

Blockchain Industry Coordinating Committee of Nigeria (BICCoN)

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Press Release Issued by Blockchain Industry Coordinating Committee of Nigeria (BICCoN)

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Introduction

On Friday 5 February 2021, the crypto industry in Nigeria, local and international media, and members of the general public got wind of a circular by the Central Bank of Nigeria (CBN). The CBN circular is directed to all deposit money banks (DMBs), non-bank financial institutions (NBFIs), and other financial institutions (OFIs) in Nigeria. In response to the public condemnation of the CBN circular, the CBN issued a press release 7 February 2021. As a fallout of the CBN's cryptocurrency policy, the Securities and Exchange Commission (SEC) similarly issued a press release on 11 February 2020 clarifying that there is no inconsistency—however perceived—between the CBN circular and the SEC's 11 September 2020 statement on classification and treatment of digital assets in Nigeria where the SEC classified cryptocurrencies as crypto assets that would be treated as commodities.

This is a press release by the Blockchain Industry Coordinating Committee of Nigeria (BICCoN), the intercommunity working group in Nigeria's emerging blockchain industry, in response to the developments above. This press release is adopted and supported by industry stakeholders who have identified with the mission and goals of BICCoN.

About BICCoN

The interplay of opportunities and threats presented by blockchain technology applications in varied measures across various industries inform the need for stakeholders to work together towards maximizing the opportunities while mitigating the threats.

This is where the idea of an intercommunity working group for Nigeria's emerging blockchain industry comes in. The idea was initiated on 13 January 2021 after a stakeholder engagement on the need to check the proliferation of crypto scams in the space. The idea eventually became the Blockchain Industry Coordinating Committee of Nigeria (BICCoN) on 28 January 2021, reflecting the status and broader scope of the intercommunity working group.

BICCoN is constituted by the three major blockchain bodies/communities in Nigeria, namely:

- I. Blockchain Nigeria User Group (BNUG);

- II. Cryptography Development Initiative of Nigeria (CDIN);
- III. Stakeholders in Blockchain Technology Association of Nigeria (SiBAN).;
- IV. Independent stakeholders who may not yet be affiliated with any of the three bodies/communities above.

Mission

To provide an intercommunity approach to blockchain technology adoption towards achieving a more collaborative, innovative, and safer blockchain ecosystem in Nigeria

Objectives

- I. Guide and promote blockchain technology adoption in Nigeria through awareness, education, and strategic collaborations with all stakeholders across various industries and sectors by engaging with technology innovators, policymakers, and regulators;
- II. Build and protect the integrity of the emerging blockchain industry in Nigeria by introducing industry standards and practices that ensure consumer protection and investor safety, thus making the blockchain ecosystem more secure;
- III. Collaborate with relevant regulators on policies and regulatory frameworks in the digital assets space towards ensuring that regulation is applied as a tool for consumer and investment protection without stifling innovation in the development, application, and growth of digital assets in Nigeria.
- IV. Collaborate with government ministries, departments, and agencies (MDAs) to encourage the development and adoption of government policies that will help maximize the opportunities offered by blockchain technology and minimize risks across all sectors and industries in Nigeria;
- V. Collaborate with regulators and law-enforcement agencies in Nigeria in order to curb fraud and scams in the emerging digital assets industry towards ensuring safety and security in the digital assets space in Nigeria; and
- VI. Promote research and further development of the blockchain technology in Nigeria towards achieving national development and a more competitive economy.

Outline of our response to the CBN circular and press statement

We respond as follows:

1. Nigeria's blockchain & crypto industry is shocked and disappointed by the directive in the CBN circular;
2. Emerging technologies, financial technology (FinTech), blockchain, cryptocurrency, bitcoin, and adoption across the world;
3. The growth of Nigeria's blockchain & crypto industry to No. 1 in Africa and a global leader in terms of crypto adoption and market volume;

4. The crypto industry's contributions to Nigeria's economy and competitiveness on the global crypto map;
5. Legitimate threats and risks of cryptocurrency adoption and the regulatory approach to mitigating them;
6. Opportunities Nigeria and Nigerians will miss with the CBN ban and unintended negative consequences; and
7. Availability of industry stakeholders for a dialogue with the CBN in Nigeria's best interest.

1. Nigeria's blockchain & crypto industry is shocked by the directive in the CBN circular.

Firstly, it is with shock that the emerging blockchain & crypto industry in Nigeria received the news of the directive in the CBN circular of 5 February 2021. Before the authenticity of the letter was eventually confirmed, a number of industry stakeholders were hoping that the letter was not by the CBN. Sadly, it turned out to be.

Secondly, contrary to the CBN's claim in its follow-up 7 February 2021 letter that "the CBN circular of February 5, 2021 did not place any *new* [emphasis ours] restrictions on cryptocurrencies", it in fact does. By the latest circular, the CBN has effectively banned DMBs, NBFIs, and OFIs from providing banking and other financial services to persons and/or entities transacting in cryptocurrency or operating cryptocurrency exchanges within their systems. This is not a mere reiteration of the CBN circular of 12 January 2017. In the 12 January 2017 letter which though prohibited DMBs, NBFIs, and OFIs from using, holding, trading and/or transacting in cryptocurrencies, the CBN permitted these DMBs, NBFIs, and OFIs to provide banking services and other financial services to virtual currency exchangers/customers subject to ensuring that these exchangers/customers have effective Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) controls that enable them comply with customer identification, verification, and transaction monitoring requirements. As required in that circular, it is only when banks and other financial institutions are dissatisfied with the controls put in place by the virtual currency exchangers/customers should the customer relationship be discontinued immediately. The CBN also required that any suspicious transactions should be immediately reported to the Nigerian Financial Intelligence Unit (NFIU).

Thirdly, without any adequate notice or court order of any court of competent jurisdiction, the CBN directed all DMBs, NBFIs, and OFIs to identify persons and/or entities transacting in cryptocurrency or operating cryptocurrency exchanges within their systems and close such persons' or entities' accounts immediately. Since 5 February 2021, a number of persons and

entities accounts have been closed. In one strange and exceptional case, the funds in the two corporate accounts of a cryptocurrency exchange were wiped out and then eventually closed. Though as the regulator, the CBN has the statutory authority to delimit banking operations, but ordering banks and other financial institutions to freeze accounts suspected to be in use for cryptocurrency may not be supported by law. This is because there is currently no legislation by the National Assembly criminalizing or illegalizing trade in cryptocurrency in Nigeria. Therefore, it is questionable whether the CBN has the statutory power to order the (permanent) freezing of these accounts. Besides, Nigeria's money laundering and anti-terrorism laws contemplate the freezing of individual or specific accounts, not a blanket closure of the accounts of a set of persons, entities, or entire industry by virtue of their involvement in cryptocurrency trading or services, a lawful business. If the CBN's circular is not reviewed, it will set a dangerous precedent in the country.

Ordinarily, the CBN circular—while shocking and disappointing—should have at least stipulated a reasonable period within which affected customers' accounts should be closed. By the way, we are not unaware of the illegality and sharp practices of some service providers, including quite unfortunately so-called fintech platforms—that indefinitely freeze or deny customers access to their funds with flimsy reasons without authority, any notice, or explanation at all. We use this opportunity to appeal to the CBN, other regulatory authorities, law-enforcement agencies, and our courts to always address such cases, whenever reported to it, with dispatch.

Lastly, the CBN's sudden and drastic directive was neither without any prior engagement with industry players nor notice. The CBN's approach falls short of expectations and will not inspire confidence in our financial system.

2. Emerging technologies, financial technology (FinTech), blockchain, cryptocurrency, bitcoin, and adoption across the world

The 4th Industrial Revolution is driven by technological innovations, including emerging technologies. These emerging technologies include artificial intelligence, Big Data, blockchain, Internet of Things (IoT), quantum computing, and others. In a data-driven global economy, blockchain technology will increasingly play a key role. Regulators should be manifestly seen leveraging on innovative technologies to boost Nigeria's global competitiveness through regulatory approaches that make our investment climate friendly.

- I. **Financial Technology (fintech):** This is the application of new and emerging technologies to enable and improve financial products and services. Including digitization and digitalization, fintech continues to automate and improve the delivery

and use of financial services and products. From banking services to insurance, lending to investments, fintech is enabling new business models and adding value for businesses and customers.

- II. **Blockchain Technology:** Blockchain technology has been described as a distributed ledger or database—which can be private, public, or hybrid—where anything of value, including currencies, identities, information, intellectual property, securities, votes, etc. can be stored, moved, and managed efficiently, securely, and transparently, without a central authority or third party. Though more popularly associated with its financial applications such as decentralized cryptocurrencies including bitcoin, Ether, Litecoin, etc., blockchain technology also applies in various sectors and industries.
- III. **Virtual Asset:** Also known as “digital asset”, a virtual asset, according to the Financial Action Task Force (FATF), is “a digital representation of value that can be digitally traded, or transferred, and can be used for payment or investment purposes”. Virtual assets do not include the digital equivalence of fiat currencies.
- IV. **Cryptocurrency:** Cryptocurrency is digital money or internet money. It has no physical equivalence, whether in the form of a note or coin. A cryptocurrency is secured using *cryptology*, a method of protecting data and communications through the use of codes. To own a cryptocurrency, you buy directly from a willing seller (peer-to-peer), through a crypto-wallet service, or through a cryptocurrency exchange. Depending on the particular cryptocurrency, a cryptocurrency may be bought with fiat currency such as the Naira, Dollar, etc. or through the use of other cryptocurrencies, or other virtual assets. Though numbering thousands, bitcoin is the most popular cryptocurrency.
- V. **Bitcoin:** Inspired by the need to have an electronic-payment system that is optimized for commerce on the Internet without reliance on intermediaries, bitcoin was invented by Satoshi Nakamoto in 2008. Bitcoin is a type of digital currency that is not issued by any central or reserve bank. Bitcoin is built on open source and it is a public blockchain. Limited to a fixed supply of 21million, bitcoin’s value is driven by both retail and institutional demand, increasingly making bitcoin a digital gold—an asset class.

3. The growth of Nigeria’s crypto industry to No. 1 in Africa and a global leader in terms of crypto adoption and market volume

Nigeria is Africa’s largest cryptocurrency market and one of the world’s fastest-growing cryptocurrency markets in terms of bitcoin volume at the time of writing this statement. In 2020, [estimates from BuyCoins](#) showed that total volumes of bitcoin traded in Nigeria stood at \$200 million monthly. According to [Useful Tulips](#), Nigeria’s daily trading volume of over

\$2.8 million on Paxful, a peer-to-peer bitcoin marketplace, tops the rest of African countries, with South Africa ranking over \$400,000 and Kenya ranking over \$700,000.

By mid-November 2020, according to [Coin Dance](#), a crypto-statistics platform, Nigeria has traded 60,215 bitcoins (\$566 million) in the last 5 years. This figure represents the second largest volume on Paxful, next to the United States. As captured by [Quartz Africa](#), since May 2015 to mid-November 2020, bitcoin trade in Nigeria has increased at a minimum yearly rate of 19% in volume since 2017.

Nigeria's mobile and young population is adopting crypto, making the country number one in crypto adoption by young people. According to [CoinMarketCap's Q1 2020 report](#) on global cryptocurrency adoption, Africa is the second highest with a percentage youth growth of 91.47%. This is driven by Nigeria's 210.6% growth in young crypto users, far ahead of Australia (+158.07%), Spain (+120.71%), Canada (+112.45%), and Mexico (+97.33%) on the top 5.

In the wake of the CBN circular, crypto trading in Nigeria is expected to be pushed to peer-to-peer crypto platforms, a decentralized world further away from regulation.

4. The crypto industry's contributions to Nigeria's economy and competitiveness on the global crypto map

Nigeria's emerging blockchain & crypto industry has been contributing to the growth of Nigeria's economy. While crypto remittances through the informal economy understandably hurt inflows that should have passed through the traditional banking system and use of crypto for illicit transactions create risks for the financial system, the CBN circular may further worsen the situation for the country if not reviewed. What Nigeria needs is a nuanced, risk-based approach to the issue. As industry stakeholders, we are also concerned and we believe that *ad hoc* or knee-jerk reactions will further exacerbate the problem regulators may be trying to solve.

Below are the major ways crypto adoption in Nigeria has been benefiting the Nigerian people and the nation:

- I. Stimulation of Economic Activity:** Beyond the crypto-trading volumes from Nigeria, an entire industry has been built on cryptocurrencies in the country. From local and foreign crypto-wallet services to crypto exchanges; crypto-remittance services to crypto investments; crypto education services to crypto advisory services, the crypto industry in Nigeria has witnessed growth particularly in the last 4 years. Notably, this

development is against the background of a lack of policy and regulatory support in the country.

- II. **Enabling and expanding financial inclusion:** Cryptocurrencies are enabling and expanding access to finance to millions of people across Africa, including Nigeria. Up to 40% of the adult population in Nigeria do not have access to basic banking services. Savings, loans, and other essential banking services in the traditional finance system are out of reach. With relatively high fees, poor digital identity, and low trust in the traditional financial system, cryptocurrencies particularly Decentralized Finance (DeFi), an open, community-driven, and peer-to-peer alternative to centralized finance (CeFi), offer amazing opportunities for enabling and expanding financial inclusion in Nigeria. This is making millions of Nigerians more financially connected to the global internet economy.
- III. **Job creation:** The emerging crypto industry in Nigeria is creating jobs for our ever-growing youth population. In a biting Covid-19 period as well as the background of Nigeria's dwindling economy, the crypto industry has provided job opportunities in the country, directly and indirectly. In a number of the local and global brands in the industry, Nigerians are chief executive officers (CEOs), chief technology officers (CTOs), country directors, marketing managers, community managers, legal & compliance officers, etc. Local blockchain & crypto authors, educators, forensic experts, journalists, lawyers, presenters, programmers, reporters, researchers, software developers, writers, etc. have also emerged, bringing about an ecosystem of innovation, collaboration, and growth.
- IV. **Foreign Direct Investments (FDIs):** Billions of dollars have been invested in blockchain and crypto projects globally. Between January and mid-July 2018, \$16.9 billion was raised globally through Initial Coin Offerings (ICOs), according to Coinschedule. An ICO, a form of crowdfunding, is often used by early-stage startups to raise capital. Apart from ICOs, a number of foreign-owned crypto businesses carry out business in Nigeria. A number of Nigerian crypto startups get funding through foreign investors or from Nigerians in Diaspora. While regulation will help Nigeria take better stock of blockchain- and crypto-related FDIs into Nigeria, banning will most likely limit it to the informal economy.
- V. **Equipping and empowering the knowledge economy:** From zero blockchain developers in Nigeria a few years ago, the country now has a number of indigenous blockchain developers, thanks to investments in learning and capacity building in blockchain technology and development. For example, Binance, a global crypto company, recently launched a masterclass on blockchain development where it is equipping and building up to 1000 African blockchain developers. This is one of the number of capacity building programs in the industry.

VI. **Social developments:** A number of crypto brands in the space, through their charitable and philanthropic initiatives, continue to contribute to education, healthcare, and poverty alleviation in the country. Some of them include Paxful's *Built With Bitcoin* initiative through which it is funding the building of Early Education Centre, Ankara, Nandu Village, Kaduna State; and Binance's *Crypto against Covid* donations in hospitals and schools in Lagos States and Oyo States, Nigeria.

Policy and regulation should not stifle innovation. This is one of the major thrusts behind the proposed National Blockchain Adoption Strategy, an initiative of the National Information Technology Development Agency (NITDA) in Nigeria's emerging blockchain industry. NITDA, working with the Federal Ministry of Communications and the Digital Economy (FMoCDE) had recently exposed a draft national adoption strategy to all stakeholders. It enjoys the support of FMoCDE and the Federal Government of Nigeria. As one of the key stakeholders in this initiative—which include the CBN, SEC, and other relevant regulators and public agencies—we remain committed to the vision and mission adopted in the proposed National Blockchain Adoption Strategy which is ongoing.

As communicated by NITDA in November 2020, the Federal Government plans to earn \$6 billion from blockchain technology by 2030. We strongly believe that this is achievable. To enable Nigeria achieve this target, we appeal to the CBN to reconsider its cryptocurrency policy. A reconsidered approach that does not stifle innovation will help significantly boost the Federal Government's policies on diversification of the Nigerian economy, digital economy, and digital transformation, not forgetting the CBN's financial-inclusion policy and target.

5. Legitimate threats and risks of cryptocurrency adoption and the regulatory approach to mitigating them

We acknowledge the CBN's critical role in the Nigerian financial system and the Nigerian economy. It is the CBN's objective to ensure monetary and price stability, issue legal tender in Nigeria, maintain external reserves to safeguard the international value of the legal tender currency, promote a sound financial system in Nigeria, and act as a banker and provide economic and financial advice to the Federal Government.

As responsible industry stakeholders, we also acknowledge the risks that transacting in cryptocurrencies portend, such as illicit fund flows, money laundering, terrorism financing, and other criminal activities. However considerable the risks cryptocurrencies portend may be, these risks are not peculiar to cryptocurrencies. Fiat currencies continue to be used globally to fund the same fraudulent and illegal activities. Compared to cryptocurrency-related crimes,

the latter is titanic. The problem therefore is not the cryptocurrency or the fiat currency, but the actors and users of cryptocurrency and fiat currency. And this is where a risk-based regulation comes in. We believe that the purpose of regulation is to essentially maximize the opportunities that innovations provide while minimizing the threats they portend, not stifle innovation.

Firstly, contrary to the CBN's assertion that cryptocurrencies are completely banned in China, it is not illegal to buy, sell, or hold cryptocurrencies in China. Individuals and entities who buy, sell, and hold cryptocurrencies still have access to banking services. In fact, the People's Bank of China (PBOC) and other government agencies continue to explore application of blockchain technology for the purpose of making China's financial system globally competitive. Though China banned ICOs and cryptocurrency exchanges, it is developing its own Digital Yuan, a Central Bank Digital Currency (CBDC). Similarly, in Canada, it is noteworthy that neither the central bank nor any government agency restricted cryptocurrencies in Canada. The reported bans were the independent decisions of a number of banks who wished to protect themselves. In fact, Royal Bank of Canada (RBC), the largest bank in Canada by market capitalization with over 16 million customers, [was reported](#) in 2019 to be opening a cryptocurrency exchange. Also, while the Saudi Arabia Monetary Authority (SAMA) banned cryptocurrencies, the central banks of Saudi Arabia and the United Arab Emirates (UAE) have concluded a digital currency (CBDC) pilot, which found that distributed ledger technology can improve cross-border transactions and meet the demands of financial privacy in a digital economy.

Secondly, while we respect Warren Buffet's investment principles and decision regarding bitcoin, it may be worth pointing out that bitcoin recently surpassed Buffet's own Berkshire Hathaway's net value when bitcoin market value hit \$544 billion, \$1 billion above Buffet's multinational company's capitalization. Earlier last year, the same "rat poison" and "gambling device" surpassed JPMorgan Chase and Mastercard Inc, and it is recently more valuable than Visa Inc. Also, note that:

- I. at least eight publicly-traded companies, including Grayscale Investments, MicroStrategy, CoinShares have bought billions of dollars in bitcoin and select cryptocurrencies;
- II. Paypal announced in late October 2020 that its over 300 million active customers will be able to buy, hold, and sell bitcoin (BTC) and other virtual assets using their Paypal accounts;
- III. Mastercard will allow merchants to accept select cryptocurrencies on its network later this year;

- IV. Tesla announced in a SEC filing this week that it has bought \$1.5 billion worth of bitcoin and would start accepting payments in bitcoin; and
- V. Many more institutional adoption of bitcoin and select cryptocurrencies.

Thirdly, the issue Andrew Bailey, the Governor of the Bank of England, has with cryptocurrencies is whether due to their price volatility they are safe to perform the function of money. Bailey prefers that cryptocurrencies be regulated. In 'Reinventing the Wheel (with more automation)', a speech by Bailey in a Brookings Institution virtual event on 3 September 2020, Bailey stated:

"Innovation is a good thing. As authorities and regulators it is not in our interest – the broad public interest – to stop innovation. Moreover, when supported by clear standards and expectations, innovation can support the pursuit of public interest objectives such as greater inclusivity and network resilience. Making such standards clear early is much preferred to attempting to claw back the ground later, and particularly if that comes after things go wrong." [page 2]

We have reached the point in the cycle of innovation in payments where it is essential that we set the standards and thus the expectations for how innovation will take effect. It should not happen the other way round, with the standard setting playing catch up. The answer is not to strangle innovation, and it does therefore require a strong dialogue between the parties, which I think we have." [page 10]

The statements above resonate with the position of the Central Bank of England under Mark Carney, former Governor, when he said: "[a] better path would be to regulate elements of the crypto-asset ecosystem to combat illicit activities, promote market integrity, and protect the safety and soundness of the financial system." ['Carney calls for crackdown on crypto-currency 'mania', BBC, 2 March 2018]

Fourthly, concerning the CBN's assertion that the use of cryptocurrencies in Nigeria contravenes existing law in Nigeria, this is with due respect not very correct. While the CBN is of course statutorily empowered to issue the legal tender by virtue of section 2(b) of the CBN Act, by the very meaning of a "legal tender" cryptocurrencies are not legal tender. Consequently, the fact that a cryptocurrency is accepted by voluntary parties as a means of payment in Nigeria does not make it a legal tender. Besides, the fact of the Naira being stipulated by the CBN Act as legal tender does not exclude the adoption of other media or exchange between contracting parties. Parties may decide to exchange goods and services for cryptocurrencies or even for nonmonetary considerations without contravening the provisions

of the CBN Act relating to the Naira as legal tender. This is why the proviso in section 20(5) of the CBN Act has given the CBN "the powers to prescribe the circumstances and conditions under which other currencies may be used as *medium of exchange* in Nigeria" [emphasis ours].

Fifthly, concerning the CBN's assertion that the anonymous nature of cryptocurrencies is a deliberate design for illegality, this is also incorrect. Essentially, most cryptocurrencies are pseudonymous rather than anonymous. Besides, "anonymity" in cryptocurrencies essentially serves the purpose of privacy and security. Digital signatures serve as identities of the parties involved in cryptocurrency transactions. These digital signatures are essentially composed of the private key and the public key. With these keys, transactions can be signed. Because different identities are created for the same person for different transactions, a lot of people wrongly think that the real identities of users may not be linked to the transactions. Contrary to that wrong belief, real-life identities can be linked to addresses of these cryptocurrencies and transactions. In other words, wallet addresses act as a placeholder for the wallet owner's identity. Silk Road emphasized this point when Robert Ulbricht was eventually arrested and convicted. In the FBI complaint against Ulbricht, it stated: "bitcoins are not illegal in and of themselves and have known legitimate uses". This is a strong statement about the legality of bitcoin. Bitcoin's immutable and transparent ledger provides a record of every transaction, enabling law enforcement to track illegal transactions. Bitcoin and most other cryptocurrencies are not untraceable. At BICCoN, we set up an industry-wide Anti-Scam Task Force in January 2021 to come up with a framework for preventing and checking crypto-related scams in Nigeria. This is an effort that supports ongoing collaboration with the SEC and industry stakeholders on addressing the risks posed by cryptocurrencies. Upon the CBN's invitation, we will be happy to share our insight and be of any assistance towards keeping our industry and Nigeria's financial system safe.

Sixthly, while it may be true that today a number of cryptocurrencies including bitcoins are mainly used as a speculative investment and not as an alternative currency or medium of exchange, adopters are not a "conglomeration of desperate, disparate, and unregulated actors". In the 2017 bull run, JPMorgan's chairman and CEO, Jamie Dimon, once dismissed bitcoin as a "fraud". JPMorgan presently banks two of the largest United States cryptocurrency exchanges, Coinbase and Gemini. By the way, it must be a misunderstanding of fact when the CBN claimed that ether fell from US\$320 to US\$0.10 in June 2017. The flash crash only happened on GDAX cryptocurrency exchange and lasted a second. [According to GDAX](#), this was due to stop-loss orders and margin-funding liquidations on the exchange. In any case, where cryptocurrencies are considered by the CBN as speculative investments and not alternative currencies, this falls under the regulatory purview of the SEC. Commendably, the SEC has been doing some work in collaboration with relevant stakeholders, leading to the

SEC's statement on the classification and treatment of digital assets in Nigeria 11 September 2020. In that statement, the SEC classified cryptocurrencies as crypto assets to be treated as commodities if traded on a Recognized Investment Exchange and/or issued as an investment. Sadly, the SEC has suspended, as one of the many consequences of the CBN circular, its Regulatory Incubation Framework and Regulatory Incubation Guidelines for fintech firms. Indeed, this is just one of the far-reaching, negative effects of shutting out an entire industry from access to banking and other financial services.

Lastly, the CBN's position that cryptocurrencies do not have intrinsic value and therefore are unlike fiat currency which are backed by the "comfort of a country or Central Bank " deserves a note. Fiat currency such as the Naira or Dollar has no intrinsic value either. Fiat currency is a government-issued currency that is not backed by a physical commodity, such as gold or silver. The value of such fiat currency is derived from the relationship between supply and demand and the stability of the issuing government. Similar to fiat currency, most cryptocurrencies do not have intrinsic value because they are not also backed by gold, silver, or any other commodity. The value of any currency essentially comes from the level of trust that people have in them. Cryptocurrencies, including bitcoin, run on blockchain which is essentially a trustless technology. Bitcoin, for example, may be said to derive its value from its three components: (i) *database* or *ledger* comprised of transaction records which are distributed across a peer-to-peer network without a central authority; (ii) peer-to-peer *network* comprising participants whose job is to validate transactions before those transactions are recorded and added to the chain; and (iii) a *cryptocurrency* which is a form of electronic cash that is not minted by any central bank but mined using cryptographic or mathematical algorithms. Therefore, bitcoin—to borrow the CBN's words—is accompanied by the full faith and comfort of a community or network that trusts it.

6. Opportunities Nigeria and Nigerians will miss with the CBN ban and unintended negative consequences

We appeal to the CBN to review its position. The CBN circular is capable of setting Nigeria's global competitiveness as leading crypto industry back by at least 5 years. We believe that the consequences of this—particularly for the already depressed Nigerian economy—does not hold any promise but economic regression in the second wave of a biting Covid-19 pandemic.

If not reviewed or reversed, the CBN ban on banking and other financial services to persons and/or entities involved in cryptocurrency trading and cryptocurrency exchange services in Nigeria may make Nigeria lose out on the following opportunities:

- I. Become a powerhouse for global blockchain & crypto industry, attracting investments into the country and creating jobs for the ever-growing young and innovative population of Nigeria;
- II. Boost remittances to Nigeria by adopting an innovative, risk-based regulation of cryptocurrencies in order to better capture cryptocurrency inflows into the country;
- III. Become a business-friendly hub for blockchain & crypto innovations from all across Africa;
- IV. Leverage on cryptocurrencies to enable and expand financial inclusion in the country;
- V. Encourage and challenge Nigeria to invest in research in blockchain & cryptocurrency use cases in the financial services industry, including cross-border transactions, clearing and settlements; crowdfunding; credit reporting; digital identity verification against fraud; stock exchange and share trading; syndicated lending; accounting, bookkeeping, and audit; peer-to-peer transfers; and trade finance platforms;
- VI. Encourage and challenge Nigeria to invest in learning, capacity building, and development, underscoring the need for a national blockchain policy in order to achieve economic competitiveness; and
- VII. Make Nigeria better prepared and positioned for a new global system of CBDCs, stablecoins, and other applications of blockchain & cryptocurrency innovations.

If not reviewed or reversed, the CBN ban may have the following unintended consequences:

- I. Eventual death of centralized cryptocurrency exchanges in Nigeria, particularly indigenous cryptocurrency exchanges who should be getting regulatory support to become globally competitive;
- II. Job losses, directly and indirectly;
- III. Stifling crypto innovations across the entire ecosystem;
- IV. Limiting crypto trading to wholly unregulated decentralized platforms where unenlightened and unsuspecting members of the public will be more vulnerable to scams, making the Nigerian crypto space a den of criminals;
- V. Pushing all crypto-based remittances to the informal economy, away from the formal economy that would have benefited the country;
- VI. Cutting out transaction fees for DMBs, NDMBs, and OFIs who should be facilitating cryptocurrency transactions for customers who wish to buy or sell cryptocurrencies or other virtual assets through centralized exchanges;
- VII. Cutting out centralized cryptocurrency exchanges who are the traditional gateway to the cryptocurrency world and who should be the most reliable ally to regulators for the purpose of AML/CFT regulations and customer identification, verification, and monitoring;

- VIII. Practically illegalizing and criminalizing cryptocurrency trading and cryptocurrency exchange services, resulting in further discrimination, harassment, extortions, and unlawful arrests by ill-advised, unethical, and opportunist law-enforcement officers;
- IX. Opening DMBs, NDMBs, and OFIs to avoidable litigations in a country where justice administration continues to suffer the plague of delayed justice, lack of rule of law, and lack of trust in the judicial system;
- X. Foreign blockchain & crypto businesses will move out of Nigeria to other countries where the business and investment climate is less hostile or more friendly to crypto innovations;
- XI. A number of indigenous blockchain & crypto businesses will shut down completely while others may explore setting up their businesses offshore, costing Nigeria not only loss of income but also loss of its talents to other countries;
- XII. Increase in cybercrimes due to lack of economic opportunities available to young people to channel their energy, innovation, and talents positively; and
- XIII. many more.

While we do not suggest that the CBN should treat cryptocurrencies as legal tender in Nigeria, it is our position that CBN should at least at this stage require DMBs, NBFIs, and OFIs to continue to apply KYC, AML/CFT policies and regulations on persons and/or entities dealing in cryptocurrencies or involved in cryptocurrency transactions or services. The CBN may introduce other risk-management policies it deems fit based on its regulatory authority. This is the CBN's position under its earlier January 2017 letter to DMBs, NBFIs, and OFIs in Nigeria. Besides, BICCoN is open to working with the CBN to help drive the implementation of such risk-management policies in the crypto industry.

The CBN, working closely with the SEC, should consider integrating these cryptocurrency exchanges into its risk-management system. This will ensure that relevant regulators have effective control and management of cryptocurrency transactions in the financial system. Cryptocurrency exchanges particularly occupy a critical place in the cryptocurrency ecosystem and value chain. Of all the cryptocurrency services, exchanges suffer the effects of the present ban the most. If not reviewed or reversed soon, a safe and self-regulated gateway to the cryptocurrency market may be destroyed. This will further endanger consumers and investors.

7. Availability of industry stakeholders for a dialogue with the CBN in Nigeria's best interest

While we commend the CBN for its innovations in the areas of payment systems, open banking, and regulatory sandbox for innovative financial products, we appeal to the CBN to

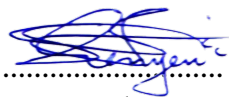
adopt a risk-based regulation, not an outright ban on DMBs, NBFIs, and OFIs from providing its services to Africa's no. 1 crypto industry by volume and a leading market in the world.

At a time when the Federal Government's national policies include growing Nigeria's digital economy and improving financial inclusion, the CBN circular has effectively denied banking services—one of the most critical services in any modern economy—to an entire set of persons and/or entities which make up Nigeria's emerging crypto industry. The rapid growth of Nigeria's blockchain & crypto industry is a development that should be studied and understood in line with the desire of the Federal Government to develop a digital economy and diversify the Nigerian economy.

As the blockchain & crypto industry's intercommunity working group, we are available for a dialogue with the CBN. We will be happy to share insights that will hopefully assist the CBN in reviewing its policy on cryptocurrencies in Nigeria, helping our dear nation maximize the opportunities while minimizing threats. We are ready to work with the CBN to ensure that its management of the risks of cryptocurrencies do not affect the stability of Nigeria's financial system.

Also, with the National Assembly's intervention in this vital matter, we at BICCoN will be happy to appear before the Committees on Banking, Insurance and other Financial Institutions, ICT and Cybercrimes, and Capital Market set up to determine the opportunities and threats of cryptocurrency on the nation's economy and security.

Beyond crypto, this is about the future of this country.



Senator Ihenyen
General Secretary

