REGULATORY REFORMS IN NIGERIA'S BUREAU DE CHANGE SECTOR AND EXCHANGE RATE STABILITY: ASSESSING THE ROLE OF THE CENTRAL BANK OF NIGERIA

OGBOANOR YUSHOU MUHAMMED
Department of Finance, Faculty of Management Sciences,
University of Benin, Benin City Nigeria
Email: ogboanor.muhammed@uniben.edu (O. Y. M.).

Abstract: This conceptual paper critically examines the relationship between Central Bank of Nigeria (CBN) regulatory reforms in the Bureau De Change (BDC) sector and exchange rate stability. Following years of currency volatility and widening parallel-market premiums, the CBN launched a multi-phase regulatory overhaul in 2024: revoking thousands of licenses, imposing a two-tier recapitalisation (₦2 billion for Tier-1, ₦500 million for Tier-2), prohibiting speculative activities, and finally reintegrating the 82 compliant BDCs into the official Nigerian Foreign Exchange Market with a $150,000 weekly purchase cap. Synthesising theories of purchasing power parity, interest rate parity, and optimal currency areas, the paper argues that the reforms have fundamentally reconfigured the BDC segment from an arbitrage-driven channel into a regulated transmission arm of monetary policy. By late 2025–early 2026, the official/parallel spread had narrowed from over 60% to under 2%, and daily exchange rate volatility dropped from 4% to 0.5%. The paper identifies a critical gap: existing literature focuses on pre-2024 policies or general FX governance, but has not systematically theorised the causal mechanisms linking BDC recapitalisation, trading limits, and mandatory reporting to exchange rate stabilisation. Addressing this gap, the paper conceptualises a Regulatory Triad Framework; entry control, operational discipline, and liquidity channelling through which BDC regulation can anchor retail FX expectations. Recommendations for policy, practice, and future research are provided.

Keywords: *Bureau De Change, exchange rate stability, regulatory reform, Central Bank of Nigeria, foreign exchange market, recapitalisation.*

1.0 Introduction

The Central Bank of Nigeria (CBN) has executed a comprehensive regulatory over haul of the Bureau De Change (BDC) sector to curb financial malfeasance and enhance exchange rate stability. A critical phase of this reform began in March 2024, when the CBN revoked the licenses of over 4000 bdcs operators and introduced stricter capitalization requirement, including a N2 billion minimum capital for tier-1 operators and N500 million for tier-2 operators (Abimbola, 2025). Following a rigorous recertification process, only 82 BDCs obtained final licenses by Novemebr 2025, marking a sharp reduction from over 5600 license entities in 2023 (Nwanchukwu, 2025).

These measures coincided broader exchange rate policy shifts, including the complete clearance of a US $7 billion-dollar FX backlog and deployment of the electronic Foreign Exchange Management System (EFEMS), which has enhanced price discovery and regulatory transparency (Ogunsemore & Moses-Ashike, 2025). This results in narrowing the gap between official and parallel market rate to under 2% from over 60% previously, while the Naira appreciated by roughly 7.4% year-on-year (Moses-Ashike, 2025; Ogunwusi, 2026). However, the premium has since widened to around 6.4% in early 2026, indicating ongoing liquidity and supply-side pressures. (Ayoola, 2026).

This introduction set the stage for a critical assessment of how the CBN's dual approach-tight BDC oversight and systematic FX market reforms has influenced Nigerian's exchange rate stability. This research therefore, re-examined the new policies and suggest the Triad E-O-L framework to sustain the progress being made.

2.0 Conceptual Review: Understanding Bureau De Change Regulation and Exchange Rate Stability

The Bureau De Change is a financial entity licensed to facilitate retail foreign exchange transactions, typically serving individuals and small businesses requiring relatively modest amounts of foreign currency (Adekunle, 2024). In Nigeria, BDCs were originally conceived as a channel to improve FX accessibility for legitimate invisible transactions such as personal travel allowances, business travel allowances, school fees, and medical bills (Okonkwo & Okonkwo, 2021). However, by the early 2020s, the segment had become deeply problematic: numerous BDCs deviated from their mandate, engaging in wholesale dealing, round-tripping (purchasing FX at official rates and reselling it at parallel market premiums), money laundering, and other illicit financial activities (Emmanuel & Wisdom, 2024). The proliferation of unlicensed operators further distorted price signals, as street traders operated with no regulatory oversight (CBN, 2024).

Exchange rate stability is defined as a condition in which the value of a national currency exhibits low volatility against a reference currency (typically the US dollar) over a given period, enabling economic agents to form reliable expectations and plan transactions with confidence (Kalu, 2016). Instability manifests as wide bid-ask spreads, sudden depreciations, persistent parallel-market premiums, and frequent intervention by the central bank. For a country like Nigeria that is heavily dependent on imports and oil exports, exchange rate fluctuations transmit directly to domestic inflation, fiscal sustainability, and external debt servicing (World Bank, 2025).

The conceptual linkage between BDC regulation and exchange rate stability is rooted in the notion that retail-level FX channels can either amplify or dampen macroeconomic volatility. When BDCs operate as speculative arbitrageurs, they widen the gap between official and parallel rates, encouraging currency substitution and capital flight (Mordi & Adebiyi, 2019). Conversely, when BDCs are well-capitalised, tightly supervised, and given predictable access to official FX, they can serve as stabilising conduits: absorbing retail demand, narrowing spreads, and signalling policy credibility. Thus, regulatory reforms in the BDC sector are not merely prudential exercises but potentially powerful instruments of exchange rate management.

The Central Bank of Nigeria, under its statutory powers derived from the Banks and Other Financial Institutions Act 2020 (BOFIA 2020), has the mandate to license, supervise, and discipline BDCs (CBN, 2024). Historically, the CBN oscillated between intermittent dollar sales to BDCs and outright exclusion. The suspension of FX sales to BDCs in July 2021, followed by periodic re-entry windows, created an unpredictable environment that fuelled speculative behaviour (Emmanuel & Wisdom, 2024). This inconsistency eroded the transmission mechanism through which official rate signals could reach retail end-users. Conceptually, therefore, a stable BDC regime requires predictability of access, adequate capital buffers, transparent reporting, and deterrence of rent-seeking behaviour.

2.1 Bureau De Change Regulatory Reforms Across Jurisdictions

The regulatory landscape for Bureaux De Change (BDCs) and foreign exchange (FX) stability policies varies across jurisdictions, reflecting differing macroeconomic priorities, capital controls, and market maturities. Developing and emerging economies often rely on managed floats, central trading platforms, and capital controls to curb speculation, while developed economies lean toward free-floating exchange regimes backed by risk-based Anti-Money Laundering (AML) supervisory frameworks. Below is overview of current BDC regulatory reforms and exchange rate stability policies in some Countries across the globe including: Kenya, UAE, China, USA, UK, and Ghana. In Kenya, Non-Bank Forex Bureaus operate under the supervisory purview of the Central Bank of Kenya (CBK) pursuant to the *Central Bank of Kenya Act* and the *Forex Bureau Guidelines* (Central Bank of Kenya, 2011, 2023). Forex bureaus are required to maintain strict minimum core capital levels, submit non-refundable application fees, and undergo rigorous "Fit and Proper" governance assessments for directors and officers. Bureaus are restricted strictly to spot FX transactions and are prohibited from engaging in derivative or forward cover deals. Under the *Proceeds of Crime and Anti-Money Laundering Act* (POCAMLA) and enhanced CBK guidelines, bureaus must enforce "Know Your Customer" (KYC) rules, report suspicious activity to the Financial Reporting Centre (FRC), and verify purpose-of-payment documentation for transactions exceeding USD 10,000 or KES 1,000,000 equivalent (Central Bank of Kenya, 2011, 2024). Kenya maintains a managed floating exchange rate system. The shilling (KES) rate is determined by market forces in the interbank market, the CBK periodically intervenes in the spot market to smooth out excessive volatility driven by external shocks or seasonal demand spikes, rather than defending a specific exchange rate peg, and monetary policy stability is primarily anchored by the Monetary Policy Committee (MPC) through Central Bank Rate (CBR) adjustments and foreign exchange reserve management (Central Bank of Kenya, 2023). Exchange Houses in the UAE are regulated by the Central Bank of the United Arab Emirates (CBUAE) under the updated *Exchange Business Regulations* and CBUAE Rulebook (Central Bank of the UAE, 2025). CBUAE enforces a multi-tier licensing framework (Categories I–IV) based on transaction scope, ranging from basic cash currency exchange to complex cross-border remittances and corporate payroll processing via the Wage Protection System (WPS). Recent reforms expand CBUAE supervisory coverage to include virtual asset payment tokens, digital remittance platforms, and open finance intermediaries interacting with currency exchange activities, and exchange houses are required to implement real-time transaction monitoring, strict capital adequacy buffers, and consumer fraud protection protocols (White & Case, 2025). The UAE maintains a fixed exchange rate peg, anchoring the UAE Dirham (AED) to the United States Dollar (USD) at a constant parity of $1 {USD} = 3.6725 of {AED}$. The policy is anchored on exchange rate stability through the CBUAE's ample foreign currency reserves and direct liquidity facilities, which align domestic interest rates closely with the U.S. Federal Funds rate (Central Bank of the UAE, 2025).

Non-bank currency exchange outlets in China operate under strict supervision by the State Administration of Foreign Exchange (SAFE) and the People's Bank of China (PBOC). BDCs and bank counters must enforce China's individual foreign exchange conversion limit, capped at USD 50,000 per resident per year for non-commercial purchases, and authorized exchange counters are required to submit real-time transaction data directly to SAFE's centralized management systems, verifying the legitimate underlying use of funds to prevent illicit cross-border capital flight (State Administration of Foreign Exchange, 2023). China operates a managed float exchange rate system based on market supply and demand with reference to a basket of currencies, in which each morning the PBOC sets a daily central

parity fixing rate for the Renminbi (CNY), around which spot market trades are permitted to fluctuate within a strict $ pm 2 %$ trading band. The PBOC utilizes counter-cyclical factors, foreign currency reserve requirement ratio (RRR) adjustments, and direct state-backed FX interventions to buffer against currency depreciation pressures (People's Bank of China, 2023).

In the U.S., foreign exchange bureaus operate as Money Services Businesses **(MSBs)** supervised at the federal level by the Financial Crimes Enforcement Network (FinCEN) and regulated by individual state banking departments (Financial Crimes Enforcement Network, 2023; Internal Revenue Service, 2026). All FX bureaus/MSBs must register with FinCEN via Form 107 and renew their registration biennially. BDCs must establish formal Anti-Money Laundering programs, designate compliance officers, file Currency Transaction Reports (CTRs) for cash deals exceeding USD 10,000, and submit Suspicious Activity Reports (SARs), the system operates under the *Corporate Transparency Act*, non-bank financial intermediaries face expanded beneficial ownership reporting requirements (Financial Crimes Enforcement Network, 2023). The United States maintains a free-floating exchange rate **system**, where the value of the U.S. Dollar (USD) is determined entirely by global supply and demand dynamics, and monetary policy is under Federal Reserve which perform dual independent role to achieve maximum employment and price stability. The U.S. Treasury and Federal Reserve rarely intervene in foreign exchange markets, doing so only during extreme, systemic market dislocations (Federal Reserve Board, 2023).

Retail currency exchange businesses in the UK are regulated as Payment Institutions or Money Services Businesses (MSBs) by the Financial Conduct Authority (FCA) and HM Revenue & Customs (HMRC) under the *Payment Services Regulations* and *Money Laundering Regulations*. Firms must obtain authorization or registration from the FCA for payment services and register with HMRC for anti-money laundering supervision, the FCA through Consumer Duty guidelines ensures BDCs enforce transparent pricing, eliminate hidden fees on exchange spreads, and hold client funds in segregated, safeguarded accounts, and operators undergo strict "Fit and Proper" assessments and ongoing audits covering customer due diligence (CDD) and sanctions screening (Financial Conduct Authority, 2022; LSEG Risk Intelligence, 2023). The British Pound (GBP) operates under a purely free-floating exchange rate regime by which Bank of England Monetary Policy Committee (MPC) sets interest rates to target an official consumer price inflation rate of 2%. The Bank does not intervene in FX markets to manage or defend a target exchange rate for the pound (Bank of England, 2023). The Bank of Ghana (BoG) regulates foreign exchange bureaux under the *Foreign Exchange Act, 2006 (Act 723)* and the *Anti-Money Laundering Act (Act 1044)*. In August 2024, the BoG mandated that all licensed FX bureaux conduct currency trades through a Centralized Online Foreign Exchange Trading Platform. The centralized platform is integrated with Ghana's National Identification System (requiring Ghana Card or passport verification) and national payment switches, forcing bureaux to issue mandatory electronic receipts for every transaction, the bank created dedicated task forces to eliminate illicit, unlicensed street currency operators to reduce parallel market spreads and prevent speculative runs on the Cedi (GHS) (Bank of Ghana, 2024). Ghana operates a managed float framework. To stabilize the Cedi, the BoG conducts structured, rule-based FX spot intervention auctions via institutional platforms (e.g., LSEG Workspace definitive) to address market supply imbalances without committing to a fixed rate peg hence fx stability policies are aligned with international monetary assistance programs to build foreign currency reserves and restore foreign exchange market confidence (Bank of Ghana, 2026).

Comparative summary table of some Countries across the globe.

Country	BDC Regulatory Oversight Body	Primary BDC Reform Focus	FX Exchange Rate Regime
Kenya	Central Bank of Kenya (CBK)	Spot-only trade rules, digital verification >USD 10k), AML/POCAMLA compliance	Managed Float
United Arab Emirate	Central Bank of the UAE (CBUAE)	Multi-tier licensing, WPS payroll, open finance & digital token coverage	Fixed Peg ($1 { USD} = 3.6725 to{ AED}$)
China	State Administration of Foreign Exchange (SAFE) / PBOC	USD 50k individual quota enforcement, real-time SAFE data reporting	Managed Float ($ pm 2 %$ daily trading band)
USA	FinCEN & State Banking Departments	FinCEN Form 107 registration, BSA/AML monitoring, CTR/SAR filings	Free Floating
United Kingdom	Financial Conduct Authority (FCA) & HMRC	Client fund safeguarding, Consumer Duty fee transparency, risk-based AML	Free Floating
Ghana	Bank of Ghana (BoG)	Mandatory Centralized FX Trading Platform, biometric Ghana Card verification	Managed Float (Rule-based FX spot auctions)
Nigeria	Central Bank of Nigeria (CBN).	Increase minimum capital requirements, NFEM, Digital Technology, AML/CFT compliance	Managed float, Unified exchange rate windows (NFEM)

Sources: Author's Compilation, 2026

3.0 Theoretical Review: Frameworks for Analysing BDC Regulation and Exchange Rate Dynamics

This paper anchors its analysis on four complementary theoretical frameworks that together explain how BDC regulatory reforms can affect exchange rate stability.

3.1 Purchasing Power Parity (PPP) Theory

The Purchasing Power Parity theory, originally articulated by David Ricardo (1817), posits that in equilibrium, the exchange rate between two currencies should equal the ratio of their price levels, reflecting the equalisation of purchasing power across countries (Offiong & Udoekanem, 2016). In the Nigerian context, persistent deviations from PPP are often driven by segmentation in the foreign exchange market: while official rates may reflect a managed float, the parallel market rate where most retail transactions occur tends to move toward the PPP-implied level (Ugbebor & Akinlo, 2000). BDC reforms that close the gap between official and parallel rates effectively align market rates more closely with PPP fundamentals, reducing overvaluation or undervaluation distortions. Recent evidence suggests that the post-2024 reforms, by shrinking the parallel-market premium from over 60% to below 2%, have helped the naira move closer to its PPP-consistent level (CBN Governor Cardoso, 2026; Nairametrics, 2026).

3.2 Interest Rate Parity (IRP) Theory

Interest Rate Parity holds that the difference in interest rates between two countries equals the expected change in their exchange rates, eliminating arbitrage opportunities (Mordi & Adebiyi, 2019). In a segmented FX market with multiple exchange rates, IRP can break down because investors face different effective rates depending on the channel they access. Unification of rates—a central component of the 2024–2026 reforms restores IRP conditions by ensuring that returns on naira assets can be compared directly with dollar-denominated

returns without a persistent wedge. The CBN's decision to raise the Monetary Policy Rate to 26.25% in late 2024, coupled with exchange rate unification, made it possible for IRP to re-establish itself, attracting foreign portfolio inflows that further stabilised the naira (Independent.ng, 2025; Businessday, 2026).

3.3 Optimal Currency Area (OCA) Theory

Mundell's (1961) Optimal Currency Area theory identifies conditions under which a group of economies or a single economy can benefit from a common currency or stable exchange rate arrangement. Key criteria include labour mobility, trade integration, and symmetric shocks. For Nigeria, the existence of a fragmented FX market with multiple rates acts as a "non-optimal" feature: agents in different segments face different effective exchange rates, undermining the coherence of monetary policy (Aluko & Ajayi, 2018). Regulatory reforms that unify the exchange rate and integrate the BDC segment into a single official market (Nigerian Foreign Exchange Market, NFEM) effectively move the economy closer to an OCA-consistent framework, where a single exchange rate signals relative prices across the entire economy. The 2026 directive allowing BDCs to source FX from any authorised dealer bank at prevailing market rates subject to a $150,000 weekly cap represents a step toward a unified market architecture (Pavestones Legal, 2026).

3.4 Market Microstructure Theory of Exchange Rates

Market microstructure theory focuses on how trading mechanisms, information flows, and dealer behaviour determine short-run exchange rate movements (Lyons, 2001). Applied to the BDC segment, the theory suggests that the proliferation of small, undercapitalised dealers with limited access to official FX generates order flow imbalances that drive the parallel market rate away from fundamentals. When the CBN imposes higher capital requirements, limits speculative position-taking, and mandates electronic reporting, it alters the microstructure: fewer but larger, better-capitalised dealers with direct access to official FX can absorb order flow more efficiently, reducing volatility. The 24-hour resale rule for NFEM-sourced FX, for example, directly prohibits the hoarding behaviour that historically exacerbated price jumps (CBN Circular, 10 February 2026; Regtech Africa, 2026).

Theoretical Synthesis: The four theories converge on a common implication: a fragmented, poorly capitalised, and opaque BDC sector generates deviations from equilibrium (PPP breakdown), arbitrage opportunities (IRP violation), monetary policy inefficiency (non-OCA), and excessive price volatility (microstructure failures). By contrast, a consolidated, well-capitalised, and tightly supervised BDC sector integrated into a single official market can serve as a stabilising microstructure that aligns market rates with fundamentals and enhances monetary policy transmission. This synthesis informs the empirical and policy analysis that follows.

4.0 Empirical Review: Evidence on BDC Activity and Exchange Rate Outcomes in Nigeria

A growing empirical literature has examined the relationship between BDC operations and exchange rate behaviour in Nigeria. This section reviews key findings, methodologies, and limitations.

Exchange rate volatility comparison: Kalu (2016) employed GARCH (1,1) and GJR-GARCH(1,1) models to compare volatilities of official, interbank, and BDC exchange rates over the period January 1995 to December 2014. The study found that volatility shocks had a larger impact on current volatility in the BDC segment than in other segments, and that volatility clustering was more pronounced in BDC rates. Importantly, the asymmetric

parameter indicated that exchange rate depreciation tended to produce higher volatility in the immediate future than appreciation of the same magnitude, a finding consistent with the microstructure theory's prediction that negative shocks are amplified in fragmented retail markets (Kalu, 2016).

Impact of BDC establishment on exchange rate stability: A regression analysis using STATA 9.1 (N = 50) reported a positive and significant coefficient ($\beta = 0.0897$, $t = 2.26$, $p = 0.027$) for the relationship between BDC establishment and exchange rate stability, leading the authors to reject the null hypothesis of no causal relationship (European Journal of Business and Management, 2020). However, the R^2 of 0.1745 indicates a weak overall explanatory power, suggesting that BDC activity accounts for only a modest portion of exchange rate variation with other factors such as oil prices, fiscal policy, and capital flows play larger roles. This finding underscores the need for careful interpretation: BDCs influence stability but are not the sole determinant.

Dual exchange rates and food inflation: Umaru, Nuhu, and Yusuf (2025) applied an Autoregressive Distributed Lag (ARDL) model to examine how dual exchange rates affect food inflation in Nigeria. Their results showed that the BDC exchange rate, unified exchange rate, and exchange rate differentials have a positive and significant impact on food inflation in both the short and long run. In contrast, the official exchange rate negatively affected food inflation but was statistically insignificant. This suggests that the BDC rate is more relevant than the official rate for price formation in the real economy, at least prior to the 2024 reforms. The study concluded that exchange rate unification which the CBN pursued as part of its BDC reform agenda is crucial for stabilising food prices, but requires legal backing and regulatory enforcement to be effective.

Money market–FX market dynamics: A multivariate GARCH study by Udeh, Ugwu, and Okafor (2020) examined dynamic correlations and volatility spillovers between the Naira/USD BDC exchange rate and the interbank call rate from January 2007 to August 2019. The results revealed bidirectional volatility spillovers, indicating that monetary policy shocks (captured by interbank rates) transmit to the BDC market and vice versa. This finding highlights the systemic importance of the BDC segment: instability in BDC rates can feed back into the broader money market, complicating monetary policy implementation.

Impact of banning BDCs: Emmanuel and Wisdom (2024) analysed the implications of the July 2021 ban on BDC FX sales (announced by former CBN Governor Godwin Emefiele). They found that the ban forced corporate entities to source FX from the parallel market, encouraging round-tripping and sustaining the BDC operators' role as arbitrageurs. The study concluded that outright exclusion of BDCs was counterproductive; a more effective approach would involve reorganisation and enhanced supervision precisely the approach adopted in the 2024 guidelines.

4.1 Empirical Review Across Regions

Empirical literature on Bureau De Change (BDC) / foreign exchange bureau regulatory activity and exchange rate outcomes reveals distinct dynamics depending on market structure, financial integration, and regulatory regimes across **Ghana**, **Kenya**, **China**, **UAE**, **USA**, and **UK**. In Ghana & Kenya (Developing Sub-Saharan Markets): BDCs function as critical retail channels for foreign exchange liquidity. Their respective Central banks actively regulate BDCs through licensing, capital requirements, transaction limits, and market unification policies to mitigate parallel market premiums and reduce exchange rate volatility.

Empirical studies demonstrate that regulatory tightening and market structural reforms directly influence exchange rate dynamics and trade stability (Yussif et al., 2022). Empirical work examining Ghana's foreign exchange market highlights how monetary policy, exchange rate volatility, and regulatory regimes interact. Research by Yussif et al. (2022) using GARCH and EGARCH modeling indicates that exchange rate volatility negatively affects export performance, emphasizing the need for active exchange rate stabilization policies. Furthermore, Armah et al. (2023) examine macroeconomic transmission mechanisms in Ghana, finding that interest rate differentials do not easily restore exchange rate equilibrium in the short run, reinforcing the importance of direct central bank FX interventions and structural market oversight. Studies investigating retail FX regulatory shocks (such as BDC windows, remittance routing, and capital allocation) in neighbouring West African emerging markets demonstrate that retail BDC market regulation and intervention windows can reduce market volatility in the short term, though structural supply-demand dynamics remain the long-term driver of exchange rates (Atoi & Nwambeke, 2021).

China operates Retail foreign exchange and is heavily regulated by the State Administration of Foreign Exchange (SAFE) and the People's Bank of China (PBoC). Empirical research focuses on how regulatory interventions, financial openness, and foreign exchange reserves jointly moderate real exchange rate volatility and trade competitiveness (Goujon & Guérineau, 2006; Yang & Peng, 2023). Research on China’s foreign exchange regulatory evolution demonstrates that trade openness and managed foreign exchange policy help stabilize the real exchange rate over long horizons (Goujon & Guérineau, 2006). More recently, Yang and Peng (2023) provided empirical evidence using ARDL models showing that long-term financial openness reduces exchange rate volatility, while central bank reserve management and capital controls provide buffers against speculative currency movements.

The United States & United Kingdom BDCs operate as Money Services Businesses (MSBs) under FinCEN (USA) and FCA (UK) frameworks. In these deep, efficient asset-market regimes, exchange rates fluctuate freely based on monetary policy, macro fundamentals, and global market efficiency rather than retail BDC controls (Levich, 1983). United Arab Emirates under the Central Bank of the UAE (CBUAE), non-bank FX retail providers (Exchange Houses) operate within a strict USD-pegged exchange rate system. Regulatory activity focuses on anti-money laundering (AML) compliance, transparency, and cross-border remittance stability rather than exchange rate determination.

Limitations of Existing empirical Research: Most empirical studies rely on data that predate the comprehensive 2024 regulatory reforms. The earlier studies (Kalu, 2016; Udeh et al., 2020) capture a period when BDCs were numerous (over 5,000 operators) and regulatory oversight was weak. The more recent ARDL study (Umaru et al., 2025) includes the early phase of unification but does not fully account for the recapitalisation and tiered licensing introduced in mid-2024. Furthermore, none of the existing studies explicitly model the causal chain from specific regulatory tools (capital requirements, trading limits, reporting obligations) to exchange rate outcomes. This gap presents a clear point of departure for the present conceptual paper.

5.0 State of the Art and Point of Departure

5.1 State of the Art: Current Regulatory Architecture (2024–2026)

As of late 2025 and early 2026, the CBN has implemented a multi-stage reform programme that represents a paradigm shift in BDC regulation. The key elements are as follows.

Phase 1: Revocation and Recapitalisation (February 2024 – December 2025). On 23 February 2024, the CBN issued an Exposure Draft of the Revised Regulatory and Supervisory Guidelines for Bureau De Change Operators (CBN, 2024). These guidelines introduced:
A two-tier licensing system: Tier-1 BDCs (national operations) require a minimum capital of ₦2 billion; Tier-2 BDCs (state-level operations) require ₦500 million (CBN, 2024; Punch, 2025). This represented a dramatic increase from the previous ₦35 million requirement (Daily Trust, 2025).

A transition window: initially six months (3 June – 3 December 2024), later extended by another six months to 3 June 2025 (CBN, 2025; Channels TV, 2025).
On 1 March 2024, the CBN revoked the licences of 4,173 operators for serial regulatory breaches, reducing active BDCs from 5,687 to about 1,517 (Businessday, 2025). By November 2025, after the recapitalisation deadline, only 82 BDCs had met the requirements and were granted final licences (Punch, 2025). Of these, only two were approved as Tier-1 operators; the remaining 80 are Tier-2 operators (Nigeria Info, 2025).

Phase 2: Exclusion and Interim Measures (late 2024 – early 2025). Throughout 2024 and early 2025, the CBN intermittently sold dollars to BDCs at predetermined rates (e.g., $20,000 per BDC at N1,450/$, later adjusted) but without granting permanent access to the official market (Vanguard, 2024). This period saw extreme volatility: the naira plunged to a record low of N1,627.40 per dollar in March 2024 (Businessday, 2025). By early 2025, the exchange rate had spiked above N1,600 in the parallel market (Nairametrics, 2026).

Phase 3: Reintegration and Operational Rules (February 2026 onward). On 10 February 2026, the CBN issued a circular permitting all duly licensed BDCs to participate in the Nigerian Foreign Exchange Market (NFEM) as intermediaries (CBN Circular, 2026; Pavestones Legal, 2026). Key provisions include:

- Each licensed BDC may purchase up to $150,000 per week from any authorised dealer bank at prevailing market rates (Regtech Africa, 2026).
- Any FX purchased from NFEM must be sold or utilised within 24 hours; unused balances must be returned to the market (CBN, 2026; Businessday, 2026).
- All transactions must be settled through bank accounts; cash settlement is capped at 25% of transaction value (Pavestones Legal, 2026).
- Licensed BDCs must submit timely electronic returns to the CBN and comply fully with AML/CFT requirements (CBN, 2026).
- Full Know Your Customer (KYC) and due diligence checks by authorised dealer banks before any FX sale (Zawya, 2026).
- Outcomes on exchange rate stability: The combination of recapitalisation, consolidation, and reintegration has produced measurable improvements in exchange rate stability:
- The official exchange rate settled in the N1,350–1,430 per dollar range by May 2026, with daily volatility dropping from over 4% in 2024 to around 0.5% (Nairametrics, 2026).
- The premium between official and parallel rates which had been as high as 62% in mid-2022 narrowed to approximately 6.4% (₦94 per dollar) in early February 2026 and further compressed to under 2% later in the year (Technext, 2026; Cardoso, 2026).

The Nigerian FX market demonstrated resilience during the April 2025 global market turbulence, with the naira depreciating only 5% in response to falling oil prices an indication of increased flexibility and reduced vulnerability (World Bank, 2025). Also, From the regional reviews and the comparative summary table, it's obvious that the current Nigerian foreign exchange reforms on the BDCs sector align with global best practise.

5.2 Point of Departure: A Gap in Theoretical and Empirical Integration

Despite the empirical evidence of improved stability and the detailed documentation of regulatory changes, existing literature suffers from three critical gaps that this conceptual paper aims to address.

First, there is no systematic theoretical model that explicates the causal mechanisms linking specific BDC regulatory instruments (capital requirements, trading limits, reporting obligations, and market access rules) to exchange rate outcomes. Most prior work either describes reforms descriptively (Adekunle, 2024; Tope Adebayo LP, 2025) or correlates aggregate BDC activity with volatility without isolating the regulatory channels (European Journal of Business and Management, 2020).

Second, the existing empirical literature predates the full implementation of the 2024–2026 reforms. The comprehensive recapitalisation, tiered licensing, and 24-hour resale rule have no parallel in the historical data used in earlier GARCH and ARDL studies. Therefore, existing parameter estimates may not be informative for the current regulatory regime.

Third, there is a theoretical disconnect between the micro-foundations of BDC behaviour (market microstructure, dealer competition, and speculative incentives) and the macro goal of exchange rate stability. This paper bridges that gap by integrating insights from microstructural finance, monetary economics, and regulatory design. Overall, the paper adopted an integrated approach in synthesizing the concepts.

5.3 Proposed Conceptual Framework: The Regulatory Triad Model

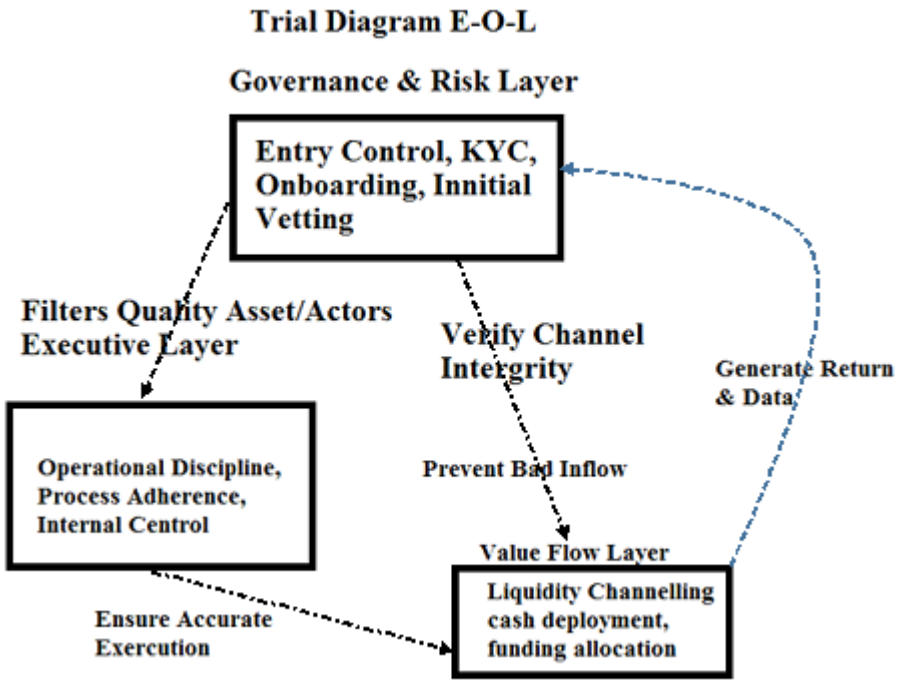
Based on the synthesis of theories and empirical evidence, this paper proposes a Regulatory Triad Framework for assessing the impact of BDC reforms on exchange rate stability. The framework posits that BDC regulation affects exchange rate stability through three interconnected mechanisms:

1. Entry Control (E). Capital requirements and fit-and-proper tests determine the number, size, and financial resilience of BDCs. Higher entry barriers (₦2 billion/₦500 million) reduce the number of operators from 5,000 to 82, eliminating undercapitalised dealers prone to speculative excess. The channel: fewer but larger dealers, reduced coordination problems in order flow, and lower price volatility.
2. Operational Discipline (O). Trading limits, position-holding restrictions (24-hour resale rule), cash-transaction caps (25%), and mandatory electronic reporting constrain the ability of BDCs to engage in round-tripping, hoarding, or undisclosed arbitrage. The channel: reduced scope for speculative behaviour, narrower spreads between purchase and sale rates, and smaller divergence from official rate.
3. Liquidity Channelling (L). Direct access to official FX (NFEM) at market-determined rates, via authorised dealer banks, ensures that BDCs can meet legitimate retail demand without resorting to the parallel market. The channel: predictable official access, alignment of BDC rates with official rates, and closure of parallel-market premium.

The Regulatory Triad (E-O-L) can be represented as:

Exchange Rate Stability} = f (E, O, L (Market Fundamentals) where E, O, and L are regulatory instruments applied to the BDC sector. The framework predicts that stability improvements will be largest when all three mechanisms operate in concert (as in the 2024–2026 reforms), and that missing any one of them (e.g., entry control without liquidity channelling) will produce only partial or temporary stability. Thus, the E-O-L framework is shown in the Triad Diagram:

TRIAD DIAGRAM



The Triad Framework (TF approach) demonstrates how the E-O-L three pillars interacts to create a stable exchange rates at the BDC sector by extension the foreign exchange market and control in Nigeria. E= represent entry control-governance and risk layer. This entry point should be tight, rigorous, transparent and thorough with Gatekeeping, Onboarding, Strict KYC not just those with the money (capital requirements), but those with the required industry skills, expertise, integrity with no or minimal PEP- politically exposed persons. O= this is the operational discipline and efficiency of the operators-executive layer. They should adhere to the foreign exchange market rules, and operates with strong internal control, risk management, deployment of digital technology for transparency and openness, and compliance to CBN regulations and guidelines. L= the L represent the liquidity channelling-value flow layer. Fx sources should be transparent and sold to genuine buyers. The regulatory bodies should increase their oversight functions to make the market liquid and stable.

This framework constitutes the point of departure for future empirical research: instead of treating BDC regulation as a black box, researchers can operationalise the E-O-L components and test their individual and joint effects on exchange rate volatility, parallel-market premiums, and inflation pass-through.

6.0 Summary and Conclusion

Summary

This conceptual paper has examined the relationship between Central Bank of Nigeria regulatory reforms in the Bureau De Change sector and exchange rate stability. The conceptual review established that BDCs, originally designed as retail-level intermediaries, had degenerated into channels for speculation, round-tripping, and money laundering prior to 2024 thereby amplifying exchange rate volatility. The theoretical synthesis, drawing on Purchasing Power Parity, Interest Rate Parity, Optimal Currency Area, and Market Microstructure theories, demonstrated that a fragmented, poorly capitalised BDC sector generates multiple distortions: deviations from equilibrium exchange rates, arbitrage opportunities, monetary policy inefficiency, and excessive short-run volatility.

The empirical review summarised existing evidence: GARCH studies show that BDC rates are more volatile than official or interbank rates, with asymmetric responses to depreciation shocks (Kalu, 2016). Regression analysis confirms a positive causal link between BDC establishment and exchange rate instability, albeit with modest explanatory power (European Journal of Business and Management, 2020). ARDL models indicate that BDC rates have a significant impact on food inflation, underscoring the real-economy relevance of retail FX conditions (Umaru et al., 2025).

The state-of-the-art analysis documented the comprehensive reform programme launched by the CBN in 2024–2026: revocation of over 4,000 licences, a two-tier recapitalisation (₦2 billion/₦500 million), prohibition of non-permissible activities, and, crucially, reintegration of the 82 compliant BDCs into the official NFEM with a $150,000 weekly purchase cap and strict operational rules (24-hour resale, cash limits, electronic reporting). These reforms have coincided with dramatic improvements in exchange rate stability: the official rate has settled in a narrow band, daily volatility has collapsed from >4% to ~0.5%, and the parallel-market premium has shrunk from over 60% to under 2%.

Conclusion

The paper concludes that the CBN's regulatory reforms in the BDC sector have made a substantive and measurable contribution to exchange rate stability in Nigeria. By consolidating a fragmented, undercapitalised, and opaque retail FX market into a small set of well-capitalised, tightly supervised, and officially integrated dealers, the CBN has effectively reconfigured the BDC segment from a source of volatility into a stabilising transmission arm of monetary policy. The proposed Regulatory Triad Framework (entry control, operational discipline, liquidity channelling) provides a theoretical lens for understanding this transformation and a roadmap for future empirical testing.

However, the paper also recognises that BDC reforms alone cannot guarantee lasting stability. Other factors—global oil prices, fiscal policy credibility, diaspora remittance flows, and foreign portfolio investment—remain important. Moreover, the long-term effectiveness of the reforms will depend on consistent enforcement, avoidance of policy reversals, and continued investment in the supervisory capacity of the CBN.

Recommendations

Policy Recommendations

1. Maintain the consolidated BDC licensing regime. The reduction from over 5,000 to 82 licensed BDCs is a key stability gain. The CBN should resist pressure to relax entry requirements or re-admit previously revoked operators. Any future licensing should adhere strictly to the ₦2 billion/₦500 million capital thresholds and the fit-and-proper criteria.

2. Enforce the 24-hour resale rule rigorously. The prohibition on holding NFEM-sourced FX beyond 24 hours is essential to preventing hoarding and speculation. The CBN should invest in real-time monitoring systems to detect violations and impose swift penalties (including licence revocation) for repeat offenders.
3. Gradually increase the $150,000 weekly purchase cap as liquidity deepens.** While the current cap is appropriate for the initial reintegration phase, if the NFEM continues to show resilience and reserves remain robust (currently around $49 billion), the CBN could consider modest increases to the cap to further narrow the parallel-market spread and reduce bottlenecks for legitimate retail demand.
4. Mandate disclosure of beneficial ownership of BDCs. As recommended by the Centre for Fiscal Transparency and Public Integrity (CFTPI, 2025), public disclosure of beneficial owners would reduce the risk that BDCs serve as vehicles for political patronage, money laundering, or round-tripping. The CBN should amend the guidelines to require annual beneficial ownership filings, published on its website.
5. Deepen electronic reporting and data sharing. Mandatory electronic returns should be expanded to include daily transaction-level data (amount, customer type, purpose), linked to a centralised FX database shared with the Federal Inland Revenue Service and the Economic and Financial Crimes Commission for anti-money laundering surveillance.
6. Coordinate BDC policy with broader FX reforms. BDC reintegration should be seen as part of a package that includes: (a) maintaining a single, market-determined exchange rate; (b) continuing to clear FX backlogs; (c) raising foreign reserves through diversified sources (remittances, non-oil exports); and (d) communicating monetary policy consistently to anchor expectations (World Bank, 2025).

Recommendations for Practice (BDC Operators)

1. Invest in compliance infrastructure. Licensed BDCs should allocate resources to automated reporting systems, internal AML/CFT controls, and staff training on KYC procedures. Non-compliance, even minor, risks licence revocation.
2. Explore mergers and strategic partnerships. With only 82 operators, market concentration is higher. Smaller Tier-2 BDCs should consider forming consortiums or service-level agreements to achieve economies of scale in compliance and liquidity management.
3. Focus on legitimate end-user segments. Given the prohibition on wholesale dealing and the 24-hour resale rule, BDCs should orient their business models toward verifiable retail transactions (PTA, BTA, school fees, medical bills) and avoid any activity that could be construed as round-tripping.

Recommendations for Future Research

1. Empirical testing of the Regulatory Triad Framework. Future studies should operationalise the E (entry control), O (operational discipline), and L (liquidity channelling) components as independent variables and test their individual and interactive effects on exchange rate volatility, premium size, and persistence. Panel data across different regulatory episodes (pre-2024, transition, post-2026) would be valuable.
2. Micro-level analysis of BDC transaction data. Access to anonymised transaction data from the CBN's electronic reporting system would allow researchers to examine how BDC pricing behaviour responds to changes in the official rate, the cap, and the resale

deadline. This could test microstructure predictions about order flow and price discovery.

3. Comparative case studies. Comparing Nigeria's BDC reforms with similar initiatives in Ghana, Kenya, or South Africa could identify best practices and contextual factors that moderate the effectiveness of entry control, operational discipline, and liquidity channelling.
4. General equilibrium modelling. Future work could embed the Regulatory Triad into a DSGE (Dynamic Stochastic General Equilibrium) model that captures interactions between the BDC segment, the official FX market, the monetary policy rule, and the real economy (inflation, output). Such a model could simulate the effects of alternative caps, capital requirements, or resale deadlines.
5. Long-term evaluation of stability persistence. While early evidence is positive, researchers should track exchange rate stability over a full business cycle to determine whether the gains are durable or merely reflect favourable external conditions (e.g., higher oil prices). A structural break analysis comparing pre-reform and post-reform volatility regimes would be informative.

References

Adekunle, O. (2024, June 26). Regulatory and Supervisory Guidelines for Bureau De Change Operations in Nigeria 2024. Lexology. https://www.lexology.com

Aluko, O. A., & Ajayi, M. A. (2018). Exchange rate unification and economic growth in Nigeria: A time series analysis. *Journal of Economics and Sustainable Development,* 9(12), 1–12.

Armah, M. K., Ofori, I. K., & Andoh, F. K. (2023). A re-examination of the exchange rate – Interest rate differential relationship in Ghana. *Heliyon*, *9*(4), e14605. https://doi.org/10.1016/j.heliyon.2023.e14605

Atoi, N. V., & Nwambeke, C. G. (2021). Money and Foreign Exchange Markets Dynamics in Nigeria: A Multivariate GARCH Approach. *Central Bank of Nigeria Journal of Applied Statistics*, *12*(1), 109–138. https://doi.org/10.33429/cjas.12121.5/6

Ayoola Olaita (2026). Exchange rate gap at 6.4% revives arbitrage concerns. *Nairametries* February 5 https://nairametrics.com/2026/02/05/exchande-rate-gap-at-6-4-revives-arbitrage-concerns/

Bamidele Ogunwusi (2026). Naira regains stability in 2025 as CBN reforms, foreign inflows calm FX market, set the tone for 2026. *Independent* 8 January, 2026 http://independent.ng/naira-regains -stability-in-2025-as-cbn-reforms-foreign-inflows-calm-fx-market-set-the-tone-for-2026/

Banks and Other Financial Institutions Act, No. 5 of 2020. (2020). Federal Government of Nigeria.

Bank of England. (2023). *Monetary policy framework and exchange rate operations*. Bank of England Publications.

Bank of Ghana. (2024). *Notice on the implementation of the centralized online foreign exchange trading platform for licensed FX bureaux*. Bank of Ghana Bulletin.

Bank of Ghana. (2026). *Guidelines for foreign exchange spot intervention auctions*. Bank of Ghana Financial Markets Department.

Businessday. (2025, December 9). CBN revokes 1,435 Bureau De Change licences for not meeting recapitalisation terms. *Businessday NG*. https://businessday.ng

Businessday. (2026, May 19). CBN's tough reforms begin paying off as S&P upgrades Nigeria. *Businessday NG*. https://businessday.ng

Central Bank of Nigeria. (2024, February 23). Exposure draft of the revised regulatory and supervisory guidelines for Bureau De Change operators in Nigeria. CBN.

Central Bank of Nigeria. (2025, December). Frequently asked questions (FAQs) on the current reform of the Bureau De Change sub-sector. CBN.

Central Bank of Nigeria. (2026, February 10). Participation of licensed Bureau De Change in the Nigerian Foreign Exchange Market (Circular No. TED/FEM/PUB/001/2026). CBN.

Central Bank of Kenya. (2011). *Revised forex bureau guidelines 2011*. Central Bank of Kenya.

Central Bank of Kenya. (2023). *Guidelines on foreign exchange business in Kenya*. Central Bank of Kenya Supervision Department.

Central Bank of Kenya. (2024). *Banking sector anti-money laundering and purpose of payment transaction guidelines*. Central Bank of Kenya Circulars.

Central Bank of the UAE. (2025). *CBUAE Rulebook: Exchange business regulation (Notice No. C 7/2025)*. Central Bank of the United Arab Emirates.

Channels TV. (2025, December 11). CBN delists non-compliant BDCs after fresh license issuance. Channels Television. https://www.channelstv.com

Daily Trust. (2025, July 11). Recapitalisation: North may be excluded from BDC operations. Daily Trust. https://dailytrust.com

Emmanuel, O. K., & Wisdom, E. C. (2024). The implication of banning Bureau De Change (BDC) on secured credit transactions in Nigeria. *Journal of Commercial and Corporate Law*, 12(2), 45–62.

European Journal of Business and Management. (2020). Effect of Bureau De Change establishment on the stability of exchange rate in Nigeria. European Journal of Business and Management, 12(6), 1–9.

Federal Reserve Board. (2023). *Foreign exchange rates and monetary policy implementation*. Board of Governors of the Federal Reserve System.

Financial Conduct Authority. (2022). *Payment services and electronic money: Our supervisory approach*. Financial Conduct Authority (UK).

Financial Crimes Enforcement Network. (2023). *Money services business (MSB) registration and compliance guide*. U.S. Department of the Treasury.

Goujon, M., & Guérineau, S. (2006). The Modification of the Chinese Exchange Rate Policy. *China Perspectives, 2006*(4). https://doi.org/10.4000/chinaperspectives.607

Hope Moses-Ashike (2025). How FX reforms finally brought naira back from the brink. *Business Day.* 9 December, 2025 https://businessday-ng/banking/article/how-fx-reforms-finally-brought-naira-back-from-the-brink/

Independent.ng. (2025, July 24). After the storm: How the naira found stability in 2025. Independent Newspaper Nigeria. https://independent.ng

Internal Revenue Service. (2026). *Money services business (MSB) information center*. Internal Revenue Service, U.S. Government.

John Ogunsemore (2025). How CBN pulled Nigeria back from brink-Cardoso. *The Sun* 4 December 2025. https://thesun.ng/how-cbn-pulled-nigeria-back-from-brink-cardoso/

Kalu, E. O. (2016). Comparative analysis of bureaux de change and official exchange rates volatility in Nigeria. Public Policy and Administration, 10(1), 28–37.

Levich, R. (1983). Empirical Studies of Exchange Rates: Price Behavior, Rate Determinationand Market Efficiency. https://doi.org/10.3386/w1112

LSEG Risk Intelligence. (2023). *Financial Conduct Authority regulatory framework and AML compliance overview*. London Stock Exchange Group.

Lyons, R. K. (2001). The microstructure approach to exchange rates. MIT Press.

Mordi, C. N. O., & Adebiyi, M. A. (2019). The dynamics of exchange rate in Nigeria (CBN Occasional Paper No. 55). Central Bank of Nigeria.

Mundell, R. A. (1961). A theory of optimum currency areas. *American Economic Review,* 51(4), 657–665.

Nairametrics. (2026, May 6). How a stable Naira is quietly fixing Nigeria. Nairametrics. https://nairametrics.com

Nigeria Info. (2025, December 9). CBN approves 82 BDCs under new rules. Nigeria Info FM. https://www.nigeriainfo.fm

Offiong, D. A., & Udoekanem, N. B. (2016). Purchasing power parity theory and exchange rate determination in Nigeria. *Journal of Economics and Finance,* 7(3), 45–53.

Okonkwo, I. V., & Okonkwo, C. A. (2021). Bureau de change operations and foreign exchange market efficiency in Nigeria. *Journal of Banking and Financial Research,* 8(1), 22–38.

Oluwakemi Abimbola (2025). 82 BDCs meet CBN's new guidelines. *Punch* 9 December, 2025 https://punchng.com/82-bdcs-meet-cbns-new-guidelines/

Onyinye Nwachukwu (2025). How CBN grants final licenses to 82 BDCs. *Business Day*, 8 December 2025 https://businessday.ng/news/article/cbn-grants-final-licences-to-82-bdcs/

Pavestones Legal. (2026, February 20). Foreign exchange controls in Nigeria: Updated rules for BDCs. Pavestones Legal. https://pavestoneslegal.com

People's Bank of China. (2023). *China's monetary policy report and foreign exchange market operations*. People's Bank of China.

Punch. (2025, December 9). 82 BDCs meet CBN's new guidelines. The Punch. https://punchng.com

Regtech Africa. (2026, February 12). Nigeria: CBN allows BDCs to buy up to $150,000 weekly from FX market. Regtech Africa. https://regtechafrica.com

Ricardo, D. (1817). On the principles of political economy and taxation. John Murray.

State Administration of Foreign Exchange. (2023). *Regulations on the administration of individual foreign exchange transactions*. SAFE Public Notice.

Technext. (2026, February 12). How Nigeria's $150k weekly forex window changes the remittance game for fintechs. Technext. https://technext24.com

Tope Adebayo LP. (2025, January 20). Bureau De Change: Implications, opportunities, and challenges of the proposed 2024 revised guidelines. Mondaq. https://www.mondaq.com

Udeh, S. N., Ugwu, J. I., & Okafor, C. A. (2020). Money and foreign exchange markets dynamics in Nigeria: A multivariate GARCH approach. *CBN Journal of Applied Statistics*, 11(1), 1–25.

Ugbebor, O. O., & Akinlo, A. E. (2000). Purchasing power parity hypothesis in Nigeria: Evidence from the black market. *Nigerian Journal of Economics and Social Studies,* 42(2), 145–160.

Umaru, A., Nuhu, A., & Yusuf, U. (2025). Dual exchange rate systems and food inflation in Nigeria: Does unifying exchange rate matter? *International Journal of Economic Theory and Social Sciences,* 18(1), 17–28.

Vanguard. (2024, July 19). CBN resumes dollar sales to BDCs, halts Naira depreciation. Vanguard Nigeria. https://www.vanguardngr.com

White & Case. (2025). *UAE enacts new CBUAE law expanding financial supervisory perimeter*. White & Case LLP Legal Insights.

World Bank. (2025, October). Nigeria Development Update: From policy to people—Bringing the reform gains home. World Bank Group.

Yang, Y., & Peng, Z. (2023). Openness and Real Exchange Rate Volatility: Evidence from China. *Open Economies Review*, *35*(1), 121–158. https://doi.org/10.1007/s11079-023-09718-5

Yussif, A.-R. B., Onifade, S. T., Ay, A., Canitez, M., & Bekun, F. V. (2022). Modeling the volatility of exchange rate and international trade in Ghana: empirical evidence from GARCH and EGARCH. *Journal of Economic and Administrative Sciences*, *40*(2), 308–324. https://doi.org/10.1108/jeas-11-2020-0187

Zawya. (2026, February 19). Nigeria: BDCs' integration boosts FX market liquidity, opens pathway for stable naira. Zawya. https://www.zawya.com