

COMPLIANCE INSTITUTE, NIGERIA

MONTHLY NEWSLETTER

Volume 1, January 2025



Summary of the Key Requirements of the Nigeria FX Code and Compliance Expectations

The Nigeria Foreign Exchange (FX) Code, issued by the Central Bank of Nigeria (CBN), establishes principles of good practice for the Nigerian Foreign Exchange Market (NFEM). The FX Code is intended to promote integrity, transparency, and efficiency in the wholesale FX market, ensuring compliance with global best practices while aligning with the country's financial and monetary policy framework.

1. Key Compliance Requirements & Expectations from CBN

The FX Code sets out six key principles guiding compliance for authorized dealers (banks and financial institutions) and other market participants:

- **Ethics:** Market participants must demonstrate ethical conduct, fair dealings, and high professional standards. Conflicts of interest should be managed, and firms must maintain strong internal controls to prevent misconduct.
- **Governance:** FX transactions should be conducted under sound governance structures, with clear responsibilities, independent oversight, and accountability mechanisms to promote financial stability.
- **Execution:** Market participants must execute transactions transparently, ensuring fairness, liquidity, and price competitiveness. Order handling, price determination, and trade execution should align with pre-agreed terms.



2. Compliance Deadlines & Reporting Obligations

- **Self-Assessment Report:** Banks and FIs must conduct a self-assessment and submit a compliance report to CBN by January 31, 2025.
- **Board-Approved Compliance Plan:** Institutions must submit a detailed compliance implementation plan, approved and signed by the Board, to CBN before March 31, 2025.
- **Quarterly Reporting:** Continuous compliance monitoring is required, with quarterly compliance reports submitted to the CBN within 14 days after the end of each quarter.
- **CBN Enforcement & Sanctions:** Non-compliance may result in administrative penalties, enforcement actions, and monetary sanctions under the CBN Act 2007 and BOFIA 2020.

3. How Banks & FIs Should Respond for Full Compliance

To ensure compliance before the deadline and sustain adherence moving forward, banks and FIs should take the following measures:

4. Information Sharing: Institutions must implement confidentiality protocols and ensure data security, preventing misuse of sensitive FX market information.

5. Risk Management & Compliance: Banks and financial institutions must establish a robust risk management framework covering operational, credit, legal, settlement, and cyber risks, ensuring compliance with regulatory guidelines.

6. Confirmation & Settlement: FX transactions must be confirmed within 10 minutes of execution and settled efficiently with minimal settlement risks, preferably using Payment-Versus-Payment (PVP) settlement mechanisms where available.

A. Immediate Action Plan (Before January 31, 2025)

- **Conduct a Compliance Gap Analysis:**
 - Assess current FX operations against FX Code requirements.
 - Identify areas needing policy revisions or process enhancements.
- **Develop & Submit a Compliance Report:**
 - Perform a self-assessment and submit findings to the CBN.
 - Establish an FX Code compliance roadmap, highlighting implementation timelines.
- **Strengthen Governance & Internal Controls:**
 - Establish clear roles and responsibilities for FX activities.
 - Ensure Board oversight and management commitment to FX Code adherence.
- **Review & Update FX Trading Policies:**
 - Align execution, order handling, price transparency, and trade settlement practices with CBN standards.
 - Implement enhanced disclosures for clients on pricing, markups, and risks.

B. Medium-Term Compliance Steps (By March 31, 2025)

- **Submit a Board-Approved Compliance Plan:**
 - Develop a comprehensive compliance strategy and obtain Board approval.
 - Submit the plan with Board meeting extracts to the CBN.
- **Enhance Risk Management & Monitoring:**
 - Strengthen AML/CFT controls, conduct KYC reviews, and establish fraud detection systems.
 - Implement automated surveillance tools to detect market manipulation.
- **Adopt Advanced FX Trading & Reporting Systems:**
 - Upgrade systems to ensure real-time transaction monitoring and electronic trade confirmations.
 - Implement data protection and cybersecurity controls for FX transactions.

C. Long-Term Compliance Approach (Ongoing Monitoring & Continuous Improvement)

- **Quarterly Compliance Reporting:**
 - Establish an internal FX compliance unit to ensure regular monitoring.
 - Submit reports to CBN every quarter, within 14 days after quarter-end.
- **Ongoing Staff Training & Awareness:**
 - Provide continuous ethics and governance training for FX trading personnel.
 - Implement whistleblower channels for reporting unethical practices.
- **Review & Improve Compliance Framework Annually:**
 - Conduct independent compliance audits and update policies based on evolving CBN guidelines.
 - Ensure that FX governance structures align with CBN, Global FX Code, and Basel Committee principles.

4. Potential Challenges in Implementation & Mitigation Strategies

A. Challenges for Banks & FIs (Operators)

Challenges	Mitigation Strategies
<p>Data & System Readiness – Many banks rely on legacy FX trading platforms that may not fully comply with automated reporting & transparency requirements.</p>	<p>Banks should upgrade FX trading infrastructure, implement automated compliance monitoring, and ensure real-time reporting mechanisms.</p>
<p>Confidentiality & Information Sharing – Ensuring secure communication and preventing market-sensitive leaks will be difficult.</p>	<p>Implement data encryption, staff confidentiality agreements, and secure communication channels. Conduct cybersecurity audits regularly.</p>
<p>Board & Senior Management Awareness – Some institutions may not have a strong compliance culture at senior levels.</p>	<p>Conduct awareness training sessions for Board members and senior management to emphasize their compliance responsibilities.</p>
<p>Trade Execution & Transparency Issues – Ensuring fair pricing, markups, and avoidance of market manipulation may be challenging.</p>	<p>Strengthen internal oversight, implement FX trade review committees, and establish client pricing disclosure policies.</p>
<p>Resource Constraints – Some smaller FIs may lack the manpower or technology to fully implement the FX Code.</p>	<p>Consider outsourcing compliance reviews to independent consultants and leveraging shared technology solutions.</p>

B. Challenges for CBN (Supervisors)

Challenges	Mitigation Strategies
Effective Supervision & Enforcement – The CBN may face difficulties in monitoring compliance across all banks and FIs due to limited resources.	Strengthen supervisory capacity by implementing RegTech solutions for real-time compliance tracking.
Ensuring Market Liquidity – Stricter regulations may reduce market activity, affecting FX liquidity.	Provide clear guidelines and market incentives to ensure continuous FX flows while maintaining regulatory compliance.
Managing Regulatory Arbitrage – Some banks may attempt to circumvent regulations by engaging in FX transactions outside formal channels.	Enhance cross-border collaboration with foreign regulators and implement real-time transaction monitoring.

5. Final Recommendations for Banks & FIs

- Act Immediately: Start the compliance gap analysis and Board engagement process now to avoid last-minute rush.
- Prioritize Transparency & Ethics: Review pricing policies, execution practices, and order-handling mechanisms to align with FX Code principles.
- Invest in Technology: Leverage AI-driven trade surveillance systems to detect market abuse, automate reporting, and ensure audit trails.
- Engage with CBN Proactively: Seek clarifications where necessary, participate in CBN training sessions, and engage in regulatory discussions on best implementation practices.



Writing by:

Pattison Boleigha, FCIN

President, CIN

31 January, 2025

CONCLUSION

The Nigeria FX Code is a major regulatory shift aimed at enhancing market integrity, fair competition, and risk management in the FX space. Banks and FIs must take proactive steps to ensure full compliance before the deadlines to avoid regulatory penalties. Successful implementation will reduce FX market volatility, promote investor confidence, and align Nigeria's FX market with international best practices.



+234 813 508 0354

info@complianceinstitute.org.ng

3rd Floor, Polaris Bank Building, 94
Broad Street, Lagos.