution shall, without the prior written approval of the CBN, grant a facility to a potential borrower who is in default of any existing facility to the tune of **N500 million** and above in the case of deposit money banks; and **N250million** and above in the case of development banks and banks in liquidation.
2. No Institution shall, except with the prior written approval of the CBN, grant a facility to any potential borrower who has a delinquent facility of

any amount whatsoever which has been taken over by the Asset Management Company of Nigeria (AMCON).

3. All Institutions shall ensure that all returns on credit facilities granted, together with their performance status are rendered on the Credit Risk Management System (CRMS) and reported to two Credit Bureaux in line with our circulars dated September 10, 2013 and October 21, 2013 respectively.
4. All Institutions are also reminded that it is mandatory to perform credit checks on a potential borrower on CRMS and from at least two Credit Bureaux in line with our circular dated April 30, 2010, as part of the credit appraisal process.
5. The prohibition threshold may be reviewed by the CBN from time to time with the aim of inculcating responsible and appropriate credit culture in borrowers.
6. The provision of this circular shall, in the case of defaulting corporate obligors, also apply to their directors and/or related interests.
7. Any Institution that contravenes the above directive shall be required to make an immediate 150% provision of the facility in addition to other existing regulatory sanctions that the CBN may apply.
8. Where an Institution fails to report a facility and/or its status on the CRMS or to at least two Credit Bureaux as required, it shall be considered as concealment and misrepresentation of a material fact and the Institution shall be penalized in accordance with the relevant provisions of the Banks and Other Financial Institutions Act, LFN 2004 CAP B3 (BOFIA). In addition, the Chief Executive Officer, Chief Financial Officer, Chief Compliance Officer (or their equivalents) shall be liable to sanctions in line with the relevant provisions of the BOFIA.
9. This circular is effective from the 1<sup>st</sup> of July, 2014.

  
**Tokunbo Martins (Mrs)**  
**Director of Banking Supervision.**



09-462-36425

09-462-36418

June 17, 2014

**BSD/DIR/GEN/LAB/07/014**

**LETTER TO ALL BANKS**

**GUIDELINES ON THE ESTABLISHMENT AND RATIONALIZATION OF BRANCHES AND OTHER OUTLETS FOR BANKS IN NIGERIA**

Following developments in the financial system and the need to provide additional guidance to the banking industry on the establishment and rationalization of branches and other outlets, the Central Bank of Nigeria, in exercise of its powers under Section 33(1)(b) of the CBN Act 2007 and Section 6 of the Banks and Other Financial Institutions Act, Cap B3, LFN 2004, issues the following Guidelines.

The Guidelines, which are intended to ensure uniformity in the establishment and rationalization of branches and other outlets for banks, takes immediate effect.

Please be guided accordingly

Yours faithfully,

**TOKUNBO MARTINS (MRS.)**

**DIRECTOR OF BANKING SUPERVISION**

**GUIDELINES ON THE ESTABLISHMENT AND RATIONALIZATION OF  
BRANCHES AND OTHER OUTLETS FOR BANKS IN NIGERIA**

**BY**

**CENTRAL BANK OF NIGERIA**

**JUNE 2014**

# **GUIDELINES ON THE ESTABLISHMENT AND RATIONALIZATION OF BRANCHES AND OTHER OUTLETS FOR BANKS IN NIGERIA**

## **1.0 Introduction**

The CBN in exercise of its statutory powers under Section 33(1)(b) of the CBN Act, 2007 and Section 6 of the Banks and Other Financial Institutions Act (BOFIA), Cap B3, LFN 2004, issues the following Guidelines, which specify the minimum requirements for establishing and rationalizing branches and other banking outlets.

## **2.0 Definition of Terms**

1. Branch - means a bank's place of business outside the Head office where banking operations with full products and services are offered.
2. Cash Center - means a banking outlet that provides banking services i.e cash deposits and withdrawal to its customers, excluding foreign exchange transactions and the extension of credit facility.
3. Electronic Banking Office or Automated Teller Machine (ATM) Center - means an electronic banking outlet which offers cash withdrawal and deposit services via Automated Teller Machines to customers without the aid of a branch representative or teller. It may also include self-service internet banking and telephone services.
4. Teller Implant - means a banking outlet which offers services to specific customers, who receive high volume of payments in their premises. The teller implant is strictly for the purpose of serving the specified customer.

## **3.0 General Criteria for Establishing Banking Outlets**

- a. An application to open/close/merge/downgrade/upgrade a branch or other banking outlet shall be accompanied by all documentation requirements provided for in these Guidelines.
- b. Banking outlets other than branches must be affiliated to specific branches which should be clearly stated in banks' applications.

## **4.0 Documentation Requirements for Establishing a Branch**

An application should be accompanied by the following:

- a) A resolution of the Board of Directors approving the establishment of the branch stating the estimated cost of the outlet;
- b) A detailed feasibility report, which should cover the following:
  - (i) Suitability of the location including evidence of commercial and industrial establishments;
  - (ii) Basic social and infrastructural facilities in place;

- (iii) Competition/number of banks in the area;
  - (iv) Range of products and services to be provided;
  - (v) Estimated initial capital expenditure and other operating costs for the proposed branch with breakdown of the estimates;
  - (vi) Financial projection for the proposed branch - at least 3 years Statements of Financial Position and Income Statement including notes and assumptions on the projection;
  - (vii) Staffing requirements; and
  - (viii) Security arrangement in place to ensure safe operations.
- c) List of unutilized approvals granted for banking branches to the bank and reason(s) for non-utilization.

#### **5.0 Documentation Requirements for Establishing Cash Center**

The documentation requirements for the establishment of cash centers are the same as those for branches as per Section 4.0 of these Guidelines. However, the range of services to be provided should be restricted to that of a cash center.

#### **6.0 Documentation Requirements for establishing Electronic Banking Office or ATM Center**

The application should be accompanied by the following:

- A resolution of the Board of Directors approving the establishment of the e-banking office or ATM center stating the estimated cost of the outlet;
- A detailed feasibility report, which should cover the following:
  - a. Suitability of the location including evidence of commercial/industrial establishments and/or bankable population;
  - b. Basic social and infrastructural facilities in place;
  - c. Competition/number of banks in the area;
  - d. Range of services to be provided;
  - e. Estimated initial capital expenditure and other operating costs for the proposed e-banking office or ATM center with breakdown of the estimates;
  - f. Staffing requirements;
  - g. Security arrangement in place to ensure safe operations; and
  - h. Proposed Cash-in-transit companies to be used.

Banks should ensure compliance with the provisions of the Guidelines on Electronic Banking in Nigeria of August 2003 and Nigeria Financial Services IT Standards Blueprint in this regard.

## **7.0 Documentation Requirements for Establishing Teller Implant**

The application should be accompanied by the following:

- a A resolution of the Board of Directors approving the establishment of the teller implant stating the estimated cost of the outlet;
- b A detailed feasibility report, which should cover the following:
  - i Suitability of the location;
  - ii Basic social and IT infrastructural facilities like key logger prevention, access road and ATM;
  - iii Range of services to be provided should be restricted to that of a teller implant;
  - iv Estimated initial capital expenditure and other operating costs for the proposed implant with breakdowns;
  - v Staffing requirements;
  - vi Security arrangement in place to ensure safe operations; and
  - vii Proposed Cash-in-transit companies to be used for the evacuation of cash.

## **8.0 Approval**

Banks are required to seek the CBN's approval when establishing branches in line with Section 6(1) of the BOFIA. The provision of this Section is also extended to cash centers, e-banking office or ATM Center and teller implants. The validity of approval granted is for a period of one (1) year for branches and six (6) months for other banking outlets from the date of issue of the letter of approval.

## **9.0 Revalidation of Approval to Open Branches and Other Banking Outlets**

Where a bank is unable to commence operations within the validity period, an extension of time (6 and 3 months for branch and other banking outlets respectively) may be granted provided that the bank provides cogent reason(s) for the delay.

The bank will be required to apply for an extension of time three (3) months to the end of the validity period. Where approval is granted, the bank is expected to commence operations within the period, failing which the approval would automatically lapse. However, where the bank still intends to open a branch or other banking outlet in the same location, it would be required to re-apply, attaching all documentation requirements.

## **10.0 Documentation Requirements for Closure of a Branch and Other Banking Outlets**

### **10.1 Closure of Branches and Other Banking Outlets**

In line with Section 6(1) of BOFIA, no bank is permitted to close any branch without the prior approval of the CBN. The provision of this Section is extended to other banking outlets.

An application for closure of branches and other banking outlets should be accompanied by the following:

- a A resolution of the Board of Directors approving the closure/rationalisation;
- b Justification for the closure;
- c Number of other bank branches/other banking outlets;
- d Total number of customers accounts, indicating the account types;
- e List of outstanding credit facilities and their performance ratings;
- f Income statements for the last 3 years;
- g The nearest branch of the bank and its distance from the affected branch/other banking outlets;
- h Total number of staff working in the affected branch/other banking outlets and the bank's restructuring plans with respect to the staff of the branch/other banking outlets; and
- i How the bank intends to cater for existing customers to ensure they continue to enjoy banking services.

### **10.2 Merging of Branches and Other Banking Outlets**

Banks are permitted to merge branches or banking outlets where cogent reason(s) are provided to justify the merger. However, such an application would be considered on the basis of its merit. An application for the merger of a branch/outlet with another should be accompanied by the following:

- A resolution of the Board of Directors approving the merger and cost involved;
- Justification for the merger;
- Estimated cost of the merger with breakdown of the estimates;
- The addresses of the branches or outlets to be merged;
- The distance between the branches or outlets to be merged;
- The total number of customers in both branches or outlets; and
- Total number of staff working in the affected branch or outlet and how the bank intends to absorb them.

### **10.3 Upgrade of Other Banking Outlets to Branches**

This follows the same approach for the opening of branches.

#### **10.4 Downgrade of Branches to Other Banking Outlets**

Banks are permitted to apply for the downgrade of branches to cash centers, teller implants and e-banking office or ATM centers. However, the application would be considered on the basis of its merit.

#### **11.0 Documentation Requirements for Relocation of Branches and Other Banking Outlets**

The application should be accompanied by the following:

- a) A resolution of the Board of Directors approving the relocation;
- b) Justification for the relocation;
- c) Cost implication for the relocation;
- d) Other banks existing in the former area and the new area;
- e) Distance between the present and proposed location; and
- f) Bank's arrangement for existing customers to prevent inconvenience.

#### **12.0 Other Requirements**

Upon commencement of operation of an approved branch or outlet, banks are required to notify the CBN within 14 days, providing the telephone number, address and date that the branch or outlet opened.

Upon closure/upgrade/downgrade of an approved branch or outlet, banks are required to notify the CBN within 14 days providing date that the branch or outlet closed, relocated, or merged. A bank shall post notice to customers in a conspicuous manner in the branch or outlet prior to its date of closure/relocation/merger. The notice shall remain posted in the branch or outlet until it is closed/ relocated/merged.

#### **13.0 Reporting Requirements**

All banks shall annually render returns on branches and other banking outlets opened, closed, rationalized and relocated during the year as well as the total number of the branches and outlets as at the end of the reporting year in the attached format in print and soft copies to the Director Banking Supervision and [BSDReturns@cbn.gov.ng](mailto:BSDReturns@cbn.gov.ng). In addition, banks should ensure rendition of returns with respect to branches and other banking outlets in the following returns in e-FASS and finA:

- MBR 300-Monthly Statement of Assets and Liabilities;
- MBR 338-Monthly Return on Branch Network; and
- SBR 1920-Semi-annual Return on Branch Network.

#### **14.0 Penalty for Non-Compliance**

Banks should ensure compliance with these guidelines as any breach with the provisions of the Guidelines shall attract sanctions in accordance with Sections 6(2) and 60(1) of the BOFIA.

## Reporting Templates

### Format for Reporting on Branches and Other Banking Outlets Opened During the Year

S/N	Type of banking outlets	Banking Location/Address	Date of approval	Date of commencement of operation



09-46236401

09-46236418

REF: **BSD/DIR/GEN/LAB/07/013**

23rd May, 2014

LETTER TO BANKS AND DISCOUNT HOUSES

### **STATUS AND REPORTING LINE OF CHIEF COMPLIANCE OFFICERS OF BANKS**

Information available to the CBN has revealed that Chief Compliance Officers of some banks and discount houses are below the grade of General Manager without prior approval of the CBN. Equally worrisome, is the fact that most of them do not report directly to the Board of Directors.

This is a flagrant disregard to extant laws and regulations on the subject. For the avoidance of doubt:

- I. The CBN circular ref BSD/2/2002 dated 8th August, 2002 and FPR/DIR/GEN/001/022 dated 18th July 2013 directed that banks and discount houses should designate Chief Compliance Officers, **not below the grade of a General Manager** to, among other things, apply the provisions of the relevant Acts and circulars on money laundering at various levels of their institutions; and
  - Section 9(1) of the Money Laundering (Prohibition) Act, 2011(as amended) also requires them to designate, **at management level, Chief Compliance Officers in their Head Offices and branches, who have the relevant competence, authority and independence** to implement their institutions AML/CFT Compliance Programme.
- III. Paragraphs (I) and (II) are reinforced by sections 7(1) and 7(2) of the CBN AML/CFT Regulation, 2013 (as amended).
- IV. Section 7(2) of Central Bank of Nigeria (AML/CFT in Banks and Other Financial Institutions in Nigeria) Regulations, 2013 stipulates that the Chief

Compliance Officer shall be appointed at management level and shall report directly to the Board on all matters under the Regulations.

On the basis of the foregoing, all Deposit Money Banks and Discount Houses must ensure:

- that no Chief Compliance Officer in their institutions is below the grade of General Manager without the CBN prior approval
- that he/she reports to the Board of Directors with dotted lines to the MD/CEO without interlocking roles.

Accordingly the particulars of all current CCOs with evidence of the CBN approval of same and reporting line should be forwarded to the Director Banking Supervision within 1(one) week from the date of this letter.

The CBN also observed with concern the lack-lustre attendance of CCOs to the monthly meetings of the Committee of Chief Compliance Officers of Banks in Nigeria (CCCOBIN), resulting in the inability of the forum to form the required quorum necessary to take vital decisions pursuant to its mandate.

Going forward, CBN will monitor the attendance by CCOs at the monthly meetings of the CCCOBIN and will not hesitate to take the appropriate regulatory action to stem the unsatisfactory attendance at this important forum.

**K.O.BALOGUN**

**FOR: DIRECTOR OF BANKING SUPERVISION DEPARTMENT**



09-462-36401

09-462-36418

**BSD/DIR/GEN/LAB/07/011**

April 10, 2014

**LETTER TO ALL BANKS AND DISCOUNT HOUSES**

**TIMELINES FOR RENDITION OF STATUTORY RETURNS THROUGH THE FinA APPLICATION TO THE CBN AND NDIC**

Subsequent to the 'Go-Live' of the FinA Regulatory Reporting Application in December 2013, all banks and discount houses have been required to submit Daily, Monthly, Quarterly and Semi-Annual returns concurrently via the e-FASS and FinA Applications.

In consideration of the need to enable reporting institutions become familiar with the new Application (FinA), the deadlines for submission of returns were not strictly enforced. It is also observed that some institutions do not even render their returns through FinA.

Consequently, it has become necessary to remind all banks and discount houses about the timelines for the rendition of statutory returns through eFASS and FinA, shall henceforth, be strictly enforced:

1. **Daily returns:** To be submitted on or before 10.00 a.m. of the following working day; and
2. **Monthly, Quarterly and Semi-Annual returns:** To be submitted on or before the 5th day after the month end. Where the 5th day happens to be weekend or public holiday, returns should be submitted the previous day.

This letter takes immediate effect and all reporting institutions are hereby requested to note the above timelines as any future breach shall be promptly met with the applicable sanctions.

**'TOKUNBO MARTINS (MRS.)**

**DIRECTOR, BANKING SUPERVISION**



09-46236403

09-46236401

**BSD/DIR/GEN/LAB/07/009**

March 13, 2014

## **LETTER TO ALL BANKS**

### **TRANSMUTATION OF EXECUTIVE DIRECTORS TO NON-EXECUTIVE DIRECTORS OF DEPOSIT MONEY BANKS**

You will recall that in furtherance of our efforts in strengthening corporate governance practices in banks, we issued two Circulars referenced BSD/DIR/GEN/NED/003/019 dated August 27, 2010 titled, "Re: Compliance with the Provisions of Paragraph 5.3.10 of the CBN Code of Corporate Governance" and BSD/DIR/GEN/EXA/003/026 dated September 08, 2010 titled, "Compliance with the Provisions of Paragraph 8.2.3 of the CBN Code of Corporate Governance". These Circulars reminded banks on the need to ensure compliance with the provision of the CBN Code of Corporate Governance as it relates to the delimitation of tenures of their non-executive directors and external auditors, respectively. We also issued another Circular referenced BSD/DIR/GEN/CCG/003/074 dated December 29, 2010 titled, "Re: Compliance with the Provisions of Paragraph 5.3.10 and 8.2.3 of the CBN Code of Corporate Governance", in response to enquiries from banks on the interpretation of these policies.

The above policy documents were, however, silent on possible transmutation of executive directors to non-executive directors upon the expiration of their tenures. Following recent developments in the system leading to concerns over the ability of the aforementioned individuals to effectively function with the independence and objectivity required by the tenets of good corporate governance and in line with global best practices, it has become imperative to

issue this circular. In this regard, banks are required to extend the provision in our regulation of January 19, 2010, titled, "Guidelines for Tenure of Managing Directors of Deposit Money Banks and Related Matters" to cover transmutation from executive director to non-executive director. In other words, executive directors aspiring to take up non-executive directorship positions in their banks or its subsidiaries, which are under the supervision of the Central Bank of Nigeria or the Nigeria Deposit Insurance Corporation, are required to serve out a minimum "cooling-off" period of 3 years.

Please note that this requirement shall apply notwithstanding the terms of any contract of engagement or the provisions of the Memorandum and Articles of Association of the institution.

Banks are advised to be guided accordingly.

Yours faithfully,

**'TOKUNBO MARTINS (MRS)**

**DIRECTOR OF BANKING SUPERVISION**



09-46236403

09-46236413

BSD/DIR/GEN/LAB/07/008

March 11, 2014.

## LETTER TO ALL BANKS AND DISCOUNT HOUSES

### TRANSFER OF ALL NON-PROPRIETARY ASSETS TO LICENSED CUSTODIANS

The Central Bank of Nigeria has observed with dismay, the apathy by money market operators in appointing custodians as stipulated in the Guidelines for Custodianship in Money Markets and Other Fixed Income Instruments issued in 2007. This has resulted in the assets of banks and discount houses being comingled with those of their clients/customers. Consequently, this has made it difficult for the Central Bank of Nigeria to segregate the assets of banks and discount houses from those of their clients/customers. Consequently, to ensure full compliance with the provisions of the above guideline, the Central Bank of Nigeria, in exercise of the powers conferred on it by section 57 (2) of BOFIA 2004 directs as follows:

- 1 All Deposit Money Banks and Discount Houses are required to appoint a licensed Custodian, ***not later than March 31, 2014.***
- 2 All non-proprietary financial assets (e.g. Treasury Bills and Bonds) in the custody of Deposit Money Banks and Discount Houses should be transferred to the Custodian so appointed, ***not later than April 30, 2014.***
- 3 All Deposit Money Banks and Discount Houses shall notify their clients/customers, ***not later than April 30, 2014,*** the Custodian to which their financial assets have been transferred. Subsequently, investors should be notified of the Custodian at the time of making the investment.

2. All Deposit Money Banks and Discount Houses shall display to the public, in a conspicuous place, in the head office and all branches, a notice that
  - o Brokerage will be charged for purchase of financial assets on their behalf in line with the Guidelines for Custodianship in Money Markets and Other Fixed Income Instruments issued in 2007
  - o Custody of customers' investments in financial assets (e.g. Treasury Bills and Bonds) shall be transferred to a named licensed Custodian and
- A Client or customer who makes an investment in financial assets subsequent to the issuance of this circular reserves the right to choose a custodian for his investment.
- In all cases, an investor in financial assets has the right to change his/her custodian at no extra fee.

Failure to appoint a Custodian or transfer all non-proprietary financial assets, as stipulated in this Circular, shall constitute an infraction and attract sanctions, which may include, among others, the loss of money market dealership. In addition, 50% of the financial assets portfolio of such Deposit Money Bank or Discount House shall be regarded as non-proprietary and, consequently, be excluded from the computation of its Liquidity Ratio.

A list of licensed custodians can be obtained from the Central Bank of Nigeria's website.

Please be guided accordingly.

Yours faithfully,

**'TOKUNBO MARTINS (Mrs.)**

**DIRECTOR BANKING SUPERVISION**



234 – 9 – 46236403

234 – 9 – 46236418

**February 5, 2014**

**BSD/DIR/GEN/LAB/07/004**

**LETTER TO ALL BANKS AND DISCOUNT HOUSES**

**RE: THE NEED FOR THE CBN PRIOR CLEARANCE OF PROSPECTIVE EMPLOYEES OF BANKS**

We refer to our circular to all banks dated July 16, 2004 on the above subject, wherein banks were required to obtain the prior approval of the Central Bank of Nigeria (CBN) for all prospective employees.

The intendment of the above referenced circular was to prevent the recycling, within the banking industry, of erstwhile bank employees indicted, terminated or dismissed for fraud and other acts of dishonesty.

Following representations made by banks during the CBN/Banks' Human Resources forum held in December 2013 regarding difficulties in the strict implementation of the above circular, the Management of the CBN hereby approves the following amendments:

- New employees of banks and discount houses may assume duty prior to obtaining the approval of the CBN, if this proves difficult or impractical.
- However, for employees that assume duty without CBN's prior approval, banks and discount houses shall, within 30 days of their assumption of duty, submit their curriculum vitae and other relevant information on the new employees to the CBN for clearance.
- Banks
- and discount houses shall include as part of the terms of employment (OFFER LETTER) that "the offer is subject to the receipt of satisfactory

responses on any background checks or other inquiries on the employee from relevant authorities”.

- The above amendments shall NOT apply to new employees on the grade of Assistant General Manager and above. Banks are required to continue to obtain the prior written approval of the CBN before resumption of duty for these categories of staff.

This circular supersedes our earlier circular of January 16, 2004 and takes immediate effect.

**TOKUNBO MARTINS (MRS)**

**DIRECTOR OF BANKING SUPERVISION**



09-462-36401

09-462-36403

**BSD/DIR/GEN/LAB/07/001**

January 3, 2014

**LETTER TO ALL BANKS**

**CASH RESERVE REQUIREMENT MAINTENANCE CALENDAR FOR 2014**

Further to the implementation of the cash reserve regime, find below the calendar for year 2014 for your information.

S/N	START DATE	END DATE
1	Wednesday, January 08, 2014	Tuesday, February 04, 2014
2	Wednesday, February 05, 2014	Tuesday, March 04, 2014
3	Wednesday, March 05, 2014	Tuesday, April 08, 2014
4	Wednesday, April 09, 2014	Tuesday, May 06, 2014
5	Wednesday, May 07, 2014	Tuesday, June 03, 2014
6	Wednesday, June 04, 2014	Tuesday, July 01, 2014
7	Wednesday, July 02, 2014	Tuesday, August 05, 2014

8	Wednesday, August 06, 2014	Tuesday, September 02, 2014
9	Wednesday, September 03, 2014	Tuesday, October 07, 2014
10	Wednesday, October 08, 2014	Tuesday, November 04, 2014
11	Wednesday, November 05, 2014	Tuesday, December 02, 2014
12	Wednesday, December 03, 2014	Tuesday, January 06, 2015

Please be guided accordingly.

**A. O. IDRIS**  
**FOR: DIRECTOR OF BANKING SUPERVISION**

**CENTRAL BANK OF NIGERIA**



**REGULATORY CAPITAL MEASUREMENT AND MANAGEMENT  
FRAMEWORK FOR THE IMPLEMENTATION OF BASEL II/III FOR THE  
NIGERIAN BANKING SYSTEM**

## Introduction

The CBN pursuant to Section 13 of the Banks and Other Financial Institutions Act (BOFIA), 1991 as amended and in line with its core mandate of ensuring financial system stability as contained in Section 2 (d) of the Central Bank of Nigeria Act, 2007, herewith issues this **Regulatory Capital Measurement and Management Framework for The Implementation Of Basel II/III for the Nigerian Banking System**. The document contains guidance notes that outline the expectations of CBN with respect to the implementation of Basel II<sup>1</sup>/III by banks and banking groups in Nigeria.

It specifies the approaches for quantifying the risk weighted assets for credit risk, market risk and operational risk. The computations are consistent with the requirements of Pillar I of Basel II which is expected to ensure that banks have sufficient high quality capital to support their risk taking activities and that they establish effective risk management systems commensurate with their level of operations.

Banks and Banking groups are expected to adopt the basic approaches for the computation of capital requirements for credit risk, market risk and operational risk as follows:

- |      |                  |                                   |
|------|------------------|-----------------------------------|
| i.   | Credit Risk      | Standardized Approach             |
| ii.  | Market Risk      | Standardized Approach             |
| iii. | Operational Risk | Basic Indicator Approach<br>(BIA) |

Within the first **two years** of the adoption of these approaches under Pillar 1, it is hoped that an effective rating system would have developed in Nigeria. Banks and banking groups are projected to have gathered more reliable data and gained experience that would prepare them to consider the adoption of more sophisticated approaches. The adoption of the Standardized Approach (TSA) for operational risks and other advanced approaches will be subject to the approval of the CBN.

These Guidelines emphasize the need for banks to have comprehensive risk management policies and processes that effectively identify, measure, monitor and control their risk exposures in addition to having appropriate board and senior management oversight.

The assessment of adherence to the standards and requirements set out by the CBN under the supervisory review process is key to ensuring that all risks are identified and appropriate actions are taken in a timely manner as well as ensuring that banks and banking groups have adequate internal capital management plans. A template to aid banks carry out their Internal Capital Adequacy Assessment Process is included in the relevant Guidance Note.

Minimum standards for both qualitative and quantitative disclosures are given to ensure that relevant material information are disclosed by banks and banking groups for enhanced transparency and related market discipline.

While the definition of regulatory capital has not significantly changed from those contained in the 1998 Accord, a section on the definition and constituents of regulatory capital is included to provide expectation on the calculation of capital under Basel II.

Although the document complies significantly with the requirements of the Basel II framework, certain sections were adjusted to reflect the peculiarities of our environment. From time to time; the CBN will also issue additional guidance notes to clarify its expectations on compliance with the technical provisions of these Guidelines.

The minimum capital requirement is retained as 10 percent and 15 percent for national and internationally active banks respectively.

This document is applicable to all banks and banking groups licensed to operate in Nigeria and should be applied on a solo and consolidated basis.

# CENTRAL BANK OF NIGERIA



## Guidance Note on the Calculation of Capital Requirement for Market Risk

### Standardised Approach

## 1.0 Introduction

This regulation identifies and prescribes the treatment of positions and settlement risk pertaining to interest rate-related instruments and equities in the trading book and foreign exchange risk and commodity risk throughout the bank for estimating capital requirement for market risk. The capital requirement, takes into account both on- and off-balance sheet positions that are subject to market risk. Banks that are not able to properly measure and manage the risks associated with financial instruments which are sensitive to multiple risk factors shall not conduct business in those instruments.

Market risk is the risk of losses in on- and off-balance sheet positions<sup>27</sup> arising from movements in market prices. Market risk includes:

- a) Interest rate risk;
- b) Equity position risk;
- c) Foreign exchange risk; and
- d) Commodity risk.

Capital requirement will be computed using the Standardised Approach. Under this approach, banks are to compute their capital requirements using a building-block approach, by summing up the capital requirement for individual risks mentioned above.

A bank shall calculate its market risk taking into account the risk of losses in:

- a) bank's trading book position held in:
  - i. debt securities;
  - ii. debt and interest rate related derivative contract;
  - iii. equity; and
  - iv. equity related derivative contract
  
- b) bank's position (in trading book and banking book) held in:
  - i. foreign exchange (including gold);
  - ii. foreign exchange rate related derivative contract;
  - iii. commodity; and
  - iv. commodity related derivative contract;

---

<sup>27</sup> Position risk on account of options is computed separately and aggregated with respective risk to which the underlying exposure belongs, like interest rate risk, equity position risk, foreign exchange risk or commodity risk.

A bank will not include a position in calculation of market risk if the position is:

- a) a credit derivative contract in bank's trading book treated as a hedge to a credit exposure in the banking book;
- b) an exposure required to be deducted from bank's capital;

## **2.0 Position Risk in Trading Book**

A bank will use fair value of its positions, based on marked-to-market or marked-to-model methodology, to calculate its market risk capital charge. A bank shall allocate to the trading book any position in a financial instrument or commodity which is held with trading intent or hedge other positions held in the trading book.

The market risk is assessed on positions in the trading book and it consists of the following two components:

- a) **Specific risk** means the risk of loss in value of bank's trading book positions arising from changes in prices of debt securities, equities and their related derivative contracts owing to factors related to the issuers of such debt securities, equities or the underlying instruments held in the trading book;
- b) **General risk** means the risk of loss (arising from changes in interest rate, equity prices, exchange rate and commodity prices in the value of a bank's trading book positions held in debt securities, equities, foreign exchange (including gold), commodities and other related derivative contracts.

The table 1 below summarises the specific risk and general risks inherent in cash position in instruments and derivatives.

**Table 1 Position risk in trading book**

Risk type	(Both long and short position)
Specific risk	Trading book positions in debt and equity securities and their related derivative contracts
General risk	<ul style="list-style-type: none"> <li>i. Trading book position in debt and equity securities and debt related and interest rate related derivative contracts;</li> <li>ii. Interest rate exposures arising from trading book positions in equity related derivative contract;</li> <li>iii. Interest rate exposures arising from foreign exchange derivative positions (in the entire book).</li> <li>iv. Interest rate exposure arising from commodity related derivative contracts (in the entire book).</li> </ul>

### 3.0 Interest Rate Risk

A bank shall calculate its market risk capital requirement for interest rate risk by:

- a) identifying the positions in its trading book which have interest rate risk;
- b) allocating the positions into individual currency portfolios;
- c) for each currency portfolio –
  - i. calculating the net positions in accordance with paragraph 3.3;
  - ii. including these net positions in the calculation of its specific risk capital requirement after applying any offsets allowed according to paragraph 3.5;
  - iii. including these net positions in the calculation of its general market risk capital charge; and
- d) summing up all specific risk and general market risk capital charges for each currency portfolio;

### 3.1 Scope

In calculating its market risk capital charge for interest rate risk, a bank shall include all its trading book positions, whether long or short, in instruments (including derivatives and offbalance sheet instruments) whose market values are affected by changes in interest rates. This includes positions in any interest

rate-related instrument that is sold or lent under security financing transactions (SFT) (repo, etc.), but excludes any interest rate-related instrument that is bought or borrowed under an SFT (reverse repo, etc.).

A bank will exclude the positions in the following instruments for assessment of market risk-

- i. convertible bond which has been included in the equity position risk;
- ii. capital investment that is deducted in the calculation of eligible capital;  
or
- iii. option which is accounted for under section 7 on "Treatment of options"

### **3.2 Measurement of Position with Interest Rate Risk**

A bank shall use the current market value of its positions in interest rate-related instruments to calculate its market risk capital charge for interest rate risk.

- a) A bank shall convert its interest rate-related derivatives into notional positions in specific-risk-free securities (zero-specific risk) and use the current market values of the specific-risk-free securities to calculate its market risk capital charge for interest rate risk.
- b) A bank shall convert its credit derivatives into notional positions in the relevant reference assets and use the current market values of the reference assets to calculate its market risk capital charge for interest rate risk, except in the case of credit linked notes, where the current market value of the notes shall be used.

### **3.3 Netting of Matched Positions**

A bank will net its positions (long and short positions) in debt securities or notional positions in specific-risk-free securities for calculating specific risk and general risk capital charge. A bank will net:

- a) long and short positions (including any notional positions) in identical issues (even though the issuer is the same, no netting will be permitted between different issues since differences in coupon rates, liquidity, call features, etc. mean that prices may diverge in the short run.); and
- b) a matched position in a futures contract or forward contract and its corresponding cash position in the trading book<sup>28</sup> (**Annexure F – illustrative example**);

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<sup>28</sup> A notional position in zero-specific-risk free security for interest rate risk is created by representing the cash flows with settlement date as maturity.

A bank may net opposite positions in the same category of debt securities, notional position in specific-risk-free securities or interest rate-related derivative contracts if:

- a) the positions relate to the same instruments;
- b) the positions are of the same notional value; and
- c) the positions are denominated in the same currency; and –
  - i. in the case of futures contracts, the offsetting positions in the notional or underlying instrument to which the futures contract relates, are for identical products and mature within seven days of each other;
  - ii. in the case of swaps and FRAs, the reference rates (for floating rate positions) are identical and the coupons are closely matched (i.e. within 15 basis points); and
  - iii. in the case of swaps, FRAs and forwards, the next interest fixing date or for fixed coupon positions or forwards, the residual maturity, corresponds as follows:
    - 1. on the same day, if the next interest fixing date or residual maturity is less than one month;
    - 2. within seven days, if the next interest fixing date or residual maturity is between one month and a year; or
    - 3. within 30 days, if the next interest fixing date or residual maturity is more than a year;

### **3.4 Offset of Positions Hedged by Credit Derivatives**

#### **a) Offsetting in Full**

A bank may fully offset its position in derivative contract against a cash position (in trading book) in similar instrument which is identical to underlying asset in derivative contract. Similarly, a position in a derivative contract may fully offset a position in another derivative contract where the values of the two positions (one being long and another being short) always move in opposite directions and broadly to the same extent. This will be the case when:

- i. the two legs consist of identical instruments;
- ii. a long cash position is hedged by a total rate of return swap (or vice versa) and there is an exact match between underlying asset (in the credit derivative contract) and the cash position and notwithstanding that the maturity of the total return swap may be different from that of the cash position.

When a bank has fully offset its position in the credit derivative contract against a cash position in underlying instrument in the trading book, no specific risk capital charge is required to be calculated in respect of those positions.

**Example of full offset of cash position against credit derivative position (position in underlying asset):**

*A bank has a long (cash) position in a corporate bond for N 5 billion (face value), in its credit portfolio. The bank also purchased credit protection, for the same long position (for N 5 billion) in the corporate bond, under a credit default swap for same amount.*

**Working:**

- 1. Cash position in the instrument – long position in corporate bond*
- 2. Underlying asset in credit default swap – corporate bond (purchase of protection)*
- 3. Amount (face value) of cash position = amount of underlying asset in credit default swap = N 5 billion*

*Bank's long cash position is fully offset by purchase of protection under credit default swap resulting in no position in the corporate bond instrument.*

**b) Offsetting by 80%**

A bank may offset 80% of specific risk capital charge of its position in credit derivative contract against a position in underlying instrument in its trading book where the values of the two positions (being long and short positions) always move in the opposite directions but not broadly to the same extent.

In order to be eligible for offsetting by 80%, the following conditions must be satisfied:

- a) A long cash position is effectively hedged by a credit default swap or credit linked note ( or vice versa) and there is an exact match between:
  - i. the reference asset and the underlying instrument (i.e. the cash position);
  - ii. the maturities of both the reference asset and the underlying instrument; and,
  - iii. the currencies of the two offsetting positions;

- b) The key features of the credit derivative contracts (e.g. credit event definitions, settlement mechanism) do not cause the price movement of these derivative instruments to materially deviate from the price movement of the position in the cash position; and
- c) The credit default swap or the credit linked notes transfers credit risk effectively taking account of any restrictive payment provisions (including fixed pay outs and materiality threshold).

Where the above conditions are satisfied and a bank offsets its positions in a derivative contract:

- a) only 20% of specific risk capital charge is required to be calculated for the position with higher specific risk; and
- b) Specific risk capital charge to be calculated for the other position will be zero.

### **c) Partial Offsetting**

A bank may partially offset its position in derivative contract against a cash position when the values of the two legs (similar but not identical) usually move in opposite directions and where:

1. There is an asset mismatch between the reference asset and the underlying instrument (i.e. cash position) and:
  - i. the reference asset ranks pari-passu with or is junior to the position in underlying instrument; and
  - ii. the reference asset and the underlying instrument are issued by the same issuer and legally enforceable cross default or cross default acceleration clauses are included in the terms of the positions in the reference asset and underlying instrument;
2. there is a currency or maturity mismatch between the contract and the position in underlying instrument; and
3. there is a mismatch between underlying instrument and reference asset in the contract and the position in the underlying instrument is included in one of the deliverable assets specified in the contract;

Where the above conditions are satisfied, a bank will apply specific risk capital charge for a position having higher specific risk and specific risk capital charge for the other position will be zero.

## **3.5 Specific risk capital charge**

A bank shall compute specific risk capital charge for each of the net positions (actual as well as notional) in debt securities, debt-related derivative contracts, credit derivatives and deltaweighted position of options. However, notional positions in specific-risk-free securities (e.g. interest rate and currency swaps, FRAs, forward foreign exchange contracts, interest rate futures and futures on an interest rate index) do not attract specific risk capital charge.

**Example:**

**Notional Position in Specific-risk-free Security and Treatment of Specific Risk Charge:**

A bank, under a swap contract, is receiving fixed annual interest of 12% p.a. and paying floating rate linked to 3 month NIBOR. The swap has a remaining maturity of 3 years.

**Working:**

For computation of market risk under Standardised Approach, the swap will be converted into a long position in a fixed rate bond with 12% interest rate with 3 years maturity and a short position in a floating rate bond with 3 month maturity (up to next reset date).

Both bonds are specific-risk-free instruments and no specific risk will be computed for positions in the long fixed rate bond and short floating rate bond.

A bank, for the purpose of computing specific risk capital charge, shall:

- a) assign those positions into classes based on credit quality grades and residual maturities specified in the table 2 below;
- b) Multiply those positions by appropriate specific risk capital charge factors specified in the table; and
- c) Calculate the total specific risk capital charge as the sum of specific risk capital charge of each of those positions.

**Table 2 Specific Risk Capital Charge Factors**

Security class	Risk weight	Residual maturity (M)	Specific capital charge factors	risk
Debt securities issued/guaranteed by Central government, Central bank or MDBs that qualify for risk weight under credit risk regulations.	0%	All maturities	0%	
	20% to 50%	M ≤ 6 month	0.25%	
		6 month < M ≤ 24 month	1.00%	
		Maturity > 24 months	1.60%	
	100%	All maturities	8%	
150%	All maturities	12%		
Debt securities issued/guaranteed by State government or local authorities that qualify for risk weight under credit risk regulations	20% to 50%	M ≤ 6 month	0.25%	
		6 month < M ≤ 24 month	1.00%	
		Maturity > 24 months	1.60%	
	100%	All maturities	8%	
	150%	All maturities	12%	
Debt securities issued or guaranteed by supervised institutions which would qualify for risk weight in Standardised Approach under credit risk regulations.	20% to 50%	M ≤ 6 month	0.25%	
		6 month < M ≤ 24 month	1.00%	
		Maturity > 24 months	1.60%	
	100%		8%	
	150%		12%	
Debt securities issued or guaranteed by corporate which would receive a risk weight under credit risk regulations.	20% to 50%	M ≤ 6 month	0.25%	
		6 month < M ≤ 24 month	1.00%	
			1.60%	

		M > 24 months	
	100%		8%
	150%		12%
Other qualifying securities		M ≤ 6 month	0.25%
		6 month < M ≤ 24 month	1.00%
		M > 24 months	1.60%
Debt securities by persons (including legal entity) for which a credit assessment by an ECAI is not available.		All maturities	8%

For the purposes of the above table, "other qualifying securities" shall include positions satisfying any one of the following conditions:

- a) security which has a credit quality grade of "2" or above within the framework of the standardized approach under credit risk; or
- b) security issued by supervised institutions which receive a risk weight of 50% or less (higher grade) under credit risk standardized approach;
- c) security for which a credit assessment by a nominated ECAI is not available and which is considered by the concerned bank to be-
  - i. sufficiently liquid; and
  - ii. of investment grade

### 3.6 General risk capital charge

The general risk capital requirement is intended to capture the risk of loss arising from changes in market interest rates. A bank shall calculate the general risk capital charge for the portfolios by applying either the maturity method or the duration method (subject to CBN approval) to calculate the general risk capital charge for interest rate portfolios. General risk capital charge for foreign currency portfolio will be computed separately using one of the above approaches.

A bank shall use separate maturity ladders for positions in each currency, with capital charges calculated separately for each currency and then summed, with no offsetting between positions of different currencies. Where business in one or more currencies is insignificant, known as residual currency, the bank may construct a single maturity ladder for those currencies and record, within each appropriate time band, the net long or short positions in each currency, rather than having to use separate maturity ladders for each currency. The bank shall sum the absolute value of the individual net positions within each time band, irrespective of whether they are long or short positions, to produce a gross position figure.

In each method, positions are allocated across a maturity ladder and the capital charge is calculated as the sum of three components:

- a) a small proportion of the matched positions in each time band (the 'vertical disallowance');
- b) a larger proportion of the matched positions across different time bands (the 'horizontal disallowance'); and
- c) the net short or long weighted position across the whole trading book;

Vertical disallowance is designed to capture the basis risk. It is the risk that the relationship between changes in prices of similar instruments, even in same time zone, is not stable over time. Horizontal disallowance on the other hand captures the imperfect correlation of interest rates along the yield curve, applicable to securities in different time zones.

### **3.6.1 Maturity method**

In the maturity method, long or short positions in debt securities and interest rate exposures, including derivative instruments, are entered into a maturity ladder comprising thirteen time bands (or 15 time bands in the case of low-coupon instruments, i.e. coupon of 3% and below) (refer to Table 3). A bank shall allocate fixed-rate instruments according to the residual term to maturity and floating-rate instruments according to the residual term to the next repricing date. Zero-coupon bonds and bonds with a coupon of less than 3% must be entered according to the time bands set out in the second column of Table 3 below. A bank may omit from the interest rate maturity framework opposite positions of the same amount in the same issue (but not different issues by the same issuer) and closely matched swaps, forwards, futures and forward rate agreements (FRAs) that comply with paragraph 3.3 above.

To calculate the general risk capital charge using the maturity method, a bank shall:

- a) multiply long and short position in interest rate exposure in each time band by the risk-weight corresponding to the position's time band (refer to Table 3 below); then
- b) offset the total risk weighted long and short positions in each time band to produce a single risk weighted long or short position in each time band; then
- c) offset the weighted longs and shorts within each zone (refer to Table 4), using only positions that have not been already offset under (b); then
- d) offset the weighted longs and shorts between zones using positions that have not already been offset under (b) and (c); The net amount remaining is the net position.

**Table 3 Time bands and risk weights**

<b>Coupon 3% or more</b>	<b>Coupon less than 3% or the duration method</b>	<b>Risk weight (%)</b>	<b>Assumed changes in yield (%)</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1 month or less	1 month or less	0.00	1.00
Over 1 and up to 3 months	Over 1 and up to 3 Months	0.20	1.00
Over 3 and up to 6 months	Over 3 and up to 6 months	0.40	1.00
Over 6 and up to 12 Months	Over 6 and up to 12 months	0.70	1.00
Over 1 and up to 2 years	Over 1 and up to 1.9 Years	1.25	0.90
Over 2 and up to 3 years	Over 1.9 and up to 2.8 years	1.75	0.80
Over 3 and up to 4 years	Over 2.8 and up to 3.6 years	2.25	0.75
Over 4 and up to 5 years	Over 3.6 and up to 4.3 years	2.75	0.75
Over 5 and up to 7	Over 4.3 and up to 5.7	3.25	0.70

years	years		
Over 7 and up to 10 years	Over 5.7 and up to 7.7 years	3.75	0.65
Over 10 and up to 15 years	Over 7.7 and up to 9.3 years	4.50	0.60
Over 15 and up to 20 years	Over 9.3 and up to 10.6 years	5.75	0.60
Over 20 years	Over 10.6 and up to 12 Years	6.00	0.60
	Over 12 years to 20 years	8.00	0.60
	Over 20 years	12.50	0.60

Vertical disallowance- A bank shall then calculate the vertical disallowances for each time band as 10% of the offsetting positions (being smaller of the two opposite positions), whether long or short. The vertical disallowance is computed when a bank has offsetting long and short positions in the same time bucket. The opposite positions do not offset interest rate risk completely due to basis risk (positions mapped to different interest rate indices) and capital, in the form of vertical disallowance, should be maintained for the residual interest rate risk (to the extent of no offsetting).

Horizontal disallowance- The horizontal disallowance is computed when a bank has offsetting (opposite) long and short positions in the adjacent time buckets. Horizontal disallowance arises due to unequal changes in yield curve for different time buckets at the same time period. A bank must then calculate the horizontal disallowances as the sum of:

- a) 40% of the offsetting positions within zone 1;
- b) 30% of the offsetting positions within zones 2 and 3; and
- c) 40% of the offsetting positions between zones 1 and 2, and between zones 2 and 3.
- d) 100% of the offsetting positions between zones 1 and 3.

**Table 4 Horizontal Disallowances**

Zone	Time band	Within the zone	Between adjacent zone	Between zone 1 and 3
1	2	3	4	5
Zone 1	0 - 1 month 1- 3 month 3 – 6 month 6 – 12 months	40%	40%	100%
Zone 2	1 - 2 year 2 – 3year 3 – 4 year	30%		
Zone 3	4 – 5 year 5 – 7 year 7 – 10 year 10 –15 year 15 –20 years	30%		

The bank shall calculate the market risk capital charge for general risk as the sum of:

- a) vertical disallowance;
- b) horizontal disallowance;
- c) net unmatched positions (long or short);

### 3.6.2 Duration Method

A bank may, with prior approval of the CBN, adopt the duration method to measure general risk by calculating the price sensitivity of each position separately. A bank which elects to use this method shall do so consistently, unless a change in method is approved by the CBN.

A bank, applying the duration method, shall:

- a) calculate the duration of each instrument;
- b) slot each net position into the appropriate duration band according to the modified durations of the instruments;
- c) calculate the weighted long and short position for each duration band by multiplying the net positions by the modified duration of the position and the relevant assumed change in yield (column 4 of table 3);

- d) calculate vertical disallowances for each time band as 5% of the offsetting positions, whether long or short;
- e) Carry forward the net position in each time band for horizontal offsetting subject to disallowance as carried out in the maturity method.

## **4.0 Equity Position Risk**

### **4.1 Scope**

A bank will compute specific risk capital charge and general risk capital charge for each of its positions (whether long or short) in equities and equity related derivative contracts except positions deducted from capital and equity options (included in section 7 on the treatment of options) .

### **4.2 Measurement of Position with Equity Position Risk**

A bank shall use the current market value of its cash positions in equity instruments to calculate its market risk capital charge for equity position risk. The bank shall convert its equity derivative instruments into notional positions in the relevant underlying equity instruments and use the current market value of the underlying instruments to calculate its market risk capital charge for equity position risk.

A bank shall calculate its market risk capital requirement for equity position risk by:

- a) identifying the positions in its trading book which have equity position risk;
- b) calculating the net positions (long or short) in each equity instrument and equity index;
- c) computing the net long position as sum of all long positions in equities;
- d) computing the net short position as sum of all short positions in equities;
- e) computing the equity position for specific risk as sum of absolute values long and short position (long position + Absolute(short position))
- f) specific market risk charge for equity = Equity position for specific risk \* specific risk capital charge factor
- g) computing the equity position for general risk as the net of long position and short position (long position – Absolute (short position))
- h) General market risk charge for equity = equity position for general market risk \* general market risk charge factor.

Positions in different equity markets or countries will be treated as separate portfolio and capital charge for equity positions in these markets/countries will be computed separately.

A bank shall treat positions in futures contract or forward on a single equity as a notional position in that equity<sup>29</sup>.

#### **4.3 Netting of Matched Positions**

For the purpose of calculating the specific risk and general risk capital charge for its equity positions, a bank may net a long and a short position (including notional positions) in an identical equity or equity index in the same equity portfolio. **No netting is allowed between positions in equity, equity derivatives or equity indices in different market or country.**

#### **4.4 Specific Risk Capital Charge**

A bank shall compute specific risk capital charge for each of its positions in an equity instrument by multiplying the gross amount (Gross long position plus Absolute gross short position) with specific risk capital charge factor of 8%.

#### **4.5 General Risk Capital Charge**

A bank will compute general risk capital charge for equity position risk by summing the net positions (Gross long position minus Absolute gross short position) in equities, equity indices (including delta-weighted position on equity and equity indices) in the same equity market and then by multiplying the resultant amount by general risk capital charge factor of 8%.

#### **4.6 Market Risk for Qualifying Equity Indices**

In addition to general risk charge for equity position risk, a bank will apply an additional risk charge of 2% on net short or long position in a qualifying equity index (as notified by CBN from time to time). This is required to cover execution risk.

### **5.0 Foreign Exchange Risk**

#### **5.1 Scope**

A bank shall calculate its net open position in each currency by summing:

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<sup>29</sup> A notional position in zero-specific-risk free security for interest rate risk is created representing the cash flows with settlement date of the derivative as the maturity date.

- a) the net spot positions (i.e. all asset items less all liability items, including accrued interest and accrued expenses, denominated in the currency in question);
- b) the net forward positions (i.e. all amounts to be received less all amounts to be paid under forward foreign exchange transactions, including currency futures and the principal on currency swaps, if not included in the spot position);
- c) guarantees and other similar instruments denominated in foreign currency which are certain to be called and are likely to be irrevocable;
- d) net future incomes or expenses not yet accrued but already fully hedged, as may be determined by the bank;
- e) any other item representing a profit or loss in foreign currency; and
- f) the net delta-weighted positions of foreign currency options in interest rate, equity, foreign exchange and commodity instruments, where the bank is using the delta-plus method, for computation of market risk capital charge for options;

A bank shall convert its foreign currency derivative instruments and derivative positions in gold into notional positions in the relevant foreign currency and in gold for computing market risk capital charge for foreign exchange risk.

## 5.2 Net Open Position (Using Short-Hand Method)

A bank shall calculate its net open position of the overall foreign currency assets and liability by –

- a) identifying the positions which have foreign exchange risk;
- b) calculating the net open position in each currency in accordance with paragraphs 5.1 above and the net gold position;
- c) converting the net open position in each currency and the net gold position into naira equivalent (the base currency) at prevailing foreign exchange spot rates;
- d) computing the overall net open position (**using Short-hand Method**) by–
  - i. calculating the aggregate long position by summing exposures in currencies having long positions; and
  - ii. calculating the aggregate short position by summing exposures in currencies having short positions; and
  - iii. selecting the higher of absolute values of aggregate long position and aggregate short position;

### **5.3 Capital Charge for Foreign Exchange Risk**

A bank shall calculate its market risk capital charge for foreign exchange risk for its positions in foreign exchange (including gold) and exchange rate related derivative contracts by summing –

- i. the net open position in foreign currency calculated according to Short-hand Method as detailed in paragraph 5.2 (d) above; and
- ii. The absolute value of the net position (long or short) in gold; And then multiply the above net open position by market risk capital charge factor of 8%.

### **6.0 Commodity Risk**

The commodity risk arises from holding positions in commodities such as precious (excluding gold) and base metals, agricultural products, minerals (including oil) and electricity. Holding positions in commodities is subject to extant regulations.

If a bank is exposed to interest rate or foreign exchange risk from funding commodities positions, the relevant positions must be included in the calculation of interest rate or foreign exchange risk. A bank shall convert its commodity derivative instruments into notional positions in the relevant commodities.

A bank shall measure commodities risk using either the simplified approach or the maturity ladder approach. Approval from the CBN is required for adoption of maturity ladder approach.

#### **6.1 Scope**

A bank shall include all positions, whether long or short, in trading book as well as in banking book for calculation of market risk capital charge for commodity risk except position in gold which is included in the scope of foreign exchange risk.

#### **6.2 Measurement of Position with Commodity Risk**

A bank shall calculate its market risk capital charge for commodity risk by –

- a) identifying the positions which have commodity risk;
- b) converting each commodity position (long or short) into standard unit of measurement for that position (e.g. barrels, kilos, grams);

- c) converting each position into naira equivalent (the base currency) at the prevailing foreign exchange spot rates and the current spot price for the commodity;
- d) calculating the market risk capital charge for each commodity position according to the simplified approach or the maturity ladder approach (as approved by CBN); and
- e) aggregating the capital charge for the entire commodity portfolio;

### 6.3 Netting of matched positions

A bank shall offset long and short positions in the same commodity for calculating net open position in that commodity and shall not offset its position in different types of commodities.

### 6.4 Simplified approach

A bank shall calculate market risk capital charge for its commodity positions as the sum of:

- a) 15% of bank's net position in each commodity; and
- b) 3% of bank's gross position (long plus short) in each commodity.

### 6.5 Maturity ladder approach

A bank, using the maturity ladder approach, shall calculate the market risk capital requirement for each commodity by –

- a) offsetting long and short positions, maturing –
  - i. on the same day; or
  - ii. in the case of positions arising from contracts traded in markets with daily delivery dates, within ten business days of each other;
- b) allocating the remaining positions to the appropriate maturity time bands as per table 5 below:

**Table 5 Commodity Time Bands**

Time bands
1 month or less
Over 1 month and up to 3 months
Over 3 months and up to 6 months
Over 6 months and up to 12 months
Over 1 year and up to 2 years
Over 2 years and up to 3 years
Over 3 years

- c) Matching the long and short positions within each time band. In each instance, calculating a spread charge equal to the sum of long and short position multiplied by the spread rate of 1.5%.
- d) carrying unmatched positions remaining to another time band where they can be matched, and matching them till all matching positions are exhausted, calculating;
  - i. a carry charge equal to the carried position multiplied by the carry rate of 0.6% and the number of time-bands by which the position is carried;
  - ii. a spread charge equal to the sum of long and short positions; and
  - iii. matched position multiplied by the spread rate of 1.5%;
- e) calculating the outright charge on the remaining positions (which will either be long position or short position) equal to the sum of remaining position (in absolute terms) multiplied by the outright charge of 15%;
- f) summing the capital charge on account of spread rate, carry rate and the outright charge as determined above;

## **7.0 Treatment of Options**

A bank must obtain prior approval of the CBN to use any of the approaches for the measuring price risk for options.

A bank:

- a) shall use the simplified approach for the treatment of options if,
  - i. it has only purchased options in its trading book and it does not write options; or
  - ii. it writes option and all written options are perfectly hedged by perfectly matched long positions in its trading book; and
- b) shall use the delta-plus method, where it has open position in written options;

## **7.1 Simplified Approach**

A bank using the simplified approach shall apply the capital charges outlined in Table 6. In this approach, the positions for the options and the associated underlying assets, cash or forward, are not subject to the Standardised Approach but rather are 'carved-out' and subject to separately calculated capital charges that incorporate both general risk and specific risk. The

capital charges thus generated are then added to the capital charge for the relevant category, i.e. interest rate related instruments, equities, foreign exchange and commodities.

**Table 6 Simplified approach: Capital charges**

Position	Treatment
Long cash and long put or Short cash and long call	The capital charge will be the market value of the underlying security multiplied by the sum of specific and general risk capital charges for the underlying less the amount, the option is in the money (if any) bounded at zero. The charge for currency option will be 8% and for options in commodities 15%
Long call or Long put	The capital charge will be the lesser of: a) the market value of the underlying security multiplied by the sum of specific and general risk capital charges for the underlying; and (b) the market value of the option;

## 7.2 Delta-Plus Approach

A bank that adopts delta-plus approach shall include delta-weighted options positions within the respective category under the Standardised Approach. The bank shall report such options as a position equal to the sum of the market values of the underlying multiplied by the sum of the absolute values of the deltas. As delta does not cover all risks associated with options positions, the bank must measure gamma (which measures the rate of change of delta) and vega (which measures the sensitivity of the value of an option with respect to a change in volatility) in order to calculate the total capital charge. These sensitivities must be calculated using an internal model or a proprietary options pricing model approved by the CBN.

Thus a bank that adopts delta-plus approach shall:

- a) incorporate delta-weighted positions of such outstanding contracts into its respective risk category (interest rate, equity, foreign exchange and commodity); and

- b) calculate the following market risk capital charge against those option positions;
- i. specific risk and general risk capital charge for delta risk under respective risk category;
  - ii. market risk capital charge for gamma risk; and
  - iii. market risk capital charge for vega risk

### **Capital Charge for Gamma Risk:**

The capital charges for 'gamma risk' must be calculated as:

$$\text{Gamma impact} = \frac{1}{2} \times \text{gamma} \times (\text{VU})$$

Where VU denotes the variation in the price of the underlying option. VU must be calculated as follows:

- a) for interest rate options, if the underlying is a bond, the market value of the underlying must be multiplied by the risk weights and treated for assumed change in yield for general risk under Standardised Approach
- b) for options on equities and equity indices, the market value of the underlying must be multiplied by the market risk capital charge factor of 8%;
- c) for options on foreign exchange and gold, the market value of the underlying must be multiplied by 8%; and
- d) For options on commodities, the market value of the underlying must be multiplied by 15%.

Each option on the same underlying will have a gamma impact that is either positive or negative. A bank must sum these individual gamma impacts, resulting in a net gamma impact for each underlying that is either positive or negative. Only those gamma impacts that are negative are included in the capital calculation. The total gamma capital charge is the sum of the absolute value of the net gamma impacts.

### **Capital Charge for Vega Risk**

To calculate Vega risk, a bank must multiply the Vega for each option by a 25% proportional shift in the option's current volatility. The results must then be summed across each underlying. The total capital charge for Vega risk is

calculated as the sum of the absolute value of Vega across each underlying.

## 8.0 Annexures

### 8.1 Annexure A - Derivation of Notional Position for Interest Rate Related Derivatives

The bank shall convert futures and forwards on debt securities, interest rate forwards and forward rate agreements (FRA, interest rate swaps and foreign exchange swaps) into notional positions in:

- a) The underlying debt securities; or
- b) Notional interest rate securities to capture the pure interest rate risk, arising from future payments and receipts of cash, which are called zero-specific-risk-free securities; or
- c) Both a) and b)

#### 8.1.1 Futures and forwards on debt security

A bank shall treat positions in forward and futures as two notional positions as follows:

**Table 7 Notional position for positions in future and forward on debt security**

Instrument type	Notional short position in:	Notional long position in:
Long position (purchased) in a forward or futures	a zero coupon zero-specific-risk security with a maturity equal to the expiry date of the future or forward; and	the underlying debt security;
Short position (sold) in a forward or futures	the underlying security;	a zero coupon zero-specific-risk security with a maturity equal to the expiry date of the future or forward.

### 8.1.2 Interest Rate Forwards and Forward Rate Agreement (FRAs)

Interest rate futures or FRAs must be treated as the two notional positions (one long, one short) shown in table 8 below:

*Table 8 Notional position in interest rate forwards and FRAs*

Instrument type	Notional short position in:	Notional long position in:
Long position (purchased) in an interest rate future or short position (sold) in FRA	a zero coupon zero-specific-risk security with a maturity equal to the expiry date of the interest rate future or settlement date of FRA; and	a zero coupon zero-specific-risk security with a maturity equal to the expiry date of the interest rate future or settlement date of FRA plus the maturity of the notional borrowing/deposit.
Short position (sold) in a	the underlying security;	a zero coupon zero-specific-risk security with a maturity equal to the expiry date of the future or forward.

### 8.1.3 Interest Rate Swap and Foreign Exchange Swap

A bank shall treat interest rates swap or foreign exchange swap as two notional positions as specified in table 9 below:

*Table 9 Notional positions in interest rate swap and foreign exchange swap*

Instrument type	Notional short position in a:	Notional long position in a:
Bank receives fixed and pays floating	Zero-specific-risk security with a coupon equal to the floating rate and a maturity equal to the next reset date.	Zero-specific-risk security with a coupon equal to the fixed rate of the swap and a maturity equal to the maturity of the swap.

Bank receives floating and pays fixed	Zero-specific-risk security with a coupon equal to the fixed rate of the swap and a maturity equal to the maturity of the swap.	Zero-specific-risk security with a coupon equal to the floating rate and a maturity equal to the next reset date.
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## 8.2 Annexure B - Derivation of Notional Position on Foreign Currency and Gold Derivative Instruments

### 8.2.1 Foreign Exchange Forwards, Futures Contracts

A bank should treat a foreign exchange forward or futures contract as two notional currency positions:

- a) a long notional position in the currency which the bank has contracted to buy; and
- b) a short notional position in the currency which the bank has contracted to sell.

### 8.2.2 Foreign Exchange Swaps

A bank shall treat a foreign exchange swap as –

- a) a long notional position in the currency which the bank has contracted to receive interest and principal; and
- b) a short notional position in the currency which the bank has contracted to pay interest and principal.

### 8.2.3 Gold Forward or Future Contracts

A bank shall treat a forward or futures contract on gold as a notional position in gold with a value equal to the amount of gold underlying the contract multiplied by the current spot price for gold, except in the case of a forward where the bank, may use the net present value of each position, discounted using prevailing interest rates and valued at prevailing spot rates.

### **8.3 Annexure C- Derivation of Notional Position for Commodity or Forward Contract**

A bank shall treat a forward, futures contract on a single commodity, which settles according to the difference between the price set on trade date and that prevailing at the maturity date of the contract, as a notional position equal to the total quantity of the commodity underlying the contract that has a maturity equal to the expiry date of the contract.

Where a commodity is part of a futures contract or forward, any interest rate or foreign exchange risk from the other leg of the contract, shall be reported as part of exposure under interest rate or foreign exchange sections.

### **8.4 Annexure D –Treatment of Credit Derivative in the Trading Book**

A bank shall convert its credit derivatives into notional positions in the relevant reference assets and use the current market value of the reference assets to calculate its market risk capital charge for interest rate risk, except in the case of credit linked notes, where the current market value of the notes shall be used.

#### **8.4.1 Treatment of the Protection Seller**

- a) A total return swap creates a long position in reference asset and a short position in specific-risk-free security with a maturity equal to the term remaining until the next interest fixing date;
- b) A credit default swap creates a long position in reference asset. If premium or interest payments are due under the swap, these cash flows must be represented as a long position in a specific-risk-free security. Where the derivative has an external rating and meets the condition for a qualifying debt item, the bank may recognise a long position in the derivative.
- c) A single-name credit linked note (CLN) creates long position in:
  - i. The reference asset specified in the note; and
  - ii. The note issuer.

Where the CLN has an external rating and meets the requirements for a qualifying debt item, a single long position in the CLN shall be recognized.

*Table 10 Summary of Treatment of Credit Derivatives in the Trading Book*

<b>Instrument type</b>	<b>Risk category</b>	<b>Long position / protection seller</b>	<b>Short position / protection buyer</b>
Credit	General risk	Long position in a zerospecific-risk security if there are any premiums or interest payments to be paid	Short position in a zerospecific-risk security if there are any premiums or interest payments to be paid
default swap	Specific risk	Long position in the reference asset, or long position in the swap if it is a qualifying debt security	Short position in the reference asset, or short position in the swap if it is a qualifying debt security
Total rate of return swap	General risk	Long position in the reference asset, and short position in a zero-specificrisk security if there are any premiums or interest payments to be paid	Short position in the reference asset, and long position in a zero-specificrisk security if there are any premiums or interest payments to be paid
	Specific risk	Long position in the reference asset	Short position in the reference asset
Single name Credit linked notes	General risk	Long position in the note issuer	Short position in the note issuer
	Specific risk	Long position in the note issuer and long position in the reference assets, or long position in the note if it is a qualifying debt security	Short position in the reference assets, or short position in the note if it is a qualifying debt security

#### **8.4.2 Treatment of the Protection Buyer**

For the protection buyer, the positions are determined as the mirror image of the protection seller, with the exception of a credit linked note.

#### **8.5 Annexure E –Trading book – Policy Statement, Requirements, Management and Prudent Valuation Practices**

A bank shall allocate all its positions to either its trading book or its banking book. For the avoidance of doubt, all positions excluded from the trading book shall be deemed to be part of the banking book.

##### **8.5.1 Policy Statement**

A bank shall have a trading book policy statement which covers, at a minimum, the policies and procedures, including the methodologies, by which the bank –

- a) defines its trading book and identifies positions to be included in its trading book;
- b) allocates positions between the banking book and the trading book;
- c) actively manages and values its positions in the trading book;
- d) measures its trading book risks; and
- e) controls the transfer of positions between the banking book and the trading book; A bank shall obtain the approval of its Board on its trading book policy statement. The bank shall review and where necessary update the policy statement, at least annually. The bank shall obtain the approval of the Board for all significant changes.

The bank shall, at a minimum, address the following in its trading book policy statement as part of defining the trading book and its strategy:

- a) the activities that the bank considers to be trading and the types of positions that are to be allocated to the trading book for the purposes of calculating its regulatory capital requirements;
- b) the types of positions that are excluded from the trading book; and
- c) the procedures to ensure that the criteria by which positions are allocated to the trading book are adhered to on a consistent basis, including details on –

- i. the unit or department within the bank responsible for monitoring adherence to the trading book policy statement;
- ii. how often this monitoring is conducted;
- iii. how this monitoring is done; and
- iv. How the continuing appropriateness of allocations is confirmed.

### **8.5.2 Requirements of the Trading Book Positions**

A bank must allocate to the trading book, positions in financial instruments including derivative products and other off-balance sheet instruments, that are held either with trading intent or to hedge other elements of the trading book.

A position shall be considered to be held with trading intent if;

- a) it is held for short-term resale;
- b) it is taken on by a bank with the intention of benefiting in the short term from actual or expected differences between its buying and selling price, or from other price or interest rate variations; or
- c) it is taken on by a bank to lock in arbitrage profits;
- d) there is a clearly documented trading strategy for the position, instruments or portfolios that has been approved by senior management (which must include the expected holding horizon); and
- e) there are clearly defined policies and procedures for the active management of the position such that:
  - i. positions are managed on a trading desk;
  - ii. position limits are set and monitored for appropriateness;
  - iii. Dealers have the autonomy to enter into and manage positions within agreed limits and according to the agreed strategy.
  - iv. positions are marked-to-market daily and when marked-to-model, the parameters are assessed on a daily basis;
  - v. positions are reported to senior management as an integral part of the bank's risk management process; and
  - vi. Positions are actively monitored with reference to market information sources and assessments are made of the market liquidity or the ability to hedge positions or the portfolio risk profile which includes assessments of the quality and availability of market

inputs to the valuation process, level of market turnover and sizes of positions traded in the market.

### **8.5.3 Trading Book Management and Valuation Practices**

The Board has the ultimate responsibility for management of market risk and must ensure that the bank has in place adequate systems to identify, measure and manage market risk, including identifying responsibilities, providing adequate separation of duties and avoiding conflicts of interest.

The trading book policy should describe, in detail, the extent of active management and prudent valuation practices including:

- a) the extent to which a position can be marked-to-market daily by reference to an active and liquid two-way market;
- b) for positions which are marked-to-model, the extent to which the bank can:-
  - i. identify the material risks of the position;
  - ii. hedge the material risks of the position; and
  - iii. derive reliable external estimates for the key assumptions and parameters used in the model;
- c) the extent to which the bank can, and is required to, generate valuations for the positions which can be validated internally or externally by an expert in a consistent manner;
- d) the extent to which the bank can, and is required to, maintain documents to support valuations of its trading book positions; and hedge out or manage risks under severe market conditions;

The bank should also consider how prudent valuation principles will be met in a stressed scenario.

The trading book policy should also lay down guidelines for transfer of securities between banking and trading books, including –

- a) the extent to which a bank may transfer positions between the banking book and the trading book and the criteria for such transfers;
- b) the procedures to effect such transfers; and

- c) The controls in place to prevent inappropriate transfers of positions between the banking book and the trading book.

#### **8.5.4 Stress Testing and Scenario Analysis of Trading Book Positions:**

A bank must conduct a regular programme of stress testing and scenario analysis of its trading book positions, both at the trading desk level and on a bank-wide basis. The results of these tests must be reviewed by senior management and reflected in the policies and limits set by the bank.

The bank's stress testing programme should be comprehensive in terms of both risk and coverage, and appropriate to the size and complexity of trading book positions held.

As part of the stress testing programme, the trading book policy should specify the following.

- a) The frequency of the stress testing of trading book positions (which should be determined by the nature of the positions);
- b) The stress testing should include shocks which reflect the nature of the portfolio and the time it could take to liquidate the portfolio completely or hedge the portfolio risk.

#### **8.6 Annexure F – Netting of Matched Positions- Illustrative Example**

A bank has a long cash position in 16.39% FGN Jan 2022 bond with a face value of N10 billion. The bank also entered into a forward contract to sell the same bond (value date 3 month later) for the face value of N5 billion at the rate of N110.50 for each face value of N100.

##### **Workings:**

1. Net long position of the bond (face value) = N10 billion – N5 billion (sold) = N 5 billion
2. The forward contract is fully offset.
3. Amount to be received on settlement date of the contract (after 3 months) = N5 billion x (110.50/100) = N5.525 billion which represents a long position in a specific-risk-free security due after 3 month.

New long position in specific-risk-free security = N5.525 billion with 3 month maturity.

### 8.7 Illustration on Calculation of Market Risk Capital Charge for Commodity Risk under Maturity Ladder Approach

Assuming that a bank has the following positions in the same commodity which are converted at current spot rates into Naira, the total market risk capital requirement should be calculated as follows:

*(All positions in naira '000)*

Time-band	Position Spread	Capital	calculation
Up to 1 month		1.50%	
More than 1 month but not more than-3 months		1.5%	
More than 3 months but not more than 6 months	Long 1000 Short 1500	1.5%	(1) 1000 long + 1000 short (matched) Spread charge = 2,000*1.5% = 30 (2) 500 short carried forward to 1-2 years Carry charge = 500*0.6%*2 = 6.00
More than 6 months but not more than 12 months		1.5%	
More than 1 year but not more 2 years	Long 800	1.5%	(2) 500 long + 500 short (matched) Spread charge = 1000*1.5% = 15 (3) 300 long carried forward to over 3 years Carry charge = 300*0.6%*2 = 3.60

More than 2 years but not more than-3 years		1.5%	
More than 3 years	Short 1000	1.5%	(3) 300 long + 300 short (matched) Spread charge = $600 \times 1.5\% = 9$ (4) Net position = 700 Outright charge = $700 \times 15\% = 105$
			(5) Total market risk capital requirement = 168.60

### 8.8 Illustration on Net Open Position for Foreign Exchange Positions

The net open position (NOP) is the aggregate position of a bank's currency risk exposure. An illustration of computation of NOP is as shown below.

#### A. Particulars

Where aggregate long position and the aggregate short position details are provided:

Aggregate Long Position (in Naira)	Aggregate Short Position (in Naira)
2,500,000,000	-3,000,000,000

## B. Computing the NOP Under Gross Aggregate Method

### Net Open Position

$$\begin{aligned} &= \text{ABS (Aggregate Long Position)} + \text{ABS (Aggregate Short Position)} \\ &= \text{ABS (2,500,000,000)} + \text{ABS (-3,000,000,000)} \\ &= 2,500,000,000 + 3,000,000,000 \\ &= \mathbf{5,500,000,000} \end{aligned}$$

## C. Computing the NOP Under Net Aggregate Method

### Net Open Position

$$\begin{aligned} &= \mathbf{ABS}[\text{ABS (Aggregate Long Position)} - \text{ABS (Aggregate Short Position)}] \\ &= \mathbf{ABS}[\text{ABS (2,500,000,000)} - \text{ABS (-3,000,000,000)}] \\ &= \mathbf{ABS}[2,500,000,000 - 3,000,000,000] \\ &= \mathbf{ABS [-500,000,000]} \\ &= \mathbf{500,000,000} \end{aligned}$$

## D. Computing the NOP under the Shorthand Method

### Net Open Position

$$\begin{aligned} &= \mathbf{Max}[\text{ABS (Aggregate Long Position)}, \text{ABS (Aggregate Short Position)}] \\ &= \mathbf{Max}[\text{ABS (2,500,000,000)}, \text{ABS (-3,000,000,000)}] \\ &= \mathbf{Max}[(2,500,000,000), (3,000,000,000)] \\ &= \mathbf{3,000,000,000} \end{aligned}$$

## E. Note

## **NOP Net Aggregate Method < NOP Shorthand Method < NOP Gross Aggregate Method**

Under circumstances where the bank does not hold any short positions then all the three (3) methods shall give the same result for NOP.

### **8.9 Definition of Terms**

- **Banking Book:** Bank's on-balance sheet exposure and off-balance sheet exposure except those falling under the scope of trading book.
- **Credit Derivative:** A forward contract, swap, option or similar derivative contract entered into by two parties with the intention of transfer of credit risk in relation to a reference asset from one party (protection buyer) to another party (protection seller).
- **Credit Event:** In relation to a credit derivative, means an event mentioned in the contract, if it occurs, obliges the protection seller to make payment to the protection buyer.
- **Credit-Linked Note:** It means a form of structured note with an embedded credit default swap which allows the issuer of the note (protection buyer) to transfer credit risk to the buyer of the note (protection seller).
- **Debt Related Derivative Contracts:** It is a forward, future, FRA, swap or option whose underlying exposure is an interest rate instrument like debt, note or loan representing the asset of a counterparty.
- **Delta:** With reference to an option, it represents a ratio of change in price of the option with change in prices of the underlying instrument. It measures the sensitivity of the option with reference to change in prices of its underlying instrument. Delta equivalent amount represents the fair value of the underlying instrument (or notional amount) multiplied by delta.
- **Derivative Contract:** It means a financial instrument (other than a bond, loan, share or note) the value of which is determined with reference to the value of one or more underlying asset, index, financial instrument or rate as mentioned in the instrument.
- **Modified Duration:** The modified duration of a bond represents price sensitivity of the bond for changes in interest rates or the yield curve. It is a weighted average maturity of an instrument where the present values of the cash flows are treated as weights.

- **Equity Related Derivative Contract:** It means a forward contract, swap, option or similar derivative contract the value of which is determined by reference to the value of one or more equity or equity index.
- **Fair Value:** A fair value amount for which the asset can be exchanged between knowledgeable and willing parties in an arm's length transaction.
- **Forward Contract:** It is a contract between two parties for a purchase or sale of a specified amount of commodity, currency, financial instrument or things at a future date at an agreed price.
- **Interest Rate Instruments:** A financial instrument whose value can be determined with reference to current or specified interest rate.
- **Interest Rate Related Derivative Contract.** It is a forward, future, FRA, swap or option whose underlying exposure is an interest rate instrument like debt, note, loan or interest rate.
- **Marked-to-Market:** It means to revalue a transaction, position, exposure or contract at current market value.
- **Marked-to-Model:** It represents the valuation of an exposure, position or transaction using a model whose parameters are estimated, on continuous basis, based on the market price or market factors.
- **Reference Asset:** It represents, in relation to a credit derivative, a specific obligation (in the form of debt instrument, loan or note) of a reference entity (obligor) based on which the settlement under the contract are determined.
- **Repo-Style Transaction:** It represents a transaction carried by two counterparties whereby one party agrees to sell (buy) securities to (from) the other party for specified amount of money (at certain rate of interest) with a commitment to buy back (sell) the securities at an agreed price at a future date. It represents a transaction for collateralised borrowing/lending.
- **Total Return Swap:** It is a credit derivative transaction under which a protection buyer-
  - a) agrees to pay the protection seller all cash flows arising from the reference asset including any appreciation of market value of the reference asset; and
  - b) receives, in return, a spread over a specified index together with any depreciation in the value of the reference asset;

- **Trading Book:** The trading book represents a bank's exposure in financial instruments which are held with the intention of trading or hedging internal exposures.
- **Underlying Asset:** It represents, in relation to a credit derivative, an on-balance sheet or off-balance sheet exposure (in the form of a financial instrument or loan) of a bank whose credit risk is being transferred under the credit derivative.

# CENTRAL BANK OF NIGERIA



## Guidance Notes on the Calculation of Regulatory Capital

### REGULATORY CAPITAL

## 1.0 Introduction

This document lays down the new supervisory regulations for assessing the capital adequacy levels of banks and banking groups. The regulations have been revised following the changes that were introduced in international regulations<sup>1</sup> to take account of developments in risk management methodologies adopted by banks and the new policies and criteria underpinning supervisory activities.

The rules governing regulatory capital<sup>2</sup>, the total capital requirement, internal capital assessment process and risk concentration shall be applied on solo and consolidated bases.

The following regulation is applicable to all banks licensed by the CBN.

## 2.0 Composition of Regulatory Capital

This guideline establishes the procedures for calculating regulatory capital which shall be the sum of

Capital elements:

- Tier 1 Capital<sup>3</sup>
  - (a) Paid-up share capital/common stock
  - (b) Disclosed reserves<sup>4</sup>
- Tier 2 Capital<sup>5</sup>
  - (a) Revaluation reserves
  - c. General provisions/general loan-loss reserves
  - d. Hybrid (debt/equity) capital instruments
  - e. Subordinated debt

**Less any**

### d) From Tier 1:

- (i) Goodwill and increase in equity capital resulting from a securitization;
  - (ii) Investment in own shares (treasury stock)
  - (iii) Losses carried forward and losses for the current financial year
  - (iv) Intangible assets
- e) The following items shall be deducted 50% from Tier 1 and 50% from Tier 2 capital:



- (i) Investments in unconsolidated banking and financial subsidiary companies.
- (ii) Investments in the capital of other banks and financial institutions.
- (iii) Significant minority investments in other financial entities.

### 3.0 Qualifying Criteria for the Assessment of Capital Components

#### 3.1 Tier 1 Capital

This includes only permanent shareholders' equity (issued and fully paid ordinary shares/common stock and perpetual non-cumulative preference shares) and disclosed reserves (created or increased by appropriations of retained earnings or other surpluses).

In the case of consolidated accounts, this also includes minority interests in the equity of subsidiaries which are not wholly owned. This basic definition of capital excludes revaluation reserves and cumulative preference shares.

**There is no limit on the inclusion of Tier 1 capital for the purpose of calculating regulatory capital.** For this purpose, the equity shares with the following characteristics are included in Tier 1 capital:

- Issued directly by the bank;
- Clearly and separately identified in the balance sheet;
- Have no maturity (are perpetual);
- Fully paid;
- Cannot be refunded beyond the possibility of the liquidation of bank or reduction of share capital;
- Do not give to the holder rights to a minimum remuneration nor are there any clauses that require the compulsory payment of dividends;
- The dividends are paid solely out of distributable profits or retained earnings distributable;
- Classified as equity instruments in accordance with IFRS.

#### 3.2 Tier 2 Capital

##### (b) Revaluation Reserve

- i) **Fixed Asset Revaluation Reserve:** This relates to revaluation of fixed assets in line with market values reflected on the face of the balance sheet.

Prior approval of the CBN must be obtained by any bank before the recognition of the revaluation surplus on fixed assets in its books, which can only be done taking into consideration the following:

- The valuation must be made by qualified professionals and the basis of the revaluation as well as the identities of the valuers must be stated;
- The difference between the market and historic values of the eligible fixed assets being revalued shall be discounted by **55%**;
- The revaluation of fixed assets is applicable to own premises only; and
- The revaluation of fixed assets (own premises only) is permissible within a minimum period of seven years after the date of the purchase of the asset or the last revaluation.

ii) **Other Revaluation Reserves:** The inclusion of other revaluation reserves created by the adoption of the International Financial Reporting Standards (IFRS) as part of the Tier 2 capital shall be subject to the limitations that will be specified by the CBN from time to time.

(c) **General Provisions/General Loan---Loss Reserves**

For the purpose of the standardized credit risk measurement approach, provisions or loan---loss reserves held against future (presently unidentified), losses are freely available to meet losses which subsequently materialize and therefore qualify for inclusion in Tier 2 capital. Provisions ascribed to specific or identified deterioration of particular assets or known liabilities, whether individual or grouped (collective), are excluded. Furthermore, general provisions/general loan---loss reserves eligible for inclusion in Tier 2 will be limited to a maximum of **1.25 percentage points of credit risk weighted assets** and subject to the approval of the CBN.

(d) **Hybrid (debt/equity) Capital Instruments**

These include financial instruments which combine characteristics of equity and debt capital. Essentially, they should meet the following requirements:

- they are unsecured, subordinated and fully paid---up;
- they are not redeemable at the initiative of the holder or without the prior consent of the CBN;



- they are available to participate in losses without the bank being obliged to cease trading (unlike conventional subordinated debt);
- although the capital instrument may carry an obligation to pay interest that cannot permanently be reduced or waived (unlike dividends on ordinary shareholders' equity), it should allow service obligations to be deferred (as with cumulative preference shares) where the profitability of the bank would not support payment.
- Hybrid capital instruments that are redeemable must have a maturity of **at least 10 years**. The contract must clearly specify that repayment is subject to authorization by the Central Bank of Nigeria

Cumulative preference shares, having these characteristics, would be eligible for inclusion in this category.

#### c) **Subordinated Term Debts**

Subordinated debts issued by banks shall form part of the Tier 2 capital provided that the contracts governing their issue expressly envisage that:

- In the case of the liquidation of the issuer, the debt shall be repaid only after all other creditors not equally subordinated have been satisfied;
- The debt has an original maturity of at least five years; where there is no set maturity, repayment shall be subject to at least five years' prior notice;
- Early repayment of the liabilities may take place only at the initiative of the issuer and shall be subject to approval of the CBN.
- The contracts shall not contain clauses whereby, in cases other than those referred to in points a) and c), the debt may become redeemable prior to maturity.
- During the last five years to maturity, a cumulative discount (or amortization) factor of 20% per year will be applied to reflect the diminishing value of these instruments as a continuing source of strength.

Unlike instruments included in hybrid capital above, these instruments are not normally available to participate in the losses of a bank which continues trading. For this reason, these instruments will be limited to a maximum of 50% of Tier 1 Capital.

#### 4.0 **Prudential Filters**

Due to the adoption of International Financial Reporting Standards (IFRS) by banks and for the purpose of calculating regulatory capital, the CBN may from time to time apply prudential filters.



## 5.0 Frequency of Reporting and Procedures for Calculating Individual Regulatory Capital

Banks shall continue to report on regulatory capital in accordance with the CBN's extant rules.

### Annex A: Example of Capital Adequacy Ratio Computation

The table below represents the balance sheet of Bank A with an average gross income of N120 in the last three years and the Basic Indicator approach is adopted for operational risk capital charge. In addition, the bank adopted Standardized approach for Market risk with a capital charge of N25. Assume that the all loans and advances were rated B and no credit risk mitigation technique is used, calculate the capital adequacy ratio of Bank

Statement of Financial Position			
	N		N
Cash	1,400	Deposits	21,000
FGN Bonds	5,100	Other Liabilities	1,700
Bende State Bonds	1,000	Qualifying debt Capital	3,000
Loans Secured by Residential Mortgage	1,400		
		Total Shareholder Equity	2,250
Other loans and advances	18,000		

Property, Plant & Equipment	300		
Total Assets	27,200	Total Liabilities + Shareholder Equity	27,200
Off-Balance Sheet Items			
Performance Bonds	750		
Revolving committed but undrawn credit facilities with maturity of less than 1 year.	1,500		

**Solution:**

1. Convert the off-balance sheet exposures to their credit equivalents using appropriate credit conversion factors;

S/N	Exposures	Amount (N)	CCF (%)	Credit Equivalent
1	Performance Bonds	750	50	375

2	Revolving committed but undrawn credit facilities with maturity of less than 1 year.	1500	20	300
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2. Calculate the credit risk weighted assets:

Exposures	Gross Exposure Before CRM	CRM	Net Exposure/ after CRM	Risk Weight Category	RWA
Cash	1,400	0	1,400	0%	0
FGN Bonds	5,100	0	5,100	0%	0
Bende State Bonds <sup>30</sup>	1,000	0	1,000	20%	200
Loans Secured by Residential Mortgage	1,400	0	1,400	100%	1400
Retail Portfolio					0
Other loans and advances	18,000	0	18,000	100%	18000
Building and Equip	300	0	300	100%	300
Off Balance Sheet Exposures					0
Performance Bonds	375		375	100%	375
Revolving committed but undrawn credit facilities with maturity of less than 1 year.	300		300	100%	300
<b>Total Credit Risk Weighted Assets</b>					<b>20,575</b>

3. Calculate operational risk capital charge:

$$= \text{Relevant Indicator (gross profit)} \times \alpha \text{ (15\%)}$$

<sup>30</sup> The 20% risk weight applies to state government bonds that meet the CBN eligibility criteria for classification as liquid assets.

$$120 \times 15\% = N18$$

4. Calculate the total qualifying capital (i.e. Tier 1 + Tier 2) =  
Equity + Qualifying Debt

$$N (2,250+750) = N3,000$$

(Note; Tier 2 is limited to 33.3% of Tier 1 Capital) Calculate the capital adequacy ratio (CAR)

$$\text{CAR} = \frac{\text{Tier 1 Capital} + \text{Tier 2 Capital}}{\text{Credit Risk Weighted Asset} + 12.5 (\text{Market risk capital charge}) + \text{Operational risk capital charge}} \times 100$$

**Credit Risk Weighted Asset** + 12.5 (Market risk capital charge) + Operational risk capital charge

$$\text{CAR} = \frac{3000}{20800} \times 100$$

$$\text{CAR} = 14.13\%$$

# CENTRAL BANK OF NIGERIA



## Guidance Notes on the Calculation of Capital Requirement for Market Risk

### STANDARDIZED APPROACH



## MARKET RISK CAPITAL REQUIREMENT

### 1.0 Introduction

- Banks and banking groups shall comply on an ongoing basis with capital requirements for risks generated by operations in markets for financial instruments, foreign exchange and commodities. The capital requirement, takes into account both on--- and off---balance positions that are subject to market risk.
- This regulation identifies and prescribes the treatment of positions and settlement risk pertaining to interest rate---related instruments and equities in the trading book and foreign exchange risk and commodity risk throughout the bank.
- Capital requirements will be calculated using the Standardized Approach. Under this method, banks are to calculate their total capital requirement using a building---block approach, by summing up the individual capital requirements for the risks mentioned above.
- For the purpose of calculating capital requirements for market risks, positions shall be measured at fair value at the close of each business day.
- In the case of off---balance---sheet transactions without a reference instrument<sup>1</sup>, the notional principal amount shall be used, except where one of the present values or sensitivity methods set out under the treatment of position risk in the supervisory trading book applies.
- For off---balance---sheet transactions involving options and warrants, one of the methods set out under the treatment of options shall be apply.
- Foreign exchange transactions shall be converted into naira at the spot exchange rate at the close of each business day. Unhedged off---balance---sheet transactions other than unsettled spot transactions may be converted into naira at the current forward exchange rate for maturities equal to the residual life of the transaction.

### 2.0 Position Risk in the Supervisory Trading Book

- Position risk is calculated for the bank's supervisory trading book, and it consists of two separate components:
  - a) **General risk** refers to the risk of losses, caused by general adverse movements in the prices of financial instruments such as debt and equity securities due to adverse movements in market interest rates.
  - b) **Specific risk** refers to the risk of losses caused by adverse movements in the price of financial instruments due to factors related to the individual issuer's situation.
- Separate calculations of the position risk and the related capital requirements shall be made for:
  - a) **Debt securities** and other financial instruments whose values depend on interest rates and creditworthiness, including credit derivatives



- b) **Equity securities** and other financial instruments whose values depend on the developments in the equity market.
- Banks must have clearly defined policies and procedures for determining which exposures to include in, and exclude from, the trading book for the purpose of calculating their regulatory capital. They must also comply with this regulation and take into account the bank's risk management capabilities and practices. Compliance with these policies and procedures must be fully documented and subject to periodic internal audit.
  - **Banks that are not able to properly measure and manage the risks associated with financial instruments which are sensitive to multiple risk factors shall not conduct business in those instruments.**
  - Where positions originate with financial instruments that are sensitive to more than one risk factor, the capital requirements shall be calculated on the basis of the requirements for the individual risk components separately using any one of the two approaches below,;
    - a) Separation into elementary contractual components (securities and derivatives) that are sensitive to one type of risk only and application of the capital treatment for the corresponding type of risk;
    - b) Transformation of a complex instrument into a series of sensitivity positions to material risk factors and application of the capital treatment for the corresponding type of risk to those positions. These sensitivity positions shall be calculated using a standard market measurement model.
  - Where a bank holds positions that originate with financial instruments whose values depend on risk factors not expressly specified in this regulation, the position risk and the corresponding capital requirement shall be computed using the rules for the risk factor that are most closely correlated.
  - If none of the risk factors mentioned is sufficiently correlated with the risk to which the price of the security in question relates, a capital requirement of 15% of the value (notional for derivatives and market for other types of instruments) of the contract shall be applied and netting shall be permitted only with existence of identical instruments of opposite sign.
  - Banks may choose between two different methods for treating convertible bonds as follows.
    - i) include convertible bonds among debt securities.
    - ii) treat convertible bonds as debt securities or equity securities based on the likelihood of conversion (through the delta equivalent value)<sup>2</sup>. Where a bank adopts this method, it shall apply it to all securities of the same type.

## 2.1 Position Risk in Respect of Debt Securities

- In calculating position risk for debt securities, banks shall consider the supervisory trading book positions in respect of:



- Debt securities whose values depend on interest rates or similar risk factors (e.g., inflation rates) represented by on-balance-sheet assets and derivative contracts on debt securities;
  - i) Interest rate derivatives;
  - ii) Credit derivatives;
  - iii) Other instruments whose values depend on interest rates or similar risk factors.
- All derivatives and other off balance sheet transactions in the trading portfolio for supervisory purposes that depend primarily on interest rate must be converted according to the methods described under the treatment of derivatives in underlying positions and are subject to the capital requirement for both general and specific position risks.
- In order to determine the capital requirement against the specific risk in securitization and re-securitization positions, banks shall apply the provisions referred to under securitization.

## 2.2 General Risk on Debt Securities

Banks may use two alternative methods i.e. maturity or duration method in calculating general risk on debt securities. However, banks are not allowed to adopt the duration method without the prior approval of the CBN which once adopted, must be used continuously unless a further approval is obtained for a switch.

### 2.2.1 Calculation of the Capital Requirement

#### A. Maturity Method

The capital requirement for general risk on debt securities shall be calculated using an interest rate risk measurement system that reflects the position described in Annex B, sub-section 1 the calculation of the net position for each issue and the resulting distribution, separately for each currency, into time-bands. This is given by the sum of the values of the residual and matched positions, the latter is then weighted using the method set out in Annex B, sub-section 1.<sup>3</sup>

In the case of **residual currencies** the gross positions in each time-band will be subject to either the risk weightings set out in Annex A1, if positions are reported using the maturity method, or the assumed change in yield as shown in Annex A3, if positions are reported using the duration method, with no further offsets.

#### B. Duration Method

The procedure to be followed in using the duration method is set out in Annex B, sub-section 2.



## 2.2.2 Treatment of Derivatives Contracts

- Only for purposes of general risk, the positions of opposite sign relative to derivative contracts of the same type can be compensated in advance when the following conditions are met:
  - a) The positions have the same nominal value and are denominated in the same currency and they mature within 7 days of each other.
  - b) The reference rate for floating---rate positions is identical and the spread does not differ by more than 0.15 per cent on an annual basis, or the nominal interest rate for fixed---rate positions does not differ by more than 0.15 per percent on an annual basis.
  - c) The next interest fixing date (for floating---rate positions) or the residual maturity (for fixed---rate positions) correspond within the following limits:
    - i) less than one month corresponds same day limit;
    - ii) between one month and one year corresponds within seven days limit;
    - iii) over one year corresponds within 30 days limit.
- The first measurement method consists of treating the positions by residual maturity, as a combination of a cash asset and a cash liability of equal amount.

For example:

  - i) Off---balance---sheet transactions in which fixed---rate flows are exchanged for floating---rate flows (e.g., interest rate swaps) correspond to a combination of a **fixed rate asset** (liability) and a **floating---rate liability** (asset).

Banks shall therefore record a long (short) position corresponding to the **fixed-rate asset** (liability) in the time---band for the maturity of the contract<sup>4</sup> and a short (long) position corresponding to a **floating---rate liability** (asset) slotted in the time band preceding the next interest fixing date;
  - ii) For other off---balance---sheet transactions (e.g. forwards, futures, forward rate agreements, and swaps) banks shall record a long position or short in the time band related to the settlement date and a short position or long in the time band for the residual maturity of the contract.<sup>5</sup>
- The second method consists of using present value or sensitivity approaches to calculate positions, which shall be broken down based on maturity or average duration<sup>6</sup>. Specifically, banks may use one of the following two methods:
  - i) The first method consists of converting the individual payments in respect of the derivative into their present values. For this purpose, each payment shall be discounted using zero coupon cash yields. A single net present



value shall be entered into each time-band, as with zero coupon bonds; these values shall be multiplied by the weights given in Annex B, Table 1;

- ii) An alternative method which may be used only by banks that adopt the duration method for calculating general risk for debt securities consists of calculating the sensitivity (duration) of the net present value<sup>7</sup> of the derivative implied by the change in the yield for each maturity
- Each sensitivity (duration) obtained shall be multiplied by the present value of the derivative and allocated to the corresponding time-band set out in Annex B, Table 3. The output shall be weighted for the hypothetical change in yield only.

## **2.3 Specific Risk on Debt Securities**

### **2.3.1 Calculation of the Capital Requirement**

- In general, and by excluding the securitization positions, the capital requirement for specific risk on debt securities shall be calculated as follows: the net positions in each security in the supervisory trading book, calculated in accordance with the rules for netting, shall be allocated to uniform categories based on the nature of the issuer or obligor, the existence of risk mitigation instruments, any external or internal credit assessment and residual maturity:
  - 1) "Positions related to zero weighted issuers" factor (0% weighting),
  - 2) "Positions related to qualified issuers" (weighting factors, as appropriate, are 20% and 50%);
  - 3) "Positions related to unskilled issuers" (100% weighting),
  - 4) "Positions related to high risk issuers" (risk weight 150%).
- Each of these categories is given a capital requirement (equal to the product of the above-mentioned weighting factors and 10% and 15% for national and internationally active banks).
- The capital requirement for specific risk is the sum of the net weighted positions, without offsetting long and short positions.
- The respective rule set out under securitization section should be applied in securitization positions and items included in the trading portfolio of correlation.
- Interest rate derivatives, exchange rates, repurchase agreements and debt securities deducted from regulatory capital are excluded from the calculation of the specific risk.
- In the case of derivatives with underlying debt securities, the weight for the capital requirement relating to specific risk corresponding to the credit quality of the underlying instrument shall be applied.
- A risk weight of zero shall be applied to debt securities issued or guaranteed by central governments, central banks, denominated and funded in the domestic currency.



### 2.3.2 Calculation of the Capital Requirement for Positions Hedged By Credit Derivatives

- Banks may use credit derivatives to reduce specific risk. For the purposes of calculating the specific risk capital requirement, a distinction shall be made between:
  - i) Transactions for which a full allowance is recognized;
  - ii) Transactions for which an 80% allowance is recognized;
  - iii) Transactions where less than 80% allowance is recognized;
  - iv) Transactions for which no allowance is recognized.
- Where the hedging derivative contractually provides for a payment in a fixed amount less than the amount of the hedged asset, this exposure should be subject to the rules on securitization because it leads to a segmentation of the risk ("**tranching transactions**").
- With regard to the credit derivatives based on a basket of debtors such as "first-to-default", the activity is considered secured within the basket which corresponds to the lower exposure weighted for specific risk.
- With regard to the credit derivatives based on a basket of debtors' (n<sup>th</sup>---to---default) protection against credit risk is recognized only when the (n---1)<sup>th</sup> admitted protection has already been satisfied or have been declared in default (n-1) activities that are included in the basket.
- Once these conditions are met, the activity is considered secured within the basket which corresponds to the weighted smaller exposure for specific risk.

#### **Transactions for which a full allowance is recognized**

- Full allowance for the hedging transaction will be recognized for regulatory capital purposes where the values of the long and the short positions always move in opposite directions and to the same extent.
- This situation occurs in the case of a long cash position hedged by a total rate of return swap (or vice versa) where there is an exact match between the reference asset and the hedged position.
- In such cases, no specific risk capital requirements shall apply to both sides of the position.

#### **Transactions for which an 80% allowance is recognized**

- An 80% offset will be recognized when the value of two positions (i.e. long and short) always moves in the opposite direction but not broadly to the same extent. This would be the case when a long cash position is hedged by a credit default swap or a credit linked note (or vice versa) and there is an exact match in terms of the reference obligation, the maturity of both the reference obligation and the credit derivative, and the currency of the underlying exposure.
- In addition, key features of the credit derivative contract (e.g. credit event definitions, settlement mechanisms) should not cause the price movement



of the credit derivative to materially deviate from the price movements of the cash position.

- To the extent that the transaction transfers risk (i.e. taking account of restrictive payout provisions such as fixed payouts and materiality thresholds), an 80% specific risk offset will be applied to the side of the transaction with the higher capital charge, while the specific risk requirement on the other side will be zero.

#### **Transactions for which a partial allowance is recognized**

- A partial allowance may be recognized where the values of the two positions (long and short) usually move in opposite directions, for example:
  - i) In the case of a long cash position hedged by a total rate of return swap (or vice versa) where there is a mismatch between the reference asset and the hedged position but the following conditions are met:
    - a) The reference asset ranks *pari passu* with or is junior to the hedged obligation;
    - b) The underlying asset and hedged obligation were issued by the same issuer and contain legally enforceable cross---default or cross--acceleration clauses;
  - ii) In the case of a long cash position hedged by a credit derivative (or vice versa) on the same asset where there is a currency or maturity mismatch between the underlying asset and the hedged position;
  - iii) In the case of a long cash position hedged by a credit derivative (or vice versa) on another underlying asset where the hedged position is included in the deliverable obligations.
- For each of the above cases, banks shall take account of only the greater of the specific risk capital requirements relating to the credit derivative and to the hedged position.

#### **Transactions for which no allowance is recognized**

For cases that do not meet the conditions established above, the specific risk capital requirement shall be calculated for both the credit derivative and the hedged position.

## **2.4 Credit Derivatives**

### **2.4.1 General Rules**

For the purposes of calculating the capital requirement for position risk, the notional amount of the credit derivative shall be used unless otherwise specified.

This amount may be reduced by an amount equal to the reduction in the market value of the examined credit derivative. With regard to the calculation of the capital requirement for the specific risk on derivatives



other than total rate of return swaps, banks shall use the residual maturity of the derivatives contract in place of the residual maturity of the obligation.

#### 2.4.2 Treatment of Positions in Respect of Protection Sales

The positions shall be calculated as follows:

- a) For the purpose of general risk, a total rate of return swap gives rise to a long position in the reference obligation and a short position in a government security with a maturity equal to the term remaining until the next interest fixing date<sup>8</sup>. The same breakdown shall also apply for specific risk purposes;
- b) For the purpose of specific risk, a credit default swap (CDS) gives rise to a long position in the reference entity. Where the derivative has an external rating and meets the conditions for a qualifying debt item, the bank may recognize a long position in the derivative. If premium or interest payments are due under the CDS, these cash flows must be represented as notional positions in government bonds;
- c) For the purpose of general risk, a single-name Credit Linked Note (CLN) gives rise to a long position in the CLN itself. For the purpose of specific risk, the bank shall recognize a long position in respect of the reference entity as well as another long position in respect of the issuer of the CLN. Where the CLN has an external rating and meets the requirements for a qualifying debt item, a single long position in the CLN shall be recognized;
- d) For the purpose of general risk, a multiple-name CLN providing proportional protection gives rise to a long position in the CLN itself. For the purpose of specific risk, it gives rise to a long position in each reference entity, each in an amount equal to the proportion of the notional amount of the CLN represented by each reference entity.  
For each reference entity the risk weight for specific risk shall be that in respect of the obligation with the highest risk weighting among those that can be selected. Where the CLN has an external rating and meets the requirements for a qualifying debt item, a single long position in the CLN shall be recognized;
- e) A first-to-default credit derivative gives rise to a long position in an obligation of each reference entity, each in an amount equal to the notional amount. In any case, the capital requirement shall not be greater than the amount of the maximum credit event payment.  
An n<sup>th</sup>-to-default credit derivative gives rise to a long position in an obligation of each reference entity except for the n-1 with the lowest specific risk capital requirement, each in an amount equal to the notional amount.

In any case, the capital requirement cannot be greater than the amount of the maximum credit event payment.

Where such a derivative has an external rating and satisfies the requirements for a qualifying debt item, a single long position for the derivative shall be recognized;

- f) A CDS index shall be broken down into as many CDSs as there are index components, each treated in accordance with the provisions for single-name CDSs;
- g) Single-name credit spread derivatives shall be treated as CDSs. In the case of options, the amount shall be calculated as the delta equivalent value of the notional;
- h) Derivatives on CDS indices that give rise to a position in the underlying CDS index; the rules set out in point vi above shall apply to such positions. In the case of options, the amount shall be calculated as the delta equivalent value of the notional.

#### **2.4.3 Treatment of Positions in Respect of Protection Purchases**

- For protection buyers, positions shall be determined as the mirror image of the protection seller, with the exception of an issued Credit Linked Note, which only gives rise to a short position in the reference entity.
- If there are call options on the security, the maturity of the short position shall be equal to the maturity of the option.
- In the case of  $n^{\text{th}}$ -to-default credit derivatives, protection buyers may offset specific risk for all underlying assets excluding the riskiest  $n-1$  for specific risk purposes.

## **2.5 Position Risk in Respect of Equity Securities**

### **2.5.1 Calculation of the Capital Requirement**

The capital requirement for the position risk relating to equity securities shall be the sum of the following capital requirements:

- For general risk on equity securities: 10% and 15% of the overall net position
- For specific risk on equity securities: 10% and 15% of the overall gross position

For the purpose of calculating equity position risk, account shall be taken of all positions in the supervisory trading book in respect of shares and similar instruments, such as, derivatives on equity indices<sup>9</sup>.

The overall gross position shall be the sum, in absolute value, of all net long and short positions. The difference, in absolute value, between all net long positions and all net short positions, calculated market-by-market (i.e.



separately for each country in which the individual securities held by the banks are traded) shall constitute the overall net position in securities traded on regulated markets.

In order to compute the overall gross and net positions, stock index derivatives<sup>10</sup> may be treated as separate securities or broken down into as many positions as there are equity securities that contribute to the calculation of the index. In this case, the individual positions resulting from the breakdown of the index may be offset against opposite positions in the same equity securities relating to other transactions.

If the matching of the positions is part of a deliberate arbitrage strategy and the positions are subject to separate control, a capital requirement of 2% of both the offset positions to cover divergence and execution risk shall be required.

Offsetting shall be permitted even where the set of positions in equity securities that are offset does not fully reflect the composition of the index under the contract, provided that the total value of these positions represents at least **90%** of the market value of the index.

The portion of stock--index derivatives that is not offset shall be treated as a long or short position.

### **2.5.2 Derivative Contracts on Well-diversified Stock Indices traded on a Regulated Market**

Banks that do not break down derivative contracts on well---diversified stock indices traded on a regulated market may decide not to apply a specific risk capital requirement for such derivatives, provided that the following conditions are met:

- The index shall reflect the stock market generally (sectorial indices are therefore excluded) and regard a regulated market with at least 200 listed equities;
- The index shall be based on a basket composed of at least 30 equities;
- None of the equities that make up the basket shall have a weight of more than 10% in the calculation of the value of the index. This limit may be increased to 20% if the top 5 equities in the basket do not account for more than 60% of the entire basket.

In addition to the general risk capital requirement, banks shall apply a capital requirement of 2% to the net long or short positions in the contracts in question to cover execution risk.



### 3.0 Settlement Risk in the Supervisory Trading Book

- Transactions in debt securities, equity securities, derivatives, currencies and commodities that remain unsettled after the maturity date expose banks to the risk of loss arising from the counterparty's failure to settle.
- The provisions of this Section require the application of capital requirements, calculated in accordance with the methods set out in the following sub-sections, for risks in relation to all unsettled transactions in financial instruments (including derivatives), currencies and commodities.
- Where the transactions are settled on a **"Delivery versus Payment" (DVP) basis<sup>11</sup>**, the loss is the difference between the agreed settlement price and the fair value of the financial instruments, the currencies or commodities to be received (delivered);
- Transactions settled on a **non-DVP basis** where cash is paid before the underlying is delivered, or the underlying is delivered before cash is paid (also called "free delivery"), the loss is the fair value of the financial instruments, currencies or commodities transferred to the counterparty for which payment is not received, or the cash paid without delivery of the underlying.

These rules shall not apply to repurchase and reverse---repurchase agreements or securities or commodities lending or borrowing transactions. In the event of system--- wide failure of a settlement or clearing system, the CBN may temporarily waive, in part or in full, the application of capital requirements to unsettled transactions until the situation is rectified. In such circumstances, the failure of a counterparty to settle a trade shall not be deemed a default for the purposes of credit risk.

#### 3.1 Capital requirements for DVP transactions

The capital requirement shall be calculated by multiplying the difference between the agreed settlement price and the fair value of the financial instruments, currencies or commodities to be received (delivered) --- by the following percentages, broken down by time-band:

Number of business days after the settlement date	Risk weight (%)
5 to 15	10
16 to 30	50
31 to 45	75
46 or more	100

#### 3.2 Capital requirements for non---DVP transactions

- Banks that pay cash for or deliver financial instruments, currencies or commodities and do not receive the corresponding deliverable or payment



due in the course of the same day or, for cross-border transactions, by the next working day, shall recognize the transferred asset as a receivable from the counterparty and apply the same calculation method for the capital requirement used for exposures not included in the supervisory trading book.

- Banks may apply the following risk weights to the exposures in respect of unsettled transactions:
  - a) The risk weights used in the standardized approach where they have no other exposures to the counterparty in the banking book; or
  - b) A 100% risk weight.
- Regardless of the method used, where the exposure amounts in respect of unsettled DVP transactions are not material, banks may apply a 100% risk weight.
- Banks that made payment or delivery but yet to receive the deliverable or payment from the counterparty by the fourth business day after the agreed delivery date<sup>12</sup> must deduct from its regulatory capital, both the amount transferred and any positive difference in its favour between the fair value of the underlying receivable and the cash transferred or between the cash receivable and the fair value of the transferred deliverable.

#### **4.0 Foreign Exchange Risk**

Banks shall comply with a capital requirement of 10% and 15% of their net open position in foreign currency and gold. The net open position will be determined in accordance with the provisions of in the foreign exchange manual issued by the CBN.

#### **5.0 Commodities Risk**

- Banks shall hold a specific capital requirement against the risk of losses on positions in commodities including precious metals but excluding gold. The calculation of the capital requirement on commodity positions shall cover all on-and off-balance sheet assets and liabilities in commodities. Commodity positions held solely for the purposes of stock financing may be excluded.
- Bank may use the simplified approach or the maturity ladder approach method to calculate the capital requirement.

##### **5.1 Simplified Approach**

- Banks that use the simplified approach shall hold a capital requirement for each commodity calculated as the sum of the following elements:
  - i) 15% capital charge on the net position in each commodity (long or short) converted at current spot rates.
  - ii) 3% additional capital charge of the bank's gross positions, long plus short, in each commodity converted at current spot price.
- The total capital requirement for commodities risk shall be calculated as the sum of the capital requirements calculated for each commodity.



## 5.2 Maturity Ladder Approach

- Banks that opt to use the maturity ladder approach to calculate their capital requirements shall notify the CBN. The method selected by banks shall be applied on an ongoing basis.
- The bank shall use a separate maturity ladder<sup>13</sup> for each commodity. Positions held in the same commodity shall be assigned to the appropriate maturity bands. Stocks shall be assigned to the first maturity band.
- Positions in the same commodity may be offset and assigned to the appropriate maturity bands on a net basis for positions in contracts maturing on the same date and for positions in contracts maturing within 10 days of each other if the contracts are traded on markets which have daily delivery dates.
- The bank's capital requirement for each commodity shall be calculated on the basis of the relevant maturity ladder as the sum of the following<sup>14</sup>:
  - i. The matched position in the same maturity band for each band multiplied by 1.50% and by the spot price of the commodity;
  - ii. The unmatched position in the same maturity band multiplied by 0.6 % (carry rate), the number of maturity bands into which it is carried forward<sup>15</sup>, and the spot price for the commodity;
  - iii. The residual unmatched position, multiplied by 15 % (outright rate) and by the spot price for the commodity.
- The bank's overall capital requirement for commodities risk shall be the sum of the capital requirements calculated for each commodity as above.

## 6.0 Treatment of Options

- For the purpose of calculating capital requirements for market risks, special treatment shall be applied to options. Options are derivative products whose price risk is difficult to measure in view of the potential for errors in applying linear instruments to them.
- Banks may use one of the following alternative methods in the treatment of options:
  - i) The simplified approach;
  - ii) The delta-plus method;
  - ii) The scenario approach.

### 6.1 Simplified Approach

- Banks that use a limited range of purchased options may adopt the simplified approach. Under this approach, positions in options and the associated underlying, both spot and forward, shall be subject to separately calculated capital requirements that incorporate both general risk and specific risk.



- The capital requirement calculated under this approach is as follows:
  - i) For long positions in the underlying (cash and forward) associated with purchased put options or short positions in the underlying (cash and forward) associated with purchased call options, the capital requirement shall be: the market value of the underlying security multiplied by the sum of specific and general market risk charges for the instrument, less any positive intrinsic value of the option;
  - ii) For purchased call options or purchased put options, the capital requirement shall be the lesser of:
    - a) The market value of the underlying multiplied by the sum of the specific and general risk weights for the underlying;
    - b) The market value of the option<sup>16</sup>.

## 6.2 Delta-Plus Method

- The delta-plus method uses the sensitivity parameters associated with options. Banks that adopt this method shall recognize options as positions equal to the market value of the underlying multiplied by the delta (the delta-weighted position) in measuring position risk in the supervisory trading book, foreign exchange risk and commodities risk.
- However, since delta does not sufficiently cover the risks associated with options positions, banks shall also calculate capital requirements for gamma (the rate of change of delta) and vega (the sensitivity of the value of an option to a change in price volatility) in order to calculate the total capital requirement.
- These sensitivities shall be calculated in accordance with a standard market model or with the bank's proprietary model, previously endorsed by the CBN.
- The capital requirements for specific risk shall be calculated separately by multiplying the delta equivalent value of each option by the appropriate risk weights.

### 6.2.1 Calculation of the Capital Requirement for General Delta Risk

- Delta-weighted positions for options with debt securities as the underlying shall be incorporated in the calculation of the capital requirement in accordance with one of the procedures reflected in the sub-section on position risk on debt securities after slotting the positions into the time-bands set out in Annex B.
- The capital requirement for options with equities as the underlying shall be calculated on the basis of the delta-weighted positions in accordance with the provisions reflected in the sub-section on position risk on equity securities. The capital requirement for delta-weighted positions in respect of options on foreign currency shall be calculated on the basis of the method specified in the section on foreign exchange risk while that for delta-weighted positions in respect of options on



commodities shall be calculated in accordance with any of the methods set out in the section on commodity risk

- For other derivatives, banks shall adopt a two-legged approach, with one entry at the time the underlying contract takes effect and another at the time the underlying contract matures<sup>17</sup>. Banks shall treat floating-rate instruments with caps or floors as a combination of floating rate securities and a series of European-style options<sup>18</sup>.

## 6.2.2 Calculation of the Capital Requirements for General Gamma and Vega

### Risk

- Banks shall calculate the gamma and vega for each option position (including hedged positions) separately.
- For the purpose of calculating the capital requirement for gamma, a “gamma impact” shall be calculated for each option on the same underlying using a Taylor series expansion:  $\text{gamma impact} = 1/2 * \text{gamma} * \text{VU}^2$  where VU is the variation of the underlying<sup>19</sup> and calculated as follows:
  - i) For interest-rate options if the underlying is a bond, the market value of the underlying shall be multiplied by the risk weights set out in Annex B, Table 1. An equivalent calculation shall be carried out where the underlying is an interest rate, based on the assumed changes in the corresponding yield in Annex B, Table 1;
  - ii) For options on equities and equity indices and for foreign-exchange and gold options, the market value of the underlying shall be multiplied by 0.10 and 0.15 as the case may be;
  - iii) For options on commodities, the market value of the underlying shall be multiplied by 0.15<sup>20</sup>;
  - iv) In the case of financial instruments sensitive to more than one risk factor<sup>21</sup>, in calculating the gamma impact for each risk factor, the market value of the underlying shall be multiplied by the corresponding coefficient referred to in the previous points.
  - v) However, for positions in the same underlying for general gamma and vega risks the following shall apply:
    - for interest rates, each time-band as set out in Annex B table 3
    - for equities and stock indices, each national market;
    - for foreign currencies and gold, each currency pair and gold;
    - for commodities, each individual commodity
- The individual gamma impacts for each option on the same underlying shall be summed to obtain a net positive or negative gamma impact for each class of the underlying.
- The total gamma capital requirement shall be the sum of the absolute value of the net negative gamma impacts.



- Banks shall calculate the capital requirements for volatility risk by multiplying the sum of the vegas for all options on the same underlying by a proportional shift in volatility of  $\pm 25\%$ . The total capital requirement for vega risk shall be the sum of the absolute value of the individual capital requirements for each underlying.

### **6.3 Scenario Approach**

- The scenario approach uses simulation techniques to calculate variations in the value of an option's portfolio and the associated hedging positions as a result of hypothetical changes in the level and volatility of the prices of the underlyings.
- Under this approach, the capital requirement for general risk is determined by the scenario (i.e. the combination of price and volatility changes) that produces the greatest loss.
- Banks that intend to adopt the scenario approach for options shall follow the procedures set out in the guidelines for recognizing internal models for calculating capital requirements for market risk.

#### **6.3.1 Calculating the Capital Requirements**

- For the purpose of calculating the capital requirement for general risk, banks shall construct a series of matrices in which they record changes in the value of the option portfolio for simultaneous changes in the option's underlying rate or price and in the volatility of that rate or price. A different matrix shall be constructed for each individual underlying.
- The options and related hedging positions shall be evaluated over a specified range above and below the current value of the underlying.
- The range for interest rates shall be consistent with the assumed changes in yield set out in Annex B, Table 3. Other ranges are  $\pm 10\%/15\%$  for equities,  $\pm 10\%/15\%$  for foreign exchange, and  $\pm 15\%$  for commodities. In the case of financial instruments sensitive to more than one risk factor, the intervals shall be those associated with the material risk factors.
- For all risk categories, at least seven observations (including the current observation) shall be used to divide the range into equally spaced intervals.
- For the second dimension of the matrix – regarding the change in the volatility of the underlying rate or price, a shift of  $\pm 25\%$  shall be adopted. The CBN may require individual banks to use different changes in volatility.
- After calculating the matrix, each cell contains the net profit or loss of the option and the underlying hedged instrument. The capital requirement shall then be calculated as the largest loss contained in the matrix.
- The capital requirements for specific risk shall be calculated separately by multiplying the delta equivalent value of each option by the appropriate risk weights



- Banks with significant options business for which no capital requirements have been established shall monitor the other risks associated with such operations.  
Specifically, these include 'rho'<sup>22</sup>, which is the rate of change in the value of the option with respect to the interest rate, and theta, which is the rate of change in the value of the option with respect to time.

## Definition of Terms

- **Backtesting** shall mean tests that compare changes in the value of the portfolio with risk measures generated by the model.
- **Banking book** shall mean all positions not booked in the supervisory trading book;
- **Borrower** shall mean an individual obligor or group of connected obligors;<sup>23</sup>
- **Default risk** shall mean the risk of non-performance by the issuer;
- **Delivery versus payment (DVP)** shall mean the settlement of transactions where the counterparties simultaneously exchange performance (delivery of cash in exchange for financial assets or vice-versa);
- **Delta** shall mean the ratio of the expected change in an option price and a small change in the price of the financial instrument underlying the option. Delta approximates the probability that the option will be exercised and is calculated as the first derivative of the fair value of the option with respect to that of the underlying instrument;
- **Delta-equivalent value** shall mean the fair value of the underlying financial assets (or, where none, the notional principal) multiplied by the delta;
- **Duration** shall mean the indicator of the sensitivity of the price of a debt instrument to small parallel shifts in the yield curve, measured as the average maturity of all the cash flows in respect of principal and interest generated by the instrument, weighted by the present value of the cash flows;
- **Effective net change in the portfolio** shall mean the difference between the effective revaluations of the portfolio, where the effective revaluation is determined by subtracting commissions, the results of any intraday trading and accrued interest from the operating result;
- **Event risk** shall mean the risk of rapid movements in prices that are greater than those in the general market, due, for example, to a change in rating grade or announcements of mergers/acquisitions;
- **Foreign currency assets and liabilities** shall mean all on- and off-balance sheet assets and liabilities in respect of each currency, including transactions in naira indexed to the exchange rates of foreign



currencies. Transactions in gold shall be treated as foreign currency transactions;

- **Gamma** shall mean the rate of change of delta;
- **Gross foreign currency short (or debtor) position** shall mean the foreign currency liabilities, foreign currencies to be delivered in respect of unsettled transactions (cash or forward) and other off-balance-sheet transactions giving rise to an obligation or right to sell foreign currency assets;
- **Gross general equity position** shall mean the absolute value of the sum of all net long and short equity positions;
- **Gross long (or creditor) foreign currency position** shall mean the foreign currency assets, foreign currencies to be received in respect of unsettled transactions (cash or forward) and other off-balance-sheet transactions giving rise to an obligation or right to purchase foreign currency assets;
- **Gross long (or creditor) position** shall mean the securities holdings, securities to be received in respect of unsettled transactions (cash or forward) and other off-balance-sheet transactions giving rise to an obligation or right to purchase specified securities, foreign currencies, commodities, indices, interest rates or exchange rates;
- **Gross short (or debtor) position** shall mean the technical overdrafts, securities to be delivered in respect of unsettled transactions (cash or forward) and other off-balance-sheet transactions giving rise to an obligation or right to sell specified securities, indices or interest rates;
- **Hypothetical change in the portfolio** shall mean the hypothetical revaluation difference of the portfolio, where the hypothetical revaluation of the portfolio on day  $t$  shall refer to the value obtained by multiplying the quantities presented in the portfolio on day  $t-1$  by the prices on day  $t$ ;
- **Idiosyncratic risk** shall mean the risk of price changes due to daily trading activity;
- **Incremental Risk Charge (IRC)** shall mean the measure of the maximum potential loss that would result from a change in price resulting from the risk of default or from a change in the rating class of the issuer;
- **Matched position** shall mean the lesser of the two amounts in respect of a gross debtor position and a gross creditor position;
- **Multilateral trading facility (mtf)**, a trading system that facilitates the exchange of financial instruments between multiple parties. Multilateral trading facilities allow eligible contract participants to gather and transfer a variety of securities, especially instruments that may not have an official market. These facilities are often electronic systems controlled by approved market operators or larger investment banks. Traders will usually submit orders electronically, where a matching software engine is used to pair buyers with sellers.



- **Net foreign currency position** shall mean the difference between the gross long position and the gross short position in each currency;
- **Net general equity position** shall mean the difference between the sum of net long positions and the sum of net short positions in individual equities in the portfolio;
- **Net long or short position** in a security shall mean the difference between the gross on--- and off---balance---sheet creditor and debtor positions in respect of the same issue of debt securities. For this purpose, banks shall not take account of futures and other off---balance---sheet transactions that envisage the option upon maturity of delivering securities from different issues as well as derivatives contracts on interest rates and indices. With regard to credit derivatives, netting shall be permitted in the following cases: a) credit derivatives with the same terms and conditions (maturity, reference assets, etc.); b) long cash positions hedged by total rate of return (TROR) contracts (or vice versa), provided that there is an exact match between the reference assets and the hedged assets and there is no maturity mismatching. For equity securities, netting shall involve the same type of securities issued by the same issuer; for derivatives on equity indices, netting shall be permitted provided that they refer to the same index and have the same maturity;
- **Notional principal of off---balance---sheet transactions** shall mean the contractually defined nominal amount of the transactions;
- **Off---balance---sheet transactions** shall mean derivatives contracts and:
  - Unsettled cash or forward contracts for the sale of securities, currencies and commodities;
  - Irrevocable commitments to purchase arising in respect of participation in an underwriting syndicate for the placement of securities;
- **Regulated market** shall mean a multilateral system administered and/or operated by the market manager, which brings together or facilitates the bringing together of multiple third---party buying and selling interests in financial instruments --- in the system and in accordance with its nondiscretionary rules --- in a way that results in a contract, in respect of the financial instruments admitted to trading under its rules and/or systems, and which is authorized and functions regularly;
- **Residual position** shall mean the residual amount from netting, equal to the difference between a long position and short position;
- **Stressed VaR (SVAR)**, measure the maximum potential loss that would result from a change in price with a certain probability over a certain time horizon obtained by considering the composition of the current portfolio and applying market inputs collected over an historical period characterized by adverse conditions (stress).

- **Value at risk (VaR)** shall mean the maximum potential loss that would result from a price change with a given probability over a specified time horizon.
- **Vega** shall mean the sensitivity of the value of an option with respect to a change in the implicit volatility of the price;
- **Supervisory trading book** shall mean positions held intentionally for short-term resale and/or with the intent of benefiting in the short term from differences between the purchase and sale prices, or the changes in the price or the interest rate. Positions shall mean proprietary positions and positions arising from client servicing or market making.

## **Annex A: Requirements for the Supervisory Trading Book**

### **Part A - Trading Intent**

Trading intent shall be established through compliance with the following requirements:

- a) There must be a clearly documented trading strategy for the position/instrument or portfolios, approved by the board and management, which shall include the expected holding horizon;
- b) There must be clearly defined policies and procedures for the active management of the position, which shall include the following:
  - i) Positions entered into on a trading desk;
  - ii) Position limits are set and monitored for appropriateness;
  - iii) Dealers have the autonomy to enter into/manage the position within agreed limits and according to the approved strategy;
  - iv) Positions are reported to the board and management as an integral part of the bank's risk management process;
  - v) Positions are actively monitored with reference to market information sources and an assessment is made of the marketability or hedgeability of the position or its component risks, including the assessment of the quality and availability of market inputs to the valuation process, level of market turnover and sizes of positions traded in the market;
- c) There must be clearly defined policies and procedures to monitor the position against the bank's trading strategy including the monitoring of turnover and stale positions in the bank's supervisory trading book;

At a minimum, these policies and procedures shall establish:

- The positions the bank considers to be trading and as constituting part of the supervisory trading book for capital requirement purposes;
- The extent to which a position can be marked to market daily by reference to an active, liquid two-way market;



- For positions that are marked to model, the extent to which the bank can:
  - i) Identify all material risks of the position;
  - ii) Hedge all material risks of the position with instruments for which an active, liquid two-way market exists;
  - iii) Derive reliable estimates for the key assumptions and parameters used in the model;
  - iv) Generate valuations for the position that can be validated externally in a consistent manner;
  - v) Actively risk manage the position within its trading operations;
  - vi) Transfer risk or positions between the banking and supervisory trading books.

Compliance with these policies and procedures shall be fully documented and subject to periodic internal audit.

## **Part B – Systems and Controls for the Prudent Valuation of Positions in the Supervisory Trading Book**

Banks shall establish and maintain systems and controls sufficient to provide prudent and reliable valuation estimates.

### **B.1 Systems and Controls**

Systems and controls shall include at least the following elements:

- a) Clearly defined responsibilities of the various areas involved in the determination of the valuation, sources of market information and review of their appropriateness, frequency of independent valuation, timing of closing prices, procedures for adjusting valuations, month end and ad hoc verification procedures;
- b) Reporting lines for the unit accountable for the valuation process must be clear and independent of the front office.
- c) Information flows (reporting) clear and independent (i.e. independent from front office) for the department accountable for the valuation process.

The reporting line shall ultimately be to the Board.

### **B.2 Prudent Valuation Methods**

- Marking to market is the at-least-daily valuation of positions at readily available close out prices that are sourced independently. Examples include exchange prices, screen prices or quotes from several independent reputable brokers.
- When marking to market, the more prudent side of bid/offer shall be used unless the bank is a significant market maker in the particular type of financial instrument or commodity in question and it can close out at mid-market.



- Where marking to market is not possible, banks shall mark to model their positions/portfolios before applying market risk capital treatment. Marking to model is defined as any valuation which has to be (i) benchmarked, (ii) extrapolated or (iii) otherwise calculated from a market input.
- The following requirements shall be complied with when marking to model:
  - a) The board and management shall be aware of the elements of the trading book which are subject to mark to model and shall understand the materiality of the uncertainty this creates in the reporting of the risk/performance of the business;
  - b) Market inputs shall be sourced, where possible, in line with market prices, and the appropriateness of the market inputs of the particular position being valued and the parameters of the model shall be assessed frequently;
  - c) Where available, valuation methodologies which are accepted market practice for particular financial instruments or commodities shall be used;
  - d) Where the model is developed by the bank itself, it shall be based on appropriate assumptions that have been assessed and challenged by suitably qualified parties independent of the model's development process. In particular, the model shall be developed or approved independently of the front office and shall be independently tested, including validation of the mathematics, assumptions and software implementation;
  - e) There shall be formal change control procedures in place and a secure copy of the model shall be held and periodically used to check valuations;
  - f) The persons responsible for risk management shall be aware of the weaknesses of the models used and how best to reflect those in the valuation output;
  - g) The model shall be subject to periodic review to determine the accuracy of its performance (e.g. assessing the continued appropriateness of assumptions, analysis of profit and loss versus risk factors, comparison of actual close out values to model outputs).
- In addition to daily marking to market or marking to model, independent price verification shall be performed. This is the process by which market prices or model inputs are regularly verified for accuracy and independence. While daily marking to market may be performed by dealers, verification of market prices and model inputs should be performed by a unit independent of the dealing room, at least monthly (or, depending on the nature of the market/ trading activity, more frequently).
- Where independent pricing sources are not available or pricing sources are too subjective, prudent measures such as valuation adjustments may be appropriate.



### **B.3 Supervisory Value Adjustments**

Banks shall establish and maintain procedures for considering supervisory value adjustments.

#### **B.3.1 General Rules**

Banks shall consider the advisability of applying value adjustments in respect of the following factors: unearned credit spreads, close-out costs, early termination of positions, investing and funding costs, future administrative costs and, where appropriate, model risk.

#### **B.3.2 Rules for less liquid positions**

- Less liquid positions could arise from both market events and bank-related situations, for example concentrated positions and/or stale positions.
- Banks shall consider the need for making value adjustments for less liquid positions and review their continued suitability on an ongoing basis;
- Banks shall consider several factors when determining whether a value adjustment is necessary for less liquid positions. These factors include the amount of time it would take to hedge the position/risks within the position, the volatility and average of bid/offer spreads, the availability of market quotes and the volatility and average of trading volumes, market concentrations, the aging of positions, the extent to which valuation relies on marking to model, and the impact of other model risks.
- When marking to model or, in the case of the valuation of units or shares in collective investment schemes using third party valuations, banks shall consider whether to apply a supervisory valuation adjustment.

### **Annex B: Instructions for Calculating General Risk for Positions In Debt Securities**

#### **1. Maturity method**

The procedure for calculating capital requirements against the position risk for debt securities is composed of the following ten steps.

#### **Step I: Calculation of the net position in each issue**

Banks could have the following on-balance-sheet or off-balance-sheet positions in respect of each issue:

##### **I.1 On-balance-sheet positions**

- a) Long positions
- b) Short positions

##### **I.2 Off-balance-sheet positions**

**I.2.1 Derivatives with underlying security:**

- a) Long positions
- b) Short positions

**I.2.2 Derivatives without underlying security:**

- a) Long positions
- b) Short positions

**I.2.3 Other off-balance-sheet transactions:**

- a) Long positions
- b) Short positions

**I.3 Total supervisory trading book**

- a) Long positions
- b) Short positions

In order to calculate the net position in each issue, the following criteria shall be adopted:

- i) First, positions in the same category of transactions with the opposite sign shall be offset;
- ii) Where, after offsetting pursuant to point a), category 2) (off-balance-sheet positions) contains positions with the opposite sign, these shall be offset and the residual unmatched amount allocated to the type with the largest absolute value;
- iii) Where, after offsetting pursuant to point b), category 1) (on-balance-sheet positions) and category 2) (off-balance-sheet positions) contain positions with the opposite sign, these shall be offset and the residual unmatched amount allocated to the type with the highest absolute value.

**Step II: Assignment of net positions in each issue to the appropriate maturity bands and weighting the positions**

II.1 On the basis of the residual maturity, each net position<sup>24</sup> shall be assigned to one of the maturity bands specified below.

There are thirteen maturity bands for debt securities with a coupon of 3% or more and fifteen maturity bands for debt securities with a coupon of less than 3%.

II.2 Within each maturity band, the net long positions and net short positions shall be summed to obtain a net long position and net short position for

the maturity band. The long and short positions of each maturity band shall be multiplied by the appropriate risk weight.

**Table 1**

Zones	Maturity bands								Risk weights
	Coupon of 3% or more				Coupon of less than 3%				
Zone 1	up	to	1	month	up	to	1	month	0%
		over	1	month		over	1	month	0.20%
		to	3	months		to	3	months	0.40%
		over	3	months		over	3	months	0.70%
		to	6	months		to	6	months	
Zone 2	over	1	year	to	over	1	year		1.25%
		2	years		to	1.9	years		1.75%
	over	2	years	to	over	1.9	year		2.25%
		3	years		to	2.8	years		
Zone 3	over	3	years	to	over	2,8	years		
		4	years		to	3.6	years		
	over	4	years	to	over	3.6	years		2.75%
		5	years		to	4.3	years		
	over	5	years	to	over	4.3	years		3.25%
		7	years		to	5.7	years		
	over	7	years	to	over	5.7	years		3.75%
		10	years		to	7.3	years		
	over	10	years	to	over	7.3	years		4.50%
		15	years		to	9.3	years		
over	15	years	to	over	9.3	years		5.25%	
	20	years		to	10.6	years			
over	20	years		over	10.6	years		6.00%	
				to	12	years			
				over	12	years		8.00%	
				to	20	years			
				over	20	years		12.50%	



- The weighted long position shall be offset against the weighted short position in each maturity band.
- The smallest weighted long or short position shall be the matched weighted position for the maturity band.
- The difference between the two positions shall be the unmatched weighted long (short) position for the maturity band.

#### **Step IV: Calculation of the capital requirement for matched positions within a maturity band**

- The first capital requirement is calculated by multiplying the sum of the matched weighted positions for each band by a vertical disallowance factor of 10%<sup>25</sup>.

#### **Step V: Offsetting within a zone**

- For each zone the unmatched weighted positions with the same sign in the maturity bands in the zone shall be summed in order to calculate the overall weighted long position and the overall weighted short position for each zone.
- The smaller of the two shall be the matched weighted position for the zone.
- The difference between the two shall be the unmatched long (short) position for the zone.

#### **Step VI: Calculation of the capital requirement for matched positions within a zone**

- The second capital requirement shall be calculated by multiplying the matched weighted positions for each zone by the disallowance factors specified in Table 2 of this Annex and then summing the three amounts obtained.

#### **Step VII: Offsetting between zones**

- The unmatched weighted positions in the three zones shall be offset by matching the position in zone 1 with that in zone 2 and matching the resulting position with that in zone 3.

Specifically the comparison of zone 1 and 2 can generate two possible outcomes:



i) The unmatched weighted positions of zones 1 and 2 have the opposite sign;

ii) The unmatched weighted positions of zones 1 and 2 have the same sign.

VII.1 In the first case, the unmatched weighted positions of zone 1 and 2 shall be offset.

The smaller of the unmatched weighted positions shall be the matched weighted position between zone 1 and zone 2.

The difference between the unmatched weighted positions of zone 1 and zone 2 shall be assigned to either zone 1 or zone 2 depending on which has the unmatched weighted position with the largest absolute value.

Where this latter difference and the position of zone 3:

i) Have the same sign, their sum shall be the "final unmatched weighted position";

ii) Have the opposite sign, the smaller of those values shall be the matched weighted position between zone 1 and zone 3 or the matched weighted position between zone 2 and zone 3 depending on whether the unmatched weighted position between zone 1 and zone 2 was assigned to zone 1 or zone 2, respectively. The difference between the two positions shall be the final unmatched weighted position.

VII.2 In the second case, two further cases shall be distinguished:

- Where the unmatched weighted position of zone 3 has the same sign, the sum of the unmatched weighted positions shall be the final unmatched weighted position;
- Where the unmatched weighted position of zone 3 has the opposite sign of that of zones 1 and 2, the unmatched weighted positions of zone 2 and 3 shall be offset.
- The smaller unmatched position shall be the matched weighted position between zones 2 and 3.
- The difference between the two positions, representing the unmatched weighted position between zones 2 and 3, shall be assigned to the zone with the unmatched weighted position with the largest absolute value. Where the latter position:
  - i) Is assigned to zone 3 and therefore has the opposite sign of that for zone 1, the smaller of these amounts shall be the matched weighted position between zones 1 and 3. The difference between the two positions shall be the final unmatched weighted position;
  - ii) Is assigned to zone 2 and therefore has the same sign as zone 1, the sum of the two unmatched weighted positions shall be the final unmatched weighted position.



**Step VIII: Calculation of the capital requirement for matched positions between zones**

- The third capital requirement shall be calculated by multiplying the matched weighted positions between the three zones by the disallowance factors specified in Table 2 of this Annex and then summing the three amounts obtained.

**Step IX: Calculation of the capital requirement for residual unmatched positions**

- The fourth and final capital requirement calls for a 100% weighting of the final unmatched weighted position calculated as specified above.

**Step X: Calculation of the total capital requirement**

- The total capital requirement shall be the sum of the four requirements specified in steps IV, VI, VIII and IX.

**Table 2**

Zones	Maturity band	Within the zone	Between adjacent zones	Between zones 1 and 3
Zone 1	from 0 to 1 month	40%	40%	100%
	from 1 to 3 months			
	from 3 to 6 months			
Zone 2	from 6 to 12 months	30%	40%	100%
	from 1 to 2 years			
	from 2 to 3 years			
Zone 3	from 3 to 4 years	30%	40%	100%
	from 4 to 5 years			
	from 5 to 7 years			
	from 7 to			



10 years from 10 to 15 years from 15 to 20 years over 20 years			
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## 2. Duration Method

In order to calculate the capital requirement for general risk on debt securities with the duration method, the following procedure shall be adopted:

- a) Calculate the modified duration of each debt instrument and then allocate them to the 15 time-bands of the ladder specified in Table 3 of this Annex;
- b) Multiply the amount by the specific weights (between 0.6% and 1%) expressing the assumed change in yield for instruments with the same modified duration;
- c) Apply a vertical disallowance of 5% to the weighted long and short positions in each time-band in order to capture basis risk;
- d) Carry forward the net positions in each time-band for horizontal offsetting, applying the disallowances specified in Table 2 of this Annex and proceeding in accordance with steps V to IX in section 1 of this Annex;
- e) Calculate the total capital requirement as the sum of the three requirements specified in steps VI, VIII and IX and the requirement specified in point 3) above.

For the purposes of Table 1, "other qualifying items" shall include:

- a) Long and short positions in assets qualifying for a credit quality step corresponding to investment grade within the framework of the standardized approach under credit risk regulations;
- b) Long and short positions in assets qualifying for a credit quality step corresponding to investment grade within the framework of the internal ratings based approach under credit risk regulations;
- c) Long and short positions in assets for which a credit assessment by a nominated ECAI is not available and which meet the following conditions:
  - i) They are considered by the banks concerned to be sufficiently liquid;
  - ii) They are considered by the banks concerned to be investment grade;

- d) Long and short positions in assets issued by supervised institutions subject to capital adequacy requirements.
- e) Long and short positions in assets issued by supervised institutions which receive a risk weight of 50% under credit risk standardized approach.

## CENTRAL BANK OF NIGERIA



### Guidance Notes on the Calculation of Capital Requirement for Operational Risk

Basic Indicator Approach (BIA) and the Standardized  
Approach (TSA)



## OPERATIONAL RISK CAPITAL REQUIREMENT

### 1.0 Introduction

In calculating the capital requirements to cover operational risk, banks are required to assess the links among the various types of risk and identify their possible impact in terms of operational risk. Ensuring full compliance with the regulations would also play an important role in mitigating operational risk.

### 1.1 Calculation Approaches

This guidance notes make provision for two methods of calculating operational risk capital charge; the Basic Indicator Approach (BIA) and the Standardized Approach (TSA).

- Banks using the BIA are required to calculate their capital requirement by multiplying an indicator of a bank's volume of business, gross income, by a specified regulatory percentage. Banks using the BIA must hold capital for operational risk equal to the average over the previous three years of a fixed percentage of positive annual gross income.
- Banks using TSA are required to calculate their capital requirement by multiplying gross income by separate regulatory percentages for each of the eight business lines into which banks' activities are divided (corporate finance, trading and sales, retail banking, commercial banking, payment and settlement, agency services, asset management and retail brokerage)

TSA uses the gross income from the above business lines as a proxy for the scale of business operations and thus the likely scale of operational risk exposure within each of these business lines. The capital charge for each business line is then calculated by multiplying gross income by the factor assigned to that business line.

### 1.2 Adoption of Approaches

Banks and banking groups are expected to adopt the BIA at the commencement date of this regulation and may seek approval to move to TSA which requires more stringent operational risk management processes.



## **2.0 Governance and Management of Operational Risks**

### **2.1 Board and Management**

The board of directors plays a key role in establishing an effective and efficient operational risk management and control system and to this end the board and senior management shall;

- a) establish the general framework of the system
- b) be responsible for its implementation,
- c) supervise its operation and
- d) verify its overall functionality and compliance with regulatory requirements.

### **2.3 Processes and Procedure**

Specific attention shall be paid to the processes, functions and other aspects involved in the calculation of the capital requirement. Accordingly, banks' board and management shall have the specific responsibility for:

- a) Identifying and measuring infrequent, yet severe loss events,
- b) Identifying the various forms and manner in which operational risks may materialize,
- c) Assessing the operational risks associated with the introduction of new products, activities, processes and systems.
- d) Adopting contingency and business continuity plans that ensure their operational resilience and limit losses in the event of severe business disruptions.

### **2.4 Reversion of Approaches**

Banks that have adopted TSA are not allowed to revert to the BIA without the approval of the CBN. However, if the CBN discovers that a bank using TSA no longer meets the qualifying criteria for the approach, it may require the bank to revert to the BIA until it meets the conditions specified by the supervisor before returning to TSA.

### **2.5 Sound Practices for Operational Risk Management**

Regardless of the operational risk capital computation approach adopted, banks are required to comply with principles in *"Sound Practices for the Management and Supervision of Operational Risk"* (BCBS, February 2003).



### 3.0 Basic Indicator Approach (BIA)

#### 3.1 Calculation Method

a) The capital requirement using the BIA shall be equal to 15% of the average of the last three years positive observations of the relevant indicator (i.e. gross income). The formula for the calculation is given below;

$$KBIA = \frac{\sum GI_i \dots \eta * \alpha}{\eta}$$

Where:

KBIA = the capital charge under the Basic Indicator Approach

GI = positive annual gross income for the previous three years

$\eta$  = number of the previous three years for which gross income is positive

$\alpha$  = 15%,

b) Gross income under this guideline includes the sum of a bank's

Net interest income, and

Net non-interest income;

All of which shall be gross of:

- Any provisions (example unpaid interest); and
- Any operating expenses, including fees paid to outsourcing service providers;

But shall exclude;

- Realized or unrealized profits/losses from the sale or impairment of securities in the banking book;
- Extraordinary or irregular items;
- Income derived from insurance recoveries.

c) However, if, for any given observation, the value of the relevant indicator is negative or equal to zero, this figure shall not be taken into account in calculating the total capital requirement. **The requirement shall be calculated as the average for the positive observations only.**

d) Where data on the relevant indicator is not available for certain observations during the applicable three-year period, the calculation of the requirement shall be based on the average of the available observations only.



e) If the relevant indicator or its components are related to a period less than 12 months (e.g. in the case of newly formed banks, mergers and acquisitions), this value must be annualized linearly.

f) Banks shall be required to reconcile the gross income used in capital computation and the gross income reported in returns made to CBN e.g. MBR 1000

#### **4.0 The Standardized Approach (TSA)**

##### **4.1 Approval Process**

- Banks seeking the approval of CBN for the use of TSA must show that their boards are actively involved in the oversight of operational risk management system; the system is conceptually sound and implemented with integrity and must have sufficient resources to support the use of the approach. They would therefore be required to submit the following in support of their application:

- a. Organization charts that specify the tasks and responsibilities of the operational risk management and control functions;
- b. A board certification of compliance with qualifying criteria;
- c. A document describing the self---assessment process and the related findings; and
- d. The internal audit report on the adequacy of the operational risk management system.

- Banks authorized to use TSA shall send to the CBN annually, a formal certification of compliance with the qualifying criteria and the internal audit report on the adequacy of the operational risk management system.

##### **4.2 Qualifying Criteria for the Standardized Approach**

In order to obtain authorization to use the Standardized Approach, banks shall have adequate internal control procedures and an effective operational risk management system (specified below) in addition to adequate corporate governance mechanisms.

###### **4.2.1 Internal Controls**

- **The Self---Assessment Process**

The self-assessment process shall consist of a formalized set of procedures and activities to;

- a. assess the quality of the operational risk management system, as well as
- b. its continuing compliance with regulatory requirements, and;

- c. appropriateness to operational needs and market developments.
- The procedures for conducting the self--assessment and the related findings shall be adequately documented and reported to senior management and board. The report shall place specific emphasis on any aspect of the operational risk management system that requires improvement, including changes in bank structure and operations, and on the assessment of compliance with the qualifying criteria.

- **The Internal Audit Function**

The internal audit unit shall carry out periodic reviews of the operational risk management system and the self--assessment process at least once every year with a view to evaluating their effectiveness and compliance with the qualifying criteria.

The unit shall forward its reports on the review of operational risk to the board of directors for necessary corrective actions.

#### **4.2.2 Operational Risk Management System**

The key features of the operational risk management system are:

##### **a) The Mapping of Activities Into Regulatory Business Lines<sup>31</sup>**

For the purpose of calculating the capital requirement, the bank shall map its activities into eight regulatory business lines, listed in the table below, in accordance with the following principles:

- All activities shall be mapped into the business lines in a mutually exclusive and jointly exhaustive manner;
- Any activity that forms an integral or ancillary part of another shall be allocated in accordance with the mapping criteria for the main activity;
- An activity belonging to more than one business line shall be mapped to the dominant business line;
- Where an activity cannot be mapped on the basis of a dominant business line, it shall be mapped to the business line yielding the highest percentage. The same rule shall apply to any associated ancillary activity;
- A compound activity shall be divided into its significant components, which shall be mapped to the most appropriate business lines on the basis of their nature and characteristics;
- Banks may use internal transfer pricing methods to allocate the relevant indicator to the various business lines;<sup>32</sup>

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<sup>31</sup> Business lines shall be in line with the permissible activities prescribed in the CBN banking model.

- o The mapping of activities into business lines shall be consistent with the categories adopted for credit and market risks.
- o The mapping criteria shall be reviewed and adjusted in line with current business activities and the bank's risk profiles.
- o The process of mapping activities into business lines shall be subject to internal review and documented.
- o In mapping activities into business lines, banks shall take account of the table contained in Annex A.

**b) The Operational Risk Data Collection and Storage System**

d) Banks are required to establish an operational risk data collection and storage system, which at a minimum shall include material losses and any related recoveries, which are capable of ensuring the effectiveness of the risk management system.

e) The system shall ensure on a continuing basis that the data are relevant, reliable and up to date. For this purpose, banks shall:

Develop information systems capable of ensuring the integrity, confidentiality and availability of the data over time;

Carry out periodic reviews of the operational risk data collection and storage system.

<b>Business line</b>	<b>Percentage (β)</b>
Corporate finance	18%
Trading and sales	18%
Retail banking	12%
Commercial banking	15%
Payment and settlement	18%
Agency services	15%
Asset management	12%
Retail brokerage	12%

The total capital charge under TSA may be expressed as follows:

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<sup>32</sup> For example, the retail business line may carry out lending transactions making use of funds raised with activities typical of other business lines such as interbank funding, which is included in the trading and sales line. In this case, internal transfer prices can be used to reallocate the cost components from trading and sales to retail.

- $KTSA = \frac{1}{3} \max \left[ \sum_{i=1}^8 (GI_{i,t} * \beta_{i,t}), 0 \right]$

Where:

KTSA = Capital charge under TSA

GI<sub>1-8</sub> = Annual gross income in a given year for the eight business lines in the table above.

β<sub>1-8</sub> = The fixed percentages for the business lines indicated in the table above.

Where the weighted relevant indicator of a business line is negative, it shall be included in calculating the Standardized Approach amount. Where the Standardized Approach amount for a given year is negative, then the result for that year shall be zero and shall be included in the calculation of the three-year average.

Where data on the relevant indicator is not available for certain observations during the applicable three-year period, the calculation of the requirement shall be based on the average of the available observations only<sup>33</sup>.

If the relevant indicator or its components are related to a period less than 12 months (e.g. in the case of newly formed banks, mergers and acquisitions), this value must be annualized linearly.

In the event that a bank or banking group migrates from the basic indicator approach to the standardized approach during the year, the capital requirement is calculated by using the new method from the first reporting date.

Annex B shows an example of using standardized approach for calculating capital requirement for operational risk.

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<sup>33</sup> Only values for the relevant indicator determined on the basis of the International Accounting Standards shall be used in calculating the capital requirement.

## Definition of Terms

**Relevant indicator** shall mean gross income

**Business lines** shall mean the lines of business into which a bank's activities shall be classified in accordance with the criteria set out in the Standardized Approach for computation of capital charge for operational risk.

**Operational loss** shall mean the adverse financial effects generated by operational events that have been recognized in the bank's accounts and that have or may have an impact on the bank's income statement.

**Legal risk** shall mean the risk of losses resulting from violations of law or regulations, from contractual or constructive liability or from other disputes.

**Operational risk** shall mean the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.

**Operating segment** shall mean any area of activity such as a business line, an organizational unit, a legal entity or a geographical area.

**Standardized approach amount** shall mean the algebraic sum of each of the eight business lines divided by 3 years. Where the weighted relevant indicator of a business line is negative, it shall be included in calculating the Standardized Approach amount. Where the Standardized Approach amount for a given year is negative, then the result for that year shall be zero and shall be included in the calculation of the three---year average

**ANNEX A: STANDARDIZED APPROACH – MAPPING OF BUSINESS LINES TO BANK ACTIVITIES**

Business lines	List of activities
Corporate finance	Mergers, acquisitions, placements (public tenders and offerings, private placements, bond issues). Investment banking activities involving equity and debt capital (IPOs, privatizations, syndications, secondary private placements, underwriting, etc.). Business appraisals. Securitizations on behalf of third parties. Corporate financial management. Capital increases (lead manager only). Advisory and research services (capital structure, industrial strategy, undertakings, re-organizations, etc.). Investment advice as a specific business.
Trading and sales	Dealing on own account. Treasury management and funding on own account (asset & liability management, etc.). Securitization on own account. Reception, transmission and execution of orders for corporate and professional clients. Advice, underwriting, placement of financial instruments (investment funds, securities and fund portfolio products, equities, bonds, derivatives, etc.) with corporate and professional clients.
Retail banking	Acceptance of deposits and lending. Guarantees and commitments. Consumer credit for retail customers. Leasing and factoring. Other transactions with retail counterparties not allocated to other business lines. Ancillary services such as collection and payment (issuing debit and credit cards, funds transfer and other payments on behalf of customers, exchanging foreign currency, etc.) and custodianship and administration of financial instruments.
Commercial	Acceptance of deposits and lending. Guarantees and

banking	commitments. Leasing and factoring. Export and trade credit. Other transactions with corporate counterparties not allocated to other business lines. Ancillary services such as collection and payment (issuing debit and credit cards, funds transfer and other payments on behalf of customers, foreign exchange, etc.) and custodianship and administration of financial instruments. Net income (for example, coupons and dividends) on non-trading books.
Payment and settlement	Payment, settlement and clearing services and systems (RTGS, NIBSS, SWIFT, MASTERCARD, VISA, CSCS etc.). Issuing and administering means of payment and funds transfer as a specific business. Correspondent banking.
Agency services	Depository bank. Custodianship and related services (cash/collateral management, deposits with third parties, etc.) as a specific business. Tax collection services. Treasury services for government entities. Trust services.
Asset management	Portfolio management and other forms of asset management (investment funds, pension funds, securities and fund portfolio products, hedge funds, etc.). This refers only to the production, and not the distribution, of asset management products, except for placement with professional clients by specialized companies.
Retail brokerage	Reception, transmission and execution of orders for retail customers. Advice, underwriting, placing of financial instruments and insurance products (bank insurance, investment funds, securities and fund portfolio products, equities, bonds, derivatives, etc.) with retail customers.

**ANNEX B: STANDARDIZED APPROACH – EXAMPLE OF THE CALCULATION OF THE CAPITAL REQUIREMENT**

Business line	Step 1			Beta Factor	Step 2		
	Annual Gross Income by Business Lines				Calculation of the weighted relevant indicator by business		
	Yr1	Yr2	Yr3		Yr1	Yr2	Yr3
Corporate finance	10	10	10	18%	1.80	1.80	1.80
Trading & sales	20	-60	30	18%	3.60	-10.80	5.40
Retail banking	20	20	30	12%	2.40	2.40	3.60
Commercial banking	20	15	10	15%	3.00	2.25	1.50
Payment and Settlement	10	-40	10	18%	1.80	-7.20	1.80
Agency services	20	15	0	15%	3.00	2.25	0.00
Asset Management	0	20	30	12%	0.00	2.40	3.60
Retail brokerage	-10	10	20	12%	-1.20	1.20	2.40
					Step 3		
					Algebraic Sum for the year		

	14.40	-5.70	20.10
	Step 4		
	Calculation of the Standardized Approach amount		
	14.40	0.00	20.10
	Step 5		
	Standardized Approach capital requirement		
	11.50		

1. Calculate the relevant indicator on an annual basis for each business line (the result may be either positive or negative).
2. Multiply the relevant indicator of each business line by the corresponding percentage (the result may be either positive or negative).
3. Sum the weighted relevant indicators of the eight business lines, offsetting the positive amounts against the negative amounts. If the total result for the year is negative, set it equal to zero.
4. Calculate the Standardized Approach amount for each of the three years (the result may be either positive or equal to zero).
5. Calculate the total capital requirement as the simple average of the Standardized Approach amounts for the three years.

## CENTRAL BANK OF NIGERIA



### Guidance Notes on Pillar III

#### Market Discipline



## **1.0 Introduction**

The aim of Pillar III is to promote market discipline by allowing market participants to access information on risk exposure and risk management policies and procedures through disclosures. This section sets out the disclosure requirements under the guideline with respect to procedure, frequency and content of information to be disclosed.

### **1.1 General Disclosure Principle**

Banks should have a formal disclosure policy approved by the board of directors that addresses the bank's approach for determining what disclosures it will make and the internal controls over the disclosure process. In addition, banks should implement a process for assessing the appropriateness of their disclosures, including validation and frequency of them. (BCBS June 2006, Par 821)

## **2.0 Disclosure Requirements**

### **2.1 Organization of Information and Limitation of Obligations**

The information whose disclosure is governed by these regulations is listed in Annex A.

### **2.2 Content and Procedures for Disclosing Information**

Banks shall disclose information relating to their core activities, risks profiles and methodologies used.

In order to ensure the comprehensiveness of disclosures, references to other sources is not allowed.

Banks are expected to make adequate disclosure consistent with their organizational complexity and the type of business they engage in, taking into account their internal reporting systems to the board and management.

### **2.3 Disclosure Eligibility Requirements**

For banks that adopt internal systems to calculate capital requirements for credit or operational risks and for those using credit risk mitigation techniques, compliance with specific disclosure requirements (Disclosure Eligibility Requirements) shall be a necessary condition for the recognition of such approach and the effects of such techniques for regulatory capital purposes. These disclosure requirements are marked by an asterisk in the annexed tables.



## 2.4 Derogations From Disclosure Requirements

Banks may omit the disclosure of information that is not considered material, with the exception of information that represents a disclosure eligibility requirement.

In exceptional cases, banks may omit the disclosure of proprietary or confidential information (including information that represents a disclosure eligibility requirement), provided that they specify the information that is not disclosed and the reasons for non-disclosure, and publish more general information on the matter in question.

## 2.5 Disclosure Procedures and Frequency

- Information shall be disclosed through the bank's website. Banks for whom such means of publication is difficult or onerous shall disclose information through the website of their respective industry association or in printed form.
- Banks shall make adequate pronouncement on the means of disclosure in their financial statements (in the notes to the financial statements).
- Disclosures shall be published on a bi-annual basis and within thirty days of publishing the financial statements.
- Banks may publish the information on a more frequent basis, taking into consideration their level of business, international affiliations and financial sectors dynamics. They should also consider their participation in the financial markets, international payment, clearing and settlement systems as well as the volatility of their exposure.

## 2.6 Organization and Controls

a) Banks shall adopt suitable organizational arrangements to ensure the compliance with disclosure requirement under these regulations. Board and management shall independently assess and verify the quality of information. The solutions adopted shall form part of the bank's system of internal controls.

b) Within this framework, banks shall establish appropriate specific procedures for verifying disclosures that are yet to be subjected to verification by external auditors or the CBN.

## Definitions of Terms

For the purposes of these regulations:

**Confidential information** shall mean information in respect of which the bank has obligations to customers or other counterparty relationships binding it to confidentiality.

**Material information** shall mean information which if omitted or misstated could change or influence the assessment or decision of a user relying on such information for the purpose of making economic decisions;

**Proprietary information** shall mean information which, if shared with the public, would undermine the bank’s competitive position. It may include information regarding products or systems which, if shared with competitors, would render the bank’s investment therein less valuable;

## ANNEX A

**Table 1: General Requirements**

		Description of disclosure
<b>Qualitative disclosure</b>		<p>For each risk category (including those considered in the following tables), banks shall disclose risk management objectives and policies, including:</p> <ul style="list-style-type: none"> <li>• The strategies and processes for managing such risks;</li> <li>• The structure and organization of the relevant risk management function;</li> <li>• The scope and nature of risk measurement and reporting systems;</li> <li>• The policies for hedging and mitigating risk as well as strategies and processes for monitoring their continuing effectiveness.</li> </ul>

**Table 2: Scope of Application**

		Description of disclosure
<b>Qualitative disclosure</b>	(a)	The name of the bank to which the disclosure requirement applies.

	(b)	An outline of differences on the basis of consolidation for accounting and prudential purposes, with a brief description of the entities within the group which:  i) Are fully consolidated;  ii) Are proportionally consolidated;  iii) Are deducted from the regulatory capital;  iv) Are neither consolidated nor deducted.
	(c)	Any current or potential legal or substantive impediment to the prompt rapid transfer of regulatory capital or funds within the group.
	(d)	For groups, any reduction in individual capital requirements applied to the parent entity and the Nigerian subsidiaries.
Quantitative disclosure	(e)	The names of all subsidiaries excluded from consolidation and aggregate amount of their capital deficiencies with respect to any mandatory capital requirements.

**Table 3: Regulatory Capital Structure**

		<b>Description of disclosure</b>
<b>Qualitative disclosure</b>	(a)	Summary information on the main terms and conditions of the features of capital items, especially hybrid capital instrument and subordinated debt capital instruments.
	(b)	The total amount of Tier 1 capital, with separate disclosure of individual positive and negative items especially hybrid capital instruments.
	(c)	The total amount of Tier 2 capital

	(d)	Other deductions from regulatory capital, with separate disclosure – for banks using one of the IRB systems –of any negative differences between total value adjustments and expected loss.
<b>Quantitative disclosure</b>	(e)	Total regulatory capital.

**Table 4: Capital Adequacy**

		<b>Description of disclosure</b>
<b>Qualitative disclosure</b>	(a)	Summary description of the bank's approach to assessing the adequacy of its internal capital to support current and future activities.
<b>Quantitative disclosure</b>	(b)	For banks calculating credit risk--□]weighted exposure amounts using the standardized approach, the capital requirement for each of the exposure classes.
	(c)	<p>For banks calculating credit risk---weighted exposure amounts using the IRB approach, the capital requirement for each of the exposure classes envisaged in these regulations.</p> <p>For retail exposures, separate disclosure shall be made for each of the following categories: "exposures secured by residential property", "qualifying revolving retail exposures" and "other retail exposures".</p> <p>For equity exposures, disclosure shall be made for:</p> <p>(i) Each of the methods envisaged (simple</p>

		<p>risk weight approach, PD/LGD approach, internal models approach); in the case of the simple risk weight approach, separate disclosure shall be made for the capital requirement for:</p> <ul style="list-style-type: none"> <li>a) exchange---traded exposures;</li> <li>b) private equity exposures in sufficiently diversified portfolios;</li> <li>c) other exposures;</li> </ul> <p>ii) Exposures subject to supervisory transition regarding capital requirements;</p> <p>iii) Exposures subject to grandfathering provisions regarding capital requirements.</p>
	(d)	<p>Capital requirements for market risks, with separate disclosure for:</p> <ul style="list-style-type: none"> <li>- Assets included in the supervisory trading portfolio: <ul style="list-style-type: none"> <li>i) Position risk with specific evidence towards securitization;</li> <li>ii) Settlement risk</li> </ul> </li> <li>- Entire balance sheet: <ul style="list-style-type: none"> <li>iii) Foreign exchange risk;</li> <li>iv) Commodity risk;</li> </ul> </li> </ul>
	(e)	Capital requirement for counterparty risks.
	(f)	Total and Tier 1 capital ratios.

**Table 5: Credit Risk: General Disclosures for all Banks**

		Description of disclosure
Qualitative Disclosure	(a)	
Quantitative Disclosure	(b)	
	(c)	
	(d)	
	(e)	
	(f)	
	(g)	
	(h)	

# Guidance Note on the Calculation of Capital Requirement for Credit Risk

## STANDARDIZED APPROACH

## CHAPTER ONE: CREDIT RISK– STANDARDIZED APPROACH

### 1.0 Introduction

The application of the standardized approach for calculating the capital requirement for credit risk is supported by external credit assessments and it entails:

- a) The classification of exposures to different classes based on the nature of the counterparty or the technical characteristics of the transaction or the manner in which it is carried out, and
- b) The assignment of diversified risk weights to each portfolio, based on the ratings provided by the External Credit Assessment Institutions (ECAI) or the risk weights specified for certain exposure categories under this framework.

**All unrated exposures shall be assigned a risk weight of 100% where any of the under listed two conditions holds**

- c) The bank does not intend to use a rating assigned by an ECAI; and
- d) Where ECAI selected by the bank has not issued a rating for the exposure.

### 2.0 External Credit Assessments

External credit assessments (or external ratings) on the borrowers or specific exposures are the basis for the determination of risk weights under the standardized approach for exposures to sovereigns, central banks, public sector entities, banks, corporates as well as certain specific exposures<sup>34</sup>. The risk weights for other categories of exposures that are not subject to external ratings are specified in this framework.

#### 2.1 Rules on the Use of External Ratings

The rules for the use of external ratings are as follows;

- a) Banks that intend to use credit assessments from ECAs shall furnish the CBN with a list of such ECAs.
- b) Banks are not allowed to use credit assessments issued by connected ECAs.
- c) Credit assessments shall be used consistently; therefore, banks that decide to use credit quality assessments from an ECAI for a certain class of exposures shall use them for all the exposures belonging to that class.

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<sup>34</sup> For this purposes, banks are only permitted to use external ratings provided by rating agencies that have been recognized by the CBN based on the eligibility criteria as provided in **Annex A**.

- d) Banks shall use only credit quality assessments of ECAIs that take account of total exposure i.e. principal and interest.
- e) External ratings for an entity within a group cannot be used to risk weight other entities within the same group.

## 2.2 Single and Multiple Assessments

- Where there is only one assessment by an ECAI chosen by a bank for a particular exposure, that assessment should be used to determine the risk weight of the exposure.
- Where separate assessments by two different ECAIs result in different risk weights, the higher risk weight will be applied.
- Where there are three or more assessments with different risk weights, the assessments with the two lowest risk weights should be selected and the higher of those two risk weights will be applied.

## 2.3 Unsolicited Ratings

As a general rule, banks should only use solicited ratings from recognized ECAIs for the purposes of calculating capital requirement under the standardized approach. Where it is expedient for any bank to use unsolicited ratings, such bank shall obtain the CBN approval and the quality of the unsolicited ratings must not fall below that of solicited ratings.

## 2.4 Revocation of ECAI's Recognition

Where the recognition of an ECAI is revoked, banks that use the ratings provided by such ECAI shall adjust their exposure risk weights within 30 days.

## 2.5 Issuer and Issues Assessment

Where a bank invests in a particular security, which has an issue-specific rating, the risk weight for this exposure will be based on this rating. Where the bank has an investment which does not have an issue-specific rating, the following principles shall apply:

- a) Where the bank's exposure is to a borrower which does not have its own issuer rating, but the same borrower has a rating on other obligations (such as a debt security) to which the bank is not exposed, the bank shall use that debt security rating in determining the appropriate risk weight for the exposure to the borrower. However, this is subject to the condition that the bank's exposure ranks *pari passu* or senior in all respects to the debt security which has a rating, otherwise, the claim will receive the risk weight for unrated exposures;

- b) Where a borrower has its own issuer rating, this rating typically applies to senior unsecured exposures on that borrower. Thus, only senior exposures on that borrower will be able to utilise this rating. Other exposures will be treated as unrated; and
- c) Where either the issuer or a single security has a low quality rating which maps into a risk weight equal to or higher than that which applies to unrated exposures, an unrated exposure on the same borrower or issuer will be assigned the same risk weight as is applicable to the low quality rating (instead of the risk weight for unrated exposures).

## **2.6 Domestic and Foreign Currency Exposures**

- A credit assessment that refers to an item denominated in the borrower's domestic currency cannot be used to derive a risk weight for another exposure to that same borrower that is denominated in a foreign currency
- Where unrated exposures are risk weighted based on the rating of an equivalent exposure to that borrower, the general rule is that foreign currency ratings would be used for exposures in foreign currency. Domestic currency ratings, if separate, would only be used to risk weight claims denominated in the domestic currency<sup>35</sup>.

## **2.7 Short-Term and Long-Term Credit Assessments**

- Where a short-term exposure is assigned a 150% risk weight, all unrated exposures to the counterparty whether short-term or long-term shall receive a 150% risk weight;
- Where a short-term exposure is assigned a 50% risk weight, no unrated short-term exposure shall receive a risk weight of less than 100%.
- When a specific short-term assessment for a short-term exposure on a bank maps into a less favourable (higher) risk weight than the general preferential treatment for short-term exposures, the general short-term preferential treatment for interbank exposures cannot be used. All unrated short-term exposures should receive the same risk weighting as that implied by the specific short-term assessment.

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<sup>35</sup> Notwithstanding the above, where an exposure arises through a bank's participation in a loan extended, or has been guaranteed against convertibility and transfer risk, by a multilateral development bank whose preferred creditor status, is recognized in the market, the credit assessment on the borrower's domestic currency item may be used for risk weight purposes, to the extent guaranteed by the MDB.

### 3.0 Exposures and Risk Weights Categories

The following part defines the various categories of exposures and their corresponding risk weights under the standardized approach. On-balance sheet exposures shall be multiplied by the appropriate risk weight to determine the risk weighted asset amount, while off-balance sheet exposures shall be multiplied by the appropriate credit conversion factor (CCF) before applying the respective risk weights. Specifically, all exposures subject to the standardized approach should be **risk-weighted net of specific provisions**<sup>36</sup>.

#### 3.1 Exposures to Central Governments and Central Banks

- Exposures to Central Governments and Central Banks shall be assigned risk weights based on the rating assigned by an ECAI/Export Credit Agency (ECA) as follows;

Credit Assessment (ECAI)	AAA to AA--	A+ to A-	BBB+ to BBB--	BB+ to B--	Below B--	Unrated
Risk Scores (ECA)	1	2	3	4---5	6	Unrated
Risk Weight	0%	20%	50%	100%	150%	100%

- Notwithstanding the provisions of this paragraph, a risk weight of 0% shall be assigned to the following:
  - Exposures to Federal Government of Nigeria (FGN) and Central Bank of Nigeria (CBN) denominated in Naira (NGN) and funded in that currency.
  - Exposures, including inter-bank transactions guaranteed by the FGN or CBN.
  - Inter-bank transactions among supervised institutions collateralized by FGN Bonds or Treasury Bills.

#### 3.2 Exposures to non - Central Government Public Sector Entities

- Exposures to Public Sector Entities (*PSEs*<sup>37</sup>) shall be assigned a risk weight of 100% regardless of the length of the residual maturities of the exposures.
- Where a PSE is located in other jurisdiction, the risk weight of the sovereign rating of that jurisdiction shall be applied.

<sup>36</sup> Specific provisions include individual impairment provisions, as well as collective impairment provisions (and regulatory reserves, if any) that are attributable to loans classified as impaired.

<sup>37</sup> Public sector entities include both commercial and non-commercial entities owned by federal government, state government or a local government. The CBN may adjust the risk weights applicable to these entities when deemed necessary.

### 3.3 Exposures to State Governments and Local Authorities

- Exposures to State and Local Governments in Nigeria shall receive the following risk weights:
  - a. 20% risk weight for State Government bonds that meet the eligibility criteria for classification as liquid assets by the CBN
  - b. 100% risk weight for other State and Local Government bonds and exposures
- State and Local Governments of other jurisdictions shall be assigned the sovereign risk weight of those jurisdictions.

### 3.4 Exposures to Multilateral Development Banks (MDBs)

- Exposures to multilateral development banks shall be risk weighted on the basis of the rating assigned by an ECAI, as set out in the table below;

Credit Assessment for MDBs	AAA to AA--	A+ to A-	BBB+ to BBB--	BB+ to B--	Below B--	unrated
Credit quality steps	1	2	3	4 and 5	6	Unrated
Risk Weight	20%	50%	50%	100%	150%	50%

- However, a risk weight of **0%** shall apply to exposures to the following MDBs, regardless of any external credit rating assigned:
  - a) International Bank for Reconstruction and Development (IBRD);
  - b) International Finance Corporation (IFC);
  - c) African Development Bank (ADB);
  - d) Asian Development Bank (ADB)
  - e) European Bank for Reconstruction and Development (EBRD)
  - f) Inter-American Development Bank (IADB)
  - g) European Investment Bank (EIB)
  - h) European Investment Fund (EIF)
  - i) Nordic Investment Bank (NIB)
  - j) Caribbean Development Bank (CDB)
  - k) Islamic Development Bank (IDB)
  - l) Council of Europe Development Bank (CEDB)
  - m) International Islamic Liquidity Management Corporation (IILMC)

- n) Any other MDBs that may be specified from time to time by the CBN.

### 3.5 Exposures to Supervised Institutions

- Exposures to banks incorporated in a given country will be assigned a risk weight one category less favourable than that assigned to exposures on the sovereign of that country as shown in the following table.

Credit Assessment	AAA to AA--	A+ to A-	BBB+ to BBB--	BB+ to B--	Below B--	unrated
Credit quality steps	1	2	3	4 and 5	6	unrated
Risk Weight	20%	50%	100%	100%	150%	100%

- Short-term exposures to supervised institutions in Nigeria with an original maturity of three months or less shall be assigned a risk weight of 20% while a risk weight of 100% shall be assigned to long-term exposures.
- Shareholdings, hybrid and subordinated capital instruments issued by supervised institutions shall be assigned a risk weight of 100% where they are not deducted from regulatory capital.<sup>38</sup>

### 3.6 Exposures to Corporates and Other Persons

- This class includes exposures to entities other than those referred to in the above subsections as well as exposures to natural persons and small and medium-sized enterprises that cannot be classified under retail exposures as provided below.
- Exposures to corporates other than small and medium-sized enterprises shall be risk weighted on the basis of a credit assessment assigned by an ECAI as follows;

Credit Assessment	AAA to AA--	A+ to A-	BBB+ to BBB--	Below B--	unrated
Credit quality step	1	2	3 and 4	5 and 6	unrated
Risk Weight	20%	50%	100%	150%	100%

- Exposures to insurance companies, securities firms, and collective investment schemes shall be treated as exposures to corporates.

<sup>38</sup> Excluding shareholdings, innovative capital instruments, hybrid capital instruments and subordinated instruments subject to capital requirements for market risk.

### 3.7 Regulatory Retail Portfolio

Exposures included in the regulatory retail portfolio shall be risk-weighted at **75%**. To qualify to be included in the regulatory retail portfolio, such exposures must meet the following criteria:

- i) **Orientation criterion** the exposure is to an individual person or persons or to a small business. (small businesses may include sole proprietorships, partnerships or small and medium-scale enterprises (SMEs<sup>39</sup>))
- ii) **Product criterion** the exposure takes the form of any of the following: revolving credits and lines of credit (including credit cards and overdrafts), personal term loans and other term loans (for example instalment loans, auto financing loans, student and educational loans, personal finance) and small business facilities. Investment in debt and equity securities, whether listed or not, are excluded from this portfolio. Mortgage loans are excluded to the extent that they qualify for treatment as exposures secured by residential property.
- iii) **Granularity criterion**<sup>40</sup>-the aggregate exposure<sup>41</sup> to one counterpart cannot exceed 0.2% of the overall regulatory retail portfolio;
- iv) **Low value of individual exposures**-the aggregate retail exposure to one counterpart cannot exceed an absolute threshold of N100 million.

### 3.8 Exposures secured by Mortgages on Residential Property

- A risk weight of **100%** shall be applied to exposures secured by mortgages on residential property provided that:
  - a) The residential property will be occupied or rented out. The borrower's capacity to repay does not materially depend on cash flows generated by the property serving as collateral, but rather on the capacity of the borrower to repay the debt from other sources<sup>42</sup>;

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<sup>39</sup> Small and Medium Scale Enterprise (SME) is an enterprise that has asset base (excluding land) of between N5million–N500 million and labor force of between 11 and 300

<sup>40</sup> Banks shall aggregate all their retail exposures, which have fulfilled all other operational requirements for regulatory retail portfolio and ascertain whether all these exposures do not exceed the granularity threshold. If there are exposures, which exceed this threshold; they would not be eligible for the 75% risk weight and shall be treated as a corporate exposure.

<sup>41</sup> Aggregate exposure means gross amount (excluding defaulted exposures and without taking into account credit risk mitigation effects) of all forms of debt exposures (including off-balance sheet exposures) that individually satisfy the other three criteria.

<sup>42</sup> The requirement is not fulfilled in the case of real estate companies, construction companies and real estate funds, for these subjects, indeed, the sale and/or lease the property to a third party are the main activities.

- b) The amount of the exposure does not exceed 80% of the value of the property<sup>43</sup>. The loan to value ratio may be raised to 100% if supplemental guarantees are provided.
- In order to enable lending banks to obtain an effective benefit from the reduction in credit risk, the supplemental guarantees shall meet the general requirements specified under the rules governing credit risk mitigation.

### **3.9 Exposures secured by Mortgages on Commercial Real Estate**

Exposures secured by mortgages on commercial real estate (property for use as office space, distribution or other economic activities) located in Nigeria are risk-weighted at **100%**.

#### **Other conditions for exposures secured by real estate property**

Exposures secured by real estate property shall include exposures secured by a mortgage on real estate or connected with real estate leasing contracts, in accordance with the procedures set out in this section, provided that the following conditions, in addition to those under subsection 3.8 and 3.9 above:

- a) The value of the property does not materially depend upon the credit quality of the debtor;<sup>44</sup>
- b) The property is appraised by an independent valuer<sup>45</sup> at a value that does not exceed the market value;<sup>46</sup>
- c) The claim on the collateral is legally enforceable in all relevant jurisdictions and may be realized in a reasonable period of time.
- d) The property value shall be adequately monitored. Thus;
  - i. The value of the property shall be verified at least once every three years for residential property and once every year for commercial real estate, or more frequently where the market is subject to significant changes in conditions;
  - ii. Where the verifications under point (i) reveal a material decline in the value of the property, a valuation shall be made by an independent

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<sup>43</sup> The value of the property is equal to the market value (or mortgage lending value) reduced if necessary to reflect the results of monitoring as well as any earlier mortgages on the property.

<sup>44</sup> This requirement does not preclude situations where purely macro-economic factors affect both the value of the property and the performance of the borrower.

<sup>45</sup> Independent valuer shall mean a person who possesses the necessary qualifications, ability and experience to perform a valuation and who is independent of the loan granting or monitoring process.

<sup>46</sup> Market value shall mean the estimated amount for which the property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value shall be documented in a transparent and clear manner.

valuer, based on a value that shall not exceed the market value;<sup>47</sup> the property valuation shall be reviewed by an independent valuer at least once every three years for exposures exceeding 5% of the bank's regulatory capital<sup>48</sup>;

- e) The types of property accepted as collateral and the related lending policies shall be clearly documented;
- f) The property serving as collateral shall be adequately insured against damage.

### 3.10 Past Due Exposures<sup>49</sup>

The treatment of exposures classified as past due (defaulted) is provided below.

- The risk weights for the unsecured portion of past due exposures (other than qualifying residential mortgage loans and higher risk assets, net of specific provisions<sup>50</sup> (including partial write-offs) are as follows:
  - i) 150% risk weight when specific provisions are less than 20% of the outstanding amount of the exposure;
  - ii) 100% risk weight when specific provisions are no less than 20% of the outstanding amount of the exposure.

For the purpose of defining the secured portion of past due exposures, eligible collateral and guarantees will be the same as for credit risk purposes.

- Qualifying residential mortgage loans that are past due shall be risk weighted, net of specific provisions (including partial write-offs) as follows:
  - i) 100% when specific provisions are less than 20% of the outstanding amount of the exposure; and
  - ii) 50% when specific provisions are 20% or more of the outstanding amount of the exposure.

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<sup>47</sup> Market value shall mean the estimated amount for which the property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value shall be documented in a transparent and clear manner.

<sup>48</sup> The initial independent valuation shall be carried out as of the date on which these regulations enter into force for all operations existing for more than 3 years.

<sup>49</sup> Definition of past due or defaulted exposures is provided under the definition of terms.

<sup>50</sup> Specific provisions include individual impairment provisions, as well as collective impairment provisions (and regulatory reserves, if any) that are attributable to loans classified as impaired

### 3.11 Higher-Risk Exposures

The following exposures are regarded as higher risk exposures and are assigned specific risk weights<sup>51</sup> as follows:

- a) Unrated securitization shall be risk weighted 1000%
- b) Unrated securitization for internationally active banks (to which capital adequacy ratio of 15% applies) shall be risk weighted 667%
- c) Securitization tranches that are rated between BB+ and BB- will be risk weighted at 350%
- d) Investment in non-financial firms with negative financial results over the past two years; will be weighted at 200%.
- e) Investments in venture capital firms will be risk weighted 150%
- f) Non-publicly traded equity investments will be risk-weighted at 150%
- g) Residential mortgage loans for abandoned housing development project or construction will be risk-weighted at 150%; and
- h) Exposures to sovereigns, PSEs, banks, and securities firms rated below B- as well as exposures to corporates rated below BB- will be risk weighted at 150%
- i) Where exposure to a particular industry within a sector (as defined by the International Standard Industrial Classification of Economic Sectors as issued by the CBN) is in excess of 20% of total credit facilities of a bank, the risk weight of the entire portfolio in that industry shall be 150%. If for instance the total exposure of a bank to the food manufacturing industry within the Manufacturing sector is in excess of 20% of total credit facilities, the entire portfolio of exposure to the food manufacturing industry would be risk weighted 150%.
- j) The treatment of both defaulted and non-defaulted exposures of these higher risk items shall be the same.

### 3.12 Other Assets

- **0% Risk Weight**

- i) Cash in hand and equivalent cash items shall be assigned a 0% risk weight.
- ii) Gold bullion held in own vaults or on an allocated basis to the extent backed by bullion liabilities shall be assigned a 0% risk weight.

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<sup>51</sup> The CBN may direct banks to apply a higher risk weight in the event of adverse market conditions.

iii) All exposures deducted from capital

- **20% Risk Weight**

i) Cheques and Cash items in transit shall be assigned a 20% risk weight.

- **100% Risk Weight**

i) Property, plant and equipment and other fixed assets

ii) Prepayments

iii) Investments in equity or regulatory capital instruments issued by banks, other financial institutions and other entities unless deducted from capital base.

iv) Investments in collective investment schemes.

v) Real estate and other investments (including non-consolidated investment participation in other companies)

vi) Bank lending to subsidiaries in the same group: -where the loan is fully secured, it would be assigned a risk weight of 100%, otherwise it would be deducted from the capital when computing capital adequacy.

vii) Any other assets not specified above.

### **3.13 Off-Balance-Sheet Exposures: Guarantees and commitments**

- In order to calculate the credit risk associated with guarantees and commitments issued, banks shall first convert the exposures to credit equivalent amount by multiplying the exposures by the related credit conversion factors (CCF). Then, capital requirement is derived by multiplying the credit equivalent amount by the specific risk weight of the counterparty. Specifically, the credit conversion factors as provided in Annex B shall be applied to the exposures.
- In the case of **asset sale and repurchase agreements** and **outright forward purchases**, the risk weights shall be that of the assets in question and not that of the counterparties to the transactions.

#### **3.1.4 Securitization Positions**

The risk-weights for securitized exposures are set out in chapter two of this framework.

## **CHAPTER TWO: SECURITIZATION POSITIONS**

### **1.0 Introduction**

- This section describes the various approaches in determining regulatory capital requirements on exposures arising from securitization (traditional and synthetic) held in the banking book and the operational requirements for allowing regulatory capital reduction for banks.
- All banks, whether acting as originators or as third-party investors, must hold regulatory capital against all securitization exposures (on- or off-balance sheet) in the banking book arising from traditional and synthetic securitizations or structures that contain features similar to both. Such securitization exposures may arise from the following activities of the banks among others:
  - i) investments in any securitization issue, including retention or repurchase of one or more securitization positions;
  - ii) provision of credit risk mitigants or credit enhancement to parties to securitization transactions;
  - iii) provision of liquidity facilities or other similar facilities;
  - iv) obligations due to early amortization features in a securitization; or
  - v) entitlements to future income, generated by a securitization through various forms of arrangements such as deferred purchase price, excess servicing income, gain-on-sale, future margin income, cash collateral accounts or other similar arrangements.
- The framework specifies a number of methods for calculating the risk-weighted value of securitization positions. For banks that adopt the standardized approach in calculating the capital requirement for credit risk, the risk-weighted amount of the securitized asset underlying the securitization position shall be calculated using risk weights assigned by an ECAI to securitization exposures.
- For regulatory capital purposes, banks may use credit risk mitigation techniques to reduce the capital requirement for securitization positions. The methods for using these techniques are described in the section on credit risk mitigation.

### **2.0 Operational Requirements for the Recognition of Credit Risk Transfer**

- This section establishes the minimum requirements for the recognition of the transfer of credit risk and the regulatory capital treatment that the originating bank shall apply to securitize assets. Where the requirements set out in this section are not met, the securitization shall not be recognized for regulatory capital purposes.

- Banks should understand the inherent risks of the activity and be competent in structuring and managing such transactions. The terms and conditions of all transactions between the originating banks and the Special Purpose Vehicle (SPV) should be at market terms and conditions (all fees payable, should be in a timely manner) and meet the institution's normal credit standards.
- An institution's capital and liquidity plans should take into account the potential need to finance an increase in assets on its balance sheet as a result of early amortization or maturity events. The CBN may, if deemed necessary, increase the institution's capital requirement.

## 2.1 Operational Requirements for Traditional Securitizations

Under a traditional securitization, an originating bank may exclude the securitized exposures from the calculation of the credit risk-weighted assets only if all the following requirements are met on an ongoing basis:

- a) Significant credit risks associated with the securitized exposures has been transferred to third parties.
- b) The securitized exposures are not subject to claims by the originating bank and its creditors, even in the event of bankruptcy proceedings or receivership against the originating bank. Compliance with this condition shall be supported by an opinion provided by a qualified legal counsel with relevant experience in the sector;
- c) The transferee is a special-purpose vehicle (SPV) and the holders of the beneficial interests in that entity have the right to pledge or exchange the interests without restriction;
- d) The securities issued on the securitized exposures are not obligations of the originating bank. Thus, investors who purchase the securities have recourse only to the underlying pool of exposures.
- e) The originating bank does not maintain effective or indirect control over the transferred exposures. The originating bank is deemed to have maintained effective or indirect control over the transferred credit risk exposures if it;
  - has right to repurchase from the transferee (i.e. SPV) the previously transferred exposures in order to realize their benefits; or
  - Is obligated to re-assume the risk of the transferred exposures. The originating bank's retention of servicing rights to the exposures will not necessarily constitute indirect control of the exposures.
- f) Clean-up call options shall be permitted, provided they satisfy the conditions set out in sub--section 2.3.

- g) The contracts that govern the securitization do not contain clauses that;
- require the originating bank to improve the credit quality of securitization positions by altering the securitized assets
  - allow for increases in a retained first loss position or credit enhancement provided by the originating banking institution after the inception of the transaction; or
  - Increase the yield payable to parties other than the originating bank, such as investors and third-party providers of credit enhancements, in response to a deterioration in the credit quality of the securitized assets.

Where the traditional securitization complies with the significant credit risk transfer requirement for regulatory capital purposes, but does not pass the de-recognition test under IAS 39, the value of any securitization positions held by the originating bank shall be determined as if the transferred assets had been derecognized and the securitization positions recognized.

## 2.2 Operational Requirements for Synthetic Securitizations

Under a synthetic securitization, an originating bank may recognize the use of Credit Risk Mitigation (CRM) techniques such as collateral, guarantees or credit derivatives for capital relief purpose, if all the following requirements in addition to the conditions set out under traditional securitization are met on an ongoing basis:

- a) The credit protection by which the credit risk is transferred complies with conditions under credit risk mitigation. For this purpose, special-purpose vehicles shall not be recognized as eligible unfunded credit protection providers<sup>52</sup>;
- b) The instruments used to transfer credit risk do not contain terms or conditions that:
  - impose significant materiality thresholds below which credit protection is deemed not to be triggered if a credit event occurs;
  - allow for the termination of protection due to deterioration of the credit quality of the underlying exposures;
  - require positions in the securitization to be improved by the bank;

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<sup>52</sup> Accordingly, where credit risk is transferred using a credit default swap entered into by a special purpose vehicle, the protection of the securitized assets would not be ensured by the special-purpose vehicle itself, but by the assets posted as collateral by the vehicle.

- increase the bank's cost of credit protection or the yield payable to holders of positions in the securitization in response to a deterioration in the credit quality of the underlying pool;
- c) Securitization structures that include a clean-up call feature must satisfy the conditions set out in sub-section 2.3.
- d) A written opinion is obtained from qualified legal counsel that confirms the enforceability of the credit protection in all relevant jurisdictions.

### **2.3 Operational Requirements and Treatment of Clean-Up Calls**

- For securitization transactions that include a clean-up call, no capital will be required due to the presence of a clean-up call if the following conditions are met:
  - a) the exercise of the clean-up call must not be mandatory, in form or in substance, but rather must be at the discretion of the originating bank;
  - b) the clean-up call must not be structured to avoid allocating losses to credit enhancements or positions held by investors or otherwise structured to provide credit enhancement; and
  - c) The clean-up call must only be exercisable when 10% or less of the original underlying portfolio, or securities issued remain, or, for synthetic securitizations, when 10% or less of the original reference portfolio value remains.
- Securitization transactions that include a clean-up call that does not meet all of the requirements above, shall be subject to the following treatment:
  - a) For a traditional securitization, the underlying exposures must be treated as if the exposures were not securitized. Banks must not recognize in regulatory capital any income in equity capital resulting from a securitization transaction, such as that associated with expected future margin income resulting in a gain-on-sale; and
  - b) For synthetic securitizations, the purchaser of protection must hold capital against the entire amount of the synthetically securitized exposures as if it had not benefited from any credit protection.
- If a clean-up call, when exercised, is found to serve as a credit enhancement, the exercise of the clean-up call must be considered a form of implicit support provided by the bank and must be treated in

accordance with the supervisory guidance pertaining to securitization transactions.

## **2.4 Treatment of Implicit Support**

Where the originating bank provides implicit support<sup>53</sup> to a securitization, it shall;

- a) Calculate capital requirement for all of the exposures associated with the securitization transaction as if the exposures had not been securitized or as if the transaction did not benefit from any credit protection (in the case of synthetic securitization);
- b) Deduct from Tier 1 Capital any income in equity capital resulting from a securitization transaction, such as that associated with expected future margin income resulting in a gain-on-sale; and
- c) Disclose the details of the implicit support and the impact of such support on its regulatory capital in accordance with the disclosure requirements under Pillar III.

## **3.0 Standardized Approach for Securitization Exposures**

- Banks are required to hold regulatory capital against all of their securitized exposures using the guidelines contained in this section.
- Banks that apply the standardized approach for calculating credit risk capital requirements for the type of the underlying exposure(s), securitized are also required to use the same approach for calculating the capital requirements for the securitization exposures.

## **3.1 Risk Weights for Securitization Exposures**

- The risk-weighted asset amount of an on-balance sheet securitization exposure is computed by multiplying the amount of the securitization exposure by the appropriate risk weight as provided in the table below:

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<sup>53</sup> Implicit support may include the purchase of deteriorating credit risk exposures from the underlying pool, the sale of discounted credit risk exposures into the pool of securitized credit risk exposures, the purchase of underlying exposures at above market price or an increase in the first loss position according to the deterioration of the underlying exposures, etc. This implicit support increases market expectations that the bank might continue to provide future support to the securitization, thereby understating the degree of risk transfer and the required level of regulatory capital by the bank.

- **Risk Weights for Securitizations and Re-securitization Positions**

External Credit Assessment	AAA to AA--	A+ to A--	BBB+ to BBB--	BB+ to BB--	B+ And below or unrated
<b>Securitization Exposures</b>	20%	50%	100%	350%	1250%
<b>Re-securitization Exposures</b>	40%	100%	225%	650%	1250%

- For off-balance sheet exposures, unless otherwise specified, the credit exposure equivalent of the off-balance-sheet securitization positions (such as guarantees issued and loan commitments) shall be equal to the nominal value multiplied by a credit conversion factor of 100%.

### 3.2 Use of Assessments

- Where the credit assessment made by an ECAI takes account of a credit risk mitigation instrument provided for the entire securitization that is recognized for regulatory capital purposes, the assessment may be used to determine the position's risk weight; otherwise, the assessment may not be taken into consideration.
- Where credit risk protection is provided directly to an individual securitization position, a credit assessment made by an ECAI that reflects such protection shall not be considered. In this case, the general rules on the recognition of credit risk mitigation instruments shall apply.
- The bank that holds the position cannot use the ECAI evaluations based on the credit enhancement provided by the bank itself or by another member of the banking group through guarantees, credit derivatives, credit lines, etc. In this case, the bank shall consider the position as unrated and apply the treatment provided for these positions.
- The use of assessments by different ECAIs for positions in different tranches of the same securitization is not permitted.

### 3.3 Exceptions to Risk Weight for Unrated Securitization Exposures

A 1250% risk weight is required for unrated positions with the exception of the circumstances described under:

- a) Look-through approach

b) Positions connected with Asset-Backed Commercial Paper (ABCP) programmes

c) Eligible Liquidity Facilities

### **3.4 Treatment of Unrated Most Senior Securitization Exposures (Look-Through Approach)**

- Where a bank holds or guarantees the most senior exposure in a traditional or synthetic securitization that is unrated, it may apply the “look-through” approach to determine the risk weight of the underlying exposures **provided the composition of the underlying pool is known at all times**. Under this approach, the unrated most senior position receives the average risk weight<sup>54</sup> of the underlying exposures subject to supervisory review.
- If the resulting weighted average risk weight is higher than the risk weight of the securitization exposure below it, then the risk weight of the latter shall apply. However, where the bank is unable to determine the risk weights assigned to the underlying credit risk exposures, the unrated position must be risk weighted at 1250%.

### **3.5 Treatment of exposures in a second loss or better position in an Asset-Backed Commercial Paper (ABCP) programmes**

Where a bank holds unrated securitization exposures that is connected with an ABCP programme, such exposure will be subject to a risk weight which is the higher of 100% or the highest risk weight assigned to any of the underlying individual exposures covered by the facility provided that the following requirements are satisfied:

- a) The exposure is economically in a second loss or better position and the first loss position provides significant credit protection to the second loss position;
- b) The associated credit risk is the equivalent of investment grade or better; and
- c) The bank that holds such unrated securitization exposure does not also hold or retain the first loss position in the same ABCP programme.

### **3.6 Risk weights for eligible liquidity facilities**

- Liquidity facilities shall be deemed eligible where the following conditions are satisfied:
  - a) The contractual clauses relating to the liquidity facility clearly identify and limit the circumstances under which the facility may be drawn;

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<sup>54</sup> Banks must be able to demonstrate that the composition of the underlying pool and the relevant risk weight of each individual exposure within the pool are quantifiable at all times.

- b) It is not possible for the liquidity facility to be drawn so as to provide credit enhancement by covering losses already incurred at the time of draw-down (for example, by providing liquidity in respect of assets in default at the time of draw-down or by assets more than fair value);
  - c) The liquidity facility is not used to provide permanent or regular funding for the securitization;
  - d) Repayment of utilized liquidity facilities are not subordinated to the claims of other creditors of the securitization, except for payments arising in respect of interest rate or currency derivative contracts, fees or other such payments that are subject to waiver or deferral;
  - e) It is not possible for the liquidity facility to be drawn after all applicable credit enhancements from which the facility would benefit (specific or general) are exhausted;
  - f) The facility includes a specific provision that:
    - i) Provides for an automatic reduction in the amount that can be drawn equal to the amount of the assets in default; or,
    - ii) Where the securitized portfolio consists of rated assets, terminates the facility if the average quality of the securitized assets falls below the equivalent of investment grade.
- Where the above conditions are met, the bank may apply a 50% CCF to the eligible liquidity facility regardless of the maturity of the facility. However, if an external rating of the facility itself is used for risk-weighting the facility, a 100% CCF must be applied.
  - A conversion factor of 0% shall apply to liquidity facilities that are unconditionally revocable without advance notice, provided that the conditions set out above are satisfied and the repayment of utilized facility are senior to any claims on the cash flows arising from the securitized assets.

### 3.7 Treatment of Overlapping Exposures

- Where a bank has two or more overlapping positions in a securitization that may be drawn under various conditions (e.g. provision of a liquidity facility and a credit enhancement in a securitization transaction), they shall be treated as a single position to the extent they overlap<sup>55</sup>. Where the overlapping facilities are subject to different capital

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<sup>55</sup> For example, if a bank provides a credit enhancement covering 20% of the underlying asset pool in an ABCP programme and a liquidity facility covering 100% of the same underlying asset pool, the bank would be required to hold capital against 20% of the underlying asset pool for the credit enhancement it is providing and 80% of the liquidity facility provided to the underlying asset pool. The overlapping portion between the credit enhancement portion and the liquidity facility portion would be subject to a capital treatment which results in the highest capital charges.

treatments, the treatment that results in the highest capital charge should be applied on the overlapping portion.

- However, if overlapping facilities are provided by different banks, each bank must hold capital for the maximum amount of the facility.

### **3.8 Treatment of Securitizations of Revolving Underlying Exposures with Early Amortization Provisions**

- In the case of the sale of revolving assets through a securitization transaction that contains an early amortization provision, the originating bank shall calculate a capital requirement to cover the risk underlying the repurchase of the securitized assets in addition to the capital requirement for the securitization positions.
- Where the securitized assets include both revolving and non-revolving items, the originating banks shall apply the additional capital requirement to that portion of the securitized pool that contains the revolving assets. In calculating the additional capital requirement, a distinction shall be made between the originator's interest and the investors' interest. The originator's interest shall not be subordinate to the investors' interest.
- The exposure of the originating bank associated with its rights in respect of originator's interest shall not be considered a securitization position but as a proportionate exposure to the securitized assets as if they had not been securitized and included in the calculation of the capital requirement for credit risk.
- In determining the additional capital requirement, the risk-weighted amount shall be obtained by multiplying the amount of the investors' interest by the product of the appropriate conversion factor and the average risk weight for the securitized assets, calculated under the standardized approach as if the assets had not been securitized.

**Capital requirement for originating banks = (Investors' interest) x CCF x (Risk weight of underlying exposures)**

The appropriate conversion factors (CCF) to be applied shall be based on the following factors:

- i) The speed of the repayment mechanism, i.e. whether the early amortization repays investors through a controlled or non-controlled mechanism;
  - ii) The type of revolving assets securitized, i.e. whether or not they are unconditionally cancellable without notice by the originating bank.
- An early amortization provision shall be considered to be "controlled" where the following conditions are met:

- a) The originating bank has an appropriate capital and liquidity management plan in place to ensure that it has sufficient capital and liquidity available in the event of an early amortization;
  - b) Throughout the duration of the transaction there is a pro-rata sharing between the originator's interest and the investors' interest of payments of interest and principal, expenses, losses and recoveries based on the value of the assets securitized at one or more reference points during the month;
  - c) The amortization period is sufficient to repay or recognize as in default at least 90% of the total debt (the sum of the originator's interest and the investors' interest) outstanding at the beginning of the early amortization period;
  - d) During the amortization period, the speed of repayment shall be no more rapid than would have been achieved using straight-line amortization.
- Securitization transactions with early amortization clauses that do not satisfy the conditions above will be treated as a non-controlled early amortization

### 3.8.1 Determination of CCFs for controlled and non-controlled early amortization features

- In the case of securitizations involving **retail revolving assets that are unconditionally cancellable without notice** and are subject to an early amortization provision that is triggered when the excess spread falls to a certain level, the appropriate conversion factor shall be based on a comparison between the three-month average excess spread and the contractually established excess spread level at which excess spread is required to be trapped.
- Where the securitization does not contractually provide for excess spread to be trapped, the trapping point shall be deemed to be 4.5% points greater than the excess spread level that triggers early amortization.
- The appropriate conversion factor shall be determined separately for each retail securitization transaction with controlled and non-controlled early amortization provisions (see table below), expressed as the ratio between the three-month average excess spread and trapping level excess spread.

Conversion factor for calculating the additional requirement		
Ratio between the average excess spread and trapping level excess spread	Securitized with "controlled" early amortization provisions	Securitized with "uncontrolled" early amortization provisions
Greater than 133.33%	0%	0%
From less than 133.33% to 100%	1%	5%
From less than 100% to 75%	2%	15%
From less than 75% to 50%	10%	50%
From less than 50% down to 25%	20%	100%
Less than 25%	40%	100%

- All other securitized revolving exposures (i.e. those that are committed and all non-retail exposures) with controlled early amortization features will be subject to a **CCF of 90%** against the off-balance sheet exposure
- All other securitized revolving exposures (i.e. those that are committed and all non-retail exposures) with non-controlled early amortization features will be subject to a **CCF of 100%** against the off-balance sheet exposures. The total capital requirement for all the originating bank's positions involving early amortization will be subject to a maximum capital requirement equal to the greater of:
  - i) The capital required for retained securitization exposures; or
  - ii) The capital requirement that would apply had the exposures<sup>56</sup> not been securitized<sup>57</sup>
- Originating banks shall not be required to calculate any additional capital requirement for:
  - iii) Securitizations of revolving assets whereby investors remain fully exposed to the credit risk of future draws, so that the risk on the

<sup>56</sup> The assets in respect of the originator's interest shall not be included among the securitized exposures.

<sup>57</sup> Any gains on sale deducted from Tier 1 capital shall not be taken into consideration in calculating the maximum requirement.

securitized assets does not return to the originating bank even after an early amortization event has occurred; this occurs even where the early amortization provisions mirror the time structure of the revolving assets transferred;

- iv) Securitizations where any early amortization provision is triggered solely by events not related to the financial performance of the securitized assets or of the originating bank, such as, material changes in tax laws or other regulations.

## **CHAPTER THREE: CREDIT RISK MITIGATION**

### **1.0 Introduction**

- Credit Risk Mitigation (CRM) techniques consist of the use of relevant financial collateral, guarantees, derivatives, estate mortgages and lease transactions or other instruments in relation to all banking book exposures and asset classes, that, would reduce the risk recognised in calculating the bank's capital requirements.
- Where a rating has already taken into account a particular guarantee which has been pledged by a borrower, then such guarantee cannot be considered any longer for purposes of credit risk mitigation.
- Banks must demonstrate to the CBN that they have adequate risk management policies and procedures to control risk arising from the use of CRM techniques

### **2.0 Credit Risk Mitigation Categories**

- Unless otherwise specified, two categories of credit risk mitigation are recognised for standardized credit risk capital requirement calculation methods: funded and unfunded credit risk mitigation.

#### **2.1 Funded Credit Risk Mitigation:**

- a) Financial collateral;
- b) Master netting agreements;
- c) On-balance-sheet netting;
- d) Other funded credit protection

#### **2.2 Unfunded Credit Risk Mitigation:**

- a) Guarantees and counter guarantees;
- b) Credit derivatives<sup>58</sup>.

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<sup>58</sup> Among credit derivatives, credit linked notes shall be subject to the same specific eligibility requirements as for unfunded credit protection (credit derivatives) and shall be subject to the same

### 3.0 General Requirements for Accepting Instruments as Credit Risk Mitigants for Capital Calculation<sup>59</sup>

- The requirements for any of the credit risk mitigants to be used must have been met at the time the credit protection is established and compliance shall continue over its duration.
- The general requirements<sup>60</sup> seek to ensure the legal certainty and effectiveness of credit protection including:
  - i) The binding nature of the legal commitment between the parties,
  - ii) Its enforceability and validity in the local jurisdiction
  - iii) Completeness of documentation,
  - iv) Enforceability of the protection in all relevant jurisdictions against third parties and
  - v) The timeliness of liquidation in the event of breach.

### 3.1 Legal Certainty

- Credit protection acquired by a bank shall be legally valid, effective, binding on the protection provider and enforceable in all relevant jurisdictions, including in the event of the insolvency or bankruptcy of the underlying borrower and/or protection provider<sup>61</sup>.
- In particular, the bank shall:
  - a) Ensure in advance that the instrument used confers a full and freely enforceable right to activate the protection.
  - b) Fulfil any requirements to ensure that the credit protection is valid, effective, binding and enforceable under the applicable law. These shall include, but not limited to:

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prudential treatment as for funded credit protection (amounts paid upon issuance to the bank granting the loan shall be treated as cash collateral).

<sup>59</sup> Recognition of the impact of credit risk mitigation tools shall be subject to satisfaction of the general requirements described in this section as well as additional specific requirements applicable to the different types of transactions. The general and specific requirements must have been met at the time the credit protection is established and compliance shall continue over its duration. The CBN shall verify the adequacy of the organisational and control arrangements adopted for CRM during the supervisory review process.

<sup>60</sup> Specific requirements are prescribed for the features of each form of CRM and are designed to ensure a high degree of effectiveness of the credit risk mitigation.

<sup>61</sup> In general, the possibility of bringing a revocation action shall not mean that the 'legal certainty' requirements for credit risk mitigation instruments have not been met. Therefore, the related effects for regulatory capital purposes may be recognised as from the establishment of the credit protection, without waiting for the consolidation period to lapse.

- i) registration and perfection of deeds of mortgage,
  - ii) establishing proper liens on property and other collateral or instruments acquired or created for credit protection, and
  - iii) obtaining and conserving appropriate documentation explicitly establishing the existence of the credit protection;
- c) Ensuring compliance with all relevant laws and regulations that may void the validity, effectiveness, binding and enforceability of the protection.

### **3.2 Organisational Requirements**

- Banks shall establish appropriate policies and processes taking account of the complexity of its organisational structure.
- Credit Protection must be managed by a system, which governs the entire process of obtaining, valuing, controlling and realising the CRM instruments used. Credit protection buyers must have in place documented policies and procedures that will:
  - i) Specify the types of CRM instruments eligible for regulatory capital purposes.
  - ii) Value and assess the impact of instrument on the overall risk profile of the exposure.
  - iii) Ensure that banks continue to perform a complete assessment of the credit risk of the protected exposure, even when the CRM has been recognised for regulatory capital purposes.
  - iv) Establish the appropriate means of measuring, managing and controlling concentration risk and residual risks arising from the CRM instruments e.g. failure, reduction or termination of protection.
  - v) Provide appropriate operational structures for ensuring compliance with the requirements for the recognition of CRM techniques for regulatory capital purposes.
  - vi) Ensure periodic reviews of the status of the legal documentation, the impact of any changes in the law and any consequent actions to be taken.
  - vii) Adopt specific measures to ensure the uniformity of local structure's assessments and operational procedures.

### **3.3 Timely Liquidation**

Credit Protection acquired by banks must be easily liquidated or realizable in a timely manner. To this end, each bank should have in place appropriate policies and procedures for the disposal and realisation of any acquired credit protection should the need arise.

### **3.4 Disclosure**

The recognition of CRM techniques for regulatory capital purposes shall be subject to the relevant disclosure requirements prescribed for financial institutions under Pillar III disclosure requirements.

## **4.0 Standardized Approach for Funded Credit Protection**

### **4.1 Financial Collateral**

#### **4.1.1 Specific Requirements**

For regulatory capital purposes, financial collateral shall have the characteristics described below:

##### **1. Correlation**

- There shall be no positive material correlation between the value of the financial collateral and the credit quality of the borrower.
- In all cases, securities issued by the borrower, or any related group entity, shall not be eligible to be financial collateral.

##### **2. Fair Value**

- Banks should calculate the fair value of the collateral and revalue it at least once every six months or whenever they have reason to believe that a significant decrease in its fair value has occurred.

##### **3. Segregation**

- Where the financial collateral is held by a third party, banks shall ensure segregation of the assets of the third party from the collateral (external segregation) and the segregation of assets belonging to other parties held by the same custodian (internal segregation)<sup>62</sup>.

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<sup>62</sup> In general, the segregation requirement may be deemed satisfied where the pledged instruments are specifically identified and attributable to the owner (for example, registered securities) or where, although fungible, the assets are held under a contractually governed custodial arrangement or using other methods that ensure internal and external segregation.

#### 4.1.2 Methods of Calculating Capital Requirement

In calculating the capital requirement for credit exposures secured by eligible financial collateral, banks may use;

##### a) The Simple Method

The risk weight associated with the instrument provided as credit protection shall be applied to the collateralised portion of the exposure. Maturity mismatching is not permitted under this method. **The collateral must be pledged for at least the entire life of the exposure, it must be marked to market and re-valued at a minimum frequency of six months.** The portion of the exposure collateralised by the market value of the recognised collateral will receive a risk weight applicable to the collateral instrument.

##### b) The Comprehensive Method

Under this method, the amount of the exposure shall be reduced by the value of the collateral. In calculating the capital requirement, the value of the exposure and that of the **collateral shall be adjusted to take account of market price volatility** by applying appropriate haircuts to both amounts (collateral value and exposure value)<sup>63</sup>.

If the exposure and the collateral are denominated in different currencies, the value of the collateral shall be further reduced by an appropriate adjustment that reflects possible fluctuations in the exchange rate.

Once the calculation method is elected, it shall be adopted for all exposures.

The methods described in this sub-section shall also apply to amounts paid to the lending bank in respect of the issue of credit linked notes and to eligible collateral given as part of securities or commodities repurchase transactions and securities or commodities lending or borrowing transactions, provided that they are assigned to the banking book.

**See Annex D on the application of the calculation methods.**

## 4.2 Master Netting Agreements

### 4.2.1 Specific Requirements

The effects of the reduction of credit risk due to bilateral netting contracts between the bank and a single counterparty relating to securities financing transactions shall be recognised, provided that in addition to the general requirements relating to legal certainty set out above, the contracts:

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<sup>63</sup> Unless cash is involved, the exposure value adjusted for volatility shall be higher than that of the original exposure, while the adjusted value of the collateral shall be lower than its original value. Maturity mismatching rules shall apply.

- Give the non-defaulting party the right to terminate and close-out in a timely manner all transactions under the agreement in the event of default, including in the event of the bankruptcy or insolvency of the counterparty;
- Provide for the netting, or other equivalent effect, of reciprocal debtor and creditor positions on transactions closed out under a master agreement so that a single net amount is owed by one party to the other.

The specific requirements for financial collateral, where applicable, must also be met.

The netting of banking book and trading book positions shall be permitted only where the transactions covered by the agreement satisfy the following conditions:

- a) All the transactions are re-valued daily at current market prices;
- b) The instruments used as collateral for the transaction are among those eligible as financial collateral (see Annex C).

These regulations shall apply to master netting agreements involving similar transactions (single-product netting) and master netting agreements involving different products (cross-product netting).

#### **4.2.2 Methods of Calculating Capital Requirement**

In calculating the capital requirement for credit exposures secured by master netting agreements under the standardized approach, banks are expected to use the comprehensive method only.

### **4.3 On-balance Sheet Netting**

#### **4.3.1 Specific Requirements**

The recognition of the effects of on-balance sheet netting shall be subject to the following specific requirements:

- i) The netting agreement shall be in writing, which shall specifically identify the assets (loans) and liabilities (deposits) subject to netting.
- ii) The bank shall be able to identify at any time, all the loans (assets) and deposits (liabilities) in respect of the same counterparty that are subject to the netting agreement;
- iii) In adopting precautions to preserve the effective availability of the liabilities (deposits) to be offset against the assets (loans), restrictions on the disposal of the liabilities shall be established.

iv) The bank shall monitor and control relevant exposures on a net basis.

### **4.3.2 Methods of Calculating Capital Requirement**

In calculating the capital requirement for credit exposures secured by on-balance netting agreements, banks may:

- i) In respect of liabilities (deposits) of the lending bank, apply the same treatment provided for cash collateral.
- ii) Where the liabilities subject to the netting agreement mature sooner than the asset, apply the provisions regarding maturity mismatch.

### **4.4 Other Funded Credit Protection**

The instruments described below may be recognised for credit risk mitigation purposes. In calculating the credit risk mitigation, the unfunded credit protection calculation method shall be applied.

#### **4.4.1 Deposits with third party institutions**

The cash in the supervised institutions or similar instruments held by those outside of a custodial service and pledged in favour of the bank that calculates the requirement may be considered as a guarantee issued by the institution itself provided that:

- i) The borrower's claim against the third party institution is openly pledged or assigned to the bank and the pledge is legally effective and enforceable in all relevant jurisdictions;
- ii) The third party institution is notified of the pledge or assignment; and is able to make payment solely to the bank or to other parties with the bank's consent;
- iii) The pledge is unconditional and irrevocable.

#### **4.4.2 Life Insurance**

Insurance policies pledged to the bank may be treated as protection given by the company issuing the policy, provided that:

- a) The company providing the life insurance can be recognised as an eligible guarantor.
- b) The life insurance policy is openly pledged or assigned to the bank.
- c) The company providing the insurance is notified of the pledge or assignment and as a result may not pay the amount payable under the contract without the bank's consent.
- d) The declared surrender value of the policy is non-reducible;

- e) The bank has the right to cancel the policy and receive the surrender value in a timely fashion in the event of borrower default;
- f) The bank is informed of any non-payments under the policy by the policyholder;
- g) The credit protection is provided for the maturity of the loan. Where the insurance relationship ends before the loan relationship expires, the bank shall ensure that the amount deriving from the insurance contract serves as security until the end of the duration of the credit agreement;
- h) The pledge or assignment shall be legally effective and enforceable in all jurisdictions, which are relevant at the time of the conclusion of the credit agreement
- i) The value of the credit protection shall be the surrender value of the policy.

#### 4.2.3 Financial Instruments Issued by Third Parties

- Financial instruments issued by supervised institutions that the issuer has undertaken to repurchase at the request of the bearer may be treated as a guarantee of the issuer.
- The value of the credit protection recognised shall be as follows:
  - a) Where the instrument will be repurchased at face value, the value of the protection shall be that amount.
  - b) Where the instrument will be repurchased at market price, the value of the protection shall be the value of the instrument calculated in accordance with the rules applicable to unrated debt securities.

## 5.0 Standardized Approach for Unfunded Credit Protection

### 5.1 Guarantees<sup>64</sup> and Counter-Guarantees

#### 5.1.1 Specific Requirements

Without prejudice to the general requirements set out for the recognition of the credit risk mitigation, the following additional conditions will apply for the recognition of the effects of guarantees for regulatory capital purposes:

- a) The credit protection shall be direct;
- b) The extent of the credit protection shall be clearly defined and incontrovertible;

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<sup>64</sup> Guarantees include inter alia; i) bank guarantee (including blanket guarantee), ii) insurance guarantee, and iii) commitments undertaken in the delegation, novation and assumption of debt if they meet the requirements for unfunded credit protection.

- c) The credit protection contract shall not contain any clause that could allow the protection provider to unilaterally cancel the protection. If the contract allows the protection provider to withdraw, the agreement between the parties shall safeguard the coverage and all obligations arising, prior to the exercise of the withdrawal;
- d) The credit protection contract shall not contain any clause, the fulfilment of which is outside the direct control of the lending bank, which could have one of the following effects:
  - i) To increase the effective cost of the protection as a result of deteriorating credit quality of the protected exposure;
  - ii) To prevent the protection seller from being obliged to pay out in a timely manner in the event the original borrower fails to make any payments due;
  - iii) To allow the protection seller to reduce the maturity of the credit protection;
- e) In the event of default of the counterparty, the bank shall have the right to recoup, in a timely manner, any claim due under the guarantee<sup>65</sup>. In particular, payment shall not be subject to the lending bank having to pursue the borrower.
- f) The guarantee shall cover all payments the borrower is required to make in respect of the claim. Where certain types of payments are excluded from the guarantee, the recognised value of the guarantee shall be adjusted to reflect the limited coverage;
- g) The guarantee shall be an explicitly documented obligation assumed by the guarantor.

In the event of an asset mismatch, guarantee contracts shall contain a cross default clause under which default in respect of a specific credit exposure of a given borrower shall extend to all exposures to the same person.

### 5.1.2 Eligible Guarantors

Guarantees issued by parties falling within the categories listed below shall be recognised:

- a) Central governments and central banks;
- b) Public sector entities and regional and local authorities;
- c) Multilateral development banks;
- d) Supervised institutions;

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<sup>65</sup> In the case of supplementary unfunded credit protection securing residential mortgage loans, the contract may establish that the guarantor shall make payment within 24 months.

- e) Corporates that have a credit assessment by an ECAI associated with credit quality step 2 or above.

### 5.1.3 Methods of Calculating Capital Requirement

In calculating the capital requirement:

- a) Banks may substitute the risk weight of the borrower with that of the guarantor.
- b) The value of the credit protection provided by a guarantee shall be the amount that the protection provider has undertaken to pay in the event of the default of the borrower.
- c) Where the guarantee is denominated in a currency different from that in which the exposure is denominated (currency mismatch) the value of the credit protection shall be reduced as provided for in Annex F.
- d) In calculating the capital requirements, a guaranteed exposure with respect to borrowers assigned to the retail exposure portfolio may be valued as if it were assigned to the portfolio in which the guarantor is classified.
- e) The regulations set out in this section shall apply in the event of maturity mismatch.
- f) Where the protected amount is less than the exposure value and the secured and unsecured portions are of equal seniority (i.e. the bank and the protection provider share the losses on a pro-rata basis), the capital requirements shall be reduced proportionately.
- g) Where the protected amount is less than the exposure value and the secured and unsecured portions are of unequal seniority (i.e. the bank and the protection seller are liable for losses with different levels of seniority), with the risk being segmented (tranching transactions), the regulations governing securitisation operations shall apply.

### 5.1.4 Counter-Guarantees and Indirect Guarantees

- Where an exposure is covered by a guarantee that is counter-guaranteed by one of the entities in categories a) through c) listed above, the exposure may be treated as covered by a guarantee provided by the counter-guarantor, provided that the following conditions are met
  - a) The counter-guarantee covers all the credit risk elements of the protected exposure;
  - b) Both the original guarantee and the counter-guarantee meet the requirements for guarantees, except that the counter-guarantee need not be direct;

- c) The bank is able to demonstrate that the cover is robust and that nothing in the historical evidence suggests that the coverage of the counter-guarantee is less than effectively equivalent to that of a direct guarantee by the counter guarantor.
- A counter-guarantee provided by one of the protection providers listed above shall be recognised even where it does not guarantee the direct guarantee of the exposure but rather a counter-guarantee of the direct guarantee provided by a protection seller that is not an eligible counter-guarantor.

## **5.2 Credit Derivatives**

### **5.2.1 Eligible Instruments**

For the purposes of these regulations, the following types of credit derivatives and instruments that may be recognised:

- a) Credit default swaps;
- b) Total return swaps;
- c) Credit linked notes.

In order to be recognised for regulatory capital purposes, the protection shall be provided by a protection provider belonging to one of the categories listed in the section on eligible guarantors.

Where a bank uses a credit derivative in the supervisory trading book to hedge exposures in the banking book (internal hedges), the protection shall be recognised only if the credit risk transferred to the trading book is, in turn, transferred to one or more third parties through credit derivatives that satisfy the eligibility requirements provided for in these regulations.

### **5.2.2 Specific Requirements**

Without prejudice to the general requirements set out on CRM, recognition of credit derivatives shall be subject to the specific requirements applicable to guarantees and the following conditions: Subject to point b) below, the credit events specified under the credit derivative shall at a minimum include all the cases listed below, under the conditions specified:

- i) The failure to pay the amounts due under the terms of the underlying obligation that are in effect at the time of such failure (with a grace period that is closely in line with or shorter than the grace period in the underlying obligation);
- ii) The bankruptcy, insolvency or inability of the borrower to pay its debts, or its failure or admission in writing of its inability generally to pay its debts as they become due, and analogous events;

- iii) The restructuring of the underlying obligation involving forgiveness or postponement of principal, interest or fees that results in a credit loss event (i.e. value adjustment or other similar debit to the income statement);
- b) Where the credit events specified under the credit derivative do not include restructuring of the underlying obligation as described in point (a)(iii) above, the credit protection may nonetheless be allowed subject to a reduction in the recognised value;
- c) In the case of credit derivatives providing for cash settlement, a robust valuation process shall be in place in order to estimate loss reliably. There shall be a clearly specified period for obtaining post-credit-event valuations of the underlying obligations;
- d) If the protection buyer's right and ability to transfer the underlying obligation to the protection provider is required for settlement, the terms of the underlying obligation shall provide that any required consent to such transfer may not be unreasonably withheld;
- e) The identity of the parties responsible for determining whether a credit event has occurred shall be clearly defined. This determination shall not be the sole responsibility of the protection seller. The protection buyer shall have the right or ability to inform the protection provider of the occurrence of a credit event.

An asset mismatch under a credit derivative shall only be allowed if: The reference obligation or the obligation used for purposes of determining whether a credit event has occurred, as the case may be, ranks *paripassu* with or is junior to the underlying obligation;

- b) The underlying obligation and the reference obligation or the obligation used for purposes of determining whether a credit event has occurred, as the case may be, share the same borrower (i.e. the same legal entity) and there are in place legally enforceable cross-default or cross-acceleration clauses.

### 5.3.3 Method of Calculating Capital Requirement

Without prejudice to the provisions of the following sub-section, treatment of credit default swaps and total rate of return swaps for regulatory capital purposes shall be the same as that for guarantees.

In the case of credit derivatives that do not include as a credit event restructuring of the underlying obligation involving forgiveness or postponement of principal, interest or fees that result in a credit loss event (e.g. the making of a value adjustment or other similar debits to the income statement), the value of the credit position:

- a) Shall be reduced by 40% where the amount that the protection seller has undertaken to pay is not higher than the exposure value;
- b) Shall be no higher than 60% of the exposure value where the amount that the protection provider has undertaken to pay is higher than the exposure value.

Credit linked notes issued by the lending bank shall be treated as cash collateral up to the amount collected.

#### **5.3.4 Unfunded Mutual Guarantees**

Where mutual guarantee systems provide unfunded credit protection, the specific requirement for guarantees shall be deemed satisfied where either of the following conditions are met:

- a) The bank has the right to obtain in a timely manner a provisional payment by the guarantor calculated to represent a robust estimate of the amount of the economic loss, including losses resulting from the non-payment of interest and other types of payment which the borrower is obliged to make, likely to be incurred by the bank proportional to the coverage of the guarantee. The bank shall establish the appropriateness of the payment with respect to the losses incurred.
- b) The loss-protecting effects of the guarantee, including losses resulting from the non-payment of interest and other types of payments which the borrower is obliged to make, justify treatment as a guarantee.

### **6.0 Maturity Mismatches**

#### **6.1 Rules for Recognition of Maturity**

- a) Subject to a maximum of 5 years, the effective maturity of the protected asset shall be the longest possible remaining time before the borrower is scheduled to fulfil its obligations.
- b) Subject to the following paragraph, the maturity of the credit protection shall be the time to the earliest date at which the credit protection may terminate or be terminated.
- c) Where there is an option to terminate the protection that may be exercised at the discretion of the protection provider, the maturity of the protection shall be taken to be the time to the earliest date at which that option may be exercised.
- d) Where there is an option to terminate the protection that may be exercised at the discretion of the protection buyer and the terms of the arrangement at origination of the protection contain a positive incentive for the bank to call the transaction before contractual maturity, the

maturity of the protection shall be taken to be the time to the earliest date at which that option may be exercised; otherwise such an option may be considered not to affect the maturity of the protection.

- e) Where a credit derivative is not prevented from terminating prior to expiration of any grace period required for a default on the underlying obligation to occur, the maturity of the protection shall be reduced by the amount of the grace period.

## 6.2 Effects on the Valuation of Credit Protection

- a) Protection of less than three months residual maturity, the maturity of which is less than that of the underlying exposure, shall not be recognised.
- b) Where there is a maturity mismatch, the credit protection shall not be recognised where the original maturity of the protection is less than one year.
- c) Unfunded credit protection shall be recognised in the amount adjusted in accordance with Annex G for all banks.
- d) Where the bank uses the simple method in the prudential treatment of financial collateral, the residual maturity of the guarantee shall not be less than that of the exposure.

### Definition of Terms

- **Asset mismatch** shall mean a situation in which the underlying asset differs from the reference obligation due to liquidity or changes in interest or exchange rates;
- **Asset-backed commercial paper (ABCP)** is a process by which an SPV (conduit) issues a commercial paper and uses the proceeds of such issuance primarily to obtain interests in various types of assets either through asset purchase or secured lending transactions. An ABCP programme includes several parties that provide services for the SPV; credit enhancement that provides loss protection and liquidity facilities that assist in the timely repayment of the commercial paper;
- **Asset-backed securities (ABS)** shall mean securities issued by securitization vehicles as part of securitization transactions having different levels of subordination in supporting losses;
- **Capital market-driven transaction** shall mean transactions giving rise to an exposure secured by collateral, which include a provision conferring upon the bank the right to receive margin frequently. These

include margin lending and over-the-counter (OTC) derivatives with the exchange of margins between counterparties;

- **Cash assimilated instrument** shall mean certificates of deposit or other similar instruments issued by the bank that acquires protection;
- **Central government** shall mean the central government of a sovereign state;
- **Clean-up call option** shall mean a contractual option that permits the originating bank to repurchase or extinguish the securitization positions before all of the securitized assets have been repaid, when the amount of outstanding exposures falls below a certain threshold. In a traditional securitization, this is usually achieved through the repurchase of the remaining securitization positions. In a synthetic securitization, the option usually takes the form of a clause that extinguishes the credit risk protection of the securitized asset;

**Collective Investment Schemes** shall mean a scheme in whatever form, including an open-ended investment company, in pursuance of which members of the public are invited to invest money or other assets in a portfolio, and in terms of which:

- i) two or more investors contribute money or other assets and hold a participatory interest;
- ii) the investors share the risk and benefit of investment in proportion to their participatory interest in a portfolio of a scheme or any other basis determined in the deed, but not a collective investment scheme authorized by another act.

The types of collective investment schemes applicable in Nigeria are;

- i) Unit Trust (open-ended or closed ended)
  - ii) Venture capital funds
  - iii) Open-ended Investment Companies
  - iv) Real Estate Investment Schemes
  - v) Specialized funds
- **Credit derivatives** shall mean contracts in which the protection provider is required to perform a contractually-agreed obligation triggered by a specified credit event; such obligation consists of paying an amount equal to: i) the decline in the value of the reference obligation with respect to the

initial value (“cash settlement variable”); ii) the entire notional value of the reference obligation in exchange for physical delivery of the reference obligation or another equivalent financial instrument (“deliverable obligation”) specified in the contract; iii) a specified fixed amount (“binary payout”);

- **Credit enhancement** shall mean a contractual arrangement whereby the credit quality of a securitization position is better than what it would have been in the absence of this enhancement. Credit enhancement may be provided by more junior tranches in the securitization and other types of credit protection;

**Credit event** shall mean an event agreed by the parties that triggers the protection provider’s obligation to fulfil the undertaking established in the contract;

- **Early amortization provision** in securitized positions shall mean a contractual provision that, upon the occurrence of specified events, triggers repayment of investors’ securitization positions prior to the originally stated maturity of the securities issued;

- **Excess spread** shall mean the difference between the revenue flows from the securitized assets and the costs and expenses connected with the securitization (for example, interest paid to holders of the ABS securities and servicing commissions);

- **Exposures** shall mean on-balance sheet assets (for example, loans, shares, bonds, subordinated loans) and off-balance-sheet assets (for example, guarantees issued). Exposures shall not include assets deducted from regulatory capital and those allocated to the supervisory trading book subject to capital requirements for market risk;

- **External Credit Assessment Institution (ECAI)** shall mean a credit assessment agency recognized by the Central Bank of Nigeria;

- **Fair value** shall mean the amount at which an asset may be exchanged, or a liability settled, in a free transaction between knowledgeable, independent parties.

- **Federal government** shall mean the government of the Federal Republic of Nigeria;

- **First losses** in securitized positions shall mean losses on securitized portfolios, the amount of which reduces the right of securitization positions to receive payments, starting with that with the highest degree of subordination;

- **First-to-default derivatives** shall mean contracts referring to a number (basket) of borrowers under the terms of which the protection provider's payment obligation is triggered by the first default in the basket and that this credit event terminates the protection afforded by the derivative contract;
- **Funded credit protection** shall mean the credit risk mitigation techniques that give the protection buyer the right to satisfy its claim with specified assets or cash amounts. These include financial collateral, real estate collateral and movable property collateral (other physical collateral), credit linked notes, trade receivables, on and off-balance sheet netting; other types of protection are listed in sub-section 4.4 of this chapter. Funded credit protection shall also include guarantees given through securities repurchase and lending/borrowing transactions and the related master netting agreements, as well as leasing transactions;
- **Future margin income (FMI)** shall mean the amount of income anticipated to be generated by the relevant exposures over a certain period of time that can reasonably be assumed to be available to cover potential credit losses on the exposures (i.e. after covering normal business expenses). FMI usually does not include income anticipated from new accounts.
- **Gain-on-sale** shall mean any residual interest retained by the originating bank that is, an on-balance sheet asset that represents a retained beneficial interest in a securitization accounted for as a sale, and that exposes the originating bank to any credit risk directly or indirectly associated with the transferred asset, that exceeds a pro rata share of that originating bank's claim on the asset.
- **Implicit support** securitized positions shall mean credit enhancement provided by the originator or by the sponsor in excess of its contractual obligations to reduce actual or potential losses by holders of securitization positions.
- **Investment grade:** A securitization exposure is deemed to be of investment grade if an ECAI recognized by the bank has assigned it a rating within credit quality steps 1 to 3.
- **Investor** shall mean the person that holds a risk position in a securitization;
- **Investors' interest** shall mean the portion of the pool of revolving assets that forms the complement to the originators' interest.
- **Loan to value ratio** shall mean a ratio used by lenders to express the ratio of loan to the value of an asset purchased. The higher the ratio, the more riskier the loan will be considered to the lender.

- **Liquidity facility** shall mean a securitization position arising from a contractual agreement to provide funding to ensure the timeliness of cash flows to investors;
- **Margin lending** shall mean credit extended by an intermediary in connection with the purchase, sale, carrying or trading of securities by the counterparty for which an exchange of margins is required. Margin lending shall not include traditional financing collateralised by securities;
- **Master netting agreements** are legal agreements between two parties that have multiple derivatives contracts with each other that provide for the net settlement of all contracts through a single payment, in a single currency, in the event of default or termination of any one contract.
- **Maturity mismatch** shall mean a situation where the residual maturity of the credit protection is less than that of the protected exposure;
- **N<sup>th</sup>-to-default derivatives** shall mean contracts referring to a number (basket) of borrowers under the terms of which the protection provider's payment obligation is triggered by the nth default in the basket; borrowers may be assigned different settlement amounts;
- **Originating bank:** A bank shall be considered an originating bank in a securitization transaction if it meets either of the following conditions:
  - i) The bank originates directly or indirectly (e.g. a bank purchases a third party financial instrument via its balance sheet or acquires credit risk through credit derivatives and subsequently sells or transfers to an SPV) the underlying exposures included in the securitization; or
  - ii) The bank serves as a **sponsor** of an ABCP conduit or similar programme that acquires exposures from third-party entities. In the context of such a program, a bank would generally be considered a sponsor and, in turn, an originator if it, in fact or in substance, manages or advises the programme, places securities into the market, or provides liquidity and/or credit enhancements.
- **Originator's interest** shall mean the value of the portion held by the originating bank in a portfolio of revolving exposures, the drawn amounts of which have been securitized. This portion shall be equal to the ratio between the amount of the securitized drawn amounts whose cash flows are not available to repay investors in the securitization and total securitized drawn amounts. The undrawn amounts shall also be multiplied by this ratio to determine the portion of the available margin attributable to the originator and the portion attributable to the investors.

- **Protection buyer** shall mean the party that purchases protection against credit risk (or sells the credit risk);
- **Protection provider** shall mean the party that sells the credit risk protection (or purchases the credit risk);
- **Rating** shall mean the credit assessment assigned by an ECAI;
- **Reference entity** shall mean the party/parties or country (in the case of sovereign risk) to which the reference obligation refers;
- **Reference obligation** shall mean the obligation used to determine the cash settlement value or the deliverable obligation;
- **Reference rate** shall mean the market interest rate increased or decreased by a specified spread;
- **Revolving underlying exposures** involve exposures where the borrower is permitted to vary the drawn amount and repayments within an agreed limit under a line of credit (e.g. credit card receivables and corporate loan commitments)
- **Securities financing transactions** shall mean securities or commodities repurchase/reverse repurchase transactions, securities or commodities lending/borrowing transactions and margin lending transactions;
- **Securitization position** shall mean any type of exposure to a securitization, such as securities issued by special-purpose vehicles, liquidity facilities, subordinated loans, interest rate or currency derivative transactions performed as part of a re-securitization;
- **Securitization** shall mean a transaction that divides the credit risk of an asset or portfolio of assets into two or more tranches and in which:
  - i) Payments in the transaction are dependent on the performance of the asset or portfolio of assets in question;
  - ii) Tranches have different degrees of subordination in supporting the losses of the securitized assets or portfolio;
- **Securitized assets** shall mean individual assets or groups of assets that have been securitized. These include loans, debt securities, equity securities, ABS securities and loan commitments.
- **Solicited rating** shall mean a rating assigned for a fee following a request from the entity evaluated. Ratings assigned without such a request shall be

treated as equivalent to solicited ratings if the entity had previously obtained a solicited rating from the same ECAI;

- **Special-purpose vehicle (SPV)** shall mean the company or other legal entity other than the bank, organized for the purpose to carrying out one or more securitizations which possess the following characteristics:

- i) its activities are limited solely to those appropriate to accomplishing that objective;

- ii) the structure of the vehicle is designed to isolate the obligations of the vehicle from that of the originating bank, and;

- iii) the holders of the beneficial interests in it may pledge or exchange those interests without restriction.

- **Supervised institutions** shall mean deposit money banks, discount houses and other financial institutions under the supervisory purview of the CBN.

- **Synthetic securitization** shall mean a securitization transaction in which the transfer of credit risk in two or more tranches is achieved through the use of credit derivatives or guarantees with no transfer of the asset or portfolio of assets. Synthetic securitizations shall include transactions in which it is possible, using credit protection, to isolate within a portfolio composed of one or more assets a risk component that supports the first-loss portion of the portfolio (tranching transactions);

- **Total rate of return swaps ("TRORs")** shall mean contracts under which the protection buyer (also called the "total return payer") agrees to transfer all the cash flows generated by the reference obligation to the protection provider (also called the "total return receiver"), who agrees to transfer the cash flows associated with changes in a reference rate to the protection buyer. On the payment dates (or the termination date of the contract), the total return payer pays the total return receiver any increase in the value of the reference obligation (i.e. the positive difference between the market value and the initial value of the reference obligation). In the case of a decline in the value of the reference obligation, the total return receiver pays the equivalent amount to the total return payer<sup>66</sup>;

- **Traditional securitization** shall mean a securitization through which credit risk is transferred by selling the securitized assets to a special--purpose vehicle that issues securities (ABS) that do not represent payment obligations of the originating bank. Traditional securitizations shall include the transfer of

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<sup>66</sup> Basically, a TROR is a structured financial product combining a credit derivative and an interest rate derivative (interest rate swap).

credit risk by means of loans granted by the vehicle to the originating bank (sub-participation);

- **Tranches** shall mean contractually established segments of credit risk associated with an exposure or a number of exposures, in which each segment is associated with a greater or lesser degree of subordination in supporting losses than another segment, without taking account of any credit protection provided by third parties directly to holders of positions in the tranches. Securitization exposures that cover the "first loss" incurred by the securitized portfolio represent the junior risk (for example, junior securities, subordinated loans); **Underlying asset** shall mean the on-balance-sheet asset for which protection has been acquired;
- **Unfunded credit protection** shall mean the credit risk mitigation techniques based on the undertaking of a third party to pay a specified amount in the event of the default of the borrower or on the occurrence of other specified credit events. These include guarantees and credit derivatives, with the exception of credit linked notes;
- **Unsolicited rating** shall mean a rating assigned without a request from the entity evaluated and without payment of a fee.

#### **Definition of Past Due or Defaulted Exposures**

Past due or defaulted exposures shall include; bad debts, substandard loans, and restructured exposures. Specifically, a default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place:---

- i) The bank considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the bank to actions such as realizing security (if held).
- ii) The obligor is past due more than 90 days on any material credit obligation to the banking group.

The elements to be taken as indications of unlikeliness to pay include but are not limited to the following:

- The bank puts the credit obligation on non-accrued status (e.g. suspended interest).
- The bank makes a charge off or an account-specific provision or impairment resulting from a significant decline in credit quality subsequent to taking on the exposure (impairment provisions on equity exposures set aside for price risk do not signal default).

- The bank sells the credit obligation at a material credit related economic loss. (For securities financing, the facility should not be recorded as a default if the collateral is liquidated not due to the deterioration of an obligor's creditworthiness but to restore an agreed collateral coverage ratio given a fall in the value of collateral and this has been disclosed to the customer in writing at the granting of this facility).
- The bank consents to a restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness, or postponement of principal, interest or (where relevant) fees. This constitutes a granting of a concession that the bank would not otherwise consider.
- Default of a related obligor. Banks must review all related obligors in the same group to determine if that default is an indication of unlikelihood to pay by any other related obligor. Banks must judge the degree of economic interdependence between the obligor and its related entities.
- An obligor is in significant financial difficulty. An indication could be a significant downgrade of a borrower's credit rating.
- Default by the obligor on credit obligations to other financial creditors, e.g. other banks or other financial institutions.
- The bank has filed for the obligor's bankruptcy or a similar order in respect of the obligor's credit obligation to the banking group.
- The obligor has sought or has been placed in bankruptcy or similar protection where this would avoid or delay repayment of the credit obligation to the banking group.

### **Default at Facility Level**

For retail exposures, banks are allowed to apply the definition of default at facility level, rather than at borrower level. For example, a borrower might default on a credit card obligation and not on other retail obligations. As such, default by a borrower on one obligation does not require a bank to treat all other obligations to the banking group as defaulted. However, banks should be vigilant and consider a borrower's cross---default of facilities if a default on one facility is representative of his incapacity to fulfill other obligations.

### **Re---Ageing**

The bank must have clearly articulated and documented policies in respect of the counting of days past due, in particular in respect of the re---ageing of the facilities and the granting of extensions, deferrals, renewals and rewrites

to existing accounts. At a minimum, the re-aging policy must include:

- approval authorities and reporting requirements;
- minimum age of a facility before it is eligible for re-aging;
- delinquency levels of facilities that are eligible for re-aging;
- maximum number of re-aging per facility; and
- a reassessment of the borrower's capacity to repay.

These policies must be applied consistently over time, and must support the 'use test' (i.e. if a bank treats a re-aged exposure in a similar fashion to other delinquent exposures more than the past-due cut off point, this exposure must be recorded as in default for IRB purposes). Some supervisors may choose to establish more specific requirements on re-aging for banks in their jurisdiction.

### **Treatment of Overdrafts**

Overdrafts must be subject to a credit limit and brought to the knowledge of the borrower. Breaches of the limit must be monitored. If the account was not brought under the limit after 90 days (subject to the applicable past-due trigger), it would be considered as defaulted. Banks must have in place rigorous internal policies for assessing the creditworthiness of customers who are offered overdraft accounts

## **ANNEX A: External Credit Assessment Institutions**

### **Introduction**

For the purposes of determining risk weights under the standardized approach, the Central Bank of Nigeria shall recognize ECAs to formulate opinions and make credible and transparent credit assessments.

The verification of compliance with the requirements and mapping of ratings to risk weight classes shall be performed by the CBN on the basis of the criteria specified in this section.

Recognition may be requested for in any one of the following categories:

- a) Solicited ratings;
- b) Unsolicited ratings provided that the ECAI only issues credit assessments of this kind.

## 1. Requirements for Recognizing External Credit Assessment Institutions

- The Central Bank of Nigeria will only recognize legal persons as ECAs.
- An ECAI may also request recognition for its subsidiaries in a single application, provided that the latter adopts analogous methodologies such that the assessments they issue can be considered equivalent to those of the applicant.
- ECAs shall satisfy the following requirements for the purposes of receiving recognition:

### a) Objectivity

- i. The methodology adopted shall take into account the factors material to differentiating the specific characteristics of the different positions assessed and is supported by statistical evidence from its use in the past
- ii. The robustness of the methodology shall be adequately supported by the available data concerning the default rates recorded for individual rating grades and the migration rates between different rating grades.
- iii. The methodology must have been applied in a consistent manner to all exposures in a given class and adequately discriminate between exposures in different classes;
- iv. The methodology must have been validated internally on the basis of historical experience;
- v. The methodology is usually calibrated in the light of systematic errors highlighted by the back testing of outputs.

### b) Independence

The formulation of ratings shall be free from external interference, and conflicts of interest with regard to ownership, customers and other activities performed by the ECAI and its analysis shall be managed appropriately. For this purpose,

ECAs applying for recognition shall certify and demonstrate that:

- i. Measures have been taken to ensure independence from ownership and to prevent external political or economic pressures or constraints from jeopardizing the objectivity of credit assessments;
- ii. The organizational structure provides for the operational, human resource and, possibly, legal separation of rating activity from other activities, such as consulting and marketing, that could affect the objectivity of the assessments;

- iii. Internal rules are in place to prevent conflicts of interest concerning persons involved in assigning ratings;
- iv. Rating activities are profitable and adequate financial resources are available;
- v. The structure of fees charged the rated entities and the compensation of staff responsible for assigning ratings is not a function of the outcome of the assessment;
- vi. Measures have been taken to ensure the independence of the ratings concerning major customers that generate a significant share of revenues (Greater than 5%);
- vii. They have sufficient staff with an appropriate level of professional expertise and experience in performing credit assessments (for example, at least one of the persons participating in the rating decision process should have at least three years of experience).
- viii. Internal corporate governance rules are clearly formalized;
- ix. They make adequate disclosure of any conflicts of interest;
- x. They have an internal audit function (or other similar function) that is hierarchically independent of the persons responsible for assigning ratings and is charged with verifying the effective application of the independence conditions.

**c) Regular Review**

- i. ECAs shall have procedures to monitor any changes in the assessed entity's position that could lead to significant change in the rating and, if necessary, to amend the rating promptly;
- ii. ECAs shall have a proven back---testing procedure;
- iii. Credit assessments shall be reviewed at least once a year.

**d) Market Credibility**

- i. The degree to which an ECA's ratings are accepted at the international level;
- ii. Where an ECA operates exclusively or primarily in its domestic market, it should provide evidence of reliance of its ratings by banks not belonging to the same banking group.

**e) Transparency of Methodologies and Ratings.**

- i. ECAs shall disclose the principles underlying their rating methodology and any changes in the methodology in a manner that is understandable to users of the credit assessments

- ii. Credit assessments shall be accessible in a timely manner to all banks and, where banks are required to pay a commission, such commission shall be set in a transparent manner. The effective default rates and, where available, the theoretical probabilities of default associated with the individual rating grades shall also be accessible;

In assessing compliance with these requirements, the CBN shall consider the adoption of a code of conduct based on international best practices.

## **2. Recognition Process**

The application for recognition may be submitted by the ECAI or the bank that intends to use such ECAI. For ECAIs already recognized in other jurisdictions, such evidence shall be submitted to the CBN by the ECAI or the bank.

The application for recognition shall specify:

For which of the following sectors recognition is requested:<sup>67</sup>

- a) Public finance;
- b) Commercial entities;
- c) Structured finance (including securitization positions)

Whether recognition is requested for solicited or unsolicited ratings

The application shall provide the information requested in sufficient detail, compliance with all the requirements for recognition indicated above. If the application is submitted by an ECAI, it shall be accompanied by:

- a) Certification by an independent external entity with proven professional expertise and high standing affirming the compliance of an ECAI with all the requirements for recognition. The entity shall also certify that, where the ratings are not accessible to the public, they correspond to those for the period in which they were produced
- b) Certification of the banks that plan to use the ratings.
- c) Evidence that such ECAI is registered by the appropriate regulatory agencies as an eligible rating agency.

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<sup>67</sup> Recognition may also be requested for sub-categories of borrowers within each class where the  
operates in specialized sectors (e.g. by size of the undertaking).

Where the application for recognition is submitted by a bank, the CBN may request the cooperation of the ECAI for the purposes of recognition as well as the certification referred to in point (a) above.

The CBN may also consider other information in addition to that submitted in the application for recognition if it is deemed material and significant in evaluating the application. The CBN shall publish the list of recognized ECAIs and the related mapping through the appropriate channels.

#### **4. Mapping**

The credit assessments issued by ECAIs shall be associated with the risk weight classes established in these regulations (mapping). Mapping shall be carried out by the Central Bank of Nigeria, taking account of quantitative and qualitative factors, with the latter including the definition of default used.

#### **5. Ongoing Review**

The CBN shall ascertain ongoing compliance with the recognition requirements. For this purpose, ECAIs shall provide the CBN with:

- i) Notice of any material change in their rating systems that would produce a change in the ratings of a significant portion of the entities rated in a given segment;
- ii) Mapping data updated on an annual basis
- iii) Update responses to the questionnaire set out below at least every four years (including certification by an expert as provided for in sub-section 2 Recognition Process).
- iv) Any other material information which may assist the CBN in its continuous review.

### **Information that External Credit Assessment Institutions shall provide in the Application for Recognition (Questionnaire)**

#### **General information**

- Type of application:
  - a) for use in the standardized approach;
  - b) for risk weighting securitizations;
- Market segments for which recognition is requested:
  - a) Public finance;
  - b) Commercial entities;
  - c) Structured finance;

- Types of credit assessments to be issued (solicited or unsolicited), where both solicited and unsolicited ratings are issued, a brief description of the rationale behind the policy shall be provided;
- Countries where the applicant is active.

### **Presentation of the Applicant**

- Legal form and structure of the group to which the applicant belongs, if any;
- Ownership structure, list of shareholders that hold 10% or more of the share capital and/or exercise significant influence;
- Total number of employees specifying qualification and experience
- Total number of major customers<sup>68</sup> and the percentage of total revenues from services rendered to them;
- Financial information: financial statements for the past three years and forecasts for the next three years, where available.

### **Requirements**

#### **Objectivity**

- A high--level description of the credit assessment methodology and the procedures through which it is applied (in a consistent manner) and reviewed.
- An explanation shall also be provided of the role and operation of any committees that approve the assessments and the significance of non--public information obtained from rated entities;
- For each of the borrower or exposure group for which a core methodology is applied,<sup>69</sup> a high-level description of the quantitative and qualitative inputs;
- A brief explanation by geographical area of the differences in the methodologies;
- A description of the procedures used to verify the consistency and discriminatory power of the methodologies, with details on the results generated by such analysis;
- A Comparison of theoretical default probabilities where available and effective default rates;<sup>70</sup>

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<sup>68</sup> Major customers shall be those who account for 5% or more of total revenues.

<sup>69</sup> Two methodologies shall be considered distinct when their core elements change. Adaptation of a methodology to the specific characteristics of a certain class of borrowers (for example, to take account of the characteristics of the geographical area in which an undertaking operates) shall not, for the purposes of this questionnaire, be considered a different methodology if the basic features remain unchanged.

- The results of internal validation.

### **Independence**

- Identification and detailed description of all factors demonstrating compliance with the independence requirements for which specific certification is required. Evidence demonstrating that the requirements have been met shall also be attached.

### **Regular Review**

- General information on the frequency and scope of regular reviews, people involved, means used to ensure timely updating of data and assessments, automatic warning systems, mechanisms to enable systematic errors to feedback into changes in the methodology;
- A summary of the reviews carried out;
- An explanation of the methods for performing back-testing and certification that have been in use for at least one year.

### **Transparency**

- Explanation and demonstration of the way in which the principles of the methodologies employed and changes made to them are disclosed to the banks involved.

### **Reputation**

- Information demonstrating widespread reliance by the international market on the ratings issued. For example, the following factors may be considered:
- Market share, revenues generated by rating activities, and, more generally, financial resources available, any pricing based on the rating, the use of the ratings by banks for bond issues or assessing credit risk;
- Where an ECAI operates exclusively or primarily in its domestic market, it should provide evidence of reliance on its ratings by banks not belonging to the same banking group.

### **Disclosure of credit assessments**

- Accessibility to the ratings on the part of banks;
- Where both solicited and unsolicited ratings are issued, the methods employed to enable banks to distinguish between the two shall be disclosed;

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<sup>70</sup> This comparison shall be performed for at least the past five years for exposures other than in respect of securitizations, for which a ten-period period shall be used.

- Where access to ratings or other information needed for their use is granted in exchange for payment, the criteria used to determine the price and certification that pricing is transparent shall be described.

### **Mapping of Ratings for Commercial Entities and Public Finance**

This shall specify the following:

- The definition of default used and the time horizon;
- Most recent two three-year cumulative default rates (CDR);
- Average three-year CDR based on a five-year time series;
- Description of the methodology for calculating CDRs: method of aggregating defaults (weighting mechanism), selection of pool (static or dynamic, adjusted),
- For each rating grade, the number of defaults actually registered each year and the annual default rates based on a five-year data time series;
- Comparison between the actual and theoretical (where available) annual default rates;
- Transition matrices with the size of the cohorts or pool of issuers and the number of ratings withdrawn for each rating grade;
- Dynamic characteristics of the rating methodology (point-in-time or through-the-cycle);
- The rating scale adopted and the meaning of the rating categories;
- The geographic coverage of the rating system;

### **Mapping of Securitization Ratings**

- Definition of default/impairment on which the default/impairment rates are calculated and the time horizon;
- Analysis of the performance of the rating system and description of its main features (choice of the time horizon, impact of withdrawn and cured ratings on default rates, how economic cycles are taken into account);
- Data on the default and/or loss/recovery rates based on a time series of at least ten years;
- Transition matrices with the size of the cohorts and the number of ratings withdrawn for each rating grade;
- The rating scale adopted and the meaning of the rating categories;
- The geographic coverage of the rating system.

## **ANNEX B: Classification of Guarantees and Commitments High Risk: CCF: 100%**

- i. Guarantees having the character of credit substitutes;
- ii. Credit derivatives: commitments in respect of the trading of credit derivatives as a protection seller;
- iii. Acceptances;
- iv. Endorsements on bills not bearing the name of another bank;
- v. Irrevocable standby letters of credit having the character of credit substitutes;
- vi. Spot and forward purchase commitments for securities and other financial instruments other than foreign exchange, except for those allocated to the supervisory trading book and subject to the capital requirements for market risk as well as those with own equity instruments as the underlying;<sup>71</sup>
- vii. Spot and forward deposits and loans to be made;
- viii. The unpaid portion of partly paid-up shares and securities, except for those allocated to the supervisory trading book and subject to the capital requirements for market risk;
- ix. Assets transferred with option for repurchase upon demand by transferee;<sup>72</sup>
- x. Written put options on securities and financial instruments other than foreign exchange, except for written put options allocated to the supervisory trading book and subject to the capital requirements for market risk, as well as those with own equity instruments as the underlying;<sup>73</sup>
- xi. Other lending commitments of certain utilization.

### **Above Average Risk: CCF- 50%**

- i. Irrevocable or confirmed documentary credits except for those in which the of the goods serves as collateral or other self-liquidating transactions;
- ii. Guarantees not having the character of credit substitutes;

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<sup>71</sup> The counterparty to which the risk weight refers shall be the entity that issued the financial instrument being traded.

<sup>72</sup> The counterparty to which the risk weight refers shall be the entity that issued the financial instrument being traded, or in the absence of an issuer, the borrower.

<sup>73</sup> The counterparty to which the risk weight refers shall be the entity that issued the financial instrument being traded, or in the absence of an issuer, the borrower.

- iii. Warranties and indemnities (including tender, performance, customs and tax bonds) and other guarantees;
- iv. Irrevocable standby letters of credit not having the character of credit substitutes;
- v. Facilities supporting securities issues (Notes Issuance Facility (NIF); and Revolving Underwriting Facility (RUF));
- vi. Undrawn credit facilities (lending commitments of uncertain utilization, 74 commitments to provide guarantees or acceptance facilities) with an original maturity of more than one year.

**Moderate Risk: CCF: 20%**

- i. Irrevocable or confirmed documentary credits in which the shipment of the goods serves as collateral or other self-liquidating transactions
- ii. Undrawn credit facilities (lending commitments of uncertain utilization, 75 commitments to provide guarantees or acceptance facilities) with an original maturity of up to one year, which may not be revoked unconditionally at any time without notice or that do not provide for automatic revocation due to deterioration in a borrower's creditworthiness;
- iii. Other medium/low risk assets.

**Low Risk: CCF is 0%**

- i. Undrawn credit facilities (agreements to lend, purchase securities, provide guarantees or acceptance facilities) which may be revoked unconditionally at any time without notice, or that provide for automatic cancellation due to deterioration in a borrower's creditworthiness.
- ii. Retail credit lines may be considered as unconditionally revocable where the terms permit the bank to cancel them to the full extent allowable under consumer lending laws;
- iii. Other low-risk items for banks to apply low risk CCF for guarantees and other commitments, the following conditions must be satisfied;
  - The bank has legal ability to cancel the exposure without prior notice
  - The internal controls and monitoring mechanism can immediately detect any deterioration in the borrowers' credit worthiness
  - No legal actions are instituted against the bank in respect of the exposures.

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<sup>74</sup> Including securities.

<sup>75</sup> Including securities.

## Annex C: Financial Collateral

### Eligible Instruments

The following instruments may be recognised as eligible financial collateral:

- b) Gold;
- c) Cash on deposit and cash equivalent instruments held by the bank purchasing protection; these include credit-linked notes issued by the bank purchasing protection.
- d) Debt securities issued by:
  - i. Central governments and their central banks, which securities have a specific rating from an ECAI of a credit quality step of between 1 and 4;
  - ii. International organisations and multilateral development banks to which a 0% risk weight is assigned;
  - iii. Public sector entities and state or local governments whose exposures meet the eligibility criteria for classification as liquid assets by the CBN;
  - iv. Multilateral development banks other than those under point ii), public sector entities and regional or local governments other than those under point iii) whose securities have a specific rating from an ECAI of a credit quality step of between 1 and 3;
  - v. Other entities whose securities have a specific rating from an ECAI of a credit quality step of between 1 and 3;
- e) Debt securities issued by supervised institutions and corporates, with a specific rating from an ECAI of a credit quality step of between 1 and 3 applicable to short term exposures;
- f) Unrated debt securities issued by entities whose exposures are treated as exposures to supervised institutions, provided that:
  - i. They are listed on a recognised exchange;
  - ii. They qualify as senior debt;
  - iii. All other issues of the same seniority by the issuing institution have a rating associated with credit quality steps<sup>1</sup> through 3;

- iv. The bank has no information to suggest that the issue would justify a rating, if applicable, below that indicated in the preceding indent;
- v. The bank can demonstrate that the instrument has sufficient market liquidity;
- g) Equities and convertible bonds included in All Share Index (ALSI);
- h) Units in Collective Investment Schemes which have a daily public price quote and the Collective Investment Scheme's assets are invested in the instruments listed above.
- i) If the comprehensive method is used for the prudential treatment of financial collateral, the latter may also include:
- j) Equities and convertible bonds not included in the All Share Index (ALSI) but traded on a recognised exchange; ii. Units in Collective Investment Schemes if they have a daily public price quote and the unit trust's assets are invested in instruments listed above.

## **Annex D: Collateral under the Standardised Approach**

### **Calculation Methods**

#### **1. Simple Method**

1. The risk weight envisaged for instruments provided as collateral shall apply, entirely or proportionately, to exposures secured, respectively, in whole or in part by financial collateral. The unsecured portion of the exposure shall receive the counterparty's (borrower's) risk weight.
2. The risk weight applied to the collateralised portion of the exposure shall be at least 20%, except in the cases expressly provided below.
3. The collateral shall be assigned a value equal to the fair value of the underlying instrument.

#### **1.1. Risk Weights: Exceptions to The 20% Minimum Threshold**

The secured portion of the following transactions may receive a risk weight of 0% provided that the conditions listed below are met.

1. Repurchase transactions and securities lending and borrowing transactions, where:
  - a) Both the exposure and the collateral are cash or debt securities issued by the persons listed in Annex A, letter c), points i) through iii)

and receive a risk weight of 0% for the purposes of calculating the capital requirement;

- b) Both the exposure and the collateral are denominated in the same currency;
- c) Either the maturity of the transactions does not exceed one day or both the exposure and the collateral are subject to daily marking-to-market or daily re-margining;
- d) The time between the last marking-to-market before a failure to re-margin by the counterparty and the liquidation of the collateral does not exceed four business days;
- e) The settlement of the transactions occurs within a settlement system proven for that type of transaction;
- f) The documentation covering the agreement is standard market documentation for these types of transactions;
- g) The documentation governing the transaction provides for immediate termination in the event the counterparty fails to physically deliver cash, securities or margins or otherwise defaults;
- h) Upon any default event, regardless of whether the counterparty is insolvent or bankrupt, the bank has the unfettered, legally enforceable right to immediately seize and liquidate the collateral for its benefit.
- i) The counterparty is a core market participant.

For the purposes of the application of these rules, the category of core market participants shall include:

1. The Federal Government of Nigeria;
  2. Central Bank of Nigeria, and
  3. Licensed banks and discount houses in
2. Over-the-counter derivatives transactions listed in the regulations governing counterparty risk whose exposure is calculated in accordance with such regulations, subject to daily marking-to-market, collateralised by cash or cash - equivalent instruments where there is no currency mismatch.

3. Transactions in which the exposure and the collateral are denominated in the same currency and the collateral is either:
  - i. Cash on deposit or a cash equivalent instrument;
  - ii. Debt securities issued by one of the entities eligible to issue financial collateral, excluding public sector entities, if such securities have a 0% risk weight for the purpose of calculating the capital requirement<sup>76</sup> and their fair value has been discounted by 20%.

Banks shall apply a 10% risk weight to the secured portion of exposures connected with the transactions specified in point i) where the counterparty is not a core market participant (see box). The transactions specified in point ii) shall also be subject to the same risk weight if they are secured by debt securities issued by one of the entities eligible to issue financial collateral, excluding public sector entities, if such securities have a 0% risk weight for the purpose of calculating the capital requirement.

## 2. Comprehensive Method

The exposure value under the comprehensive method shall be calculated as follows:

### Formula 1

$$E^* = \max \{0, [E \times (1 + H_e) - C \times (1 - H_c - H_{fx})]\}^{77}$$

Where:

$E^*$  = The exposure value after risk mitigation

$E$  = Current value of the exposure

$H_e$  = Haircut appropriate to the exposure

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<sup>76</sup> Where the CBN has authorised the application of a 0% risk weight for repurchase transactions and securities lending and borrowing transactions involving securities issued by that sovereign, Nigerian banks may apply the same preferential treatment.

<sup>77</sup> The risk weight for an asset secured by eligible financial collateral shall be obtained by multiplying the risk weight of the counterparty by an amount equal to the difference between the exposure amount and the value of the collateral. In order to take account of market price volatility, an appropriate 'haircut' shall be applied to both the collateral value and the exposure amount. With the exclusion of cash, the volatility-adjusted exposure value shall be higher than the value of the original exposure, and vice-versa for collateral. Where the exposure and the collateral are denominated in different currencies, the amount of collateral shall be further reduced to reflect possible foreign exchange volatility.

- C = The current value of the collateral received
- Hc = Haircut appropriate to the collateral
- Hfx = Haircut for currency mismatch between the collateral and exposure

In the case of exposures represented by loans and derivatives, "Hc" shall be equal to zero. Banks may apply a haircut of zero to repurchase transactions and securities lending and borrowing transactions only where they possess the characteristics set out in sub-section 1.1 of this Annex<sup>78</sup>.

Where the collateral consists of a number of eligible instruments (basket of assets), the haircut on the basket shall be  $H = \sum a_i H_i$ , where  $a_i$  is the weight of the asset (as measured by units of currency) in the basket and  $H_i$ , the haircut applicable to that asset.

When the frequency of re-margining or revaluation is longer than the minimum, the minimum haircut numbers will be scaled up depending on the actual number of business days between re-margining or revaluation using the square root of time formula below:

**Formula 2**

$$H = H_M \sqrt{(N_R + (T_M - 1)) / T_M}$$

Where:

$H$  = haircut

$H_M$  = haircut under the minimum holding period

$T_M$  = minimum holding period for the type of transaction

$N_R$  = actual number of business days between re-margining for capital market transactions or revaluation for secured transactions.

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<sup>78</sup> Where the CBN has authorised the application of a 0 haircut for repurchase transactions and securities lending and borrowing transactions involving securities issued by that sovereign, Nigerian banks may apply the same preferential treatment.

## 2.1 Standard Supervisory Haircut Approach

In the case of daily revaluation, the haircuts to be applied to exposures and collateral consisting of debt securities, equity securities, cash and gold are those specified in Tables 1 through 4 below. Such haircuts are broken down by

- a) The type of instrument
- b) The liquidation period of the transaction
- c) The credit quality step,
- d) The residual maturity
- e) The issuer category for debt securities.

In the case of less-than-daily revaluation, the haircut shall be scaled up using formula (2) under the comprehensive calculation method above.

The minimum holding period for various products is summarised in the following table.

Transaction Type	Minimum Holding Period	Condition
Repo Style Transactions	Five Business Days	Daily Re margining
Other Capital Market Transactions	Ten Business Days	Daily Re margining
Secured Lending	Twenty Business Days	Daily Revaluation

For the purposes of determining credit quality steps, the provisions of Annex C concerning the identification of the various categories of eligible securities shall apply.

With regard to the other types of instruments:

- For non-eligible securities or commodities repurchase transactions and lending and borrowing transactions, the haircut applicable to non-main index equities listed on a recognised exchange shall apply;
- The haircuts applicable to eligible units in collective investment schemes shall be the weighted average haircuts that would apply to the assets, in which the fund has invested, having regard to the liquidation period for capital market-driven transactions. If the bank does not know the instruments in which the fund has invested, it shall use the highest haircut

that would apply to any of the assets in which the fund may invest on the basis of its rules;

- Unrated debt securities issued by entities whose exposures are treated as exposures to supervised institutions that satisfy the eligibility criteria under point e of this Annex), shall receive a haircut that is the same as that for securities issued by such entities or by corporate with a rating associated with credit quality steps 2 or 3 as provided for under the standardized approach to credit risk.

**Table 1: Debt securities other than those with short-term ratings**

Credit quality step	Residual maturity	Debt securities issued by Sovereigns, PSE and Multilateral Development agencies to which risk weight of zero per cent is assigned			Debt securities issued by others		
		Liquidation period (%)			Liquidation period (%)		
		20 days	10 days	5 days	20 days	10 days	5 days
1	≤ 1 year	0.707	0.5	0.354	1.414	1	0.707
	> 1 and ≤ 5 years	2.828	2	1.414	5.657	4	2.828
	>5 years	5.657	4	2.828	11.314	8	5.657
2 – 3	≤ 1 year	1.414	1	0.707	2.828	2	1.414
	> 1 and ≤ 5 years	4.243	3	2.121	8.485	6	4.243
	> 5 years	8.485	6	4.243	16.971	12	8.485
4	≤ 1 year	21.213	15	10.607	NA	NA	NA
	> 1 and ≤ 5 years	21.213	15	10.607	NA	NA	NA
	> 5 years	21.213	15	10.607	NA	NA	NA

**Table 2: Debt securities with short-term ratings.**

Credit quality step	Debt securities described in Annex A, letter c), points I through iii			Debt securities described in Annex A, letter c), points iv		
	Liquidation period (%)			Liquidation period (%)		
	20 days	10 days	5 days	20 days	10 days	5 days
1	0.707	0.5	0.354	1.414	1	0.707
2– 3	1.414	1	0.707	2.828	2	1.414

**Table 3: Equity instruments, cash and gold**

Type of instruments or exposures	Liquidation period (%)		
	20 days	10 days	5 days
Main index equities and main index convertible bonds	21.213	15	10.607
Other equities and convertible bonds listed on a recognised exchange	35.355	25	17.678
Cash	0	0	0
Gold	21.213	15	10.607

**Table 4: Haircuts for currency mismatches**

Liquidation period (%)		
20 days	10 days	5 days
11.314	8	5.657

## Annex E: Master Netting Agreements

### Calculation Methods

#### 1. Comprehensive Method

The exposure value fully adjusted for the volatility (E\*) of exposures subject to a master netting agreement recognised for regulatory capital purposes with

respect to securities financing transactions shall be calculated using the supervisory haircut approach, as contained in the description of the treatment of financial collateral under the comprehensive method.

The fully adjusted exposure value  $E^*$  is obtained by netting the exposures under the agreement and the collateral as well as an increase that reflects the possible changes in the price of underlying securities and any foreign exchange risk.

This can be computed using the following formula:

$$E^* = \max \{0, [(\sum (E) - \sum (C)) + \sum (E_s \times H_s) + \sum (E_{fx} \times H_{fx})]\}$$

Where:

$E^*$ =the exposure value after risk mitigation

$E$ =current value of the exposure

$C$ =the value of the collateral received

$E_s$ =absolute value of the net position in a given security

$H_s$ =haircut appropriate to  $E_s$

$E_{fx}$ = absolute value of the net position in a currency different from the settlement currency

$H_{fx}$ = haircut appropriate for currency mismatch

$\sum (E)$  is the sum of all the exposures ( $E$ ) under the agreement;

$\sum(C)$  is the sum of all forms of collateral ( $C$ ) under the agreement;

The net position in each type of security<sup>79</sup> or commodity ( $E_s$ ) shall be calculated by subtracting from the total value of the securities or commodities of that type lent, sold or provided under the master netting agreement, the total value of securities or commodities of that type borrowed, purchased or received under the agreement. The net position in each currency, other than the settlement currency of the master netting agreement ( $E_{fx}$ ), shall be calculated by subtracting from the total value of

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<sup>79</sup> "Type of security" shall mean all the securities which are issued by the same entity, have the same issue date and the same original maturity, are subject to the same terms and conditions and are subject to the same liquidation periods.

securities denominated in that currency lent, sold or provided under the master netting agreement added to the amount of cash in that currency lent or transferred under the agreement, the total value of securities denominated in that currency borrowed, purchased or received under the agreement added to the amount of cash in that currency borrowed or received under the agreement.

The haircut appropriate to a given type of security or cash position ( $H_s$ ) shall be applied to the absolute value of the positive or negative net position in the securities of that type.

The foreign exchange risk haircut ( $H_{fx}$ ) shall be applied to the net positive or negative position in each currency other than the settlement currency of the master netting agreement.

## **Annex F: Unfunded Credit Protection**

### **Treatment of Currency Mismatches**

Where unfunded credit protection is denominated in a currency different from that in which the exposure is denominated (a currency mismatch) the value of the credit protection shall be reduced by the application of a haircut ( $H_{FX}$ ) as follows:

$$G^* = G \times (1 - H_{FX})$$

Where;

- G is the nominal amount of the credit protection;
- $G^*$  is G adjusted for any foreign exchange risk;
- $H_{FX}$  is the haircut for any currency mismatch between the credit Protection and the Underlying Obligation.

## **Annex G: Maturity Mismatches**

### **Valuation of Credit Protection**

#### **1. Funded credit protection for banks that apply the comprehensive method to financial collateral**

The maturity of the credit protection and that of the exposure shall be reflected in the adjusted value of the collateral using the following formula:

$$C_{VAM} = C_{VA} \times (t - 0.25) / (T - 0.25^*)$$

Where:

- $C_{VA}$  is the volatility adjusted value of the collateral as specified in the comprehensive method for calculating exposure value ( $[C(1 - H_C - H_{FX})]$ ) or the amount of the exposures, whichever is lower;
- $t$  is the number of years remaining to the maturity date of the credit protection calculated in accordance with the rules contained under the definition of maturity, or the value of  $T$ , whichever is lower;
- $T$  is the number of years remaining to the maturity date of the exposure calculated in accordance with the rules contained under the definition of maturity, or 5 years, whichever is lower;
- $t^*$  is 0.25.
- $CVAM$  shall be taken as  $CVA$  further adjusted for maturity mismatch to be included in the formula for the calculation of the fully adjusted value of the exposure ( $E^*$ ) as set out under the comprehensive method.

## 2. Unfunded credit protection for all banks

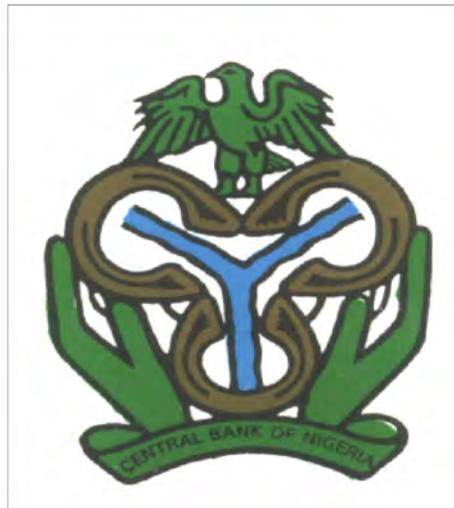
When there is a maturity mismatch with recognised credit risk mitigants (collateral, on-balance sheet netting, guarantees and credit derivatives) the following adjustment will be applied to derive the adjusted value of the credit protection:

$$P_A = P^* \times (t - 0.25) / (T - 0.25)$$

Where:

- $P^*$  is the amount of the protection adjusted for any currency mismatch;
- $P_A$  is  $P^*$  adjusted for any maturity mismatch;
- $t$  is the number of years remaining to the maturity date of the credit protection calculated in accordance with the rules contained under the definition of maturity, or the value of  $T$ , whichever is lower;
- $T$  is the number of years remaining to the maturity date of the exposure calculated in accordance with the rules contained under the definition of maturity, or 5 years, where the former is higher;
- $P_A$  is then taken as the value of the protection for the purposes of calculating the value of the protection.

## CENTRAL BANK OF NIGERIA



## Guidance Notes on Supervisory Review Process

## SUPERVISORY REVIEW PROCESS

## 1.0 Introduction

The Supervisory Review Process is structured along two separate but complementary stages.

- i) The Internal Capital Adequacy Assessment Process (ICAAP)<sup>80</sup>, and
- ii) The Supervisory Review and Evaluation process (SREP)<sup>81</sup>

## 2.0 Internal Capital Adequacy assessment Process (ICAAP)

- The ICAAP is based on appropriate risk management systems that require adequate corporate governance mechanisms, an organisational framework with clear lines of responsibility, and effective internal control systems because capital cannot be regarded as a substitute for addressing inadequate risk management processes.
- The ICAAP shall be documented, understood and shared by all bank structures and shall be subject to independent internal review.
- The respective banks' boards are entirely responsible for the ICAAP. They are expected to independently establish the design and organisation in accordance with the risk appetite of the bank. They are also responsible for the implementation and the annual update of the ICAAP and the resulting calculation of internal capital in order to ensure it is still in conformity with the banks' operations and environment.
- On an annual basis, banks shall render returns to the Central Bank of Nigeria (CBN) on the key features of the ICAAP, their risk exposure and the level of capital deemed adequate to support those risks. The report shall also contain a self-assessment of the ICAAP, areas for improvement, any deficiencies in the process and the corrective measures to be taken.

## 2.1 General Rules for the ICAAP

- i) Banks shall have a process for determining the total capital, currently and prospectively necessary to support all material risks. This process shall be;
  - formalized and documented,

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<sup>80</sup> The ICAAP requires banks to perform an independent and complete assessment of the risks to which they are exposed and calculate an internal capital requirement

<sup>81</sup> SREP is performed by the CBN, who reviews the ICAAP, formulates an overall opinion about the bank and, where necessary, takes remedial measures. The SREP is the process by which the CBN reviews and assesses the ICAAP, analyses the bank's own assessment of its risk profile, the corporate governance system as it relates to the ICAAP and the internal control system, and verifies overall compliance with prudential rules in calculating internal capital

- subject to internal review and approval by board and management.
  - Proportionate to the nature, scale and complexity of the business conducted.
- ii) The calculation of total capital requires an assessment of all the risks to which a bank is or may be exposed, including those not considered in calculating the capital requirement under Pillar 1.
- iii) Banks shall determine the risks, other than credit, counterparty, market and operational risks, for which the adoption of quantitative methodologies that can be used in determining internal capital would be appropriate<sup>82</sup>, and those for which control and mitigation measures, in combination or alternatively, would be more suitable.

## **2.2 Proportionality in the ICAAP**

The principle of proportionality shall apply to the following aspects:

- i) The methodologies used in measuring/assessing risks and in determining the related internal capital;
- ii) The type and nature of the stress tests adopted;
- iii) The treatment of correlation among risks and the determination of total internal capital;
- iv) The organisational structure of the risk control systems;
- v) The scope and detail of ICAAP reporting to the CBN.

## **2.3 Features of the ICAAP**

In developing an Internal Capital Adequacy Process, banks shall take cognizance of the key supervisory principles as enunciated by the Basel Committee on Banking Supervision (BCBS July 2006 paragraphs 725---760). The main features are summarized below:

### **2.3.1 Comprehensive Identification of Risks**

- a) Banks shall independently identify the risks to which they are exposed, taking into consideration their operations and the markets in which they operate.

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<sup>82</sup> For the purposes of the provisions of this Regulation, “internal capital” shall mean capital at risk, i.e. the amount of capital related to a given risk that the bank deems necessary to cover losses exceeding a given expected level (this definition assumes that the expected loss shall be covered by net value adjustments – specific and portfolio – of equal amount; where the latter is lower, internal capital shall also cover this difference).

“Total internal capital” shall mean the internal capital related to all material risks faced by the bank, including any internal capital associated with strategic factors. “Capital” and “total capital” shall mean the capital elements that the bank feels it can use to cover “internal capital” and “total internal capital”, respectively.

- b) This analysis shall consider at a minimum, the risks listed in Annex A. This list is not exhaustive: the identification of any further risk factors connected with its specific operations is left to the prudent assessment of each bank.
- c) Banks and banking groups shall clearly identify the sources of the various forms of risks and where these are to be found at the level of operating units, enterprise--wide, within the group or from external counterparties. This makes it possible to ascertain whether the regulatory capital requirements calculated at the individual level for the most significant legal entities adequately cover the risks effectively faced by these entities.

### **2.3.2 Sound Capital Assessment**

- In order to calculate internal capital banks should have:
  - a) Designed policies and procedures that clearly identify, measure and report all material risks;
  - b) A process that relates capital adequacy to the level of risks assumed;
  - c) A process that relates capital adequacy goal with the banks' strategic focus and business plan;
  - d) A process of internal controls that reviews and audits continuously the activities of the banks to ensure robustness and integrity of the overall risk management process;
- In addition, banks are required to quantify all material risks they are exposed to using methodologies they deem appropriate in relation to their organisational and operational features.
- For credit, counterparty, market and operational risks, a methodological starting point is provided by the regulatory systems for calculating capital requirements for such forms of risk;
- With regard to interest rate risk, all banks shall assess the impact of hypothetical shocks on the interest rate exposure of the banking book. Where this should cause a significant reduction of a bank's regulatory capital, the CBN shall examine the results with the bank and may adopt appropriate actions; and,
- The ICAAP of banks must be able to show how total capital reconciles with the definition of regulatory capital. Specifically, they shall explain the use of capital instruments that may not be included in regulatory capital but are included in the calculation of internal capital

### **2.3.3 Stress Testing**

- Banks shall conduct stress testing of their risk mitigation and control systems and, where necessary, the adequacy of their internal capital, in order to enhance the assessment of their exposure to risks.
- Stress tests are quantitative and qualitative techniques used by banks to assess their vulnerability to exceptional, but plausible, events. They involve assessing the impact on banks' exposures of specific events (sensitivity analysis) or joint movements of a set of economic and financial variables under adverse scenarios (scenario analysis).

### **2.3.4 Corporate Governance in the ICAAP**

- The board and management of banks shall be responsible for the ICAAP.
- They shall establish a framework for assessing the various risks, develop a system to relate risk to banks' capital level, and establish a method for monitoring compliance with internal policies. It is likewise important that the board of directors adopts and supports strong internal controls and written policies and procedures and ensures that management effectively communicates these throughout the organization. (BCBS July 2006, Par 730)

### **2.3.5 Monitoring and Reporting**

Banks should have a system for monitoring and reporting risk exposures and assessing how their changing business risk profiles affect their capital needs. They are therefore required to:

- a) Evaluate the level and trend of material risks and their effects on capital levels;
- b) Evaluate the sensitivity and reasonableness of the key assumptions used in capital assessment;
- c) Determine that they hold sufficient capital against the various risks and ensure compliance with established capital adequacy goals; and
- d) Assess future capital requirements based on reported risk profiles and indicate any necessary adjustments to be made to the banks' strategic plan based on that assessment.

### **2.3.6 Internal Control Review**

- An effective ICAAP requires that the relationship between risks and capital levels is monitored

- The board should ensure that its system of internal control can monitor its business environment
- The bank should ensure conduct of periodic review to ensure integrity, accuracy and reasonableness of its risk management process. Such reviews should cover:
  - a) Appropriateness of the ICAAP
  - b) Large exposures and risk concentration
  - c) Accuracy and completeness of data input
  - d) Reasonableness and validity of scenarios used in the assessment
  - e) Stress testing and analysis of assumptions/inputs

## **2.4 Regulatory Reporting of the ICAAP**

### **2.4.1 Content and Structure**

- a) The ICAAP report will enable the CBN to conduct a complete, documented assessment of the key qualitative features of the capital planning process, the overall exposure to risks and the consequent calculation of total internal capital.
- b) The report is transmitted to the CBN along with the relevant board resolutions and senior management reports containing their comments on the ICAAP, in accordance with their respective responsibilities and functions.
- c) The report shall be organised, at a minimum, into the areas specified in Annex B.

### **2.4.2 Frequency of ICAAP Reporting**

- On an annual basis, banks shall, not later than the end of April, submit to the CBN the ICAAP report as at 31 December of the previous year.
- Based on the capital reported at the close of the previous year, the ICAAP document shall provide the bank's strategies for taking on risk and ensuring that the related capital needs through the end of the current year are met.

## **3.0 Supervisory Review and Evaluation Process (SREP)**

### **3.1 General Rules for the SREP**

The SREP shall be conducted for banks and banking groups on an annual basis in order to verify that they have established capital and organisational arrangements that are appropriate for the risks they face and ensures overall operational equilibrium.

### 3.2 Stages of the SREP

The SREP is organised into the following main stages:

- a) Analysis of exposure to all material risks and the relative control systems;
- b) Verification of compliance with capital requirements and other supervisory rules;
- c) Assessment of the procedure for calculating total internal capital and of the adequacy of total capital in relation to the bank's risk profile;
- d) Issuance of specific opinions for each form of risk and of an overall opinion on the situation of the bank;
- e) Determination of any supervisory response

### 3.3 Proportionality in the SREP

The supervisory review and evaluation process is also informed by the principle of proportionality, under which:

- a) Corporate governance systems, risk management processes, internal control mechanisms and the determination of capital deemed adequate to cover risks shall be proportionate to the nature, scale and complexity of the business conducted by the banks;
- b) The frequency and the comprehensiveness of the SREP shall have regard to the systemic importance, nature, size and complexity of banks. The CBN, as part of its Risk-Based Supervisory process, will review and evaluate the soundness of banks' ICAAP against the expectations set out under the features of ICAAP in this guideline. This review will also consider the comprehensiveness of the ICAAP and the quality of risk management to form a view on the appropriateness of the banks' internal capital targets and its capacity for meeting the targets. Based on these reviews, the CBN may require any bank to, among other things, take action to improve its capital and risk management processes if it is not satisfied with the bank's ICAAP.

While the board and senior management of banks maintains primary responsibility for their institution's capital adequacy, the CBN reserves the power to intervene at an early stage to prevent a bank's capital from falling below the level that it deems adequate to support its risks. The CBN may require rapid remedial action if adequate capital is not maintained or restored. This may include the following:

- a) Altering the risk profile of the bank through business or operational restrictions;
- b) Directing banks to raise additional capital;

- c) Strengthening of the systems, procedures and processes concerning risk management, control mechanisms and internal assessment of capital adequacy;
- d) Prohibition of distribution of profits or other elements of capital;
- e) Directing the bank to hold an amount of regulatory capital greater than the legal minimum for credit risk, counterparty risk, market risk and operational risk;
- f) Using other measures as contained in the CBN Supervisory Intervention Framework (SIF) and the BOFIA.

## ***ANNEX A: RISKS SUBJECT TO THE INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)***

### **1. Pillar 1 risks**

- a) Credit risk (including counterparty risk,);
- b) Market risks;
- c) Operational risk.

### **2. Other risks**

- a) Concentration risk: the risk arising from exposures to counterparties, groups of connected counterparties, and counterparties in the same economic sector or which engage in the same activity or are from the same geographic region;
- b) Interest rate risk in the banking book: the risk arising from potential changes in interest rates;
- c) Residual risk: the risk that recognized credit risk mitigation techniques used by the bank may be less effective than planned;
- d) Securitization risk: the risk that the economic substance of a securitization operation is not fully reflected in risk assessment and management decisions;
- e) Business and Strategic risk: the current or prospective risk of a decline in profits or capital caused by changes in the business environment or erroneous decisions, the inadequate implementation of decisions or poor responsiveness to competitive developments;

- f) Reputational risk: the current or prospective risk of a decline in profits or capital should customers, counterparties, shareholders, investors or supervisors take a negative view of the bank;
- g) Liquidity risks; Banks' liquidity profile and the liquidity of the markets in which they operate.
- h) Compliance with minimum standards and disclosure requirements;
- i) Factors external to the bank, e.g., business cycle effects

## **ANNEX B: GUIDE FOR ICAAP REPORTING**

### **1. Strategies and forecasting horizon adopted**

- a) Business plan and annual budgets; schedule of reviews of business plan and its components; extraordinary events necessitating review;
- b) Reconciliation between time horizon of business plan and capital plan;
- c) Ordinary and extraordinary sources of capital.

### **2. Corporate governance, organizational arrangements and internal control systems connected with the ICAAP**

- a) Description of the process for the preparation and updating of the ICAAP;
- b) Description of the process for reviewing the ICAAP;
- c) Definition of the role and functions assigned to the board and senior management bodies for the purposes of the ICAAP;
- d) Definition of the role and functions assigned to various corporate functions for the purposes of the ICAAP (for example, internal auditing, compliance, planning, risk management, and other units such as head office and branch network commercial units, accounting and audit);
- e) Description of organizational and contractual safeguards relating to any elements of the ICAAP that is outsourced;
- f) Indication of internal regulations relevant to the ICAAP.

### **3. Risk exposures, risk measurement and aggregation methodologies, stress testing**

- a) Risk mapping: illustration of the position of the bank in respect of Pillar 1 and Pillar 2 risks;
- b) Risk mapping in relation to bank's operating units and/or legal entities of the group;
- c) Techniques for risk measurement, internal capital determination and stress testing;
- d) Description, for every category of measurable risk, of the main characteristics of the main risk control and mitigation instruments;
- e) General description of systems for control and mitigation of non-measurable risks.

#### **4. Components, estimation and allocation of internal capital**

- a) Quantification of internal capital for each risk and total internal capital;
- b) Any methods for allocating internal capital (by operating unit and/or legal entity).

#### **5. Reconciliation of internal capital, regulatory requirements and regulatory capital**

- a) Reconciliation of total internal capital and regulatory requirements;
- b) Listing and definition of capital components covering internal capital;
- c) Eligibility of components covering internal capital to be calculated for supervisory purposes; explanation of inclusion of ineligible components;
- d) Estimate of cost of using other capital sources in addition to those used.

#### **6. Self-Assessment of ICAAP**

- a) Identification of the areas of the process amenable to improvement;
- b) Planning of capital or organisational actions.

#### **7. Organization of the ICAAP Report**

- 1. Executive Summary

2. Structure and Operations
3. Governance Structure
4. Risk Assessment and Capital Adequacy
5. Stress Testing
6. Capital Planning
7. Design, Approval, Review, and Use of ICAAP
8. Challenges and Further Steps
9. Summary of Internal Capital Adequacy Assessment Process
10. Risk Appetite Statement
11. Use of Internal Models for Capital Assessment
12. Review of ICAAP



09-462-36425

November 14, 2013

09-462-36418

Ref: BSD/DIR/GEN/LAB/06/051

Letter to all Credit Bureaux, All Banks and Other Stakeholders Dear  
Sirs,

**RE: GUIDELINES FOR THE LICENSING, OPERATIONS AND REGULATION OF CREDIT BUREAUX AND CREDIT BUREAUX RELATED TRANSACTIONS IN NIGERIA**

The Central Bank of Nigeria, in exercise of its powers under the CBN Act 2007, has revised the Guidelines for the Licensing, Operations and Regulation of Credit Bureaux in Nigeria issued in October 2008.

The guidelines renamed "Guidelines for the Licensing, Operations and Regulations of Credit Bureaux and Credit Bureaux Related Transactions in Nigeria" have been prepared taking into cognizance the inputs from various stakeholders. The guidelines, which are expected to create a better platform for the sustainable growth of the sector, take effect from the date of this letter.

Yours faithfully

**'TOKUNBO A. MARTINS (MRS)**

**DIRECTOR OF BANKING SUPERVISION DEPARTMENT**

**GUIDELINE FOR THE LICENSING, OPERATIONS AND  
REGULATION OF CREDIT BUREAUX AND CREDIT BUREAU  
RELATED TRANSACTIONS IN NIGERIA**

**BY**

**CENTRAL BANK OF NIGERIA  
ABUJA**

**NOVEMBER 2013**

# **GUIDELINE FOR THE LICENSING, OPERATIONS AND REGULATION OF CREDIT BUREAUX AND CREDIT BUREAU RELATED TRANSACTIONS IN NIGERIA**

## **SECTION 1 - INTRODUCTION**

### **1.1 Background**

In the exercise of the powers conferred on the Central Bank of Nigeria by Section 57 of the CBN Act 2007, the provisions herein are made as guidelines to the licensing, operations and regulation of all Credit Bureaux and Credit Bureau Related Transactions in Nigeria.

- 1.2 The guideline shall apply to all Central Bank of Nigeria licensed Credit Bureaux and Credit Bureau related transactions in Nigeria.
- 1.3 The objective of the guideline is to define the licensing, operational and regulatory requirements for a privately owned Credit Bureau under the CBN Act 2007.

## **SECTION 2 - DEFINITION OF TERMS**

- 2.1 "Act" - means the Central Bank of Nigeria Act, 2007.
- 2.2 "Adverse action" shall include, but not limited to, actions taken by a User resulting in the denial of Credit, cancellation of Credit, reduction of value of a Credit line, denial of employment or denial of any advantage to which a Data Subject would otherwise be entitled.
- 2.3 "Banks" shall have the same meaning as defined in the Banks and Other Financial Institutions Act, 1991 as amended.
- 2.4 "Board of Directors" - means the Board of Directors of a Credit Bureau.
- 2.5 "CBN" – means the Central Bank of Nigeria.
- 2.6 "Consent" – means a signed written authorization by the Data Subject, his/her legal representative or authorized agent indicating his/her approval to inquire about his/her data from the Credit Bureaux.
- 2.7 "Credit Bureau" (CB)/Credit Reference Company - means an institution that collects information from creditors and available public sources on a borrower or potential borrowers' credit history.
- 2.8 "Credit Bureau Association" – means an association registered with the Corporate Affairs Commission for the sole purpose of promoting the activities of Credit Bureau operations in Nigeria.

- 2.9** "Credit File" – means an electronic or physical docket containing the Data Subject's personal and Credit Information that are collected, processed and maintained by a Credit Bureau.
- 2.10** "Credit Information" – means the history of a Data Subject with regard to credit and financial obligations that a Credit Bureau may collect from Data Providers.
- 2.11** "Credit Report" – means credit information issued by a Credit Bureau containing all or part of the data subject's information and data available in the credit file or a summary thereof.
- 2.12** "Credit Scoring" – refers to a measure of default probability.
- 2.13** "Data" – means borrower's or guarantor's information or data, including loan applications, and total credit exposures such as loan size, maturity, terms and conditions, overdue, past due, charge off, or delinquent status and collaterals of a credit transactions between a borrower and a Data Provider.
- 2.14** "Database" - means a set of information administered by a Credit Bureau.
- 2.15** "Data Provider" – means entities that are allowed under this guideline to furnish credit information to a Credit Bureau and include banks and other financial institutions and such other institutions that provide any form of credit and entities that have personal or credit information or Data related to the Data Subject's payment habits or credit worthiness and furnish them to the Credit Bureaux as per this guideline.
- 2.16** "Data Subject" – means any person or entity or a guarantor of any person or entity whose Credit Information is administered by the Credit Bureau.
- 2.17** "Debt" - means direct, indirect and contingent obligations incurred by a person or entity or guaranteed by a person or entity with third parties including interest / profit thereon.
- 2.18** "Director"- means an individual that is a member of the Board of Directors of a Credit Bureau.
- 2.19** "Top Management"- in relation to a Credit Bureau, includes the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Chief Internal Auditor, Chief Compliance Officer or Manager of a significant unit of the Credit Bureau;
- 2.20** "Other Financial Institutions"- shall have the same meaning as the definition of Other Financial Institutions in the Banks and Other Financial Institutions Act, 1991 as amended.

- 2.21 "Permissible Purpose" - means those activities specified in 5 (1) (b).
- 2.22 "Public Database" - means a database owned or operated by a public entity in Nigeria that may contain data on a borrower, potential borrower, guarantor or potential guarantor.
- 2.23 "Rules of Reciprocity" - means a set of norms defining the level of mutual information exchange and cooperation between Data Providers and the Credit Bureau.
- 2.24 "User" – means entities that are allowed under this guideline to seek Credit Information from a Credit Bureau for Permissible Purposes and include Banks and Other Financial Institutions and such other institutions that provide any form of credit.

### **SECTION 3- LICENSING REQUIREMENTS OF CREDIT BUREAUX**

An individual or an entity shall not operate a Credit Bureau in Nigeria unless licensed to do so by the Central Bank of Nigeria.

The process of licensing a Credit Bureau shall be in three (3) stages:

- d) Receipt and appraisal of application.
- e) Issuance of Approval-in-Principle (AIP).
- f) Issuance of Final Operating Licence.

#### **3.1 Application**

A promoter(s) seeking to operate a Credit Bureau in Nigeria shall apply in writing to the Governor of CBN. Such application for a Credit Bureau licence shall be accompanied with the following:

- a. Non-refundable application fee of ₦250,000 (Two hundred and fifty thousand Naira) made payable to the CBN.
- b. Minimum capital requirement of ₦500,000,000.00 (Five Hundred Million Naira) made payable to the CBN, fifty percent (50%) of which will be released upon the grant of Approval-in-Principle, while the balance will be released with the accrued interest based on the prevailing Monetary Policy Rate (or any other rate that the CBN may from time to time determine) upon the grant of Final Licence.
- c. Memorandum and Article of Association of the proposed Credit Bureau.
- d. Detailed feasibility report of the proposed Credit Bureau which shall include:
  - i. The objectives and aims of the proposed Credit Bureau.

- ii. A detailed and comprehensive business plan of the Credit Bureau.
- iii. A three (3) year financial projection for the operation of the Credit Bureau indicating its expected growth and profitability.
- iv. Details of the assumptions upon which the financial projections have been made.
- v. The conclusions based on the assumptions made in the feasibility report.
- vi. The organizational structure of the proposed Credit Bureau, setting out in details: functions, relationships and responsibilities of Board, Management and staff.
- vii. The composition of the Board of Directors and the curriculum vitae (CV) of each member including information on positions held by them in other organizations.
- viii. Proposed Management Information Systems, Internal Controls and Procedures, including Operational Manual.
- ix. A table of the list of promoters and shareholders showing their residential addresses, their businesses or companies and addresses, the amount invested in the Credit Bureau as well as addresses of their current bankers.
- x. Copy of the Software License Agreement, Management or Service Level Agreements, if any, which have been concluded with other parties or any Memorandum of Understanding in that regard.
- xi. Submission of specimen copies of Credit Reports as well as the proposed charges for such Credit Reports.
- xii. Code of Conduct, Reciprocity Rules and other relevant rules for the functioning of the system.
- xiii. Sworn declaration of the Promoters and Directors attesting to their willingness to adhere to these requirements and any code(s) of proper conduct and integrity as may be issued by the CBN from time to time.

### **3.2 Approval in Principle (AIP)**

- a) The CBN having satisfied itself with 3.1 above shall issue an AIP to the Credit Bureau which will stipulate the conditions for granting of final licence.
- b) An AIP granted to a proposed Credit Bureau shall be for a period of one hundred and eighty days (180 days) within which the proposed Credit Bureau must comply with all the conditions specified in the AIP, at the end of which period the AIP shall be deemed to have lapsed.
- c) Should the promoters of a lapsed AIP wish to continue with the establishment of the Credit Bureau, they will be required to submit fresh application.
- d) Where the application for a Credit Bureau licence is declined, the CBN shall communicate the decision in writing to the applicant and return the deposit to the applicant with accrued interest.

### **3.3 Final Operating Licence**

The CBN shall grant a Final Operating Licence to a Credit Bureau subject to the following:

- a) The Credit Bureau has satisfied all conditions as specified in the AIP.
  - b) The CBN has conducted on-site verification to ascertain its readiness to commence operations.
  - c) It is in the public interest to do so.
- 3.4 The Credit Bureau so licensed shall comply with the provisions of the guidelines, regulations and circulars as may be issued by the CBN from time to time.
- 3.5 A Final Operating Licence shall automatically expire if a Credit Bureau has not commenced operations during the first six (6) months immediately after the date of issue of the Final Operating Licence.
- 3.6 All licensed Credit Bureaux shall be required to add "Credit Bureau" to their names e.g. XYZ Company limited (Credit Bureau).
- 3.7 Except with the written consent of the Governor of CBN, no Credit Bureau shall be registered or incorporated with a name which includes the words "Central", " Federal", "Federation", "National", "Nigeria", "Reserve", "State", "Christian", "Islamic", "Moslem", "Quranic" or "Biblical".

## **SECTION 4- OWNERSHIP AND MANAGEMENT OF A CREDIT BUREAU**

### **4.1 Ownership of a Credit Bureau**

- i. Individuals or entities are at liberty to invest in a Credit Bureau subject to CBN approval.
- ii. Investment by a bank and its subsidiaries in a Credit Bureau shall not exceed 10% of the total paid-up capital of the Credit Bureau.
- iii. Banks shall not invest in more than one (1) Credit Bureau at any one time.

### **4.2 Management**

#### **4.2.1 Directors**

- a) The maximum number of Directors [including Executive Directors] on the Board of a Credit Bureau shall be eleven [11] (one of which must be an Independent Director), while the minimum shall be five [5]. The Non-Executive Directors should comprise the majority of the members of the Board at any point in time.
- b) No individual shall be a Director in more than one [1] Credit Bureau at any point in time.
- c) The appointment of a director and promotion with respect to top management staff shall be subject to the prior consent of the CBN.

#### **4.3 Qualification for Directors and Top Management Appointment in a Credit Bureau**

The following minimum qualifications and experience are mandatory for directorship and top management positions in the Credit Bureau:

- i. Managing Director/Chief Executive- a recognized university degree or its equivalent with at least ten (10) years relevant post-qualification experience.
- ii. Executive Director- a recognized university degree or its equivalent with at least eight (8) years relevant post-qualification experience.  
Departmental or Unit Head - a recognized university degree or its equivalent with at least seven (7) years post-qualification experience.
- iii. Non-Executive Director- A Non-Executive Director must possess a minimum of first degree or its equivalent and appreciable experience and exposure in a reputable organization.

#### **SECTION 5- OPERATIONAL PROCEDURES OF CREDIT BUREAU 5.1 (a) Functions of Credit Bureaux**

In addition to the dissemination of credit information under the circumstances listed in 5.1(b) below, Credit Bureaux may also:

- i. Investigate an application for credit on behalf of any person or entity to whom an application for credit has been made;
- ii. Furnish non-credit information to Users;
- iii. Carry out such other services and functions as are compatible with the nature of its business provided that the confidentiality of credit information, as protected in this guideline, shall be maintained at all times.

#### **5.1 (b) Permissible Purpose**

To access any Credit Information from a Credit Bureau, the User should have a Permissible Purpose.

The Permissible Purpose is represented in the following:

- I. Application for credit by a borrower, a potential borrower, a guarantor or potential guarantor.
- II. Reviewing, renewing, restructuring or monitoring of existing credit facilities.
- III. Opening of new accounts (as part of KYC principle).
- IV. Prospective or current employment and Non-Executive Directors' verification checks.
- V. Tenancy contracts (for identification and payment ability purposes).
- VI. Grant or renewal or review of new or existing insurance policies.

- VII. Acceptance of guarantee(s) on behalf of borrowers or potential borrowers.
- VIII. Application for credit contracts or other post-paid services.
- IX. Debt collection for the recovery of a valid and enforceable debt.
- X. Request by an individual or entity to validate the correctness or otherwise of Credit Information held by Credit Bureaus in respect of themselves.
- XI. The provision of Credit Scoring Services by Credit Bureau.
- XII. Other purposes with the written consent from the individual or entity.
- XIII. Where a person is required by an applicable law to provide Credit Information in respect of an identifiable individual or entity.

## **5.2 Data Collection**

**5.2.1** A licensed Credit Bureau shall collect relevant information for Permissible Purposes only on the background and Credit History relating to the commitment of persons, enterprises and other organizations, in order to determine their identity, banking relationships, overall debt exposure, repayment behaviour and other contractual obligations.

**5.2.2** All Data Providers and Users, whether regulated by the CBN or not, will be subject to the same rules and obligations as provided in this guideline.

**5.2.3** A Credit Bureau may collect Data from any of the following sources:

- i. Banks and Other Financial Institutions operating in Nigeria pursuant to the Banks and Other Financial Institutions Act, 1991 as amended.
- ii. CBN Credit Risk Management System (CRMS).
- iii. Mortgage Finance Companies.
- iv. Finance/Operating Leasing Companies.
- v. Insurance Companies.
- vi. Institutions that offer credit to medium, small and micro enterprises.
- vii. Asset Management Companies.
- viii. Courts.
- ix. Suppliers of goods and providers of services on a post-paid or instalment payment basis.
- x. Other Credit Bureaus licensed by the Central Bank of Nigeria.
- xi. Other entities that have relevant data and information that complies with Permissible Purposes and serves the purposes of the Credit Bureau.

**5.2.4** At the time of receiving Credit Information on a Data Subject, a Credit Bureau shall have reasonable procedures in place to ensure that all available relevant Credit Information on the Data Subject is obtained.

**5.2.5** A Credit Bureau may consult other Public Databases as sources of relevant information, provided that the confidentiality of the Data Subject shall be maintained and it is for Permissible Purposes.

### **5.3 Information Dissemination and Consent of Data Subjects**

**5.3.1** A Data Provider shall be required to give notice to all its customers or potential customers of its duty to seek for Credit Report and to report Credit Information to licensed Credit Bureaux. Such notice can be given by placement in the banking halls, on ATM screen, text messages and on Account Opening forms.

**5.3.2** Every User shall be required to obtain the consent of a Data Subject before requesting for the credit report of that Data Subject from licensed Credit Bureaux. If the credit report however is required by either a law enforcement agency, a regulatory body or pursuant to a directive of a regulator or a court order, then the Data Subject's consent is not required.

### **5.4 Responsibilities and Duties of Banks, Other Financial Institutions and Other Users**

**5.4.1** All Banks and Other Financial Institutions must have data exchange agreements with at least two (2) licensed Credit Bureaux.

**5.4.2** All Banks and Other Financial Institutions must obtain credit reports from at least two (2) licensed Credit Bureaux before granting any new credit facility, or when reviewing, renewing or restructuring an existing facility.

**5.4.3** All Banks and Other Financial Institutions shall obtain credit reports for quarterly credit reviews on all existing facilities from at least two licensed Credit Bureaux.

**5.4.4** All Banks and Other Financial Institutions shall upload all existing loan data on all its existing credit customers to Credit Bureaux with which it has executed data exchange agreements. The data uploaded shall include names, date of birth, gender, legal status, addresses, photographs, existing credit facilities, existing overdraft arrangements, schedule of loan repayments, details of loan repayments, loan value and/or authorized credit limit, the outstanding balances, type of facility or product, maturity date, outstanding instalments due, types of collaterals offered in addition, and notice of legal action commenced, to any other information that meet the requirements of this guideline and the CBN.

**5.4.5** All Banks and Other Financial Institutions shall update any change in the Data submitted to a Credit Bureau pursuant to clause 5.4.4 above at least on a monthly basis or more frequently or in accordance with a schedule provided by the Credit Bureau.

- 5.4.6 All Users shall adopt reasonable procedures to ensure that all Credit Information is kept confidential.
- 5.4.7 All Users shall utilize the Credit Information collected solely for Permissible Purposes set out in this guideline.
- 5.4.8 Each User shall have its own credit decision making rules. The Credit Information and other services provided by the Credit Bureau shall be considered as one of the tools for a credit risk decision process, but the decision shall not be made solely on the basis of the Credit Information obtained from the Credit Bureau.

## 5.5 Responsibilities and Duties of Credit Bureaux

A Credit Bureau shall –

- a. Implement strict data quality control procedures in order to ensure the quality of its database and the continuity of its services.
- b. Utilize the Credit Information collected solely for Permissible Purposes set out in this guideline.
- c. Adopt reasonable procedures to ensure that Data Providers can update data regularly and at least once in every calendar month.
- d. Adopt reasonable procedures to allow Data Providers, CBN, other Credit Bureaux or Data Subjects to correct data found to be inaccurate, invalid, incomplete or out of date.
- e. To notify all Users accessing incorrect Credit Information during the previous 3 months of the correction of the error to forward a copy of the correct Credit Information at no cost to the User, and that a copy is also sent to the borrower or guarantor or potential borrower or guarantor.
- f. Provide to the CBN, unrestricted access to all the Credit Information managed by the Credit Bureau, either through access to its systems or in a manner stipulated by the CBN, for the purpose of supervision.
- g. Observe, through its shareholders, Directors and Officers, policies and procedures, a perpetual duty of confidentiality with regard to the Credit Information in its database.
- h. Not transfer, directly or indirectly, physically or otherwise any database, or provide access to any database containing Credit Information to any person or entity other than the CBN. Where the Credit Bureau needs to give access to its database to consultants and technical partners for the purpose of creating or designing products, such consultants and technical partners shall be contractually bound to observe the duties of confidentiality imposed on the Credit Bureau under this guideline and shall enter into agreements accordingly.
- i. Ensure that all Users and Data Providers that are not statutorily under the regulatory purview of the CBN are contractually bound to the duties and responsibilities of Data Providers and Users specified in this guideline.

- j. Credit Bureaux must adopt reasonable procedures to ensure that they can update data regularly and at least once in every calendar month.
- k. Credit Bureaux must have reasonable and accessible Dispute Resolution Processes and procedures to allow Data Subjects to correct data found to be inaccurate, invalid, incomplete or out of date.

**A breach of items (a) – (k) above shall constitute a contravention of this guideline.**

## **5.6 Nature of Data Collected by Credit Bureaux and Data Retention Period:**

**5.6.1** A Credit Bureau must maintain a Credit File on each Data Subject which, if available, should contain, at a minimum the Data Subject's personal and credit data including:

### **a) Personal History Data:**

- i. **Natural Person:** They include the name, nationality, photograph, date and place of birth, identification documents, present and past addresses in the last three years, profession, details of present and past jobs in the past three years, spouse name in addition to any other data that meet the requirements of the Credit Bureau.
- ii. **Legal Persons:** They include the name, legal status, shareholding structure of 10% and above of the paid up capital, company registration certificate and any other information that meet the requirements of the credit bureau.

**b) Credit Data:** It includes loan value and/or authorized credit limit, the outstanding balances, type of facility or product, maturity date, outstanding installments due and types of collaterals offered in addition to any other information that meet the requirements of the credit bureau.

**c) Payment Habits:** These are historical data for a minimum of five preceding years, reflecting the extent to which clients are regular in meeting their commitments on due dates and they include:

- i. **Positive information:** Information that reflects the clients' payment of obligations on due dates.
- ii. **Negative information:** Information related to clients' delinquencies including: payment delays, irregularities, dishonored cheques and bills, defaults, delinquency, court sentences, seizures, protested bills of exchange, insolvency and bankruptcy.

**d) Public Record Information:** Information available in public records including civil, commercial, real estate, court registries, the Police, utilities, etc.

e) **Inquiries made to the credit file:** It includes the user's name, business and date of inquiry. The credit file should not contain data related to political party, other general organizations affiliation, religious beliefs or health condition.

5.6.2 (1) A Credit Bureau shall maintain a historical database covering a five (5) year period for the purpose of providing detailed Credit Information, and shall keep the database for a period of not less than ten (10) years after which it shall be archived.

(2) A Credit Bureau shall implement procedures and systems that ensure that the Credit Information in its database is updated on an on-going basis.

(3) A Credit Bureau shall update its database as and when information is provided by the data collection sources as listed in Section 5.2.1. The information shall be updated on a regular basis and as often as may be required in standardised formats/procedures.

## 5.7 Maintenance of Data Integrity & Security

1. A Credit Bureau shall take the reasonable security and control measures in order to avoid unauthorized access or improper use or mismanagement of information in its database by its staff, contractors, and technology partners, Users, other Credit Bureaux, Data Providers or Data Subjects.

2. A Credit Bureau shall not request, collect or share Credit Information, other than as permitted in this Guideline.

3. All data collected by a Credit Bureau on a Data Subject must be aggregated and the resulting Credit Information must only be made available on request to Users or CBN for Permissible Purposes.

## 5.8 Fees and Charges

1. A Credit Bureau may charge fees for its services. Such charges shall continue to be approved by CBN pending the issuance of the Guide to Credit Bureau Charges.

2. The Data Subject shall have access, free of charge, to a copy of their Credit Report once per year or at a time when an Adverse Action was taken by a User.

## SECTION 6 - RIGHTS OF DATA SUBJECT

6.1 Subject to 5.8.(2), a Data Subject shall, upon production of satisfactory identification and payment of stipulated fee, have unhindered access to inspect his or her Credit Information at any Credit Bureau.

- 6.2 Where the Data Subject believes that the information contained in the database is inaccurate, incomplete or out of date he or she may request the Credit Information to be corrected.
- 6.3 Any entry or statement confirmed as inaccurate or incomplete by the data provider shall be remedied within fifteen working days.

## **SECTION 7 - DISPUTE RESOLUTION**

- 7.1 All Credit Bureaux and Users shall establish readily accessible processes and procedures, supported by a Complaint Resolution Unit to handle all complaints or disputes in respect of its data or operations.
- 7.2 For the duration of the investigation, the Credit Information in the Credit Bureau must indicate that the Credit Information is under dispute.
- 7.3 Where there are Legal Liabilities or cost arising from the inaccurate data, as a result of illegal activity, gross negligence or reckless behaviour, the Data Provider or the Credit Bureau shall be liable, depending upon their degree of culpability.
- 7.4 If a party to a dispute is not satisfied with the outcome, that party has the right to appeal to the CBN which shall establish readily accessible processes and procedures, supported by a Complaint Resolution Unit to handle all complaints or disputes. The determination of the CBN is deemed to be final but an unsatisfied party has the right of recourse to an appropriate Court in Nigeria.
- 7.5 The Credit Bureau shall render monthly returns on all disputes and complaints to the CBN in a format approved by the CBN.
- 7.6 Any dispute, contrary, claim arising out of, or relating to Credit Bureau related transaction, shall be settled between the parties and if settlement is not reached, the dispute shall be referred to arbitration in accordance with the Arbitration and Conciliation Act, Cap A18, Laws of the Federation of Nigeria, 2004.
- 7.7 (i) A Credit Bureau may file a claim against the Data Provider whenever it is held liable for any incorrect, incomplete or out of date information.
- (ii) Users of Credit Information provided by a Credit Bureau shall be held liable in the event of wrongful or fraudulent use of the Credit Information, or if the Users cause material damage to the Data Subject's financial reputation.
- 7.8 The CBN may request, at any time, information from Credit Bureaux, Users, or Data Providers in order to evaluate complaints, accusations or

inconsistencies detected related to the operations of a Credit Bureau or of a User or Data Provider.

## **SECTION 8 - OPENING AND CLOSURE OF CREDIT BUREAU OFFICES**

- 8.1 A Credit Bureau must obtain the approval of the CBN before opening, relocating or closing its offices.
- 8.2 Such opening or closure of offices by a Credit Bureau must be approved by the Board of Directors in accordance with its business plan.

## **SECTION 9 - SUBMISSION OF RETURNS AND AUDITED ACCOUNTS TO THE CBN**

- 9.1 Every Credit Bureau shall submit to the CBN on monthly basis details of its activities as specified by CBN ten (10) working days into the following month.
- 9.2 All Credit Bureaux shall submit their Audited Financial Statements not later than three (3) months after their year-end for approval by CBN for publication.
- 9.3 CBN shall conduct yearly or as the need arises, an examination of the activities of the Credit Bureaux for compliance with this guideline and other relevant legislations.
- 9.4 The CBN as part of its supervisory functions of the activities of Credit Bureaux in Nigeria shall have unrestricted access to the database and records of all licensed Credit Bureaux.

## **SECTION 10- THE ROLE OF CBN CREDIT RISK MANAGEMENT SYSTEM (CRMS)**

- 10.1 The CBN Credit Risk Management System (CRMS) shall continue to serve its regulatory functions.
- 10.2 Banks and Other Financial Institutions shall continue to render the mandatory returns and comply with all relevant circulars and guidelines relating to the operation of CRMS.
- 10.3 The CRMS shall operate as a Public Registry and would therefore share its information with the Credit Bureaux. Credit Bureaux may, from time to time request information from the CRMS and include information obtained from the CRMS in Credit Reports issued to Users.
- 10.4 The CBN shall not be liable or joined in any dispute(s) arising from wrong information given in respect of a credit report on Data Subject.

## **SECTION 11 – COMPLIANCE WITH THE GUIDELINE**

- 11.0** Credit Bureaux, Users and Data Providers must comply strictly with the provisions of this guideline. However in case of confirmed contravention, CBN shall apply appropriate sanctions on the Credit Bureau and Data Providers under its regulatory purview.
- 11.1** Where a Credit Bureau, through its shareholders, Directors or Officers illegally discloses any Credit Information, before or after its dissolution, the responsible party is liable to pay a penalty of Five Hundred Thousand Naira only (N500, 000.00) and, in the case of a continuing offence, an additional fine, not exceeding Ten Thousand Naira only (N10, 000.00) each day for which the offence continues.
- 11.2** All the Officers who are directly involved in the commission of the offence shall also be blacklisted by the CBN.
- 11.3** In the attainment of its corporate purpose and the performance of its activities, a Credit Bureau shall comply with any directives issued by the CBN.
- 11.4** The Board of Directors of a Credit Bureau, Data Provider or a User is responsible for ensuring compliance and internal dissemination of this guideline.

## **SECTION 12 - DISSOLUTION, LIQUIDATION AND REVOCATION OF LICENSE**

- 12.1** Where a Credit Bureau is to be dissolved and liquidated, it shall notify CBN in writing accompanied by the following documents:
- a. A copy of the minutes of the special meeting of shareholders in which the agreement to dissolve was recorded.
  - b. Financial Statements as at the date the agreement to dissolve was made, as well as a report from the auditor appointed by the CBN for that purpose.
  - c. A sworn statement from the Chief Executive Officer specifying outstanding obligations (if any).
  - d. Evidence of appointment of a liquidator.
  - e. The CBN shall on receipt of notice of dissolution or liquidation conduct an investigation of the Credit Bureau.
- 12.2** The Official Receiver or Liquidator of the Credit Bureau shall comply with the decision of the CBN with regards to the management and control of its database on dissolution.

- 12.3** The Official Receiver or Liquidator of a Credit Bureau shall deliver its database containing Credit Information to the CBN in the form, and upon the terms and conditions stipulated by the CBN.
- 12.4** A Credit Bureau Licence is valid until revoked by the CBN. The CBN may revoke a Credit Bureau Licence if it is satisfied that:
- i. There have been substantial unaddressed violations of this guideline.
  - ii. The Credit Bureau is insolvent.
  - iii. It is in the public interest to do so.



**CENTRAL BANK OF NIGERIA**  
Banking Supervision Department  
P. M. B. 12194  
Tinubu Square  
Lagos

Tel:.....

Fax:.....

BSD/DIR/CIR/RFCB/GEN/VOL.1/45

October 2, 2013

**LETTER TO ALL BANKS**

**REQUIREMENT TO SURRENDER EXCESS FOREIGN CURRENCY BANKNOTES IN POSSESSION OF BANKS TO THE CENTRAL BANK OF NIGERIA**

Following the recent directive of the CBN that importation of foreign currency banknotes by banks is subject to its prior approval, all banks are required to take stock of the foreign currency banknotes in their possession with a view to determining the level required for their immediate utilization. Banks are to provide to the Director, Trade and Exchange Department of the CBN, the vault balance as at close of business today, 2<sup>nd</sup> October 2013, amount needed for immediate utilization with sound justification, and the balance to be returned to the CBN. The value of foreign currency banknotes surrendered to the CBN will be credited to the bank's offshore account.

Yours faithfully

**TOKUNBO MARTINS (MRS)**

**DIRECTOR OF BANKING SUPERVISION**



September 10, 2013

**BSD/DIR/GEN/LAB/06/040**

**LETTER TO ALL BANKS**

**REPORTING OF ALL CREDIT FACILITIES OF N1 MILLION AND ABOVE IN THE CREDIT RISK MANAGEMENT SYSTEM**

The Central Bank of Nigeria has observed with dismay that banks do not report the credit facilities availed to their board members and staff in the Credit Risk Management System (CRMS).

For the avoidance of doubt, the CRMS, which is a central database for credit information on borrowers, established by the CBN Act No. 24 of 1991 [Sections 28 and 52] as amended made it mandatory for all banks to render returns to the CRMS in respect of all credit facilities of N1 million and above. Thus, the credit facilities availed to board members and staff of banks are not exempted. Please note that the provisions of Sections 3.4 and 3.5 of the Prudential Guideline for Deposit Money Banks in Nigeria, July 2010, does not preclude banks from reporting credit facilities availed to its board members and staff in the CRMS.

Banks are therefore required to report all credit facilities (principal plus interest) of N1 million and above availed to their board members and staff in the CRMS as well as regularly update these credit facilities on monthly basis.

This Circular serves as a reminder and warning to all banks as any observed breach will attract severe sanctions.

Please be guided accordingly.

**TOKUNBO MARTINS (MRS.)**

**DIRECTOR OF BANKING SUPERVISION**



**BSD/DIR/GEN/LAB/06/039**

**September 5, 2013**

**LETTER TO ALL BANKS**

**RE: REVIEW OF THE CASH RESERVE REQUIREMENT (CRR) FOR DEPOSIT MONEY BANKS**

Following the issuance of our circular ref: BSD/DIR/GEN/LAB/06/034 and dated 25th July 2013 on the review of the Cash Reserve Requirement for DMBs, it has become necessary to provide further guidance on the reporting requirements.

It would be recalled that in our circular under reference, DMBs were required to report government deposits as additional memorandum items in their Monthly Bank Return/Daily Bank Return (MBR 300/DBR 300) on e-FASS.

Subsequent to the above, all DMBs are requested to note that, for the purposes of reporting in accordance with the provisions of the above circular, public sector deposits should include all Federal Government MDAs and Companies, State Government MDAs and Companies as well as Local Government MDAs and their Companies.

Furthermore, for the avoidance of doubts, deposits from the following institutions should be regarded as public sector for this purpose:

- NNPC Joint Venture accounts;
- Sovereign Investment Funds
- Government MDAs/Companies' Collection Accounts such as: Customs, FIRS, etc
- Pilgrim welfare Board
- All accounts belonging to Government Universities

However, deposits from the following Government institutions are excluded from the reporting of public sector deposits in line with our circular:

- Asset Management Corporation of Nigeria (AMCON)
- Bank of Industry (BOI)
- Nigerian Export-Import Bank (NEXIM)
- Federal Mortgage Bank of Nigeria (FMBN)
- Bank of Agriculture (BOA)
- Bank of Infrastructure
- Closed pension funds belonging to Government Institutions.
- State pension Boards
- Governments Staff associations and cooperative societies.

Please be guided accordingly.

Yours faithfully,

**TOKUNBO MARTINS (MRS.)**

**DIRECTOR, BANKING SUPERVISION**



July 25, 2013

**BSD/DIR/GEN/LAB/06/034**

**LETTER TO ALL BANKS**

**REVIEW OF THE CASH RESERVE REQUIREMENT (CRR) FOR DEPOSIT MONEY BANKS**

Following a review of recent developments in the economy, the Monetary Policy Committee at its 233rd meeting held on July 22nd and 23rd, 2013 resolved among others, to:

1. Maintain the CRR for non-public sector deposits at 12%; and
2. Introduce a 50% CRR on public sector deposits which comprise deposits of all tiers of Government, their Ministries, Departments, Agencies and Companies.

Also, the remuneration on "excess" above the cash reserve requirement of 8% is discontinued forthwith.

The implementation of these decisions will take effect from the next CRR maintenance period commencing August 7, 2013.

In order to enhance the rendition of returns on Government deposits, banks are henceforth required to separately report the details of Federal, State and Local Government deposits as additional memorandum items in their Monthly Bank Return/Daily Bank Return (MBR 300/DBR 300) as shown below. This is without prejudice to other returns on deposit.

S/N	ITEM CODE	DESCRIPTION	IN	NEW REPORTING REQUIREMENT
		MBR/DBR		
	IN MBR/DBR	300		
	300			
1	20170	Federal Government Demand Deposits		All Federal Government MDAs and Companies' Naira Deposits
2	20171	Federal Government Time Deposits		All Federal Government MDAs and Companies' Domiciliary Accounts Deposits in Naira
3	20180	State Government Demand Deposits		All State Government MDAs and Companies' Naira Deposits
4	20181	State Government Time Deposits		All State Government MDAs and Companies' Domiciliary Accounts Deposits in Naira
5	20182	Local Government Demand Deposits		All Local Government MDAs and Companies' Naira Deposits
6	20183	Local Government Time Deposits		All Local Government MDAs and Companies' Domiciliary Accounts Deposits in Naira

Please note that the CBN will closely monitor the implementation of these decisions. Banks are therefore enjoined to ensure strict compliance with this directive and render their reports transparently and accurately as any deviation will attract **SEVERE** sanction.

Please be guided accordingly.

**BENJAMIN A. FAKUNLE**

**FOR: DIRECTOR OF BANKING SUPERVISION**



**BSD/DIR/GEN/RRTB/06/027**

June 12, 2013

**LETTER TO ALL BANKS**

**REGULATORY REPORTING OF FGN-ISSUED AND CBN-ISSUED TREASURY BILLS**

It has been observed that DMBs report both FG-issued and CBN-issued treasury bills as 'treasury bills' on their balance sheet on e-FASS. Whilst this categorization is sufficient for liquidity management purposes, it should be noted that CBN bills also serve as instruments of monetary policy.

In order to enhance the monitoring of these instruments, henceforth all DMBs are required to report CBN-issued and FG-issued treasury bills separately. While FG-issued treasury bills should continue to be reported under Code 10410: Treasury Bills, CBN-issued treasury bills should be reported under Code 10430: CBN Registered Certificates.

Yours faithfully,

**B.A. FAKUNLE**

**FOR: DIRECTOR, BANKING SUPERVISION**



09-46236403

09-46236401

BSD/DIR/GEN/LAB/06/025

May 30, 2013

## **LETTER TO ALL BANKS AND DISCOUNT HOUSES**

### **EXTERNAL AUDITORS' RECOMMENDATIONS IN THE MANAGEMENT LETTERS IN BANKS AUDITED FINANCIAL STATEMENTS**

Pursuant to the provisions of Section 27 of the Banks and Other Financial Institutions Act of 1991 as amended, banks and discount houses are required to obtain the approval of the CBN prior to the publication of their audited financial statements. An integral part of the audited financial statements is the Management Letter, wherein the external auditors' concerns regarding the operations of a bank/discount house is enunciated. In recent times, our appraisal of the annual financial statements has shown that the recommendations by external auditors in the Management Letters are more often than not left unimplemented, and repeated along with new ones in subsequent audited financial statements. This practice of refusing/failing/neglecting to implement auditors' recommendations is a source of regulatory/supervisory concern, considering the critical nature of some of the recommendations to the operations of the banks/discount houses. Consequently, to forestall future occurrence of this adverse trend, banks and discount houses are invited to note that:

1. Henceforth, non-compliance with auditors' recommendations in the Management Letters will constitute a ground for the imposition of penalties in line with Section 60 of the BOFI Act 1991, as amended;
2. Banks/discount houses are now required to submit to the Central Bank of Nigeria, on quarterly basis, progress reports on the implementation of auditors' recommendations in the Management Letters; and

3. External auditors are now required, in line with the provisions of Section 63 of the Investment and Securities Act 2007, to “issue a statement as to the
4. existence, adequacy and effectiveness or otherwise of the internal control system”, in their audit reports.
5. Please, be guided accordingly.

**TOKUNBO MARTINS (MRS)**

**DIRECTOR OF BANKING SUPERVISION**



09-462-36403

09-462-36418

BSD/DIR/GEN/LAB/06/017

April 2, 2013

## **LETTER TO ALL BANKS AND DISCOUNT HOUSES**

### **RE: REVIEW OF RISK WEIGHTS ON CERTAIN INDUSTRY EXPOSURES IN THE COMPUTATION OF CAPITAL ADEQUACY**

The review of risk weights assigned to certain industry exposures was intended to mitigate perceived emerging risks, concentration risks and to ensure that banks have adequate capital to support their risk taking activities. Therefore, the Central Bank of Nigeria (CBN) would like to make the following clarifications:

- Where exposure to a particular industry within a sector (as defined by the International Standard Industrial Classification of Economic Sectors as issued by the CBN) is in excess of 20 per cent of total credit facilities of a bank, the risk weight of the entire portfolio in that industry shall be 150 per cent. If for instance the total exposure of a bank to the food manufacturing industry within the Manufacturing sector is in excess of 20 per cent of total credit facilities, the entire portfolio of exposure to the food manufacturing industry would be risk weighted 150 per cent.
  
- Investments in the Federal Government of Nigeria Bonds shall continue to attract zero per cent risk weight. State Government Bonds that meet the eligibility criteria set out in the Guidelines for Granting Liquidity Status for State Government Bonds would be risk weighted at 20 per cent while others would continue to be risk weighted at 100 per cent.

- All breaches of the single obligor limit without the prior approval of the CBN shall be regarded as impairment to capital.
  
- For the purposes of credit transactions, banks' related parties within a holding company structure shall include, amongst others, the financial holding company and other subsidiaries within the group. Credit transactions by the bank within the group would therefore, be treated as follows:
  - Financial holding company lending to a bank within its group: – the bank should treat the loan as a liability.
  
  - Lending by a bank to its financial holding company: - this would be regarded as a return of capital and deducted from the capital of the bank in computing its capital adequacy.
  
  - Bank lending to subsidiaries in the same group: - where the loan is fully secured, it would be assigned a risk weight of 100 per cent, otherwise it would be deducted from the capital when computing capital adequacy. For the avoidance of doubt, security must be tangible, realizable and meet the conditions of providing a secured way out.

This letter supersedes our earlier letter referenced: BSD/DIR/GEN/LAB/06/003 dated January 31, 2013 and is to take effect from 1st January, 2014.

**TOKUNBO MARTINS (MRS)**

**DIRECTOR OF BANKING SUPERVISION**



09-46236403

09-46236401

March 28, 2013

BSD/DIR/GEN/RFS/06/016

Dear Sir/Madam,

**RE: LETTER TO BANKS ON THE RECAPITALIZATION OF FOREIGN SUBSIDIARIES**

We refer to the above circular no BSD/DIR/GEN/RFS/024 dated May 18, 2012 which placed restrictions on banks recapitalizing their foreign subsidiaries as a result of directives from host regulators. The circular further sought to encourage the foreign subsidiaries of banks to source fresh capital from their local operating environments. The motive was to avoid a dependency culture on parent banks and serve as a check on discriminatory capital regimes in some jurisdictions.

The Central Bank of Nigeria hereby issues the following clarification based on enquiries from operators and other stakeholders:

The Bank will continue to consider applications for recapitalization in the following cases:

1. Where the capital of a subsidiary is impaired in the normal course of business due to operational and other losses
2. Where it is demonstrated that the increase in capital is commensurate with the level of business and profitability of normal banking operations such that there is no incentive to take unfair risks in the quest for returns

3. Where a Nigerian bank is setting up a new subsidiary in another country with reasonable capital requirements
4. Where Host Regulators require an increase in capital that is reasonable and realistic, gradual and consistent with economic realities of the environment.

The Central Bank of Nigeria will not approve export of capital to recapitalize a subsidiary of a Nigerian bank where:

- a) The host regulator issues discriminatory guidelines that give preference to so-called "local banks" over foreign banks either in amount required, or timelines, or sanctions, or howsoever. The playing field has to be level; and
- b) Where the host regulator requires an amount of capital injection where the Central Bank of Nigeria believes the amount, or timeframe given, or the rate of growth will subject the banks to undue risk.

All banks are to be accordingly guided.

**TOKUNBO MARTINS (MRS)**  
**DIRECTOR, BANKING SUPERVISION**



09-462-36401

09-462-36418

BSD/DIR/GEN/LAB/06/003

January 31, 2013

## **LETTER TO ALL BANKS AND DISCOUNT HOUSES**

### **REVIEW OF RISK WEIGHTS ON CERTAIN EXPOSURES IN THE COMPUTATION OF CAPITAL ADEQUACY**

The recent crisis in the Nigerian banking industry highlighted several weaknesses in the system, key of which was the excessive concentration of credit in the asset portfolios of banks. Past experience revealed concentrations across products, business lines, and legal entities. The management of concentrations, or pools of exposures, whose collective performance may potentially affect a bank negatively, needs to be properly managed through the establishment of sound risk management processes.

Without prejudice to the risk management control functions put in place by banks and discount houses to mitigate credit concentration risks, the Central Bank of Nigeria, in line with its risk based supervisory review process has reviewed the risk weights assigned to some identified exposures as follows:

- The risk weight assigned to direct lending to Local Governments, States, Ministries, Departments and Agencies of Governments (MDAs) is increased from 100 per cent to 200 per cent.
- Investments in Federal Government of Nigeria Bonds shall continue to attract zero per cent risk weight. However, State Government Bonds, that meet the eligibility criteria set out in the Guidelines for Granting Liquidity Status for State Government Bonds would continue to be risk weighted at 20 per cent.
- Where the exposure to any industry economic sector (as defined by the International Standard Industrial Classification of Economic Sector as issued by the CBN) is in excess of 20 per cent of the total credit facilities of a bank, the risk weight of the entire portfolio shall be 150 per cent. Total exposure to a particular industry would include off-balance sheet engagements in which the bank takes the credit risk.

□ All breaches of single obligor limits without the prior approval of the CBN shall be regarded as impairment to capital.

□ For the purposes of credit transactions, banks' related parties within a holding company structure shall include, among others, the financial holding company (FHC), and other subsidiaries within the group. Credit transactions by the bank within the group would be treated as follows:

FHC lending to a bank within its group – the bank should treat the loan as a liability

Credit by a bank to its FHC – this would be regarded as a return of capital and deducted from the capital of the bank in computing its capital adequacy.

Bank lending to subsidiaries within its group – where the credit is fully secured, it would be assigned a risk weight of 100 per cent, otherwise it would be deducted from the capital when computing capital adequacy.

All banks and discount houses are required to ensure compliance with this directive immediately.

Please, be guided accordingly.

**TOKUNBO MARTINS (MRS)**

**DIRECTOR, OF BANKING SUPERVISION**