



Central Bank of Nigeria

Frequently Asked Questions (FAQ) on the Settlement of Undelivered Forward Contracts

1. What is a foreign exchange forward contract?

A foreign exchange (FX) forward contract is an agreement between two parties to exchange a specified amount of one currency for another at a predetermined exchange rate on a future date.

2. What type of foreign exchange contract did counterparties enter into with the CBN?

Counterparties entered into a bespoke foreign exchange contract, wherein Naira was taken upfront in exchange for future delivery of US Dollars by the Central Bank of Nigeria.

3. Under what circumstances can a foreign exchange forward contract be nullified/cancelled?

A foreign exchange forward contract may be nullified or cancelled under the following conditions:

- a) Fraud or Misrepresentation.
- b) Lack of proper documentation.
- c) Illegality or breach of law.
- d) Regulatory non-compliance or violation of applicable CBN circulars or FX guidelines, which render the contract void or unenforceable.

4. Why did the CBN subject the undelivered forwards to a forensic audit?

The CBN undertook a forensic audit to ensure the integrity of the foreign exchange market and to confirm that all outstanding forward contracts were legitimate, valid, and met the agreed contractual and regulatory requirements. This step was necessary to safeguard Nigeria's FX reserves, promote market discipline, and ensure fairness to all participants. This step reflects the CBN's statutory responsibility to ensure prudence, legality, and fairness in the management of public financial resources, especially where previous actions may have breached that standard.

5. Who audited the outstanding foreign exchange forward contracts?

In September 2023, CBN engaged Deloitte to conduct a comprehensive forensic audit of all transactions in the Retail Secondary Market Intervention Sales (RSMIS), including undelivered forward contracts.

6. What did the forensic audit involve?

The audit involved:

- Reviewing contract documentation and trade confirmations.
- Verifying underlying trade transactions (e.g., import/export documentation, Form M, shipping and Customs records).
- Confirming that contracts complied with applicable CBN circulars and FX market guidelines.
- Ensuring that beneficiaries were genuine and eligible counterparties.

7. What were the findings of the forensic audit?

The forensic audit uncovered significant irregularities in the execution of some of the foreign exchange forward contracts. Each finding was based on objective and verifiable data, and all affected counterparties were given an opportunity to respond before final decisions invalidating these contracts were made.

8. Why, specifically, were some contracts invalidated?

Some undelivered forward contracts were found to be invalid for various infractions and reasons, including:

- a) Company Name on Approved Sales Result Different from Company Name on Form M Portal.
- b) The cumulative value of the approved FX Forward Sales on this Forex Form Number from Auction 1 in 2021 to date of this auction exceeds the total value of the Forex Form Number.
- c) Sales Higher Than Demand.
- d) Non-permissible Item of Import.
- e) Unauthorized Companies Importing Milk.
- f) Vague Narration of the Item of Import of the Item of Import.
- g) Sales Without Demand.
- h) Incorrect Forex Form Number.
- i) Forex Form not Indicated.
- j) Blank Form M.
- k) Rejected Form A Application on Form A Portal with Approved Sales.
- l) Approved Sales Value Higher than the cost of import item on Form A portal.
- m) Approved Sales Value Higher than the cost of import item on Form M portal.

No right to FX settlement can arise under Nigerian law where the underlying transaction is tainted by illegality, misrepresentation, or non-compliance with binding regulatory rules.

9. What happened to the valid contracts?

All valid and verified contracts were honoured. CBN has made payments on these contracts in line with agreed settlement terms.

10. What happened to the invalid contracts?

Invalid contracts were cancelled in line with audit findings. No FX payments were made on these contracts, as they did not meet the required standards for settlement, as noted in point 8 above. The Naira previously received from counterparties in respect of these invalid contracts has been returned. The CBN is currently engaging with law enforcement authorities to determine appropriate action in cases involving potential fraud, misrepresentation, or abuse of the FX system.

11. Why did CBN take this approach instead of paying all contracts?

Paying invalid contracts would have rewarded non-compliance, encouraged abuse of the FX system, and unnecessarily depleted the nation's FX reserves. The CBN's mandate is to maintain market integrity and protect Nigeria's financial stability. Moreover, settling contracts that were legally void or irregular would have contravened the CBN's statutory responsibilities and potentially exposed it to legal liability and loss of public trust.

12. Can banks or counterparties appeal the audit outcome?

No. The audit conclusions were based on a rigorous process carried out by an independent forensic expert (Deloitte), acting pursuant to a transparent mandate. The auditor contacted the authorized dealer banks concerning those contracts to get their explanations of the infractions before reaching conclusions on them. The findings have therefore met procedural fairness standards. The case of undelivered forward contracts is now concluded and closed.

13. What does this mean for future forward contracts?

This process reinforces CBN's commitment to:

- Strengthening due diligence in the FX market.
- Enforcing compliance with documentation requirements.
- Enhancing transparency and accountability in forward contract settlement.

14. What is CBN's message to banks and market participants?

CBN remains committed to honouring all legitimate obligations while ensuring strict compliance with market rules. Banks and their clients are urged to maintain proper documentation, adhere to FX regulations, and submit only valid transactions for settlement.

15. Is any legal action being taken against those parties deemed to have breached rules?

The Central Bank of Nigeria is reviewing appropriate legal action against parties found to have violated applicable rules and regulations, based on the findings of the forensic audit. The Bank will collaborate with law enforcement and regulatory agencies to pursue civil, administrative, or criminal sanctions, as necessary.