

Cryptocurrency and Cybersecurity in Nigeria: Assessing Nigeria's Regulatory Response to Emerging Technologies and Financial Crimes

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Abstract: This paper examines Nigeria's regulatory response to the rise of cryptocurrency and the associated cybersecurity risks. In 2021, the Central Bank of Nigeria (CBN) instructed financial institutions to discontinue facilitating cryptocurrency-related transactions, citing concerns over fraud, money laundering, and terrorism financing. This directive, perceived as an outright ban, led to significant public backlash and highlighted the need for a more nuanced regulatory approach. Subsequently, the Nigerian Securities and Exchange Commission (SEC) and the CBN have issued guidelines aimed at regulating the cryptocurrency market without stifling innovation. This paper reviews the regulatory framework, including the Cybercrime (Prohibition, Prevention, etc.) Act 2015, the Nigeria Data Protection Act 2023, and the guidelines for Virtual Asset Service Providers (VASPs). Through an analysis of recent financial crime incidents and regulatory responses, the study assesses the effectiveness of Nigeria's approach in mitigating risks while supporting the potential benefits of blockchain technology. The paper concludes with strategic recommendations for policymakers to enhance cybersecurity and foster a robust, regulated cryptocurrency market in Nigeria.

Keywords: cryptocurrency, cybersecurity, cybercrime, cryptocurrency regulation, Central Bank of Nigeria (CBN), financial regulation, Blockchain technology, money laundering, Virtual Assets Service Providers (VASPs), Nigeria data protection act 2023, national blockchain policy, digital currency, anti-money laundering

1. Introduction

In February 2021, the Central Bank of Nigeria (CBN) issued a directive to financial institutions, instructing them to halt transactions involving cryptocurrency and related businesses. The CBN further mandated the closure of bank accounts associated with cryptocurrency trading to mitigate the risks of money laundering and illicit financing. The Central Bank of Nigeria directed Deposit Money Banks (DMBs), Non-Bank Financial Institutions (NBFIs), and Other Financial Institutions (OFIs) to identify individuals or businesses engaged in cryptocurrency trading or operating exchanges within their systems and ensure that their accounts were immediately terminated. Additionally, the CBN advised financial institutions to refrain from engaging in any cryptocurrency transactions or supporting payments linked to such platforms. The CBN¹ reemphasized that

¹ In January 2017, the CBN had noted that digital currencies such as Bitcoin and Litecoin are predominantly used for terrorism financing and money laundering due to the anonymity of virtual transactions. Also, in February 2018, the CBN warned individuals investing in cryptocurrencies that they do so at their own risk, as they are not protected by law. See, Cryptocurrency Trading: CBN Orders Banks To Close Operating Accounts. CBN UPDATE: ISSN No: 2695-2394 Vol. 3 No. 2 February 2021.

engaging in cryptocurrency transactions or allowing payments for cryptocurrency exchanges is strictly prohibited [1].

This directive faced widespread opposition from both the Nigerian public and the cryptocurrency community, with many viewing it as a barrier to technological progress and economic development. Notably, the then Vice President of Nigeria, Prof. Yemi Osinbajo, advocated for regulating cryptocurrencies instead of imposing an outright ban. In a statement on February 22, 2021, Timi Agama, Head of Registration, Exchanges, Market Infrastructure, and Innovation at the Securities and Exchange Commission (SEC), emphasized the importance of establishing regulations for cryptocurrencies. Mr. Agama noted that while neither the SEC nor the capital market would tolerate fraudulent activities, including money laundering, the cryptocurrency industry², valued at \$2 trillion, is too significant to overlook” [2].

However, in March 2021, the Deputy Governor of the Central Bank of Nigeria (CBN), Adamu Lamtek, clarified that the CBN had not banned cryptocurrency activities in the country. Instead, the directive was aimed at preventing cryptocurrency transactions within the banking sector. This means the CBN’s directive only applies to financial institutions, not to the entire country. Individuals are still allowed to buy and trade cryptocurrencies, but they cannot do so using Nigerian banks³ or fintech companies [3].

On December 22, 2023, the Central Bank of Nigeria (CBN) issued a new circular outlining regulations for financial institutions on managing cryptocurrency to prevent misuse. According to Haruna Mustapha, the CBN’s Director of Financial Policy and Regulation, evolving global trends have highlighted the need to regulate Virtual Assets Service Providers (VASPs), including cryptocurrencies and crypto assets. As a result, the CBN introduced guidelines for financial institutions under its oversight on how to interact with VASPs in Nigeria. These VASPs are now required to obtain licensing from the Nigerian Securities and Exchange Commission (SEC) to operate in the cryptocurrency space. However, the CBN maintained that banks and financial institutions are still prohibited from holding, trading, or transacting in cryptocurrencies on their own behalf. In April 2022, the CBN fined six banks a total of N1.314 billion for failing to comply with regulations on cryptocurrency accounts. These banks— United Bank for Africa (UBA), Wema Bank, Stanbic IBTC, Access Bank, First City Monument Bank (FCMB), and Fidelity Bank⁴—had not closed the accounts of individuals or entities involved in cryptocurrency transactions, as required by the CBN’s directive [4].

The Central Bank of Nigeria (CBN) imposed restrictions on cryptocurrency transactions due to concerns about money laundering, terrorism financing, cybercrime, and the high volatility of cryptocurrencies. At the time, CBN Governor Godwin Emefiele stated that these measures were necessary to address the risks associated with cryptocurrency, particularly in relation to money laundering and terrorism financing.

2. What is Cryptocurrency?

Simply put, cryptocurrency is money. Cryptocurrency is a form of digital or virtual currency that enables individuals to make direct payments to one another through an online system. It operates independently of banks or financial institutions, allowing transactions without the need for third-party verification. Cryptocurrencies⁵ can be used for purchases or as an investment, with transactions being validated and recorded on a blockchain—a secure and immutable ledger that tracks assets and transactions [5].

² The Cable Newspaper, ‘SEC seeks regulation of digital assets, says \$2trn crypto market can’t be ignored’ <<https://www.thecable.ng/sec-seeks-regulation-of-digital-assets-says-2trn-crypto-market-cant-be-ignored/>> accessed June 14, 2024.

³ “Has the “cryptocurrency ban” in Nigeria been lifted?” <<https://infusionlawyers.com/has-the-cryptocurrency-ban-in-nigeria-been-lifted/>> accessed June 13, 2024

⁴ CBN hits banks with N1.31bn fine for flouting directive on crypto accounts. <<https://www.thecable.ng/cbn-fines-six-banks-n1-31bn-for-flouting-directive-on-closure-of-crypto-accounts/>> accessed June 13, 2024.

⁵ How Does Cryptocurrency Work? A Beginner’s Guide by Coursera Staff. <<https://www.coursera.org/articles/how-does-cryptocurrency-work>> accessed June 13, 2024.

Cryptocurrency was developed thanks to the creation of blockchain technology. Cryptocurrencies function on decentralized networks fueled by blockchain technology. This decentralized structure means that no central authority, such as a bank or government, has control over the currency. Cryptocurrencies can be accessed and used by anyone with an internet connection, making them available to people around the world, regardless of their location. Bitcoin (BTC) is the first and most popular cryptocurrency, developed by an anonymous individual or group using the name Satoshi Nakamoto. Other notable cryptocurrencies include Ethereum (ETH), Litecoin (LTC), Dogecoin, Ripple (XRP), and Monero (XMR), etc. Cryptocurrencies can be used to send money across borders quickly and with lower fees compared to traditional banking methods. It can also be used to purchase goods and services, particularly through online platforms. Some large companies and global merchants accept cryptocurrencies as payment. A company like Microsoft for example accepts Bitcoin for purchases in its online Xbox Store and other digital content platforms. Newegg, an online retailer specializing in computer hardware and consumer electronics, accepts Bitcoin for payment. CheapAir.com enables customers to book flights and hotels using Bitcoin and various other cryptocurrencies. Starbucks allows users to reload their Starbucks cards using Bitcoin through the Bakkt app. Rakuten, a Japanese e-commerce giant, accepts Bitcoin through its Rakuten Wallet. Other companies like Esty, Shopify, Subway and Burger King have started experimenting with allowing bitcoin and other cryptocurrencies⁶ to be used as a means of payment [6].

Cryptocurrency has gained popularity for several reasons, ranging from technological innovation to economic and social factors. Cryptocurrency holders have more control over their funds and transactions, appealing to those who distrust traditional financial institutions. The cryptocurrency market is open to anyone with an internet connection, making it more inclusive. Cryptocurrencies have been known for their volatility and the potential for high returns on investment. Early adopters of Bitcoin, for example, have seen significant appreciation in value. This potential for high returns attracts investors in the digital currency. Some people view cryptocurrencies, particularly Bitcoin, as a protection against inflation. With a capped supply, for example, Bitcoin's 21 million coin limit, these cryptocurrencies are perceived as a store of value similar to gold, protecting against the devaluation of fiat currencies. Cryptocurrencies also facilitate fast and low-cost international transactions. Unlike traditional banking systems, which can be slow and expensive, especially for cross-border transfers, cryptocurrencies enable quick and cost-effective transfers of value.

Cryptocurrencies have risen in popularity due to their decentralized structure, the potential for substantial returns, transparency, security, and alignment with the digital economy. They offer innovative solutions to traditional financial challenges, providing financial inclusion, privacy, and efficiency in global transactions. As technology evolves and adoption grows, the popularity of cryptocurrencies is likely to continue rising. However, the risks associated with such a volatile technology is such that cannot be ignored by any government.

3. Cryptocurrency and Financial Crime Concerns

The Nigerian government in the CBN circular of February 2021 cited money laundering and cybercrime as possible risks to the emergence of cryptocurrency. It is agreed that inspite of the innovative financial solutions and opportunities it offers, cryptocurrency does indeed come with its risks and challenges. Some of these dangers relate to money laundering, fraud and other financial crimes.

In March 2024, an ex-employee of First Bank, a prominent Nigerian bank with a total market value of about

⁶ Burger King Delivers on Crypto Payments through Binance. Read more on DailyCoin: <<https://dailycoin.com/binance-burger-king-crypto-payments/>>. Subway has started accepting Bitcoin as payment in Berlin: <<https://www.forbesindia.com/article/cryptocurrency/subway-has-started-accepting-bitcoin-as-payment-in-berlin/81129/1>>. How to Use Crypto on Etsy to Buy and Sell: <<https://bitpay.com/blog/how-to-use-crypto-on-etsy/>> accessed June 13, 2024.

₦829 billion, was reported to have stolen and absconded with about ₦40 billion (\$29 million). The funds were traced to several banks and some of the stolen funds were used in purchasing cryptocurrency. The Ex bank staff purchased stablecoin USDT from several crypto traders who were later brought in for questioning. The traders insisted that they were only engaged in selling USDT⁷ and denied having any awareness that the funds they received were derived from fraudulent activities [7].

In May 2024, Changpeng Zhao, the creator of Binance, a dominant force in the cryptocurrency industry, received a four-month prison sentence due to noncompliance with the United States of America anti-money laundering requirements. The founder of Binance had plead guilty to anti-money laundering violations, acknowledging that his company facilitated access for terrorist groups and other criminal entities. In October 2020, Arthur Hayes, the co-founder and former CEO of BitMEX, another major cryptocurrency exchange, was indicted by US authorities, along with other BitMEX executives, for breaching anti-money laundering regulations and failing to implement adequate customer identification procedures. In Nigeria, individuals engaged in cryptocurrency trading have faced legal scrutiny and enforcement actions. There have been instances of arrests and prosecutions linked to cryptocurrency-related activities, including alleged fraudulent schemes and money laundering operations. The Nigerian Federal Government detained two senior Binance executives, Najeem Anjarwalla and Tigran Gambaryan, charging them with fraud and noncompliance⁸ with cybersecurity regulations [8].

Cryptocurrencies can be used to obscure the identity of individuals involved in transactions, making it difficult to trace the origins and destinations of illicit funds. Criminals can use cryptocurrencies to layer and integrate illicit funds into the financial system. Once embezzled funds are converted into cryptocurrencies, tracking them becomes complex due to the decentralized and often pseudonymous nature of the transactions. Many cryptocurrency transactions bypass traditional financial institutions, reducing oversight and making it easier for embezzled funds to be hidden. Cryptocurrencies have been associated with a number of security threats, such as digital theft, financial fraud, and other cybercrimes and illegal operations. Hence there is an urgent need for some form of regulation to taper the risks associated with cryptocurrency.

4. Cryptocurrency Regulation in Nigeria

The February 5, 2021 circular issued by the Central Bank of Nigeria (CBN) was seen by many as an outright ban on cryptocurrency. This led to a lot of tension in the crypto-community. The CBN emphasized that the circular did not prohibit cryptocurrency but rather placed limitations on banks and financial institutions in terms of trading and transferring cryptocurrency. Some lawyers have argued that were the circular to be an outright ban on cryptocurrency, it would have no effect regardless because such a directive would be ultravires as the CBN is not vested⁹ with the powers to outrightly ban cryptocurrency through its directives [9].

The *Cybercrime (Prohibition, Prevention, etc.) Act, 2015* is a law enacted by the Nigerian national assembly as a response to the increasing rate of fraudulent activities in the cyberspace. The Act was established to create a robust, unified, and comprehensive legal, regulatory, and institutional framework aimed at prohibiting, preventing, detecting, prosecuting, and punishing cybercrimes in Nigeria. Additionally, the Act seeks to safeguard critical national information infrastructure, promote cybersecurity, and protect

⁷ Exclusive: First Bank employee on the run after diverting ₦40 billion; bank begins recovery. <<https://techcabal.com/2024/05/31/first-bank-employee-on-the-run-after-40bn-fraud/>> accessed June 13, 2024.

⁸ Punch Newspaper, Why US, Nigeria, others crack down on crypto currency kings <<https://punchng.com/why-us-nigeria-others-crack-down-on-crypto-currency-kings/#:~:text=Additionally%2C%20there%20have%20been%20instances,Najeem%20Anjarwalla%20and%20Tigran%20Gambaryan>> accessed June 13, 2024.

⁹ “Has the “cryptocurrency ban” in Nigeria been lifted?” <<https://infusionlawyers.com/has-the-cryptocurrency-ban-in-nigeria-been-lifted/>> accessed June 13, 2024.

computer systems, networks, electronic communications, data, computer programs, intellectual property, and privacy rights.

Although no mention is made of cryptocurrency throughout the Act, the Act contains several sections that aim to prevent fraud and other cybercrimes, including those potentially involving cryptocurrency. For example, **Section 14 of the Cybercrime (Prohibition, Prevention, etc.) Act, 2015** targets any unauthorized alterations, erasures, inputs, or suppression of data held in a computer to cause loss of property to another, with penalties including imprisonment for at least three years or a fine of at least ₦7,000,000, or both. **Section 15** of the Act penalizes the intentional input, alteration, deletion, or suppression of data with the intent to defraud, misrepresentations in electronic messages, and manipulation of electronic payment devices. Penalties include imprisonment and fines, varying based on the specific offense. **Section 19** provides that financial institutions must implement effective counter-fraud measures. Any person authorizing excessive access to employees can face a fine or imprisonment. There are also provisions for financial institutions to safeguard sensitive information and penalties for negligence. However, the Act does not specifically make provisions to prevent criminal activity associated with cryptocurrency or blockchain technology.

The **Nigeria Data Protection Act (NDPA) 2023** is another Act enacted by the Nigerian national assembly. The NDPA aims to safeguard individuals' privacy and data integrity, which indirectly helps prevent cybercrimes. The Act aims to ensure that personal data is processed in a fair, lawful, and accountable manner. Additionally, it seeks to strengthen the legal framework of the national digital economy and enable Nigeria's participation in regional and global economies through the responsible and trustworthy¹⁰ use of personal data [10]. **Section 2** provides that the Act applies to all transactions intended for processing personal data within Nigeria. It encompasses digital transactions, including those involving cryptocurrencies, thereby ensuring that these transactions are subject to the same data protection standards. **Section 24** mandates data controllers and processors to implement suitable technical and organizational measures to safeguard personal data. These measures should prevent unauthorized access, alteration, disclosure, or destruction of personal data, thereby mitigating the risk of fraud and cybercrimes associated with cryptocurrency. **Section 28** provides that organizations must conduct Data Privacy Impact Assessments (DPIAs) to evaluate and minimize risks to personal data. This process helps in identifying potential vulnerabilities in data handling systems, including those used for cryptocurrency transactions, thereby reducing the risk of fraud. **Section 29** ensures that third parties processing personal data on behalf of data controllers adhere to the same data protection standards. It includes provisions to secure data in third-party transactions, which is crucial for preventing fraud in cryptocurrency exchanges and related services. **Section 34** provides that data subjects (individuals) have the right to view, modify, and remove their personal data. These rights ensure individuals can manage their personal data, reducing the risk of misuse for fraudulent activities. **Section 40** stipulates that data controllers must inform the relevant authorities and affected individuals about data breaches. Prompt notification helps in mitigating the damage caused by breaches, including those involving cryptocurrencies, by enabling rapid response and corrective measures. **Section 41** regulates the transfer of personal data across borders, ensuring that data transferred to jurisdictions with lower data protection standards is still protected. This reduces the risk of data breaches and fraud involving international cryptocurrency transactions. **Section 44** requires that data controllers and data processors of substantial importance must register with the *Nigeria Data Protection Commission*. **Section 46** grants the *Nigeria Data Protection Commission* powers to conduct investigations, audit data practices, and enforce compliance. These powers enable the commission to take proactive measures against potential fraud and cybercrimes involving cryptocurrencies. These stringent data protection measures by the NDPA aim to create a secure environment

¹⁰ Section 1, *Nigeria Data Protection Act, 2023*.

that reduces the risk of fraud and cybercrimes, including those involving cryptocurrencies.

The **National Blockchain Policy** is Nigeria's formal attempt to embrace and harness the full potential of blockchain technology to drive Nigeria's development. It was developed by the Federal Ministry of Communications and Digital Economy and approved by the Nigerian government in May 2023. The Policy provides a blueprint for the integration and application of blockchain technology in Nigeria. However it is not a legislative document that carries the force of law. The Policy¹¹ is meant to “serve as a road map for Nigeria's adoption of Blockchain Technology in the future” [11]. It cites government's willingness and promise to invest in the adoption of blockchain technology. In the policy it is stated that “the Nigerian Government, through this Policy, provides a framework for the use of cryptocurrencies, among others, which can help to mitigate risks such as money laundering and fraud. This can help to build trust in cryptocurrency¹² and make it more accessible to businesses and individuals in Nigeria” [12].

Currently, there are no specific laws regulating cryptocurrency or blockchain technology in Nigeria. Following the CBN's directives, the federal government went on to launch its own digital currency in October 2021, the “eNaira”. With this Nigeria became the first African nation to launch its own Central Bank Digital Currency (CBDC). This launch indicated a possible willingness to engage more with digital currencies. In May 2022, the Nigerian Securities and Exchange Commission (SEC) introduced a new regulatory framework¹³ governing the issuance, trading, and custody of digital assets in Nigeria [13]. Under these new regulations¹⁴, digital assets were recognised as securities [14]. The SEC imposed a registration requirement on digital tokens classified as securities, obligating issuers to register before offering or selling them. Cryptocurrency exchanges and other digital asset service providers must obtain a license from the SEC and register with the Corporate Affairs Commission (CAC). This ensures that these entities operate within a legal framework¹⁵ and are subject to regulatory oversight [15].

In May 12, 2022, the **Money Laundering (Prevention and Prohibition) Act 2022** was enacted into law. The Act includes Virtual Asset Service Providers (VASPs) as financial institutions and considers virtual assets as funds. This means VASPs must follow anti-money laundering rules¹⁶, such as checking customers' identities and reporting any suspicious or large transactions [16].

The following year in May 2023, the federal government caught many off guard by announcing a new tax on cryptocurrency. **The Finance Act of 2023**, signed into law¹⁷ by former President Muhammadu Buhari, imposed a 10% tax on profits from the sale of digital assets, including cryptocurrency [17].

On December 22, 2023, the Central Bank of Nigeria (CBN) issued a circular clarifying its stance on virtual assets. Titled “Guidelines on Operations of Bank Accounts for Virtual Assets Service Providers (VASPs),” the circular outlines regulations for banks and other financial institutions interacting with VASPs. This move acknowledges the global trend towards regulating cryptocurrency¹⁸ and related activities [18, 19]. While VASPs will now require a license from the Nigerian Securities and Exchange Commission (SEC) to operate in the crypto space, the CBN maintains its prohibition on banks directly holding, trading, or transacting

¹¹ See, Page 7, Chapter 1, *National Blockchain Policy for Nigeria*.

¹² See, Page 7, Chapter 1, *National Blockchain Policy for Nigeria*.

¹³ “New Rules on Issuance, Offering Platforms and Custody of Digital Assets”, issued on May 11, 2022.

¹⁴ The Securities and Exchange Commission had earlier on September 14, 2020 released a statement that digital assets will be treated as securities.

¹⁵ Cryptocurrency Regulations in Nigeria < <https://www.mondaq.com/nigeria/fin-tech/1369890/cryptocurrency-regulations-in-nigeria>> assessed June 14, 2024.

¹⁶ Navigating the Regulatory Headwinds for Crypto Exchanges in Nigeria, TEMPLARS ThoughtLab.

¹⁷ Nigeria's Crypto Laws & Regulation in 2024 < <https://creditcoin.org/blog/nigerias-crypto-laws-regulation/>> assessed June 14, 2024.

¹⁸ Nigerian central bank lifts ban on crypto trading. < <https://www.reuters.com/world/africa/nigerian-central-bank-lifts-ban-crypto-trading-2023-12-23/#:~:text=In%20a%20circular%20dated%20Dec,include%20cryptocurrencies%>> accessed June 14, 2024.

cryptocurrencies on their own accounts.

In summary, although there are currently no specific laws or regulations governing cryptocurrency or blockchain technology in Nigeria, depending on its use and industry of application, some regulations or laws may become applicable for the purpose of regulating blockchain technology and cryptocurrency. From the trend it appears that the Nigerian government is becoming more accepting of cryptocurrency and blockchain technology and is currently moving towards building a framework for a cyber-safe crypto community [20].

5. Recommendation and Conclusion

The emergence of new technologies come with the emergence of new risks and challenges. The introduction of blockchain technology and cryptocurrency has in addition to its numerous benefits led to a new form of threat to cybersecurity that demands government intervention. Enhanced privacy, difficulty in tracking, and lack of regulatory oversight make cryptocurrencies attractive for illicit activities. Addressing these risks requires robust regulatory frameworks, international cooperation, and advanced technological solutions to trace and combat financial crimes effectively. Regulatory measures (such as implementing strict KYC¹⁹ protocols for cryptocurrency exchanges, requiring cryptocurrency exchanges and other service providers to obtain licenses and be subject to regulatory oversight), technological advancements (e.g. utilizing advanced blockchain analysis tools like Chainalysis, CipherTrace, and Elliptic to help trace and analyze cryptocurrency transactions), industry best practices (like establishing transaction monitoring systems that flag suspicious activities in real-time and encouraging transparency in cryptocurrency transactions), international cooperation, legal and judicial measures (such as imposing strict penalties and prosecuting individuals and entities involved in cryptocurrency-related financial crimes and developing clear legal frameworks for the treatment of cryptocurrencies), and public awareness are all essential components of a comprehensive strategy to mitigate these risks. Effective implementation of these solutions can enhance the security and integrity of the cryptocurrency ecosystem, making it less attractive for illicit activities.

Nigeria is yet to enact a legislation that effectively tackles the economic and financial risks associated with today's emerging technologies but there appears to be a line of movement towards that direction.

Conflict of Interest

The author declares no conflict of interest.

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