



Cryptocurrency and Blockchain Regulation

Nigeria



2023 Edition

**Blockchain and Digital
Transformation in Africa.**



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Note: The information provided here implicitly highlights various regulations and laws in the country that can potentially impact digital asset service providers operating in the country's crypto and blockchain landscape. While these laws do not explicitly address cryptocurrencies, they provide a foundation upon which regulations can be modified or adapted to accommodate the evolving crypto and blockchain landscape in the nation.

Overview

On February 5, 2021, the Central Bank of Nigeria published a circular urging bank to shut cryptocurrency accounts and emphasizing that accepting cryptocurrency payments and trade are unlawful. The anonymity and decentralization of virtual transactions boosted terrorism financing and money laundering, prompting this decision[1].

The Securities and Exchange Commission and Central Bank of Nigeria regulate financial operations in Nigeria, however blockchain technology is not specifically regulated.

Investment and Securities Act, 2007, created the Securities and Exchange Commission, and regulatory organizations like the Central Bank of Nigeria, Nigerian Deposit and Insurance corporation, and the FIRS.

[1] Central Bank of Nigeria, "Central Bank of Nigeria Cryptocurrency Trading: CBN Orders Banks to Close Operating Accounts inside THIS EDITION: CBN, Bankers' Committee Kick-Start N21bn National Arts Theatre Renovation Project Cryptocurrencies: SEC Supports CBN Position IMF Supports CBN on Cryptocurrency CBN SOCIAL MEDIA," 2021, <https://www.cbn.gov.ng/Out/2021/CCD/Volume%203%20Number%202%20CBN%20Update%20February%202021.pdf>.



Investments and Securities Act 2007

The Act created the Securities and Exchange Commission (SEC) and repealed the Investments and Securities Act of 1999. It gave the Commission more jurisdiction over the capital market and set new regulations for investment and securities activity in Nigeria, particularly in mergers, acquisitions, takeovers, and collective investment schemes. The Act connects all securities markets using information and communication technology, maintains a register of international portfolio interests, and facilitates interaction with local and foreign authorities[2].

The Act mandates public companies and collective investment scheme securities and investment registration. It requires a securities register and facilitates electronic issuance and transfer. Public corporations must file annual and periodic reports with the Commission, create internal controls, and hire registered auditors to report on them. Public corporations must also report quarterly earnings estimates or face penalties.

The Act governs public company invites and deposits for securities sales. Registered prospectuses must meet content standards. It also covers civil and criminal liability for prospectus and statement in place of prospectus misstatements.

The Act also prohibits certain cash transactions, requires securities dealers to issue contract notes, disclose securities interests, trade as principals, and prioritize client orders. It regulates securities lending and margin.

Securities trading is regulated to prevent fraud, market manipulation, unlawful information dissemination, and insider dealing. Criminal culpability and Commission/Tribunal compensation are included.

Thus, the Act established the SEC, expanded its authority, and provides comprehensive regulations for Nigeria's investment and securities market, assuring openness, accountability, and investor protection.

[2] Security and Exchange Commission, "The Investments And Securities Act, 2007," Sec.gov.ng, 2021, https://sec.gov.ng/wp-content/uploads/2016/02/THE-INVESTMENTS-AND-SECURITIES-ACT-2007_NIGERIA.pdf.



Banking and Other Financial Institutions Act (BOFIA) 2007

Banks and Other Financial Institutions Act (BOFIA) has been revised severally. The Act specifies CBN's banking business powers, duties, and activities. It also covers banks and other financial entities' operations.

The Act authorizes the CBN to regulate banks and enforce minimum paid-up share capital requirements. The Act governs bank branch openings, closings, restructuring, reorganization, mergers, and sales. Lastly, it includes foreign banks' Nigerian company operations[3].

The Act requires banks to keep reserve funds, limit dividends, and disclose directors, managers, and officials' interests. It restricts certain hires and interlocking directorships. Bank activities and industry share acquisitions are also restricted. Banks must keep accurate books, submit returns, publish consolidated statements, and submit yearly accounts under the Act. Notably, it comprises a Director of Banking Supervision and several bank inspectors. The Act gives the CBN authority to revoke licenses, fail banks, and undercapitalize banks.

General provisions involve name limitations, advertising rules, fines for infractions, and the capacity to adopt rules. Other financial institutions must comply with the Act's licensing, monitoring, and control.

In conclusion, the BOFIA regulates banks and other financial institutions in Nigeria, ensuring their compliance with requirements and enabling the Central Bank of Nigeria's oversight.

[3] Central Bank Of Nigeria, "Banks And Other Financial Institutions Act 1991 (As Amended In 1997, 1998, 1999 And 2002)" (2010), <https://www.cbn.gov.ng/Out/Publications/Bsd/1991/Bofia.Pdf>.



Banks and Finance Act 2021

Nigerian President Muhammadu Buhari signed the Finance Bill 2021 into law on December 31, 2021, amending tax and regulatory laws. The amendments clarified Nigerian business laws[4]. Key changes:

Capital Gains Tax (CGT) Act:

- Share sales no longer exempt CGT. Share disposal gains over NGN100 million in 12 months are now subject to 10% CGT.
- CGT does not apply if proceeds are reinvested within the same tax year or shares are transferred in an authorized securities lending transaction.
- Nigerian Government securities sales are exempt from CGT.

Nonresident Companies with a Significant Economic Presence:

- Nonresident firms with a strong digital economic presence in Nigeria are subject to income tax on a presumed profit basis if their profits cannot be computed.
- Tax authorities decide what percentage of turnover is taxable profit for such companies.

Qualifying Capital Expenditure Capital Allowance Reduction:

- Qualifying capital expenditure can only be claimed if it generates taxable profits.
- Only pioneer status-relieved small and medium-sized firms can carry forward unabsorbed capital allowances.

Minimum Tax Rate:

- Corporations can extend the 0.25% minimum tax rate to 2021. Only timely returns are exempt.

Unit Trust Recipient Interest Withholding Tax: The final tax on interest income is withholding tax on Unit Trust payments.

Third-Party Tax Technology: With a 30-day notification, the FIRS (Federal Inland Revenue Service) can use third-party technologies for tax management. After the notification time, failing to give access may result in a penalty.

Banks' Misinformation Penalties: If banks fail to report or provide false information to the FIRS about individual or corporate customers, they may incur quarterly penalties of up to NGN1,000,000.



Nigeria Deposit Insurance Corporation Act (NDIC Act)

The 2006 Nigeria Deposit Insurance Corporation Act established and defined the Nigeria Deposit Insurance Corporation (NDIC). It replaced the 1988 Nigeria Deposit Insurance Corporation Act. The Act insures Nigerian banks' deposits[1]. The Act's sections cover several NDIC operations: Part I describes the NDIC's founding and key functions. Part III covers NDIC capital and functions. It covers NDIC funds, capital requirements, general reserve money, and spending. Part IV covers the Deposit Insurance Scheme. It defines insured institutions, insurable deposits, and the evaluation process. The part also addresses insured institutions' dividend payments, set-off, and maximum claim amount. The NDIC can withhold, or discharge insured deposits and establishes payment processes. Part V covers notice of insured status termination. It addresses obligations violations, specifies conditions for termination of insured status, outlines the termination method, and creates termination terms.

Again, Part VI regulates insured institutions. The NDIC can require information, designate examiners, and conduct special examinations. Prompt correction is also included. Part VII describes insured institutions' duties. It includes fidelity insurance, unauthorized disclosure, fraud and forgery reporting, and NDIC notice of fired personnel and employment. Part VIII restructures failed insured institutions. It discusses bridge banks, financial aid, management, and restructuring of failed insured institutions. Part IX discusses liquidating bankrupt insured institutions. The NDIC can act as a liquidator, appoint agents, close failed insured institutions, and state that the limitation law does not apply. Part X covers Act-related crimes. It lists violations and fines, allows compounding, and grants the right to appear in court. Part XI requires the NDIC to audit and maintain financial accounts. Annual reports are required. Finally, Part XII covers rules, advertisement requirements, exemptions from the Insurance Act, borrowing powers, the relationship with the Central Bank of Nigeria, external auditors for insured institutions, NDIC indemnification, and liquidation provisions. It repeals the revised Cap. 310 LFN.

Thus, the 2006 Nigeria Deposit Insurance Corporation Act establishes, functions, administers, and regulates the NDIC, protecting depositors and the Nigerian financial system.

[5] Nigerian Deposit Insurance Corporation, "Nigerian Deposit Insurance Corporation Act, 2006" (2006), <https://www.ndic.gov.ng/files/ndicact.pdf>.



Consumer Protection for Banks and Other Financial Institutions 2016

The Central Bank of Nigeria (CBN) created a Consumer Protection Framework to boost financial stability and consumer trust. The framework helps customers make educated decisions and protects their assets while resolving complaints and disputes. Consumers may switch banks, terminate contracts, and change products/services within contractual terms. Financial institutions cannot restrict switchers and must supply relevant information to the new institution. The framework promotes honest advertising and ethical debt collection. Financial institutions must disclose contract conditions, give correct information, and update client engagement areas. Again, the CBN will punish anti-competitive actions in the market[6]. The framework also applies to commercial banks, microfinance banks, and other regulated financial institutions. To protect consumers in the financial sector, the CBN will actively enforce the framework's rules.

[6] Central Bank of Nigeria, "Consumer Protection Framework 2," 2016, [https://www.cbn.gov.ng/out/2016/cfpd/consumer%20protection%20framework%20\(final\).pdf](https://www.cbn.gov.ng/out/2016/cfpd/consumer%20protection%20framework%20(final).pdf).



Consumer Protection for Banks and Other Financial Institutions 2016

In December 2019, the CBN Consumer Protection Regulations protected banking and financial services consumers. All CBN-licensed institutions must follow the requirements to protect consumers from unfair tactics, unethical behavior, inadequate disclosure, and misleading information. Fair treatment of consumers, voiding unjust contract terms, disclosure and transparency in papers and marketing, data protection and privacy guidelines, and effective complaint handling mechanisms are the main provisions. The CBN can punish companies for not resolving complaints or following consumer protection rules. These policies protect consumer rights and increase financial industry openness and accountability[7].

[7] Central Bank of Nigeria, "CENTRAL BANK of NIGERIA CONSUMER PROTECTION REGULATIONS," 2019, <https://www.cbn.gov.ng/Out/2019/CCD/CBN%20Consumer%20Protection%20Regulations.pdf>.



Anti-Money Laundering/Combating the Financing of Terrorism (Administrative Sanctions) Regulations 2018

The CBN implemented the Anti-Money Laundering and Combating the Financing of Terrorism (Administrative Sanctions) Regulations in April 2018. These restrictions penalize financial institution corporate governance officers. The CBN regulates deposit money banks, microfinance banks, financing firms, bureaux de change, and primary mortgage banks.

Financial institution regulations include corporate governance, risk management, customer due diligence, record preservation, suspicious transaction monitoring, audits, compliance, and training. CBN examinations or agency recommendations can result in sanctions.

Financial institutions have different penalty levels. Sanctions depend on the form and severity of the offense, its duration and frequency, financial gains or losses, managerial behavior, and previous record.

Board members, directors, and officials can be suspended or removed for repeated violations. Lastly, financial firms must report penalties in their Annual Reports [8].

[8] Central Bank of Nigeria, "Anti-Money Laundering/Combating the Financing of Terrorism (Administrative Sanctions) Regulations 2018" (2018), <https://www.cbn.gov.ng/out/2018/fprd/administrative%20sanction%20regime.pdf>.



ML/CFT Policy and Procedure Manual 2018

Organizations in Nigeria use the ML/CFT Policy and Procedure Manual to combat money laundering and terrorism. Financial institutions and other relevant entities can use the guidebook to comply with regulations and prevent these criminal actions. ML/CFT manuals typically address client due diligence, suspicious transaction identification and reporting, risk assessment and management, internal controls, record keeping, and staff training[9]. It outlines how to identify, prevent, and report suspicious money laundering and terrorist financing operations. Organizations use the ML/CFT Policy and Procedure Manual to comply with laws, avoid legal and reputational risks, and strengthen the Nigerian financial system.

[9] Central bank of Nigeria, "AML/CFT Policy and Procedure Manual" (2018), [https://www.cbn.gov.ng/out/2019/ccd/cbn%20anti-money%20laundering%20_combating%20the%20financing%20of%20terrorism%20_manual%20\(2\).pdf](https://www.cbn.gov.ng/out/2019/ccd/cbn%20anti-money%20laundering%20_combating%20the%20financing%20of%20terrorism%20_manual%20(2).pdf).



Three-Tier KYC Requirements 2013

In 2013, the Central Bank of Nigeria (CBN) established the 3-tiered Know Your Customer (KYC) standards to provide banking services to socially and financially disadvantaged people. KYC has three levels: 1, 2, and 3. The 3-tiered KYC approach allows flexible account opening, complies with anti-money laundering laws, and reduces administrative expenses through digital processes. Level 2 accounts require basic customer information and have transaction limits, while Level 1 accounts are closely monitored. Level 3 accounts have no balance limits and extensive documentation. The CBN allows only licensed International Money Transfer Operators (IMTOs) to process diaspora remittances[10]. Foreign currency remittances only. IMTOs can lose their license for sending remittances in Naira. Fintech businesses that disburse diaspora remittances need CBN licensing and legal alternatives to the Naira. Therefore, CBN directives can lead to license revocation and account closure for unlicensed operators.

[10] Central Bank of Nigeria, "Three-Tiered KYC Requirements" (2013), <https://www.cbn.gov.ng/out/2013/ccd/3%20tiered%20kyc%20requirements.pdf>. Nigerian Financial Intelligence Unit, "CBN (Administrative Sanctions) Regulations, 2018 N" (n.d.), https://www.nfiu.gov.ng/Home/DownloadFile?filePath=C%3A%5CNFIU%5Cwwwroot%5Cdocuments%5CCASR2_8E6ABG.



Anti- International Mobile Money Remittance Services Guidelines; and International Money Transfer Services Guidelines.

Nigeria's Guideline on International Money Transfer Services imposes IMTSO responsibilities. These obligations include limits on outbound and inbound money transfers, restrictions on split transactions to avoid reporting requirements, submission of returns to the Central Bank of Nigeria (CBN), payment in Nigerian currency for international transfers, compliance with CBN's guide to money transfer charges, and the option for Nigerian-based IMTSOs to engage a qualified foreign technical partner[11].

The Guideline allows the CBN to withhold approvals, levy financial penalties, suspend money transfer operations, and revoke the money transfer services license of non-compliant IMTSOs. Goals of the guidelines: They first set minimal standards and procedures for international money transfer services in Nigeria to ensure reliable and secure operations. Second, they identify cost-effective delivery pathways for inbound and outbound transfers. Thirdly, they want to foster industry growth in Nigeria by fostering transparency and accountability. These regulations also set technical and business requirements for participation. They also guide process implementation from start to finish. In conclusion, these recommendations standardize and improve Nigeria's international money transfer services market, benefiting service providers and clients.

[11] Central Bank of Nigeria, "International Mobile Money Remittance Services Guidelines; and International Money Transfer Services Guidelines." (2018), <https://www.cbn.gov.ng/out/2015/ted/guidelines%20on%20international%20mobile%20money%20remittance%20service%20in%20nigeria.pdf>.



Three-Tier KYC Requirements 2013

The Money Laundering (Prevention and Prohibition) Act of 2022 creates a legislative and administrative framework to prevent, identify, prosecute, and punish money laundering in Nigeria. It replaces the Money Laundering (Prohibition) Act of 2011. The Act's goals are to strengthen systems, prohibit money laundering, expand money laundering offenses, and establish the Economic and Financial Crimes Commission's Special Control Unit Against Money Laundering. The Act limits cash payments, requires foreign fund transfer reporting, client identification, casino and non-financial business duties, suspicious transaction reporting, record retention, and internal controls. It also covers violations, fines, jurisdiction, regulations, and the Special Control Unit[12].

The approval of the National Blockchain Policy for Nigeria has left the nation's crypto community over the moon as it signals room for more development in the nation's crypto industry. Some local experts have expressed their opinions about the implications of this new policy and the blockchain ecosystem in Nigeria. The government of Nigeria approved a National Blockchain Policy during a meeting on May 3, 2023[13].

[12] Policy and Legal Advocacy Centre, "Federal Republic of Nigeria Official Gazette," 2022, <https://placng.org/i/wp-content/uploads/2022/05/Money-Laundering-Prevention-and-Prohibition-Act-2022.pdf>.

[13] Amaka Nwaokocha, "Nigerian National Blockchain Policy Gets Government Approval," Cointelegraph, May 4, 2023, <https://cointelegraph.com/news/nigerian-national-blockchain-policy-gets-government-approval>.

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