ALP | NG & Co.

AFRICA LAW PRACTICE NG & COMPANY

WWW.ALP.COMPANY



THE ALP REVIEW

BANKING & FINACE

TABLE OF CONTENTS

CBN Discontinues Price Verification System Portal	1
CBN Approves Revised Guidelines for Foreign Currency Deposits by Banks	1
CBN Reaffirms Acceptance of Old/Lower Denominations of US Dollars	1
CBN Issues Penalties for the Rejection of Over circulated/Mutilated Bank notes by Deposit Money Banks	2
CBN Approves Forex Sales to BDCs to Address Retail Market Demand	2
CBN Issues Revised Guidelines on Dormant Accounts and Unclaimed Balances	3
CBN Approves Financial Accommodation for Unity and Providus Bank Merger	3
CBN Clarifies Foreign Exchange Manual Requirements for Divestment and Repatriation	3
Kenya Commercial Banks to Begin Tracking High Value Transactions	4
CBN Adjusts Asymmetric Corridor for Standing Deposit Facility (SDF)	4
CBN Lifts Suspension on Standing Lending Facility, Sets New Rate at 31.75%	4
Banks and Fintech's Remain Wary of Crypto Despite New Licenses	5
Zimbabwe backs its currency with $190 million	5
CBN Mandates Payment Service Providers to Connect to Payment Terminal Service Aggregators	6

CBN Discontinues Price Verification System for Form 'M' Applications

On 26 June 2024, the Central Bank of Nigeria issued a circular discontinuing the Price Verification System (PVS), a mechanism used for verifying pricing in Form 'M' applications. Introduced in August 2023, the PVS was part of efforts to ensure accurate pricing for goods and services in the Nigerian foreign exchange market (the FX Market).

However, recent developments in the FX Market have led the CBN to abolish the system.
Effective 1 July 2024, all Form 'M' applications will no longer require a Price Verification Report, thus simplifying the validation process.

Comment: Authorised Dealer Banks and the general public are hereby advised to take note of this update and be guided accordingly.

For more information, please click here.



CBN Approves Revised Guidelines for the Deposit of Foreign Currency by Banks

On 27 June 2024, the Central Bank of Nigeria (CBN) issued new guidelines allowing Deposit Money Banks (DMBs) to deposit their excess foreign currency notes with its Lagos and Abuja branches. This move aims to deepen the foreign exchange market, boost liquidity, and align exchange rates between the parallel and official markets.

DMBs can now deposit foreign currency, including USD, GBP, and EUR notes, within prescribed daily limits, such as USD 10 million in higher bills and EUR 1 million. The process requires banks to provide at least three days' notice, and they must adhere to strict deposit procedures, including the use of CBN-registered Cash-in-Transit (CIT) companies.

The deposits will be credited to the banks' offshore accounts within five business days, and a handling charge of 0.30% will be applied.

Comment: These guidelines offer banks an avenue to manage foreign currency surpluses more efficiently and may help stabilise Nigeria's exchange rates. Banks are therefore advised to take advantage of the guidelines.

For more information, please click here.

CBN Reaffirms Acceptance of Old/Lower Denominations of US Dollars

On 27 June 2024, the Central Bank of Nigeria (CBN) reissued its directive to Deposit Money Banks (DMBs) and authorised forex dealers to accept old and lower denominations of United States Dollar (USD) bills that remain legal tender.

This circular follows continued reports of rejection by banks and forex dealers, despite the existing directive first issued on 9 April 2021. The CBN emphasised that any refusal to accept these bills will result in sanctions.

The circular also cautioned against defacing or stamping USD banknotes, as such notes often fail authentication tests during processing/sorting.

The CBN reiterated its commitment to ensuring compliance among financial institutions, urging banks and dealers to treat all legal tender USD notes equally.

Comment: Banks and forex dealers must review their operational practices to ensure they are not rejecting valid USD notes, as non-compliance could lead to regulatory penalties.

For more information, please click here.



CBN Issues Penalties for the Rejection of Over Circulated/ Mutilated Banknotes by Deposit Money Banks

On 28 June 2024, the Central Bank of Nigeria (CBN) issued a circular stating that there have been multiple instances of Deposit Money Banks (DMBs) rejecting dirty or mutilated Naira banknotes. As a result, the CBN reminds DMBs that the circular dated 2, July 2019, with reference number COD/DIR/GEN/CIR/01/006, which outlines penalties for rejecting Naira banknotes, remains in effect and will be enforced.

CBN further stated that strict sanctions will be imposed on any DMB found rejecting Naira banknote deposits from the public, regardless of the reason.

Comment: All DMBs are advised to comply strictly with this circular to avoid being sanctioned.

For more information, please click here.

CBN Approves Forex Sales to BDCs to Address Retail Market Demand

On 18 July 2024, the Central Bank of Nigeria (CBN) announced the approval of foreign exchange (FX) sales to eligible Bureau de Change (BDC) operators to meet the demand for invisible transactions in the retail market. This directive comes as part of ongoing reforms aimed at achieving a market-determined exchange rate for the Naira. The CBN has observed significant distortions in the retail end of the FX market, contributing to widening gaps in the exchange rate between official and parallel markets.

Under the new guidelines, each eligible BDC will be allocated $20,000 at a rate of N1,450 per dollar, with a permitted sales margin of no more than 1.5% above the purchase rate.

BDCs are expected to follow proper protocols by submitting confirmation of Naira payments and required documentation at CBN branches in Abuja, Awka, Kano, and Lagos for disbursement.

Comment: This move by CBN is aimed at narrowing the exchange rate gap between the official and parallel markets, while improving liquidity in the retail FX market. BDC operators should ensure compliance with the new rules, particularly in setting prices to avoid regulatory penalties.

For more information, please click here.

CBN Issues Revised Guidelines on Dormant Accounts and Unclaimed Balances

On 19 July 2024, the Central Bank of Nigeria (CBN) issued revised guidelines on the management of dormant accounts, unclaimed balances, and other financial assets held by banks and other financial institutions in Nigeria. These new guidelines, which replace the previous version from October 2015, are part of the CBN's efforts to implement Section 72 of the Banks and Other Financial Institutions Act (BOFIA) 2020.

The revised rules were developed following stakeholder consultations and are aimed at standardising the process for managing dormant accounts and unclaimed assets in the financial sector.

The updated guidelines provide clear procedures for the administration of dormant balances, unclaimed funds, and other financial assets, including the transfer of such funds to CBN.

Comment: These revised guidelines aim to bring transparency and standardisation to the management of dormant accounts and unclaimed funds, protecting both customers and financial institutions. Care must however be taken to prevent a situation where the proprietary rights of Nigerians are being violated.

In addition, banks and other financial institutions must take immediate steps to align their processes with the new regulations to avoid penalties.

For more information, please click here.

CBN Approves Financial Support for Unity and Providus Banks' Merger

On 6 August 2024 via a press release, the Central Bank of Nigeria (CBN) approved a significant financial support package to facilitate the proposed merger between Unity Bank Plc and Providus Bank Limited. This move is aimed at ensuring financial stability and mitigating potential systemic risks within the Nigerian banking sector. The financial support provided by the CBN will help address Unity Bank's outstanding obligations to the CBN and other stakeholders, reinforcing the post-merger entity's stability and operational efficiency.

The CBN emphasised that this merger is in line with Section 42(2) of the CBN Act, 2007 and reassured the public that no other Nigerian banks are currently in a situation as dire as Heritage Bank, which was recently liquidated.

Comment: This decision by the CBN highlights its dedication to protecting depositors' interests, preserving financial stability, and fostering confidence in the banking system during this period of transition.

For more information, please click here:



CBN Clarifies Foreign Exchange Manual Requirements for Divestment and Repatriation

On 8 August 2024, the Central Bank of Nigeria (CBN) issued a circular to all authorised dealer banks and the general public, providing clarification on the Foreign Exchange Manual, particularly Memorandum 20, Section 2(vi). This clarification pertains to both divestments and repatriation processes related to Certificate of Capital Importation (CCI) transactions, which cover investments in local currency assets like money market instruments, debt securities, and equities.

The CBN emphasised that for any divestment or repatriation, investors must present two key documents:

i. Evidence of an electronic Certificate of Capital Importation (CCI)
ii. Evidence of the redemption of their investment in local currency assets.

Comment: This update serves as a critical reminder for investors and financial institutions to maintain accurate documentation of foreign investments and repatriation processes.

For more information, please click here.

Kenya Commercial Banks to Begin Tracking High-Value Transactions

On 8 August 2024, Kenyan commercial banks announced they will start tracking large cash deposits and transfers exceeding KES 1 million. This initiative follows a directive from the Central Bank of Kenya (CBK) issued in October 2023 to combat money laundering and terrorism financing. The directive requires the introduction of "purpose of payment" (PoP) transaction codes, which will enhance transparency in financial transactions and facilitate compliance with ISO 20022 standards.

The NCBA has already informed customers of these new measures, while other banks are expected to implement PoP code for Real-Time Gross Settlement (RTGS) transactions. This transition aligns with global efforts to standardise financial messaging and improve transaction processing. The Kenya Electronic Payments and Settlement System (KEPSS) reported processing 1.98 million RTGS transactions valued at KES 10.7 trillion ($82.3 billion) in Q1 2024.

Comment: The implementation of PoP codes represents a significant step towards enhancing regulatory compliance and transparency within the Kenyan banking sector. As banks adjust to these new standards, it will be crucial for them to ensure that their systems are equipped to handle the additional reporting requirements to avoid substantial fines for non-compliance.

For more information, please click here.



CBN Adjusts Asymmetric Corridor for Standing Deposit Facility (SDF)

On 26 August 2024, the Central Bank of Nigeria (CBN) issued a circular adjusting the Asymmetric Corridor for the Standing Deposit Facility (SDF) following the decision of the Monetary Policy Committee (MPC) during its 296th meeting. The new SDF rate has been set at 25.75% for deposits up to ₦3 billion for commercial and merchant banks, and ₦1.5 billion for Payment Service Banks (PSBs). For any excess deposits beyond these amounts, the rate drops to 19.00%. This adjustment is part of CBN's broader monetary policy aimed at managing liquidity within the banking sector.

The change in the Asymmetric Corridor, now set at +500/-100 basis points around the Monetary Policy Rate (MPR), reflects the CBN's ongoing efforts to balance lending and deposit rates, with the Standing Lending Facility rate set at 31.75%.

Comment: This new directive provides incentives for banks to limit excessive deposits and encourages increased lending within the financial system. Banks must align their deposit strategies with the revised SDF rates to optimise liquidity management.

For more information, please click here.

CBN Lifts Suspension on Standing Lending Facility, Sets New Rate at 31.75%

On August 26, 2024, the Central Bank of Nigeria (CBN) reinstated access to its Standing Lending Facility (SLF), with a revised rate of 31.75%. This decision followed the Monetary Policy Committee's (MPC) 296th meeting, where the upper corridor of standing facilities was adjusted to 5.00% from the previous 1.00% around the Monetary Policy Rate (MPR). Authorised dealers can now access the SLF between 5:00 PM and 6:30 PM via the Scripless Securities Settlement System (S4).

The CBN also clarified that the Intraday Liquidity Facility (ILF) remains available at no cost if repaid on the same day. However, a 5.00% penalty will apply to those failing to settle their ILF, with the system converting the facility to SLF at a higher rate of 36.75%.
Collateral execution will be reintroduced as per the approved repo guidelines.

Comment: The lifting of the SLF suspension at 31.75% offers a new avenue for liquidity management in the financial system. Banks must navigate the higher penalties for unpaid ILF settlements and adapt to the reintroduction of collateral execution to avoid penalties.

For more information, please click here.

Banks and Fintechs Remain Wary of Crypto Despite New Licenses

On 3 September 2024, Nigeria's Securities and Exchange Commission (SEC) issued its first cryptocurrency licenses to Busha and Quidax, a notable step in the country's evolving cryptocurrency regulation. This follows the Central Bank of Nigeria's (CBN) December 2023 lift on its ban against banks interacting with crypto exchanges, though banks were later instructed to block peer-to-peer (P2P) traders' accounts by May 2024.



Despite SEC's progress, ongoing uncertainties and recent legal actions, such as a high court's refusal to unfreeze a crypto-related account and temporary bans on major fintech's, have led banks and fintech's to remain cautious.

Comment: The issuance of crypto licenses by the SEC is a positive step towards formalising Nigeria's crypto sector. However, the reluctance of banks and fintechs to engage crypto exchanges reflects an underlying regulatory tension between the SEC and CBN.

Until clearer guidelines are issued, legal uncertainty creates potential risks for financial institutions. Companies involved in crypto or related financial services should remain cautious and closely monitor policy developments, as opportunities may arise when regulatory frameworks become more stable.

For more information, please click here.

Zimbabwe Backs its Currency with $190 Million

In a communication dated 3 September 2024, it was reported that Zimbabwe has allocated $190 million to strengthen its foreign currency reserves and support its domestic currency, the ZiG, amidst rising import costs, declining export prices, and high inflation.



The Reserve Bank of Zimbabwe has designated 50% of foreign exchange proceeds from exporters to underwrite its new gold-backed currency, including a $50 million injection into the market in July. The central bank holds approximately $370 million in reserves and has indicated that market interventions will be a continued and regular practice.

This approach is consistent with measures taken by other African nations, such as South Sudan, Mauritius, Nigeria, and Zambia, which have collectively expended over $1 billion since July to stabilise their currencies under similar economic pressures.

Comment: These measures are designed to stabilise Zimbabwe's currency and manage inflation, while also reflecting a broader regional strategy among African nations facing similar economic pressures. However, they also pose risks of increased operational costs and potential financial strain.

For more information, please click here.

CBN Mandates Payment Service Providers to Connect to Payment Terminal Service Aggregators

On 11 September 2024, the Central Bank of Nigeria (CBN) issued a circular mandating all Payment Service Providers (PSPs) to route Point of Sale (PoS) transactions through licensed Payment Terminal Service Aggregators (PTSAs).

This directive follows the granting of a second PTSA license to Unified Payment Services Limited (UPSL) in April 2024, in addition to Nigeria Interbank Settlement System Plc (NIBSS), which has held its PTSA license since 2011.

The new regulation aims to ensure flexibility in PoS transactions by allowing Acquirers to select their preferred Processor and PTSA.

In addition, all PoS transactions at merchant and agent locations, whether conducted on physical or electronic terminals, must now be processed through a CBN-licensed PTSA. Monthly returns on PoS activities are required from both Payment Terminal Service Providers (PTSPs) and PTSAs to the CBN.

The circular finally mandates all PSPs to commence regularisation with the PTSAs and confirm compliance in writing to the CBN within 30 days from its date.

Comment: This circular emphasises the CBN's continued efforts to centralise and track electronic transactions, which can improve transparency and oversight within Nigeria's payment system.

PSPs, PTSPs, and Acquirers are therefore advised to ensure swift compliance to avoid potential sanctions. For businesses in the fintech space, this presents both a compliance requirement and an opportunity to optimise transaction routing processes.

For more information, please click here.

CONTACT US:

Lagos
15 Military Street, Onikan, Lagos

+234 201 700 2570-9

Abuja
3 Lobito Crescent, Wuse 2, Abuja

+234 209 700 2570-9

www.alp.company

alp@alp.company

ALP NG & Co

alpng.co

ALPNigeria

DISCLAIMER

All rights asserted and reserved. This publication is for general guidance only. It does not contain definitive advice.

Whilst every effort has been made to ensure accuracy, this publication is not an exhaustive analysis of the area of law or issues discussed. ALP NG & Co. cannot accept responsibility for any loss incurred by any person acting or refraining from acting as a result of the material in this publication. If you require any advice concerning individual problems or other expert assistance, we recommend that you consult a competent professional adviser.

ALP NG & Co. is an Africa-focused law firm with member law firms across Africa.