

# *Financial focus*

## Risk and regulations

*November 2013*

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# Foreword



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Nigeria's financial services industry is continuously evolving in response to various regulatory requirements. In this maiden issue of Financial Focus, we explore various themes through articles that consider the implications and impact of these changes to your business.

Mandatory reporting for all publicly listed entities and significant public interest entities was December 31, 2012. All listed companies and significant public interest entities in Nigeria statutorily issued IFRS based financial statements for the year ended December 31, 2012. It is imperative that adopters have a finance transformation project conducted in conjunction with a post IFRS implementation assessment that effectively maps IFRS-related changes into the existing software and Enterprise Resource Planning systems used to collect and report financial data. In *IFRS – what's next*, Omobolanle Adekoya weighs in on reporting subsequent to first time adoption and the impact this transition will have on key processes and systems.

Central Bank of Nigeria (CBN) and Nigeria Deposit Insurance Corporation (NDIC) have embarked on a new integrated regulatory application project to modernize its regulatory framework aimed at accommodating all the regulatory frameworks currently adopted for the

country. CBN mandated all banks to implement Basel II including internal capital adequacy assessment process (ICAAP) and Ifori Layegue in *Basel II implementation in Nigeria* examines implementation issues, challenges and the way forward for banks. A comprehensive approach inclusive of every aspect of the Bank's operations encompassing Finance, Compliance, IT, Risk, Treasury and Operations must be considered.

Another regulatory framework on the radar for Nigerian banks is Sustainability accounting aimed at providing information to completely assess the performance of organizations in a multi-stakeholder environment like Nigeria. Sustainability reporting requires economic, environmental and social results to be measured, collated and reported in an understandable format with clear linkages to overall business and corporate strategy. Chioma Obaro in *Sustainability Accounting in Nigeria for Banks, Discount houses and Development Finance Institutions* argues that given the developmental state of the country, the myriad of challenges facing Financial Institutions aiming to imbibe sustainable accounting measures in their organizations has opened up more questions than we currently have answers to.

The CBN rolled out a competency framework aimed at addressing

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the human capital challenges affecting the banking sector and imbuing banking professionals with the requisite knowledge, skills and expertise necessary for the performance of their functions. Obioma Ubah points out in *Implementing CBN's competency framework* the next steps for the various stakeholders that will be involved in driving this initiative aimed at banking professionals at all levels.

Foreign Account Tax Compliance Act (FATCA) 2010 is an initiative by the U.S.A to promote tax compliance among its citizens/residents. Its main objective is to uncover US tax evaders who bank offshore or invest in foreign entities and to withhold their FATCA tax, hence, Financial Institutions need to take immediate action towards compliance. As Andrew Nevin and Adedoyin Amosun explain in *FATCA implementation in Nigeria*, the steps necessary for Financial Institutions to commence the process of preparing for compliance is onerous due to the enormity of the scope needed to ensure sustained compliance with the FATCA requirements.

Taiwo Oyedele explains the issues surrounding Transfer

Pricing (TP) in *Avoiding mispricing the taxman's way - What you must know and do about the new Income Tax (Transfer Pricing) Regulations No 1, 2012*. In the tax world, TP generally refers to how related parties price goods, assets, services, intellectual properties, loans, guarantees and other commercial transactions between them. Also in *How free are tax-free debt instruments?* Taiwo explains the impact that the tax waiver is expected to have in reducing the tax burden for investors especially individuals. In this light, banks need to consider the real tax cost and effective tax rate of their investments in bonds and other debt securities in view of the potential 30% excess dividend tax exposure and non-deductibility of related cost of the investment.

Technology is the driving force behind the success of the large Nigerian banks with income from e-banking products constituting over 15% of a bank's revenue on the average. E-banking has brought about a paradigm shift in banking operations to the extent that banks embrace internet technology to enhance effective and extensive delivery of a wide range of value added

products and services. The major downside of this technological advancement for banks in the country is the threat of cybercrime, also known as computer crime which Olufemi Tairu points out in *Cybercrime in the Financial Service sector*. Information security has to become pervasive in every organization with customized strategies for safeguarding data and protecting the organization from cyber-attacks.

I hope that you find these articles informative and I look forward to your comments and feedback.

**Gabriel Ukpeh**

# Basel II Implementation in Nigeria



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## Introduction

The recent crisis in the banking sector which led to the financial sector reforms by the Central Bank of Nigeria (CBN) has made corporate governance, risk management and compliance to become top priorities for banks and other financial institutions. Financial sector players now realise that it is too costly to ignore risk management and corporate governance. On the other hand, the CBN is resolute in the pursuit of its mandate to ensure financial system stability such that the banking system is able, at all times, to respond promptly and appropriately to any emerging challenges. To preserve the integrity and stability of the financial system, the regulators have mandated banks to implement a number of initiatives such as enterprise-wide risk management, international financial reporting standards, sustainable banking principles and Basel II – including Internal Capital Adequacy Assessment Process (ICAAP).

This paper is focused on Basel II implementation by banks in Nigeria. It discusses the overview of Basel II, status of its implementation in Nigeria, factors driving Basel II implementation, the issues and challenges, and the way forward for banks and regulators.

## Overview of Basel II

Basel II is the framework that international active banks use to determine the minimum level of capital that they require to cover the riskiness of their assets. It rests on three complementary pillars; namely, minimum capital requirements (Pillar 1), the supervisory review process (Pillar 2) and market discipline (Pillar

3). Pillar 1 deals with the mechanism for calculating minimum regulatory capital for credit, market (trading) and operational risks.

In Pillar 2, supervisors are expected to provide an extra set of eyes to verify that banks understand their risk profile and are sufficiently capitalised against risks that they face. It gives the supervisor discretion to adjust the regulatory capital requirement against that calculated by banks under Pillar 1. Furthermore, banks are required to develop a process for assessing their internal capital adequacy relative to their risk profile and a strategy for maintaining their capital level. It is interesting to note that many financial institutions are now leveraging on Pillar 2 to strengthen and promote the full integration of risk, liquidity and capital management into their strategic planning and business operations. Therefore, this pillar provides the platform for banks to think about the whole spectrum of risks that they are exposed to, including those not captured at all in Pillar 1 such as interest rate risk and concentration risk.

Pillar 3 is designed to increase the transparency by requiring banks to disclose their risk and capital management information to stakeholders. It is intended to strengthen incentives for prudent risk management and transparency. The transparency in banks' financial reporting would enable marketplace participants to better reward well-managed banks and penalise poorly-managed ones. In order to effectively support financial stability, the Basel II framework requires a smooth interaction between all three pillars. It is our belief that Basel II is fundamentally about increased

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transparency, better risk and capital management, and corporate governance on the part of banks, as well as improved banking supervision on the part of the regulators. It is about increasing the stability of the financial system, to the benefit of not only banks, but consumers and businesses at large.

### **Status of Implementation**

Long before the CBN issued the New Regulatory Framework for Prudential supervision of Nigerian Banking System in November, 2012, a couple of the Tier 1 banks had commenced the implementation of their risk and capital management frameworks based on the principles in Basel II. Without waiting for regulatory guidelines, some of them that are internationally active expressed their intentions to implement more advanced risk-based capital measurement approaches. These leading banks were well ahead in their Basel II readiness and were basically driven by the need to adhere to international leading practices in risk management. The other banks, who were mostly in the Tiers 2 and 3 categories, preferred to adopt the “let’s wait and see” approach and to move to the tune of regulatory pressure. With the new guidelines requiring banks and banking group to develop and submit their ICAAP on or before the impending deadlines set by the CBN, most banks are now toiling with their Basel II implementation programmes.

Generally, there has been varying level of readiness amongst banks. The approach in Nigeria is mainly that of a phased implementation, whereby banks are required to adopt the basic approaches for computing minimum

capital in the initial period, with the flexibility to move to more advanced approaches at the later stage, subject to the approval of the regulators. Though, Basel II implementation by banks is still in its infancy stage, it has nonetheless awakened a stronger risk management consciousness amongst players in the financial sector.

### **Factors driving Basel II Implementation**

We will look at this from two perspectives; first from the regulatory standpoint and the financial institutions perspective.

For the CBN, one of its key mandates is to promote financial system stability. A stable banking system is critical to the long-term growth of any economy. On the other hand, banking crises can threaten macroeconomic stability through their potential effects on confidence, savings, financial flows, monetary control and the budgetary impact of bank rescue packages. Therefore, achieving an inclusive, efficient, sound and stable financial system is very critical to the CBN. Basel II implementation aims to promote efficiencies in risk and capital management in banks, which are the key elements of a sound banking system. No bank can maintain public trust for long if it lacks sufficient capital. Since capital is the last line of defence against bank insolvency, regulatory capital requirements are imposed on banks to safeguard the banking system.

For the banks, there are a number of factors driving Basel II implementation. The need to comply with regulations and adhere to international best practices in risk management is the main driver. External demands from regulatory

authorities, shareholders and investors who are expecting that leading risk management practices should be in place is putting a lot of compliance burden on banks.

Apart from the above, banks are implementing Basel II because of their desires to improve performance, boost income, reduce cost and bad debt charges, and enhance yield. The desire to be seen as being on the same footing as other major global institutions has also been a key imperative.

In addition, a number of banks believe Basel II implementation will achieve the following: reduction in earnings volatility, operational surprises and losses, increase in stakeholders’ confidence, more efficient use and allocation of capital to exploit the different risk/reward patterns across the business units as well as competitive advantage through improved understanding and management of risk, leading to better product pricing and greater availability of capital.

### **Implementation issues and challenges**

There are implementation issues and challenges faced by both the CBN and the banks with regard to Basel II, and some of them are enumerated below:

- Many banks and even the regulators still face lack of adequate internal expertise to assess and assist in Basel II implementation, given the complexities of financial regulations and the added complexities of the Basel II framework. This is a major impediment for many Banks in Nigeria. Although the CBN and banks have made considerable efforts to bridge the skills gap, there is still a dearth of skilled personnel



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in certain critical areas of Basel II.

- Basel II requires banks to gather and store substantial quantity of data and to have an optimal architecture to glue all the relevant information systems together. Gathering data primarily involves ensuring that the data collected is accurate and reliable, and meets the data requirements of Basel II. Legacy systems residing in various business units within the financial institution could make the task more arduous. Again, many institutions are yet to invest in appropriate data warehouses that will store data in an accessible and orderly manner. The big challenge is implementing an enterprise-wide architecture that meets the financial institution's objectives and yet is transparent enough for regulatory or third party validation. Consequently, the costs associated with information technology are expected to be quite significant for both banks and CBN.
- The cost of setting up an appropriate Basel II complaint risk control system is likely to be a formidable challenge as well. Most Basel II systems and software are very expensive and therefore could overshadow the long term business case for Basel II implementation.
- The standardised approach that the regulators are asking banks to adopt to compute the minimum capital for credit risk relies on credit rating agencies to determine the risk level for different categories of borrowers. But because the activities of external credit rating agencies are still very low, it is difficult to have all corporate obligors rated. Therefore, banks that want to use the standardised approach would have to apply the default risk weights, which is punitive for capital requirement purposes.

- In Nigeria, we still have asymmetry of supervision, in that different market participants are regulated by separate supervisors. This makes it difficult to maintain comparable levels of vigilance and quality of objectives in policy formulation. Only banks in Nigeria are required to comply with Basel II, and not the other financial services providers. This carries the risk of promoting regulatory arbitrage.
- There are foreign banks and these banks intend to adopt the most complex approaches such as foundation or advanced internal rating based approach in the countries where they operate through their subsidiaries and branches. The question is, how would the regulators handle this since all banks have been mandated to use the basic approaches for capital measurement?

### Way forward

Having discussed the issues and challenges of Basel II implementation, we believe the following would be a good way forward:

- To ensure the successful implementation of Basel II, there is need for industry-wide awareness. Both the regulators and banks should be sensitised and made aware of the requirements, implications and goals of Basel II.
- Financial institutions should make informed decisions on Basel II in terms of resources, budget and time. Banks should consider the rationale for Basel II implementation in the light of its potential benefits and costs.
- The risk management departments in the banks and banking supervision department in CBN should be adequately staffed with

the right skill sets. They should attract, train and retain the best and the brightest human and technical resources to enable them effectively perform their supervisory function.

- Since the best practices in the areas of risk and regulation are around data management, banks should consolidate the numerous data silos, develop and implement a common data architecture that would enable them to respond to new requirements very flexibly, efficiently and quickly. Banks should come up with common data models and data structures, which can then be reused across the lines of business for different purposes, such as finance, risk, and compliance.
- The boards of financial institutions should be truly passionate about risk management. They should view risk management from a strategic point of view rather than as a mere compliance exercise. The boards should be willing and ready to support implementation with adequate resources needed to achieve success as well as play the oversight role expected of them pre and post implementation. Management should practice the principle of inclusive governance in implementing Basel II.
- Basel II implementation should not be seen as a Risk Management department project, but rather as a combination of all, including Finance, Compliance, IT, Risk, Treasury and Operations. Therefore, a comprehensive approach, inclusive of every aspect of the Bank's operations must be considered.

# Sustainability Accounting in Nigeria for Banks, Discount houses and Development Finance Institutions.



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The Central Bank of Nigeria ('CBN') recently issued a guideline for the implementation of sustainable banking principles in Nigeria. The circular followed the Bankers Committee's approval to adopt sustainable banking principles in Nigeria at its retreat held in July 2012. These principles are aimed at positively impacting the society while protecting the communities and environment in which the Financial Institutions (FIs) operate.

they carry out. FIs will also need to develop an Environmental and Social ('E&S') management system which incorporates these principles and balances within the identification of E&S risks and opportunities. The degree and level of E&S management should be commensurate with the scale and scope of an FI's business activities and business operations.

FIs will be required to develop a management approach that identifies the environmental and social risks inherent in the business activities

	Principle	Purpose
1	Business activities: Environmental and social risk management	Integrate environmental and social considerations into decision-making processes relating to business activities to avoid, minimise or offset negative impacts.
2	Business operation: Environmental and social footprint	Avoid, minimise or offset the negative impacts of business operations on the environment and local communities in which FIs operate and, where possible, promote positive impacts.
3	Human rights	Respect human rights in business operations and business activities.
4	Women economic empowerment	Promote women's economic empowerment through a gender inclusive workplace culture in business operations and seek to provide products and services designed specifically for women through the various business activities.
5	Financial inclusion	Promote financial inclusion, seeking to provide financial services to individuals and communities that traditionally have had limited or no access to the formal financial sector.
6	E & S governance	Implement robust and transparent E&S governance practices in FIs and access the E&S governance practices of clients.
7	Capacity building	Develop individual institutional and sector capacity necessary to identify, access and manage the environmental and social risk and opportunities associated with business activities and business operations.
8	Collaborative partnership	Collaborate across the sector and leverage international partnerships to accelerate collective progress and move the sector as one, ensuring the approach is consistent with international standards and Nigerian development needs.
9	Reporting	Regular review and report on progress in meeting these principles at the individual institution and sector level.

Financial Institutions will be required to develop a management approach that identifies the environmental and social risks inherent in the business activities they carry out.

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### **Benefits**

In the developed countries where Sustainability accounting has been implemented, immense benefits have been determined to accrue to implementing organizations due to the emphasis placed on non-financial inputs in a company's operations and activities. Such attributes like level of carbon emission, rate of recycling and other measures aimed at making our world more habitable are important to analysts and form the focus for reviewing how environmentally, socially and economically friendly an organization is.

The deemed gains derived from the sustainability accounting and reporting include:

1. Driving long term sustainable growth while still focusing on development priorities.
2. Safeguarding the environment and the public.
3. Delivering measurable benefits to the society and the real economy.
4. Improving reputation and brand loyalty.
5. Enabling external stakeholders to understand a company's true value.
6. Benchmarking and assessing sustainability performance across organizations within and outside the country.
7. Better reputation through increased transparency in reporting.
8. Meeting the expectations of employees and enhancing employee loyalty.
9. Improved access to capital.
10. Increased efficiency and waste reduction.

### **Challenges of adoption**

Sustainability reporting is aimed at providing information to holistically assess organizational performance in a multi-stakeholder environment. However a number of issues currently exist:

**Linkage to business/corporate strategy:** Users (and non-users) have indicated that the most important aspect of a sustainability report is that it is linked to an organization's overall business or corporate strategy. Currently much of the information reported fits into the 'nice story' category without a clear context for its importance.

**Materiality considerations:** In a typical financial accounting process, balances considered for full reporting are deemed to be of significant importance to the overall performance of the organization. With Sustainability reporting, there needs to be a focus on the smaller number of items that are truly material in the sense that they are linked to the economic, environmental and social attributes which sustainability accounting measures, thus creating a reporting dilemma for reporting organizations.

**Reliability of measurement indicators:** For the report to be useful to users, when measured by different people, the same answer should be received. This is not possible with sustainability reporting as there are different ways of capturing and reporting the same environmental, social or economic event aimed at 'greenwashing' the report by giving users what the reporting organizations believe they want to see.

**Objectivity and comparability of reporting:** Linked to the above is the bias of reporting organizations towards reporting positive findings leading to many analysts becoming

extremely skeptical of sustainability reports. Currently, comparability is a missing element of sustainability reporting. Having derived a measure and reported it, the question becomes, is this a 'good' or a 'bad' outcome and can it be compared year on year?

**Understandability of the report:** A major issue for current reports is their lack of comprehensibility – what does it all mean? This is because of the very wide range of variables being reported on, the lack of standards for reporting and for formatting reports, the wide range of stakeholders who have interests and the lack of assurance over the information contained within them. While financial reporting is quite rigid in what must be reported (income statement, balance sheet and cash flow statement, all with defined items, and notes to the accounts which amplify and supplement the three statements) and how it must be reported, no such defined framework exists for sustainability reporting.

**Transparency of information:** If information is transparent, it can be tested and proved to be reliable. Making policies, processes and information transparent builds trust and credibility. This often requires that external consultants are called in to work closely with the responsible department in monitoring, tracking and capturing the sustainability measures being adopted.

**Audit/assurance of the report and performance:** A missing requirement of sustainability reports to date has been their audit/assurance. This is fundamental to the credibility of financial reports and has been recognized as necessary for sustainability reports in the future. External consultants are needed to review the reports themselves and issue their views on how the organization has fared in







to get an overall perspective on organizational performance? True sustainability reporting requires economic, environmental and social results to be included. This means that those organizations which produce separate reports could very well be duplicating the economic performance information to some extent leading to cost inefficiencies in the reporting. Considering the challenges above and the regulator's timelines for implementation, not much has been heard from banks on their plans towards the adoption of the Sustainable Banking principles.

Based on CBN Circular no FPR/DIR/CIR/GEN/01/33, Banks have 12 months to establish an E&S management system which includes, at a minimum, an overarching Sustainable Banking commitment statement, E&S policies and procedures, and a Sustainable Banking reporting framework. Implementation of the E&S management system begins in year two, including data capture for reporting purposes and all Banks must issue an initial Sustainable Banking report no later than 31 December 2013, detailing their respective Principles implementation progress. A full Sustainable Banking report will be required from each bank no later than 31 December 2014.

Due to the all-encompassing nature of the accounting for sustainability measures, implementation of the guidelines is estimated to take at least a full financial accounting cycle to enable accurate measurement of various economic, environmental and social factors. If as at last quarter of 2013 Nigerian banks are yet to engage their external participants on how the reportable measures can be tracked and captured in an understandable format, it would seem that the timelines might not be feasible, or if

implementing their framework. Global Reporting Initiative (GRI) guidelines released in October 2006 provide the opportunity, but not the requirement for external assurance.

**Integration with financial reporting:**  
If sustainability reporting is to be equal to financial reporting in influence, how are the two types of information to be integrated together

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reporting happens as prescribed, then the reporting that is done may not be sufficiently robust. This is more pertinent when one considers that other regulatory policies, like Basle II, IFRS implementation and technical capability gaps within the industry, are still uppermost on the agenda of implementation items for FIs.

The key question now is how does all this impact the needs of future generations of Nigerians? The fundamental changes to a bank's practice required to more accurately consider true total costs and review practices holistically are slow in

coming. Other questions to ask ahead of enforcing implementation in Nigeria, given our developmental state include:

1. Has sustainability reporting been useful for the countries that have adopted it and their stakeholders and in what ways?
2. Has sustainability reporting changed their organizational strategies and practices?
3. How does/how can sustainability reporting provide value to stakeholders of organizations?

4. Which stakeholders receive most value and which receive least?

By focusing on the practices and changes at organizations in developed countries where sustainability accounting and reporting has happened, insights can be derived into whether sustainability accounting and reporting can and would effectively contribute to the economic development that the Nigerian society desires and demands.



## IFRS – What’s next?



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The Financial Reporting Council of Nigeria (‘FRC’) requires all entities operating in Nigeria to transition from the Nigerian GAAP to the International Financial Reporting Standard (IFRS) commencing from 1 January 2011 as a basis of preparation and presentation of financial statements. The Publicly Listed Entities and Significant Public Interest Entities converted to IFRS as at financial period ended 31 December 2012.

Following on from this adoption of IFRS in Nigeria, many organisations would have realized that the effect of implementing IFRS in their organization had far more reaching effects than their financial reports. This is even more evident for financial institutions.

Subsequent to first time adoption, the emphasis should shift to sustainable reporting because IFRS is not just about accounting as it affects the whole organization. There is more emphasis on data management, financial reporting systems and the resources employed to perform the operations of the organisation for First time adopters of IFRS, particularly financial Institutions. Banks operate on huge customer, credit and market information that regularly impact the financial strength and capacity of these institutions and these are all affected by the implementation of IFRS.

Hence, it is likely that Banks and entities alike would require changes and modifications to the existing software and Enterprise Resource Planning (ERP) systems used to collect and report financial data. As in most financial

institutions that we have seen, IFRS has had an immediate and significant impact on the software used to collate financial information and in the management of risk.

The movement to IFRS impacted key processes and systems in financial instruments classification, impairment of financial instruments (loan loss provisioning) treasury management, employee benefits, property, plant and equipment, and asset management, to name a few. Thus, it may be beneficial to have a finance transformation project conducted in conjunction with a post IFRS implementation assessment that effectively maps IFRS-related changes into the ERP which in the long run can yield efficiencies that could be significant depending on the facts and circumstances around the scope of the change. This process can also be called IFRS embedding.

Speaking differently, embedding is about ensuring that IFRS becomes a ‘business as usual’ activity, rather than an annual reporting concern. It also means reducing risk in your business as sustainable processes supersede the tactical/manual approach being currently employed by the organisation.

### **Scope of Embedding IFRS**

To effectively embed IFRS into an entity’s ERP, an entity would require robust change management and capacity building strategies. This would include but will not be limited to undertaking the following;

### **Integrate Change**

#### **Objective**

- Develop roadmap to embed IFRS as primary reporting language
- Embed IFRS into financial reporting processes and systems (corporate and business units)
- Embed IFRS into tax, other financial and operational processes and systems
- Access whether relevant contractual agreements and financial covenants reflect a different basis of accounting
- Go live and close project

#### **Outputs**

- Prioritised project plan
- Data and business requirements
- System and configuration requirements
- SOX and procedural documentation
- Global chart of Accounts (COA)
- Pre and post-implementation testing documentation

### **Embedding IFRS**

The first step to dealing with the systems implications of IFRS is to assess how conversion will impact information and system requirements beyond the existing ERP capabilities. For example; what are the major areas where financial statement reporting will require new information and process changes? If a finance team is undertaking an assessment of IFRS conversion, an evaluation of the needed information and system changes should generally be part of their review/assessment agenda. This could also include training of staff on IFRS and the acquisition of mid-ware software to deal with certain key areas of impacts for example financial instruments classification, measurement and disclosure requirements including Basel II and regulatory requirements.

The next step would be to update the chart of accounts the entity will implement in order to make its general ledger consistent with IFRS. While there could potentially be a range of permissible interpretations of new accounting standards, companies should apply their judgment to best interpret these principles and convert them to policies.

These choices should drive part of the design of ERP system refinements and accounting and financial reporting updates.

Consequently, Chief Finance Officers would then have to decide on how to adapt systems to meet the changing nature of IFRS. Are separate systems to support IFRS conversion cheaper and more effective than fully integrating the changes now or later into an ERP system? At what level should the integration occur and what are the related cost-benefit tradeoffs? Guidance for these choices

has to come from how to implement and execute the new accounting and financial requirements of IFRS.

Also, regular changes in IFRS would require entities to keep pace with these changes and apply new/revised standards as may be relevant to its financial reporting and accounting activities. For example, by the time IFRS 9 – Financial Instruments becomes fully effective in 2015; this standard is expected to have a fundamental impact on the classification and measurements of financial instruments. For these reasons, financial institutions should begin to prepare their staff, stakeholders and systems to adapt to the changing requirements of IFRS, bearing in mind that IFRS requires retrospective application.

### **IFRS Implementation Challenges**

Other IFRS implementation challenges also include the following

1. Accounting issues
  - Concept of fair values
  - Employee benefits e.g. below

Market rate loans

- Consolidation issues e.g. SMEs and SPEs
- Extensive disclosure requirements
- Increased use of judgement
- Componentisation

2. Data availability

3. Resources

4. Stakeholder Management and Business Relationships

5. Systems and Processes

As the complexity of the entity's operations increases, the entity would require more effort in ensuring it has the capacity to adequately provide information and effect standards guidelines required for the preparation of IFRS compliant financial statement. Dealing with IFRS on a sustainable basis requires immediate action and this may provide some market advantage when implemented in a seamless manner and in the long run should keep the cost of financial reporting at a cost efficient level.





# Foreign Account Tax Compliance Act (FATCA)



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FATCA is an initiative by the U.S.A to promote tax compliance amongst its citizens/residents. FATCA's objective is to uncover US tax evaders who bank offshore or invest in foreign entities.

FATCA creates a significant operational and due diligence obligation on financial institutions. In summary, FATCA impacts financial institutions from the following operational and technology perspectives:

## Scope of FATCA's Impact on Financial Institutions

Customer On-boarding	Documentation	Withholding & Deposits	Reporting
Client Identification	Document Storage	Transaction Processing/Payments	Reporting to the IRS on the customers impacted by FACTA (individuals and institutions)
AML / KYC	Tax Form Collection and Review ( Forms W-8 and W-9)	Withholding Systems	
Account Set up		Payment to the IRS	
Client Approval /Review			
Tax Review			

### Notes

1 Form W-8 BEN (Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding) Form used to certify foreign status as a beneficial owner and, if applicable, to claim tax treaty benefits.

2Form W-9 (Request for Taxpayer Identification Number and Certification) Form used by a U.S. person either to furnish a Taxpayer Identification Number or to certify its exempt or U.S. status.

To comply with FATCA, banks/financial institutions will need to develop/unlock additional systems capabilities and modify existing operational processes to meet the current and future compliance requirements.



July 1 2014 is the deadline for FFIs to institute customer on-boarding and account maintenance procedures to identify U.S. accounts. FFIs need to meet this deadline and ensure that the changes are institutionalised

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## **Critical customer on-boarding to-do's**

### **Capture Evidence**

- FATCA requires FFIs to capture and retain information (which includes documentary evidence or withholding certificates, i.e. IRS Forms W-8 BEN<sup>1</sup>/W-9<sup>2</sup>) from a new individual account holder that would enable the FFI to classify the account as a U.S. person, non-U.S. person or recalcitrant account holder.
- In addition to private individuals, U.S. persons include entities with at least 10% U.S.-person ownership.

### **Validation**

- FATCA requires FFIs to identify U.S. persons by searching for specific 'U.S. indicia' in client records.
- Clients against whom U.S. indicia are found will have to complete the relevant IRS form (W-9 or W-8BEN) and provide appropriate documentary evidence confirming/refuting their U.S. person status.

### **Classification**

- Failure to comply with a reasonable request for identification information will result in the account holder being deemed as a **'Recalcitrant Account Holder'**.
- An FFI may rely on the withholding certificate (IRS Forms W-8/W-9) or documentary evidence unless it has reason to suspect that the claim is unreliable or incorrect e.g. Relationship Manager has evidence that the client misrepresents the U.S. Tax status.

Although FATCA may seem like a well-disguised blessing, it doesn't come without its benefits  
In addition to achieving compliance, the following benefits will accrue to complying FS institutions:

Opportunities to:

- Review the client on-boarding strategy
- Review the internal legal entity establishment and exit strategy
- Review client documentation strategy and compliance
- Vet and validate US withholding and reporting processes

As the provisions of FATCA become effective, complying financial institutions will benefit not only from adherence, but also from the enhanced ability to leverage newly developed synergies across processes and systems to gain efficiencies. Their clients will also benefit from not having to suffer FATCA tax withholding.

## **Intergovernmental Agreements**

In order to prevent legal barriers to FATCA compliance and ease the transition process, the IRS has proposed the Intergovernmental Agreement (IGA).

The IGA is an agreement between a country and the US IRS, whereby it is agreed that:

1. the FATCA regulations will not apply (in its entirety) to the financial entities in that country
2. local financial entities report specific information to their local regulatory authority, who in turn provide reports to the IRS; with the IRS obligated to provide reciprocal information
3. there is no requirement for entities to withhold

*Countries that chose to enter into such bilateral agreements would be deemed 'FATCA Partners'.*

As at October 2013, Nigeria does not have an IGA with the IRS and as such is not a FATCA Partner. Accordingly, FATCA guidelines for Non-IGA countries will apply

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### ***FATCA - The need for action***

The scope of FATCA is enormous, the 30% withholding tax is punitive and the time left to prepare for compliance is short – all of which reinforces the importance of taking action now.

Many financial services firms have already started the process. A PwC survey of 643 firms in March 2011 found that more than half (55%) were planning to perform a current state assessment over the next few months and 20% had completed one already. 85% of the respondents believe that their FATCA compliance efforts will be significant.

Financial Institutions need to commence the process of preparing for compliance. Key next steps include:

- Registering with the IRS (as a participating Foreign Financial Institution (FFI)).
- Identifying affiliates/entities/subsidiaries that fall within the scope of FATCA.
- Identifying processes, data and system gaps that need to be addressed to attain FATCA compliance.
- Defining a route-map to address the gaps between the current state and target FATCA-compliant state.
- Identifying the key priorities, steps, timelines, and milestones to be followed between now and 1 July 2014.
- Defining new policies and processes for affected areas of the business.
- Designing technology-driven interventions to address identified system gaps.
- Defining a plan for communicating the impact of FATCA both internally and externally.
- Ensuring sustained compliance with the requirements of FATCA.

The danger is that the exemption may create a situation where a bank will have more distributable profit than taxable profit thereby becoming liable to tax upon redistribution. This makes the tax incentive an illusion rather than a reality and may lead to the mispricing of investments in such debt instruments.

## ***How free are tax-free debt instruments?***

According to the popular saying, “everything that glitters is not gold”, even tax incentives!



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In March 2010, the Federal Government through the Debt Management Office announced the approval by the Federal Government of Nigeria to grant tax waivers for all categories of Bonds (including corporate bonds) and short term government securities such as Treasury Bills. The announcement also included a reduction in stamp duties for re-issue of previously executed debentures to 20% of the stamp duty payable on a new debenture.

Unfortunately, the declaration made in 2010 was at best a statement of intent which could only take effect subject to administrative and legislative processes required to give the necessary legal backing.

The President in his 2012 Budget Speech delivered to the National Assembly in December 2011 again stated government's intention to grant tax waivers on all bonds and debt instruments issued by all tiers of government and corporate entities.

Subsequently, the Personal Income Tax Amendment Act 2011 (“PITA Amendment”) was gazetted in January 2012 with a commencement date of 14 July 2011. The PITA Amendment gave the required legal backing to the tax waiver for persons liable to tax under the PITA only. To ensure that all investors benefit from the incentive regardless of their legal status, the President and the Minister for Finance subsequently issued the Companies Income Tax Exemption Order and Value Added Tax (Modification) Order respectively. The Orders which were gazetted in 2012 both have commencement dates of 2 January 2012 exempting income and proceeds from the disposal of debt securities from income tax and VAT.

Before the PITA Amendment and the CITA Gazette, the Local Loans (Registered Stock and Securities) Act of 1946 (as amended) empowers the Minister for Finance to issue bonds specifying the notional amounts, coupon rates, maturity dates and also specify the tax exemptions to be accorded such bonds.

The exemption granted by the Local Loans Act does not cover most debt securities such as Treasury Bills (“T-Bills”), State Government Bonds; and Corporate Bonds which were all taxable. However, Section 30 of the Capital Gains Tax Act LFN 2004 provides exemption from Capital Gains Tax (“CGT”) on the disposal of Nigerian Government securities (including Federal, State and Local Government Bonds), Stocks and Shares. Although the scope of the CGT exemption is broad, it does not provide sufficient cover as it is only useful where the income earned is considered to be of a capital nature rather than revenue or trading profit as is the case for banks.

The PITA Amendment effective from 14 July 2011 exempts from personal income tax bonds issued by Federal, State and Local governments and their agencies; bonds issued by corporate and supra-nationals (including organisations like the World Bank, International Finance Corporation (IFC), Africa Development Bank and so on). Any income earned by holders of these bonds and securities is also tax exempt.

The new CITA Gazette grants exemption to companies such as banks on their trading income from corporate and government bonds, treasury bills and other short term securities. In this regard, there should also be no withholding tax although this is not specifically stated but

can be inferred given that withholding tax is an advance payment of income tax except where it is deemed to be a final tax.

Previously, proceeds from disposal of debt instruments have not been subjected to VAT in practice. The basis for this is that the Nigeria's VAT law imposes VAT on the supply of goods and services and this may not be extended to such instruments as they are neither goods nor services. In addition to this, the Federal Inland Revenue Service ("FIRS") also issued Information Circular No. 9503 in 1995 where they took the position that capital investments and returns on capital should not be subject to VAT.

The new VAT Gazette exempting disposal of bonds and other debt securities from VAT could therefore have far reaching implications to the extent that it may be inferred that VAT was indeed previously applicable. Also, at the expiration of the 10-year VAT exemption period, there is a high possibility that the tax authorities will seek to impose VAT on disposal of bonds and T-bills. The newly published VAT Exemption Order will only become relevant if the new VAT law currently being drafted for consideration by the National Assembly which seeks to VAT such transactions is enacted into law.

One key area of difference between the PITA Amendment and the CITA Gazette regarding the tax exemption on bonds is that the PITA exemption is not time-bound unlike the CITA exemption which is only for 10 years. Similarly, it is not clear if the commencement date stated in the gazettes refers to year of assessment or to basis period. It is also uncertain whether the exemption will only apply to instruments issued after the commencement date or whether

it will apply to all income accruing after the period including those on instruments issued prior to the exemption. In my view, the exemption period should be with reference to basis period and should cover all income accruing to investors effective from the commencement date regardless of when the instrument was issued. It is therefore necessary for investors to track the flow of their income from relevant securities and exclude income earned during the exemption period from tax. This should include exemption from withholding tax deduction. However, by implication, any expense incurred in earning the exempt income will not be tax deductible such as broker fees.

More importantly, as a result of the tax exemption, issuers are likely to offer and investors are likely to accept a lower interest rate than they would without the tax exemption. The danger is that the exemption may create a situation where a bank will have more distributable profit than taxable profit thereby becoming liable to tax at 30% upon redistribution. This makes the tax incentive an

illusion rather than a reality and may lead to the mispricing of investments in such debt instruments. It is clearly against the principles of a good tax system to grant a tax waiver with one hand and then subject the income to tax on another hand.

Overall, the tax waiver is expected to reduce the tax burden for investors especially individuals but corporate investors especially banks need to consider the real tax cost and effective tax rate of their investments in bonds and other debt securities in view of the potential 30% excess dividend tax exposure and non deductibility of related cost of the investment. Without this, such investors are likely to misprice their investment based on the illusion of income tax exemption and consequently be in a worse position under the exemption regime.



The prices paid for goods or services delivered or received have a direct impact on the profits of the seller and buyer and by implication, on tax ..... Where a cross border transaction is involved, the taxman becomes more concerned because effectively any mispricing would mean a shift of tax base from one jurisdiction to another or worse still, to a tax haven.

## ***Avoiding mispricing the taxman's way***

What you must know and do about the new Income Tax (Transfer Pricing) Regulations No 1, 2012



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According to the World Trade Organisation, the value of world merchandise trade and commercial services was US\$ 22.4 trillion in 2011. It is estimated that about 60% of this amount represents trade by multinational companies half of which is carried out with their related parties.

Richard Dowden, director of African Society London and author of the book, "Africa: Altered States, Ordinary Miracles", was the guest speaker at the Anniversary Lecture in Abuja on 27 September 2011 organised by the Ministry of Foreign Affairs, to mark Nigeria's 51st Independence Anniversary.

In his speech, he referred to a report by the Global Financial Integrity, a Washington-based think tank made up of former IMF economists. In their report "Illicit Financial Flows from Africa", they had looked carefully at capital outflows from Africa and found that between 1970 and 2008 illicit financial outflows were approximately 854 billion dollars– and that's the conservative estimate. They may have been twice as much or even higher. These outflows were mainly from West and Central Africa and yes, you guessed right - the biggest outflow was from Nigeria. Unfortunately, since the report was written the illicit outflows have grown even larger.

There is no doubt that money laundered abroad by corrupt military rulers and politicians is a chunk of these "illicit outflows". Beside this the Global Financial Integrity report found that the bulk of the illicit flow was as a result of transfer pricing (or mispricing) by global corporations operating in Africa.

So, what is transfer pricing? To start with, I will twist the question on the head and answer it the other way round, that

is, what transfer pricing is not – at least from a tax point of view. Many Nigeria based accountants and tax practitioners are quick to think that transfer pricing is not even a tax issue. They see it as being more relevant to management accounting in the sense that it has to do with the pricing of materials and semi-finished goods transferred between divisions or departments of the same organisation. Well, this is not the transfer pricing we are talking about although the principles are similar to some extent.

In the tax world, transfer pricing (TP) generally refers to how related parties price goods, assets, services, intellectual properties, loans, guarantees and other commercial transactions between them. The related parties referred to are taxable persons including individuals and organisations rather than divisions or units within an organisation.

But why is transfer pricing important for tax purposes? Let's assume that a bank got a deposit of N100 million at a cost of 5% which it can lend to unrelated borrowers for a market rate of 20%. If the bank grants the loan at the market rate it would realize a gross margin of N15 million. Assuming no other cost and a tax rate of 30% the bank will be liable to pay N4.5 million in corporate income tax to the Federal Inland Revenue Services. Imagine that instead of lending the money at the market rate of 20%, the bank decides to lend the money to its related company at the rate of 10%. The bank's profit would have reduced from N15 million to N5 million thereby reducing the tax payable proportionately from N4.5 million to N1.5 million. This implies that the taxman will lose N3 million as a result of the bank's decision to grant the loan to a related party at a rate other than the market rate especially



if the related party is in another country.

To avoid the above situation there are general anti avoidance provisions in the law, which require related parties to carry out transactions between them at arm's length. Where this is not the case, the tax laws empower the tax authorities to disregard the price charged to the related party and insist that applicable taxes be paid based on the market rate. You may be thinking that the scenario just described is a reduced rate granted by the bank to the borrower and should not in any way be an issue for the taxman. Again, this may be true to an extent but if the rebate is not available to unrelated parties then it is a transfer mispricing.

The prices paid for goods or services delivered or received have a direct impact on the profits of the seller and buyer and by implication, on tax. Unlike transactions between independent parties, when related parties deal with each other, there may be less emphasis on ensuring that the prices of the goods and services exchanged reflect market circumstances. Where a cross border transaction is involved, the taxman becomes even more concerned because effectively any mispricing would mean a shift of tax base from one jurisdiction to another or worse still, to a tax haven.

According to the Tax Justice Network, transfer pricing is not, in itself, illegal or abusive. What is illegal or abusive is transfer mispricing, also known as transfer pricing manipulation or abusive transfer pricing.

To avoid mispricing, the arm's length principle must be followed as much as possible. Arm's length is similar to the accounting definition of fair value which is essentially the amount at which an asset can be exchanged or a liability settled between two willing

and knowledgeable independent parties. As a matter of fact, transfer pricing rules are really guidelines about the application of the arm's length principle.

A new regulation, the Income Tax (Transfer Pricing) Regulations No 1, 2012, was gazetted in 2012 by the FIRS designed to, among others, ensure that Nigeria is able to tax businesses on an appropriate basis corresponding to the economic activities carried out in Nigeria, especially in their transactions and dealings with associated enterprises.

The regulations have a commencement date of 2nd August 2012 and are applicable to basis periods commencing after this date. For example, a bank with an accounting year end date of 31st December will be required to have its TP documentation in place for the accounting year commencing 1st January 2013 rather than 2012. This was designed to allow taxpayers some reasonable transition time.

The rules cover all transactions between "Connected taxable persons" which is broadly defined to include individuals, permanent establishments created by head offices, subsidiaries, associates, partnerships, joint ventures and trusts to the extent that they participate directly or indirectly in the management, control or capital of another; or both of which have common control, management or shareholders. Specifically, the rules will apply to sale and purchase of goods, lease or sale of tangible assets, licensing, transfer or use of intangible assets, shared services, lending or borrowing of money, guarantees, manufacturing arrangements and any transaction which may affect profit and loss or any other incidental matter.

Related parties are allowed to use any of the methods listed in the Regulations as a basis for their pricing. These are the Comparable Uncontrolled Price Method (CUP); the resale Price Minus Method (RPM); the Cost Plus Method (CPM); the Profit Split Method; the Transaction Net Margin Method (TNMM); or any other method prescribed by the FIRS. If a taxpayer wants to have certainty regarding the acceptability of the method used such person may approach the FIRS for an Advance Pricing Agreement (APA) provided the amount involved is not less than N250 million per annum.

Every taxable person that will be affected must prepare documentation to demonstrate the arm's length nature of their related party transactions. The documentation will usually include information on the group structure and business activities of the related parties, details of the related party transactions; the pricing method adopted; the reasons for selecting the method; and information on comparable transactions between unrelated parties. The documentation must be submitted within 21 days of a request from the FIRS after filing the company's annual tax returns. There are also annual declarations on related party transactions which are to be made at the time of filing the annual tax returns including stating whether or not transfer pricing documentation exist. A taxable person who contravenes any of the provisions of the Regulations will be liable to a penalty as prescribed in the relevant provision of the applicable tax law.

## Cybercrime in the Financial Service sector - Nigeria



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According to the 6th PwC Global Economic Crime Survey, “Cybercrime, also known as computer crime, is an economic crime committed using computers and the internet. It includes distributing viruses, illegally downloading files, phishing and pharming, and stealing personal information like bank account details. It is only a cybercrime if a computer, or computers, and the internet play a central role in the crime, not an incidental one.” Nigeria offers a well-developed financial system comprising local and international financial institutions providing brokerage, insurance, investing, and financing services. Over the years, the Nigerian financial system has experienced a number of significant transformations – from consolidation through mergers to divestitures of non-core banking assets – majority of which were imposed by the regulator, the Central Bank of Nigeria (CBN). These transformations have made the Nigerian

banking sector a key catalyst for growth and innovation on the continental Africa as evidenced by the growing number of Nigerian banks expanding across the Continent.

Recently, the CBN instituted a “cashless policy” with the foremost goal of achieving effective monetary policy through financial inclusion. As a result of this policy, Nigerian banks are adopting new electronic banking standards and technologies. Also, as a consequence, individuals and organizations are relying more and more on the convenience of the internet and connected devices for commerce. Platforms such as Kiosk, ATM, Web, Mobile, IVR/CRM, and POS systems have become common place. This industry shift has made the Nigerian banking sector amongst the most technologically advanced in sub Saharan Africa next to South Africa and Kenya. Nigerian Financial Institutions (NFIs) are responding to the “cashless policy” directive from the CBN as well as reacting to rapid changes in consumer preferences by introducing new products on e-channels. The rate of adoption of new technologies to drive new products is increasing and NFIs are struggling to keep up with the risks associated with introducing and using these technologies. As the digital channel in financial services continues to evolve, cybersecurity has become a business risk, rather than simply a technical risk. In 2012, the CBN reported that 70% of fraud cases in the Nigerian banking system were perpetrated via electronic channels. For example, the Nigerian banking industry recently experienced a coordinated attack by organized crime syndicates colluding with insiders to defraud banks to the tune of millions of dollars – a complex case of account



takeover. Other common examples of cybercrime incidents at NFIs, include insiders using their positions within FIs to steal from unsuspecting customers (insider threat), fake emails (Phishing) and text messages (Smishing) designed to steal sensitive information such as passwords and pins from customers only to be used to defraud them, and malware from various sources such as mobile apps, websites, etc., that discretely steal customer information and compromise bank systems which allows fraudsters to take advantage. Eventually, these stolen information assets from either customers or banks are used by actors (both internal and external) to create new credentials and cards to perpetuate economic crime or sold to others for the same criminal intent.

According to the PwC Global Economic Crime Survey, Cybercrime is a “growing threat” globally and the second most commonly reported economic crime affecting financial institutions (FIs). It accounted for 38% of economic crime incidents for FI organizations, compared to 16% for other industries. This trend is consistent with the array of recent cybercrime incidents in the financial industry in Nigeria. Cybercrime is a prevalent issue for FIs as it puts customers, brand, and reputation at significant risk. The reputational and financial losses can be significant. According to Symantec, Cybercrime costs businesses, governments, and others an estimated \$114 billion every year across the globe.

Regulators of financial markets are increasingly viewing cybercrime as a key area of focus. In Nigeria, partly in response to the financial crisis of 2009, the CBN adopted a “4 pillar (4Es) framework” to address “what went wrong” and to put the Nigerian financial system on solid footing. Embed in this framework is the goal to maintain a secure and healthy financial system which includes combating financial crime and establishing standards to foster reliable and secure payment systems.

Across the globe, regulators are taking proactive measures to ensure the safety of financial systems. For example, a recent article by the Financial Times noted that UK regulators are putting plans in place to test its financial sector’s ability to deal with electronic threats. This is a trend that is certain to continue to mitigate the “growing threat of cybercrime”.

### ***Protecting against cybercrime***

Many organizations simply do not know where or how to start preparing for these threats. Part of the problem is that no one owns or controls the internet. There is little governance, oversight or regulatory power over its users. What’s more, organized criminals have become increasingly sophisticated in their ability to exploit flaws in the way the internet operates. The pace of technology means that organizations are constantly undergoing business transformation to maintain a leading edge. This exposes organizations to unknown cyber threats through constantly changing IT systems and business processes. It is important for organizations to have an overall information security strategy that addresses how they will approach the three lines of defense for cybercrime: prevention, detection and response.

The top ways to protect an organization against economic crime include:

- Tone from the top – having a leadership team that ensures cyber risks are a focus as the organization develops.
- Due diligence programs – to ensure the organization knows who it engages with, including staff, contractors, suppliers and agents.
- IT security framework – aligning IT policies and programs and defining the responsibilities of Internal Audit and the board for maintaining awareness of fraud.
- Regular fraud and cybercrime risk assessments – to identify the inherent risks present in an organization and ensure sufficient

mitigating controls are in place.

- Industry and environment monitoring built into the security function – to enable an organization to proactively develop responses to current and growing cyber-risks.
- Incident response teams – which are charged with tracking and assessing cyber risks and dealing with an incident as soon as it is identified.
- Education programs – to increase situational awareness an organization should invest in cyber skills to help inspire those people with the relevant skills to keep the business safe.

### ***Conclusion***

Cybercrime has never been a greater threat to businesses, the public, and Nigeria’s shared infrastructure. Both public and private stakeholders have taken note - Nigeria’s oversight institutions (such as the EFCC) have deployed technology to combat cyber threats, Nigerian legislators are seriously considering a cybercrime bill, the government has taken steps to improve security through biometric identification standards, the banking industry has followed the government’s lead and is in the process of rolling out a uniform biometric standard.

However, more needs to be done as threats are evolving and cyber-attacks are getting more sophisticated. A holistic approach that (1) enables frequent information exchanges between government and the private sector on cyber threats and data, (2) encourages the deployment of state of the art tools and technologies to protect core infrastructure such as the banking platform, and (3) encourages private and public institutions to embrace global security best practices is necessary. The Nigerian banking industry inclusive of the regulator, service providers, industry groups, NFIs need to move quickly in this direction to mitigate the ever growing risk of cyber attacks.

# Implementing CBN competency framework

With the issuance of the competency framework in November 2012, and the expectation that Nigerian Financial Institutions would achieve compliance by November 2014, it is a good time to consider actions that should be ongoing now to ensure success of the framework.



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## Background

The competency framework is expected to address the competency challenges in the banking industry that contributed to the recent financial crises in the banking sector and facilitate the quality of the Industry's human capital by imbuing professionals with the requisite knowledge, skills and expertise not only at strategic and management levels, but also at the technical and operational levels. The objectives of the framework are as follows;

1. Define the minimum knowledge, skills and competencies needed for operators and regulators to perform optimally on their various jobs/tasks
2. To standardise capacity and competency development with a view to nurturing and producing a knowledgeable, skilled and competent workforce for the Nigerian Banking Industry
3. To establish standard competency requirements for each job role to serve as a guide to Nigerian banks for their talent recruitment and development programs
4. To provide standards for training certification, evaluation and accreditation to ensure the provision of quality training in the Nigerian Banking Industry
5. To ensure that practitioners continually update their knowledge and skills in line with the dictates of their assignments
6. Serve as a tool for banks to assess their overall human capital capabilities
7. Identify competency gaps and develop required learning interventions to bridge identified gaps

8. provide a basis for sustaining career development in the Nigerian Banking Industry
9. Establish a system of assessing and tracking compliance to defined standards

Accordingly, success should be measured against the above objectives i.e whether skills have been defined with appropriate input from relevant stakeholders e.g. Financial Institutions Training Center (FITC) and Chartered Institute of Bankers of Nigeria (CIBN), whether Competency Standards have been established for job roles, whether there are established standards for certification of training programmes, whether financial institutions evaluate staff against prescribed skills and competencies and identify gaps, whether or not compliance is tracked and so on.

## The framework

Under the framework, roles within a business that have a particular operational and/or regulatory significance are designated as controlled functions and sub categorized into Significant Influence Functions and Customer Functions. Significant Influence Functions are those that materially impact the activities of the Financial Institution while Customer Functions are those that Influence customer's decisions on investments and service adoption.

The framework specifies the required competencies, skills, qualification and experience for controlled functions. It envisages the creation of an Approved Persons database in line with the ongoing

Assessment Criteria for Approved Persons Regime and then prescribes a code of practice for Approved Persons. The framework also requires that the number of relevant accredited training attended and credit points accumulated shall be one of the assessment criteria in determining the suitability of approved persons for specific job roles/functions.

Consequently Banks shall be required to populate the database with details of credit points earned by Approved Persons in their employ.

It also defines the roles of stakeholders including Central Bank of Nigeria, NDIC, The Bankers' Committee, Financial Institutions, Financial Institutions Training Centre (FITC), Chartered Institute of Bankers, Other Professional Bodies, (The Accreditation Agency) and Training Service Providers.

### **Experience in Singapore**

Singapore embarked on this journey aimed at raising capabilities across their financial sector workforce in 2000 when the Institute of Banking and Finance (IBF) exited its role as a direct provider of training, to focus on defining competency standards and appropriate professional qualifications and accrediting training providers. It was a journey leading to the launch of the Financial Industry Competency Standards (FICS) in 2005. FICS has recorded huge achievement such that by the end of 2011, 364 training and assessment programmes had been accredited under the FICS framework, and close to 9,500 people trained in various disciplines. There are now more than 1,200 individuals certified under FICS.

In recognition of the fact that skills and expertise need to be deepened to cope with the more complex and sophisticated needs of investing in clientele today, IBF with the help of PricewaterhouseCoopers Singapore, met extensively with the industry in 2012 and undertook a review of the first set of priority segments comprising: Compliance, Corporate Banking, Life and General Insurance, as well as Wealth Management.

Taking into account the feedback from this review, IBF intends to make the following enhancements to the FICS framework (a)streamline FICA certifications (b)establish a process

to certify fresh graduates and career-switchers with no prior experience in the financial service sector as long as they undergo foundation training and assessments and (c)work with industry veterans to better capture their invaluable experiences through FICS case-studies and training resources.

### **Implementing the framework in Nigeria**

We have a long way to go but we have started the journey and some possible steps stakeholders should be taking now to ensure the success of this initiative are described below.

#### **Accreditation Agency**

The work of Accreditation Agency (CIBN) is well cut out for it. CIBN needs to build the base requirements, and articulate well-defined criteria for assessing the curricula, competence, capacity, capability, faculty, resources, facilities, credibility, independence and integrity of training service providers in carrying out specific training programmes. Additionally CIBN needs to develop a system for supervising/monitoring and evaluating these training services providers in the industry on an ongoing basis. These are no mean tasks when one considers the numbers of training programmes that would be required to ensure that all the competencies and skill sets described in the framework for the controlled functions are certified on an ongoing basis. A possible way to evaluate competence of a training service provider could be by first requesting the training service providers to self-assess themselves against pre-determined base training skills and knowledge and then request them to proceed through a formal process of review and evidence for each training programme. The assessment of curriculum should consider content [including how developed, relevance, depth], target audience [needs and experience], delivery methods [case study, lecture] timing and course evaluation procedures amongst others.

#### **Financial Institutions**

Financial Institutions need to identify their Significant Influence Functions and ensure that these functions

are manned by 'Approved Persons' and that these persons meet the qualifications and requirements described in the Framework. CBN anticipates that some occupants of some job roles may not meet the requirement, however permits these persons to continue to perform those roles but can only advance beyond those roles upon satisfying the requirements of the Framework. As the framework provides that up to 60% of the required credit points can be obtainable through an institution's training programs, proactive organisations should be reviewing strategies to enhance the number and quality of In-house training programmes in order to keep compliance costs down. These strategies could include collaborative measures with other Financial Institutions.

#### **Training Service Providers**

Smart training service providers should be documenting their training programs, its relevance, faculty, and experience and gathering other evidence for each training programme they currently offer in preparation to seeking accreditation for these programmes. They could also be developing training curricular to address the generic skills and competencies of the controlled functions detailed in the framework thereby broadening their service capability

#### **Other professional bodies**

Some professional bodies already require members to attend certification programmes. This presents an opportunity for them to stream line content and equally seek to accredit these programs so that their training programs not only satisfy their membership requirements but also serves the dual function of meeting the credit points required under the framework thereby leading to wider membership engagement. In conclusion, there is much work to be done to make this a success and the time to act is now.



## Building relationships. Creating value



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