

FREQUENTLY ASKED QUESTIONS (FAQS) ON THE ELECTRONIC FOREIGN EXCHANGE MATCHING SYSTEM (EFEMS)

1. What is the Electronic Foreign Exchange Matching System (EFEMS)?

EFEMS is an electronic platform introduced by the Central Bank of Nigeria (CBN) for conducting foreign exchange (FX) transactions in the Nigerian Foreign Exchange Market (NFEM). It is designed to match buy and sell orders automatically, enhancing transparency and governance in FX trading.

2. When will EFEMS be implemented?

EFEMS will be fully implemented in the interbank foreign exchange market by December 1, 2024. A two-week test run will take place in November 2024 to ensure smooth integration and operation.

3. What are the key benefits of adopting EFEMS for Nigeria's FX trade?

- EFEMS provides real-time pricing and visibility of buy/sell orders, reducing the opacity in the FX market.
- Automated matching of orders ensures that market participants transact at the best available prices, reducing price manipulation and market distortions.
- The system limits speculative trading and reduces the volatility caused by market distortions.
- It enhances oversight, allowing better regulation and monitoring of FX activities.
- Real-time data will be accessible to the public, contributing to a more informed and efficient market.

4. How will EFEMS work in the Nigerian foreign exchange market?

Authorised Dealers will use EFEMS to place buy and sell orders in real time. The system will automatically match corresponding orders based on predetermined rules, ensuring swift execution of transactions. All transactions will be reflected immediately in the system for market participants and regulators.

5. What changes will EFEMS bring to the current FX trading process?

EFEMS replaces the manual or less-automated trading processes with a streamlined, fully electronic system. It introduces real-time transaction visibility and ensures that all trades are processed through a single, regulated platform. This eliminates inefficiencies and manual interventions that may previously have led to market distortions.

6. What impact will EFEMS have on market rates?

EFEMS is expected to promote a market-driven exchange rate. This means rates will reflect actual market conditions, leading to a more efficient and stable pricing mechanism in the Nigerian FX market.

7. Will EFEMS affect speculative activities in the FX market?

Yes, EFEMS is expected to reduce speculative activities by ensuring that all trades are conducted transparently and in real time. This minimizes the opportunity for traders to exploit market inefficiencies or create artificial price movements.

8. Who will oversee and regulate EFEMS?

The CBN, in collaboration with the Financial Markets Dealers Association (FMDA), will regulate the system. They will publish guidelines, rules, and real-time data to ensure compliance with the Nigerian FX Code and the revised Market Operating Guidelines for the Nigeria Foreign Exchange Market.

9. How can Authorized Dealers prepare for the adoption of EFEMS?

Authorised Dealers are required to ensure that all necessary documentation, training, and system integration efforts are completed before the go-live date. Dealers should familiarize themselves with the Nigerian FX Code and the revised guidelines to comply with regulatory requirements.

10. What role will the public play in the EFEMS framework?

The public will benefit from improved transparency, as real-time market prices and data will be accessible. This allows market participants, businesses, and individuals to make more informed decisions when engaging in foreign exchange transactions.

11. How will EFEMS contribute to Nigeria's FX market stability?

EFEMS will help eliminate speculative activities and price manipulation. It ensures that FX rates reflect actual demand and supply conditions, leading to improved market stability and better regulation.

12. The FX market currently trades on Refinitiv FXT. How will the adoption of EFEMS affect that?

With the introduction of EFEMS, Authorized Dealers (ADB's) will transition from the current trading platform (Refinitiv FXT) to EFEMS for all interbank FX transactions. EFEMS will become the central platform for trade execution and matching, ensuring all trades are conducted under the CBN's new governance framework. However, the existing platforms like Refinitiv FXT may still serve as supplementary tools for conversational dealings.

13. How will EFEMS promote price discovery in the Nigerian FX market?

EFEMS will enhance price discovery by providing real-time visibility into buy and sell orders across the market, allowing all participants to see the true demand and supply for foreign exchange and exchange rates reflecting actual market conditions, rather than being influenced by speculative behaviour or market distortions.

14. What matching platform is being proposed: can this be communicated to the market in writing?

The CBN is yet to announce the specific platform selected for EFEMS. Platforms such as Bloomberg, Refinitiv and EBS all offer matching solutions, but the final decision would be communicated to the market in writing.

15. Scope of trade to be dealt on the EFEMS (all FX or Just Interbank)?

EFEMS is expected to cover all FX transactions including interbank and trades with clients.

16. Is there going to be a minimum threshold in terms of notional trades, if there is will that be for CBN to decide or FMDA?

The FMDA and the CBN will collaborate on setting appropriate threshold and guidelines.

17. Are banks still allowed to voice trade or close bilateral outside the EFEMS platform?

No, all FX transactions, including bilateral deals and clients' trades must be conducted through EFEMS. This is to ensure market-driven pricing. Exceptions (if, any) will be outlined in the system's operating guidelines.

18. What's the contingency plan for business continuity in the event of EFEMs failure/glitch? Can the market fall back to usual conventional means of closing trades?

A robust contingency plan will be in place in case of system failures. The market is still expected to maintain access to the conventional dealings as alternative options where there is need to do so. This will be with permission of the CBN.

19. CBN said they will publish real time rates etc, on what platform will those be published. Will the published rate be considered as of reference rates for the prevailing rate of USDNGN? If so, any details on how the CBN intends on computing the rate before they publish would be beneficial.

Real-time rate and other key data from EFEMS will be published on the selected platform as well as the CBN official websites and other financial information services. The rates would serve as reference rate for USDNGN and the methodology for computing and updating these rates will be communicated to market participants.