REGULATORY UPDATE

SALE OF FOREIGN EXCHANGE TO BUREAUX DE CHANGE OPERATORS IN THE NIGERIAN FOREIGN EXCHANGE MARKET

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Introduction

Prior to November 2024, Bureaux de Change operators ("BDCs") could not access the Nigerian Foreign Exchange Market ("NFEM") to purchase foreign exchange ("FX") for sale to their customers. This meant that BDCs could only source FX from other lawful sources outside the NFEM for their operations. This arrangement also meant that there was no adequate supply of FX to meet eligible demands in the retail market. In November, 2024, the Central Bank of Nigeria (CBN) released the Revised Guidelines for the Nigerian Foreign Exchange Market ("Revised Guidelines"), which permitted BDCs to purchase FX from authorised dealers to meet customer demands, subject to allowable limits imposed by the CBN. Please refer to our publication on the Revised Guidelines in December, 2024 using this link for additional context.

To improve liquidity in the retail market, the CBN issued a circular titled "*Sales of Foreign Exchange to BDCs to Meet Retail Market Demands for Eligible Invisible Transactions"* on 19th December, 2024 ("the December Circular"), which permitted each BDC to access the NFEM to purchase up to USD25,000 from authorised dealers (that is, Nigerian banks licensed by the CBN to deal in FX) weekly until 31st January, 2025. This was to enable BDCs to fund retail market demands for eligible invisible transactions. Upon the expiration of the timeline in the December Circular, the CBN released another circular titled *"Re: Sales of Foreign Exchange to BDCs to Meet Retail Market Demands for Eligible Invisible Transactions"* on 3rd February, 2025 to extend the timeline to 30th May, 2025, and a further circular on 5th February, 2025 also titled *"Re: Sales of Foreign Exchange to BDCs to Meet Retail Market Demands for Eligible Invisible Transactions"* (the "New Circular"). The New Circular sets out new guidelines for BDCs to access the NFEM to source for FX to meet eligible demands in the retail market.

We have set out in this regulatory update some of the key highlights of the New Circular as they relate to providing liquidity to BDCs to fund retail market demands for eligible invisible transactions.

Key Highlights of the New Circular

The New Circular establishes the following key mandatory compliance requirements for BDCs and authorised dealers to uphold the integrity and efficiency of FX transactions in the NFEM and the retail market:

(a) BDCs may only purchase FX from one preferred authorised dealer subject to the maximum of US$25,000 weekly.

(b) Authorised dealers must sell FX to BDCs at the prevailing daily NFEM rate. This is aimed at ensuring alignment with the official exchange rate, thus preventing price distortions in the FX market.

(c) BDCs must sell the FX to end-users (regardless of the source of the FX including FX purchased from authorised dealers) at a maximum margin of 1% above the NFEM buying rate.

(d) Authorised dealers are required to continue to submit weekly reports to the CBN's Trade and Exchange Department on FX sales to BDCs.

(e) BDCs are required to submit daily reports on purchases from authorised dealers and FX sales to end-users on the Financial Institutions Forex Reporting System (FIFRS).

(f) BDCs are only to sell FX to their customers in the retail market to fund eligible transactions.

(g) The permitted eligible invisible transactions for which BDCs can sell FX to end-users include business travel allowance, personal travel allowance, overseas school fees, and overseas medical fees. This is, however, subject to a maximum quarterly disbursement of US$5,000 per person and per transaction.

Importance of the Changes

This development aims to increase transparency in the NFEM, provide liquidity in the retail market, ensure optimal oversight by the CBN over the NFEM and the retail market, and prevent speculative activities in the NFEM and retail market. In particular, the BDCs and authorised dealers' transaction reporting requirements facilitate robust oversight of the FX transactions for the CBN and ensure that BDCs and authorised dealers adhere strictly to the guidelines set by the CBN in the New Circular and other Nigerian FX regulations.

Authorised Dealers are to note their obligations under the New Circular. As, to ensure compliance, the CBN has warned that any violation of the provisions of the New Circular, including non-compliance with reporting requirements, will result in the imposition of applicable sanctions on the defaulters. Such sanctions include monetary penalties or the suspension of a defaulter's dealership licence.

This regulatory update has been provided by Joseph Eimunjeze, Itoro Uwemedimo Etim, and Fortune Ihator of the Banking & Finance team at Udo Udoma & Belo-Osagie. For more information about our Banking & Finance practice group offerings, please visit our website at www.uubo.org or email us at financeteam@uubo.org

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