



CBN LIFTS RESTRICTION ON THE OPERATION OF BANK ACCOUNTS BY VIRTUAL ASSETS SERVICE OPERATORS (VASPs) IN NIGERIA.

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On Friday 22nd December 2023, the Central Bank of Nigeria (“CBN”) lifted its hitherto ban restricting banks and financial institutions from dealing in or facilitating cryptocurrency related transactions through its recently published **“Guideline on Operations of Bank Accounts for Virtual Assets Service Providers (VASPs)”** which now authorizes Banks and other Financial Institutions to provide banking services to virtual asset service providers (VASPs) in compliance with relevant anti-money laundering laws issued by competent authorities. VASPs, Digital Assets Custodians, Digital Assets Offering Platforms, Digital Asset Exchanges, Digital Asset Exchange Operators, and any other entity that may be categorized by the CBN who are licensed by the Securities and Exchange Commission, can now legally operate a designated account with banks and financial institutions subject to the conditions stipulated in the Guideline.

The CBN’s earlier directive of February 5th, 2021, had excluded cryptocurrency transactions from the scope of transactions permitted to be facilitated or processed by financial institutions operating within Nigeria’s mainstream banking system. The 2-year ban which was the Apex Bank’s response to global concerns around money laundering and terrorism finance risks underlying the very opaque and unregulated cryptocurrency market has set the country back significantly from harnessing the benefits of the early adoption of digital currencies as a viable financial asset class.

The Guideline signals a positive change for Nigeria’s hitherto comatose digital assets ecosystem as financial institutions can now operate outside of their primary activity; facilitate the opening and operation of accounts for VASPs whilst being mandated to establish adequate risk management systems for combating money laundering, financing of terrorism and countering proliferation financing and to ensure adequate activity monitoring/tracking and customer protection. It is worthy of note that this guideline still prohibits banks and other financial institutions from holding, trading and/or transacting in virtual currencies on their own account.

The Guideline prescribes strict requirements for the onboarding of VASPs and operation of bank accounts by VASP account holders - including protocols for customer onboarding/due diligence in a bid to entrench transparency and effective reporting. Also, it sets operational and transactional limit for all VASP accounts whilst restricting VASP account holders from being able to effect cash withdrawal or clear third party cheques by mandating that virtual asset transactions are only settled via transfer to designated accounts or with a manager’s cheque for easy traceability. The guidelines have also proscribed the grant of concessions to VASP account holders whilst inoperative accounts (not operated for more than 3months) are to be declared inoperative and closed immediately. Financial institutions are also required to conduct continuous validation, verification and update of VASP customer information and report any fraudulent or suspicious transactions, abusive use or account violations by VASPs.

The Central Bank has taken an enviable stance to impose itself into the otherwise unregulated virtual assets ecosystem by initiating agile and well-defined regulations that minimizes the potential for abusive market practices, assures financial stability and mitigates against systemic financial market risk whilst protecting investors. The move to reverse the ban demonstrates the intention of the new leadership of the CBN to legitimize cryptocurrencies as a viable asset class.

Without doubt the reversal of the ban has the potential to restore trust and the CBN’s commitment to innovation and the deepening of Nigeria’s burgeoning digital economy. It is also expected to jumpstart the use of digital assets for cross border transaction settlement and remittances and ultimately improve foreign capital flows and balance of payments whilst enabling Nigeria to reinforce its position as Africa’s leading technology hub.

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