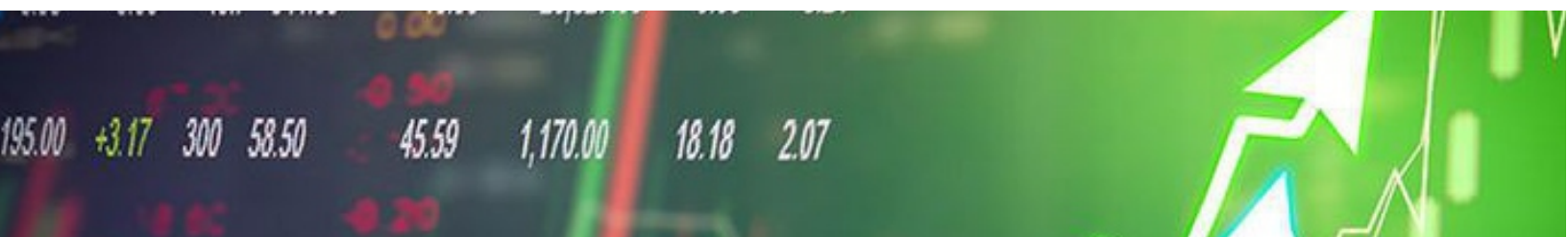




ENHANCING NIGERIA'S FX MARKET:

**KEY INSIGHTS ON THE NEW
EFEMS AND FX CODE**

- The Banking & Finance Team



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On October 2, 2024, the Central Bank of Nigeria (CBN) introduced two key regulatory frameworks to improve the functioning of the Nigerian Foreign Exchange Market (NFEM): the **Electronic Foreign Exchange Matching System (EFEMS)** and the **Nigerian Foreign Exchange Code (FX Code)**. While EFEMS is a technological platform aimed at improving market transparency and efficiency, the FX Code serves as a set of guidelines created specifically to ensure that market participants adhere to ethical and transparent practices when transacting through NFEMS. This review will explain how both initiatives work, providing a clearer understanding of their individual roles and their combined impact on the Nigerian foreign exchange market.

1. Electronic Foreign Exchange Matching System (EFEMS)

EFEMS represents a crucial advancement in Nigeria's foreign exchange market, aimed at modernizing how foreign currency transactions are conducted. It is designed to enhance governance, transparency, and efficiency by facilitating a market-driven exchange rate system. All foreign exchange transactions conducted in the interbank FX market by **Authorised Dealers** will now go through EFEMS, ensuring real-time matching of buy and sell orders, providing real-time data on FX transactions, and allowing public access to FX rates and trade volumes.

Key Features of EFEMS:

1. **Implementation Date:** EFEMS will officially go live on **December 1, 2024**.
2. **Test Run Period:** A two-week test run is scheduled for **November 2024** to allow Authorised Dealers to familiarize themselves with the system.
3. **Target Participants:** EFEMS is mandatory for all Authorised Dealers (banks and financial institutions licensed by the CBN) involved in wholesale FX transactions.
4. **Real-Time Data:** EFEMS will provide real-time data on buy and sell orders, thereby increasing market transparency.
5. **Enhanced Oversight:** The system allows the CBN to monitor FX transactions more closely, reducing speculative activities and market distortions.
6. **Preparation Requirements:** Authorised Dealers must complete all necessary documentation, training, and system integration before the official launch.

Impact of EFEMS:

- **On Market Transparency and Efficiency:** The real-time data and transparency introduced by EFEMS will likely lead to a more stable and efficient FX market. Market participants will have better visibility into exchange rate trends, which can curb speculation.
- **On Authorised Dealers:** Banks and financial institutions will be required to invest in system integration and training to ensure they are ready for the transition.

2. Nigerian Foreign Exchange Code (FX Code)

The FX Code is a comprehensive regulatory framework designed to strengthen the integrity and efficiency of Nigeria's wholesale FX market, reinforcing the flexible exchange rate regime and fostering transparency, governance, and market confidence. It provides detailed guidelines on ethics, execution, risk management, and information sharing to ensure that the foreign exchange market operates with transparency, integrity, and efficiency. It draws on international best practices, particularly from the [Foreign Exchange Global Code](#) (FEGC), and tailors these practices to the unique characteristics of the Nigerian FX market.

Key Features of the FX Code:

1. **Ethics:** Market participants are expected to uphold high ethical standards, acting with honesty and fairness in all transactions conducted via EFEMS.
2. **Governance:** Authorised Dealers must establish robust governance frameworks to ensure proper oversight of their FX market activities.
3. **Execution:** All FX transactions processed through the FX Market must be handled with care, and all roles and responsibilities must be clearly communicated.
4. **Risk Management and Compliance:** Financial institutions must implement strong risk management practices to mitigate risks associated with FX trading.
5. **Information Sharing:** Participants are expected to protect confidential information and only share it when absolutely necessary for legal or regulatory purposes.
6. **Confirmation and Settlement:** Proper procedures must be in place to confirm and settle transactions transparently, ensuring that no discrepancies arise between the trades and the corresponding documentation.

Compliance Timeline:

- The FX Code will take effect from **October 14, 2024**. By **December 31, 2024**, Authorised Dealers are required to conduct self-assessments of their compliance and submit reports to the CBN. A compliance plan approved by the Board must also be submitted by the same date.
- From January 2025 onwards, banks are required to submit quarterly compliance reports to the CBN.

The Role of the FX Code in EFEMS:

The Nigerian FX Code is not just a standalone set of rules but is explicitly designed to govern conduct on the FX Market alongside EFEMS. It provides a framework to ensure that all market participants using EFEMS adhere to the highest standards of transparency, accountability, and ethical behaviour. The FX Code covers every stage of the FX transaction process, from the ethical execution of trades to proper post-trade risk management, ensuring that the entire process on EFEMS is governed by globally recognized best practices.

Chronological Implementation of EFEMS and FX Code:

1. **October 14, 2024:** FX Code takes effect. Authorised Dealers must begin aligning their operations with the ethical, governance, and compliance standards outlined in the FX Code. This serves as a preparatory phase for transitioning to EFEMS.
2. **November 2024:** A two-week test run of EFEMS will be conducted. During this period, Authorised Dealers will test the platform to ensure smooth integration and full compliance with the FX Code.
3. **December 1, 2024:** EFEMS goes live. From this date onwards, all FX transactions must be conducted through the EFEMS platform, with participants adhering to the rules set forth in the FX Code.
4. **December 31, 2024:** Deadline for banks to complete their compliance reports and submit a compliance plan to the CBN.

Conclusion:

The EFEMS and FX Code are complementary reforms aimed at modernizing Nigeria's foreign exchange market by ensuring both operational transparency and ethical conduct. The **FX Code** is the guiding framework for all market participants, ensuring that every transaction is conducted in a transparent, ethical, and well-governed manner. Meanwhile, **EFEMS** is the technological platform that will facilitate the matching of FX trades in real-time, providing much-needed transparency in the Nigerian foreign exchange market.

Together, EFEMS and the FX Code mark a significant step forward in stabilizing Nigeria's FX market and aligning it with global best practices. Their success will depend on the readiness of market participants and the CBN's ability to ensure robust oversight, particularly as EFEMS transitions from its test phase to full-scale implementation.

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