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CIRCULAR TO ALL BANKS, OTHER FINANCIAL INSTITUTIONS, PAYMENT SERVICE PROVIDERS AND THE GENERAL PUBLIC

EXPOSURE OF THE DRAFT GUIDELINES ON RING-FENCING OPERATIONS OF CLOSELY LINKED ENTITIES IN THE NIGERIAN FINANCIAL SYSTEM

In furtherance of the mandate to promote a safe, sound and stable financial system, safeguard consumer interests and strengthen regulatory oversight within the Nigerian financial system, the Central Bank of Nigeria (CBN) has developed the draft Guidelines on Ring-Fencing Operations of Closely Linked Entities in the Nigerian Financial System.

The Guidelines seeks to establish clear operational and functional boundaries among closely linked entities within the financial system as well as address regulatory arbitrage arising from the commingling of activities across different licence categories. It prescribes requirements relating to governance, intra-group transactions, segregation of customer funds and data, operational independence, recovery and resolution planning, and consolidated supervision.

The Guidelines is intended to strengthen consumer protection, enhance transparency and accountability, mitigate contagion risks among closely linked entities, and preserve financial stability while supporting innovation and fair competition within the financial services sector.

Accordingly, the draft Guidelines is hereby exposed to stakeholders and members of the public for review and comments. All submissions should be emailed to PolicyandRegulationsDivision@cbn.gov.ng on or before July 09, 2026.

A handwritten signature in blue ink, appearing to read "Rita I. Sike".

DR. RITA I. SIKE

DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT

Appendix I



CENTRAL BANK OF NIGERIA
DRAFT GUIDELINES ON RING-FENCING OPERATIONS OF CLOSELY
LINKED ENTITIES IN THE NIGERIAN FINANCIAL SYSTEM

JUNE 2026

DRAFT

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1. Definition of Terms

Term	Definition
Closely linked entity	An entity that directly or indirectly controls, is controlled by, or is under common control with another entity; or over which significant influence is exercised through ownership, voting rights, common directors/senior management, shared systems/branding, or contractual dependence.
Customer funds	Money that belongs to, is held, or managed by a financial institution on behalf of customers (e.g., investments and deposits in accounts or in wallets, etc.) including any accruals attributable to such money.
Financial services regulator	A statutory authority empowered to licence, regulate, and/or supervise institutions within a particular financial services sector.
Financial holding company	A Nigerian entity set up to make and manage, for its own account, equity investments in two or more subsidiaries engaged in the provision of financial services (at least one of which is a bank) and exists solely to hold investments in such approved subsidiaries without engaging in their day-to-day management or operations.
Non-operating holding company	A Nigerian entity existing solely to carry out investment in approved subsidiaries without engaging in the day-to-day management and operations of the subsidiaries.
Parent entity	An entity that controls one or more other entities, typically by owning a controlling interest (over 50% of the shares) over its management and operations.
Ring fencing	A requirement that a licensed entity shall conduct only activities allowed under its licence and maintain a clear separation from closely linked entities. This

	separation ensures that financial distress in one entity does not spread to and destabilise other entities within the group.
Subsidiary entity	An entity that is controlled by another company, which is the parent or holding company.

2. Objective

This Guidelines outlines measures to:

- 2.1. Address regulatory arbitrage associated with commingling the activities of different licence categories.
- 2.2. Mitigate risks from the commingling of customer funds with those of closely linked entities.
- 2.3. Provide additional governance requirements for closely linked entities.
- 2.4. Support orderly resolution of distressed closely linked entities.

3. Scope

This Guidelines applies to all entities licensed by the Central Bank of Nigeria (CBN). Where a CBN-regulated entity is closely linked to an entity regulated by another financial services regulator, the CBN will collaborate with the relevant regulator to extend the scope of this Guidelines to the entity.

This Guidelines shall be read in conjunction with the provisions of the CBN Act 2007, the Banks and Other Financial Institutions Act 2020, other subsidiary legislations made under the Acts, as well as written directives, notices, circulars, frameworks and other guidelines that the CBN and other regulators in the financial services sector have issued or may issue from time to time.

4. Key Principles

- 4.1.** Closely linked entities shall operate independently.
- 4.2.** Closely linked entities shall maintain appropriate governance structures in line with the applicable Corporate Governance Guidelines.
- 4.3.** A closely linked entity shall maintain appropriate level of capital and liquidity resources sufficient to operate independently.
- 4.4.** Except for the responsibility of a parent to provide needed capital resources for a subsidiary, no closely linked entity shall rely on another's balance sheet for support.
- 4.5.** Entities shall implement separateness covenants that guarantee the segregation of their customers' funds from those of their closely linked entities.
- 4.6.** Without prejudice to the provisions of the extant holding company guidelines, closely linked entities shall be required to set up a non-operating holding company.
- 4.7.** Closely linked entities and where applicable, the non-operating holding company, shall be supervised on a consolidated basis.
- 4.8.** Where, in the course of an entity's business, its customer is to be onboarded onto a service provided by a closely linked entity, the customer's express consent shall be expressly sought and obtained. The consent should be obtained after appropriate disclosure to the customer, which should include the option of an alternative choice for the proposed product, where available. The disclosure should be in clear, simple language to avoid confusion about which entity is providing the service.

5. Governance

- 5.1. The Board of an entity shall ensure the independence of its operations in relation to any other closely linked entity. In this regard, the Board of each entity shall have in place, a policy for ring fencing its operations from those of its closely linked entities.
- 5.2. The Board Audit Committee (BAC) shall oversee the implementation of the policy to ensure the independence of the entity's operations.
- 5.3. The Head of Internal Audit shall report to the BAC on the effectiveness of the entity's policies as they relate to this Guidelines.
- 5.4. The number of directors on the Board of an entity permitted to serve as directors in its closely linked entity shall not exceed 20 per cent (20%) of the total number of directors.
- 5.5. Except as provided in the Shared Services Guidelines, no staff of an entity shall serve in another closely linked entity at the same time.
- 5.6. Conflicts of interest from entities that are closely linked shall be disclosed and managed by the Board.
- 5.7. The external auditor of the entity shall on an annual basis certify the effectiveness of all Board approved policies and processes aimed at ensuring the independence of the entity.

6. Prudential Measures

6.1. Capital and Liquidity Requirements

- i. Each regulated entity shall meet capital adequacy and liquidity standards individually, regardless of group-level resources.
- ii. The prior written approval of the CBN shall be obtained for the extension of any intra-group liquidity support.

6.2. Intra-group Exposures

- i. Intra-group exposures shall be:
 - a. at arm's length; and
 - b. reported to the CBN on a quarterly basis.

7. Ring-Fencing Measures

- 7.1.** The board of a closely linked entity shall ensure that the entity is legally, structurally and operationally independent of other entities that it is closely linked to.
- 7.2.** Each closely linked entity shall maintain its own governance, risk-management and control framework, including a dedicated Board.
- 7.3.** Except with the prior written approval of the CBN, no closely linked entity shall extend a loan to, or guarantee the obligations of, another.
- 7.4.** The boards of closely linked entities shall ensure that transactions between such entities are conducted at arm's length and are properly documented.
- 7.5.** Where, in the course of an entity's business, a customer opts to be onboarded onto a service provided by a closely linked entity, the closely linked entity shall establish a business relationship with the customer by opening an account, wallet, or any other approved channel suitable for the service. Where the service involves a loan offering, the proceeds of such loan shall be credited to the customer's account or wallet with the closely linked entity.
- 7.6.** In the case of Section 7.5 above, the closely linked entity shall obtain the customer's Know-Your-Customer (KYC) information directly from the customer (or where the circumstance so demands, from another source with the prior consent of the customer) for review. Where the KYC information satisfies the required standards, the closely linked entity shall notify the customer that the customer had been successfully onboarded and provide the customer with the

relevant account or wallet details. Where deficiencies are identified, the customer shall be promptly advised of the additional information or documents required to complete onboarding.

- 7.7. Each closely linked entity shall be adequately capitalised at all times.
- 7.8. Entities shall ensure that their critical functions are managed independently.
- 7.9. Where any of the critical functions is managed under a shared services arrangement, the Head of Internal Audit shall ensure that such arrangement is executed in line with the Service Level Agreement (SLA).
- 7.10. An entity shall not leverage IT applications to offer non-permissible activities as defined by its guidelines even where closely linked entities are permitted to offer those services.
- 7.11. An entity shall not facilitate customer transactions on behalf of closely linked entities using its Information Technology (IT) application(s).
- 7.12. Where necessary, the CBN may require separation of data centres to reduce contagion and ensure that each entity can operate on a standalone basis.
- 7.13. Where a regulated entity shares services with other members of its group, the arrangement shall be covered by a formal SLA that protects the entity's independence and shall comply with the CBN regulation on shared services arrangements. Each entity shall reserve the right to replace group service providers or use third-party suppliers whenever necessary to maintain continuity of its operations.
- 7.14. In the case of shared services, only services permitted to be shared under the extant CBN Shared Services Guidelines may be shared.
- 7.15. Where services are shared, a regulated entity shall:
 - i. Execute a formal SLA that specifies the scope of services, roles and responsibilities, and pricing.

- ii. Apply arm's length pricing supported by appropriate cost allocation and transfer pricing mechanisms.
- iii. Include exit and substitution provisions to ensure operational continuity in the event of service disruption or termination.
- iv. Ensure its board oversees and monitors all shared services arrangements.
- v. Maintain a register of all shared services agreements and make it available to the CBN upon request.
- vi. Ensure the conduct of a value for money audit by an independent consultant in respect of shared services expenditure annually. The report of such audit shall be submitted to the CBN not later than May 31 following the end of every financial year.

7.16. A prior written approval of the CBN is required before the commencement of shared services arrangements.

7.17. All intra-group funding, guarantees, pledges or credit extensions shall be on commercial terms and fully documented.

7.18. Intra-group contracts shall be structured to ensure that the failure of any of the closely linked entities does not compromise the core services or solvency of any of the other entities.

Operational Continuity

7.19. Each entity shall have a business continuity plan (BCP) for its critical operations.

7.20. The BCP shall be tested at least on a half yearly basis, through drills or scenarios and updated as the structure or system changes. Any major change, such as new outsourcing, shall be reviewed to make sure continuity requirements are still met.

- 7.21. The BCP shall identify the critical services and define how these will be continued without interruption in the event of severe stress or separation from the group (where applicable). The plan shall include alternate arrangements for staff, facilities and data backups so that a loss of any group support does not halt essential services.
- 7.22. All material agreements for critical services (intra-group or external) must include clauses that ensure uninterrupted performance in stress or resolution. For example, contracts shall provide that service delivery continues for a reasonable period after a sale or transfer of the business, and that contracts remain valid and enforceable even if one party enters resolution.
- 7.23. SLAs shall be objective, well-documented, and shall specify measurable performance metrics, pricing, and escalation procedures that ensure continuity.
- 7.24. The entity shall maintain an up-to-date manual that explains how its operations are set up and what they depend on. This should include at a minimum, organisational structure, key staff, IT and communication systems, suppliers, shared services, and external partners.
- 7.25. Entities shall ensure that supervisors have timely access to information and the ability to verify BCPs. Upon request, the entity shall provide evidence (drill results, updated manual, SLAs) demonstrating readiness to sustain critical functions.

Resolution Planning

- 7.26. Each closely linked entity shall have a recovery and resolution plan (RRP) that explains how the entity would restore its viability and stability after a period of severe financial stress.
- 7.27. The RRP shall, in addition to detailing how the entity may be wound down in an orderly manner without disrupting the broader financial system, also identify any legal, contractual, or regulatory obstacles that could make resolution difficult, so these can be addressed proactively.

- 7.28.** The RRPs shall include steps to isolate critical functions so they keep running without interruption.
- 7.29.** The RRPs shall be kept up to date with changes in the entity and the market, and the Board shall have responsibility for approving them.
- 7.30.** The RRPs shall set clear financial and non-financial triggers for the commencement of recovery or resolution actions (for example, falling below capital or liquidity thresholds, major lawsuits, or loss of control). Once triggered, there shall be a clear process that assigns responsibilities to senior management and inform how decision-making will continue during resolution, such as by naming an emergency response team.
- 7.31.** The RRPs shall align with the CBN's recovery and resolution strategy. The CBN may require changes to address any gaps.
- 7.32.** Each entity shall work collaboratively with the CBN, and, where applicable, with other relevant regulators, for an orderly recovery or resolution.
- 7.33.** The CBN, as part of the orderly resolution of an entity, may direct the promoters of the entity to divest from the entity where there is sufficient evidence that its operations poses a threat to depositors' funds or financial stability.

8. Commingling of Funds and Data Sharing

- 8.1.** This section outlines measures for segregating and protecting customer funds and data, preventing commingling with those of closely linked entities.

Segregation of Customer Funds

- 8.2.** Each entity shall ensure the separation of all its accounts from that of other closely linked entities.

- 8.3. Daily reconciliation of the entity's account balances is required, and any discrepancies identified shall be corrected within 24 hours.
- 8.4. Funds in a customer's account shall not be applied for products or services without the prior consent of the customer.
- 8.5. Entities shall implement automated systems for real-time monitoring of fund, to detect and prevent any automated transfers or commingling attempts that might arise from shared IT infrastructure.
- 8.6. Customer funds shall not be:
 - a. Used for intra-group lending, providing security for group obligations, servicing intra-group or external debt, or for proprietary trading activities.
 - b. Employed as collateral for external borrowings, guarantees, or off-balance-sheet commitments.
 - c. Diverted for operational expenses of closely linked entities.

Disclosure

- 8.7. Audited financial statement (AFS) shall include disclosures of any intra-group transactions.
- 8.8. Entities shall provide real-time access to customers including mandatory alerts for all transactions.

Data Protection

- 8.9. Customer data held by an entity shall be segregated and stored independently from data systems of closely linked entities to prevent unauthorized access or commingling.
- 8.10. Except as expressly allowed by the Nigeria Data Protection Act (NDPA), 2023, sharing of customer data between closely linked entities without explicit consent of the customer is prohibited.

- 8.11.** Entities shall implement robust data governance policies, including encryption, access controls, and regular audits, to ensure data integrity and confidentiality.
- 8.12.** In the event of data transfer for operational purposes, such transfers, which shall comply with the NDPA, shall be documented.

9. Supervision

- 9.1.** Closely linked entities shall be supervised on a consolidated basis. For groups or entities licensed by the CBN, the supervisory assessment shall be led by the relevant supervisory department of the predominant closely linked entity.
- 9.2.** The CBN will actively monitor and enforce compliance with the provisions of this Guidelines through a structured process of supervisory review and evaluation.
- 9.3.** The CBN may request any information from the entity that will aid in assessing the entity's compliance with the provisions of this guidelines.

10. Partnership

- 10.1.** A regulated entity that is closely linked to other entities shall ensure that:
- i. It maintains legal, operational, and financial independence in all partnership arrangements.
 - ii. It retains appropriate records and discloses relevant information of partnerships with other entities.
 - iii. The Partnership agreement sets out clear provisions on risk-sharing, dispute resolution, data protection, and exit arrangements.
 - iv. The Partnership agreement shall not expose the regulated entity's customers to risks arising from the operations of the partnership.
 - v. It obtains the prior written approval of the CBN before entering into a partnership agreement.

- vi. It maintains a register of all partnership agreements and makes it available to the CBN upon request.

11. Consumer Protection

Without prejudice to the CBN Consumer Protection Regulations, and other relevant circulars and guidelines, all licensed entities shall comply with the provisions of this section.

- 11.1. No entity shall misrepresent or advertise itself as offering services outside the permissible scope of its licence.
- 11.2. Closely linked entities shall ensure that consumers can clearly distinguish the services offered under each licence.
- 11.3. All entities shall disclose to customers, in a clear manner, the existence of any related or closely linked entity through which additional services may be provided. The disclosure should include the option of an alternative choice for the proposed service, where available. The disclosure should be in clear, simple language to avoid confusion about which entity is providing the service.
- 11.4. Each entity shall operate a distinct complaints management system.
- 11.5. Entities shall not advertise, brand, or present themselves in a manner that obscures the legal entity responsible for the service provided. This shall apply across all customer touchpoints, including digital platforms, physical locations, service agreements, and marketing materials.

12. Non-Operating Holding Company

- 12.1. Promoters of closely linked entities in the financial system shall incorporate a non-operating holding company. Notwithstanding, where the group includes a

commercial, merchant or non-interest bank, the CBN financial holding company regulation shall apply.

- 12.2. The holding company shall be a separate legal entity, duly incorporated under extant laws and shall be licensed by the CBN or the relevant regulator.
- 12.3. Where a holding company exists, it shall hold (direct) controlling equity interests in at least two (2) regulated financial service providers.
- 12.4. A holding company shall have and maintain a minimum regulatory capital which shall exceed the sum of the minimum regulatory capital of its subsidiaries by at least 20 per cent.
- 12.5. The holding company shall not undertake any financial service, other than holding investments in subsidiaries and providing, shared services to subsidiaries, where applicable.
- 12.6. In addition to the above requirements, the holding company shall comply with the licensing, governance, prudential and anti-money laundering requirements specified in extant holding company guidelines.

13. Option to Merge

- 13.1. Where closely linked entities are regulated by the CBN and their shareholders are not inclined to establishing a non-operating holding company as required in Section 12 above, such shareholders may consider the option of merging the closely linked entities into one business, provided that:
 - i. The shareholders will surrender the other licence(s) to the CBN and retain only one.
 - ii. The resulting entity shall cease to perform activities permitted under the licence(s) surrendered but are not permitted under the retained licence.
 - iii. The resulting entity is at liberty to adopt the business name of any of the combined closely linked entities.

13.2. Application for merger of the closely linked entities shall be submitted to the supervisory department of the desired resulting entity.

14. Regulatory Reporting

All reports required to be submitted to the CBN by this Guidelines shall be submitted to the relevant supervisory department.

15. Enforcement and Sanctions

Breach or failure to comply with the provisions of this Guidelines shall attract appropriate sanctions, including penalties, replacement of management, and or revocation of licence in line with BOFIA 2020 and other relevant extant regulations.

16. Effective Date

This Guideline shall come into effect on XXX.

**FINANCIAL POLICY AND REGULATION DEPARTMENT
JUNE 2026**