PRESS BRIEFING ON THE REFORMS IN THE OPERATIONS OF THE BUREAX DE CHANGE IN NIGERIA BY THE GOVERNOR OF THE CENTRAL BANK OF NIGERIA, PROF. CHUKWUMA C. SOLUDO.

The Financial Sector Surveillance Committee (FSSC) met on the 23rd and 24th February, 2009, and among other things, reviewed the developments in the foreign exchange market especially the Bureaux de Change (BDC) segment of the market. The FSSC noted with satisfaction the salutary effects of the recent changes in the operating rules of the foreign exchange market. In particular, the Committee noted that the demand for foreign exchange at the RDAS window has significantly declined, and that the Authorized Dealers are largely complying with the guidelines. The exchange rate at the RDAS window has stabilized at about N145.90 per US dollar for the past two weeks. It is estimated that more than 80 percent of foreign exchange transactions take place in the RDAS window. The others are accounted by Authorized Dealers and the BDCs.

The FSSC critically reviewed the operations of the BDCs and was greatly disappointed with the operations of that market. As you would recall, the CBN decided in 2006 to sell cash directly to the BDCs as part of the liberalization programme to ensure adequate supply to the sector and hence the convergence of the BDC and inter-bank rates. As at the commencement of the sales to BDCs in 2006, there were less than 100 operational BDCs in Nigeria, and with weekly sales of less than $30 million, the BDC rates crashed and converged with the official rate. That was also the period of rising oil prices and huge inflow of foreign exchange into the inter-bank market. Currently, there are about 1, 147 operating BDCs (with a weekly sale of about $200 million to them by the CBN) and yet the BDC rates continue to diverge away from the official rate.

The Committee noted the failure of the BDCs to adhere to the stipulated guidelines for their operations. Specifically:

i) failure to comply with the maximum of 2 per cent spread between their buying and selling rates vis-à-vis the CBN rate;
ii) failure to adhere to the maximum sale of US$5,000.00 per transaction;
iii) failure to issue receipts to their customers for all transactions;
iv) non-rendition of required returns to the CBN by majority of the BDCs; and
v) non-adherence to self regulation as agreed between the Association of Bureaux de Change of Nigeria (ABCON) and its members;

It has become obvious that majority of the operators sought and obtained BDC license exclusively to trade in foreign exchange obtained from the CBN instead of being a source of autonomous inflows into the economy. It has also become obvious that the operations of a majority of the BDCs are inconsistent with the new foreign exchange management regime (RDAS) which requires forex to be used exclusively for eligible transactions and for timely returns to be made to the CBN. The BDCs have become a major source of leakage in the system, and may not be in full compliance with the Anti-money laundering law.

Consequently, the CBN has decided to reform the BDC segment of the foreign exchange market to ensure full compliance with all the extant laws and regulations. In particular, CBN wishes to ensure that BDCs do not simply buy forex from the CBN to fund illegal transactions. The CBN now requires banks to send daily returns on the Domiciliary accounts and money transfers.

For efficiency and effectiveness of supervision, the BDC market is now segmented into two, namely: ‘Class “A” BDC’, and Class “B” BDC’.

a. **Class ‘A’ BDCs** are allowed to carry out the following transactions:

   i) Sale and purchase of Forex
   ii) Prepaid cards
   iii) Travellers’ cheques
   iv) Authority to import foreign exchange (subject to compliance with Anti Money Laundering (AML) requirements)
   v) Money transfer – inward and outward (subject to compliance with AML requirements)
   vi) Participation in the CBN foreign exchange cash auction (CBN can only sell cash foreign exchange to this category of BDCs)

REQUIREMENTS:

- Minimum paid-up capital of N500 million verifiable at all times.
- Mandatory Deposit with the CBN of US$200,000.00 – non-interest bearing.
- Non-refundable application fee of N100,000.00
- Licensing fee of N1.0 million.
- Annual Renewal (subject to satisfactory reporting requirements and performance) fee of N250,000.00
- Minimum IT infrastructure that enables the BDC to make daily returns to CBN.

3. **Class ‘B’ BDCs** are to operate under the existing guidelines (with the same licensing requirements as the current ones in operation). In particular, they can buy and sell foreign

exchange while sale is subject to a maximum of US$5,000.00 per transaction. As was the case before 2006, these BDCs could source foreign exchange from autonomous sources.

CONCLUSION:

The CBN will cooperate with other regulatory agencies including the NDLEA, EFCC and the police to ensure that BDCs and Authorized Dealers in foreign exchange comply fully with all laws and regulations guiding the market.

The Central Bank of Nigeria is committed to meeting all genuine demands for foreign exchange. The CBN will continue to monitor developments in the foreign exchange market and stands ready to take appropriate actions to ensure its efficient performance.

Thank you for your kind attention.

Prof. Chukwuma C. Soludo, CFR
Governor,
Central Bank of Nigeria,
Abuja.

February 25, 2009