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THE INVESTMENTS AND SECURITIES ACT 2025:

USHERING A NEW ERA OF CAPITAL MARKET REGULATION IN NIGERIA

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Amid growing calls for a more agile, transparent, and investor-friendly capital market, Nigeria has taken a bold legislative leap with the enactment of the Investment and Securities Act (ISA) 2025. Far from a mere update, the new law signals a paradigm shift—ushering in a modernised regulatory framework aligned with global standards. From reining in digital asset markets to tightening oversight of cross-border investment schemes, the ISA 2025 reshapes the rules of engagement for both investors and market operators. This article explores the Act's most significant innovations and their far-reaching implications for the future of capital formation and investor confidence in Nigeria.

1. ENHANCED REGULATORY POWERS OF THE SEC (SECTION 3)

The ISA 2025 significantly expands the regulatory authority of the Securities and Exchange Commission (SEC), reinforcing its institutional independence under **Section 1(4)** and aligning it with international standards, including those of the International Organization of Securities Commissions (IOSCO).

Key enhancements to the SEC's powers under **Section 3** include:

- i. Derivatives market regulation.
- ii. Total control of the commodities ecosystem.
- iii. Exclusive approval authority over mergers and acquisitions involving publicly traded corporations, superseding the Federal Competition and Consumer Protection Council's enforcement authority.
- iv. Under regulatory involvement, the power to designate Independent Non-Executive Directors to the boards of publicly traded firms on probation where necessary.

- v. The authority to impose probation on directors of publicly traded corporations as required.
- vi. The exclusive right to license and oversee securities exchanges, together with the introduction of new operating rules to improve market stability.

A key issue addressed by these reforms is the SEC's limited intervention powers under prior legislation, as highlighted in the case of **Oando Plc & Anor v. SEC & Anor of Suit No. FHC/L/CS/910/2019**, where the SEC's inability to proactively intervene in governance matters was a central concern. Prior to ISA 2025, the SEC lacked clear authority to address governance failures or impose necessary remedial actions, such as the appointment of INEDs or probation on directors.

The 2025 reforms resolve these jurisdictional ambiguities, strengthen SEC's supervisory role across traditional and digital asset markets, and reinforce investor protection and market integrity through clear, enforceable oversight mechanisms.





2. CLASSIFICATION OF EXCHANGES AND FINANCIAL MARKET INFRASTRUCTURES (SECTION 27)

Section 27 of ISA 2025 introduces a revised framework for the classification of securities exchanges and the regulation of financial market infrastructures, addressing significant gaps in the ISA 2007. Under the new regime, securities exchanges are now classified as either Composite or Non-Composite, a departure from the previously generic treatment of exchanges.

Composite exchanges are those authorized to list and trade all classes of financial instruments, including equities, bonds, derivatives, commodities, and digital assets. By providing a unified platform for a wide range of financial products, composite exchanges enhance market depth, promote liquidity, and encourage broader investor participation. Non-Composite exchanges, in contrast, are designed to focus on specific categories of financial instruments. These may include standalone exchanges for commodities, derivatives, or digital assets. The objective of this classification is to facilitate specialized regulation and oversight, allowing each exchange to operate within a clearly defined market segment. This differentiation supports the growth of niche markets and ensures that regulatory interventions are tailored to the particular risks and dynamics of each asset class.

In addition to the classification of exchanges, ISA 2025 introduces comprehensive regulatory provisions for financial market infrastructures (FMI's) such as clearing houses, trade depositories, and central counterparties. A key innovation is the exemption of these infrastructures from the application of general insolvency laws. This carve-out is designed to preserve the operational integrity of systemically important institutions, particularly during periods of financial distress. By insulating transactions processed through FMIs from insolvency disruptions, ISA 2025 guarantees the continuity of critical market functions

and mitigates the risk of contagion within the financial system.

Under the ISA 2007, the absence of such classifications and insolvency protections contributed to regulatory ambiguity and operational vulnerabilities. By contrast, the ISA 2025 provides a clearer, more resilient framework that not only enhances market efficiency and regulatory precision but also fortifies the capital market's institutional infrastructure against systemic shocks.

3. MANAGEMENT OF SYSTEMIC RISK (SECTIONS 82-85)

Sections 82–85 of ISA 2025 introduce a comprehensive framework for the identification, monitoring, and mitigation of systemic risk in the Nigerian capital market. These provisions empower the SEC and other relevant regulators to take proactive measures to prevent financial instability and ensure market resilience, including the authority to designate systemically important entities and impose enhanced regulatory requirements on them.

Under the ISA 2007, there was no express legal framework for systemic risk management, limiting the ability of regulators to respond effectively to market-wide disruptions or prevent contagion effects during financial crises. The absence of such tools hindered early intervention and coordination across regulatory institutions.

In contrast, the 2025 Act aligns Nigeria's capital market oversight with global regulatory such as the Dodd-Frank Act of the USA, and the ESMA directives (EU) standards by institutionalising systemic risk surveillance and granting the SEC explicit powers to intervene where market structures or institutions pose broader financial threats. This reform significantly enhances the capacity of the regulatory framework to safeguard market stability.





4. UNCLAIMED DIVIDENDS

Section 93 of ISA 2025 mandates that all unclaimed dividends be transferred to the SEC-administered Unclaimed Dividend Trust Fund, in line with investor protection standards. This ensures transparent and accountable management of unclaimed investor funds. Any unauthorized retention, misappropriation, or negligent handling of such dividends attracts severe penalties, including a fine of at least ₦10,000,000, imprisonment for a minimum of five years, or both. Additionally, continued non-compliance attracts a daily penalty of ₦50,000.

Under the ISA 2007, companies could hold unclaimed dividends for up to 12 years before absorbing them, a practice that exposed funds to mismanagement risks. However, the 2025 Act rectifies this by placing unclaimed dividends under direct SEC oversight, thereby enhancing investor protection and reinforcing market integrity.

5. TRANSPARENCY IN SECURITIES TRANSACTIONS

Section 123 of the ISA 2025 introduces the mandatory use of Legal Entity Identifiers (LEIs) in all securities transactions. An LEI is a standardized 20-character alphanumeric code that uniquely identifies legal entities participating in financial markets. This requirement enhances transparency, facilitates the traceability of transactions, and aligns Nigeria's capital market framework with international best practices.

Under the ISA 2007, there was no mechanism for uniquely identifying legal entities, making it difficult to trace complex ownership structures and monitor systemic risk. The introduction of LEIs addresses this gap by enabling more effective market surveillance, improving regulatory oversight, and supporting anti-money laundering efforts.

By mandating LEIs, the 2025 Act strengthens transaction accountability, promotes market integrity, and ensures more robust risk management across the capital market.

6. ENFORCEMENT AGAINST ILLEGAL INVESTMENT SCHEMES

Section 195 of the ISA 2025 expressly criminalizes the promotion and operation of illegal investment schemes, including Ponzi schemes, unregulated foreign investment platforms, and unauthorized crowdfunding activities. Promoters of such schemes are liable to prosecution, with penalties ranging from imprisonment to substantial fines.

Several high-profile fraudulent schemes highlight the regulatory vacuum that the ISA 2025 seeks to close. Notably, the MMM Nigeria scheme (2016–2017) defrauded thousands of Nigerians by promising 30% monthly returns under a classic Ponzi structure. Operated without SEC registration, MMM exploited the absence of statutory criminal penalties under ISA 2007, which constrained regulatory response to mere advisories. Another example is MBA Forex and Capital Investment Limited, which offered 15% monthly returns through unregulated forex trading. Despite being shut down in 2021, victims were left without recourse due to SEC's limited prosecutorial powers under the old regime. More recently, the collapse of the CBEX platform, a digital asset investment scheme that operated without regulatory oversight further exposed the continued inability of the Commission, under the repealed ISA 2007, to exercise jurisdiction over virtual asset offerings or initiate timely enforcement against unlicensed investment solicitations.

¹SEC Nigeria, Public Notice on MMM Nigeria, 2016

²SEC Nigeria v. MBA Capital Investment Ltd (SEC Administrative Proceedings, 2021)

By contrast, **Section 195 of the ISA 2025** provides specific offences and penalties, empowering the SEC to initiate criminal prosecution against promoters and operators of such schemes. Offenders are now liable to imprisonment, fines, or both, thereby creating a credible deterrent and reinforcing investor protection mechanisms. In conclusion, the new enforcement framework under ISA 2025 closes long-standing statutory gaps, enhances regulatory oversight, and aligns Nigeria's capital market regulation with global best practices.



7. INVESTOR PROTECTION FUND

Section 197 of the ISA 2025 mandates every securities exchange to establish and maintain an Investor Protection Fund (IPF) to compensate investors for losses arising from specific adverse events. These include the insolvency, bankruptcy, or negligence of a trading member firm; the revocation or cancellation of a securities firm's registration by the SEC; and fraud or misconduct committed by a securities firm, its directors, or employees. This provision marks a significant improvement over the **ISA 2007**, which lacked a clearly enforceable IPF mechanism, resulting in inconsistent application and limited protection for retail investors.

Several real-world incidents underscore the need for the reforms introduced under ISA 2025. One prominent case is **the BGL Group crisis (2015–2016)**. BGL Securities Limited, once a major investment firm, was suspended by the SEC over allegations of unauthorized transactions, mismanagement of investor funds, and capital adequacy failures. Despite the severity of the misconduct, affected investors struggled to recover their funds due to **ambiguities in the operation of the existing IPF under ISA 2007**. The lack of statutory triggers for compensation meant that restitution was neither automatic nor uniformly applied. Similarly, in the case of **Partnership Investment Company Limited in 2018**, investors faced significant losses after the firm defaulted on its obligations and its registration was subsequently revoked by the SEC. While the firm had been registered with a securities exchange that maintained an IPF, there was **no legal compulsion** on the exchange to activate compensation mechanisms for affected clients.

Under the ISA 2007, the IPF framework lacked clarity and was inconsistently applied, by contrast, ISA 2025 introduces a clearer, enforceable structure, thereby enhancing investor confidence and strengthening the integrity of Nigeria's capital market, thereby rectifying this gap by **making IPF coverage mandatory** where there is **SEC revocation, insolvency, fraud, or negligence**.

8. SECURITIES REGULATION AND REGISTRATION

³SEC Nigeria, Administrative Proceedings against BGL Securities Limited and its Affiliates, 2016

⁴Vanguard News, "SEC Revokes Registration of Partnership Investment," 2018; see

ISA 2025 significantly expands the definition of securities to include digital assets such as investment contracts and cryptocurrencies. The SEC is now vested with regulatory authority over Digital Asset Operators (DAOPs), Virtual Asset Service Providers (VASPs), and Digital Asset Exchanges. Entities operating in these capacities must be registered with the SEC and comply with prescribed operational standards to ensure investor protection and regulatory compliance.

The Act also introduces a mandatory approval requirement for Nigerian public companies seeking to offer, sell, or list their shares on foreign stock exchanges. This provision strengthens oversight of cross-border securities transactions and prevents unauthorized foreign listings of Nigerian securities.

Under the ISA 2007, there was no legal framework for digital securities or the extraterritorial issuance of Nigerian securities, leaving significant regulatory gaps. The proposed foreign listing of companies like Flutterwave in 2021 underscored the need for express statutory oversight.

By regulating digital asset activities and foreign IPOs, ISA 2025 aligns Nigeria's capital market framework with global best practices and reinforces the SEC's supervisory mandate in an increasingly digitized financial environment.



9. FOREIGN COLLECTIVE INVESTMENT SCHEMES

ISA 2025 introduces a clear regulatory requirement that all foreign collective investment schemes seeking to attract Nigerian investors must register with the SEC before engaging in any investment or promotional activities within Nigeria. This provision ensures that such schemes are subject to SEC oversight and must comply with Nigerian regulatory standards, thereby safeguarding local investors from exposure to unregulated or potentially fraudulent foreign investments. Non-compliance attracts significant penalties, including fines and possible enforcement action.

Under the ISA 2007, there was no express provision regulating foreign collective investment schemes, resulting in a regulatory shortfall that allowed such schemes to operate without adequate scrutiny. This posed significant investor protection risks and undermined regulatory consistency in the capital market.

The 2025 Act addresses this by empowering the SEC to regulate the entry and conduct of foreign schemes, aligning Nigeria's capital market regulation with international best practices and strengthening the legal framework for cross-border investment oversight.



10. STRENGTHENING THE INVESTMENTS AND SECURITIES TRIBUNAL (IST)

ISA 2025 introduces significant reforms to enhance the institutional capacity and procedural efficiency of the IST. **Section 309** reconstitutes the Tribunal's composition to ensure a more competent and professionally qualified panel, while **Section 318** formalizes the appointment process for the Chief Registrar, promoting administrative accountability. Crucially, **Section 320** expands the IST's jurisdiction to cover a broader spectrum of capital market disputes, addressing long-standing ambiguities under the ISA 2007. This reform responds to challenges such as those in **SEC v. Oando Plc (FHC/L/CS/965/2019)**, where delays arose due to uncertainty regarding the Tribunal's jurisdiction and institutional independence.

Collectively, these provisions are designed to accelerate dispute resolution, bolster investor confidence, and ensure greater legal certainty in capital market adjudication.

11. COMMODITY EXCHANGE WAREHOUSE (SECTIONS 222-229) AND WAREHOUSE RECEIPTS (SECTIONS 230-257)

Sections 222 to 257 of the ISA 2025 establish, for the first time, a comprehensive legal framework for the regulation of commodity exchange warehouses and the issuance of warehouse receipts. The Act provides for the registration, licensing, and supervision of warehouses used for commodities trading, along with enforceable standards governing storage conditions, warehouse operations, and receipt management. These provisions are aimed at ensuring the integrity of warehousing infrastructure and the reliability of warehouse receipts as negotiable financial instruments.



By formalizing warehouse registration and mandating compliance with prescribed operational standards, the Act addresses long-standing concerns over the authenticity and enforceability of warehouse receipts, which were frequently falsified under the previous regime. **ISA 2007** was silent on these issues, leaving warehouse receipt financing vulnerable to fraud and limiting its viability as a tool for agricultural and commodity-based financing.

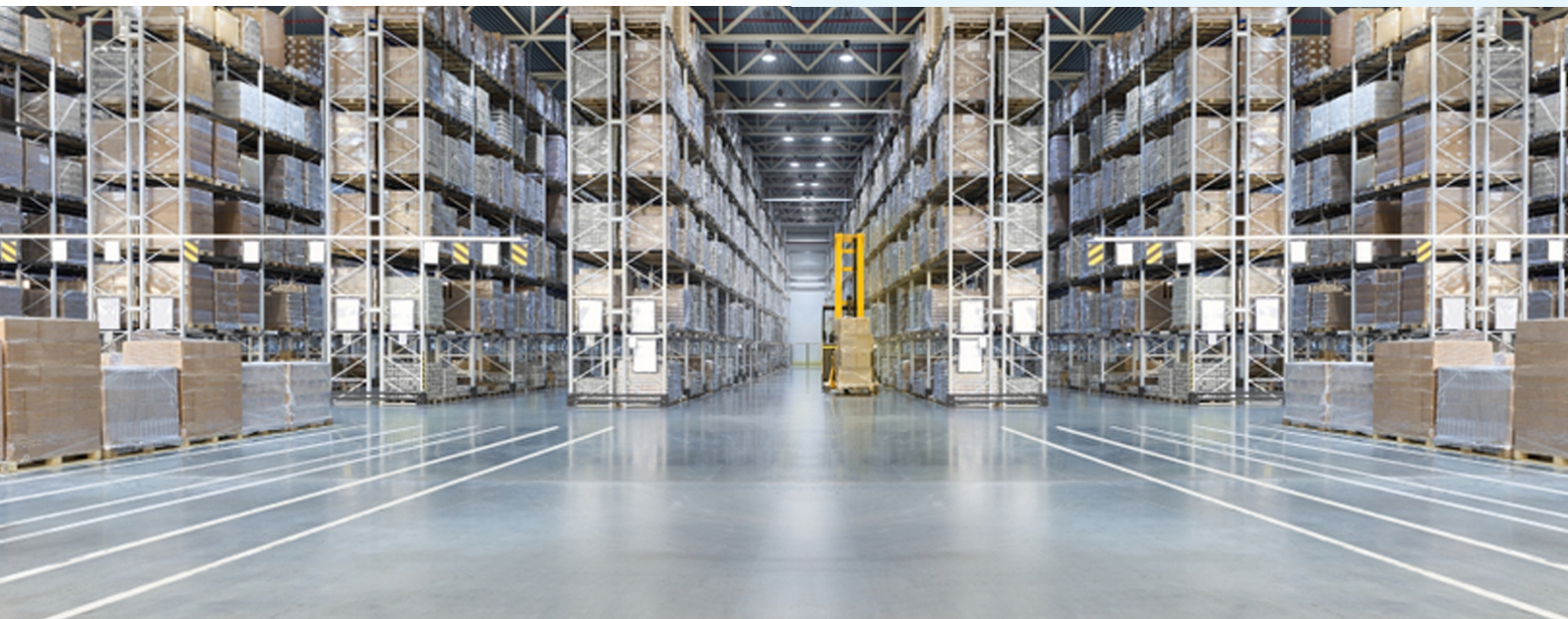
Under the 2025 regime, warehouse receipts issued in accordance with the Act serve as credible collateral and tradable instruments, thereby promoting transparency, facilitating structured commodity trading, and enabling agri-finance innovations. The new framework enhances market discipline, builds investor confidence, and supports the development of a modern commodities ecosystem aligned with international best practices.

12. CONCLUSION

The ISA 2025 represents a strategic leap toward a globally harmonised, technologically responsive, and institutionally robust capital market framework. By addressing key regulatory weaknesses under the ISA 2007 such as fragmented oversight, regulatory ambiguity in cross-border offerings, and limited protection against digital asset fraud—the new Act strengthens investor confidence, enhances market stability, and expands the scope of capital formation in Nigeria.

In comparative terms, the ISA 2025 aligns Nigeria's legal framework with international best practices found in jurisdictions like the U.S. (Dodd-Frank), UK (Financial Services and Markets Act), and South Africa (FSRA), particularly in areas of systemic risk management, digital asset regulation, and financial infrastructure protection.

Accordingly, all market participants especially fintech's, fund managers, DAOPs, and exchanges must immediately reassess their compliance status. This includes reviewing corporate governance structures, registration obligations, disclosure practices, and internal risk controls. Legal foresight is no longer optional; under the ISA 2025, it is a condition precedent to sustainability, enforcement resilience, and investor trust.





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