CFCM Department[1]

28th February 2024

Regulatory Update: Central Bank of Nigeria Launches the Nigerian Foreign Exchange Code (FX Code)[2]

1. Introduction

On Tuesday, January 28, 2025, the Governor of the Central Bank of Nigeria ("CBN"), Mr. Olayemi Cardoso, formally launched the Nigerian Foreign Exchange Code ("FX Code"), at an event which was held at the CBN Head Office Auditorium, Abuja. The FX Code establishes a set of principles and guidelines for the operation of the Nigerian Foreign Exchange Market ("NFEM"). The Governor remarked that the FX Code will mark a new era of compliance and accountability, as the objective was not simply to outline a set of recommendations, but to establish an enforceable framework for Nigeria. He further emphasised that the Nigerian FX Code, which follows from the launch of the Electronic Foreign Exchange Matching System ("EFEMS") in December 2024, sets clear and enforceable standards for ethical conduct and governance in the foreign exchange market, addressing past challenges that undermined market integrity.

The purpose of this Code is to promote transparency, efficiency, and ethical behaviour among market participants while also ensuring compliance with

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1 Corporate Finance and Capital Market Department, S.P.A Ajibade & Co.

2 See, 'Cardoso Launches Nigeria FX Code', available at https://www.cbn.gov.ng/FeaturedArticles/2025/FX_Code_Launch.html#:~:text=Abuja%20%2D%20As%20part%20of,the%20country's%20foreign%20exchange%20market, accessed on 25th February 2025.

international best practices. The FX Code aims to reinforce the integrity of the NFEM by setting standards for fair, open, and competitive transactions.

2. Objectives of the FX Code

2.1 The FX Code was developed in response to the evolving foreign exchange landscape in Nigeria, which has seen recent significant transformations but which also faces risks.

2.2 The FX Code seeks to ensure that Nigeria's foreign exchange market remains robust, fair, liquid, and transparent.

2.3 The FX Code also seeks to align Nigeria's FX practices with global standards by drawing from the Foreign Exchange Global Code (a set of non-binding internationally recognised principles for ethical conduct in FX markets, developed by a partnership between the central banks and market participants from different countries).

3. Scope of the FX Code

The FX Code applies to all market participants, which include:

3.1 All authorised dealers like banks, who are so licensed under the Central Bank of Nigeria Act, 2007 and under the Bank and Other Financial Institutions Act, 2020.

3.2 Other financial institutions like Bureau De Change Operators, Foreign Exchange Brokers, Electronic Trading Platforms, who engage in foreign exchange transactions as part of their licensed business.

These market participants must conduct self-assessments and submit reports on their level of compliance by January 31, 2025. The market participants must also provide a detailed compliance implementation plan approved by their Board of Directors and submit quarterly reports to the Financial Markets Department (FMD) of the CBN.

4. Core Principles of the FX Code

The Code is structured around six guiding principles that define the responsibilities of market participants:

4.1 **Ethics**: Market participants must maintain ethical and professional behaviour, ensuring fairness and integrity in the FX market.

4.2 **Governance**: Market participants must establish a sound governance framework that ensures accountability, compliance, and oversight in their FX market activities.

4.3 **Execution**: Market participants must exercise due diligence and transparency when executing FX transactions.

4.4 **Information sharing**: Market participants must ensure clear, accurate, and confidential communication of market information to promote an efficient and fair-trading environment.

4.5 **Risk management and compliance**: Market participants must implement strong mechanisms to identify, manage, and mitigate risks associated with FX market activities.

4.6 **Confirmation and settlement processes**: Market participants must ensure efficient and transparent post-trade processes to facilitate the timely and secure settlement of transactions.

5. Implementation and Enforcement of the FX Code

From the date the FX Code comes into force (December 2, 2024), CBN is saddled with the responsibility of taking appropriate enforcement and other administrative action including the imposition of monetary penalties as provided for under the CBN Act 2007 and BOFIA Act 2020 against any Market Participant that fails to comply with the FX Code.

6. Conclusion

In conclusion, this FX Code represents a critical step in strengthening Nigeria's foreign exchange market, ensuring fair practices, and aligning with global FX standards to promote a more stable and competitive financial environment. The link to the FX Code can be found here.

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