Detail

REGULATORY UPDATE

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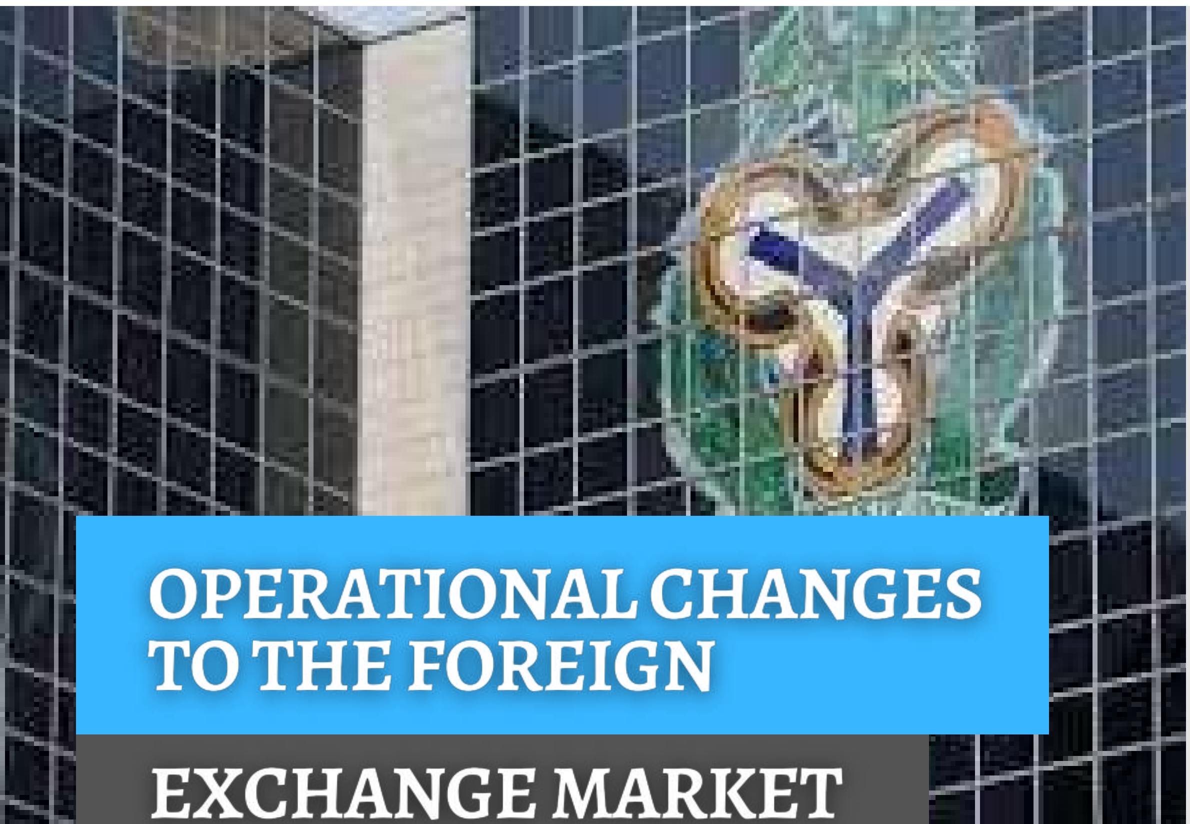


OPERATIONAL CHANGES TO THE FOREIGN EXCHANGE MARKET

Introduction
On June 14, 2023, the Central Bank of Nigeria (“**CBN**”) introduced notable changes to the Foreign Exchange (“**FX**”) market regime in Nigeria, through a circular titled: ‘Operational Changes to the Foreign Exchange Market’ (the “**Circular**”).

Previously, Nigeria operated four foreign exchange markets being the Investors and Exporters (“**I&E**”) Window, the Interbank FX Market, the small and medium-size enterprises (“**SME**”) Window, and the Bureau De Change ("**BDC**") Window. Notably in this new circular, the ‘Naira’ would now be exchanging at market determined rates bridging the gap between the parallel market rate and the CBN rate, which had created systems of currency instability.

Below, we highlight some of the notable changes made by the Circular.

The Major Highlights of the Circular Include:

A. No More Segmentation
All segments are now collapsed into the I&E Window. Additionally, applications for medicals, school fees, Business Travel Allowance (BTA), Personal Travel Allowance (PTA), and SMEs would continue to be processed through deposit money banks at the I&E window rates.

B. Re- introduction of the “Willing Buyer, Willing Seller” Model
Operations of the Willing Buyer, Willing Seller Model in the I&E window shall be guided by the extant circular on the establishment of the window, dated 21 April 2017 and referenced FMD/DIR/CIR/GEN/08/007. Under this circular, the exchange rates of the transactions are as agreed between authourized dealers and their counterparties. The eligible transactions to access the window are: Invisible Transactions (which includes capital repatriation, loan repayments, loan interest payment, dividends/income remittances and consultancy fees), Bills for Collection, and any other trade-related payment obligations. By this Circular, the CBN shall also be a market participant to promote professional market conduct and reserves the right to intervene as it deems fit in the operations in this window.

It is worthy of note that commercial banks are also now allowed to sell FX freely at said market determined rates and the CBN by a circular published on its website on 12th July, 2023, has directed International Money Transfer Operators to commence remittance payout in Naira to beneficiaries and foreign exchange. The I&E Window foreign exchange shall be used in determining the rate for this Naira payout.

C. Weighted Average Rates for all government-related transactions
The operational rate for all government-related transactions shall be the weighted average rate of the preceding day’s executed transactions at the I&E window, calculated to two (2) decimal places.

Other key changes made by the Circular include:

- Proscription of trading limits on oversold FX positions with permission to hedge short positions with Over- The- Counter futures. The limits on overbought positions shall be zero.

- Re-introduction of order-based two-way quotes, with bid-ask spread of N1 (one Naira). All transactions shall be cleared by a Central Counter Party (“CCP”).

- Reintroduction of Order Book to ensure transparency of orders and seamless execution of trades.

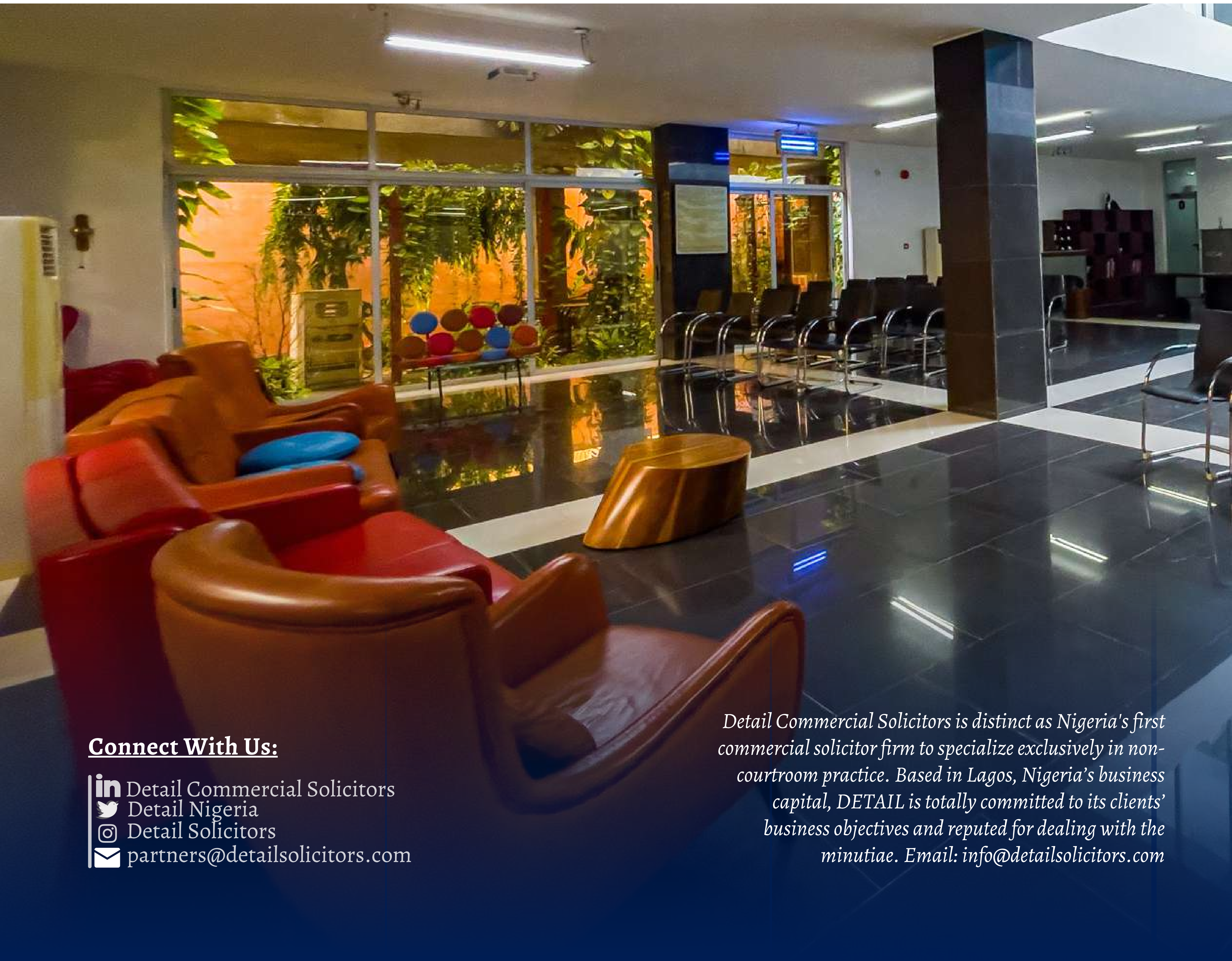
- The operational hours of trades shall be from 9am to 4pm, Nigeria time.
- Cessation of RT200 Rebate Scheme and the Naira4Dollar Remittance Scheme.

Conclusion

Bridging the gap between the official rate and parallel market rate would indeed have significant impact. It has been predicted that the implementation of the policy will attract foreign capital inflows, as having market determined rates generally instills 'investor confidence and certainty'. Floating of the Naira should also boost export competitiveness and build a more resilient economy.

With the removal of the fuel subsidy which had a major constraint on the Nigerian government's ability to utilize and save its foreign exchange, there should hopefully be a rise in the government's revenue and adjusted trade imbalances.

The Capital Market is also likely to benefit due to the increase of foreign investments in the country, and the impact on remittances would be marginal.



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