Central Bank of Nigeria

Policy Framework for the Nigerian Overnight Financing Rate (NOFR)

1. Introduction

This Policy Framework (the "Policy") establishes the governance, definition, methodology, publication standards, data requirements, and oversight arrangements for the Nigerian Overnight Financing Rate ("NOFR" or the "Benchmark").

The Benchmark is administered by the Central Bank of Nigeria ("CBN" or the "Administrator"), in collaboration with market stakeholders, and is designed to align with international best practices for financial benchmarks, including principles of transparency, robustness, accountability, and integrity.

This framework shall constitute the official Terms of Reference for NOFR.

2. Official Appellation

The official name of the NGN risk-free rate benchmark is:

Nigerian Overnight Financing Rate (NOFR)

3. Benchmark Objective and Definition

3.1 Objective

NOFR is intended to serve as Nigeria's overnight risk-free reference rate. It reflects the cost of overnight secured funding in the Nigerian interbank market under conditions where credit, liquidity, and other idiosyncratic risks are minimal (the "Underlying Interest").

3.2 Definition

On each Lagos business day (the "Fixing Day"), NOFR shall be calculated as:

- The volume-weighted trimmed mean of interest rates on eligible NGN-denominated overnight secured repurchase (repo) transactions.

The rate shall be:

- Rounded to two (2) decimal places.
- Expressed as a percentage per annum.
- Calculated on an Actual/Actual day-count convention.

3.3 Eligible Transactions

Transactions eligible for inclusion in the Benchmark calculation must meet all of the following criteria:

- Overnight secured repo (classic repo) transactions.
- Denominated in Nigerian Naira (NGN).
- Executed on the Fixing Day.
- Reported by eligible Nigerian banks to the CBN in accordance with prescribed reporting standards.
- Minimum transaction size of NGN 5,000,000,000.
- All overnight transactions executed on the Fixing Day with the Central Bank, specifically Standing Deposit Facility (SDF) and Standing Lending Facility (SLF) transactions qualify as eligible transactions.

4. Calculation Methodology

4.1 Ranking and Aggregation

1. All eligible transactions for a Fixing Day shall be ranked in ascending order by nominal interest rate.
2. Transactions with identical nominal interest rates shall be aggregated, with volumes summed accordingly.

4.2 Outlier Trimming

- The top 10% and bottom 10% of traded volumes (based on the volume-weighted distribution of rates) shall be excluded from the dataset.
- The remaining central 80% of the distribution shall form the calculation sample.

4.3 Formula

The Benchmark shall be calculated as the volume-weighted mean of the remaining sample:

$$\text{NOFR} = \frac{\sum(R_i \times V_i)}{V}$$

Where:

- R_i= interest rate for transaction cluster *i*
- V_i= volume associated with rate R_i
- V= total volume of included transactions

5. Publication and Transparency

5.1 Timing

For each Lagos Fixing Day:

- The CBN shall publish NOFR on its official website at **10:00 a.m. Lagos time** on the following business day.
- The published rate may also be disseminated through recognized market data vendors, including Bloomberg – on its page CBN <GO>

5.2 Finality and Corrections

- Once published, NOFR is final and not subject to revision.
- However, in the event of a material error, if a recalculated rate differs from the published rate by five (5) or more basis points (≥0.05%), the CBN may republish a corrected rate no later than **4:00 p.m. Lagos time on the same day**.
- Any corrected publication shall be clearly marked as "Corrected."

5.3 Supplementary Information

Alongside the headline rate, the CBN shall publish:

- Aggregate transaction volume (in millions of NGN);
- Historical Benchmark levels.
- Historical transaction volumes.

6. Data Collection and Reporting Obligations

6.1 Reporting Requirements

All participating banks in the Nigerian money market shall submit a daily transaction report detailing all eligible overnight secured repo transactions executed on the relevant business day.

Reports must:

- Use the prescribed CBN reporting template.
- Be submitted via the designated reporting portal or official communication channel to be provided by CBN.
- Be received no later than 9:00 p.m. Lagos time on the trading day.

6.2 Accountability

Each reporting institution is responsible for ensuring:

- Completeness.
- Accuracy.
- Timely submission of data.

6.3 Regulatory Enforcement

Failure to comply with reporting obligations — including late, incomplete, or inaccurate submissions — constitutes a regulatory breach and may attract supervisory or administrative sanctions, including:

- Monetary penalties.
- Formal warnings.
- Enhanced supervisory monitoring.
- Other corrective measures as determined by the CBN.

CBN may amend submission procedures with at least 24 hours prior notice to reporting institutions.

7. Contingency and Fallback Arrangements

7.1 Data Sufficiency Thresholds

The Benchmark shall be deemed to have sufficient underlying data unless:

- Fewer than ten (10) eligible transactions are recorded.
- Fewer than five (5) reporting banks submit eligible transactions.
- Aggregate eligible transaction volume is below NGN 200 billion.

7.2 Fallback Methodology

If any of the above thresholds are not met, NOFR for that Fixing Day shall equal the CBN policy rate plus the mean of the spread of the benchmark to the CBN policy rate over the previous seven (7) publication days, excluding the days with the highest and lowest spreads to the CBN policy rate.

Any application of the fallback methodology shall be clearly disclosed at the time of publication.

This fallback mechanism is intended for short-term contingencies only. In the event of prolonged disruption, the CBN shall assess and implement appropriate remedial measures in accordance with Section 8 of this Policy.

8. Governance, Review, and Methodology Evolution

The CBN, as Administrator, shall review the Benchmark methodology at least annually to ensure that:

- The Benchmark continues to measure the Underlying Interest accurately.
- The underlying market remains active, liquid, and representative.
- Transaction volumes remain sufficient to support a robust and credible benchmark.

The CBN shall also consider representations from the Money Market Working Group of the Financial Market Dealers Association (FMDA).

Where structural market developments necessitate adjustments, the CBN may amend the methodology following appropriate consultation, transparency measures, and reasonable notice to market participants.

9. Commitment to International Best Practice

This Policy is designed to ensure that NOFR:

- Is transaction-based and data-driven.
- Minimize expert judgment.
- Operates under clear governance and accountability structures.
- Maintains transparency and procedural clarity.
- Provides credible fallback and review mechanisms.
- Supports financial stability and benchmark reliability within Nigeria's financial system.

10. Commitment to International Best Practice

The CBN shall act in good faith and with due care in administering NOFR. While all reasonable efforts are made to ensure accuracy and integrity, the Benchmark is provided without warranty, and the CBN shall not be liable for losses arising from its use, except in cases of gross negligence or willful misconduct. It is transaction-based and data-driven.

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- Operates under clear governance and accountability structures.
- Maintains transparency and procedural clarity.
- Provides credible fallback and review mechanisms.

- Supports financial stability and benchmark reliability within Nigeria's financial system.

Director,
Financial Markets Department
Central Bank of Nigeria (CBN)

President,
Financial Market Dealers
Association (FMDA)