

Rules on Issuance, Offering Platform and Custody of Digital Assets

These Rules shall cover:

1. PART A - Rules on Issuance of Digital Assets as Securities
2. PART B - Registration Requirements for Digital Assets Offering (DAO) Platform
3. PART C - Registration Requirements for Digital Asset Custodian

Part A

Rules on Issuance of Digital Assets as Securities

1.0 Applicability

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

2.0 Definitions

For the purpose of these rules,

- a. **"Digital Asset"** a digital token that represents assets such as a debt or equity claim on the issuer as defined in ISA 2007
- b. **"Digital Asset Offering"** shall include ICOs and other blockchain-based offers of digital assets
- c. **"Initial Coin offering (ICO)"** a distributed ledger technology capital raising involving the issuance of tokens to the general public in return for cash, cryptocurrencies or other assets
- d. **"ICO project"** the underlying business or project referred to in the white paper for which the issuer seeks to raise capital through an initial digital asset offering project;
- e. **"Hard cap"** the maximum amount of capital that the ICO projects aim to gather;
- f. **"Lock up Period"** is a window of time when investors and/or issuer are not allowed to redeem, trade or sell their tokens;
- g. **"Pre-offer Period"** shall have the meaning as provided in the Commission's Rules;
- h. **"Soft Cap"** the minimum amount of funds needed and aimed by the project to proceed as planned;
- i. **"White Paper"** a document that states the technology behind a project, including among others a detailed description of the system architecture and interaction with the users, description of the project and use of proceeds, information on the market cap, anticipated growth, other technical details and the team and advisors behind

the project. It does not represent an offer to sell the tokens and is not interchangeable with a prospectus.

3.0 Related provisions

These rules are in addition to and not in derogation of any requirements provided for under securities laws or any other rules issued by the Commission

4.0 Initial Assessment Filing

Except in cases of follow-on offerings, all promoters, entities or businesses proposing to conduct initial digital asset offerings within Nigeria or targeting Nigerians, shall submit the assessment form, including the required attachments in the manner specified in the form.

4.01 The initial assessment filing shall in addition to a duly completed assessment form include the following information:

- i. Proposed Whitepaper – The whitepaper should contain relevant, complete and current information regarding the initial digital asset offering projects, business plan and feasibility study, and shall include the following:
 - a. Brief description of the business of the issuer;
 - b. Comprehensive information on how the proposed initial digital asset offering project will benefit investors and deepen the market, sustainability and scalability;
 - c. Brief description of the initial digital asset offering, the blockchain technology, value of each token, lock-up period (if any), returns, profits, bonuses, rights and/or other privileges (monetary and non-monetary) to the buyer of the token;
 - d. Use of proceeds from sale of the tokens, including percentage allocation to each use category;
 - e. Discussion on the determination of the accounting and the valuation treatments for the digital token including all valuation methodology and reasonable presumptions adopted in such calculation;
 - f. A technical description of the protocol, platform or application of the digital token, as the case may be, and the associated benefits of the technology;
 - g. Target market;
 - h. Currency or other assets that will be received as payment for the tokens;
 - i. Timelines and duration of the initial digital asset offer marketing;

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

4.04 Such revisions of a whitepaper or other documents made after the determination of the Commission shall be subject to prior review and clearance of the Commission, and the payment of a revision fee;

4.05 Where the digital asset is determined to be a security, the issuer shall apply to register the said securities.

5.0 Registration Requirements for Digital Asset Offering

5.01 Upon the issuance of a determination of the Commission that the proposed digital assets to be offered are securities, the issuer shall file an application for registration which, in addition to the Commission's minimum disclosure requirements for public offers, shall include:

- a. A registration statement of the digital assets which must include:
 - i. the name and ticker of the tokens;
 - ii. the amount to be registered;
 - iii. the price per token;
 - iv. the number of tokens to be sold;
 - v. the registration fees;
- b. KYC procedures, disaster recovery plans, risks and security protocols;
- c. Solicitor's opinion confirming that all applicable permits and licenses for the issuance and transfer of the securities, after the offer, has been obtained;
- d. Copy of the escrow agreement with an independent custodian registered with the Commission;
- e. Corporate governance disclosures;
- f. Evidence of payment of the applicable fees;

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

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

6.0 Moratorium on Equity Interest

- a. The issuer's directors and senior management must, in aggregate, own at least 50% equity holding in the issuer on the date of the issuance of the digital assets.

- b. Post issuance of the digital assets, the issuer's directors and senior management may only sell, transfer or assign not more than 50% of their respective equity holding until completion of the initial digital asset offering project.

7.0 Limit of Fund Raised by the Issuer

- a. An issuer may only raise funds subject to the following limit:
Twenty times the Issuer's shareholders' funds i.e., the maximum quantum of funds permitted to be raised within any continuous 12-month period, subject to a ceiling of N20 billion.
- b. The issuer must demonstrate that the gross proceeds to be raised from the digital asset offering would be sufficient to undertake the project as proposed in the white paper.
- c. The digital tokens issued by an issuer must be fully subscribed, and an issuer is not allowed to keep any amount exceeding the target amount raised.
- d. In the event an issuer is unable to comply with the requirement in paragraph 6(c) the Digital Asset Operator must refund all monies collected from the token holders within six (6) business days from the date of the closing of the offer period.

8.0 Investment Limits

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

- a. For qualified institutional and high net worth investors, no restriction on investment amount; and
- b. For retail investors, a maximum of N5 million per issuer with a total investment limit not exceeding N20 million within a 12-month period

9.0 Exemptions from Registration of Digital Assets

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

PART B

Registration Requirements for Digital Assets Offering (DAO) Platform

10.0 Definitions

Digital Assets Offering Platform- means an electronic platform operated by a DAO operator which hosts a DAO

11.0 Registration Requirements

11.01 An application for registration as a Digital Assets Offering Platform shall be filed on the appropriate SEC Form contained in schedule III to these rules and regulations and accompanied by:

- a) copy of the certificate of incorporation certified by the company secretary;
- b) copy of the Memorandum and Articles of Association and amendments (if any) certified by the Corporate Affairs Commission;
- c) latest copy of audited accounts or statement of affairs signed by its auditors and management accounts that are not more than thirty (30) days old as at time of filing with the Commission;
- d) a copy of draft rules of the DAO Platform;
- e) sworn undertaking to promptly furnish the Commission with copies of any amendments to the rules of the DAO Platform;
- f) information on the company, including structure and profile of members of its board as well as rules and procedures;
- g) detailed information about the promoters and principal officers of the DAO Platform;
- h) sworn undertaking to keep such records and render such returns as may be specified by the Commission from time to time;
- i) sworn undertaking to comply with the provisions of the Act and these rules and regulations;
- j) an application for registration of at least three (3) principal officers of the DAO Platform on the appropriate SEC Form;
- k) Police clearance report for each Sponsored Individual;
- l) an application for registration of Directors of the company on the relevant SEC Form;
- m) minimum paid-up capital requirement of N500 million;
- n) any other document required by the Commission from time to time for the protection of investors;
- o) Current Fidelity Insurance Bond covering at least 25% of the minimum paid-up capital as stipulated by the Commission's Rules and Regulations;
- p) Notwithstanding the provision of (m) above, the Commission may at any time impose additional financial requirements on the DAO Platform commensurate with the nature, operations risk posed by the Digital Assets Offering Platform;

11.02 An applicant must ensure that the application submitted is accompanied with the prescribed fees.

12.0 Additional Requirements

A registered Digital Assets Offering Platform shall:

1. Manage all risks associated with its business and operation;
2. Have sufficient financial, human and other resources for its operation at all times;
3. Ensure appropriate security arrangement, taking into account the scale of its business operations and risks;

13.0 Governance

13.01 A Digital Assets Offering Platform shall have:

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

13.02 The Board and Management of a DAO Platform shall have the required mix of skills and competence to discharge their duties;

13.03 A charter for the Board and Management that clearly stipulates responsibility and accountability which should be made publicly available.

14.0 Composition of the Board

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

14.02 The Board shall comprise of:

- a) A Chairman
- b) A Chief Executive Officer;
- c) At least one Independent Director;

14.03 The majority of Board members shall be Non-Executive Directors;

14.04 The Board shall have a minimum of 5 members;

14.05 Board members other than the Chief Executive Officer shall hold office for a period of 4 years subject to cumulative maximum of 2 terms;

15.0 Obligations

15.01 A DAO Platform, in determining whether to approve a DAO, shall–

- (a) carry out due diligence and critical assessment on an issuer including–
 - (i) understanding and verifying the business of the issuer to ensure that the issuer does not engage in any business practices appearing to be deceitful, oppressive or improper, whether unlawful or not;
 - (ii) assess the fit and properness of the issuer’s directors and senior management; and
 - (iii) understand the features of the virtual/digital token to be issued by the issuer and the rights attached to it;
- (b) exercise its own judgment and carry out critical assessment on the issuer’s compliance with the requirements in these Rules including as to whether the issuer will be able to satisfy the requirement to provide an innovative solution or a meaningful digital value proposition for the Nigerian capital market; and
- (c) assess the issuer’s White paper furnished to the DAO Platform. In approving the issuer’s white paper, the DAO Platform shall ensure that the contents of the white paper include the information required under these Rules and that its contents are not false or misleading, or containing any material omission.

15.02 In addition to the obligations set out in paragraph 15.01, an Digital Asset Offering Platform shall–

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

- f) ensure that all fees and charges payable are fair, reasonable and transparent;
- g) carry out continuous awareness and education programmes;
- h) take all reasonable measures to avoid situations that are likely to involve a conflict of interest with the issuer;
- i) disclose any information or provide any document to the Commission as may be require;
- j) ensure that all disclosures are not false or misleading, or containing any material omission;
- k) obtain and retain self-declared risk acknowledgement forms from its users prior to them investing in the DAO offering;
- l) provide prior disclosure to investors that any loss resulting from the investors investing in a DAO offering is not covered by the National Investor Protection Fund (NIPF);
- m) disclose and display prominently on its DAO platform, any relevant information relating to the platform including–
 - i. all necessary risk warning statements, including all risk factors that users may require in making a decision to participate on the Digital Asset Offering platform;
 - ii. information on rights of investors to investing through such platforms ;
 - iii. criteria for access to the platform;
 - iv. education materials, including comparative information where necessary;
 - v. fees, charges and other expenses that it may charge, impose on its users;
 - vi. information about complaints handling or dispute resolution and its procedures;
 - vii. information on processes and contingency arrangement in the event the it is unable to carry out its operations or cessation of business; and
 - viii. any other information as may be specified by the Commission from time to time;

- n) establish and maintain policies and procedures to–
 - i. provide clear line of reporting, authorisation and proper segregation of function;
 - ii. implement whistleblowing measures that are appropriate to the operations of the platform;
 - iii. identify, monitor, manage and mitigate cyber risks in its operating environment;
 - iv. effectively and efficiently identify, monitor, mitigate and managesituations and potential situations which may give rise to conflicts of interest; and
 - v. ensure compliance with all relevant laws, rules and regulations ;
 - o) ensure that its processes and practices are continuously aligned to industry practices in relation to virtual/digital assets;
 - p) take all reasonable steps to ensure fair treatment of clients;
 - q) identify and manage potential vulnerabilities and cyber threats in its operating environment;
 - r) in the event of any systems error, failure or malfunction, take all necessary and immediate appropriate actions to mitigate any potential losses;
 - s) carry out any other duties or responsibilities as may be specified by the Commission;and
 - t) immediately notify the Commission–
 - i. of any breach of the terms and conditions imposed by the Commission, any provisions of the ISA 2007, guidelines or its rules,
-

- ii. when it becomes aware of any matter which adversely affects or is likely to adversely affect its ability to meet its obligations or to carry out its functions under these Rules;
- iii. of any material change to the DAO, the DAO project or the issuer including any of the following matters:
 - A. The discovery of a false or misleading statement in any disclosures in relation to the DAO, the DAO project or the issuer;
 - B. The discovery of any material omission of information that may affect token holders;
 - C. Any material development in the circumstances relating to the DAO, the DAO project or the issuer; and
- iv. of the occurrence of any event which would trigger the activation or execution of the business continuity plan, in such form and manner as may be specified by the Commission;
- u) retain for a minimum period of six (6) years–
 - i. all records of transactions relating to investors; and
 - ii. all records that sufficiently explain the financial position and the business of the DAO Platform; and
- v) provide to the Commission access to any register required to be maintained under these Rules and disclose any other information as the Commission may require.

15.03 Notwithstanding subparagraph 15.02(e), any proposed rules of an DAO Platform or any proposed amendments to its existing rules shall not have effect unless it has been approved by the Commission.

16.0 Risk management

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

16.02 A DAO Platform shall, among others–

- a) ensure that its systems are designed to assure a high degree of security and operational reliability, including having adequate capacity;
- b) establish a robust risk management framework with appropriate systems, policies, procedures, and controls to identify, monitor, mitigate and manage all material risks;
- c) have in place clearly defined roles and responsibilities for addressing material risks;
- d) have in place clearly defined operational reliability objectives and have policies in place that are designed to achieve those objectives;
- e) ensure that it has adequate capacity proportionate to stress volumes to achieve its service-level objectives; and
- f) have a comprehensive physical and information security policy that addresses all potential vulnerabilities and threats.

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

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

16.05 A DAO Platform shall carry out periodic reviews, audits and testing on systems, operational policies, procedures, and controls relating to risk management and its business continuity plan.

17.0 Internal audit

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

18.0 Conflict of interest management

18.01 A DAO Platform, including all its directors and shareholders, shall disclose to the public on its platform if:

- a) it holds any shares in any of the issuers or Virtual/digital tokens issued by any issuers hosted on its platform; or

- b) it pays any referrer or introducer, or receives payment in whatever form, including payment in the form of shares, in connection with an issuer hosted on its electronic platform.

18.02 Notwithstanding paragraph 18.01, a DAO Platform's shareholding in any of the issuers hosted on its platform shall not exceed thirty (30) per cent.

18.03 A DAO Platform is prohibited from providing direct or indirect financial assistance to investors to invest in the Virtual/digital tokens of an issuer hosted on its platform.

19.0 Operation of Trust Account

19.01 A Digital Assets Offering Platform shall:

- a) establish systems and controls for maintaining an accurate and up to date records of investors and any monies or Virtual/digital tokens held in relation to investors;
- b) ensure investors' monies and Virtual/digital tokens are properly safeguarded from conversion or inappropriate use by any person, including but not limited to implementing multi-signature arrangements;
- c) establish and maintain with a registered Receiving Bank one or more trust accounts, designated for the monies received from investors;
- d) ensure that the trust accounts under paragraph 19.01(c) are administered by a trustee registered by the Commission ;
- e) only release the funds to the issuer after the following conditions are fulfilled:
 - i. The targeted amount sought to be raised has been met; and
 - ii. There is no material change relating to the DAO or the Issuer during the offer period
- f) in relation to investors' virtual/digital token:
 - i. ensure that the token holders' digital tokens are properly segregated and safeguarded from conversion or inappropriate use by any person;
 - ii. establish and maintain a sufficiently and verifiably secured storage medium designated to store virtual/digital assets from investors; and

- iii. establish system and controls for maintaining accurate and up-to-date records of client's Virtual/digital assets held.

18.04 For the purpose of subparagraph 19.01(e)(ii), a material change may include any of the following matters:

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

18.05 Notwithstanding paragraph 19.01(e), a DAO Platform may impose any other additional condition precedent before releasing the fund, provided that they serve the token holders' interest.

20.0 Custody of virtual/digital token

20.01 A DAO Platform may appoint a digital asset custodian registered with the Commission to provide custody of the token holders' virtual/digital tokens.

20.02 Where a DAO Platform chooses to provide its own custody services to the tokenholders, the DAO Platform must ensure that it complies with the requirements set out under Part C of these Rules with regard to a Digital Asset Custodian.

21.0 Supplementary white paper

21.01 Where a supplementary white paper has been furnished to the Digital Assets Offering Platform and the Commission, and before the issue of virtual/digital tokens, the DAO Platform shall notify the DAO applicant that:

- a) a supplementary white paper is available on the platform; and
- b) the applicant may withdraw his application for the subscription of the Virtual/digital token within six (6) business days from the date of receipt of the notice.

21.02 If the applicant withdraws his application pursuant to paragraph 17.18(b) above, the Digital Assets Offering Platform shall, within six (6) business days, refund to the applicant any amount that the applicant has paid for the purposes of the DAO.

22.0 Register of Initial Token Holders

- 22.01 A DAO Platform shall maintain a register of initial token holders who subscribed for the Virtual/digital tokens during the offer period and enter into the register:
- a) in the case of a token holder who is a Nigerian, the name, address and details of means of identification of the token holder. In the case of a non-Nigerian token holder, the name, address and passport details or the token holder;
 - b) in the case of a token holder who is a corporation, the name, registered address and registration number of the corporation, including details of its directors and shareholders;
 - c) total amount of Virtual/digital tokens subscribed by each token holder; and
 - d) any other relevant information or particulars of the token holder as may be required by the Commission.

23.0 Outsourcing

- 23.01 A Digital Assets Offering Platform shall select an appropriate and efficient service provider for its outsourcing arrangement, and monitor the outsourcing arrangement on a continuous basis to ensure that it does not lead to any business disruption and negative consequences to token holders.
- 23.02 Except for the functions set out under paragraph 23.03, all other functions of the Digital Assets Offering Platform, i.e. back office processes, services or activities can be outsourced subject to the requirements in these Rules.
- 23.03 A DAO Platform is not allowed to outsource any function that involves:
- a) the decision making functions of the DAO Platform; or
 - b) any interaction or direct contact with the DAO issuer or token holders.
- 23.04 The service provider must avoid any conflicts of interest. Where a conflict cannot be avoided, appropriate safeguards shall be put in place to protect the interests of the token holders.
- 23.05 The outsourcing of the following functions by the DAO platform is considered as material outsourcing arrangement and can only be outsourced to the following service providers:
- a) internal audit function to the DAO Platform's auditor or an external auditor, where applicable;

- b) compliance function to the DAO Platform group of companies, where applicable; or
- c) risk management function to the DAO Platform group of companies or an external service provider in the area of risk management.

23.06 Other than the material functions set out in the paragraph 23.05, other outsourcing arrangements will also be considered as material outsourcing arrangement where:

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

23.07 Where applicable, the internal audit and risk management functions which have been outsourced cannot be further sub-contracted.

23.08 Where a service provider or a sub-contractor is located outside Nigeria, the DAO Platform shall:

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

23.09 The DAO Platform's Board remains accountable for all outsourced functions.

- 23.10 The Digital Assets Offering Platform’s Board shall be responsible for establishing effective policies and procedures for its outsourcing arrangement including a monitoring framework to monitor the service delivery, performance reliability and processing capacity of the service provider which should, among others, include periodic review and update the service level agreement and hold regular meetings to discuss performance of the service provider, sub-contractor and regulatory matters.
- 23.11 A DAO Platform shall ensure that the service provider has adequate policies and procedures to monitor the conduct of the appointed sub-contractor.

24.0 Outsourcing information

- 24.01 A DAO Platform shall provide the Commission, within two (2) weeks prior to entering into any outsourcing arrangement in respect of any material outsourced function, with:
- a) A brief decision of the material outsourced functions, and, if applicable, a brief explanation on the rationale to outsource to service provider or sub-contractor outside Nigeria and the reasons the particular function could not be undertaken domestically; and
 - b) A letter of undertaking from the service provider or sub-contractor stating that the Commission will have access to all information, records and documents relating to the material outsourced arrangement;
- 24.02 A DAO Platform shall also notify the Commission, within two (2) weeks from the occurrence of the following event:
- a) Any variation or termination of the service level agreement and sub-contracting agreement in relation to any material outsourcing arrangement signed by the service provider; and
 - b) Any adverse development arising in such material outsourcing arrangement that could significantly affect the DAO Platform.

25.0 Hosting on other Platforms

- 25.01 An issuer shall not be hosted concurrently on multiple DAO Platforms or on an equity crowdfunding platform.

26.0 Limit of Fund Raised by Issuer

26.01 A Digital Assets Offering Platform shall ensure that an issuer may only raise fund subject to the following limit:

$$\begin{array}{l} \text{Issuer's shareholders' funds or in the case of an LLP, issuer's capital} \end{array} \times \begin{array}{l} \text{Multiple} \\ (20) \end{array} = \begin{array}{l} \text{Maximum quantum of fund permitted to be raised within any continuous 12-month period, subject to a ceiling of 20 Billion Naira} \end{array}$$

26.02 The issuer must demonstrate to the DAO Platform that the gross proceeds to be raised from the DAO would be sufficient to undertake the DAO project as proposed in the white paper.

26.03 The virtual/digital tokens issued by an issuer must be fully subscribed, and an issuer is not allowed to keep any amount exceeding the target amount raised.

26.04 In the event an issuer is unable to comply with the requirement in paragraph 26.03, the DAO Platform shall refund all monies collected from the token holders within six (6) business days from the date of the closing of the offer period.

27.0 Investment limits

27.01 A person may invest in a DAO subject to the following limits:

- a) For qualified institutional investors no restriction on investment amount;
- b) For High net worth individuals: a maximum of N50M within a 12-month period; and
- c) For retail investors: a maximum of N200,000 per issuer with a total investment limit not exceeding N2M within a 12-month period.

28.0 Cooling off Right

28.01 A cooling-off right shall be given to an applicant who is applying to subscribe a virtual/digital token in an DAO, except for where such applicant is a staff of the issuer.

28.02 The cooling-off period shall be no fewer than five (5) business days commencing from the closing date of the offer period.

28.03 An applicant exercising their cooling-off right pursuant to paragraph 28.02 shall be entitled to a refund amounting to the sum equivalent of:

- a) the purchase price paid for the Virtual/digital token; and
- b) any other charges imposed on the day the Virtual/digital token was purchased.

28.04 When an investor notifies the DAO Platform of his intention to exercise his cooling-off right, the DAO Platform shall refund to the investor the quantum in paragraph 28.03 above within five (5) business days of receiving such notification.

29.0 Cessation of Operations

29.01 A DAO Platform shall not cease its business or operations without prior notification to the Commission.

29.02 The Commission may issue a direction or impose any term or condition for the purposes of ensuring the orderly cessation of the operations of the DAO Platform.

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

30.0 Cancellation of Registration

30.01 The Commission may cancel the registration of a DAO Platform if:

- (a) the Commission finds that, at any time, the DAO Platform has submitted to the Commission any false or misleading information or there is material omission of information;
- (b) The DAO Platform fails to meet the requirements as provided in the ISA 2007, these Rules, any other relevant laws or guidelines issued by the Commission ;
- (c) The DAO Platform fails or ceases to carry on the business or activities for which it was registered for a consecutive period of six (6) months;
- (d) the DAO Platform contravenes any obligation, condition or restriction imposed under these Rules; or
- (e) fails to pay any fee prescribed by the Commission.

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

30.03 The withdrawal of the DAO Platform's registration shall not:

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

PART C

Registration Requirements for Digital Asset Custodian

31.0 Definitions

Digital Asset Custodian- means a person who provides the services of providing safekeeping, storing, holding or maintaining custody of virtual/digital assets for the account of another person. An asset owner shall be considered as having full control of his digital assets when he holds the private key(s) to the wallet and the digital asset custodian does not have the ability to effect a unilateral transfer of the asset owner's digital assets.

32.0 Registration Requirements

- 32.01 The Commission may register a person as a digital asset custodian, subject to satisfying eligibility requirements for registration as a Custodian or Trustee and the additional requirements
- 32.02 In the case of a registered Custodian or registered trustee who seeks to provide any of the services specified in paragraph 32.01, such registered Operator must apply to the Commission for approval to provide the services of a digital asset custodian
- 32.03 An applicant must ensure that the application submitted is accompanied with the prescribed fees.
- 32.04 In the case of a foreign digital asset custodian, in addition to satisfying the requirements set out in this Part D, the Commission may register the foreign digital asset custodian, provided that they fulfill requirements set out in 23.01 and the Commission is satisfied that—
- a) the applicant is authorized to operate or carry out an activity of a similar nature in the foreign jurisdiction; and
 - b) the applicant is from a comparable jurisdiction with whom the SC has regulatory arrangements on enforcement, supervision and sharing of information.

33.0 Digital Asset Custodian's obligations

- 33.01 A digital asset custodian must—
- a) act in the best interest of the clients and take all reasonable measures to avoid situations that are likely to involve conflict of interest with the clients;
 - b) safeguard the rights and interests of its clients including ensuring that its clients have access to their virtual/digital assets at all times, and preventing unauthorized access to clients' virtual/digital assets;

- c) ensure that all fees and charges payable are fair, reasonable and transparent;
- d) disclose any information or provide any document to the Commission as the Commission may require;
- e) comply with all the reporting requirements and submit accurate information that is required by the Commission in a timely manner;
- f) identify and manage risks associated with its business and operations, including having in place an effective business continuity plan;
- g) establish and maintain written policies and procedures to—
 - (i) provide clear line of reporting, authorization and proper segregation of function;
 - (ii) prevent unauthorized access or fraudulent transaction;
 - (iii) implement anti-corruption and whistleblowing measures that are appropriate to the nature, scale and complexity of its business⁶;
 - (iv) enable full disclosure of all client's transactions and assets to the client;
 - (v) ensure compliance with all relevant laws, regulations and guidelines including *AML/CFT/PF laws and regulations*
 - (vi) manage clients' data that covers collection, storage, use, disclosure and disposal of client information, including the following:
 - (A) proper handling and safeguarding of client data;
 - (B) protection of confidentiality and security of client data; and
 - (C) managing third party service provider who has access to client data;
- h) ensure that its processes and practices are continuously aligned to industry practices in relation to custody of virtual/digital assets;
- i) take all reasonable steps to ensure fair treatment of clients;
- j) identify and manage potential vulnerabilities, cyber threats in its operating environment;
- k) in the event of any systems error, failure or malfunction, take all necessary and immediate appropriate actions to mitigate any potential losses;
- l) carry out any other duties or responsibilities as may be specified by the Commission;

- m) immediately notify the Commission–
 - (i) of any breach of the terms and conditions imposed by the Commission, any provisions of the securities laws, guidelines or its rules, including any alleged or suspected violations of any relevant laws or guidelines referred to in paragraph 33.01(g)(v);
 - (ii) when it becomes aware of any matter which adversely affects or is likely to adversely affect its ability to meet its obligations or to carry out its functions under these Guidelines; and
 - (iii) of the occurrence of any event which would trigger the activation or execution of the business continuity plan, in such form and manner as may be specified by the Commission;
- n) retain for a minimum period of six (6) years–
 - (i) all records of transactions relating to clients; and
 - (ii) all records that sufficiently explain the financial position and the business of the digital asset custodian; and
- o) provide to the Commission access to any register required to be maintained under these Guidelines and disclose any other information as the Commission may require.

34.0 Risk management

34.01 The digital asset custodian must establish a risk management framework to identify, assess, monitor, control and report all material risks to which the digital asset custodian could be exposed to.

34.02 The risk management framework must include–

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

34.03 A digital asset custodian must carry out periodic reviews, audits and testing on systems, operational policies, procedures, and controls relating to risk management and its business continuity plan.

35.0 Conflict of interest management

- 35.01 A digital asset custodian must give priority to the clients' interest if there is a conflict between the clients' interests and its own interests;
- 35.02 A digital asset custodian must establish and maintain written policies and processes and procedures that–
- a) identifies, monitors, mitigates and manages situations and potential situations which may give rise to conflicts of interest; and
 - b) requires disclosure of any conflict or potential conflict of interest.

36.0 Internal audit

- 36.01 A digital asset custodian must perform internal audit checks on its operations regularly. For this purpose, the digital asset custodian may establish an internal audit function or outsource the said function.
- 36.02 The person responsible for the internal audit function must report directly to the Board on the adequacy, effectiveness and efficiency of the management, operations, risk management and internal controls.
- 36.03 Notwithstanding that the internal audit function may be outsourced, the Board must ensure that the internal audit framework includes–
- (a) clearly defined terms of the internal audit framework which sets out the scope, objectives, approach and reporting requirements;
 - (b) adequate planning, controlling and recording all audit work performed, and record the findings, conclusions and if any, recommendations made;
 - (c) issuance of an internal audit report at the conclusion of each internal audit performed; and
 - (d) ensuring matters are highlighted in the internal audit report are satisfactorily resolved in a timely manner and does not jeopardize or prejudice the clients' interest.
- 36.04 The internal audit framework must be approved by the Board

37.0 Key generation and management

- 37.01 A digital asset custodian must establish and maintain a sufficiently and verifiably secured storage medium designated to store its clients' virtual/digital assets.

37.02 A digital asset custodian must have in place effective policies and procedures to safeguards key generation and management including–

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

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

38.0 Segregation of client assets

38.01 A digital asset custodian must–

- a) ensure that all clients' virtual/digital assets are properly segregated from its own assets and safeguarded from conversion or inappropriate use by any person; and
- b) establish system and controls for maintaining accurate and up-to-date records of clients' virtual/digital assets held.

39.0 Transaction handling

39.01 A digital asset custodian must ensure that, at all times, it has up-to-date transactional records relating to the clients' virtual/digital assets including–

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

39.02 The digital asset custodian must provide the information under paragraph 39.01 to the Commission as and when requested by the Commission and in such form and manner as the Commission may specify.

39.03 The digital asset custodian must retain all the transactional records including those stated in paragraph 39.01 for a minimum period of six (6) years.

40.0 Outsourcing

40.01 A digital asset custodian must select an appropriate and efficient service provider for its outsourcing arrangement, and monitor the outsourcing arrangement on a continuous basis to ensure that it does not lead to business disruption and negative consequences to the clients.

40.02 Except for the functions set out under paragraph 40.03, all other functions of the digital asset custodian, i.e. back office processes, services or activities can be outsourced subject to the requirements of these Guidelines.

40.03 The digital asset custodian is not allowed to outsource any function that involves–

- (a) the decision making functions of the digital asset custodian; or
- (b) any interaction or direct contact with the clients.

40.04 The service provider must avoid any conflicts of interest. Where a conflict cannot be avoided, appropriate safeguards must be put in place to protect the interests of the clients.

40.05 The outsourcing of the following functions by the digital asset custodian is considered as material outsourcing arrangement and can only be outsourced to the following service provider–

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

40.06 Other than the material functions set out in the paragraph 40.05, other outsourcing arrangements will also be considered as material outsourcing arrangement where:

- a) there may be a financial, reputational or operational impact on the digital asset custodian in the event of a default or failure of the service provider;

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

40.07 Where applicable, the internal audit and risk management functions which have been outsourced cannot be further sub-contracted.

40.08 Where a service provider or a sub-contractor is located outside Nigeria, the digital asset custodian must–

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

40.09 The digital asset custodian's Board remains accountable for all outsourced functions.

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

40.11 A digital asset custodian must ensure that the service provider has adequate policies and procedures to monitor the conduct of the appointed sub-contractor.

41.0 Outsourcing information

41.01 A digital asset custodian must provide the Commission , within two (2) weeks prior to entering into any outsourcing arrangement in respect of any material outsourced function, the following:

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

41.02 A digital asset custodian must also notify the Commission, within two (2) weeks from the occurrence of the following event:

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

41.03 A digital asset custodian must obtain the Commission's prior approval in circumstances where any proposed change to the shareholding will result in a direct or indirect change in the digital asset custodian's controller.

41.04 A digital asset custodian must notify the Commission if it intends to provide custodial services for additional classes of virtual/digital assets.

42.0 Cessation of Business or Operations

42.01 A digital asset custodian must not cease its business or operations without prior engagement with the Commission.

42.02 The Commission may issue a direction or impose any term or condition for the purposes of ensuring the orderly cessation of the business or operation of the digital asset custodian.

42.03 A digital asset custodian must ensure the clients continue to have uninterrupted access to their respective virtual/digital assets under its custody in the event that the digital asset custodian ceases to operate or cannot fulfil its obligation under the custodial agreement.

42.04 The cessation of business or operations of the digital asset custodian will not take effect until the Commission is satisfied that all the requirements stated in the securities laws, these Guidelines, relevant guidelines issued by the Commission and any other relevant laws or requirements have been fulfilled.

43.0 Cancellation of Registration

43.01 The Commission may cancel the registration of a digital asset custodian if–

- (a) the Commission finds that, at any time, the digital asset custodian has submitted to the Commission any false or misleading information or there is material omission of information;
- (b) the digital asset custodian fails to meet the requirements as provided in securities laws, these Rules, any other relevant laws or regulations or any direction issued by the Commission on the digital asset custodian;
- (c) the digital asset custodian fails or ceases to carry on the business or activities for which it was registered for a consecutive period of six (6) months;
- (d) the digital asset custodian contravenes any obligation, condition or restriction imposed under these Rules; or
- (e) the digital asset custodian fails to pay any fee prescribed by the Commission.

43.02 The digital asset custodian may, by notice in writing, apply to the Commission to withdraw its registration and provide reasons for its withdrawal.

43.03 The withdrawal of its registration of the digital asset custodian shall not–

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

