



Client Alert:
**New Compliance Standards
Under the Nigerian Foreign
Exchange Code**

strenandblan.com



The Central Bank of Nigeria (CBN) has issued the Nigeria Foreign Exchange Code (FX Code), effective from 14th October 2024, under the authority of the CBN Act 2007 and the BOFIA Act 2020. The FX Code outlines 52 principles aimed at enhancing transparency, integrity, and efficiency in the Nigerian foreign exchange market. We have highlighted the compliance requirements and core principles below to guide market participants,¹ industry players and other stakeholders in the finance industry.²

Key Compliance Requirements

1. Self-Assessment and Reporting

All Market Participants must conduct a comprehensive self-assessment against the 52 FX Code principles. This assessment must identify any compliance gaps and be used to draft a Board-approved implementation plan,³ to be submitted to the CBN by December 31, 2024.

Principle Highlights⁴

Principle 3: Adherence to ethical business conduct.

Principle 7: Proactive identification and mitigation of compliance gaps.

Principle 12: Transparent reporting and corrective measures.

2. Full Compliance Deadline

By December 31, 2024, market participants must achieve full compliance with the FX Code, requiring immediate and comprehensive reforms in their operations. This includes enhancing

governance structures, which must clearly define responsibilities, promote ethical behavior, and establish independent oversight. Risk management strategies should be strengthened to identify and mitigate foreign exchange risks, with robust monitoring and incident response measures. Furthermore, operational workflows need significant upgrades, such as automating trade data processing to reduce errors, securing data transmissions, and ensuring efficient trade confirmation and settlement practices to uphold transparency and efficiency as mandated by the Code.

Principle Highlights⁵

Principle 15: Timely implementation of compliance measures.

Principle 18: Establishing strong governance and oversight mechanisms.

Principle 25: Maintaining operational integrity through prompt action.

¹In the context of the FX Code, the term Market Participant is generally used to refer to both firms and personnel. However, in some cases it will be clear that a principle is by its nature more relevant to only one or the other.

²The FX Code applies to Market Participants. These are banks licensed by the Central Bank of Nigeria under the CBN Act 2007 and Bank and Other Financial Institutions Act (BOFIA) 2020 and engage in the wholesale foreign exchange business in Nigeria as part of their licensed business.

³Market Participants are required to conduct a self-assessment and submit to the CBN a report on the institution's level of compliance with the FX Code and submit to the CBN a detailed compliance implementation plan that is approved by its Board of Directors.

⁴The self-assessment and compliance reporting requirements outlined by the FX Code are specifically anchored on these principles, emphasizing ethical conduct, proactive compliance, and transparency.

⁵The full compliance deadline and associated requirements are anchored on these principles, emphasizing the importance of timely adherence, robust governance, and maintaining operational integrity to align with the FX Code.

3. Quarterly Reporting

In accordance with the FX Code, starting December 31, 2024, market participants are required to report their compliance status on a quarterly basis, with reports to be submitted within 14 days following the end of each calendar quarter. This will facilitate ongoing regulatory oversight by the CBN.

Principle Highlights⁶

Principle 28: Consistent and transparent reporting.

Principle 33: Effective communication with regulatory bodies.

Principle 37: Routine updates on compliance and risk management.

4. Enforcement Actions

The CBN will actively monitor compliance

with the FX Code and take enforcement or administrative actions, including monetary penalties, as stipulated under the CBN Act 2007 and BOFIA Act 2020. These measures will be imposed on market participants for non-compliance, such as reporting failures or unethical conduct, to uphold high standards of integrity and risk management within the foreign exchange market.

Principle Highlights⁷

Principle 40: Clear understanding of enforcement mechanisms.

Principle 44: Emphasizing proactive risk management to prevent violations.

Principle 48: Commitment to full regulatory compliance.

Core Principles and Stakeholder Responsibilities

The FX Code draws on foundational principles from the FX Global Code and integrates best practices adopted in leading jurisdictions to enhance the efficiency and integrity of Nigeria's foreign exchange market. It emphasizes the critical responsibilities of market participants, such as implementing robust measures to prevent illegal financial transfers and adopting comprehensive anti-money laundering policies. These principles are designed to safeguard the domestic market's integrity while contributing to the stability and credibility of the broader global financial system. The FX Code is organised around six leading principles namely:

1. Ethics

Market Participants must uphold high ethical standards, including proactively addressing conflicts of interest and fostering a culture of integrity. Comprehensive policies must ensure ethical conduct in all operations.

Principle Focus⁸

Principle 1: Upholding honesty and integrity.

Principle 4: Transparent management of conflicts of interest.

Principle 6: Ethical responsibility across all levels of the organization.

⁷The enforcement actions outlined are anchored on these principles, highlighting the necessity for a comprehensive understanding of regulatory consequences, proactive risk management, and an unwavering commitment to compliance.

⁸The requirement for quarterly reporting is anchored on these principles, underscoring the need for transparency, effective regulatory communication, and regular updates to ensure compliance and robust risk management.

2. Governance

A robust governance framework is essential for market participants, as it provides clear responsibility and comprehensive oversight of their FX Market activity, while also promoting responsible engagement in the FX Market. Appropriate governance structures should be in place to promote and support the principles set out in this Code. Participants must clearly define oversight responsibilities, implement strong risk management protocols, and ensure accountability.

Principle Focus⁹

Principle 10: Clear and effective leadership roles.

Principle 13: Strong governance structures for risk oversight.

Principle 16: Accountability at all organizational levels.

3. Execution

Market Participants are expected to exercise care when negotiating and executing transactions to promote a robust, fair, open, liquid, and appropriately transparent FX Market. The FX execution landscape is diverse, with execution taking place through authorized channels, and Market Participants taking on different roles with regard to that execution. On this note, execution policies must detail roles (as agents or principals) and ensure transparent pricing and risk management practices.

Principle Focus¹⁰

Principle 20: Fair treatment of all counterparties.

Principle 22: Transparent and efficient execution processes.

Principle 27: Fair and equitable trade execution practices.

4. Information Sharing

Under the Code, safeguarding confidential information is crucial to protecting the integrity of the market, maintaining trust among participants, and ensuring compliance with legal and regulatory obligations, except in special circumstances where disclosure is required by law or regulation. Market Participants are to protect confidential information to promote effective communication that supports a robust, fair, open, liquid, and appropriately transparent FX Market.

Principle Focus¹¹

Principle 30: Security of confidential information.

Principle 34: Accurate and professional communication.

Principle 36: Responsible sharing and disclosure protocols.

¹⁰ The execution standards outlined above are anchored in Principles 20, 22, and 27 of the FX Global Code, which emphasize fair treatment of all counterparties, transparent and efficient execution processes, and equitable trade execution practices.

¹¹ The information sharing standards outlined above are anchored in Principles 30, 34, and 36 of the FX Global Code, which emphasize the security of confidential information, accurate and professional communication, and responsible sharing and disclosure protocols.

4. Information Sharing

Under the Code, safeguarding confidential information is crucial to protecting the integrity of the market, maintaining trust among participants, and ensuring compliance with legal and regulatory obligations, except in special circumstances where disclosure is required by law or regulation. Market Participants are to protect confidential information to promote effective communication that supports a robust, fair, open, liquid, and appropriately transparent FX Market.

Principle Focus¹²

Principle 30: Security of confidential information.

Principle 34: Accurate and professional communication.

Principle 36: Responsible sharing and disclosure protocols.

5. Risk Management and Compliance

Market Participants are expected to promote and maintain a robust control and compliance environment to effectively identify, manage, and report on the risks associated with their engagement in the FX Market. More so, participants involved in electronic trading should put in place appropriate and proportionate controls to reduce the likelihood of and mitigate any consequences of generating or acting upon electronic quotations that may result in erroneous transactions or market disruption.¹³

Principle Focus¹⁴

Principle 39: Independent risk management functions.

Principle 43: Continuous risk identification and monitoring.

Principle 46: Adequate resourcing for risk and compliance.

6. Confirmation and Settlement

Market Participants are expected to put in place robust, efficient, transparent, and risk-mitigating post-trade processes to promote the predictable, smooth, and timely settlement of transactions in the FX Market.

Principle Focus¹⁵

Principle 49: Timely and accurate trade confirmation.

Principle 51: Automation to streamline processes.

Principle 52: Proactive handling of discrepancies.

As the CBN's Nigeria Foreign Exchange Code (FX Code) ushers in a new era of enhanced transparency and regulatory compliance in the foreign exchange market, stakeholders and industry participants face the critical task of aligning their operations with its principles. On this wise, market participants must adhere strictly to the dictates of this code to ensure full compliance

¹²

¹³ The control and compliance standards outlined above are anchored in Principles 39, 43, and 46 of the FX Global Code, emphasising independent risk management functions, continuous risk identification and monitoring, and adequate risk resourcing for risk and compliance.

¹⁴ The confirmation and post-trade process standards outlined above are anchored in Principles 49, 51, and 52 of the FX Global Code, which emphasize timely and accurate trade confirmation, the use of automation to streamline processes, and proactive handling of discrepancies.

ABOUT STREN & BLAN PARTNERS

Stren & Blan Partners is an innovative and dynamic Law Firm with a compelling blend of experienced lawyers and energetic talents. We are focused on providing solutions to our client's business problems and adding value to their businesses and commercial endeavours. This underpins our ethos as everything we do flows from these underlying principles.

Stren & Blan Partners is a full-service commercial Law Firm that provides legal services to diverse local and multinational corporations. We have developed a clear vision for anticipating our client's business needs and surpassing their expectations, and we do this with an uncompromising commitment to Client service and legal excellence.

THE AUTHORS



**Kolajo
Onasoga**

Associate

[Michaelafuye
@strenandblan.com](mailto:Michaelafuye@strenandblan.com)



**David
Olajide**

Associate

[Davidolajide
@strenandblan.com](mailto:Davidolajide@strenandblan.com)

Stren & Blan Partners

+234 (0)702 558 0053
3 Theophilus Orji Street,
Off Fola Osibo Road, Lekki Phase 1,
Lagos, Nigeria

www.strenandblan.com
contact@strenandblan.com
[@strenandblan](https://www.instagram.com/strenandblan)

