

FINANCE UPDATES



HIGHLIGHTS OF THE CIRCULARS ISSUED BY THE CENTRAL BANK OF NIGERIA IN THE MONTHS OF JANUARY, FEBRUARY AND MARCH 2019

Dear Esteemed Clients,

Introduction

The Central Bank of Nigeria (“CBN”) issued the following Circulars/Guidelines in the months of January, February and March 2019. We hope that you find some of the information useful in your operations.

- **COD\GEN\01\23-01-2019 - BANKNOTE FITNESS GUIDELINES**
 - **COD/GEN/02/23-01-2019 - CLEAN NOTE POLICY**
 - **COD/DIR/GEN/CNF/18/050 - PENALTY FOR PAYMENT OF COUNTERFEIT BANKNOTES FROM ATMS/TELLER POINTS**
 - **GVD/ESO/GEN/PMF/02/004 - ANTI-MONEY LAUNDERING/COMBATING THE FINANCING OF TERRORISM (AML/CFT) POLICY AND PROCEDURE MANUAL**
 - **REF: BKS/DIR/CIR/GEN/02/041 - RE: CIRCULAR ON THE REVISED NIGERIAN CHEQUE STANDARD (NCS) AND NIGERIAN CHEQUE PRINTERS ACCREDITATION SCHEME (NICPAS)**
 - **OFISD/DIR/GEN/IFR/020/101 – GUIDANCE NOTE TO OTHER FINANCIAL INSTITUTIONS ON THE IMPLEMENTATION OF IFRS 9 (FINANCIAL INSTRUMENTS IN NIGERIA)**
 - **FPRD/DIR/GEN/CIR/07/024 - RE: REVIEW OF MINIMUM CAPITAL REQUIREMENT FOR MICROFINANCE BANKS IN NIGERIA**
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JANUARY

1. COD\GEN\01\23-01-2019 - BANKNOTE FITNESS GUIDELINES

This month witnessed the issuance of the Banknote Fitness Guidelines ('guidelines') by the CBN to all Deposit Money Banks (DMBs), Micro Finance Banks (MFBs), third party service providers and the general public. The guidelines provides for the following:

- The quality standards and guidelines for banknotes production and recirculation;
- The standardised quality criteria for the sorting of banknotes and a guide to all participants in the currency management industry; and
- The processes of removal of unfit banknotes that are in circulation.

The objectives of the banknote fitness standard as contained in the guidelines are to: ***a) ensure the banknotes meet the expectations of the public in terms of cleanliness and appearance; b) ensure the basic security features on the banknotes remain visible and are easily recognized by the public to deter counterfeiting; and c) facilitate automated dispensing, counting and sorting of banknotes.***

The guidelines define Fit banknote as a banknote that is suitable for continued circulation and is sufficiently clean to allow its authenticity and value to be readily ascertained whilst Unfit banknote is a banknote that is unsuitable for further circulation because of its physical condition, which may be soiled, dirty, limp, worn out, defaced or has a hole that is larger than 10 mm. All Unfit Banknotes are to be returned to DMBs or any branch of the CBN for exchange.

DMBs and other financial institutions are to take note. For additional information on the circular, please refer to: [http://www.cbn.gov.ng/Out/2019/COD/Banknote fitness Sept 2016 final compressed.pdf](http://www.cbn.gov.ng/Out/2019/COD/Banknote%20fitness%20Sept%202016%20final%20compressed.pdf)

2. COD/GEN/02/23-01-2019 - CLEAN NOTE POLICY

A Clean Note Policy was issued by the CBN to all DMBs, MFBs, third party service providers and the general public. The Clean Note Policy entails a spectrum of diverse currency management activities which are geared towards the efficient circulation of premium quality banknotes and withdrawal of unfit/soiled banknotes so as to guarantee public confidence and usage of the Naira banknotes as a medium of exchange. The Policy requires that the production, issuance of new banknotes and re-circulation by the DMBs as well as processing companies should conform with predetermined standards. DMBs and other financial institutions are to take note. For additional information on the circular, please refer to: [http://www.cbn.gov.ng/Out/2019/COD/Clean Note Policy.pdf](http://www.cbn.gov.ng/Out/2019/COD/Clean%20Note%20Policy.pdf)

3. COD/DIR/GEN/CNF/18/050 - PENALTY FOR PAYMENT OF COUNTERFEIT BANKNOTES FROM ATMS/TELLER POINTS

The CBN has expressed concern on the incidences of counterfeits paid through DMBs, ATMs/Teller points. In a bid to sustain public confidence in the National currency and ensure compliance with the provisions of the Banknote Fitness Guidelines and the Clean Note Policy, the CBN has approved spot checks on DMBs ATMs and Teller points and the imposition of N1,000,000 (One Million Naira only) fine per branch of DMBs as penalty for none compliance. DMBs and other financial institutions are to take note. For additional information on the circular, please refer to: [http://www.cbn.gov.ng/Out/2019/COD/Penalty for payment of counterfeit banknotes.pdf](http://www.cbn.gov.ng/Out/2019/COD/Penalty%20for%20payment%20of%20counterfeit%20banknotes.pdf)

FEBRUARY

4. GVD/ESO/GEN/PMF/02/004 - ANTI-MONEY LAUNDERING/COMBATING THE FINANCING OF TERRORISM (AML/CFT) POLICY AND PROCEDURE MANUAL

The month of february witnessed the issuance of the Anti-money Laundering/Combating the Financing of Terrorism (AML/CFT) Policy and Procedure Manual ("manual") by the CBN. The manual set out the policies and procedures that will guide employees of the CBN in complying with applicable AML/CFT laws and regulations in the areas of: a) conducting financial services; b) dealings with third party beneficiaries (such as consultants and

contractors); and c) employees conduct. The manual also establishes the minimum standards and procedures to be followed to protect the CBN from being used as a channel to launder money, finance terrorism and other forms of financial crimes.

The manual provides that when a prospective customer of a bank seeks to open an account, the bank must obtain sufficient information on the nature of business that the prospective customer intends to undertake, including the expected or predictable pattern of transactions. Where an institution wishes to establish an account or business relationship with a bank, such institution must provide proof of address while the operators of the account will be required to provide other forms of identification such as international passport/driver's license/national identity card and Bank Verification Number (BVN).

The manual further provides that when a transaction or a suspicious transaction whether or not it relates to the laundering of the proceeds of a crime or an illegal act involves a frequency which is unjustifiable or unreasonable, is surrounded by conditions of unusual or unjustified complexity or appears to have no economic justification or lawful objective, the bank must obtain information from the customer as to the origin and destination of the funds, the aim of the transaction and the identity of the beneficiary. All transaction that falls into the above category are to be reported to the AML/CFT office which is domiciled in the Governor's department of CBN within 7 days after the occurrence of the transaction using the template that has been provided in the manual.

Employees of the bank are also to play important roles under the manual as they are required to raise issues and concerns that can help the bank better identify, address and deter money laundering and terrorism financing. To this end, the CBN has adopted a whistle-blower protection¹ policy. It suffices to say that the implementation of the AML/CFT manual will assist with the prevention of corruption and corrupt practices in Nigeria. **For additional information on the manual, please refer to: [http://www.cbn.gov.ng/Out/2019/CCD/CBN_Anti-money_laundering_combating_the_financing_of_terrorism_manual_\(2\).pdf](http://www.cbn.gov.ng/Out/2019/CCD/CBN_Anti-money_laundering_combating_the_financing_of_terrorism_manual_(2).pdf)**

5. REF: BKS/DIR/CIR/GEN/02/041 - RE: CIRCULAR ON THE REVISED NIGERIAN CHEQUE STANDARD (NCS) AND NIGERIAN CHEQUE PRINTERS ACCREDITATION SCHEME (NICPAS)

The above circular was issued by the CBN to all DMBs, Accredited Cheque Printers/Personalizers and Nigeria Inter-Bank Settlement System (NIBSS) informing them of the amendments to the implementation timelines on the revised NCS/NICPAS 2.0. The amendment stems from the need to give the operators additional time to ensure compliance with the new NCS/NICPAS 2.0.

Highlights of the amendments are as follows:

- a) The implementation start date of the revised NCS/NICPAS 2.0 is April 1, 2019;
- b) The new and the old cheques are to run concurrently for 17 months from the above mentioned implementation date, after which the old standard must be phased out;
- c) All cheques ordered after 1st september, 2019 must conform to the new standard;
- d) By 1st september, 2020 only cheques that conform to the new standard will be allowed in the automated cheque clearing system; and
- e) The DMBs are to engage their respective service providers to prepare their in-clearing application to support the processing of cheques designed in line with the new standard.

All DMBs should take note of the above amendments and also the provisions of NCS/NICPAS 2.0. **For additional information, please refer to: http://www.cbn.gov.ng/Out/2019/CCD/circular_On_the_revised_NCS_and_NICPAS.pdf**

MARCH

6. OFISD/DIR/GEN/IFR/020/101 – GUIDANCE NOTE TO OTHER FINANCIAL INSTITUTIONS ON THE IMPLEMENTATION OF IFRS 9 (FINANCIAL INSTRUMENTS IN NIGERIA)

In order to ensure robust and consistent implementation of IFRS 9, the CBN recently issued a guidance note to all financial institutions detailing supervisory expectations, especially in areas where Other Financial Institutions (OFIs) are expected to exercise considerable judgment and/or elect to use simplifications and other practical expedients permitted under IFRS 9.

¹ Clause 25.0 of the manual

The CBN's expectations from the OFIs on IFRS 9 implementation are highlighted below:

- **Assessment of Significant Increase in Credit Risk**

The standard requires an entity, at each reporting date, to assess whether the credit risk on a debt instrument measured at Amortised Cost and Fair Value through Other Comprehensive Income (FVOCI) has increased significantly since initial recognition, using among other factors the change in the risk of a default occurring over the expected life of the instrument. The CBN expects OFIs to put in place policies and systems as well as governance arrangements and controls to identify instances where their exposures have suffered significant increase in credit risk.

- **Staging and Transfer Criteria**

At transition, OFIs are expected to place financial instruments without significant increase in credit risk in the 12-month Expected Credit Loss ('ECL') bucket irrespective of the obligor's credit risk rating at origination. However, where significant increase in credit risk has been observed, such credits are moved to Lifetime ECL.

At origination/transition, where the tenor of the credit facility is less than 12 months, OFIs are still expected to compute the ECL for the duration of the loan in place of the 12-month ECL and place the facility in 12-month ECL bucket. Where there is evidence of significant reduction in credit risk, OFIs would continue to monitor such financial instruments for a probationary period of 90 days (30 days for loan facilities with less than 180 days tenor) to confirm if the risk of default has decreased sufficiently before upgrading such exposure from Lifetime ECL (Stage 2) to 12-months ECL (Stage 1). In addition to the 90 or 30 days probationary period above, OFIs are expected to observe a further probationary period of 90 or 30 days to upgrade from Stage 3 to 2. For the avoidance of doubt, OFIs are required to observe a probationary period of 180 or 60 days before upgrading financial assets from Lifetime ECL (Stage 3) to 12-months ECL (Stage 1).

- **Impairment of Financial Instruments**

OFIs are required to put in place appropriate policies to ensure sound credit risk assessment and measurement processes as well as systems, tools and data that appropriately aid the assessment of credit risk and computation of ECLs.

- **Model Validation**

OFIs are mandated to have policies and procedures in place to validate models used to assess and measure ECL. They should ensure that the validation process allows for systematic evaluation of robustness, consistency and accuracy of the model as well as its relevance to the underlying portfolio.

- **Low Credit Risk Simplification**

IFRS 9 permits that a financial instrument, which is considered to have low credit risk on the reporting date, needs not be assessed for significant increase in credit risk since its initial recognition. CBN expects OFIs to exercise this simplification in limited circumstances. Accordingly, OFIs are required to use this simplification for only risk free and gilt edged securities.

All financial institutions are required to take note of the provisions of this circular. **For additional information, please refer to: [http://www.cbn.gov.ng/Out/2019/CCD/guidance note to other financial institutions on the Implementation Of IFRS 9.Pdf](http://www.cbn.gov.ng/Out/2019/CCD/guidance%20note%20to%20other%20financial%20institutions%20on%20the%20Implementation%20Of%20IFRS%209.Pdf)**

7. FPRD/DIR/GEN/CIR/07/024 - RE: REVIEW OF MINIMUM CAPITAL REQUIREMENT FOR MICROFINANCE BANKS IN NIGERIA

This circular was released to all microfinance banks informing them that the categories and capital requirements of microfinance banks have been revised to ensure continued operations of microfinance banks in the rural, unbanked and underbanked areas of the economy. Unit microfinance banks will now comprise of two tiers namely Tier 1 unit microfinance bank which will operate in the urban and high-density banked areas; and Tier 2 unit microfinance bank which will operate only in the rural, unbanked or underbanked areas.

From the foregoing, the minimum capital requirement for the categories of microfinance banks have been revised as follows:

- a) Tier 1 unit microfinance bank - N200,000,000 (Two Hundred Million Naira)
- b) Tier 2 unit microfinance bank - N50,000,000 (Fifty Million Naira)

- c) State Microfinance bank - N1,000,000,000 (One Billion Naira)
- d) National microfinance bank - N5,000,000,000 (Five Billion Naira)

All microfinance banks are to take note of this provisions of this circular. For additional information, please refer to: <http://www.cbn.gov.ng/Out/2019/FPRD/March%202019%20MFB%20Guidelines.pdf>