REVISED REGULATORY AND SUPERVISORY GUIDELINES FOR BUREAU DE CHANGE OPERATIONS IN NIGERIA

Introduction

The Central Bank of Nigeria (CBN) released an exposure draft of the **Revised Regulatory and Supervisory Guidelines for Bureau de Change (BDC) Operations in Nigeria** on the 23rd February 2024. This comprehensive document, albeit in its exposure draft form, aims to strengthen the regulatory framework governing BDCs in Nigeria, ensuring compliance, and sound operational practices with a view to ensuring adequate capitalization of BDCs, eliminating arbitrage and adequate regulation and transparency in the supervision process of BDCs.

In a statement released by the Director, Financial Policy and Regulation Department of the CBN on the 23rd February 2024, the CBN conveyed the exposure draft which seeks to introduce revolutionary adjustments to the regulatory framework for BDCs. In this newsletter, we set out the top ten highlights of the exposure draft, itemizing the salient changes proposed by the CBN.

1. Non-Eligible Promoters

The CBN seeks to make a bold statement with regards to regulating BDC operations in Nigeria. The exposure draft in no mean feat, seeks to carve out a total of 16 categories of persons, who cannot form part of ownership or control of BDCs. Commercial banks, OFIs and Payment Service providers and their staff are not allowed to own a BDC. Government at all levels and public officers are also excluded. The same goes for NGOs, corporative societies and academic / religious institutions. Importantly, the exposure draft also limits ownership to resident Nigerians and regulated companies alone. A shareholder in another BDC company, telecommunication service providers and a person on the Sanctioned List are also prohibited.

2. Categories of Licence

The exposure rules introduced the following two (2) categories of BDCs:

- **Tier 1 BDC:** A Tier 1 BDC is authorized to operate on a national basis and open branches and appoint franchisees subject to the approval of the CBN. The Tier 1 BDC shall have supervisory oversight of the franchisees and such franchisees shall adopt the name, brand, technology platform of the Tier 1 BDC and shall have rendition requirements.

- **Tier 2 BDC:** A Tier 2 BDC is authorized to operate only in one State or the FCT and may subject to the CBN approval, have up to three (3) locations, being the head office and two other branches but shall not be permitted to appoint franchisees.

3. Financial Requirements

The Exposure draft provides the following financial requirements, which may vary at the discretion of the CBN, in relation to BDCs:

DESCRIPTION	TIER 1 BDC	TIER 2 BDC
Minimum Capital Requirement	N 2 Billion	N 500 Million
Mandatory Caution Deposit	N 200 Million	N 50 Million
Non-Refundable Application Fee	N 1 Million	N 250 Thousand
Non-Refundable Licence Fee	N 5 Million	N 2 Million
Non-Refundable Annual Licence Renewal Fee	N 5 Million	N 1 Million

BDC licences will now be renewable annually subject to compliance with laws and regulations applicable to BDCs and the payment of the non-refundable annual licence renewal fee indicated above. Each BDC shall maintain a mandatory caution deposit with the CBN.

4. Permissible and Non – Permissible Activities

In what could be regarded as a game changing regulatory tool for BDCs, the CBN intends to define permissible and non-permissible activities and came up with both lists. Suffice to state that the non-permissible activities are meant to target the typical unregulated "parallel market operators", engaging in street trading and carrying out retail sale of forex. A vast array of prohibitions are set out in the exposure draft, which seeks to bring in all forex transactions within the radar of the apex bank.

Offshore trading, international outward transfers, acting as custodian of forex for clients, forwards, futures, option and speculative transactions amongst others. The exposure draft also seeks to delineate the sources of forex, by carving out limited sources which includes returnees from the diaspora, international money transfer operators, embassies, the Nigerian Foreign Exchange Market etc.

5. Sale of Forex by BDCs

With regards to sale of forex by BDCs however, the CBN has expanded the legal scope for such transactions. Apart from PTA and BTA, as contained in previous Regulatory Instruments, BDCs are now allowed to sell forex for payment of medical bills, school fees and repurchase of unused naira from a non-resident, who purchased naira from the BDC in the first place. The sale by BDCs nonetheless comes with a limitation. Only 25% of the outward transfer from a BDC is meant to be in cash, while the remaining 75% can only be by electronic transfer. This rule does not apply to equivalent transfers up to USD500.

6. Corporate Governance and Compliance:

The draft also emphasizes the importance of fit and proper criteria for directors and shareholders, requiring background checks, credit reports, and compliance with anti-money laundering regulations. BDCs are required to adhere to strict corporate governance standards, including board composition, risk management frameworks, and internal control mechanisms. BDCs are equally mandated to establish functional departments. Compliance with anti-money laundering and counter-terrorism financing regulations is paramount, with reporting obligations to the CBN for suspicious transactions. In point of fact, the exposure draft requires daily and monthly reports for sources of funds and customer information.

7. Change in Ownership and Renewal of License:

Any change in ownership structure or business transfer requires prior approval from the CBN to ensure continuity and compliance. BDC licenses expire annually and must be renewed within the specified timeline, subject to satisfactory operations and payment of renewal fees.

8. Penalties and Amendments:

Non-compliance with the guidelines may result in penalties in line with CBN regulations, emphasizing the importance of adherence to regulatory requirements. Revocation of license has been identified as penalty for defaulting BDCs. Failure to adhere with the rules regarding sale or purchase of forex may therefore lead to revocation of license. The CBN reserves the right to amend the guidelines as needed to address evolving market dynamics and regulatory considerations.

9. BVN & TIN linked transactions for Nigerian Residents.

The exposure draft also proposes guidelines regarding operations of BDCs. BDCs are to deal in Bank notes, coins, plastic cards alone, while also ensuring privacy and confidentiality in transfers. Such transfers to be made by Nigerian residents are only meant to be made by electronic transfers.

10. AML / CFT Operations

The CBN has also taken another bold step to keep forex transactions within the radar of AMC/CFT regulations and laws. This is heavily linked to the 25% limit for cash transactions, while the remaining 75% is meant to be by electronic transfers. All transfers to BDCs are meant to be by electronic transfers, which would largely place such transactions to go through commercial banks.

11. Accounting and Audit of Financial Statements

The CBN has equally sought to introduce Accounting standards for BDCs operating in Nigeria. BDCs are to maintain appropriate book of accounts, while financial statements are to comply with the Financial Reporting Council of Nigeria (using the IFRS standards). External Auditors are to be appointed, while audited financial statements and accounts are to be submitted to the CBN for approval and publication (not later than 3 months after the end of the financial year)

Conclusion

In conclusion, these revised guidelines set a robust and transformational framework for the operation of BDC in Nigeria, promoting transparency, accountability, and integrity within the sector. The changes introduced by the exposure draft also seek to place the determination of exchange rates in the hands of institutional players (with adequate capital requirements) and limit the influence of the unregulated retail parallel market operators. We would also expect a consolidation of the operators within the market in view of the new capital and financial requirements to be introduced by the exposure draft.

It is imperative for all BDC operators and stakeholders to familiarize themselves with these draft guidelines to ensure compliance and contribute to a vibrant foreign exchange market in Nigeria

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