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Regulatory Update:

Introduction of Nigerian Overnight Financing Rate: Implications for Pricing, Risk and Documentation in Nigeria’s Money Market Transactions

1. Introduction

The Central Bank of Nigeria ("CBN"), in collaboration with the Financial Markets Dealers' Association ("FMDA"), announced on 17th April, 2026 the introduction of the Nigerian Overnight Financing Rate ("NOFR") as Nigeria's new overnight interbank benchmark. The formal adoption of NOFR followed a stakeholder engagement session held on 27th February, 2026, at which market participants formally agreed to the NOFR benchmark ahead of regulatory approval.[1]

2. What is NOFR?

NOFR is a transaction-based reference rate derived from actual overnight secured funding trades, specifically NGN-denominated repurchase ("REPO") transactions with a minimum size of NGN 5 billion (five billion Naira), between eligible financial institutions, reflecting current liquidity conditions in Nigeria's interbank market.[2] The NOFR is administered and published by the CBN (as the benchmark administrator) daily at 10:00 a.m. Lagos time on the business day following the fixing day. Unlike the CBN's Monetary Policy Rate ("MPR") and other monetary policy instruments, the NOFR is a market-driven reference rate, not a policy-setting tool. It captures the cost of secured overnight borrowing through REPO transactions. The NOFR is intended to serve as a benchmark reference rate for a wide range of financial transactions, including loans and other Naira-denominated financial instruments.

3. Policy Objectives and Market Changes

The introduction of the NOFR is part of a broader effort by the CBN to enhance transparency, strengthen monetary policy transmission, deepen Nigeria's financial markets, align with global benchmark reform trends,

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[1] Central Bank of Nigeria, *Central Bank of Nigeria and Financial Market Dealers' Association Announce the Nigerian Overnight Financing Rate (NOFR) as New Money Market Benchmark,* 17th April 2026, accessible at https://www.cbn.gov.ng/Out/2026/CCD/Press%20Release%20Financial%20Markets.pdf
[2] Central Bank of Nigeria, Nigeria Overnight Financing Rate (NOFR): Comprehensive Frequently Asked Questions (FAQs) For All Stakeholders, accessible at https://www.cbn.gov.ng/Out/2026/CCD/NOFR_FAQs.pdf

including the transition towards risk-free rates, and establish a more robust, data-driven reference rate, in Nigerian financial market. The introduction of the NOFR positions Nigeria alongside leading global benchmarks, such as SOFR (United States), SONIA (United Kingdom), €STR (Eurozone), and TONA (Japan), and complements African peer benchmarks, such as JIBAR (South Africa).

4. Market Applications and Uses of NOFR

The adoption of the NOFR has wide-ranging implications for how financial products are structured, priced, and documented. It will, in our view, influence the long-term depth and investor participation in Nigerian money markets. We have highlighted some of the key market implications below.

(a) Domestic Borrowing and Debt Markets

Government and corporate issuers of debt instruments may begin to reference NOFR in floating-rate debt instruments and loan transactions. This is expected to enhance pricing transparency and aligns borrowing costs more closely with actual market liquidity conditions. This would also enhance investor confidence by improving benchmark reliability and reducing pricing distortions in floating-rate instruments, while supporting deeper activity in the domestic debt market.

(b) Loan Pricing and Credit Facilities

Banks and other lenders may begin referencing the NOFR in loan agreements, particularly for short-tenor and floating-rate facilities and in corporate, structured, and syndicated transactions where a credible overnight benchmark adds pricing rigour. Given that the NOFR reflects actual market transactions rather than indicative submissions, it brings greater consistency and objectivity to rate-setting across institutions. We note, however, that the NOFR does not itself determine the all-in cost of a loan. In addition to the NOFR, margins, fees, and other pricing components remain a function of credit risk, tenor, and the agreed commercial terms of each facility.

(c) Risk Management and Treasury Operations

The NOFR provides a more reliable internal anchor for liquidity management, transfer pricing, and performance measurement for financial institutions. It offers a credible, manipulation-resistant measure of the true cost of overnight secured funding in the interbank market, given that it is grounded in actual market transactions rather than estimates. The NOFR also supports the pricing, valuation, and discounting of NGN-denominated instruments, making it a versatile tool for both treasury operations and broader risk management frameworks.

5. Adjustment Areas for Stakeholders

Typical of any policy change, the shift to the NOFR introduces both opportunities and adjustment requirements for stakeholders across the Nigerian financial markets, which are highlighted below.

(a) Corporate Borrowing

Corporate borrowers will benefit from the use of the NOFR. They will, however, need to understand how the NOFR-linked rates work, particularly given their overnight, data-driven, and sometimes volatile nature. It is also worth noting that while the NOFR would improve benchmark transparency, it does not itself determine loan margins or total borrowing costs. These later ones remain a function of credit risk, tenor, and the specific terms of each facility. This will generally require a closer review of existing funding arrangements, pricing and hedging assumptions, as well as adjustments to how interest rate exposure is assessed and managed across borrowing portfolios.

(b) Operational Adjustments

The adoption of the NOFR has operational consequences for market participants, particularly financial institutions. At a minimum, institutions will need to review and update their internal systems, policies, and risk frameworks to accommodate the NOFR as an active benchmark. More broadly, treasury teams, legal and compliance functions, and other applicable functions will each need to develop a working understanding of

NOFR's calculation methodology and how gaps or data-deficient fixing days are handled. This will ensure efficient reporting processes. Close legal and financial advisory support will be important in navigating these adjustments efficiently.

(c) Documentation and Legal Risk

Documentation and legal risk represent a significant concentration of exposure in the transition process. Existing contracts that reference other benchmark rates and for which the NOFR is intended to be used may require amendment or renegotiation. This will include the insertion of robust fallback provisions and alignment with NOFR's calculation methodology, which uses a volume-weighted trimmed mean that excludes the lowest and highest 10 per cent of transaction volumes before averaging the remaining rates.

For new transactions, documentation will need to clearly address rate determination mechanics, the identification of the CBN as the sole publication source, and contingency arrangements in the event that the NOFR becomes temporarily unavailable or phased out.

(d) Default NOFR and Changes

Parties should note that under the NOFR framework, where eligible transaction data is insufficient on a given fixing day, the rate defaults to the previous business day's published rate and this outcome is disclosed at publication. Separately, corrections to a published NOFR are made only in exceptional circumstances involving a material error of 5 (five) basis points or more. Both features should be expressly reflected in the fallback and correction provisions of any NOFR-referencing contract. A failure to adequately update or future-proof documentation in this regard may give rise to disputes, mispricing, or unintended economic outcomes.

6. Conclusion

The introduction of the NOFR by the CBN (in collaboration with the FMDA) is a foundational development in Nigeria's financial market evolution. It moves the Nigerian financial markets toward a more transparent, transaction-based benchmark regime and creates the infrastructure for a deeper Nigerian money market. The use of the NOFR by market participants requires deliberate action across operational, commercial, and legal functions. Institutions that move early to understand, implement, and properly document NOFR-linked transactions will be better positioned to manage risk and capture the emerging opportunities that come with a more mature benchmark environment.

This regulatory update has been provided by Joseph Eimunjeze, Itoro Uwemedimo Etim, and Mujeeb Azeez 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.