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HIGHLIGHTS OF THE CIRCULARS, REGULATORY FRAMEWORKS, FINANCIAL POLICY AND REGULATION NOTICES ISSUED BY THE CENTRAL BANK OF NIGERIA (CBN) FROM 13TH JANUARY 2021 TO 16TH MARCH 2021

Introduction

The mandate of the Central Bank of Nigeria (CBN) is derived from the CBN Act 2007. The Act charges the apex bank with the overall control and administration of the monetary and financial sector policies of the Federal Government of Nigeria. **The objects and functions of the CBN as provided for, in the CBN Act, 2007 are –** to ensure monetary and price stability; to issue legal tender currency in Nigeria; to maintain external reserves to safeguard the international value of the legal tender currency; to promote a sound financial system in Nigeria; to act as Banker, and to provide economic and financial advice to the Federal Government of Nigeria. In addition to its core functions, CBN has over the years performed some major developmental functions, which focused on all the key sectors of the Nigerian economy (financial, agricultural and industrial sectors).

In order to facilitate the attainment of financial system stability, support the economic policy of the Federal Government, sustain economic growth, create enabling environment for financial institutions to deliver services in an effective, efficient and sustainable manner, regulate payments system in Nigeria and maintain security and quality of Naira notes, CBN has issued several circulars, financial policy and regulation notices as well as regulatory frameworks from January 2021 to March 2021.

This paper highlights the circulars, financial policy and regulation notices, and regulatory frameworks of the Central Bank of Nigeria issued from January 2021 to March 2021.

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THE CBN REGULATORY UPDATE

Joint Statement by Central Bank of Nigeria (CBN) and Nigerian Communications Commission (NCC) on Pricing of USSD Services issued on Tuesday, March 16, 2021

To resolve the lingering dispute and protracted disagreements between Mobile Network Operators (MNOs) and Deposit Money Banks (DMBs) on appropriate USSD pricing model for financial transactions, the Honourable Minister for Communications and Digital Economy on March 15, 2021 chaired a meeting of key stakeholders to discuss an amicable settlement in the interest of the general public. Represented at the meeting were the various MNOs, Association of Licensed Telecoms Operators of Nigeria (ALTON), Association of Telecommunications Companies of Nigeria (ATCON), DMBs and NCC.

After comprehensive deliberations on the key issues, it was agreed, amongst others, that from 16th March 2021, all USSD services for financial transactions conducted at DMBs and all CBN – licensed institutions will be charged at a flat fee of N6.98 per transaction. This replaces the current per session billing structure, ensuring a much cheaper average cost for customers to enhance financial inclusion.

USSD is a critical channel for delivering financial services, particularly for the underserved and/or financially excluded. Although, there are several alternative channels such as mobile apps, internet banking and ATMs, for delivering financial transactions in Nigeria.

For more information on the circular, please click **here**

CBN's "Naira 4 Dollar Scheme" for Diaspora Remittances issued on Saturday, March 06, 2021.

In an effort to sustain the encouraging increase in inflows of diaspora remittances into Nigeria, the Central Bank of Nigeria (CBN) has introduced a 'Naira 4 Dollar Scheme' for diaspora remittances, which offers recipients of diaspora remittances through CBN's International Money Transfer Operators (IMTO) N5 for every $1 received as remittance inflow. This was disclosed by CBN in a circular issued to all Deposit Money Banks (DMO) and International Money Transfer Operators (IMTO). To be eligible, the diaspora remittances need to be processed and received from one of the registered IMTOs and funds received into a Bank account operated by the DMBs.

The benefit of this initiative includes incentivizing senders and recipients of international money transfers, to attract diaspora remittances through the official foreign exchange channels as well as support forex stability in Nigeria. The initiative will equally offer Nigerians in the diaspora a convenient way to send remittances as well as aid diaspora investments.

Recall that after the collapse of US dollar inflows into the country, the CBN initially tried to balance its current account deficits and avoid an official devaluation by tackling FOREX demand. However, in recent times, CBN is now trying to

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address the challenges of FOREX supply. In 2019, CBN restricted OMO bills for Foreign portfolio Investments (FPIs), and in 2021, CBN directed all IMTOs to discontinue the practice of not remitting dollars into the country. Also, the Investor and Exporter rate (IEFX rate) has been allowed to continually diverge from the official rate. At a close of business on Friday 5th March 2021, the IEFX rate of N412.50 was 8.8% premium to the official rate of N379. Some may point out that, if the CBN is looking to have ordinary Nigerians enjoy some benefits from its ongoing forex (FX) subsidy largesse then maybe that is more palatable than the prior focus on FPIs.

For more information on the scheme, please click **here**

Regulatory Forbearance For The Restructuring Of Credit Facilities Of Other Financial Institutions Impacted By Covid-19 issued on Wednesday, March 03, 2021.

The Central Bank of Nigeria (CBN), in keeping with its monetary and financial stability mandate has released several policy measures to address the effect of the COVID-19 pandemic on the Nigerian economy. In order to further mitigate the impact of the pandemic on households, businesses and regulated institutions, the CBN has approved regulatory forbearance for the restructuring of credit facilities in the Other Financial Institutions (OFIs). Regulatory forbearance is a widely adopted concept during an economic crunch and it is meant to help stimulate business.

The CBN in this regulatory update has mandated that all CBN intervention facilities availed through participating OFIs are granted a further one-year moratorium on all principal repayments, effective March 1, 2020 with the interest rates reduced from 9% to 5% per annum. The OFIs are also granted leave to consider temporary and time limited restructuring of the tenor and loan terms for households and businesses affected by COVID 19, subject to the recently issued guidelines for restructuring affected credit facilities in the OFI sub-sector.

What this means is that companies who secured investment funds from the CBN or through any of its on-lending banks will continue to service the loans at an interest rate of 5% per annum instead of 9%. While this move will help the SMEs to continue to manage their cashflow, the CBN will likely record a reduction in its income extended under the said facility.

For more information on the regulation, please click **here**

Notice To Banks, Other Financial Institutions And Payment Service Providers For Acceptance of Machine Readable Convention Travel Document And Refugee Identification Card As Means of Identification issued on Wednesday, February 10, 2021.

In an attempt to resolve the challenges encountered by Refugees and Asylum seekers in Nigeria with regards to means of identification with respect to the conduct of financial transactions, the CBN has notified, directed and referred all banks and other financial institutions to the provisions of the CBN AML/CFT

Regulations 2013 (as amended) on customer due diligence, especially Regulations 40 and 80.

The CBN also directed them to take notice of the Machine Readable Convention Travel Document issued by the Nigeria Immigration Services; and the Refugee Identity Card issued by the National Commission for Refugees, Migrants and Internally displaced Persons as adequate means of identification for banking transaction.

For more information on the regulation, please click **here**

Response To Regulatory Directive on Cryptocurrencies issued on Sunday, February 07, 2021

In an attempt to clarify its earlier circular of February 5, 2021, the CBN released another circular of 7th February 2021 wherein it stated that CBN did not place any new restrictions on cryptocurrencies, given that all banks in the Nigeria had earlier been forbidden, through CBN's circulars dated January 12, 2017 and February 27, 2018, not to use, hold, trade and/or transact in cryptocurrencies.

According to CBN, Cryptocurrencies are digital or virtual currencies issued by largely anonymous entities and secured by cryptography - a method of encrypting and hiding codes that prevent oversight, accountability, and regulation. In justifying its earlier position, CBN stated that cryptocurrencies are issued by unregulated and unlicensed entities and their use in Nigeria goes against the key mandates of the CBN, as enshrined in the CBN Act (2007), as the issuer of legal tender in Nigeria.

The CBN went further to state that the cryptocurrency ban is not in any way shape or form inimical to the development of FinTech or a technology-driven payment system. To the contrary, the Nigerian payment system has evolved significantly over the last decade, leapfrogging many of its counterparts in emerging, frontier and advanced economies propelled by reforms driven by the CBN. This is evident from the variety of participants, products, channels, cutting-edge technology in the payments system. It has also been validated by the astronomical growth of volume/value of transactions because of the fact that Nigeria is an investment destination of choice for international financial technology companies because of CBN's policies that have created an enabling nvestment environment in the payments system. These developments in the payments and settlements space has helped to grow the financial system, improve financial inclusion, improve the quality and convenience of financial services, and created millions of direct and indirect jobs for teeming youth population.

For more information on the regulatory directive, please click **here**

Notice To All Deposit Money Banks, Non-Financial Institutions And Other Financial Institutions issued on Friday, February 5, 2021

In a circular dated 5th February 2021 and distributed to regulated financial firms, the Central Bank of Nigeria (CBN) warned Deposit Money Banks, Non-Financial

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Institutions, and other financial institutions against having i any transactions in crypto or facilitating payments for crypto exchanges. In addition, CBN instructed the financial institutions to immediately close the accounts of persons or entities transacting in or operating cryptocurrency exchanges.

Prior to CBN circular dated 5th February 2021, the apex bank had in 2018, issued a statement reiterating that cryptocurrencies such as Bitcoin, Ripples, Monero, Litecoin, Dogecoin, Onecoin etc and Exchanges such as NairaEX are not a legal tender. That same year, the Securities and Exchange Commission (SEC), as well as the Nigerian Stock Exchange (NSE) were all directed by the Senate to enlighten Nigerians on the risks involved in trading with Bitcoins, but the report shows the enlightenment campaign has done little or nothing to dissuade Nigerians.

This recent directive of the CBN shows that the apex bank has control over the banking sector and by a large extent can use its powers to determine how banks allow customers to use their bank accounts for transactions.

For more information on the regulation, please click **here**

Modalities For Pay-out Of Diaspora Remittances issued on Friday, January 22, 2021

In December 2020, the Central Bank of Nigeria ("CBN") issued series of circulars in furtherance of its new policy on diaspora remittances. Subsequently, on 22nd January 2021, the CBN issued another circular ("the new circular"), setting out the modalities for the payout of diaspora remittances. The new circular was issued owing to the disregard of the CBN directives by International Money Transfer Operators ("IMTOs") and other unlicensed companies operating within the system.

According to the CBN, some IMTOs and unlicensed companies continue to facilitate diaspora remittances into the country in Naira, in clear contravention of the CBN directive that all remittances be paid to beneficiaries in dollars. The CBN stated categorically in the new circular that only licensed IMTOs are permitted to carry on the business of facilitating diaspora remittances into Nigeria and all diaspora remittances must be received by beneficiaries in foreign currency (by cash and/or transfers to domiciliary accounts or recipients). It further stated that IMTOs are not permitted, under any circumstances, to disburse diaspora remittances in Naira (either in cash or by electronic transfers), be it through remittance settlement accounts (which had been earlier directed to be closed), third party accounts or via any other payment platforms within and/or around the Nigerian financial system.

The CBN stated in the circular that the measures were intended to promote transparency, grow diaspora remittances, and significantly improve foreign exchange inflows into Nigeria. The CBN also warned that strict sanctions, including withdrawal of operating licences, shall be imposed on any individuals and/or institutions found to be aiding, abetting or directly contravening these guidelines.

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For unauthorised operators, the proposed sanction is to mandate the closure of their accounts in Nigerian banks, and bar them from accessing banking services in Nigeria.

This CBN notice means that Nigerians living in the diaspora can transfer foreign currency to their relatives in the country, who in turn will withdraw the money in dollar cash from Western Union or Moneygram, and sell it at the black market or anywhere they so desire in exchange for naira.

For more information, please click **here**

Circular On The Revised Nigeria Cheque Standard (NCS) And Nigeria Cheque Printers Accreditation Scheme (NICPAS) issued on January 5, 2021

In a circular dated 5th January 2021, the CBN advised all Deposit Money Banks (DMBs) accredited Cheque Printers, and the Nigerian Interbank Settlement System (NIBBS) to enlighten their customers on the revised cheque book introduced across all banks.

This new circular, which made reference to CBN earlier circular dated December 9, 2020 on the above subject stated that the parallel run, in which old and new cheques are allowed to co-exist, will end on the 31st of March 2021, and only new cheques would be allowed in the clearing system commencing from 1st April 2021. It can be recalled that in an earlier circular issued on the revised cheque book, the CBN had put the cut-off date for the parallel run of the old and new cheques at August 31, 2020. This was further extended to December 31, 2020, with only new cheques intended to be allowed in the clearing system from January 1, 2021, due to the outbreak of the coronavirus pandemic and the impact it had on the project. This means that the further adjustment of the deadline gives room for more sensitization by the deposit money banks to their customers, taking into consideration the disruptions that have happened in the economy.

For more information on the circular, please click **here**

Framework For Regulatory Sandbox Operations issued on Wednesday, January 13, 2021.

The CBN issued the Framework for Regulatory Sandbox Operations (the Framework). The Framework defines the establishment, rules and operations of a Regulatory Sandbox for the Nigerian payments system with the aim of promoting effective competition, new technology, encouraging financial inclusion and improving customer experience with a view to engendering public confidence in the financial system. The Sandbox aims to encourage and facilitate innovation in a controlled environment that allows CBN to remain abreast of innovation in the payment system space. This will be done by permitting experimentation in a contained environment without the burden of ensuring full compliance with all regulations. The intent is that this will provide a safe space for banks and startups to test novel concepts and products thereby promoting the country's ambitions to become a FinTech hub and ease the licensing and application process for enterprises.

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The Sandbox application process by the CBN is open to existing CBN licensees, telecommunication companies, financial institutions with FinTech initiatives as well as companies that are proposing technologies that are nonregulated and other local companies. Innovators whose proposed payment solution involves technologies which are currently not covered under existing CBN regulations are also permitted to participate. Entities which apply to participate in the sandbox operations are required to show evidence that the product, service or solution is innovative, useful and functional; and associated risks have been identified. A business plan is also required to show that the product, service or solution can be successfully deployed after they exit the sandbox.

Some compliance requirements for the application process include: Board resolution of the applicant; Corporate profile including certificate of incorporation, Memorandum and Articles of Association, contact details); Shareholding structure of the Company, Forms CAC 1.1 (Application for Registration), CVs of Board and Management of the Company, Organogram of the Company, Project plan alongside a detailed business proposal, Key outcomes that the testing is intended to achieve, Anti-Money Laundering / Combating Financing of Terrorism, Know Your Customer Policy; and Strategy of the sandbox trials including current and potential engagements, geographical spread and benefits to be derived.

A group of innovators (Sandbox Cohorts) may be allowed into the Sandbox at the same time for the same period. CBN's resource capacity to support innovators will determine the number of innovators to be accepted into a cohort and a list will be made available by the CBN each year. Responsibilities of CBN as the regulator as well as the participants in the Sandbox are stipulated in the Framework. Please note that products that have been rejected by the Federal Government of Nigeria or any of its agencies will not qualify for sandbox trials.

The Framework is a plus for financial innovation in Nigeria as it shows that the CBN has taken proactive steps towards ensuring more flexible ways of engaging with operators in the payment solutions/fintech space. Its success however can only be determined over time as its actual implementation will be a key factor.

For more information on the framework, please click **here**

Framework For Quick Response (QR) Code Payments In Nigeria issued on Wednesday, January 13, 2021.

Following the increasing use of Quick Response (QR) payments as a means of payments in Nigeria, the CBN has introduced the framework for QR payments to foster the adoption of electronic payments and innovation in the financial sector. QR Code is a kind of matrix barcode that can easily be read by a digital device and which stores information as a series of pixels in a square-shaped grid. QR codes have the capacity to store large volumes of data

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and can be used to present, capture and transmit payment information across payment infrastructure. When scanned, the codes allow users to access payment information instantly via a Merchant-presented mode.

According to the framework, QR code payments will be based on the EMV QR Code Specification for Payment Systems and participants will include Merchants, Customers, Payments Service Providers, Issuers and Acquirers (Banks, MMOs and Other Financial Institutions).

All issuers, acquirers, switches, processors and other participants are also required to ensure full interoperability of QR code schemes in Nigeria.

The framework is a positive initiative of the CBN as payments through QR codes will be seamless and easily accessible by micro and small enterprise who ordinarily find POS machines expensive and difficult to obtain from deposit money banks. Apart from data security afforded by this payment option as data transferred via QR codes are usually encrypted, customers will be able to make payments without the need for debit or credit cards as only a mobile device such as a smartphone is required for QR code payments. Implementation of QR code payment is expected to support account, wallet, card and token based QR code operations. This initiative is also in line with the need to curtail the spread of Covid-19 by providing a touch-free payment option.

The Framework provides regulatory guidance for the operation of QR Code payment services in Nigeria including safety standards and risk management requirements that participants within the Fintech ecosystem must adhere to. In this newsletter, we set out the key aspects of the Framework.

By the QR Framework, the CBN is taking an active role in the regulation of the QR Payments System. The QR Framework clearly sets out responsibilities and requirements applicable to participants in the system, providing a clear legal framework for the application of the system.

Importantly, the QR Framework considers the need to have clear risk management policies, and service agreements which govern the relationships between participants.
Given the increased reliance of QR payments as a 'socially distant' mode of payment in light of the COVID-19 pandemic, the regulatory clarity provided by the QR Framework could not have come at a better time.

For more information on the framework, please click **here**

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