

INTERNAL MEMORANDUM

FROM:	DH (Rules)	TO:	Director General
VIA:	HOD (Legal)	VIA:	ECLE
DATE:	April 25, 2022		
SUBJECT:	NEW RULES TO THE RULES AND REGULATIONS OF THE COMMISSION		

DH (Rules)
for your review
section 313(1)
11/5/2022

(1) HOD (Legal)
DH (Rules)
Approved
11/5/2022

Pursuant to Section 313(1) and (6) of the Investment & Securities Act (ISA) 2007, the Commission is empowered to make Rules and Regulations from time to time for the purpose of giving effect to the Act as well as amending existing Rules and Regulations.

In view of the above, the Commission hereby presents the following New Rules for your approval.

The Commission, while creating the Rules, took into account comments/inputs from stakeholders which were reviewed by the Rules Committee and integrated into the proposals.

The Rules are as follows:

1. Rules on Issuance of Digital Assets as Securities
2. Rules on Registration Requirements for Digital Assets Offering Platforms (DAOPs)
3. Rules on Registration Requirements for Digital Asset Custodians (DACs)
4. Rules on Virtual Assets Service Providers (VASPs)
5. Rules on Digital Assets Exchange (DAX)


The New Rules were approved by the Board of the Commission vide a circular resolution dated March 30, 2022 after which they were forwarded to the Honorable Minister of Finance, Budget and National Planning as required by Section 313(4) of the Investments and Securities Act, 2007 on March 30, 2022.

In accordance with Section 313(4) of the Act, a new Rule or Amendment thereto is deemed made fifteen (15) days after receipt by the Honorable Minister, who may direct that the proposed new Rules/Amendments be modified, amended or rescinded within the specified period.

The fifteen (15) days allowed for the intervention of the Minister after the receipt of the proposed Rules has expired and no directive has been received from the Honorable Minister as provided for by Section 313(4) of the Act.

Prayers

1. Management may wish to note the foregoing and execute the attached instrument to bring the new Rules into effect as required by Section 313(3) of the Act.
2. Management may approve the publication of the new Rules to the Rules on the Commission's website to enable stakeholders and the general public have access to same.



Mrs. Simnom Garba



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New Rules on Issuance, Offering Platforms and Custody of Digital Assets

These Rules shall cover:

1. PART A – Rules on Issuance of Digital Assets as Securities
2. PART B – Rules on Registration Requirements for Digital Assets Offering Platforms (DAOPs)
3. PART C – Rules on Registration Requirements for Digital Asset Custodians (DACs)
4. PART D- Rules on Virtual Assets Service Providers (VASPs)
5. PART E- Rules on Digital Assets Exchange (DAX)

Part A

Rules on Issuance of Digital Assets as Securities

1.0 Applicability

These rules shall apply to all issuers seeking to raise capital through digital asset offerings.

2.0 Definitions

For the purpose of these rules,

“Digital Asset” means a digital token that represents assets such as a debt or equity claim on the issuer;

“Digital Asset Offering” shall include ICOs and other Distributed Ledger Technology (DLT) offers of digital assets;

“Initial Coin offering (ICO)” means a distributed ledger technology capital-raising involving the issuance of tokens to the general public in return for cash, crypto-currencies or other assets;

“ICO project” the underlying business or project referred to in a white paper for which the issuer seeks to raise capital through an initial digital asset offering;



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"Hard cap" the maximum amount of capital intended to be raised for the ICO projects;

"Lock up Period" is a period of time within which investors and/or issuers are not allowed to redeem, trade or sell their tokens;

"Pre-offer Period" shall have the meaning as provided in the Commission's Rules;

"Securities Token Offering (STO)" means any offering and sale of digital tokens that are considered securities.

"Soft Cap" the minimum amount of funds needed and aimed by the project to proceed as planned;

"White Paper" a document that states the technology behind a project, including a detailed description of the system architecture and interaction with the users, description of the project and use of proceeds, information on the market capitalization, anticipated growth, other technical details and the team and advisors behind the project;

3.0 Related provisions

These rules are in addition to any requirements provided for under securities laws or any other rules issued by the Commission

4.0 Initial Assessment Filing

Except in cases of follow-on offerings, all promoters, entities or businesses proposing to conduct initial digital asset offerings within Nigeria or targeting Nigerians, shall submit the assessment form and the draft white paper.

- .. The draft whitepaper shall contain relevant, complete and current information regarding the initial digital asset offering projects, business plan and feasibility study, and shall include the following:
 - a. Brief description of the business of the issuer;
 - b. Comprehensive information on how the proposed initial digital asset offering project will benefit investors and deepen the market, sustainability and scalability;



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- c. Brief description of the initial digital asset offering, the distributed ledger technology, value of each token, lock-up period (if any), returns, profits, bonuses, rights and/or other privileges (monetary and non-monetary) to the buyer of the token;
- d. Use of proceeds from sale of the tokens, including percentage allocation to each use category;
- e. Timeline for the completion of the project to be financed with the proceeds of the offering;
- f. Discussion on the determination of the accounting and the valuation treatments for the digital token including all valuation methodology and reasonable presumptions adopted in such calculation;
- g. A technical description of the protocol, platform or application of the digital token, as the case may be, and the associated benefits of the technology;
- h. Target market;
- i. Currency or other assets that will be received as payment for the tokens;
- j. Proposed offer period;
- k. Soft cap and hard cap for each kind of token;
- l. Price per token, including amounts of discounts and/or premiums;
- m. Information in relation to the distribution of the digital tokens and where applicable, the distribution policy of the issuer
- n. Risks in investing in the tokens



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- o. For existing projects, details of the system architecture, documentation and the corresponding source codes and commands, including detailed flowcharts of the process;
 - p. For projects that will commence at a later date, detailed flowcharts showing how the project will operate and time frames for each process;
 - ii. In the case of whitepapers of initial digital asset offering projects, pending assessment by the Commission, a disclaimer that the whitepaper does not represent an offer to sell, and a statement in bold letters that 'THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE TOKENS OR DETERMINED IF THE TOKENS ARE SECURITIES AND THUS, SHALL BE REGISTERED, OR THAT THE CONTENT OF THE WHITEPAPER ARE ACCURATE AND COMPLETE. ANY FALSE OR MISLEADING REPRESENTATION IS A CRIMINAL OFFENCE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION'.
 - iii. Whitepapers shall be filed for every proposed digital asset offering;
 - iv. Legal opinion on whether or not the tokens to be sold through the initial digital asset offering are securities, including sufficient justifications;
 - v. Any other information that may be required by the Commission from time to time;
- 4.01 The Commission shall, after it receives a complete initial assessment filing, review same within 30 days from receipt to determine whether the digital asset proposed to be offered, constitutes a "security" under the Investment and Securities Act 2007. The determination of the Commission shall be communicated in writing to the issuer within 5 days from the conclusion of the review.
- 4.02 The issuer may revise the contents of a whitepaper or other documents submitted during the initial assessment, at any time before the Commission determines whether the digital assets are securities. A revision of the contents of a whitepaper or other documents by the issuer shall renew the 30-day period for review;



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- 4.03 Such revisions of a whitepaper or other documents made after the determination of the Commission shall be subject to prior review and clearance of the Commission, and the payment of a revision fee;
- 4.04 Where the digital asset is determined to be a security, the issuer shall apply to register the said securities.

5.0 Registration Requirements for Digital Asset Offering

- 5.01 Upon the issuance of a determination of the Commission that the proposed digital assets to be offered are securities, the issuer shall file an application for registration which, in addition to the Commission's minimum disclosure requirements for public offers, shall include:
- a. A registration statement of the digital assets which shall include:
 - i. the name and ticker of the tokens;
 - ii. the amount to be registered;
 - iii. the price per token;
 - iv. the number of tokens to be sold;
 - v. the registration fees;
 - b. KYC procedures, disaster recovery plans and risk management protocol;
 - c. Security protocols including platform architecture and technology;
 - d. Solicitor's opinion confirming that all applicable permits and licenses for the issuance and transfer of the securities, after the offer, has been obtained;
 - e. Copy of the escrow agreement with an independent Custodian/Trustee registered with the Commission;
 - f. Corporate governance disclosures;
 - g. Evidence of payment of the applicable fees;



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- h. Any other information to be determined by the Commission from time to time.

5.32 Where the issuer complies with registration requirements, the Commission may grant registration to the digital assets.

5.33 The Commission may reject an application for registration of digital assets if in its opinion, the proposed activity infringes public policy, is injurious to investors or violates any of the laws, rules and regulations implemented by the Commission.

6.0 Moratorium on Equity Interest

- a. The issuer's directors and senior management shall, in aggregate, own at least 50% equity holding in the issuer on the date of the issuance of the digital assets.
- b. Post issuance of the digital assets, the issuer's directors and senior management may sell, transfer or assign not more than 50%; provided that the quantum of equity being sold, transferred or assigned shall not be more than 50% of their respective holdings until completion of the initial digital asset offering project.

7.0 Limit of Funds to be Raised

- a. An issuer may only raise funds subject to the following limit:
Twenty times the Issuer's shareholders' funds i.e., the maximum quantum of funds permitted to be raised within any continuous 12-month period, subject to a ceiling of N10 billion or any other ceiling as the Commission may determine from time to time.
- b. The issuer shall demonstrate that the gross proceeds to be raised from the digital asset offering would be sufficient to undertake the project as proposed in the white paper.
- c. In the event that the amount raised is below the soft-cap, the Issuer shall refund all monies collected from the token holders within five (5) business days from the offer closing date.



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8.0 Investment Limits

A person may invest in an initial digital asset offering subject to the following limits:

- a. For qualified institutional and high net worth investors, no restriction on investment amount; and
- b. For retail investors, a maximum of N200,000 per issuer with a total investment limit not exceeding N2 million within a 12-month period

9.0 Exemptions from Registration of Digital Assets

- 9.01 Securities structured to be exclusively offered through crowdfunding portals or intermediaries;
- 9.02 A judicial sale or sale by an executor, administrator or receiver in insolvency or bankruptcy;
- 9.03 Where the sale is by a pledged holder or mortgagee, selling to liquidate a bona fide debt and not for the purposes of avoiding the provision of these rules;
- 9.04 An isolated transaction in which any digital token is sold for the owner's account and such sale or offer for sale not being made in the course of repeated and successive transactions of like manner by such owner.



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PART B

Registration Requirements for Digital Assets Offering Platforms (DAOPs)

10.0 Definitions

Digital Assets Offering Platform- means an electronic platform operated by a DAOP operator for offering digital assets

11.0 Registration requirements

11.1 In addition to the general requirements for VASPs, an applicant seeking to register as a DAOP shall comply with the following requirements:

11.2 Payment

- a) An applicant shall ensure that the application submitted is accompanied with the prescribed fees:
 - i. Filing/Application Fee – ₦100,000 (One Hundred Thousand Naira only)
 - ii. Processing Fee – ₦300,000 (Three Hundred Thousand Naira only)
 - iii. Registration fee – ₦30,000,000 (Thirty Million Naira only)
 - iv. Sponsored Individuals Fee – ₦100,000 (One Hundred Thousand Naira only);

11.3 Forms

- a) An application for registration of a DAOP shall be made on the appropriate SEC Form and shall be accompanied by the following:
 - i. Form SEC 2 and 2D – Sponsored Individuals/Compliance Officer who shall be principal officers of the DAOP (i.e. Managing Director and Principal Officers). (To be completed in duplicates);



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11.4 Minimum paid-up capital and fidelity bond

- a) Evidence of Required Minimum Paid up Capital – ₦500,000,000 (Five hundred Million Naira only) (i.e. Bank balances, Fixed asset or Investment in quoted Securities);
- b) Current Fidelity Bond covering at least 25% of the minimum paid-up capital as stipulated by the Commission's Rules and Regulations;
- c) Notwithstanding the provision of (a) above, the Commission may at any time impose additional financial requirements on the DAOP commensurate with the nature, operations and risks posed by the DAOP

11.5 Sponsored individuals and directors

- a) An application seeking to register as a DAOP shall also comply with requirements for registration of sponsored individuals as contained in SEC Rules and Regulations.

11.6 Corporate documents

- a) A copy each of the following, duly certified by the CAC;
- b) Certificate of Incorporation (original to be sighted)
- c) Memorandum and Articles of Association which shall include the power to perform the specified function;
- d) CAC Form(s) showing Statement of Share Capital, Return of Allotment, and Particulars of Directors
- e) Latest audited accounts or audited statement of affairs of the company in the case of a new company.
- f) Tax Identification Number Clearance Certificate
- g) The Commission may require such other documents as it considers necessary for registration.

12.0 Additional requirements

12.1 An application seeking to register as a DAOP shall also comply with the following additional requirements:

- a) a copy of draft rules of the DAOP;
- b) sworn undertaking to promptly furnish the Commission with copies of



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- any amendments to the rules of the DAOP;
- c) information on the company, including structure and profile of members of its board as well as procedures;
- d) Sworn undertaking to keep proper records and render returns as may be specified by the Commission from time to time signed by a director or the company secretary;
- e) Sworn undertaking to abide by SEC Rules and Regulations and Investments and Securities Act No.29 of 2007 by a director or the company secretary;

12.2 A registered DAOP shall:

- a) Manage all risks associated with its business and operation;
- b) Have sufficient financial, human, technical and other resources for its operation at all times;
- c) Ensure appropriate security arrangement, taking into account the scale of its business operations and risks;
- d) Maintain and comply with the enterprise risk management framework

13.0 Approval of the Board

13.1 A DACP shall have a board, the membership of which shall be subject to approval of the Commission before registration at the CAC;

14.0 Appointment of Chief Executive Officer and Principal Officers

14.1 The Chief Executive Officer of a DAOP shall hold office for a period of five (5) years in the first instance and may be re-appointed for a further period of five (5) years and no more;

14.2 The appointment of a Chief Executive Officer and Principal Officers of a DAOP shall be subject to the prior approval of the Commission;

14.3 The Chief Executive Officer and other Principal Officers of a DAOP shall:

- a) be registered by the Commission as Sponsored Individuals
- b) be persons of proven integrity with no record of criminal conviction;



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- c) hold at least a university degree or its equivalent;
- d) have at least five (5) years cognate experience;
- e) not have been found complicit in the operation of an institution that has failed or been declared bankrupt or has had its operating license revoked as a result of mismanagement or corporate governance abuses;
- f) not have been found liable for financial impropriety or any other misdemeanor by any court, panel, regulatory agency or any professional body or previous employer;
- g) comply with any other criteria which the Commission may, in the public interest, determine from time to time.

15.0 Governance

15.1 A DAOP shall have:

- a) Rules that support financial stability, safety and efficiency of its activities;
- b) Policies that stipulate its entire business processes and operations and shall be duly approved by the Board;
- c) Processes to identify, assess and manage potential conflicts of interest of members of the Board, principal officers, employees or any person directly or indirectly linked to the Board;

15.2 The Board and Management of a DAOP shall have a mix of skills and competence to discharge their duties;

15.3 The DAOP shall have a charter for the Board and Management that clearly stipulates responsibilities.

16.0 Obligations

16.1 A DAOP, in determining whether or not to approve a Digital Asset Offering, shall:

- (a) carry out due diligence and critical assessment on an Issuer including:
 - (i) understanding and verifying the business of the Issuer to



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ensure that the Issuer does not engage in any business practices appearing to be deceitful, oppressive or improper, whether unlawful or not;

- (ii) assess the fitness and propriety of the Issuer's directors and senior management; and
 - (iii) understand the features of the virtual asset/digital token to be issued by the Issuer and the rights attached to it;
- (b) exercise its own judgment and carry out critical assessment on the Issuer's compliance with the requirements in these Rules including as to whether the Issuer will be able to satisfy the requirement to provide an innovative solution or a meaningful digital value proposition for the Nigerian capital market; and
- (c) assess the Issuer's White paper furnished to the DAOP. In approving the Issuer's white paper, the DAOP shall ensure that the contents of the white paper include the information required under these Rules and that its contents are not false or misleading, or containing any material omission.

16.2 In addition to the obligations set out in paragraph 16.1, a DAOP shall:

- a) ensure that the white paper is accessible to Investors through its platform;
- b) ensure that all relevant information relating to an Issuer, including any material changes that are affecting the DAO project or the Issuer and the Issuer's annual and semi-annual report, are available through its platform;
- c) take reasonable steps in monitoring the drawdowns by Issuer and that it has been utilized for the purposes stated in the white paper;
- c) ensure that its platform is operating in an orderly, fair and transparent manner;
- e) have in place rules and procedures for Digital Asset Offering on its



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platform;

- f) ensure that all fees and charges payable are fair, reasonable and transparent;
- g) carry out continuous awareness and education programmes;
- h) take all reasonable measures to avoid situations that are likely to involve a conflict of interest with the Issuer;
- i) disclose any information or provide any document to the Commission as may be required;
- j) ensure that all disclosures are not false or misleading, or containing any material omission;
- k) obtain and retain self-declared risk acknowledgement forms from its users prior to them participating on a VAX;
- l) provide prior disclosure to investors that any loss resulting from the investors investing in a Digital Asset Offering is not covered by any Investor Protection Fund;
- m) disclose and display prominently on its platform, any relevant information including:
 - i. all necessary risk warning statements, including all risk factors that users may require in making a decision to participate on the platform;
 - ii. information on rights of Investors to investing through such platforms;
 - iii. criteria for access to the platform;
 - iv. education materials, including comparative information where necessary;
 - v. fees, charges and other expenses that it may



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- charge, or impose on its users;
 - vi. information about complaints handling or dispute resolution and its procedures;
 - vii. information on processes and contingency arrangement upon cessation of business, or in the event that it is unable to carry out its operations; and
 - viii. any other information as may be specified by the Commission from time to time;
- n) establish and maintain policies and procedures to:
- i. provide clear line of reporting, authorization and proper segregation of function;
 - ii. implement whistleblowing measures that are appropriate to the operations of the platform;
 - iii. identify, monitor, manage and mitigate cyber risks in its operating environment;
 - iv. effectively and efficiently identify, monitor, mitigate and manage situations, and other situations which may give rise to conflict of interest; and
 - v. ensure compliance with all relevant laws, rules and regulations;
- o) ensure that its processes and practices are continuously aligned to industry practices in relation to virtual assets/digital tokens;
- p) take all reasonable steps to ensure fair treatment of clients;
- q) identify and manage potential vulnerabilities and cyber threats in its operating environment;



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- r) in the event of any systems error, failure or malfunction, take all necessary and immediate appropriate actions to mitigate any potential losses;
- s) carry out any other duties or responsibilities as may be specified by the Commission; and
- t) immediately notify the Commission:
 - i. of any breach of the terms and conditions imposed by the provisions of the ISA 2007, guidelines or its Rules,
 - ii. when it becomes aware of any matter which adversely affects or is likely to adversely affect its ability to meet its obligations or to carry out its functions under these Rules;
 - iii. of any material change to the DAOP, the DAO project or the Issuer including any of the following matters:
 - A. The discovery of a false or misleading statement in any disclosures in relation to the DAOP, the DAO project or the Issuer;
 - B. The discovery of any material omission of information that may affect token holders;
 - C. Any material development in the circumstances relating to the DAOP, the DAO project or the Issuer
 - iv. of the occurrence of any event which would trigger the activation or execution of the business



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continuity plan, in such form and manner as may be specified by the Commission;

- u) maintain proper records of all transactions and activities executed on its platform in a form and manner to be determined by the Commission from time to time.
- v) provide the Commission access to the platform and any register required to be maintained under these Rules and disclose any other information as the Commission may require.

16.3 Notwithstanding subparagraph 16.2(e), any proposed rules of an DAOP or any proposed amendments to its existing rules shall not have effect unless it has been approved by the Commission.

17.0 Risk management

17.1 A DACP shall identify and manage any risks associated with its business and operations, including any possible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls.

17.2 A DACP shall, among others:

- a) ensure that its systems are designed to assure a high degree of security and operational reliability, including having adequate capacity;
- b) establish a robust Board-approved risk management framework with appropriate systems, policies, procedures, and controls to identify, monitor, mitigate and manage all material risks;
- c) have in place clearly defined roles and responsibilities for addressing material risks;
- d) have in place clearly defined operational reliability objectives and have policies in place that are designed to achieve those objectives;



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- e) ensure that it has adequate capacity proportionate to stress volumes to achieve its service-level objectives; and
- f) have a comprehensive physical and information security policy that addresses all potential vulnerabilities and threats.

17.3 A DAOP shall have a business continuity plan that addresses events posing a significant risk of disrupting operations, including events that could cause a wide-scale or major disruption.

17.4 The business continuity plan should incorporate the use of a secondary site and should be designed to ensure that critical information technology systems can resume operations within reasonable recovery time objectives (RTO) as well as recovery point objectives (RPO) following disruptive events.

17.5 A DAOP shall carry out periodic reviews, audits and testing on systems, operational policies, procedures, and controls relating to its risk management and business continuity plan on a risk-sensitive basis.

18.0 Internal audit

18.1 A DACP shall establish an internal audit function to develop, implement and maintain an appropriate internal audit framework which commensurate with its business and operations.

19.0 Conflict of interest management

19.1 A DAOP, including all its directors and shareholders, shall disclose to the public on its platform if:

- a) it holds any shares in any of the Issuers or virtual assets/digital tokens issued by any Issuers hosted on its platform; or
- b) it pays any referrer or introducer, or receives payment in whatever form, including payment in the form of shares, in connection with an Issuer hosted on its platform.



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- 19.2 Notwithstanding paragraph 19.1, a DAOP's shareholding in any of the Issuers hosted on its platform shall not exceed thirty (30) per cent, subject to the approval of the Commission.
- 19.3 A DAOP is prohibited from providing direct or indirect financial assistance to Investors to invest in the virtual assets/digital tokens of an Issuer hosted on its platform.

20.0 Operation of trust account

20.1 A DAOP shall:

- a) establish systems and controls for maintaining an accurate and up to date records of Investors and any monies or virtual assets/digital tokens held in relation to Investors;
- b) ensure Investors' monies and virtual assets/digital tokens are properly safeguarded from conversion or inappropriate use by any person, including but not limited to implementing multi-signature arrangements;
- c) establish and maintain with a registered Receiving Bank one or more trust accounts, designated for the monies received from Investors;
- d) ensure that the trust accounts under paragraph 20.1(c) are administered by a trustee or Central Securities Depository registered by the Commission;
- e) only release the funds to the Issuer after the following conditions are fulfilled:
 - i. The targeted amount sought to be raised has been met; and
 - ii. There is no material charge relating to the DAOP or the Issuer during the offer period



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- f) in relation to Investors' virtual asset/digital token:
 - i. ensure that the token holders' virtual asset/digital tokens are properly segregated and safeguarded from conversion or inappropriate use by any person;
 - i. establish and maintain a sufficiently and verifiably secured storage medium designated to store virtual assets/digital assets from Investors; and
 - ii. establish system and controls for maintaining accurate and up-to-date records of client's virtual assets/digital tokens held.

20.2 For the purpose of subparagraph 20.1(e)(ii), a material change may include any of the following matters:

- a) The discovery of a false or misleading statement in any disclosures in relation to the DAOP, the DAO project or the Issuer;
- b) The discovery of any material omission of information that may affect Investors; or
- c) Any material development in the circumstances relating to the DAOP, DAO project or the Issuer.

20.3 Notwithstanding paragraph 20.1(e), a DAOP may impose any other additional condition precedent before releasing the fund, provided that they serve the token holders' interest.

21.0 Custody of virtual asset/digital token

21.1 A DAOP may appoint a digital asset custodian registered with the Commission to provide custody of the token holders' virtual assets/digital tokens.

21.2 Where a DAOP chooses to provide its own custody services to the token holders, the DAOP shall comply with the Requirements for Digital Asset Custodian set out under these Rules.



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22.0 Supplementary white paper

22.1 Where a supplementary white paper has been furnished to the DAOP and the Commission, and before the issue of virtual assets/digital tokens, the DAOP shall notify the DAO applicant that:

- a) a supplementary white paper is available on the platform; and
- b) the applicant may withdraw his application for the subscription of the virtual asset/digital token within five (5) business days from the date of receipt of the notice.

22.2 If the applicant withdraws his application pursuant to paragraph 22.1(b), the DAOP shall, within five (5) business days, refund to the applicant any amount that the applicant has paid for the purposes of the DAC.

23.0 Register of initial token holders

23.1 A DAOP shall maintain a register of initial token holders who subscribed for the virtual assets/digital tokens during the offer period and enter into the register:

- a) in the case of a token holder who is a Nigerian, the name, address and details of means of identification of the token holder. In the case of a non-Nigerian token holder, the name, address and passport details of the token holder;
- b) in the case of a token holder who is a corporation, the name, registered address and registration number of the corporation, including details of its directors and shareholders;
- c) total amount of virtual assets/digital tokens subscribed by each token holder; and
- d) any other relevant information or particulars of the token holder as may be required by the Commission.



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24.0 Outsourcing

24.1 A DAOP shall select an appropriate and efficient service provider for its outsourcing arrangement, and monitor the outsourcing arrangement on a continuous basis to ensure that it does not lead to any business disruption and negative consequences to token holders.

24.2 Except for the functions set out under paragraph 24.3 below, all other functions of the DAOP, i.e. back office processes, services or activities can be outsourced subject to the requirements in these Rules.

24.3 A DAOP is not allowed to outsource any function that involves:

- a) the decision making functions of the DAOP; or
- b) any interaction or direct contact with the DAO Issuer or token holders.

24.4 The service provider shall avoid any conflict of interest. Where a conflict cannot be avoided, the Commission shall be duly notified, and appropriate safeguards shall be put in place to protect the interests of the token holders.

24.5 Where the payment service has been outsourced to a payment service provider, a 'no objection' from the Central Bank of Nigeria (CBN) shall be obtained.

24.6 The outsourcing of functions in this subparagraph is considered as material outsourcing arrangement and can only be outsourced by the DAOP to the following service providers:

- a) internal audit function to the DAOP's auditor or an external auditor, where applicable;
- b) compliance function to the DAOP group of companies, where applicable; or
- c) risk management function to the DAOP group of companies or an external service provider in the area of risk management.

24.7 Other than the material functions set out in paragraph 24.5, other



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outsourcing arrangements will also be considered as material outsourcing arrangement where:

- a) there may be a financial, reputational or operational impact on the DAOP in the event of a default or failure of the service provider;
- b) the DAOP's services or support rendered to the DAO Issuers may be potentially impacted by the outsourcing arrangement;
- c) the DAOP's ability and capacity to comply with regulatory requirements may be impacted by the outsourcing arrangement; and
- d) if the appointed service provider may not be able to perform the outsourced function, there is a degree of difficulty and time required for the DAOP to select an alternative service provider, or to bring the outsourced function in-house.

24.8 The internal audit and risk management functions, where outsourced, cannot be further sub-contracted.

24.9 Where a service provider or a sub-contractor is located outside Nigeria, the DAOP shall:

- a) analyze the economic, legal and political conditions of the country that the service provider and the sub-contractor are operating from, which may impact the undertaking of any outsourced functions;
- b) refrain from outsourcing to jurisdictions where the Commission is hindered from having prompt access to information;
- c) commit to retrieve information readily available from the service provider and the sub-contractor should the Commission request for such information; and
- d) inform the Commission if any foreign authority were to seek



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access to its clients' information, and shall comply with the provisions of the Nigerian Data Protection Regulation.

24.10 A DAOP's Board remains accountable for all outsourced functions.

24.11 A DAOP's Board shall be responsible for establishing effective policies and procedures for its outsourcing arrangement including a monitoring framework to monitor the service delivery, performance reliability and processing capacity of the service provider which should, among others, include periodic review, service level agreement update and regular meetings to discuss performance of the service provider, sub-contractor and regulatory matters.

24.12 A DAOP shall ensure that the service provider has adequate policies and procedures to monitor the conduct of the appointed sub-contractor.

25.0 Outsourcing information

25.1 A DAOP shall provide the Commission, within two (2) weeks prior to entering into any outsourcing arrangement in respect of any material outsourced function, with:

- a) A decision of the material outsourced functions, and, if applicable, an explanation on the rationale to outsource to service provider or sub-contractor outside Nigeria and the reasons the particular function could not be undertaken domestically, and
- b) A letter of undertaking from the service provider or sub-contractor stating that the Commission will have access to all information, records and documents relating to the material outsourced arrangement.

25.2 A DAOP shall also notify the Commission, within two (2) weeks from the occurrence of the following events:

- a) Any variation or termination of the service level agreement and sub-contracting agreement in relation to any material



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outsourcing arrangementsigned by the service provider; and

- b) Any adverse development arising in such material outsourcing arrangementthat could significantly affect a DAOP.

26.0 Hosting on other Platforms

26.1 An Issuer shall not be hosted concurrently on multiple DAOP or on an equity crowdfunding platform.

27.0 Cessation of operations

27.1 A DAOP shall not cease its business or operations without prior notification to the Commission.

27.2 The Commission may issue a direction or impose any term or condition for the purposes of ensuring the orderly cessation of the operations of the DAOP

27.3 The cessation of operations of the DAOP will not take effect until the Commission is satisfied that all the requirements stated in the ISA 2007, these Rules, relevant guidelines issued by the Commission and any other relevant laws or requirements, have been fulfilled.

28.0 Cancellation of Registration

28.1 The Commission may cancel the registration of a DAOP if:

- (a) the Commission finds that, at any time, the DAOP has submitted to the Commission any false or misleading information or there is material omission of information;
- (b) The DAOP fails to meet the requirements as provided in the ISA 2007, these Rules, any other relevant laws or guidelines issued by the Commission;
- (c) The DACP fails or ceases to carry on the business or activities for which it was registered for a consecutive period of six (6) months;



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(d) The DAOP contravenes any obligation, condition or restriction imposed under these Rules; or

(e) fails to pay any fee prescribed by the Commission.

28.2 A DAOP may, by notice in writing, apply to the Commission to withdraw its registration and provide reasons for its withdrawal.

28.3 The withdrawal of the DAOP's registration shall not:

- a) take effect until the Commission is satisfied that adequate arrangements have been made to meet all the liabilities and obligations of the DAOP that are outstanding at the time when the notice of the withdrawal is given; and
- b) operate so as to:
 - i. avoid or affect any agreement, transaction or arrangement entered into by the DAOP, whether the agreement, transaction or arrangement was entered into before or after the withdrawal of the registration; or
 - ii. affect any right, obligation or liability arising under any such agreement, transaction or arrangement.



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PART C

Registration Requirements for Digital Asset Custodians (DACs)

29.0

Definition

Digital Asset Custodian - means a person who provides the services of providing safekeeping, storing, holding or maintaining custody of virtual assets/digital tokens for the account of another person.

30.0 Registration Requirements

30.1 In addition to the general requirements for VASPs, an applicant seeking to register as a DAC shall comply with the following requirements:

- a) Satisfy eligibility requirements for registration as a Custodian or Trustee, and any additional requirements which the Commission may prescribe from time to time;
- b) Where a registered Custodian or registered Trustee seeks to provide DAC services, such CMO shall apply to the Commission for approval;
- c) Payment of fees as prescribed by the Commission;

30.2 The Commission may register a foreign DAC, provided that they fulfill requirements set out in these Rules, and the Commission is satisfied that:

- a) the applicant is authorized to operate or carry out an activity of a similar nature in the foreign jurisdiction; and
- b) the applicant is from a comparable jurisdiction with whom the Commission has regulatory arrangements on enforcement, supervision and sharing of information.



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31.0 Obligations of a Digital Asset Custodian

31.1 A DAC shall:

- a) act in the best interest of the clients and take all reasonable measures to avoid situations that are likely to involve conflict of interest with the clients;
- b) safeguard the rights and interests of its clients including ensuring that its clients have access to their virtual assets/digital tokens at all times, and preventing unauthorized access to clients' virtual assets/digital tokens;
- c) ensure that all fees and charges payable are fair, reasonable and transparent;
- d) disclose any information or provide any document to the Commission as the Commission may require;
- e) comply with all the reporting requirements and submit accurate information that is required by the Commission in a timely manner;
- f) identify and manage risks associated with its business and operations, including having in place an effective business continuity plan;
- g) establish and maintain written policies and procedures to:
 - (i) provide clear line of reporting, authorization and proper segregation of function;
 - (ii) prevent unauthorized access or fraudulent transaction;
 - (iii) implement anti-corruption and whistleblowing measures that are appropriate to the nature, scale and complexity of its business;
 - (iv) enable full disclosure of all client's transactions and assets to the client;



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- (v) ensure compliance with all relevant laws, regulations and guidelines including but not limited to Anti-Money Laundering/Combating the Financing of Terrorism/Proliferation Financing laws and regulations (AML, CFT/PF);
- (vi) manage clients' data including the following:
 - (A) proper handling and safeguarding of client data;
 - (B) protection of confidentiality and security of client data; and
 - (C) managing third party service provider who has access to client data:
- h) ensure that its processes and practices are continuously aligned to industry practices in relation to custody of virtual assets/digital tokens;
- i) take all reasonable steps to ensure fair treatment of clients;
- j) identify and manage potential vulnerabilities, cyber threats in its operating environment;
- k) in the event of any systems error, failure or malfunction, take all necessary and immediate appropriate actions to mitigate any potential losses;
- l) carry out any other duties or responsibilities as may be specified by the Commission;
- m) immediately notify the Commission:
 - (i) of any breach of the terms and conditions imposed by the Commission, any provisions of the securities laws, guidelines or its rules, including any alleged or suspected violations of any relevant laws or guidelines referred to in paragraph 31.1(g)(v);



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- (ii) when it becomes aware of any matter which adversely affects or is likely to adversely affect its ability to meet its obligations or to carry out its functions under these Rules; and
 - (iii) of the occurrence of any event which would trigger the activation or execution of the business continuity plan, in such form and manner as may be specified by the Commission;
- n) maintain proper records of all transactions and activities executed on its platform in a form and manner to be determined by the Commission from time to time.
 - o) provide the Commission access to any register required to be maintained under these Rules, and disclose any other information as the Commission may require.

32.0 Risk management

32.1 A DAC shall establish a risk management framework to identify, assess, monitor, control and report all material risks to which the digital asset custodian could be exposed to.

32.2 The risk management framework shall include:

- a) strategies developed to identify, assess, monitor and mitigate all material risks;
- b) policies and protocols relating to management and controls of all material risks;
- c) methodology to assess all material risks; and
- d) reporting system for all material risks to senior management and Board.

32.3 A DAC shall carry out periodic reviews, audits and testing on systems,



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operational policies, procedures, and controls relating to risk management and its business continuity plan.

33.0 Conflict of interest management

33.1 A DAC shall give priority to the clients' interest if there is a conflict between the clients' interests and its own interests;

33.2 A DAC shall establish and maintain written policies, processes and procedures that:

- a) identify, monitor, mitigate and manage situations and potential situations which may give rise to conflict of interest; and
- b) require disclosure of any conflict or potential conflict of interest.

34.0 Internal audit

34.1 A DAC shall perform internal audit checks on its operations regularly. For this purpose, the DAC may establish an internal audit function or outsource the said function.

34.2 The person responsible for the internal audit function shall report directly to the Board on the adequacy, effectiveness and efficiency of the management, operations, risk management and internal controls.

34.3 Notwithstanding that the internal audit function may be outsourced, the Board shall ensure that the internal audit framework includes:

- (a) clearly defined terms of the internal audit framework which sets out the scope, objectives, approach and reporting requirements;
- (b) adequate planning, controlling and recording all audit work performed, and record the findings, conclusions and if any, recommendations made;
- (c) issuance of an internal audit report at the conclusion of each



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internal audit performed; and

- (d) ensuring matters highlighted in the internal audit report are satisfactorily resolved in a timely manner and does not jeopardize or prejudice the clients' interest.

34.4 The internal audit framework shall be approved by the Board.

35.0 Key generation and management

35.1 A DAC shall establish and maintain a sufficiently and verifiably secured storage medium designated to store its clients' virtual assets/digital tokens.

35.2 A DAC shall have in place effective policies and procedures to safeguard key generation and management including:

- (a) adopting industry standards and practices in terms of key generation and management;
- (b) ensuring that the employees that are involved in the key generation process are identified and prevented from having unauthorized access to clients' virtual assets/digital tokens; and
- (c) having in place procedures to enable the clients to access their digital assets in the event the client loses his access credentials or where the keys have been compromised.

35.3 A DAC shall have in place effective security mechanisms for the virtual assets/digital tokens including adopting measures such as having multi-factor authentication requirements before effecting any transaction on behalf of the clients.

36.0 Segregation of client assets

36.1 A DAC shall:

- a) ensure that all clients' virtual assets/digital tokens are properly



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segregated from its own assets and safeguarded from conversion or inappropriate use by any person; and

- b) establish system and controls for maintaining accurate and up-to-date records of clients' virtual assets/digital tokens held;

Provided that a foreign DAC shall have a separate account for its custodial services in a Digital Asset Offering in Nigeria.

37.0 Transaction handling

37.1 A DAC shall ensure that, at all times, it has up-to-date transactional records relating to the clients' virtual assets/digital tokens including:

- a) transaction timestamp;
- b) details of any transaction including the purpose of a transfer, amount and details of the counterparty;
- c) relevant signatories and transaction approval/rejection evidence;
- d) account balances;
- e) transaction value; and
- f) any other information as may be specified by the Commission.

37.2 The DAC shall provide the information under paragraph 37.1 to the Commission when requested and in such form and manner as the Commission may specify.

37.3 Transactions under these Rules shall be denominated in Nigerian Naira.

37.4 The DAC shall maintain proper records of all transactions and activities executed on its platform in a form and manner to be determined by the Commission from time to time.



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38.0 Outsourcing

- 38.1 A DAC shall appoint an appropriate and efficient service provider for its outsourcing arrangement, and monitor the outsourcing arrangement on a continuous basis to ensure that it does not lead to business disruption and negative consequences to the clients.
- 38.2 Except for the functions set out under paragraph 38.3 below, all other functions of the DAC, i.e. back office processes, services or activities can be outsourced subject to the requirements of these Rules.
- 38.3 The DAC shall not outsource any function that involves:
- (a) the decision making functions of the digital asset custodian; or
 - (b) any contact whatsoever with the clients.
- 38.4 The service provider shall avoid any conflict of interest. Where a conflict cannot be avoided, appropriate safeguards shall be put in place to protect the interests of the clients.
- 38.5 The outsourcing of functions in this subparagraph is considered as material outsourcing arrangement and can only be outsourced by the DAC to the following service providers:
- a) internal audit function to the DAC's auditor or an external auditor, where applicable;
 - b) compliance function to the DAC group of companies, where applicable; or
 - c) risk management function to the DAC group of companies or an external service provider in the area of risk management.
- 38.6 Other than the material functions set out in the paragraph 38.5, other outsourcing arrangements will also be considered as material outsourcing where:
- a) there may be a financial, reputational or operational impact on the



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digital asset custodian in the event of a default or failure of the service provider;

- b) the digital asset custodian's services or support rendered to the clients may be potentially impacted by the outsourcing arrangement;
- c) the digital asset custodian's ability and capacity to comply with regulatory requirements may be impacted by the outsourcing arrangement; and
- d) if the appointed service provider may not be able to perform the outsourced function, there is a degree of difficulty and time required for the digital asset custodian to appoint an alternative service provider, or to bring the outsourced function in-house.

38.7 The internal audit and risk management functions, where outsourced, cannot be further sub-contracted.

38.8 Where a service provider or a sub-contractor is located outside Nigeria, the DAC shall:

- a) analyze the economic, legal and political conditions of the country that the service provider and the sub-contractor are operating from, which may impact the undertaking of any outsourced functions;
- b) refrain from outsourcing to jurisdictions where the Commission is hindered from having prompt access to information;
- c) commit to retrieve information readily available from the service provider and the sub-contractor should the Commission request for such information; and
- d) inform the Commission if any foreign authority were to seek access to the clients' information.

38.9 The DAC's Board remains accountable for all outsourced functions.

38.10 The DAC's Board shall be responsible to establish effective policies and



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procedures for its outsourcing arrangement including a monitoring framework to monitor the service delivery, performance reliability and processing capacity of the service provider which should, among others, include periodic review, service level agreement update and regular meetings to discuss performance of the service provider, sub-contractor and regulatory matters.

38.11 A DAC shall ensure that the service provider has adequate policies and procedures to monitor the conduct of the appointed sub-contractor.

39.0 Outsourcing information

39.1 A DAC shall, within two (2) weeks prior to entering into any outsourcing arrangement in respect of any material outsourced function, provide the Commission with the following:

- a) A decision of the material outsourced functions, and, if applicable, an explanation on the rationale to outsource to service provider or sub-contractor outside Nigeria and the reasons the particular function could not be undertaken domestically; and
- b) A letter of undertaking from the service provider or sub-contractor stating that the Commission will have access to all information, records and documents relating to the material outsourced arrangement

39.2 A DAC shall also notify the Commission, within two (2) weeks from the occurrence of the following event:

- a) Any variation or termination of the service level agreement and sub-contracting agreement in relation to any material outsourcing arrangement signed by the service provider; and
- b) Any adverse development arising in such material outsourcing arrangement that could significantly affect the digital asset custodian.

39.3 A DAC shall obtain the Commission's prior approval in circumstances where



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any proposed change to the shareholding will result in a direct or indirect change in the DAC's controller.

- 39.4 A DAC shall notify the Commission if it intends to provide custodial services for additional classes of virtual assets/digital tokens.

40.0 Cessation of Business or Operations

- 40.1 A DAC shall not cease its business or operations without prior engagement with the Commission
- 40.2 The Commission may issue a direction or impose any term or condition for the purposes of ensuring the orderly cessation of the business or operation of the DAC.
- 40.3 A DAC shall ensure the clients continue to have uninterrupted access to their respective virtual assets/digital tokens under its custody in the event that the DAC ceases to operate or cannot fulfil its obligation under the custodia agreement.
- 40.4 The cessation of business or operations of the DAC will not take effect until the Commission is satisfied that all the requirements stated in the securities laws, these Rules, relevant guidelines issued by the Commission and any other relevant laws or requirements have been fulfilled.

41.0 Suspension/Cancellation/Withdrawal of Registration

- 41.1 The Commission may suspend or cancel the registration of a DAC as prescribed in the SEC Rules and Regulations on cancellation of registration;
- 41.2 The DAC may, by notice in writing, apply to the Commission to withdraw its registration and provide reasons for its withdrawal as prescribed in the SEC Rules and Regulations on withdrawal of registration.
- 41.3 The withdrawal of registration of a DAC shall not take effect until the Commission is satisfied that adequate arrangements have been made to meet



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all the liabilities and obligations of the DAC that are outstanding at the time when the notice of the withdrawal is given and the DAC shall operate so as to:

- a) avoid or affect any agreement, transaction or arrangement entered into by the DAC, whether the agreement, transaction or arrangement was entered into before or after the withdrawal of the registration;
or
- b) affect any right, obligation or liability arising under any such agreement, transaction or arrangement.



PART D

Rules on Virtual Assets Service Providers (VASPs)

General Requirements

These Rules shall cover:

1. Requirements for Registration of VASPs
2. Requirements for Registration of a Digital Asset Exchange
3. Requirements for Registration of a Digital Asset Custodian
4. Requirements for Registration of Digital Asset Offering Platform
5. Requirements for Issuance of Digital Assets

1.0 Applicability

- 1.1 These Rules shall be read in conjunction with all relevant and applicable laws and the Rules and Regulations of the Commission and shall apply to:
 - (a) all platforms that facilitate trading, exchange and transfer of Virtual assets;
 - (b) any person, (individual or corporate) whose activities involve any aspect of Distributed Ledger Technology (DLT)-related and virtual digital asset services. Such services include, but are not limited to reception, transmission and execution of orders on behalf of other persons, dealers or own account, portfolio management, investment advice, custodian or nominee services, etc;
 - (c) issuers or sponsors of virtual/digital assets, including foreign or non-residential;
 - (d) foreign or non-residential operators that actively target Nigerian investors directly or through their agents, through promotions, publications in Nigeria or direct e-mails to Nigerian addresses;
- 1.2 A VASP shall be structured as a body corporate unless specified otherwise by the Commission.
- 1.3 These Rules do not apply to:
 - (a) a technology service provider who merely provides the infrastructure.



software or the system to a Digital Asset Exchange (DAX);

- (b) an operator of a communication infrastructure that merely enables orders to be routed to an Exchange;
- (c) an operator of a financial portal that aggregates content and provides links to financial sites of service and information provider;

2.0 Conditions for Exemption

2.1 The Commission may, upon application, grant an exemption from or a variation to the requirements of these Rules, if the Commission is satisfied that:

- (a) such variation is not contrary to the intended purpose of the relevant requirements in these Rules; or
- (b) there are mitigating factors which justify the said exemption or variation.

3.0 Definitions

Unless otherwise defined, all words used in these Rules shall have the same meaning as defined in the Investments and Securities Act, 2007 (ISA) and SEC Rules & Regulations:

Securities exchange Platform- has the same meaning as "Securities Exchange" as defined in the ISA 2007

Depository has the same meaning as provided in the SEC Rules and Regulations;

Virtual Asset means a digital representation of value that can be transferred, digitally traded and can be used for payment or investment purposes.

It shall not include digital representations of fiat currencies, securities and other financial assets.

Digital Asset means a digital token that represents assets such as a debt or equity claim on the issuer



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- DAX means an electronic platform which facilitates the trading of a virtual asset or digital asset;
- DAX Operator means a person who operates a DAX;
- VASP- means any entity who conducts one or more of the following activities or operations for or on behalf of another person:
- i. exchange between virtual assets and fiat currencies;
 - ii. exchange between one or more forms of virtual assets;
 - iii. transfer of virtual assets;
 - iv. safekeeping and/or administration of virtual assets or instruments enabling control over virtual assets; and
 - v. participation in and provision of financial services related to an issuer's offer and/or sale of a virtual asset.



4.0 Requirement for registration of VASPs

4.1 An application for registration as a VASP shall be filed on the appropriate SEC Form contained in the applicable Schedule to the SEC's Rules and Regulations and accompanied by:

- (a) A sworn undertaking that the applicant will be able to operate an orderly, fair and transparent market in relation to the securities including derivatives that are offered or traded, on or through its platform;
- (b) A sworn undertaking that the applicant will be able to carry out its obligations as set out under these Rules;
- (c) A sworn undertaking that the information or document that is furnished by the applicant to the Commission is not false or misleading nor does it contain any material omission;
- (d) Evidence that the applicant is not in the course of being wound up or otherwise dissolved;
- (e) Evidence that no receiver manager or an equivalent person has been appointed within or outside Nigeria, or in respect of any property of the applicant;
- (f) A sworn undertaking that the applicant has not, whether within or outside Nigeria, entered into a compromise or scheme of arrangement with its creditors, being a compromise or scheme of arrangement that is still in operation;
- (g) Evidence that the applicant, applicant's directors, chief executive, controller, and any person who is primarily responsible for its operations or financial management are fit and proper, taking into account the following:
 - (i) That they are suitably qualified to assume the position including having the relevant experience and track record in managing a business;
 - (A) been convicted, whether within or outside Nigeria, of an offence involving fraud or other dishonesty or violence or the conviction of which involved a finding



- that he acted fraudulently or dishonestly;
- (B) been convicted of an offence under the securities laws or any law within or outside Nigeria relating to capital market;
 - (C) contravened any rules of a registered Exchange, registered clearing house, depository or a registered self-regulatory organization;
 - (D) contravened any provision made by or under any written law whether within or outside Nigeria appearing to the Commission to be enacted for protecting members of the public against financial loss due to dishonesty, incompetence or malpractice by persons concerned in the provision of financial services or the management of companies or against financial loss due to the conduct of discharged or undischarged bankrupts;
 - (E) engaged in any business practices appearing to the Commission to be deceitful, oppressive or otherwise improper, whether unlawful or not, or which otherwise reflect discredit on his method of conducting business;
 - (F) engaged in or has been associated with any other business practices or otherwise conducted himself in such a way as to cast doubt on his competence and soundness of judgement; or
 - (G) engaged in or has been associated with any conduct that cast doubt on his ability to act in the best interest of investors, having regard to his reputation, character, financial integrity and reliability.
- (ii) Evidence that there are no other circumstances which are likely to—
1. lead to the improper conduct of operations by the applicant or by any of its directors, chief executive, controller or any person who is primarily responsible for the operations or financial management of the applicant; or



2. reflect discredit in the manner it operates its business;
- (i) Submit a business model which has a clear or unique value proposition or will contribute to the overall development of the capital market;
 - (j) Submit the rules of the entity it seeks to operate and make satisfactory provisions—
 - (i) for the protection of investors and public interest;
 - (ii) to ensure proper functioning of the entity; to promote fairness and transparency;
 - (iii) to manage any conflict of interest that may arise;
 - (iv) to promote fair treatment of its users or any person who subscribes for its services;
 - (v) to promote fair treatment of any person who is hosted, or applies to be hosted, on its platform;
 - (vi) to ensure proper regulation and supervision of its users, or any person utilizing or accessing its platform, including suspension and expulsion of such users or persons; and
 - (vii) to provide an avenue of appeal against the decision of the VASP;
 - (k) Evidence that the applicant will be able to take appropriate action against a person in breach including directing the person in breach to take any necessary remedial measure;
 - (l) Evidence that the applicant will be able to manage risks associated with its business and operation including demonstrating the processes and contingency arrangement in the event the applicant is unable to carry out its operations;
 - (m) Evidence that the applicant has sufficient financial, human and other resources for the operation of the Exchange, at all times; and
 - (n) Evidence that the applicant has appropriate security arrangements which include maintaining a secured environment pursuant to the



Commission's Technology Risk Management Guidelines, as applicable

- 4.2 Where an applicant is regulated by another sectoral regulator, the applicant must also submit to the Commission a no objection or approval letter from the relevant sectorial regulator when making the application.
- 4.3 A VASP shall have an office in Nigeria managed by a Director of the company.

5.0 Obligations

- 5.1 A VASP shall—
 - (a) monitor and ensure compliance of its rules;
 - (b) ensure fair treatment of its users;
 - (c) ensure that all disclosures are accurate, clear and not misleading;
 - (d) obtain and retain self-declared risk acknowledgement forms from its users prior to them investing in an Exchange;
 - (e) provide a conspicuous disclaimer on the platform informing investors that any loss resulting from the investors trading or investment through the Exchange is not covered by any protection fund
 - (f) ensure that all fees and charges payable are fair, reasonable and transparent;
 - (g) ensure that it does not engage in any business practices appearing to the Commission to be deceitful, oppressive or improper (whether unlawful or not) or which otherwise reflect discredit on his method of conducting business;
 - (h) carry out continuous awareness and education programmes;
 - (i) have in place adequate policies, procedures and controls to mitigate against money laundering, terrorism financing and counter proliferation financing requirements and comply with Anti Money Laundering/Combating Financing of Terrorism and Proliferation Financing laws and regulations



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- (j) disclose and display prominently on its platform, any relevant information relating to the Exchange such as—
 - (i) all necessary risk warning statements, including all risk factors that users may require in making a decision to participate on the platform;
 - (ii) information on rights of investors relating to investing or trading on the Exchange;
 - (iii) criteria for access to the Exchange;
 - (iv) education materials, including comparative information where necessary;
 - (v) fees, charges and other expenses that it may charge, impose on its users;
 - (vi) information about complaints handling or dispute resolution and its procedures;
 - (vii) information on processes and contingency arrangement in the event the DAX is unable to carry out its operations or cessation of business; and
 - (viii) any other information as may be specified by the Commission;
- (k) provide to the Commission access to the platform and any register required to be maintained under these Rules and disclose any other information as the Commission may require;
- (l) notify the Commission of the occurrence of any event which would trigger the activation or execution of the business continuity plan, in such form and manner as may be specified by the Commission; and
- (m) in the event of any system error, failure or malfunction—
 - (i) take all necessary and immediate appropriate actions to mitigate any potential losses; and
 - (ii) immediately notify the Commission of the system error, failure or malfunction.



Part E

Rules on Digital Assets Exchange (DAX)

6.0 Digital Assets Exchange (DAX)

In addition to the general requirements for VASPs, an applicant seeking to register as a DAX Operator shall comply with the following requirements:

6.1 Payment

- a. Filing/Application Fee – N100,000 (One Hundred Thousand Naira only)
- b. Processing Fee – N300,000 (Three Hundred Thousand Naira only)
- c. Registration fee – N30,000,000 (Thirty Million Naira only)
- d. Sponsored Individuals Fee- N100,000 (One Hundred Thousand Naira only)

6.2 Forms

- a. An application for registration of a Digital Asset Exchange (DAX) shall be made on the appropriate SEC form and shall be accompanied by the following:
 - ii. Form SEC 2 and 2D – Sponsored Individuals/Compliance Officer who shall be principal officers of the DAX (i.e. Managing Director and Principal Officers). (To be completed in duplicates);

6.3 Minimum Paid-Up Capital and Fidelity Bond

- a. Evidence of Required Minimum Paid up Capital – N500,000,000 (Five hundred Million Naira) (i.e. Bank balances, Fixed asset or investment in quoted securities), subject to verification of the sources of the funds;
- b. Current Fidelity Bond covering at least 25% of the minimum paid-up capital as stipulated by the Commission's Rules and Regulations;
- c. The Commission may at any time impose additional financial requirements or other terms and conditions on the DAX Operator that commensurate with the nature, operations and risks posed by the DAX Operator;
- d. All funds shall be made through Real-Time Gross Settlement (RTGS).

7.0 Sponsored Individuals and Directors

Comply with requirements for registration of sponsored individuals as contained in SEC Rules and Regulations



8.0 Corporate Documents

- a. A copy each of the following, duly certified by the CAC;
- b. Certificate of Incorporation (original to be sighted)
- c. Memorandum and Articles of Association which shall include the power to perform the specified function;
- d. CAC Form(s) showing Statement of Share Capital, Return of Allotment, and Particulars of Directors
- e. Latest audited accounts or audited statement of affairs of the company in the case of a new company.

8.1 Additional requirements

- f. Sworn undertaking to keep proper records and render returns as may be specified by the Commission from time to time, signed by a director or the company secretary;
- g. Sworn undertaking to abide by SEC Rules and Regulations and Investments and Securities Act No.29 of 2007 by a director or the company secretary;
- h. The Commission may require such other documents as it considers necessary for registration.

9.0 The Commission may require the following, prior to commencement of operations by a DAX Operator:

- a) evidence of Information Technology (IT) assurance regarding the system readiness and;
- b) a written declaration by its internal auditor confirming that it has:
 - I. sufficient human, financial and other resources to carry out operations;
 - II. adequate security measures, systems capacity, business continuity plan and procedures, risk management, data integrity and confidentiality, record keeping and audit trail, for daily operations and to meet emergencies; and
 - III. sufficient IT and technical support arrangements.
 - IV. Chief Information Security Officer to ensure amongst others, that cyber risks are adequately mitigated.

10.0 Approval of the Board

10.1 A DAX Platform shall have a Board whose appointment shall be subject to approval of the Commission;



11.0 Appointment of Chief Executive and Principal Officers

- 11.1 The Chief Executive Officer of a DAX Platform shall hold office for a period of five (5) years in the first instance and may be re-appointed for a further period of five (5) years and no more;
- 11.2 The appointment of a Chief Executive Officer and Principal Officers of a DAX Platform shall be subject to the prior approval of the Commission;
- 11.3 The Chief Executive Officer and other Principal Officers of a DAX Platform shall:
- a) be registered by the Commission as Sponsored Individuals
 - b) be persons of proven integrity with no record of criminal conviction;
 - c) hold at least a university degree or its equivalent;
 - d) have at least five (5) years cognate experience,
 - e) not have been found complicit in the operation of an institution that has failed or been declared bankrupt or has had its operating license revoked as a result of mismanagement or corporate governance abuses;
 - f) not have been found liable for financial impropriety or any other misdemeanor by any court, panel, regulatory agency or any professional body or previous employer;
 - g) comply with any other criteria which the Commission may, in the public interest, determine from time to time.

12.0 Governance

- 12.1 The DAX shall have:
- a. a charter for the Board and Management that clearly stipulates responsibilities
 - b. rules that support financial stability, safety and efficiency of its activities;
 - c. policies that stipulate its entire business processes and operations and shall be duly approved by the board;
 - d. processes to identify, assess and manage potential conflicts of interest of members of the Board, principal officers, employees or any person directly or indirectly linked to the Board;
- 12.02 The Board and Management of a DAX shall have a mix of skills and competence to discharge their duties;

13.0 Outsourcing obligations

- 13.1 The DAX Operator shall:



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- a. have a Board accountable for all outsourced functions. The board shall establish effective policies and procedures for its outsourcing arrangement including a monitoring framework to monitor the service delivery and performance reliability of the service provider
- b. ensure that the service provider has adequate policies and procedures to monitor the conduct of any appointed sub-contractor.
- c. perform an assessment on a service provider on a periodic basis, as part of its monitoring mechanism and submit a report of the assessment to its Board of Directors and senior management.
- c. have a sworn undertaking from the service provider or sub-contractor stating that the Commission will have access to all information, records and documents relating to the material outsourced arrangements.
- e. notify the Commission of any adverse development arising in the outsourcing arrangement of any outsourced function that could significantly affect the operations of a DAX, within two weeks from the occurrence of the event.

14.0 Submission of Rules

- 14.1 A DAX Operator shall submit to the Commission for approval, any proposed rules or amendments to existing rules. The submission shall include—
- a) the text of the proposed rules or amendments; and
 - b) the purpose of the proposed rules or amendments.
- 14.2 The Commission may direct a DAX Operator to vary or amend any rule submitted as it deems necessary.

15.0 Reporting requirements

- 15.1 A DAX Operator shall submit to the Commission the following:
- (a) Weekly and monthly trading statistics and all reporting requirements.
 - (b) quarterly and annual financial as well as compliance reports to demonstrate its compliance with any conditions imposed by the Commission pursuant to the registration of the DAX operator;



- (c) Its latest audited financial statements, within three months after the close of each financial year or such period that the Commission may allow; and
- (d) Any information required by the Commission.

16.0 Cessation of Business or Operations

- 16.1 The DAX Operator shall not cease the business or operations of an Exchange without prior notification to the Commission.
- 16.2 Without prejudice to other sections of these Rules, the Commission may issue a directive or impose any term or condition for the purposes of ensuring the orderly cessation of the business or operations of the Exchange.

17.0 Suspension/Cancellation/Withdrawal of Registration

- 17.1 The Commission may suspend or cancel the registration of an Exchange as prescribed in the SEC Rules and Regulations on suspension/cancellation of registration
- 17.2 The DAX operator may, by notice in writing, apply to the Commission to withdraw its registration and provide reasons for its withdrawal as prescribed in the SEC Rules and Regulations on withdrawal of registration.

18.0 Managing conflict of interest

- 18.1 The DAX Operator's framework relating to conflict of interest must include policies and procedures relating to, among others—
 - a) proprietary trading by the DAX Operator on its platform;
 - b) trading in virtual/digital Assets by its officers and employees on its own or other platforms;
 - c) the management of non-public material information; and
 - d) the offering of any virtual/digital Asset to be traded on its platform.

19.0 Prohibition on financial assistance

- 19.1 A DAX Operator is prohibited from providing direct or indirect financial assistance to investors, including its officers and employees, to invest or trade in virtual assets/digital Tokens on its platform.



20.0 Risk Management

- 20.1 A DAX Operator should identify possible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability including having adequate capacity.
- 20.2 In relation to paragraph 22.1, a DAX Operator shall, among others:
- a) establish a robust operational risk-management framework with appropriate systems, policies, procedures, and controls to identify, monitor, mitigate and manage operational risks;
 - b) have in place clearly defined roles and responsibilities for addressing operational risk;
 - c) have in place clearly defined operational reliability objectives and have policies in place that is designed to achieve those objectives;
 - d) ensure that it has adequate capacity proportionate to stress volumes to achieve its service-level objectives; and
 - e) have a comprehensive physical and information security policy that addresses all potential vulnerabilities and threats.
- 21.1 A DAX operator shall have a business continuity plan that addresses events posing a significant risk of disrupting operations, including events that could cause major disruption.
- 21.2 The business continuity plan should incorporate the use of a secondary site and should be designed to ensure that critical information technology systems can resume operations within reasonable recovery time objectives following disruptive events.
- 21.3 A DAX Operator shall carry out periodic reviews, audits and testing on systems, operational policies, procedures, and controls relating to risk management and its business continuity plan.

22.0 Internal Audit

- 22.1 A DAX Operator must establish an internal audit function to develop, implement and maintain an appropriate internal audit framework commensurate with its business and operations.

23.0 Trading of Virtual Assets/Digital Tokens

- 23.1 No DAX Operator shall facilitate the trading of any virtual/digital asset unless the Commission has issued a "no objection" to the trading of the virtual/digital asset.



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- 23.2 In relation to paragraph 23.1, a DAX is required to submit an application to the Commission enclosing documents and any other information to be determined by the Commission from time to time
- 23.3 Demonstrate availability of information related to the project, including but not limited to–
- a) the whitepaper or any other disclosure document accompanying the virtual/digital Asset;
 - b) the progress of the project including both business and technical aspects;
 - c) compliance with all other legal and regulatory frameworks in Nigeria and other jurisdictions where the project operates in;
 - d) security of the underlying distributed ledger, including but not limited to–
 - I. the number of nodes;
 - II. any history of hacks and other form of attacks; and any known security vulnerabilities; and
- 23.4 Notwithstanding paragraph 23.2 above, if a person wishes to issue a virtual asset/digital token it shall comply with the relevant Rules issued by the Commission. Such virtual asset/digital token would still require approval from the Commission prior to being traded on any Digital Asset Exchange.
- 23.5 a DAX Operator must–
- a) ensure that its platform is operating in an orderly, fair and transparent manner;
 - b) have in place rules and procedures for the trading, clearing and settlement of virtual assets/digital tokens on the platform; and
 - c) conduct real-time market surveillance.

24.0 Asset Protection

- 24.1 DAX Operator shall–
- a) establish systems and controls for maintaining accurate and up to date records of investors and any monies or virtual assets/digital tokens held in relation thereto;
 - b) ensure investors monies and virtual assets/digital tokens are properly safeguarded from conversion or inappropriate use by any person, including but not limited to implementing multi-signature arrangements;
 - c) establish and maintain with a registered Central Securities Depository or Trustee, one or more Central Securities Depositories or trust accounts, designated for the monies received from investors;
 - d) ensure that the Central Securities Depository or trust accounts under paragraph 25.01(c) are administered by an independent registered



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- Central Securities Depository or trustee;
- e) establish and maintain a sufficiently and verifiably secured storage medium designated to store virtual assets/digital tokens from investors; and
- f) in relation to investors' virtual assets/digital tokens, have arrangements and processes in place to protect against the risk of loss, theft or hacking

25.0. Settlement and custody

25.1 A DAX Operator shall:

- a. ensure there are orderly, clear and efficient clearing and settlement arrangements;
- b. ensure these arrangements include prior or upfront deposit of monies and virtual assets/digital tokens with the DAX Operator before entering into a transaction on the Digital Asset Exchange.
- c. provide clear and certain final intra-day settlement

26.0 Trading operations

26.1 A DAX Operator shall:

- a. disclose information about its market structure, order types and the interactions of the order types, if any, on the platform;
- b. have adequate arrangements and processes to deter manipulative activities on the platform and ensure proper execution of trades;
- c. have adequate arrangements and processes to manage excessive volatility of its platform which may include circuit breakers, price limits and trading halts;
- d. have adequate arrangements and processes to manage error trades;
- e. have adequate arrangements and processes to manage systems error, failure or malfunction;
- f. have adequate arrangements and processes to manage investors' assets in the event of any suspension or outages of the platform, including transfer or withdrawal procedures.

27.0 Market transparency

27.1 A DAX Operator shall:

- a. ensure trading information, both pre-trade and post-trade, is made publicly available on a real-time basis.
- b. make available in a comprehensible manner and on a timely basis, material information or changes to the tradable virtual assets/digital tokens.



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- c. ensure all information relating to the trading arrangements pursuant to paragraph 26.1, including the circumstances arising thereof and where relevant, are made publicly available.

28.0 Obligation to maintain proper records

- 28.1 A DAX shall maintain records of all transactions and activities executed on its platform in a form and manner to be determined by the Commission from time to time.

29.0 Transaction Fees

- 29.1 The Commission shall charge fees on transaction carried out virtual assets/digital tokens traded on a DAX at a rate or percentage to be determined by the Commission from time to time;
- 29.2 All transaction fees payable to DAX by its users shall be subject to approval of the Commission.

MADE AT ABUJA THIS ^{30th}..... DAY OF APRIL 2022

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CHUKWUMA T. MEGWA
Ag. Secretary to the Commission

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LAMIDO A. YUGUDA
Director-General