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Regulatory Update:

CBN Changes to the Operation of the Foreign Exchange Market

The Central Bank of Nigeria (the "CBN"), in line with its obligations to regulate the FX market and to put in place monetary policy reforms, has recently issued new directives on the operations of the FX market to ease the challenges currently being experienced in the market. In the press release titled "Operational Changes to the Foreign Exchange Market" (the "Press Release") published by the CBN on 14th June 2023, the CBN announced that the segmentation of the FX Market into various windows has now been closed and collapsed into one segment being the Investors and Exporters ("I&E") window. This means that the I&E window will now be the FX market for all official dealings in FX.

In view of the above change, the CBN stated, among other things, that the "Willing Buyer, Willing Seller" model has now been re-introduced to the FX market and that end users can access the I&E window for FX in respect of all eligible transactions. This means that the applicable exchange rates in the Nigerian FX market will be market driven. This should result in Nigerian banks being able to offer a market-determined rate for FX trades in the I&E window.

Prior to the release of the Press Release, Nigerian banks were offering rates in the region of NGN465 to US$1 as opposed to the rates since 14th June, 2023 when banks offering rates have been above NGN650 to US$1.

Another effect of this change is that the CBN would no longer be publishing a benchmark rate but only rates that dealings in the I&E window closed the previous day, and the rates in the FX market will be determined by the trades conducted in the FX market in the course of each trading day. While the CBN will no longer dictate the base rate, it may participate in the buying and selling of FX at the I&E window.

The Press Release also stated that the existing Naira4Dollar remittance scheme and the RT200 Rebate scheme would no longer be operative effective from 30th June, 2023.

The Nigerian FX market has been faced with FX liquidity challenges over the past few years leading to foreign investors inability to repatriate proceeds of their investments and end users inability to access FX to import goods for their operations and to settle obligations denominated in FX. We believe the immediate impact of this change will be that Nigerian banks will be able to offer market-determined exchange rates for FX brought into the country. That may encourage Nigerian and offshore parties, who were hitherto unwilling to bring foreign capital into the country, to inflow FX into Nigeria and convert such funds into Naira at prevailing market rates for their use or operations. Investors inflowing FX to Nigeria for investment in equities or debt instruments will be able to convert such funds at the available market rate, obtain a certificate of capital importation ("CCI") and also utilise CCIs to repatriate such funds at the available market rate. In addition, end users that have eligible transactions to fund will now be able to purchase FX from Nigerian banks for such transactions. Ultimately, in the medium to long term, it is hoped that this long-awaited change would improve the liquidity issues in the Nigerian FX market.

This change has not altered the FX regime under the Nigerian FX laws and regulations relating to eligible transactions and CCIs will continue to apply as they are unaffected by the recent development. The CBN has also clarified that the status of the 43 non-eligible items banned from the official FX market remains unchanged as the items are still not permitted to be funded from the I&E window. As a result, only parties with eligible transactions supported with appropriate documentation are entitled to access the market to purchase FX. We are following this development closely and will keep you informed of further changes.

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