



CENTRAL BANK OF NIGERIA

GUIDELINES FOR CUSTODIANSHIP IN MONEY MARKET AND OTHER FIXED INCOME INSTRUMENTS

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In furtherance of the primary objectives of the Bank to promote price stability, enhance inter-bank activities and pursuant to the provisions of Sections 27 and 28 of the Central Bank of Nigeria Act, 1991, as amended, section 55 of the Banks and Other Financial Institutions Act, 1991, as amended, and section 4.3 of the Central Bank of Nigeria Operational Procedures on Money Market Dealership System in Nigeria, the Central Bank of Nigeria (CBN) hereby issues the following Guidelines for the operation of Custodianship in money market and fixed income instruments in Nigeria.

1.0 Introduction

Custodianship is an arrangement whereby some financial institutions undertake to provide safekeeping and administration of financial assets on behalf of their clients who may or may not be the actual investors in those assets. A custodian holds financial assets in trust for its client, and acts in accordance with the client's instructions and service level agreement between them. The custodian provides custodial services at a fee and/or charges.

The purpose for the introduction of custodianship in money market and fixed income securities in Nigeria is to further align the Nigerian money market with the rest of the world and to adopt international best practices which will further enhance investors' confidence in the Nigerian money market. It will also enhance the growth as well as transparency in the market.

The Guidelines provide the basic procedure and rules that shall be adhered to by Custodians in money market and fixed income instruments. They are to be read along with other existing guidelines issued to regulate the operations and conducts of the operators in the Nigerian money market.

2.0 Qualifications for Custodianship

- 2.1 The following shall be eligible to be appointed a Custodian in money market instruments:
- 2.2 A bank or discount house that has completed and submitted a prescribed application form to the CBN on behalf of its subsidiary to be appointed a custodian.
- 2.3 A subsidiary of a bank or of a discount house set up with the sole purpose of carrying out custodial business, and has a minimum of N2.0 billion paid-up capital.
- 2.4 A duly licensed custodian by the National Pension Commission (Pencom) who may wish to carry out custodial business in money market and fixed income instruments.
- 2.5 All duly licensed Pension Funds Custodians shall continue to hold money market instruments of pension fund as provided for by the Pension Reform Act of 2004 and as may be amended from time to time.
- 2.6 Appointment fee of N2.0 million shall be paid to the CBN within two weeks by an applicant whose application was successful and approval-in-principle has been granted.
- 2.7 Any other criteria as the CBN may specify from time to time.

3.0 Eligible Instruments

- 3.1 All government securities shall be eligible for Custodianship including but not limited to, NTB, FGN Bonds, FRN Bonds, Treasury Certificates, etc.
- 3.2 All securities issued by the Central Bank of Nigeria for its monetary operation including OMO Bills, CBN Certificates, etc.
- 3.3 All securities approved by appropriate authorities issued by government at all levels, corporate organizations, government agencies and parastatals.

4.0 Functions and Scope of Operations

4.1. Functions

The functions of a Custodian shall include but not limited to the following:

- i. Safekeeping of instruments.
- ii. Transaction settlement.
- iii. Transaction statement.
- iv. Position statement.
- v. Reporting (compliance, valuation, performance, etc)
- vi. Income and proceeds collection
- vii. Securities lending.
- viii. Remittances.
- ix. Tax services.
- x. Other services.

4.1.1 Safekeeping of securities on behalf of its clients. The securities can be held in physical or electronic forms in the name of a nominee or in the beneficial name. The clients or investors can be individuals, corporate bodies, government, other institutional investors and the general public who do not maintain security portfolio with the CBN.

4.1.2 Transaction settlement shall include collection of cash and securities on behalf of buyers and receiving payments on behalf of the sellers. *Settlement shall be on the basis of delivery versus payment.*

4.1.3 Custodians shall furnish their clients with daily transaction statement and where there is no transaction a nil statement shall be sent. The transaction statement shall include but not limited to trade date, settlement date, price, volume, types of securities, and counterparties.

4.1.4 Custodians shall provide daily statement of cash and securities balances to their clients.

4.1.5 Custodians shall provide reports to their clients, which shall include inquiry tracking, records of clients' cash and securities positions; settlement activity, performance measurement of the securities in the clients' portfolio, valuation, etc.

- 4.1.6 Custodians shall act an agent for the clients in corporate actions to collect on their behalf, interest, coupons, proceeds and any accrued benefits during the tenors of the securities, and at redemption.
- 4.1.7 Custodians may deploy the instruments in their custody for securities lending with express permission of their clients.
- 4.1.8 Custodians shall effect requisite remittances of settlement proceeds, interest, coupons and any accrued benefits in line with the clients' mandates.
- 4.1.9 Custodians may provide tax services to clients in accordance with the provisions of the tax laws pertaining to the investment. Tax services shall include among others, filing requirements; accurate definition of the clients' tax situation; arranging tax relief at source before interests or coupons are paid; preparation of tax documents for filing or submission to tax authorities for processing; and, monitoring of outstanding payments or claims relating to the securities in their custody.
- 4.1.10 Custodians may offer other services to their clients including cash management services for clients' cash balances for which the client can earn a return on the funds, foreign exchange, etc.

4.2 Scope of Operations

- 4.2.1 A Custodian without Money Market Dealership status shall settle custodian trade in money market and fixed income instruments only through authorized MMD.
- 4.2.2 The scope of custodianship shall cover the instruments as contained in section 3.0 of the Guidelines.

5.0 Operational modalities

- 5.1 All instruments in custody shall be held in book form. However, existing instruments in physical form shall be dematerialized within six months from the inception of the operation of the Guidelines.
- 5.2 The instruments so held in custody may be in the name of a nominee or the beneficial name.

- 5.3 The instruments shall be kept separate and distinct from those of the bank or discount house custodian and must not appear on their balance sheets. A separate account (nominee clients) shall be maintained with the CBN exclusively for custodial (non-proprietary) assets. In the case of a pension custodian, the instruments must be separated and distinct from personal assets.
- 5.4 Such instruments shall be electronically administered and maintained and shall be protected adequately. Physical instruments shall be kept in secured and fire-proof vault, registered and maintained in a separate book.
- 5.5 Where a Custodian is asking the CBN to move assets from its clients' account (nominee account)) to the propriety account or to the account of an MMD, the client's letter of instruction authorizing such movement shall be attached.
- 5.6 Custodians shall accept additional instruments for safekeeping on behalf of their clients if new issues are acquired. A client shall be expected to keep the entire holdings of a particular type instrument with a single Custodian at any point in time.
- 5.7 The money market instruments in custody may, with the express permission of the client, be used for security lending and the income there-from shall be shared as agreed by both parties.
- 5.8 There shall be 'securities lending agreement' between the Custodian and the borrower requiring the borrower of securities to provide the Custodian with collateral. Such collateral shall be in form of cash or government securities equal to or greater than the loaned securities.
- 5.9 The borrower of securities shall pay the Custodian a fee which shall be negotiated between them. The fee shall be quoted as an annualized percentage of the value of the loaned securities.
- 5.10 Where the same custodian is acting on behalf of the buyer and the seller, it shall on the agreed value date, make the proceeds/securities available to the seller/buyer in accordance with the specified instructions.

5.11 In all other transactions except as it is described in sub-section 5.10, the seller's Custodian shall have received instructions from the seller to move the asset to the buyer. The Custodians shall settle the transaction. The seller's Custodian shall release cash proceeds to the client on receipt of value while the buyer's custodian shall receive the securities and credit the client's account accordingly. Where the custodian fails to or unduly delays in remitting funds in contravention of the client's instructions and/or service level agreement (SLA) it shall pay with interest at the CBN monetary policy rate during the lag period.

5.12 In the event of loss of instruments resulting directly or indirectly from fraud, negligence, willful default, misconduct or error by the Custodian or its employees or agents, the Custodian shall bear the full replacement cost, including any incidental costs in addition to the value of the instrument at the time the loss was identified.

5.13 The custodian shall ensure it maintains adequate fidelity insurance to cover its custodial operations and obligations. It shall also put in place and maintain a robust business continuity plan/disaster recovery arrangements and facilities

6.0 Remuneration

The Custodian shall be entitled to charge:

- a.* custody fee of not more than 0.35 per cent per annum charged monthly;
- b.* transaction cost of N500.00 per transaction;
- c.* In addition, a custodian may share revenue with a non-custodian bank that appointed it as a custodian up to 20 per cent of the revenue earned on the business.

7.0 Activity Report

7.1 The financial statements of the Custodian shall disclose the money market instruments held under custody.

7.2 The Custodian shall render monthly statements to the investor.

- 7.3 A Custodian shall submit details of transactions to the CBN daily in specified format.
- 7.4 A Custodian shall provide the holdings of offshore investors, in prescribed formats, to the CBN on a daily basis.

8.0 Code of conduct

- 8.1 On appointment, a Custodian shall sign an undertaking to abide by the Guidelines on Custodianship, and other rules and regulations and meet requirements that may be stipulated by the CBN from time to time.
- 8.2 A custodian shall and administer clients' assets with utmost caution and duty of care.
- 8.3 A Custodian shall not refuse to receive instruments or settle transactions on behalf of its clients. It shall also not refuse to transfer assets to another custodian on the instructions of its clients.
- 8.4 A Custodian shall not divulge any information relating to a client except as required by law, regulatory reports or as specified by the Guidelines, CBN, and by any Court of Law.
- 8.5 A custodian shall put in place procedure and mechanism for tracking and reporting suspicious transactions.
- 8.6 In line with ownership segregation requirement, custodians shall keep custody assets in such a way as to protect them from foreclosure, appropriation/attachment by creditors or liquidators of custodial assets.

9 Sanctions

- a. From the commencement of this Guidelines, no person or entity shall engage in the business of custody of money market instruments except in line with the provisions contain therein.
- b. The CBN shall review the performances of individual Custodians with respect to their compliance with the requirements. Appropriate sanctions shall be applied for all infractions. Sanctions shall include,

but not limited to the suspension or revocation of custodianship certificate.

10 Review of the Guidelines

The Guidelines shall be reviewed from time to time.

Glossary of Terms

1. Instrument

Instrument in this Guidelines refers to money market (securities whose tenors do not exceed one year) and fixed income (securities that pay fixed periodic income including but not limited to eligible instruments in clauses 3.1 – 3.3 of this Guidelines).

2. Custodian

An institution/corporate body licensed by the CBN for safekeeping and administration of money market and fixed income instruments on its own behalf and/or on behalf of its clients.

3. FGN Bonds

Bonds issued by the Federal Government of Nigeria to the investing public through the Domestic Debt Office.

4. Money market dealer

An institution licensed by the CBN for the purpose of dealing in money market instruments for its own account or on behalf of individuals and institutional investors.

5. FRN Bonds.

Bonds issued by the authority to replace the Ways and Means Advances granted the Federal Government of Nigeria for fiscal operations. The bonds are exclusively held by the CBN.

6. Primary market

This is a market of new issues of money market instruments.

7. OMO Bills

These are bills issued by the CBN for liquidity management purposes.

8. CBN Certificates.

These are money market instruments issued by the CBN for its monetary operations.

9. Secondary market

This is a market where previously issued money market instruments are traded.

10. Dematerialization

The elimination of physical certificates that represent ownership of securities, so that securities exist as book entry records only.

CONSENT TO PARTICIPATE AS A CUSTODIAN IN MONEY
MARKET INSTRUMENTS

We hereby accept and consent to the terms and conditions, rights and obligations as contained in the guidelines for Custodianship in money market instruments.

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Managing Director's/ CEO's Signature and Date

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Company Secretary's/ Director's Signature and Date