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1.0 Introduction

In line with the Central Bank of Nigeria’s (CBN’s) mandate to foster depth, stability and liquidity in the Nigerian Foreign Exchange (FX) market, CBN has the responsibility to enhance the transparency, efficiency and effectiveness of the market. One of such efforts is to deepen the inter-bank FX market by establishing an institutional framework for Primary Dealership in FX products. A vibrant Primary Dealership system will not only deepen the inter-bank FX market, but will also enhance liquidity management.

The Foreign Exchange Primary Dealers (FXPDs) system is one whereby interested Authorized Dealers are accorded access to transact FX products directly with the CBN. The main objectives for the establishment of Primary Dealership in FX products are:

i. To achieve exchange rate management policy objectives
ii. To improve the effectiveness of CBN FX market intervention activities
iii. To enhance market liquidity

These Guidelines set the requirements, responsibilities and minimum standards for FXPDs. Each FXPD must continuously meet the Standards set out in the Guidelines and such other Standards, Rules and Regulation as may be prescribed by the CBN from time to time. The CBN hereby emphasizes that the nature of its relationship with the FXPDs is primarily a counterparty relationship.

Based on the foregoing, market stakeholders are reminded that the designation of an entity as an FXPD by the CBN shall in no way constitute a public endorsement of the superior financial
soundness of that entity over non-FXPDs by the CBN, nor should such designation be viewed as a replacement for prudent counterparty risk management and due diligence.

2.0 Appointment of FX Primary Dealers

The CBN shall evaluate and approve the application of an Authorized Dealer as an FXPD based on meeting at least 2 of the following 3 Quantitative Criteria as of 31st May 2016:

2.1 Minimum Shareholders Fund Unimpaired by losses of at least ₦200.00 billion;
2.2 Minimum of ₦400.00 billion in Total Foreign Currency Assets; and
2.3 Minimum Liquidity Ratio of 40 percent.

In addition, FXPDs shall be evaluated on the following Qualitative Criteria:

2.4 Strong FX trading capacity (qualified and experienced FX dealers, strong sales teams, and wide distribution networks).
2.5 Deployment of all FMDQ¹ Thomson Reuters FX Trading Systems or any other Systems approved by the CBN.
2.6 Dealing Room Standards and a Dealing Room supported by independent market risk management, back-offices and effective disaster recovery plan.
2.7 Active participation in the inter-bank FX market as evidenced by the FMDQ OTC Markets - Dealing Member (Banks) Turnover Ranking.
2.8 Adequate computerisation of its FX trading, reporting and settlement processes, with complete systems installation capacity to accommodate:

¹ FMDQ OTC Securities Exchange

2.8.2 Communications equipment (including voice logging devices) for maintaining interface with other FXPDs, non-FXPDs, customers and the CBN.

2.8.3 Any other System approved by the CBN.

CBN reserves the right to review these qualifying criteria for the appointment of an FXPD at any time.

3.0 Expression of Interest (EOI)

3.1 Authorized Dealers intending to be FXPDs shall each submit an EOI letter to the Financial Markets Department of the CBN.

3.2 An application for FXPD Registration shall be accompanied by a letter of undertaking to discharge its FXPD responsibilities diligently and abide by the guidelines, rules and regulations of FX Primary Dealership, code of conduct, and all other post-registration requirements that may be required by the Bank from time to time.

3.3 FXPD Registration shall be valid for a period of one (1) year and renewal is subject to meeting the necessary criteria as determined from the annual CBN FXPD Registration Evaluation exercise.

3.4 Registered FXPDs shall not be required to represent an EOI at renewal. However, interested non-FXPDs who meet the necessary requirements and wish to become FXPDs shall submit an EOI and letter of undertaking during the annual evaluation period.
4.0 Responsibilities of the FXPD
On an ongoing basis, the CBN shall expect FXPDs to act as professional counterparts and market participants in their overall conduct and support of market efficiency and liquidity. Key FXPD responsibilities shall include:

4.1 Provision of two-way quotes for advised standard amounts and bid-ask spreads on FX Spot, Forwards, FX Swaps and Naira-settled OTC FX Futures to the CBN as follows:

<table>
<thead>
<tr>
<th>Product</th>
<th>Standard Size ($'mm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spot</td>
<td>10.0</td>
</tr>
<tr>
<td>Forwards</td>
<td>5.0</td>
</tr>
<tr>
<td>FX Swaps</td>
<td>5.0</td>
</tr>
<tr>
<td>OTC FX Futures</td>
<td>5.0</td>
</tr>
</tbody>
</table>

The applicable bid-ask spreads shall be agreed between the CBN and FXPDs periodically.

4.2 Active participation in CBN's interventions in the foreign exchange market.

4.3 Provision of two-way quotes to other FXPDs thereby facilitating price discovery and developing liquidity in the FX market. The standard amounts and spreads of quotes between FXPDs will be as agreed between FMDQ and FMDA². FXPDs will quote to non-FXPDs on a two-way quote basis on the standard amounts and bid-offer spreads agreed by all Authorized Dealers.

4.4 Provision of market information and analysis helpful in the formulation and implementation of foreign exchange

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² Financial Markets Dealers Association
policy to the CBN Director, Financial Markets Department.

4.5 FXPDs shall be required to resell a minimum of 70% of any uptake from the CBN in the inter-bank market on the day of purchase.

5.0 FXPD Market Operations

5.1 FXPDs shall be expected to perform their duties during agreed market trading hours, currently 9am to 2pm.

5.2 FXPDs shall not be compelled to trade with the CBN, FXPDs and non-FXPDs outside of the trading hours. Any trades done outside of the trading hours have to be agreed bilaterally, and recorded on the FMDQ Thomson Reuters FX Trading Systems or any other Systems approved by the CBN.

5.3 All Transactions, both during and off trading, must be conducted on the FMDQ Thomson Reuters FX Trading Systems or any other Systems approved by the CBN.

6.0 FXPDs’ Performance Evaluation

6.1 In its evaluation of FXPDs’ performance, the CBN shall assess the quality of the FXPDs’ participation, and the quality of the market information they provide to the CBN.

6.2 The CBN shall expect the FXPDs to participate in the market on a daily basis or such period as the CBN may require. FXPDs that record low volumes of FX transactions with the CBN during the evaluation period, that repeatedly provide bids and offers that are not reasonably competitive, or that fail to provide useful market information and commentary, shall be deemed not to have met the expectations of the CBN. Furthermore, while the main responsibilities of the
FXPD shall be to foster liquidity of FX from purchases, the CBN may trade on their offers. FXPDs that constantly give uncompetitive quotes risk the CBN trading on their offers. In such circumstances, the CBN may limit an FXPD’s participation in any or all operations, approved products and may suspend or terminate the Authorized Dealer’s status as an FXPD if it continues to fail to meet these aforementioned expectations.

6.3 Consequently, FXPDs’ performance evaluation shall be carried out on a points-based system, which shall be communicated in due course.

6.4 The CBN shall also conduct half-yearly evaluations which shall be disseminated to FXPDs strictly as feedback on their performance.

7.0 Risk Management Standards

7.1 Market

7.1.1 FXPDs shall have a maximum limit of +0.5%/-10% of their Shareholders’ Funds unimpaired by losses as Foreign Currency Trading Position Limits. Where an FXPD requires a higher position limit to accommodate a customer trade, the FXPD shall contact the Director, Financial Markets Department. Where the request is assessed as valid, the Director shall communicate immediate approval by text or email to the FXPD. Thereafter, the FXPD must, with 24 hours, write to the Director, Financial Markets Department who will thereafter communicate an approval in writing. The Director, FMD shall exercise discretion on the duration of the temporary position limit depending
on the estimated defeasance period of the transaction size. The CBN reserves the right to amend these limits from time to time as its discretion.

7.2 **Operational**

7.2.1 FXPDs must have a robust business continuity plan and be able to interface with the CBN from an alternate location (Contingency Dealing Room) in the case of a disaster. FXPDs’ disaster recovery capabilities, as reflected in their business continuity plans and are routinely tested, should ensure continuous participation in CBN’s FX trading operations (including trading, clearing and settling) in the event of a wide-scale disruption in the FXPD’s primary place of business.

7.2.2 The CBN expects FXPDs to maintain a robust compliance programme, including procedures to identify and mitigate legal, regulatory, financial, and reputational risks. Such program should include compliance officers dedicated to the business lines relevant to the FXPD functions.

7.2.3 The CBN will not designate as FXPD, any Authorized Dealer that is, or recently (within the last year) has been subject to financial market-related litigation or regulatory action or investigation that the CBN determines material or otherwise relevant to the potential FXPD. In making such determination, the CBN will consider, among other things, whether and how any such matters have been resolved or addressed and the Authorized Dealer’s history of
such matters. In addition, with regard to registered FXPDs, the CBN may limit access to any or all operations, and may suspend or terminate the FXPD status of an Authorized Dealer, at anytime deems necessary, if it becomes the subject of, or is involved with, regulatory or legal proceedings that, in the judgment of the CBN, unfavourably impacts the FXPD relationship.

8.0 Reporting Obligations
8.1 FXPDs shall maintain such accounting and other records of their respective activities in the inter-bank FX markets as set forth by the CBN and other relevant regulatory authorities from time to time and render returns of trades executed with the CBN to the Bank.
8.2 All FXPDs shall submit a weekly report of FX transactions undertaken by them in the format advised by the CBN.
8.3 FXPDs shall advise CBN the Authorized Dealers for which they do not have PSR lines for and state the reasons why

9.0 Confidentiality
FXPDs shall treat all non-public information received from the CBN and, in particular, information relating to transactions and outstanding positions with the highest degree of confidentiality. FXPDs shall not share this confidential information with any third party unless required to do so by applicable law or a court order.

10.0 Sanctions for Non-Compliance
The CBN may take action against any FXPD that fails to comply with the standards set forth in these Guidelines. Such action will vary depending upon the type of non-compliance, but may range, for instance, from fines, suspension from any or all FX operations for a period of time to termination as an FXPD.

11.0 Resignation of an FXPD
An Authorized Dealer may resign from its status as an FXPD upon provision of thirty (30) days’ written notice of resignation to the CBN, specifying the effective date of the resignation, provided that the proposed effective date shall not fall within six (6) months of the start of its term as an FXPD.

Any Authorized Dealer that resigns from its registration as an FXPD shall be eligible to reapply only during the next annual CBN FXPD Registration Evaluation exercise and such application shall be treated as fresh.

12.0 Amendments to the Framework
The CBN may amend these Guidelines from time to time.