



TIGHTENING THE NOOSE: STRICTER COMPLIANCE REQUIREMENTS UNDER THE ISA 2025



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INTRODUCTION

The enactment of the *Investment and Securities Act (ISA), 2025* marks a significant shift in Nigeria's capital market regulatory framework. While a substantial proportion of its provisions were retained from the *ISA 2007*, the 2025 Act introduces stricter compliance thresholds, heavier sanctions, and expanded supervisory functions for the Securities and Exchange Commission (SEC). The new regime aims to enhance market integrity, protect investors, and further align Nigeria's securities market with international best practices. Yet, as the regulatory "noose" tightens, there remains an open question – will these stricter measures stimulate investor confidence in the market, or will they stifle market participation? These will form the basis of this article.


ESTABLISHING AND OPERATING SECURITIES EXCHANGES

In capital markets, exchanges serve as the centralized, regulated backbone that mobilizes savings into productive investment via capital formation, ensures liquidity by enabling continuous trading, and facilitates fair price discovery and investor protection through enforced transparency. For these reasons, the ISA 2025 reinforces SEC's gatekeeping authority by explicitly prohibiting any person or entity from establishing or operating a securities exchange without SEC registration. This provision introduces, for the first time, a clear and enforceable sanction for unregistered exchange operations.

Under the repealed ISA 2007, the SEC retained broad supervisory powers but did not expressly criminalize the operation of an unregistered exchange. Its authority was limited to issuing directives on trading and compliance, with penalties capped at ₦1 million and a continuing fine of ₦50,000 per day sanctions that, while administratively useful, lacked real deterrent value. In contrast, ISA 2025 introduces a far stricter compliance regime, empowering the SEC to immediately halt an unregistered exchange's operations and hold directors personally liable, with penalties elevated to a minimum of five years' imprisonment or a ₦10 million fine, plus an additional charge equivalent to the exchange's paid-up capital and ₦100,000 for each day the violation persists.¹

This heightened accountability framework underscores a broader policy objective: ensuring that exchanges operate transparently, under competent leadership, and within SEC's regulatory purview. Under the old Act, penalties were largely discretionary and often limited to fines; thus

¹ Section 26, Investment and Securities Act, 2025



the 2025 Act signals a deliberate deterrence strategy through personal liability and continuous penalties.

EXCHANGE HOLDING COMPANIES

Another notable compliance measure under the new Act is the codification of corporate responsibility for exchange holding companies. These entities must now guarantee orderly markets, manage systemic risk, prevent conflicts of interest between profit and market stability, and ensure full regulatory compliance across their subsidiaries. Beyond these operational duties, the Act mandates prompt reporting to the SEC of any irregularity, breach, or integrity concern involving directors of the exchange.²

While ISA 2007 broadly required compliance and transparency, it did not capture *exchange holding companies*. This structural innovation demands a higher standard of oversight. The 2025 Act therefore extends regulatory expectations beyond the traditional exchange entity to its entire corporate group or ecosystem, imposing explicit duties that align exchange operations with the public interest. By compelling holding companies to prioritize public interest over their own in the event of a conflict, and by broadening reporting obligations to include breaches and governance lapses within subsidiaries, the Act promotes transparency and reinforces market integrity. In essence, the new regime strengthens accountability across exchange groups, ensuring that public trust and investor protection remain central to market governance.


REGISTRATION AND SUPERVISION OF MARKET OPERATORS

Under the ISA 2007, the Commission's authority to intervene in the management of capital market operators was largely reactive, limited to the suspension or removal of officers found to have contravened the Act, typically after due hearing. The 2025 Act, however, takes a more proactive and preventive approach by introducing a mandatory layer of regulatory oversight at the appointment stage. The appointment of chief executives and other principal officers of a Capital Market Operator is now subject to prior notification and ratification by the Commission, effectively ensuring that only fit and proper persons assume such critical roles.³

Furthermore, the Act preserves and strengthens the Commission's disciplinary powers by empowering it to suspend or remove such officers where they contravene or fail to comply with statutory provisions or SEC regulations. In effect, what was once a post-violation enforcement tool under the 2007 regime has evolved into a continuous supervisory

² Section 39

³ Section 61 – 62



mechanism under the 2025 Act – tightening governance standards, enhancing accountability, and reinforcing investor protection through upfront regulatory vetting.

MARKET INTEGRITY AND SURVEILLANCE

ISA 2025 marks a significant shift in the regulatory philosophy governing market surveillance and exchange oversight. Where ISA 2007 primarily required securities exchanges and other self-regulatory organizations to conduct internal audits, inspections, and file quarterly surveillance reports with the Commission, the new Act expands these duties into a more comprehensive market integrity mandate.

Under the 2025 Act, exchanges are now expressly obligated to conduct their business in a fair and transparent manner, ensure compliance by members and listed issuers, and promptly report any breach, irregularity, or systemic risk to the SEC.⁴ This transforms the exchange's role from a passive monitor of trading activities into an active guardian of market fairness and stability. In addition, exchanges must now develop and enforce risk management systems and integrity controls – reporting not only instances of non-compliance but also potential insolvency or systemic vulnerabilities within their ecosystem.

The emphasis has therefore shifted from reactive enforcement to preemptive compliance. By codifying the duty to notify the Commission of systemic risks and empowering the SEC to intervene where exchange rules or practices undermine fairness, the ISA 2025 strengthens the surveillance architecture of Nigeria's capital markets. The result is a more robust, transparent, and resilient framework that is more vigilant in anticipating threats to market integrity before they metastasize into crises.

EXPANDED SCOPE OF ELIGIBLE ISSUERS

ISA 2025 broadens the range of entities permitted to issue securities in Nigeria, reflecting the SEC's goal of deepening market participation and diversifying financing sources. Beyond the traditional public companies and banking institutions recognized under ISA 2007, the new Act now includes collective investment schemes, entities within free trade zones, and government agencies.⁵ This expansion acknowledges Nigeria's evolving financial landscape and facilitates structured access to capital for entities engaged in strategic or cross-border development initiatives.

STRICTER OVERSIGHT OF DEBT SECURITIES

While the Act broadens market participation through an expanded class of eligible issuers, it counterbalances this liberalization with a more rigorous supervisory framework for debt

⁴ Section 30

⁵ Section 95(1)



issuances. There are stiffer penalties against entities that issue securities to the public without obtaining SEC approval.⁶ Local or foreign companies, supranational bodies, or other approved entities must obtain SEC approval before offering debt instruments to the public⁷. Issuers with payment defaults exceeding one month are expressly barred from raising new debt, reinforcing fiscal discipline⁸. The Act also introduces strong deterrents against misuse of funds: mismanagement or diversion of proceeds now attracts up to 15 years' imprisonment and civil penalties of up to 500% of the misapplied amount⁹. Collectively, these measures entrench transparency, investor protection, and accountability in Nigeria's capital market.

Corporate Governance and Fiduciary Controls

The ISA 2025 strengthens Nigeria's corporate governance and fiduciary framework by refining existing standards and introducing stricter compliance mechanisms. While SEC oversight of public companies' board composition, restructuring, and director remuneration predates this Act, the new law notably prohibits severance payments to directors unless approved by shareholders, reinforcing accountability and aligning compensation with performance and long-term corporate interest.¹⁰

In the fiduciary space, the Act replaces the discretionary penalties of ISA 2007 with mandatory sanctions for infractions such as granting unsecured credit to employees or engaging in proprietary trading ahead of client orders. Offences now attract fines up to ₦5 million and daily penalties, underscoring a shift toward stronger enforcement and investor protection.¹¹

A major innovation is the criminalization of the unauthorized sale or transfer of client securities. Violations attract fines of at least ₦50 million or four times the profit gained, restitution with interest, and potential suspension or revocation of registration.¹² By embedding client asset protection as a statutory obligation, ISA 2025 establishes a higher threshold of integrity and reinforces trust in Nigeria's financial system.

Conclusion: Stricter Oversight – A Double-Edged Sword

The ISA 2025 undeniably represents a leap toward transparency, accountability, and stronger investor protection. Its expanded compliance architecture – from licensing to governance, from conduct to sanctions – reflects a global best-practice orientation. However, it also raises critical questions about balance.

⁶ Section 95(4)

⁷ Section 308(1)

⁸ Section 308(3)

⁹ Section 310(b)

¹⁰ Section 146

¹¹ Section 128-129

¹² Section 131



While foreign investors may appreciate the enhanced oversight and predictability, onerous requirements and excessively severe fines could inadvertently stifle market operators, especially smaller exchanges or brokers struggling with compliance costs. The central concern, therefore, is to find an appropriate balance where this tightening of the noose will ultimately spur the Nigerian capital market towards greater depth, growth, and security; and avoid a cautionary tale of overregulation.

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