FINANCIAL SERVICES SECTOR: KEY REGULATORY UPDATES

(FEBRUARY, 2024 EDITION)

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REGULATORY INFORMATION

In February 2024, the Nigerian equities market faced volatility, resulting in a N1.3 trillion loss for investors. The NGX All Share Index depreciated by 2.4%, breaking a four-month growth streak. The market capitalization dropped from N55.357 trillion to N54.035 trillion. Intensified selloffs followed the Monetary Policy Committee's announcement of a record-high Monetary Policy Rate of 22.75%. Key contributors to the 3.3% Week-on-week decrease in ASI were declines in MTN Nigeria and BUA Cement. Sectoral performance was broadly negative, with losses in Industrial Goods, Insurance, Consumer Goods, Oil and Gas, and Banking sectors. The market's decline was attributed to profit-taking, selloffs, and reactions to the central bank's hawkish stance.

In February 2024, the CBN has issued several circulars and guidelines targeted at policy changes to stabilize the economy, FX landscape and consumer protection. Some of these policies include:

1. CASH RESERVE REQUIREMENT (CRR) FRAMEWORK IMPLEMENTATION GUIDELINES PUBLISHED ON 2ND FEBRUARY 2024.

Based on above mentioned circular the CBN is phasing out daily CRR debits and transitioning to an updated CRR mechanism to aid banks in planning, monitoring, and aligning records with the CBN. The process of determining which part of the deposits will be set aside or held by the CBN as a cash reserve ratio will follow a specific outlined procedure involves two phases:

a. Incremental Approach: Existing CRR ratios (32.55% for commercial banks, 10% for merchant banks) will be applied to increases in a bank's weekly average adjusted deposits.

b. CRR Levy: Banks failing to meet the minimum Loan to Deposit Ratio (LDR) will face a CRR levy of 50% of the lending shortfall, as previously communicated in by the CBN in 2019.

Finally, the circular mentions that the CBN will furnish banks with specifics on charges and their calculation basis.

2. EXPOSURE DRAFT REVISED CONSUMER PROTECTION REGULATIONS PUBLISHED ON 8TH FEBRUARY 2024.

This circular addressed to all financial consumer Protection Stakeholders outlines the Revised Consumer Protection Regulations of 2019, aiming to address emerging risks from financial technology adoption. The revised regulations focus on enhancing customer service standards, promoting responsible business practices, and ensuring fair treatment of consumers by CBN-regulated financial institutions. The regulations align with international standards, and stakeholders, including licensed institutions and consumers, are invited to provide feedback for further refinement.

The revised regulations emphasize consumer control over personal information, introduce technical distinctions for fair treatment by using "Financial Service Providers," and enhance transparency and disclosure practices. Notable additions include detailed sections on business ethics, advertising standards, and specific requirements for disclosing terms and conditions throughout contractual relationships. The regulations also introduced provisions for data protection, reinforcing consumer asset protection and privacy, while enhancing financial literacy through awareness initiatives. Overall, the regulatory changes aim to create a more robust framework for fair and responsible conduct in financial services.

3. REMOVAL OF THE SPREAD ON FOREIGN EXCHANGE TRANSACTION PUBLISHED ON 8TH FEBRUARY 2024

As part of its ongoing foreign exchange market reforms, the CBN has implemented a significant policy change aimed at fostering a market-based price discovery system. Effective immediately, the CBN has lifted any cap on the spread for interbank foreign exchange transactions and removed restrictions on the sale of interbank proceeds.

Considering these changes, Authorized Dealers are instructed to conduct their foreign exchange transactions based on a "Willing Buyer and Willing Seller" basis. It is imperative that they uphold high ethical standards throughout their dealings in the foreign exchange markets. This entails adopting practices such as appropriate price disclosures and ensuring transparency in all transactions.

Furthermore, to maintain regulatory compliance, all executed transactions must be promptly recorded on the relevant treasury systems and reported to market authorities as stipulated by regulations.

These adjustments signify a commitment to creating a more dynamic and transparent foreign exchange market. The CBN expects the cooperation of all stakeholders in adhering to these revised guidelines.

4. ALLOWABLE CHANNELS FOR PAYMENT OF PERSONAL TRAVEL ALLOWANCE AND BANK TRAVEL ALLOWANCE PUBLISHED ON 14TH FEBRUARY 2024

This circular aims to strengthen transparency and stability in the foreign exchange market by restricting allowable channels for payout of Personal Travel Allowance (PTA) and Business Travel Allowance (BTA). In line with Memorandum 8 of the Foreign Exchange Manual and previous circulars outlining eligibility criteria for PTA/BTA, authorized dealer banks have now been directed to only disburse PTA/BTA electronically via debit/credit cards or other digital payment methods. Cash payments for PTA/BTA are no longer permitted. This regulatory change aims to curb foreign exchange malpractices by enhancing oversight and audit trails of PTA/BTA transactions.

5. ALLOWABLE DEVIATION LIMIT ON THE PRICE VERIFICATION SYSTEM (PVS) PUBLISHED ON 14TH FEBRUARY 2024.

In response to global inflation and related challenges, the CBN has revised the price deviation limits for exports to -15% and imports to +15% of global average prices. This update aims to mitigate excessive foreign exchange outflows caused by over-invoicing and price manipulation practices. The Price Verification System does not determine actual item prices for tariffs or government charges, rather, it assists the CBN in monitoring and preventing forex abuse.

6. REQUIREMENTS FOR FOREIGN CURRENCY CASH POOLING ON BEHALF OF INTERNATIONAL COMPANIES PUBLISHED ON 14TH FEBRUARY 2024.

The CBN identified the practice of International Oil Companies (IOCs) transferring crude oil export proceeds offshore for cash pooling and thus impacting domestic forex market liquidity. To minimize the negative effects on Nigeria's forex market liquidity, and as part of ongoing forex market reforms, specific measures have been introduced. CBN has instructed that Banks can pool cash for IOCs, with a minimum requirement of 50% repatriation of export proceeds initially. The remaining 50% can be repatriated after ninety-day (90) days of initial repatriation.
To adhere to these rules, IOC cash pooling transactions must fulfill documentation prerequisites like CBN approval, cash pooling agreements with parent entities, expense statements, source of forex inflows evidence, and completion of necessary forex forms per regulations.

These measures are aimed at regulating foreign currency cash pooling practices for IOCs in Nigeria while ensuring compliance with CBN guidelines and promoting forex market stability.

7. REVISION OF THE REGULATORY AND SUPERVISORY GUIDELINES FOR THE BUREAU DE CHANGE OPERATIONS IN NIGERIA.

The draft regulation was unveiled on February 23, 2024, to overhaul and enhance the operations of Bureau de Change (BDC) in response to the urgent need to stabilize the country's foreign exchange (FX) market. The proposed changes include a tiered licensing system with increased minimum capital requirements for the BDCs, mandatory caution deposits, and a focus on aligning capital with operational scale.

Furthermore, the draft emphasizes digital integration, making it mandatory for BDCs to have a seamless digital connection with the CBN. This move aims to enhance market transparency, regulatory oversight, and accurate market valuations. The regulation also introduces stringent measures for external auditors, requiring periodic rotations to ensure independence and prevent complacency.

The draft regulation addresses transaction security by mandating the linkage of transactions to Bank Verification Numbers (BVNs) for domestic customers and passports for foreign customers. This move enhances customer verification, regulatory compliance, and global best practices for financial transactions. Additionally, the draft specifies authorized sources for obtaining foreign currencies, limiting speculative activities, and promoting stability.

Moreover, the regulation introduces guidelines for disclosure of foreign exchange sources, facilitating transparency and accountability in the flow and usage of foreign currencies. The sale of foreign currency by BDCs is aligned with personal and business travel allowances, with specific purposes outlined to prevent misuse and ensure compliance with regulatory standards.

Despite the positive aspects of the draft, concerns have been raised about certain provisions, particularly the high minimum market capitalization, which may discourage business operation. The draft remains subject to review, providing an opportunity for adjustments to address stakeholder concerns and ensuring effective enforcement for compliance.

8. MONETARY POLICY RATE INCREASED BY 400 BASIS POINT TO 22.75%

On February 27, 2024, the Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) implemented significant adjustments to key monetary policy parameters. The MPC increased the Monetary Policy Rate (MPR), the benchmark interest rate, from 18.75 percent to 22.75 percent. Additionally, the committee modified the asymmetric corridor to +100 and -700 basis points from the previous +100 basis points and -300 basis points around the MPR. Simultaneously, the Cash Reserve Ratio (CRR) experienced an upward adjustment from 32.5 percent to 45 percent, while the Liquidity Ratio remained unchanged at 30 percent.

Before the adjustment, the MPR stood at 18.75%, but with the recent increase to 22.75%, borrowing costs for individuals and businesses are expected to rise. This shift implies that loans from banks, typically charged at rates between 25% and 30%, may now see an increase to a range of 30% to 35%.

Olayemi Cardoso, the Governor of the CBN, highlighted that these decisions aimed to steer the nation's monetary policy in response to prevailing economic conditions. The MPR serves as the guiding interest rate for commercial which influences the rates at which these institutions borrow from the CBN. Consequently, the MPR will affect the interest rates set by banks and other financial institutions, impacting borrowers.

9. SALES OF FOREIGN EXCHANGE TO BUREAU DE CHANGE OPERATORS TO MEET RETAIL DEMAND FOR ELIGIBLE INVISIBLE TRANSACTIONS.

The CBN has decided to resume foreign exchange sales to eligible Bureau De Change operators, providing $20,000 each to about 1,373 operators. This comes three (3) years after the suspension of such sales due to concerns about illicit activities. The move aims to address distortions in the retail foreign exchange market and reduce the exchange rate gap. The allocated foreign exchange will be sold at a rate of N1,301/$, with BDCs permitted to sell to end-users at a maximum margin of 1% above the purchase rate from the CBN.

The Central Bank of Nigeria's decision to resume foreign exchange sales to eligible Bureau De Change operators is expected to have multifaceted effects.
Given that this policy aims to stabilize the exchange rate by meeting retail demand and reducing market distortions. The injection of liquidity into the market could benefit businesses and individuals with legitimate foreign exchange needs, fostering economic growth. Further, the guidelines it set for Bureau De Change operations aim to enhance regulatory compliance, potentially curbing illicit activities that led to the previous suspension.

Secondly, the policy also seeks to narrow the gap between official and parallel market rates, positively impacting sectors dependent on imports. Successful implementation could boost investor confidence, while stable foreign exchange rates may contribute to overall price stability and prevent inflationary pressures. However, the actual outcomes will hinge on effective execution and the broader economic context.

10. REVISED REGULATORY AND SUPERVISORY GUIDELINES FOR THE OPERATIONS OF MORTAGE REFINANCE COMPANIES (MRC) IN NIGERIA-EXPOSURE DRAFT

On 29th of February 2024 the CBN shared the exposure draft of the revised regulatory and supervisory guidelines for the operations of mortgage refinance companies in Nigeria. The draft covers the scope of mortgage refinance companies (MRC), the licensing requirements, the financial requirements, the corporate governance requirements, sources of funds, rendition of statutory returns, prudential requirements, other regulatory approvals, the examination, reporting and off-site supervision and sanctions for non-compliance.

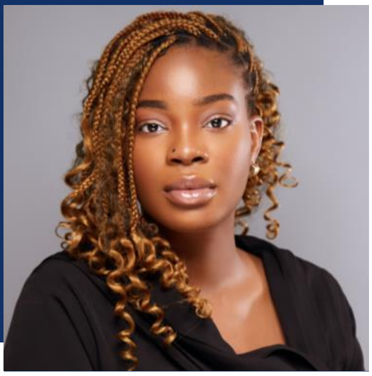
The draft defines an MRC as a financial institution that provides liquidity refinancing and guarantees to mortgage loan originators, specifically supporting entities like Primary Mortgage Banks (PMBs) and banks. Acting as intermediaries between mortgage loan originators and the capital market, MRCs aim to enhance mortgage lending by refinancing existing mortgage loan portfolios. In other to be approved, the MRC will have to obtain two (2) phases: Approval-in-principle and Final License.

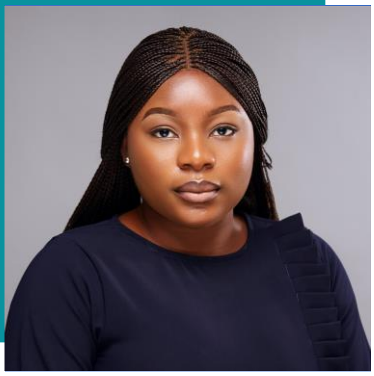
Notably, the financial requirements, subject to possible adjustments by the CBN, include a minimum capital of N5,000,000,000.00, a non-refundable application fee of N1,000,000.00, a non-refundable licensing fee of N5,000,000.00, and a change of name fee of N500,000.00.

CONCLUSION

These Circulars showcase a commitment to promoting transparency within the financial system, protecting consumers, fostering a dynamic foreign exchange market, and addressing the exchange rate volatility. By addressing emerging challenges and refining regulatory frameworks, the CBN aims to create an environment conducive to sustainable economic growth, stability, and a stronger local currency. These initiatives' success relies on the collaboration and compliance of all stakeholders, and the CBN expects a positive impact on the financial landscape.

THE AUTHORS





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