



2021

SEC REGULATORY INCUBATION GUIDELINES

for
Specific Category of Fintech Entrepreneurs



Preamble

Section 13 of the Investment and Securities Act (ISA) conferred powers on the Commission as the apex regulatory organization for the Nigerian capital market to carry out various functions and exercise all the powers prescribed in the Act.

ISA Part VI: **(Registration and Regulation of Capital Market Operators)** Section 38 (1) prohibits any expert or professional from carrying out any activity in the Capital Market except it is registered by SEC. While Section 38 (2&3), empowers the Commission to prescribe the conditions for registration and manner of application and fees. We believe this section (38 2&3) provides a backing for enabling the deepening of the Nigerian Capital Market through Regulatory Incubation.

Regulatory Incubation

SEC Regulatory Incubation entails the provision on basic requirements that allow this set of potential operators (Fintech Firms) to operate under some prescribed basic but limited provisions for a specified period. The arrangement enables the Commission to supervise some new models of providing Capital Market services in limited form before it becomes fully established. This has a lot of advantages and aligns to the Commission's CMMP (2015-2025), the SEC objective of regulating innovation and the FGN's Ease of doing business (Executive Order 001.), a policy which aims to remove critical bottlenecks and constraints to doing business in the country and make Nigeria a progressively easier place to do business and thrive.

These requirements apply to Fintech entrepreneurs seeking registration and whose function or operations have been reviewed and deemed requiring an amendment to existing Rules or creation of completely new ones.

1. Pre-Qualification Requirement

- a) Applicant shall be using innovative technology to offer a new type of product or service, or applying innovative Fintech to an existing product or service

- b) The business shall involve an activity that, if carried on in or from Nigeria, is a financial service (i.e. it is within the scope of the activities that the Commission regulates)
- c) Applicant shall be ready to take-off with live customers and operate within the purview of the SEC Regulatory Framework
- d) Applicant shall commit to applying for registration as soon as Rules are provided by the Commission
- e) The product or service shall be one that addresses a problem (compliance or supervision) or brings potential benefits to consumers or industry

Applicant shall ensure that the product is safe for investors

- f) Applicant shall complete the FinTech Assessment Form and discuss the proposal with the Commission at an early stage.

2. Regulatory Incubation Operations Requirement

Applicant shall:

- a) be deemed fit and possess relevant skills in financial services and/or technology
- b) undertake to act with integrity due care and diligence and provide referee information
- c) undertake to provide full information to clients and commit to send them regular feedback
- d) undertake to provide full disclosure to the Commission on the business through an incubation implementation plan
- e) undertake to provide procedure for holding and controlling client assets
- f) Undertake to comply with all relevant laws and regulations
- g) have an office in Nigeria
- h) undertake to comply with AML/CFT requirements
- i) undertake to provide monthly reports to the Commission

3. Restrictions and Conditions

A FinTech operator under Regulatory Incubation:

- a) shall not conduct any other investment business except as presented to the Commission;
- b) is prohibited from financial promotions which guarantee returns. These include any notice, circular, letter or other written or electronic medium of communication addressed to any person;
- c) Shall not provide information containing any untrue or misleading statement;
- d) shall have the capacity to on-board a maximum of **100** clients who shall be fully informed of the service or product prior to on-boarding. Subject to the Commission's appraisal and approval, the firm may on-board additional clients if the need arises. Firms that are already in operation shall maintain their existing clients and cease on-boarding new ones;
- e) shall be under regulatory incubation only for a maximum period of one-year after which shall apply for registration if found eligible or discontinue the activity.

4. Termination/Removal from Regulatory Incubation

Without limiting any other grounds on which it may act, the Commission may terminate participation in the regulatory incubation process at any time if the Fintech Operator:

- a) is found no longer fit to participate in the process, e.g through a change in any of the eligibility criteria;
- b) has breached any restrictions or conditions imposed on the participation;
- c) has breached the Law or these guidelines;
- d) deviates from the implementation plan;
- e) has not promptly taken steps either to apply for registration or submit a notice of discontinuance after the one-year period of the regulatory incubation process. An applicant may on its own

withdraw from the regulatory incubation process at any time if it can no longer meet the stipulated requirements by notifying the Commission and ceasing to operate.

5. Regulatory Incubation Form and Fee

An Applicant shall comply with the following:

- a. complete the relevant application form
- b. pay a processing fee of N200,000.00

6. Content of the Implementation Plan

An applicant shall provide the following documentation along with the application:

- a) Full description of the business and the proposed innovative FinTech product, service or business model including type of technology
- b) The objectives and parameters for the incubation period
- c) The implementation timeline and key milestones for testing
- d) The existing/target customers.
- e) A Risk Management Framework, clearly stating key risks and how they will be controlled and mitigated including insurance cover.
- f) A description of how the Fintech Operator will ensure that customers fully understand the risks
- g) A description of how communications with customers will be handled before and during the incubation period including how the Fintech Operator will deal with queries, feedback and complaints
- h) A description of the next steps at the expiration of the incubation period and,
- i) A clear exit plan if registration is not achieved, including how the Fintech Operator will fulfil its obligations to its customers

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