REPOSITIONING BUREAUX DE CHANGE THROUGH CONTROLLED PARTICIPATION IN NIGERIA'S FOREIGN EXCHANGE FRAMEWORK

The new CBN directive embeds demand within a controlled structure that aims to increase transparency, improve price discovery, and reduce speculative distortions in the foreign exchange market.

INTRODUCTION

Over the last five years, the Nigerian Bureau De Change (BDC) sector has experienced different regulatory changes in the country's foreign exchange market framework. The Central Bank of Nigeria's (CBN) 2021 decision to exclude BDCs from the Nigerian Foreign Exchange Market (NFEM) has now evolved into a structured reintegration. The directive issued by the CBN on 10 February 2026, "Participation of Licensed BDCs in the Nigerian Foreign Exchange Market is a significant milestone in the journey of restructuring Nigeria's foreign exchange market.

In July 2021, the CBN decided to exclude BDCs from participating in the official foreign exchange market. The decision was made due to issues related to regulatory compliance, anti-money laundering controls, and market discipline. Before the regulatory exclusion, BDCs played an important role in providing retail liquidity, enabling individuals and small businesses to access foreign currencies for school fees, allowances, medical bills, and other retail transactions. The intention of the exclusion was to improve transparency and reduce abuse, but it eventually led to a supply gap at the retail end of the market.

The gap in the supply of foreign exchange widened and became more evident between 2021 and 2023, as commercial banks were not designed to absorb the volumes of small foreign exchange demand. As a result, unmet demand shifted to the informal market, raising its rates, and the gap between the official and informal exchange rates widened significantly. This created a dual exchange rate, adversely affecting sectors that operate under a foreign exchange regime, such as importers. The period showed that retail liquidity could not simply be removed from the system. It had to be restructured within a controlled framework.

In 2024, the regulatory approach changed from exclusion to reform. CBN introduced a tiered licensing system that required recapitalisation. Under this system, operators were classified by capital strength and the scope of their operations. Larger, well-capitalised BDCs could operate nationwide, while smaller operators were limited geographically. This policy led to a reduction in the number of undercapitalised operators and strengthened governance, reporting, and compliance standards. BDCs were recognised as financial intermediaries rather than informal traders.

The February 2026 directive represents a significant milestone in this reform journey. With it, the CBN has formally reintroduced licensed BDCs into the NFEM, with the aim of ensuring adequate foreign exchange liquidity in the retail segment of the foreign exchange market and meeting the legitimate needs of end users.

This article analyzes the directive by examining its key provisions and the implications for the future of the foreign exchange market in Nigeria.

KEY PROVISIONS

Set out below are the core provisions that define this new participation framework.

- **Access of licensed BDCs to FX directly from the NFEM through Authorised Dealers at the prevailing exchange rate:** All licensed BDCs are now permitted to participate directly in the NFEM. Participation must be conducted through Authorised Dealers. BDCs may transact through any Authorised Dealer of their choice, including eligible licensed banks operating within the NFEM framework, and all foreign exchange transactions conducted under this framework must be executed at the prevailing market exchange rate.

- **Due diligence and Know Your Customer (KYC) requirements by Authorised Dealers:** Authorised Dealers are required to conduct thorough KYC and due diligence checks on their BDC clients before transacting and selling FX to them. These checks must comply with applicable regulations and internal risk management frameworks.

- **Weekly purchase cap of $150,000 per BDCs:** The completion of the KYC and due diligence requirement further permit all licensed BDCs to purchase up to a maximum of $150,000 per week in line with existing BDC guidelines. This weekly purchase cap applies per licensed entity and is subject to monitoring by the CBN and participating Authorised Dealers.

- **Requirements for reporting and submission of returns to the CBN:** All licensed BDCs are required to maintain proper transaction records and to timely submit periodic returns to the CBN electronically in accordance with existing regulations. Reports on transactions, including transaction details, volumes purchased, sales, source of funds, etc., are expected to be submitted through the Financial Institutions Foreign Exchange Reporting System (FIFX) on a daily, monthly, and yearly basis.

- **Mandatory resale of unused balances within 24 hours:** Any foreign exchange purchased by a BDC that is not sold to an end-user within 24 hours must be resold in the market in accordance with CBN guidelines. BDCs are prohibited from holding any unutilised funds purchased from NFEM.

- **Use of only settlement accounts with licensed banks:** The directive placed restrictions on settlement processes. All foreign exchange transactions by BDCs must be conducted exclusively through designated settlement accounts maintained with licensed financial institutions. The use of unapproved or informal settlement channels is prohibited.

- **Prohibition of third-party transactions:** BDCs are prohibited from conducting foreign exchange transactions on behalf of undisclosed third parties. Transactions must be executed directly for verified end-users in line with regulatory requirements.

- **Cash transaction limitation (maximum of 25% per transaction):** Cash payments for foreign exchange transactions are limited to a maximum of 25% of the value of any single transaction. The balance of 75% must be settled through traceable electronic banking channels.

COMMENTARIES AND ANALYSIS

The foregoing provisions set out the new guidelines governing the participation of licensed BDCs in the NFEM. They define how access is granted, the limits and conditions that regulate transactions, and the compliance obligations that accompany participation. These provisions, together with the existing BDC guidelines and regulations, form the framework for the reintegration of the BDCs into the foreign exchange market. It creates a balance between participation, market access and liquidity and the need for accountability, regulatory oversight and reporting discipline.

In analysing the new guidelines alongside the broader BDC reform journey that began in 2021, the directive adopts a middle-ground approach. It does not return to pre-exclusion practices, nor does it move toward uncontrolled freedom. Rather, it is a structured approach to participation while also addressing regulatory concerns.

Prior to the new directive, the exclusion of BDCs created a gap in the retail segment of the foreign exchange market. It became difficult for end users to access foreign exchange through formal channels, leading the parallel market to become the preferred market for exchanging foreign currencies. This contributed to higher premium rates over the official market rate and deepened market fragmentation.

By permitting licensed BDCs to access foreign exchange at prevailing market rates through authorised channels, the directive restores structured retail liquidity within the formal foreign exchange market. Bringing retail transactions back into the NFEM will narrow the gap between the official and parallel exchange rates. This means that as more transactions are captured in the formal market, the official exchange rate better reflects the real demand and supply conditions in the foreign exchange market. This would ensure greater transparency in exchange rates, which would be very beneficial to import-dependent businesses.

The directive also seeks to provide solutions that will address the vulnerabilities that characterised earlier BDC regulations. The increase in the weekly limit from $25,000 in allocations to $150,000 in purchases per BDC significantly expands formal access. In addition, the prohibition of holding unused funds purchased from the NFEM for more than 24 hours addresses the issue of speculative inventory accumulation and discourages hoarding and arbitrage behaviours. By mandating rapid turnover of purchased foreign exchange, liquidity is encouraged to circulate within the market rather than stored.

The requirement that all BDCs be obliged to make timely digital reports and submissions would ensure the regulatory body has greater visibility and monitoring of all transactions in the foreign exchange market. Real-time records of foreign exchange transactions enable the regulator to monitor volumes, counterparties, and pricing behaviour more effectively.

This ensures that regulatory bodies have greater clarity in the retail segment of the foreign exchange market. In addition, due diligence and KYC requirements imposed through Authorised Dealers further align BDC participation with anti-money laundering and counter-terrorism financing standards. Lastly, the restrictions on third-party transactions and the limitation of cash settlements to only 25% of each transaction amount will ensure that all transactions are traceable and accountable.

Despite these structural improvements, the success of this directive will ultimately depend on its implementation. The sufficiency of the $150,000 weekly purchase cap must be checked against total retail demand. If formal supply remains insufficient relative to demand pressures, reliance on the parallel market and informal channels may continue. The directive improves the structure, but it does not, on its own, create additional foreign-exchange inflows into the economy. Enforcement capacity, therefore, becomes important to the success of the framework. Reporting obligations, limits, and cash restrictions will only be effective to the extent that compliance is consistently monitored and breaches are fairly sanctioned. Otherwise, the integrity of the framework could gradually weaken.

The operational realities of the sector must also be taken into consideration. Stricter compliance requirements, digital integration standards, and capital thresholds may increase governance and cost burdens, particularly for smaller BDC operators. Inadequate technological preparedness across the sector could create short-term adjustment challenges within the sector.

CONCLUSION

In conclusion, the directive represents a deliberate institutionalisation of the retail foreign exchange market. It recognises that retail demand is a structural feature of Nigeria's FX market, and the exclusion is neither sustainable nor efficient. It embeds demand within a controlled structure that aims to increase transparency, improve price discovery, and reduce speculative distortions.

The reform reflects gradual progress toward a more stable market structure. Though macroeconomic fundamentals and FX supply conditions will continue to drive market outcomes, the directive strengthens the foundations of market participation. If consistently implemented and supported by broader macroeconomic stability measures, the framework has the potential to reduce fragmentation, deepen formal market liquidity, and contribute to a more stable and integrated foreign exchange regime.

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