Finance Regulatory Updates

JULY 2026

This month, we examine recent regulatory developments issued by the Central Bank of Nigeria (the **"CBN"**) with significant impact on institutions operating in the financial services sector.

We provide a concise overview of the key updates and their practical implications for market participants.

Interpretative Guidance on the Practical Operation of Sections 34(2)(b) and 40(2) of the Banks and Other Financial Institutions Act, 2020

By a circular dated 1 July 2026, the CBN issued Interpretative Guidance on the practical operation of Sections 34(2)(b) and 40(2) of the Banks and Other Financial Institutions Act, 2020 (the "BOFIA"). The circular sets out the operational approach the CBN will adopt when exercising the powers conferred on the CBN Governor under these provisions in relation to failing banks and other financial institutions that are, or are proposed to be, subject to resolution measures. The Guidance was issued in response to concerns that BOFIA does not prescribe a maximum period for which contractual obligations may be suspended under these provisions, thereby creating uncertainty for counterparties dealing with Nigerian banks and other financial institutions.

For background, Section 34(2)(b) empowers the CBN Governor, by order in writing, to suspend any payment or delivery obligation under a contract to which a failing bank or other financial institution is a party. Section 40(2) empowers the CBN Governor, by notice in writing, to suspend the exercise of any termination right under a contract to which Section 40(1) applies, in relation to a bank or other financial institution that is the subject, or proposed subject, of a resolution measure.

The circular refers to any contract caught by either provision as an "Affected Contract". The circular resolves this uncertainty by providing that any suspension imposed under either Section 34(2)(b) or Section 40(2) shall not exceed two (2) business days, commencing from the date on which the written order or notice of suspension is issued by the CBN Governor. The Guidance is issued pursuant to Section 56 of the BOFIA and Section 33(1)(b) of the Central Bank of Nigeria Act, 2007, and takes immediate effect.

The two (2) business day outer limit is particularly significant for the derivatives market. Close-out netting under master agreements, including the ISDA Master Agreement, depends on the ability of a non-defaulting party to terminate transactions and net its exposures promptly upon a counterparty default. Although the BOFIA expressly recognises netting arrangements, the possibility of an indefinite suspension of payment obligations and termination rights under Sections 34(2)(b) and 40(2) had remained a qualification in the close-out netting analysis for Nigerian bank counterparties.

By capping any suspension at two (2) business days, the circular aligns Nigeria's resolution stay regime with the Financial Stability Board's Key Attributes of Effective Resolution Regimes for Financial Institutions, which recommend that temporary stays on early termination rights be strictly limited in time (for example, to no more than two business days), and with the approach reflected in the ISDA resolution stay protocols.

For counterparties transacting with Nigerian banks and other financial institutions, the practical effect is greater certainty: termination and netting rights under an Affected Contract may now be suspended only within a short and defined window. This strengthens the enforceability analysis for close-out netting under the ISDA and similar master agreements, supports cleaner netting opinions, and, in turn, facilitates the recognition of netting for credit risk management and regulatory capital purposes.

Guidance on the Purchase of Foreign Exchange by Bureau De Change Operators through Authorised Dealer Banks in the Nigerian Foreign Exchange Market (NFEM)

By a circular dated 15 July 2026, the CBN issued a Regulatory Guidance and Operational Modalities (the **"Guidance"**) to facilitate implementation of, and support sustained liquidity under, the framework for Bureau De Change (BDC) participation in the retail segment of the Nigerian Foreign Exchange Market (NFEM). The Guidance is issued further to the CBN's circular of 10 February 2026, which reintroduced licensed BDCs into the NFEM (**discussed here**), and announces the implementation of an electronic portal, the foreign exchange (FX) BDC Purchase Tracker (**"FXBT"**), to facilitate interaction between BDCs and the NFEM. All Authorised Dealer Banks and licensed BDCs are required to comply with the Guidance with immediate effect, and violations attract regulatory sanctions.

The key highlights of the Guidance are as follows:

1. **Scope of Application**

- The modalities apply to all CBN-licensed BDC operators, all banks holding Authorised Dealer status, and all FX purchase and sale transactions between BDCs and Authorised Dealers through the NFEM, effective from the date of the circular.

- Only BDCs with a valid and subsisting CBN licence may access FX under the framework, BDCs under regulatory sanction, or whose licences are suspended or operating conditions restricted, are excluded until such restrictions are lifted.

2. **Know Your Customer (KYC) and Due Diligence**

- Before executing any FX transaction with a BDC, the Authorised Dealer Bank must complete full KYC and Customer Due Diligence in line with CBN Know Your Customer/ Anti-Money Laundering/ Combating the Financing of Terrorism regulations and its internal risk framework, obtain and retain the BDC's licence, tax identification number, Corporate Affairs Commission incorporation documents, beneficial ownership information and principal officers' contact details, perform enhanced due diligence for higher-risk BDCs, and update KYC records at least annually or upon material change. No FX may be disbursed where KYC/due diligence is not satisfied.

3. Purchase Request Process and Confirmation

- Every licensed BDC may approach any Authorised Dealer Bank of its choice, and banks are prohibited from imposing exclusivity arrangements, referral fees or other conditions restricting that choice.

- Purchase requests are submitted electronically via the bank's designated FX Purchase Tracker Portal, with BDCs registered on the centralised FXBT to enable real-time or same-day reporting of purchases for systemic compliance and oversight. BDCs may submit multiple weekly requests subject to any caps prescribed by the CBN.

- Authorised Dealer Banks must acknowledge receipt within two (2) business hours and confirm approval or rejection through the portal immediately, rejection notices must state specific grounds (e.g. incomplete KYC, the BDC having already reached the weekly USD150,000.00 (One Hundred and Fifty Thousand United States Dollars) cap at another bank, unresolved compliance flags, or internal risk considerations) and must be adequately captured on the portal.

4. Settlement, Unutilised Balances and Reporting

- All settlement of FX transactions, including between BDCs and their end-user customers, must be conducted exclusively through accounts held with licensed financial institutions. BDCs must maintain dedicated FX settlement accounts, the details of which must be disclosed to the Authorised Dealer Bank and registered with the CBN. Third-party disbursements are strictly prohibited, and any breach must be reported to the CBN immediately.

- Unutilised FX balances (including from other autonomous sources, for the avoidance of doubt) may not be retained and must be sold back into the NFEM within twenty-four (24) hours of expiry of the utilisation period, with non-compliance attracting sanctions including forfeiture and suspension of NFEM access. Unutilised balances from the prior week must be disclosed in each new purchase request and factored into weekly cap calculations.

- Licensed BDCs must continue to submit prescribed electronic returns covering weekly FX purchased, FX sold to end-users by category, treatment of unutilised balances, and a settlement breakdown (electronic vs. cash) for customer transactions.

5. Sanctions, Supervision and Transitional Provisions

- The Trade & Exchange Department has primary supervisory responsibility, and on-site and off-site examinations may be conducted jointly with the Financial Markets Department and the Development and Financial Institutions Supervisory Department, without prior notice.

- BDCs with pre-existing relationships with specific Authorised Dealer Banks may continue those relationships, but all transactions from the effective date must conform to the new modalities, and existing KYC records held by banks must be reviewed for compliance. The existing BDC Guidelines remain in full force and continue to apply to all transactions conducted under the new modalities.

- Violations of the Guidance or the underlying 10 February 2026 circular may expose defaulting parties to the full range of sanctions available under the BOFIA and the Foreign Exchange (Monitoring and Miscellaneous Provisions) Act, including monetary fines, suspension of NFEM access or their BDC licences, revocation of Authorised Dealer status, and referral to law enforcement where criminal conduct is suspected.

For additional information in respect of any of the updates provided above, please contact ***temitope.sowunmi@moroomafrica.com***

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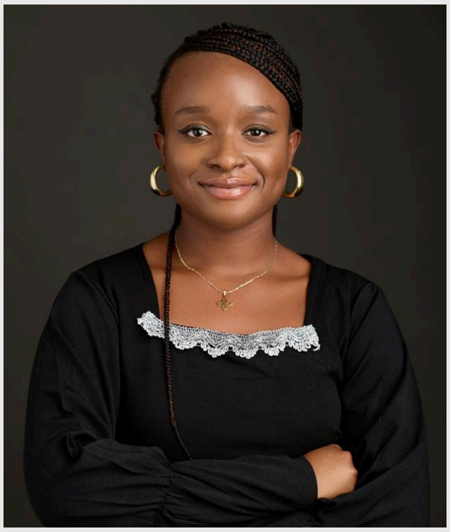

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