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December 22, 2023

FPR/DIR/PUB/CIR/002/003

CIRCULAR TO ALL BANKS AND OTHER FINANCIAL INSTITUTIONS

GUIDELINES ON OPERATIONS OF BANK ACCOUNTS FOR VIRTUAL ASSETS SERVICE PROVIDERS (VASPs)

The CBN in February 2021 issued a circular restricting banks and other financial institutions from operating accounts for cryptocurrency service providers in view of the money laundering and terrorism financing (ML/TF) risks and vulnerabilities inherent in their operations as well as the absence of regulations and consumer protection measures.

However, current trends globally have shown that there is need to regulate the activities of virtual assets service providers (VASPs) which include cryptocurrencies and crypto assets. Following this development, the Financial Action Task Force (FATF) in 2018 also updated its Recommendation 15 to require VASPs to be regulated to prevent misuse of virtual assets for ML/TF/PF.

Furthermore, Section 30 of the Money Laundering (Prevention and Prohibition) Act, 2022 recognizes VASPs as part of the definition of a financial institution. In addition, the Securities and Exchange Commission (SEC) in May 2022 issued Rules on Issuance, Offering and Custody of Digital Assets and VASPs to provide a regulatory framework for their operations in Nigeria.

In view of the foregoing, the CBN hereby issues this Guidelines to provide guidance to financial institutions under its regulatory purview in respect of their banking relationship with VASPs in Nigeria.

The Guidelines supersedes the CBN's circulars referenced FPR/DIR/GEN/CIR/06/010 of January 12, 2017 and BSD/DIR/PUB/LAB/014/001 of February 5, 2021 on the subject. However, banks and other financial institutions are still prohibited from holding, trading and/or transacting in virtual currencies on their own account.

Accordingly, all banks and other financial institutions are hereby required to immediately comply with the provisions of the Guidelines.

A handwritten signature in blue ink, appearing to read 'Haruna B. Mustafa'.

HARUNA B. MUSTAFA
DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT



CENTRAL BANK OF NIGERIA

**GUIDELINES ON OPERATIONS OF BANK ACCOUNTS FOR
VIRTUAL ASSETS SERVICE PROVIDERS**

APPROVED
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1.0 PREAMBLE

In exercise of the powers conferred on the Central Bank of Nigeria (CBN) by the **Central Bank of Nigeria Act, 2007** and **Banks and Other Financial Institutions Act (BOFIA) 2020**, the CBN hereby issues these Guidelines to institutions under its regulatory purview to govern their relationship with Virtual Assets Service Providers in Nigeria.

2.0 OBJECTIVES

The objectives of the Guidelines are to:

- provide minimum standards and requirements for banking business relationships and account opening for Virtual Assets Service Providers in Nigeria;
- provide for effective monitoring of the activities of Banks and Other Financial Institutions in providing service for Securities and Exchange Commission (SEC) licensed VASPs/Digital Assets (DA) entities in Nigeria;
- Provide guidance on the relationship and operations of accounts for licensed VASPs/DA entities; and
- Ensure effective risk management in the banking industry with regards to the operations of licenced VASPS.

3.0 SCOPE

The Guidelines shall apply to banks and other financial institutions under the regulatory purview of the CBN. The Guidelines complements relevant provision in Money Laundering (Prevention and Prohibition) Act, Central Bank of Nigeria (Anti-Money Laundering, Combating the Financing of Terrorism and Countering Proliferation Financing of Weapons of Mass Destruction in Financial Institutions), Regulations, Customer Due Diligence Regulations and other relevant AML/CFT/CPF laws and regulations issued by competent authorities.

4.0 DEFINITIONS

In this Guidelines,

Digital Asset means a digital token that represents assets such as a debt or equity claim on the issuer.

Digital Asset Custodian means a person who provides the services of safekeeping, storing, holding or maintaining custody of virtual assets/digital tokens for the account of another person.

Digital Asset Exchange (DAX) means an electronic platform which facilitates the trading of a virtual asset or digital asset.

Digital Asset Exchange Operator means a person who operates a DAX

Digital Asset Offering shall include Initial Coin Offerings (ICOs) and other Distributed Ledger Technology (DLT) offers of digital assets.

Digital Asset Offering Platform means an electronic platform operated by a DAOP operator for offering digital assets.

Financial Institutions (FIs) means banks and other financial institutions as defined in Banks and Other Financial Institutions Act (BOFIA)

Senior Management means officers of the bank from the rank of Assistant General Manager (AGM) and above.

Virtual Asset means a digital representation of value that can be transferred, digitally traded and can be used for payment or investment purposes. It shall not include digital representations of fiat currencies, securities and other financial assets that are already covered elsewhere in the FATF recommendations.

Virtual Assets Service Providers (VASPs) means any entity who conducts one or more of the following activities or operations for or on behalf of another person:

- i. exchange between virtual assets and fiat currencies;
- ii. exchange between one or more forms of virtual assets;
- iii. transfer of virtual assets;
- iv. safekeeping and/or administration of virtual assets or instruments enabling control over virtual assets; and
- v. participation in and provision of financial services related to an issuer's offer and/or sale of a virtual asset.

5.0 ELIGIBLE STAKEHOLDERS

- I. Commercial and Merchant banks
- II. Payment Service Providers (restricted to those that are involved in settlement for third parties)
- III. All entities registered by the Securities and Exchange Commission (SEC) to conduct the business of digital/virtual assets services provision and shall include:
 - a) Virtual Assets Service Providers.
 - b) Digital Asset Custodian.
 - c) Digital Asset Offering Platform.
 - d) Digital Asset Exchange.
 - e) DAX Operator.
 - f) And any other entity that may be categorized by the CBN from time to time.

6.0 PERMISSIBLE ACTIVITIES

In addition to the permissible activities of each category of institution, FIs are permitted to undertake the following activities in their operations of accounts for VASPs:

- i. Opening of designated accounts.
- ii. Provide designated settlement accounts and settlement services.
- iii. Act as channels for FX flows and trade
- iv. Any other activity that may be permitted by the CBN from time to time.

7.0 OPERATION OF BANK ACCOUNT BY VASPs

7.1 Designation of accounts

From the commencement of these Regulations, FI shall not open or permit the operation of any account by any person or entity to conduct the business of virtual/digital assets unless that account is designated for that purpose and opened in line with the requirement of these Guidelines.

7.2 Designated account to be opened with approval of the senior management

The designated account shall only be opened with the approval of senior management of the FI.

7.3 Account opening/documentation requirement

Any application for opening a designated account by a company providing virtual/digital asset services under these Guidelines shall be supported by the following documents:

- a. evidence of a valid licence issued by the Securities and Exchange Commission (SEC) for the entity to engage in the business of VASP/DAX/DAOP.
- b. certified true copy of the memorandum and article of association.
- c. certified true copy Form CAC 2 – Statement of share capital and return of allotment of shares.
- d. certified true copy Form CAC 2.1 particulars of secretary.
- e. certified true copy Form CAC 3 – notice of registered address.
- f. certified true copy Form CAC 7 – Particulars of Directors.
- g. verifiable registered address of the company.
- h. copy of Certificate of Capital Importation (CCI) (where applicable)
- i. valid means of identification of all the directors, principal officers and beneficial owners of the company.
- j. BVN of all the directors, principal officers and beneficial owners of the company.
- k. Home address of all the directors, principal officers and beneficial owners of the company.

- l. AML, CFT and CPF Policy of the entity.
- m. All other requirements of a corporate account in line with the CBN CDD Regulations
- n. Any other requirement that the CBN may impose from time to time.

7.4 Restriction on the use of account

- i. An account opened in accordance with these Guidelines shall only be used for transactions on virtual/digital assets and not for any other purpose.
- ii. No cash withdrawal shall be allowed from the account.
- iii. No third-party cheque shall be cleared from the account.
- iv. Except for settlement of a virtual/digital assets transaction which shall be done through a transfer to another designated account, withdrawal shall be only through a Managers' Cheque or transfer to an account.

7.5 Returns on the activities of the account to CBN

- i. FIs shall monitor, on a continuous basis, all activities conducted in designated accounts opened in accordance with these Guidelines.
- ii. FIs shall, at the end of every month and not later than the 10th day of the following month, submit to the relevant supervisory department of CBN, data and other information on designated account. The content of the returns shall include but not limited to:
 - a. The number of designated accounts opened within the reporting period;
 - b. The value and volume of transactions conducted in each account within the reporting period;
 - c. The details of the counter party(ies) to the transactions;
 - d. Incidents of fraud or theft; and
 - e. Number of customer complaints and remedial measures taken.

7.6 Operational and transactional limits

- i. FIs shall establish transaction limits for each designated account opened in accordance with these Guidelines in line with its risk assessment criteria.
- ii. The limits shall be prudent and bear a relationship to the volume of cash moved by the account holder and the risks associated with the conduct and nature of the business of the account holder.

7.7 Designated accounts shall not be run on concession

FIs shall not allow or enter into any concession agreement/arrangement with a holder of a designated account. The account shall, at all times be subject to the maximum transaction charges band as provided for under the CBN Guide to Charges for Banks and Other Financial institutions.

7.8 Dormant account

- i. Any designated account opened in accordance with these Guidelines shall be declared dormant if no customer induced transaction is carried out for three (3) consecutive months.
- ii. Any account declared dormant in line with the requirement of these Guidelines shall be closed forthwith and a notice of such closure shall be served on the account holder and the balance in such account shall be treated in line with the requirement of Section 72 of BOFIA 2020.

7.9 Provision for Designated Settlement Account

- i. FIs shall obtain authorisation from the CBN for the opening and operation of designated settlement account of SEC's VASPs/DA entities.
- ii. All obligations arising from transactions within the VASPs/DAs entities platform shall be settled into the designated settlement accounts maintained by them in the banks.
- iii. The designated settlement accounts shall warehouse all Naira positions of individuals with the VASPs/DAs.
- iv. The designated settlement account, including any associated linked account for warehousing settlement monies, shall not be interest bearing.
- v. The details of the transactions on the VASP platform leading to settlement on the designated settlement account shall be accessible online, on real-time basis to the FIs at all times.
- vi. Credit to the designated settlement account shall be for the funding of Naira positions of persons on the VASP/DAs platform.
- vii. Debit from the designated settlement account shall only be in favour of the specific accounts that was used to fund Naira position on the VASP/DAs platform.
- viii. Returns on transactions on the designated settlement accounts shall be rendered to the Bank monthly or at any frequency that the Bank may require.
- ix. The designated settlement account shall not facilitate FX positions of persons on the VASP/DAs platform
- x. FIs shall ensure that the SEC-licensed VASP/DA entities always maintain a minimum collateral equal to 150% highest net debit position into the designated settlement account (over the past 10 days).
- xi. FIs shall not use the designated settlement account as collateral for credit.
- xii. The settlement cycle for transactions of VASPs/DAs shall be T+3.
- xiii. Value shall **NOT** be given to VASP/DAs before settlement occur or earlier than the settlement cycle.
- xiv. FIs shall not facilitate transfer and settlement from the FX positions of persons on the VASP/DAs platform to any foreign account.

- xv. Transfers from the Naira position of persons on the VASP platform into their bank account shall not be more than twice in a quarter.
- xvi. FIs shall ensure that only accounts that have completed full KYC process (Tiered accounts subject to exemptions are excluded) can fund or receive from positions on the VASP/DAs platform.
- xvii. FIs/NIBSS shall not allow usage/creation of NUBAN accounts by VASPs.
- xviii. Transactions on the VASP/DA platform shall only be in Naira.

8.0 RISK MANAGEMENT FOR ANTI-MONEY LAUNDERING, COMBATING THE FINANCING OF TERRORISM AND COUNTER PROLIFERATION FINANCING (AML, CFT, AND CPF)

FIs shall establish appropriate risk management systems to determine whether a designated account opened under these Guidelines has been used, is being used or is likely to be used for ML, TF and PF. FIs shall take reasonable measures to establish the Beneficial Ownership, source of wealth and the source of funds of designated account under these Guidelines.

8.1 Customer Due Diligence (CDD)

- i. The appropriate time to conduct CDD by FI shall be, but not limited to, the following cases, when:
 - a. On boarding a VASPs in a new relationship;
 - b. a transaction of significant value takes place;
 - c. a customer information/documentation change substantially;
 - d. there is a material change in the way that the account is being operated; or
 - e. the institution becomes aware that it lacks sufficient information about an existing customer.
- ii. FIs shall apply EDD requirements to all designated accounts opened in accordance with these Guidelines on the basis of materiality and risk and continue to conduct due diligence on such existing relationships at appropriate times.

8.2 Continuous Verification, Validation of Address and Documentation Requirement

FIs shall independently validate the address and documentation requirement provided under these Guidelines and where it is discovered to be incorrect or invalid, the account shall be placed on Post-No-Debit and the customer shall be asked to update its record. Provided that an STR shall be rendered to the NFIU in that regard.

8.3 Maintenance of Records

- i. FIs shall maintain all necessary records of transactions of a designated account for at least five years after completion of the transaction or such longer period as may be required by the CBN.

Provided that this requirement shall apply regardless of whether the account or business relationship is on-going or has been terminated

- ii. The components of records of transactions to be maintained by FIs shall include the:
 - a. records of customers and beneficial owners obtained through CDD measures including copies of records of official identification documents like passports, identity cards, drivers' licenses or allied documents and beneficiary's names, addresses or other identifying information normally recorded by the intermediary;
 - b. nature and date of the transaction;
 - c. type and amount involved;
 - d. type and identifying number of any account involved in the transaction; and
 - e. results of any analysis including inquiries to establish the background and purpose of complex unusual large transactions.
- iii. FIs shall ensure that all customer-transaction records and information are available on request to the CBN on a timely basis, not later than 24 hours from the time of receipt of such request.
- iv. Records of the supporting evidence and methods used to verify identity shall be retained for a minimum period of five years after the account is closed or the business relationship has ended.

8.4 Monitoring and Reporting of Suspicious Transaction

FIs shall:

- i. be responsible for instituting appropriate know-your customer procedure to reasonably/promptly identify all individuals/entities offering services covered by this regulation, in their books, and ensure they immediately comply with the provisions of this regulation.
- ii. be responsible for monitoring and supervising all activities in designated account and shall be held responsible for misapplication of any account.
- iii. have information on the volume and value of transactions carried out for each designated account.
- iv. monitor effective compliance with set limits for each designated account.
- v. take all other measures including onsite visits to ensure that the account is being operated strictly within the requirements of these Guidelines and other extant laws and regulations.
- vi. pay special attention to all complex, unusually large transactions or unusual patterns of transactions that have no visible economic or lawful purpose.
- vii. investigate suspicious transactions and report its findings to the NFIU immediately, in compliance with the relevant provisions of any law or regulations being in force.

- viii. Keep records of investigations of reviewed unusual transactions where the transactions were not reported as suspicious transactions to the NFIU.

9.0 CONSUMER PROTECTION MEASURES

FIs shall:

- i. ensure that appropriate consumer protection systems against risks of fraud are established.
- ii. provide a channel for communication of customer complaints against designated account holders.
- iii. establish complaints redress mechanism and ensure proper communication of this mechanism to the general public.
- iv. ensure strict adherence to the provision of the Circular issued by the CBN (Referenced CPD/DIR/GEN/CIR/01/001) on the Deployment of the Consumer Complaints Management System (CCMS).

10.0 SANCTIONS

Notwithstanding the powers of the CBN under the BOFIA 2020 and in addition to the use of remedial measures in these Guidelines, the CBN may take any or all of the following sanctions against a FI, its board of directors, officers or staff for failure to comply with any of the requirements of these Guidelines:

- i. Prohibition from opening any further designated account;
- ii. Monetary penalty not below the sum of ₦2,000,000.00 against the FIs, members of its board, senior management, and any staff, for any infraction.
- iii. Suspension of operating licence of a FI;

11.0 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.

12.0 GLOSSARY OF TERMS

AML –	Anti-Money Laundering
BOFIA –	Banks and Other Financial Institutions Act
BVN –	Bank Verification Number
CAC –	Corporate Affairs Commission
CBN –	Central Bank of Nigeria
CDD –	Customer Due Diligence
CFT -	Combating the Financing of Terrorism
CPF -	Countering Proliferation Financing
DAOP -	Digital Asset Offering Platform
DAX –	Digital Assets Exchange
DLT –	Distributed Ledger Technology
EDD –	Enhanced Due Diligence
FI –	Financial Institution
ICO –	Initial Coin Offering
KYC –	Know Your Customer
ML –	Money Laundering
NFIU –	Nigerian Financial Intelligence Unit
NIBSS	Nigeria Inter-Bank Settlement System
PF -	Proliferation Financing
SEC –	Securities and Exchange Commission
STR –	Suspicious Transaction Report
TF -	Terrorism Financing
VASP –	Virtual Assets Service Provider

Financial Policy and Regulations Department