



Client Alert
**New Compliance Standards
Under the Nigerian Foreign
Exchange Code 2024**

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The Central Bank of Nigeria (CBN) has issued the Nigerian Foreign Exchange Code (FX Code), effective from October 14, 2024, under the authority of the CBN Act 2007 and the Banks and Other Financial Institutions Act (BOFIA) 2020. The FX Code outlines various principles to enhance transparency, integrity, and efficiency in the Nigerian Foreign Exchange (FX) market, which will ultimately foster a more reliable and accountable trading environment that aligns with global best practices.¹

The FX Code applies to Market Participants. Market Participants 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.

In this Client Alert, we highlight the **key compliance requirements** and **core principles** of the FX Code to guide Market Participants and apprise stakeholders on the intendment of the code in ensuring compliance with regulatory expectations and promoting a transparent, efficient, and accountable FX market.

Key Compliance Requirements

1. Self-Assessment and Reporting

Market Participants are required to conduct a comprehensive self-assessment to evaluate their current compliance with the FX Code. This self-assessment serves as a foundational step to identify gaps in adherence to the FX Code.

Following the self-assessment, Market

Participants must prepare a detailed implementation plan that outlines the specific measures they will take to address compliance gaps and ensure adherence to the FX Code. This plan must receive formal Board approval and be submitted to the CBN by 31st December 2024.

¹The FX Code aligns with the principles set forth in the FX Global Code maintained by the Global Foreign Exchange Committee (GFXC) and aims to promote ethical conduct and best practices within Nigeria's foreign exchange landscape.

2. Quarterly Reporting

To ensure ongoing compliance, the FX Code mandates that Market Participants submit a quarterly compliance report to the CBN's Financial Markets Department (FMD). This report must include a status update on the level of compliance to the FX Code.

The quarterly compliance reports must be submitted within 14 days after the end of each calendar quarter, with the first report due by 31st December 2024. This continuous reporting structure enables the CBN to monitor adherence to the FX Code on a rolling basis and address emerging issues promptly.

3. Enforcement Actions

The CBN has emphasised its commitment to enforcing the FX Code through active

monitoring and the imposition of sanctions on non-compliant Market Participants. Enforcement measures will include:

- Administrative actions such as directives to address specific compliance deficiencies.
- Monetary penalties, as provided under the CBN Act 2007 and the BOFIA Act 2020, for violations of the FX Code.

Market Participants are therefore advised to take proactive steps to integrate the FX Code's principles into their operations to avoid enforcement actions and maintain their standing within the FX market.

Core Principles and Stakeholder Responsibilities

The FX Code leans on the foundational principles of the FX Global Code and integrates best practices adopted in leading jurisdictions to enhance the efficiency and integrity of Nigeria's FX market. Furthermore, 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 structured around six core principles, each providing a comprehensive framework to guide Market Participants.

1. ETHICS

The FX Code places great importance on ethical behavior. All Market Participants are expected to act with integrity and professionalism, ensuring fairness in their dealings and protecting the market's credibility.

What this means:

- Market Participants should strive for the highest ethical and professional standards.
- Market Participants should identify and address conflicts of interest.

Hence, ethical conduct is fundamentally the foundation of a trustworthy FX market.

2. GOVERNANCE

Good governance is essential to maintaining order and accountability. The FX Code requires Market Participants to have systems in place that clearly define responsibilities and ensure oversight of their activities in the FX market.

Therefore, with regards to good governance, Market Participants are expected to:

- Put in place adequate, effective structures and mechanisms to provide for appropriate oversight, supervision, and controls with regard to the Market Participant's FX market activity.
- Embed a strong culture of ethical and professional conduct with regard to

their FX market.

- Have remuneration and promotion structures that foster market practices and behaviours that are consistent with the Market Participant's ethical and professional conduct expectations.

- Have appropriate policies and procedures to handle and respond to potentially improper practices and behaviors effectively.

3. EXECUTION

How transactions are executed plays a major role in market transparency and efficiency. Market Participants must take care to ensure trades are handled fairly and openly, using authorised channels.

Therefore, when executing and negotiating transactions, Market Participants must:

- Clearly define roles when executing transactions (e.g., acting as an agent or principal).
- Be diligent in ensuring transactions promote a fair and transparent market.
- Use pricing and risk management practices that participants can easily understand and trust.

Fair execution essentially helps maintain market integrity and encourages smooth operations.

4. INFORMATION SHARING

Market Participants must ensure that all communication is accurate, clear, and respectful of confidentiality. Protecting sensitive information is critical to building trust among market players.

Key points to note here:

- Market Participants are to avoid sharing confidential information unless legally required.
- Market Participants are to communicate in a way that is honest and does not mislead other participants.
- Market Participants are to put safeguards in place to prevent unauthorised disclosure of sensitive information.

Clear and secure communication helps protect the market from risks related to misinformation or breaches.

5. RISK MANAGEMENT AND COMPLIANCE

Risk is unavoidable in any financial market; therefore, Market Participants must have strong systems to identify, manage, and mitigate risks effectively. This can be done by:

- Developing a compliance framework to handle risks, from operational to market-related risks.
- Implementing controls for electronic trading to reduce errors or disruptions.

- Regularly monitor activities to ensure compliance with regulatory requirements.

Strong risk management would ensure stability and protect Market Participants from financial or reputational harm.

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.

To effectively confirm and settle transactions in the FX market, Participants are expected to:

- Establish consistency between their operating practices, their documentation, and their policies for managing credit and legal risk.
- Institute a robust framework for monitoring and managing capacity in both normal and peak conditions.
- Implement straight-through automatic transmission of trade data from their front office systems to their operations systems.
- Review, affirm, and allocate block transactions as soon as practicable.
- Be aware of the particular confirmation and processing features specific to life cycle events of each FX product. Etc.

CONCLUSION

As the Central Bank of Nigeria's Foreign Exchange Code ushers in a new era of enhanced transparency and regulatory compliance in the FX market, it is imperative for stakeholders and industry participants to align their operations with its requirements and principles. Strict adherence to the Code's guidelines is essential, as it ensures that Market Participants contribute to the integrity, efficiency, and stability of the FX market.



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