CAPITAL MARKETS, PRIVATE EQUITY AND MERGERS & ACQUISITIONS: KEY REGULATORY UPDATES

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INTRODUCTION

Nigeria's financial regulatory landscape has undergone significant changes with the introduction of new updates in June 2024. The Securities and Exchange Commission (SEC) and Central Bank of Nigeria (CBN) have introduced measures impacting the financial economy. These changes aim to align Nigeria's financial regulatory framework with global standards and address the dynamic needs of modern market participants. These measures are designed to enhance market integrity, foster investor confidence, and stimulate economic growth by creating a more transparent and efficient business environment. We have provided a summary and implication of these regulations below:

1. THE SECURITIES AND EXCHANGE COMMISSION UNVEILS FRAMEWORK FOR BANKING SECTOR RECAPITALISATION

The Securities and Exchange Commission on June 21, 2024, published a framework to guide the banking sector recapitalization programme. The framework provides comprehensive guidance for banks, holding companies, and market participants to adeptly navigate the recapitalization process. The capital market plays a pivotal role in this programme, enabling banks to leverage it for raising necessary funds or engaging in various business combinations. Consequently, the Securities and Exchange Commission (SEC), as the regulatory body tasked with overseeing and developing the Nigerian capital market, is responsible for ensuring a smooth, transparent, and efficient capital-raising process by the banks. This framework delineates the guidelines and procedures that banks must follow to raise capital through rights issuance, private placements, or other approved methods during the 2024-2026 recapitalization period. It aims to ensure that the capital-raising efforts are conducted efficiently and transparently, safeguarding the interests of all stakeholders involved.

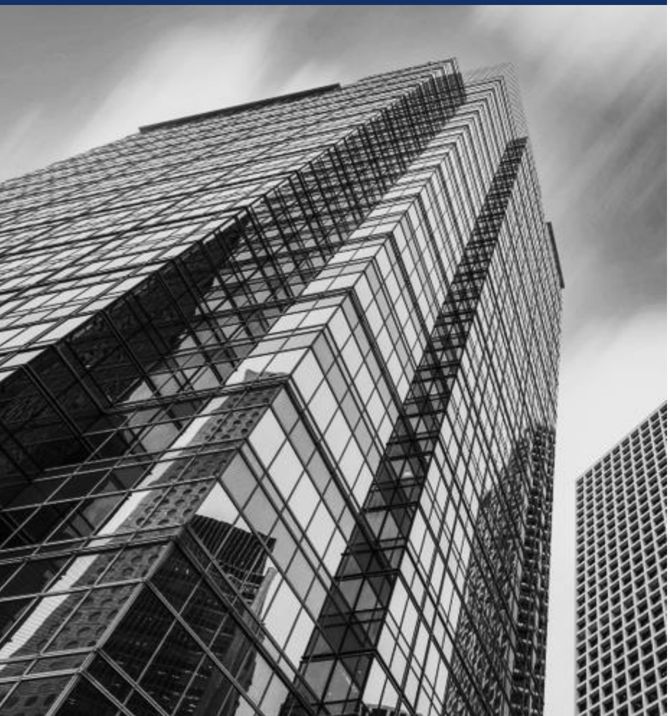
Serving as a crucial reference, the framework assists Banks/Holding Companies issuers and Capital Market Operators in filing applications for capital raises or mergers and acquisitions.

Therefore, banks must ensure strict compliance with the new framework to encourage transparency in every capital raising process.

2. THE SECURITIES AND EXCHANGE COMMISSION LAUNCH THE ACCELERATED REGULATORY INCUBATION PROGRAM (ARIP) TO FACILITATE THE ONBAORDING OF VIRTUAL ASSETS SERVICE PROVIDERS (VASPs)

The Securities and Exchange Commission has announced that the rules governing the issuance, offering platforms, exchange and custody of digital assets are currently being revised. This amendment aims to broaden the regulatory framework to align with contemporary developments and in support of this initiative, the commission has introduced the Accelerated Regulatory Incubation Program (ARIP) to facilitate the onboarding of Virtual Assets Service Providers (VASPs).

As a result of this circular, all current and prospective Virtual Assets Service Providers (VASPs) are instructed to visit the SEC ePortal and complete the application process within thirty (30) days from the date of the notice. The Accelerated Regulatory Incubation Program (ARIP), established by the Nigerian SEC under the Investments and Securities Act (ISA) of 2007, aims to streamline the registration process for Virtual Assets Service Providers (VASPs) and other Digital Investments Service Providers (DISPs). This program facilitates the onboarding of entities involved in virtual asset activities, providing them with provisional approval until the Digital Assets Rules are fully operational. Essentially, this program enhances the ease of doing business by streamlining the registration process for VASPs and DISPs, hence reducing bureaucratic delays. Initiatives like this will foster innovation and market confidence, making the regulatory landscape more efficient and supportive for digital asset activities in Nigeria.



3. THE IMPLEMENTATION OF ENTERPRISE RISK MANAGEMENT

In a decisive move to enhance the robustness of risk management practices among Capital Market Operators (CMOs), the Securities and Exchange Commission issued a circular on June 14, 2024 to Capital Market Operators (CMO) mandating the implementation of an Enterprise Risk Management (ERM) framework that aligns with international standards. This circular emphasizes the adoption of recognized risk management standards such as those outlined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), the International Organization for Standardization (ISO 31000), and the Financial Action Task Force (FATF) Recommendations, among others. The objective is to ensure comprehensive risk management practices that minimize systemic impact and protect the interests of all stakeholders.

The key components of the ERM framework must include:

- Risk governance structure with clear roles and responsibilities, including the formation of a risk management committee.
- Systematic processes for identifying, analyzing, and prioritizing risks that may impact the organization's objectives.
- Strategies to manage and mitigate identified risks.
- Risk appetite and tolerance statements.
- Monitoring of risk factors and regular reporting to senior management and the board of directors.
- Organizational risk-awareness programmes.

Implementation and Compliance of the ERM Framework

In order to strengthen the implementation of Risk-Based Supervision (RBS), including Anti-Money Laundering (AML), Countering the Financing of Terrorism (CFT), and Countering Proliferation Financing (CPF) measures, the directive by SEC requires the following compliance actions:

Submission of Risk Management Policy: All CMOs must submit a Board-approved risk management policy in selectable and searchable PDF format by September 30, 2024, via email to rbs@sec.gov.ng for a "No Objection" review.

Annual Risk Profile Submission: CMOs are required to submit an annual Risk Profile by January 31st each year.

Reporting of Emerging Threats: CMOs must assess and report emerging threats and mitigation measures whenever significant changes occur, including:

- Development of new products and business practices.
- Awareness of new vulnerabilities and market typologies.
- Significant changes in institutional factors.
- Expansion to new geographic areas.
- Changes in client classification.

4. NEW MEASURES TO ENHANCE LOCAL CURRENCY LIQUIDITY FOR SETTLEMENT OF DIASPORA REMITTANCES

The Central Bank of Nigeria (CBN) has introduced measures to enhance local currency liquidity for settling diaspora remittances, aiming to streamline foreign exchange market operations and boost remittance flows through formal channels. These measures enable eligible International Money Transfer Operators (IMTOs) to access Naira (NGN) liquidity through the CBN, either directly or through Authorized Dealer Banks (ADBs), which improves liquidity and speeds up the remittance settlement process. Additionally, the CBN has introduced same-day settlement for transactions executed and confirmed before 12 noon, ensuring quicker fund transfers to recipients. Transactions will use prevailing Nigerian Autonomous Foreign Exchange Market (NAFEM) rates to ensure transparency and fairness, while participants must submit daily regulatory returns to the CBN to ensure compliance and facilitate monitoring. IMTOs are also required to confirm their partner banks and provide standard settlement instructions for smooth implementation.

These measures are anticipated to increase the efficiency of remittance settlements, enhance transparency in the foreign exchange market, and improve the CBN's monitoring of remittance flows. By encouraging greater use of formal remittance channels, the CBN aims to reduce reliance on informal methods. All stakeholders, including IMTOs and Authorized Dealer Banks, are urged to comply with these new guidelines to ensure the smooth functioning of the remittance ecosystem and support the continued growth of formal remittance flows.

CONCLUSION

In conclusion, the regulatory updates introduced by the Nigerian Securities and Exchange Commission (SEC) and Central Bank of Nigeria (CBN) in June 2024 represent a significant step toward aligning Nigeria's financial regulatory framework with global standards. The new frameworks for banking sector recapitalization, the Accelerated Regulatory Incubation Program (ARIP) for Virtual Assets Service Providers (VASPs), the mandated implementation of Enterprise Risk Management (ERM) and the measures to enhance local currency liquidity for settlement of diaspora remittances all reflect a comprehensive approach to improving market integrity, fostering investor confidence, and stimulating economic growth.

As Nigeria's financial landscape continues to evolve, market participants need to stay informed and adapt to these changes. By doing so, they can leverage the opportunities presented by these regulatory updates and contribute to the growth and development of the country's economy. Finally, these measures demonstrate Nigeria's commitment to creating a more attractive and conducive environment for investors, innovators, and market participants.

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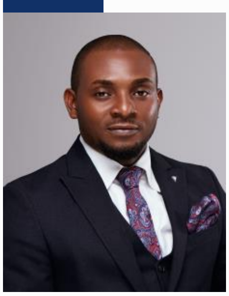
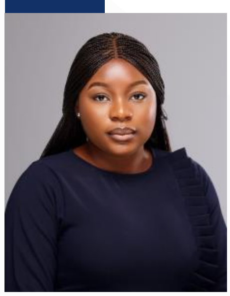
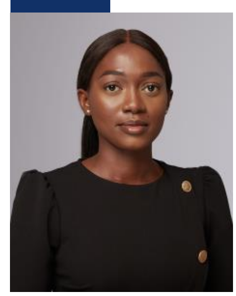
THE AUTHORS







NOBLE OBASI
Team Lead

Nobleobasi
@strenndblan.com

IBITOLA AKANBI
Associate

Ibitolaakanbi
@strenndblan.com

EBUBE OKORJI
Associate

Ebubeokorji
@strenndblan.com

OGHENEMEGA IGBRU
Associate

Oghenemegaigbru
@strenndblan.com

Stren & Blan Partners

+234 (0)702 558 0053
3 Theophilus Orji Street, Off Fola Osibo Road, Lekki Phase 1, Lagos, Nigeria

www.strenandblan.com
contact@strenandblan.com
@strenandblan