Corporate Finance Law
23rd December 2024



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A REVIEW OF KEY CBN FOREIGN EXCHANGE POLICIES IN 2024

1. Introduction

Central banks play a pivotal role in regulating foreign exchange and monetary policies to maintain economic stability, foster trust in the economic system and ensure sustainable economic growth. A stable economy makes for a predictable business environment which helps to improve investor confidence. Also, a well-regulated Foreign Exchange ("FX") market helps to stimulate export and inversely reduces dependency on imports. A sound regulatory environment helps to eliminate speculative behaviour in the market and eliminates illicit financial flows, money laundering, and other illegitimate trading activities.

As the primary regulator of the Nigerian financial market, the Central Bank of Nigeria ("CBN") continues to roll out policies aimed at improving the operational efficiency of the Nigerian FX market. This article reviews five key FX policies issued by the CBN in 2024. These policies, amongst other objectives, are designed to curtail speculative trading, harmonize market practices with global standards, and strengthen regulatory oversight. By mandating real-time reporting of transactions, deploying the Electronic FX Matching System, and categorizing Bureau De Change (BDC) operations under clear licensing tiers, the CBN has demonstrated its commitment to fostering a more structured, fair, and competitive FX Market.

2. Issuance of the 2024 Revised Guidelines for the Nigeria FX Market

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To streamline its regulatory framework and consolidate previous circulars and policies governing Nigeria's FX Market, the CBN issued the Revised Guidelines for the Nigeria Foreign Exchange Market ("the Revised Guidelines") on 29th November 2024.[2]

The Revised Guidelines introduced significant measures to promote transparency, efficiency, and compliance within the FX market. All interbank FX transactions must now be executed exclusively on the Electronic Foreign Exchange Matching System, ensuring full price visibility and transparency. Additionally, the Revised Guidelines prohibit trading and negotiation of FX rates with unlicensed intermediaries or unauthorised dealers. To further safeguard market integrity, Authorised Dealers are mandated to verify all required documentations before settling FX transactions.

To enhance data transparency and market efficiency, the Revised Guidelines require Authorised Dealers to record and report all completed FX transactions to the CBN within 10 minutes of execution.[3] This real-time reporting provides the CBN with a central repository of FX transaction data and facilitates the dissemination of accurate market information to the public. The enhanced price visibility will drive better price discovery, guide market participants, and ultimately improve the operational efficiency of Nigeria's FX market.

3. Implementation of Electronic Foreign Exchange Matching System for FX Trading

On 25th November 2024, the CBN issued circulars announcing the approval and launching of the Bloomberg BMatch Electronic Matching System as the platform to drive Nigeria's Electronic Foreign Exchange Matching System ("EFEMS"). This solution aims to resolve the longstanding issue of poor price discovery and enhance transparency within Nigeria's FX Market.[4]

The Bloomberg BMatch Electronic Foreign Exchange Matching System now serves as the central order-matching system for FX trade execution, replacing the pre-existing **Refinitiv FXT** platform. The BMatch platform automatically matches buy and sell orders while reporting real-time pricing data to the public. This ensures greater visibility into market activities and fosters a more transparent and efficient FX trading environment.

To align with CBN's directive, all banks participating in the Nigerian Interbank FX Market are advised to integrate and deploy the Bloomberg BMatch System for their FX

2 CBN Circular No. FMD/DIR/CON/OGC/040/0012 dated 29th November 2024.
3 Para 6.0 (a) of the Circular.
4 CBN Circular No. FMD/DIR/CON/OGC/038/150 and CBN Circular No. CBN Circular No. FMD/DIR/CON/OGC/038/151 dated 25th November 2024.

trading operations to ensure uniformity. Other market participants are to approach the CBN to seek and obtain its approval for access to the platform and to enter into agreements with Bloomberg, the platform's provider. This ensures that the CBN retains regulatory oversight, monitors market performance effectively, and maintains accurate FX transaction data.

At present, the BMatch platform is configured to execute FX transactions involving the Naira against the United States Dollar.[5] Orders are placed into a central limit order book, where they are displayed and automatically matched with counterparty orders based on pre-configured mutual trading limits and other parameters set by each participating bank.

To address transactional disputes, the Revised Guidelines outline a clear resolution framework. Unresolved disputes between counterparties are to be escalated to the Financial Markets Dealer Association (FMDA) for arbitration. A further escalation, where necessary, lies to the CBN in its appellate capacity, with its decision considered final and binding.[6]

The implementation of EFEMS through the Bloomberg BMatch system is a significant step towards eliminating speculative and manipulative trading in the FX market. By providing real-time visibility into buy and sell orders, EFEMS enhances price discovery, allowing FX rates to reflect actual market demand and supply rather than speculative data. This improved transparency will equip market participants with accurate market data, bolster confidence, and ensure that FX rates are aligned with prevailing market realities.

4. CBN Issued the FX Code of Ethics Mandating Attestation by Banks

In furtherance of its objectives of promoting a transparent, liquid and efficient foreign exchange market, the CBN released the Nigerian Foreign Exchange Code ("FX Code"), 2024. The FX Code provides guidelines for good practice and to ensure responsible participation within the Nigerian FX market.

Effective from 14th October 2024, the FX Code will apply to all market participants, aligning trading operations with global standards and international best practices. Importantly, it subjects market participants to a regulatory structure designed to uphold integrity and promote market stability.

5 Para 4.9 of the CBN Circular No. FMD/DIR/CON/OGC/038/151.
6 Para 6.3 of the CBN Circular No. FMD/DIR/CON/OGC/038/151.

To ensure strict compliance, the CBN mandates the Boards of Authorised Dealers, their Chief Executive Officers and Chief Compliance Officers to annually attest to adherence with the FX Code and to abide by all market guidelines and circulars issued by the CBN.[7]

5. Issuance of Regulatory Guidelines for Bureau de Change Operations

Recognising the critical role of the Bureau de Change ("BDC") sub-sector in the Nigerian FX market and in exercising its powers under Section 56 of the Banks and Other Financial Institutions Act, 2020, the CBN issued the Regulatory and Supervisory Guidelines for Bureaux De Change Operations in Nigeria, 2024 ("the 2024 Guidelines"). This was released vide Circular No. FPRD/DIR/PUB/CIR/002/010 dated 22nd May 2024 and supersedes the 2015 Revised Operational Guidelines for Bureau De Change in Nigeria.

The 2024 Guidelines introduced significant changes, including new licensing requirements, categorisation of BDCs, minimum capital requirements, and a clear definition of permissible BDC activities.[8] Notably, the 2024 Guidelines obligate all existing BDCs to re-apply for new licences under one of the specified tiers or licence categories as provided in the Guidelines.

5.1 The New Licensing Structure for BDCs

The 2024 Guidelines establish a two-tier licensing structure for BDCs: Tier 1 and Tier 2 BDCs. A Tier 1 BDC is authorised to operate on a national scale, can open branches and appoint franchises, subject to the approval of the CBN. A Tier 2 BDC may only operate in one State of the Federation or the Federal Capital Territory and can establish up to 5 branches in that State. A Tier 2 BDC is not allowed to appoint franchises.[9] The minimum capital requirement for BDCs in Nigeria is N2,000,000,000 (two billion Naira) for Tier 1 Licence Category and N500,000 (five hundred million Naira) for Tier 2 Licence Category.[10]

5.2 Permissible Activities and Compliance Obligations

The 2024 Guidelines permit BDCs to acquire and sell foreign exchange subject to all Anti-Money Laundering/Combating the Financing of Terrorism/Countering Proliferation Financing regulations and other foreign exchange laws.[11] BDCs may

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7 Para 5.0(c) of the CBN Circular No. FMD/DIR/CON/OGC/040/0012 dated 29th November 2024

8 A Bureau de Change is a company licensed by the CBN to carry on only retail foreign exchange business in Nigeria and whose sole object shall be the carrying on of such business.

9 Para 2.0 of the Regulatory and Supervisory Guidelines, 2024.

10 Para 7.0 of the Regulatory and Supervisory Guidelines, 2024.

11 See para 6.0 of the Regulatory and Supervisory Guidelines, 2024.

source and acquire foreign currencies from the suppliers listed in paragraph 5 of the 2024 Guidelines.[12]

6. Prohibition of Foreign-Currency Denominated Collaterals for Naira Loans

In its circular dated 8th April 2024, the CBN prohibited the use of foreign-currency-denominated collaterals for securing Naira loans and directed that all loans currently secured with dollar-denominated collaterals should be wound down within 90 days.[13]

The circular, however, provides two specific exemptions. Eurobonds issued by the Federal Government of Nigeria and guarantees of foreign banks including standby letters of credit are exempted from the application of the Circular.

7. Conclusion

This year, the CBN rolled out a number of policies to reform the Nigerian FX Market. The FX Code, the Electronic Foreign Exchange Matching System, the Revised Guidelines for the Nigeria Foreign Exchange Market, the FX Manual, and the Regulatory and Supervisory Guidelines for BDC Operations represent proactive efforts by the CBN to enhance transparency, price discovery, and operational efficiency in the FX landscape.

These policies are designed to curtail speculative trading, harmonize market practices with global standards, and strengthen regulatory oversight. By mandating real-time reporting of transactions, deploying the Electronic FX Matching System, and categorizing BDC operations under clear licensing tiers, the CBN has demonstrated its commitment to fostering a more structured, fair, and competitive FX Market. The prohibition of foreign-currency-denominated collaterals for Naira loans further underscores the CBN's focus on reducing systemic risks associated with FX volatility. Ultimately, these regulatory reforms hold immense potential in the medium- and long-term to reshape Nigeria's FX market into a resilient, transparent and investor-friendly environment that aligns with international best practices.

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[12] These sources include tourists, returnees from the diaspora, expatriates and residents with FX inflows from work, travel, investment or their domiciliary accounts, International Money Transfer Operators, embassies, high commissions, hotels that are authorised buyers of foreign currencies, etc.

[13] CBN Circular No. BSD/DIR/PUB/LAB/017/004 dated 8th April 2024.