Perchstone & Graeys
SOLICITORS ADVOCATES & ARBITRATORS

Beyond the Grey: How Nigeria's FATF Delisting Redefines Capital Market Integrity and Fuels the Fight for Naira Stability

Oluwatoyin Adenugba
Partner

The official removal of Nigeria from the Financial Action Task Force (FATF) grey list in October 2025 followed major legislative and operational reforms, notably the Money Laundering (Prevention and Prohibition) Act, 2022 (MLPA), and the Terrorism (Prevention and Prohibition) Act, 2022 (TPPA); as well as the activation of the Beneficial Ownership Register (BoR)[1]. This victory immediately lowers Nigeria's international risk premium, which is crucial for attracting the necessary sustained Forex inflows to stabilize the Naira / address its acute volatility, and improve capital market liquidity. Sustained integrity is also anchored by the domestic Business Integrity Certification (BIC), a standard set by the Financial Reporting Council (FRC)/Integrity Organization. The FATF delisting marks a compliance milestone and rehabilitates Nigeria's reputation internationally, positioning the country for renewed engagement in the global finance market.

This article analyzes the projected economic and market consequences of this delisting in October 2025, detailing how the integrity victory underpins economic recovery and supports Naira stability.

1. The Cost of Stigma: FATF's Regulatory Tax

The FATF is the global money laundering and terrorist financing watchdog. Its "grey list," officially known as "Jurisdictions under Increased Monitoring", signals to the international financial community that a listed country has strategic deficiencies in its Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) regimes. Nigeria was blacklisted in 2001, delisted in 2006, and "greylisted" in February 2023, a move that immediately imposed significant friction on the country's global financial transactions.

The listing introduced what can be termed the "FATF Tax", which is the mandatory requirement for all global financial institutions - from correspondent banks to fund managers - to apply Enhanced Due Diligence (EDD) to all transactions involving Nigerian entities. This application increased compliance cost, and led major international banks to "de-risk", by either withdrawing from relationships with Nigerian institutions, or dramatically raising their fees and processing times. With regard to the capital market, this friction deterred major institutional Foreign Portfolio Investors (FPIs) from doing business with Nigeria, leading to significant FPI disinvestment and a decline in market liquidity. In

[1] The BoR is an online platform, maintained by the Corporate Affairs Commission (CAC), that makes public the identities of natural persons with significant control (PSC) over companies and limited liability partnerships in Nigeria. Launched in May 2023, the register is a public resource for verifying company ownership, combatting corruption and money laundering, and was legislated through the Companies and Allied Matters Act (CAMA) 2020.

the first quarter of 2023, the decline in FPI was almost 32.2%[2] as against the corresponding time the prior year. These restricted FX flows into the country, placing direct pressure on the exchange rate. The resulting stigma from the FATF tax increased the cost of issuance even for the most stable Nigerian corporates.

2. The Victory: Key Reforms

Nigeria achieved its goal of being removed from the FATF grey list following a successful on-site inspection that verified the sustainability and effectiveness of its reforms. This achievement was the result of diligently executing a 19-Point Action Plan agreed upon with the FATF.

The foundation of this victory was a sweeping legislative overhaul. Nigeria enacted and began rigorous enforcement of the aforementioned MLPA and TPPA. These laws introduced harsher penalties and broadened the scope of financial crimes oversight. Critically, the government achieved full operationalization of the BoR, effectively combating anonymous shell companies used for illicit finance.

The establishment of these laws was complimented by various levels of inter-agency synergy, particularly between the Nigerian Financial Intelligence Unit (NFIU), Economic and Financial Crimes Commission (EFCC), and the Financial Reporting Council (FRC), ensured that reforms were not merely legislative but enforceable. This was a critical factor that impressed FATF evaluators during the on-site assessment.

Compliance was strengthened through Targeted Supervision that was demonstrably risk-based. Regulators focused heavily on key vulnerable sectors, particularly Designated Non-Financial Businesses and Professions (DNFBPs). This enhanced supervision included the mandatory registration and annual auditing of high-risk DNFBPs -such as high-value real estate developers and legal practitioners- under the direct oversight of the NFIU, drastically limiting avenues for illicit fund flows.

3. Delisting's Dividends: Capital Market Uplift and Risk Reduction

The official removal from the grey list is expected to translate into tangible economic benefits for the capital market. The removal of the EDD requirement should lead to a reduction in the average cost of doing business in Nigeria. Meaningful outcomes will develop gradually, and are contingent on rebuilding international credibility and adhering to a stable course of action.

By eliminating friction in correspondent banking, the effective cost of international trade finance drops, and the FATF exit acts as a powerful international endorsement of governance, significantly lowering the perceived jurisdiction risk.

---

[2] Based on data from the National Bureau of Statistics (NBS) and the Nigerian Economic Summit Group (NESG).

This has a differential impact across asset classes:

a. **Fixed Income**: The lower jurisdiction risk makes Nigerian sovereign (federal and state) and corporate bonds significantly more palatable. The expected surge in demand will compress yields, making borrowing cheaper as investors demand less premium for regulatory risk.

b. **Equities**: The simplified onboarding process encourages dormant FPI flows back into the market, increasing liquidity, tightening bid-ask spreads, and supporting a necessary re-rating of market capitalization.

Overall, this success strengthens the argument for a positive reassessment of Nigeria's sovereign credit ratings by international agencies, thereby validating the nation's commitment to financial integrity.

4. The Crucial Link to FX and Naira Stability

In the wake of Nigeria's significant foreign exchange (FX) market reforms and currency devaluation, the Naira's stability is critically dependent on sustained, large-scale FX inflows. No amount of policy adjustment can fully succeed without the continuous injection of hard currency through foreign investment, diaspora remittances, and Nigerian exports.

The delisting effectively removes a non-monetary, regulatory barrier that was previously blocking capital inflow, creating the potential for enhanced remittance flow through official channels, thereby enhancing the Central Bank of Nigeria (CBN)'s liquidity. Global institutional investors, previously wary of potential funds seizure, regulatory entanglement, or simply the complexity of EDD, are now more confident in the safety and traceability of their investments in Nigeria. The restored confidence encourages immediate market-driven FX inflows via FPIs and FDI. This structural increase in the supply of FX through capital market transactions is a potent lever available to the CBN, directly strengthening its efforts to achieve a more stable and efficient exchange rate. The regulatory win, therefore, is not merely technical; it is an essential component of the nation's long-term economic recovery plan.

5. Institutionalizing Integrity: A New Domestic Standard

However, the regulatory battle is far from over. The global community now monitors the effectiveness and sustainability of the reforms, and not just technical compliance. The challenge lies in embedding these new standards into the everyday operations of the local private sector.

To address this sustainability challenge, a critical domestic initiative has emerged: the voluntary Business Integrity Certification (BIC). This is a partnership between the Financial

Reporting Council (FRC) and the Integrity Organization, aimed primarily at Small and Medium Enterprises (SMEs) which represent the majority of the supply chain.

The BIC is designed to be more than just a compliance checkmark; it is linked to tangible incentives and market advantages. This incentive ensures that integrity becomes a profitable business decision. Financial institutions will now grant BIC-certified firms the de-risked lending status, hopefully resulting in a 1.5% reduction in interest rates for certified SMEs, based on regulatory guidance from the CBN. This fortifies the capital market from the bottom up. The governance credibility of the entire business ecosystem is also strengthened by this domestic initiative, thereby reducing the compliance risk for large, publicly listed firms who deal with BIC-certified suppliers and partners. In this modern era where ESG cannot be overlooked on the international playing field, the BIC may serve as/ evolve into a form of domestic benchmark, most notably for sustainability linked credit-facilities.

6. Conclusion: Sustaining the Momentum

Nigeria has successfully secured a major regulatory victory, transforming a global compliance challenge into a significant economic opportunity. The delisting from the grey list is a powerful signal that the regulatory environment is now robust and aligned with global standards, paving the way for substantial capital inflows.

The focus must now move to Regulatory Vigilance at a sustained level. All financial market regulators –the CBN, SEC, and watchdogs like NFIU- must concentrate on consistent and effective enforcement of the new standards across all financial and non-financial sectors to demonstrate that the reforms are permanent. Specifically, the CBN, SEC, and NFIU must now establish measurable benchmarks, such as achieving an 80 to 90% compliance rate for BoR filings among all public companies and high-risk DNFBPs within the next twelve months.

The greatest long-term reward from this arduous journey is the creation of a Nigerian market where integrity is profitable and deeply institutionalized, ensuring that the current influx of capital supports sustainable, inclusive economic growth for decades to come.

24 November 2025

Perchstone & Graeys
SOLICITORS ADVOCATES & ARBITRATORS

Lagos - 1, Perchstone & Graeys Close Off Remi
Olowude Way, Lekki, Lagos
Tel: +234 704 598 4788

Abuja - D3, Jima Plaza, Plot 1267, Ahmadu Bello
Way, Opp. GTBank, Area 11, Garki, Abuja
Tel: +234 09-2919191, 0704 598 4792, +234 704 574 3012

Benin - 40, Adesogbe Rd, Benin City, Edo State
Tel: +234 704 553 0230

London - 107, Kingston Hill, Kingston-Upon-Thames, London
Tel: +447526535389

Email: counsel@perchstoneandgraeys.com
info@perchstoneandgraeys.com