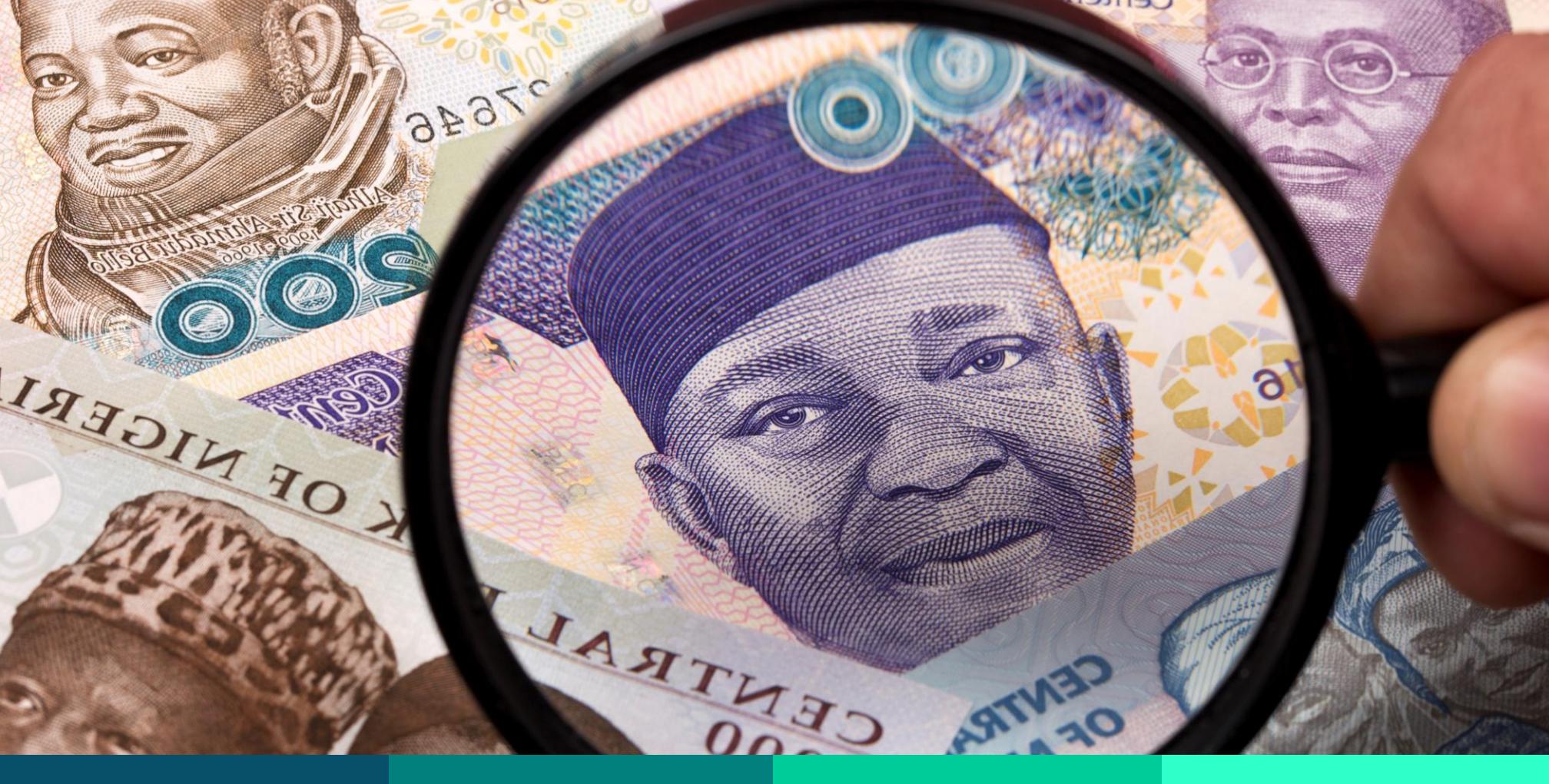




Explanatory Note on the
Central Bank of Nigeria's (CBN)

Overhaul of the Fixed Income Market



Introduction

The Nigerian fixed-income market, which includes government bonds, treasury bills, and Sukuk, plays a critical role in financing both public and private sector activities. It provides an essential investment vehicle for institutional investors, pension funds, and other market participants. However, the market has faced significant challenges such as lack of transparency, inefficient settlement processes, settlement lateness, and weak regulatory oversight, which have eroded investor confidence and hindered its growth.

In response to these issues, the Central Bank of Nigeria (CBN) has announced an ambitious overhaul of the market. The reform aims to streamline operations, improve regulatory oversight, and create a more transparent and efficient market environment. By taking full control of the market, the CBN intends to address these challenges and enhance the market's functionality.

Details Of The CBN's Overhaul

1. Scope of the Reform

The CBN's overhaul of the fixed income market will see the Central Bank taking full control of both the trading and settlement processes for fixed income securities. This is a significant shift from the current model, where private market operators have traditionally managed these functions. Further to this, the CBN will create a new, unified platform to handle both trading and settlement, which will be overseen directly by the central bank.

The shift will also involve the migration of existing market participants, such as primary dealers, market makers, pension fund administrators, and other key stakeholders, to the new platform. This centralised system will ensure better coordination among all parties involved, allow for real-time tracking and monitoring of trades and settlements and control money supply and manage liquidity in the financial system.

2. Key Features of the New System

- Unified Trading and Settlement Platform:** The most important aspect of the reform is the creation of a single platform that will handle both the trading and settlement of fixed income securities. This will streamline processes, eliminate delays in settlements, and make it easier for regulators to monitor all transactions in real time.
- Phased Implementation:** The implementation of the new system will occur in phases.

The first phase, starting in October 2025, will involve User Acceptance Testing (UAT) to ensure the platform is functioning as expected. After that, a pilot phase will allow the new system to run in parallel with existing platforms to ensure a smooth transition.

- Full Transition:** The full migration to the new platform is scheduled to take place in November 2025 for the settlement system, with the trading platform expected to go live in December 2025. This will mark the completion of the reform process, and from this point on, the CBN will have full oversight of the market.

3. Phased Implementation

- User Acceptance Testing:** The initial phase involves testing the platform with a select group of users to identify and resolve any potential technical issues. As stated earlier, this activity will commence in October 2025.
- Pilot Phase:** Following the UAT, a pilot phase will be launched, running the new system alongside the existing platforms. This will help identify any additional problems and allow participants to get accustomed to the new process.
- Full Roll-out:** The full migration to the new settlement system is set for November 2025, with the trading platform going live in December 2025. This marks the final stage in the overhaul, where the CBN takes full control of the market.

Implications Of The Overhaul

1. For the Fixed Income Market

The overhaul is expected to have several positive effects on the fixed-income market:

- **Enhanced Transparency:** With the new system, all trades will be recorded and monitored in real-time by parties, and this will eliminate the opacity that has sometimes plagued the market.
- **Increased Efficiency:** By streamlining the settlement process and integrating it with the trading platform, the time required for settling transactions will be significantly reduced, increasing market liquidity.
- **Deeper Market Liquidity:** With more efficient settlement and a more transparent trading process, the market will likely attract more participants, including foreign investors, leading to increased liquidity.

2. For Market Participants

Market participants, including Primary Dealers, Market Makers, and other financial institutions, will need to adapt to the new system:

- **Operational Changes:** These entities will have to integrate their systems with the new platform, which may involve significant investments in technology and training.
- **New Compliance Requirements:** Participants will be required to meet the new regulatory requirements set by the CBN, which may include reporting and monitoring obligations.
- **Reduced Operational Costs:** In the long term, the overhaul is expected to reduce operational costs for market participants, as the more efficient system will reduce manual intervention and minimize errors.

3. For Investors

The implications for investors, both local and international, are also significant:

- **Increased Confidence:** Investors will benefit from increased confidence in the market, knowing that transactions are more transparent and efficiently settled.
- **Attractiveness of Fixed Income Investments:** With the improved market infrastructure, the fixed income market will become more attractive to institutional investors, including pension funds and foreign investors, who have historically been wary of Nigeria's market inefficiencies.
- **Potential for Higher Yields:** The efficiency of the market could lead to better price discovery, potentially increasing the yields on fixed income securities.

4. For Regulatory Oversight

The overhaul will significantly enhance the CBN's ability to regulate the fixed-income market:

- **Increased Supervision:** With a unified platform, the CBN will have greater visibility into all trades and settlements, enabling it to better monitor the process for market manipulation and other irregularities.
- **Stronger Enforcement:** The CBN will be able to enforce regulations more effectively, ensuring that market participants comply with the rules and that the market operates in a fair and transparent manner.

Challenges And Considerations

1. Potential Regulatory Overlap Between the CBN and the SEC:

The CBN's move to assume full control of fixed income trading and settlement may give rise to regulatory overlap with the Securities and Exchange Commission (SEC), particularly given the SEC's role as the apex regulator of the capital market and the CBN's authority over monetary policy and government securities. As fixed income securities often sit at the intersection of both regulatory spheres, the consolidation of market infrastructure under a CBN-controlled platform raises questions around the clear delineation of supervisory and enforcement powers. To avoid regulatory uncertainty, duplication of oversight, or conflicts, there is a need for a clear, codified legal or regulatory framework, through legislation, regulations, or formal inter-agency protocols, defining the respective roles of the CBN and the SEC. In the interim, close collaboration and coordinated supervision between both regulators will be essential to preserving market confidence and investor protection.

2. Operational and Technical Transition:

Despite the promising benefits, the transition to the new platform may come with challenges. Migrating from the current system to a unified platform could cause operational disruptions in the short term, especially during the pilot and full implementation phases. The CBN will need to manage these transitions carefully to minimise any risks of delays or system failures. Also, CBN has to ensure that the platform does not experience downtimes and safety nets are put in place as short-term remedial solutions should downtime occur to avoid market disruptions.

3. Stakeholder and Market Reactions:

The success of the overhaul also depends on how well market participants embrace the changes. While many stakeholders will likely welcome the improvements, there could be resistance from those accustomed to the existing systems. Therefore, the CBN must engage stakeholders effectively and provide the necessary support during the transition to ensure full adoption.

4. Long-Term Sustainability and Flexibility:

For the reform to succeed in the long term, the new system must be flexible enough to adapt to future market dynamics. Ensuring the system can scale and evolve to accommodate new developments in the financial markets will be crucial. Furthermore, ongoing monitoring and feedback will be necessary to address any emerging issues or inefficiencies.

5. Training, Symposium and Workshops:

The CBN has to engage market participants through training, symposia, and workshops to help them gain general knowledge of the platform's operations, mitigate migration challenges, and enhance operational efficiency.



Conclusion: The Path Forward

The CBN's overhaul of the fixed income market is a significant and much-needed reform that aims to address key challenges in market transparency, efficiency, and regulatory oversight. By centralising trading and settlement functions, the CBN is positioning the market for greater stability, increased liquidity, and enhanced investor confidence.

While the implementation of this new system will require careful management and collaboration with market participants, the long-term benefits are promising. If executed well, the reform has the potential to transform Nigeria's fixed-income market into a more robust and attractive platform for investors, both local and international. As the CBN moves forward with these plans, the key to success will be effective coordination, careful monitoring, and an adaptive approach that ensures the system remains flexible and sustainable for years to come.

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