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Review of the Investment and Securities Act of 2025

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Introduction

The Investment and Securities Act (ISA) of 2025 was signed into law on March 31st 2025 by President Bola Ahmed Tinubu, repealing and replacing the Investment and Securities Act (ISA) of 2007 which was the Act previously regulating the Nigerian investment and capital market. The new ISA marks a pivotal advancement in the Nigerian investment and capital market, coming at a time when the investment market has changed dramatically and the Nigerian capital market has evolved rapidly. The new ISA covers and addresses the contemporary developments in the capital market previously unaddressed under the ISA 2007. In this article, we have thoroughly reviewed the new Investment and Securities Act, highlighting its purpose and significance, key provisions, implications for the Nigerian Market, amongst others. For ease of reference, we have structured this review under the following heads:

- Purpose and Significance of the Investment and Securities Act
- Analysis of Key Provisions
- Implications for Capital Markets
- Implications for the Nigerian Economy
- Conclusion

Purpose and Significance of The Investment and Securities Act

The ISA 2025 is an Act that is up-to-date with the contemporary developments in the investment and capital market. Hence, it serves as a robust legal framework for the Nigerian Capital market, offering wider protection to investors, introducing critical reforms that promote market integrity, transparency, sustainable growth, and alignment with globally recognized standards in the investment and capital market, making the Nigerian capital market more attractive to investors.

Analysis of Key Provisions

The Investments and Securities Act (ISA) 2025 brings about significant revisions to the Nigerian financial market regulatory framework. To enhance clarity and ease of understanding, we have provided a tabular comparison highlighting the key changes between the ISA of 2005 and ISA of 2007. In addition, this section features a comprehensive analysis of these critical provisions.

Topic	ISA 2007	ISA 2025
Virtual/Digital Assets	No classification of crypto, NFTs, etc. as securities.	"Securities" expressly include virtual and digital assets and investment contracts (s. 357)
Anti-Fraud / Prohibited Schemes	No clear definitions or penalties for pyramid/Ponzi schemes.	Defines prohibited schemes (s. 357); SEC can freeze/forfeit assets (s. 196); penalties of at least ₦20 million and/or up to 10 years' jail.
SEC Regulatory Powers	Limited oversight function.	Expanded to register/supervise digital-asset exchanges, VASPs, forex platforms; appoint/probation directors; audit; freeze assets; issue directives (s. 3–4).
Exchange Classification	Single exchange category.	Two tiers: Composite vs. Non - composite (mono & ATS) exchanges (s. 27) for tailored oversight and competition.
Legal Entity Identifiers	No unique entity identifiers.	Mandatory LEIs for all market participants (s. 123) to boost transparency, data quality, systemic-risk monitoring.
FMI Regulation	Limited statutory framework for clearing houses, depositories, etc.	Detailed approval, rule -making and revocation process for FMIs (ss. 42–44), with procedural fairness and public -interest focus.
Sub-national Funding	Restrictive regime for state/local borrowing.	Enables federal, state & local governments to issue bonds, promissory notes, non -interest instruments subject to revenue/debt tests (ss. 268 –269).

I. Recognition and Regulation of Virtual Assets:

In contrast to its predecessor from 2007, the ISA 2025 clearly classifies investment contracts and virtual/digital assets as securities. Section 357 of the Act defines "securities" to include "virtual and digital assets" as well as "investment contract".

The ISA 2007 did not categorize virtual or digital assets as securities, which created a significant regulatory vacuum in the Nigerian capital market, particularly as the fintech and cryptocurrency industries have expanded and become globally recognized. The ISA 2025 addressed this by modernizing the framework to reflect contemporary developments, ensuring that these emerging financial tools and platforms are recognized and properly regulated in the same manner as traditional securities.

i. Unlawful Investment Schemes:

Compared to the ISA 2007, the ISA 2025 takes a more aggressive approach to combating fraudulent investment programs. Section 357 of the ISA 2025 specifically defines "prohibited schemes" to include Pyramid and Ponzi schemes. Section 196 of the Act provides the Securities and Exchange Commission (SEC) with powerful enforcement tools against these prohibited schemes including the authority to ask Courts for orders freezing and forfeiting the assets of such illegal schemes to the Federal Government of Nigeria.

The Act prescribes punishments for promoters of such illegal schemes with severe penalties, including a hefty fine of not less than N20,000,000 and/or an imprisonment term of 10 years.

The ISA 2025 eliminates all doubt as to how these fraudulent schemes will be handled, unlike the ISA 2007, which did not explicitly address these types of schemes. As a deterrence to capital market fraud, the ISA 2025 makes it very evident that any organization or person involved in such illegal activities will suffer grave consequences. Thus, fostering a safer and more transparent investment climate in Nigeria, and safeguarding investors.

iii. Enhanced Regulatory Powers of the Securities and Exchange Commission

The ISA 2025 markedly expands the SEC's authority. Under Sections 3 and 4 of the ISA 2025, SEC is empowered to regulate and supervise a wide range of market activities and participants, ensuring market integrity and investor protection at every level. For example:

a. Expanded Registration and Oversight:

The ISA of 2025 provides that the SEC has the authority to register and oversee digital asset exchanges, Virtual Asset Service Providers (VASPs), and other new market platforms in addition to traditional securities and exchanges. The SEC's supervision of securities exchanges, collective investment schemes, collateral management firms, and online forex trading platforms.

b. Increased Enforcement and Investigative Authority:

The ISA 2025 gives the SEC a significant authority to protect investors and enforce regulation. The SEC can, for example, intervene in the management of businesses and capital market participants who are acting against the interests of investors under Section 4(a). This authority can even go so far as to appoint independent directors (Section 4(b)) or place directors on probation (Section 4(c)).

c. Licensing and Directives

The Act gives the SEC the authority to provide licenses to new market participants and ensures that all organizations, including those involved in the digital asset field, adhere to strict regulatory guidelines. This measure ensures that all market participants are subject to the same stringent scrutiny, which improves investor trust. Control over market integrity is further strengthened by the SEC's authority to reject unfit individuals from engaging in the market (Section 4(q)) and to give directions to regulated organizations (Section 4(e)).

.d. Classification of Securities Exchanges:

The ISA 2025 establishes a precise framework for the categorization of Nigerian securities exchanges. According to section 27 of the ISA 2025, securities exchanges are now primarily under two categories:

Composite Securities Exchanges: These platforms list, quote, and trade a wide range of securities, commodities, and financial instruments. They are designed to serve a diverse market and perform functions as prescribed by the Commission.

Non-Composite Securities Exchanges: These include:

Mono Securities Exchanges; which specialize in a particular security, commodity, or financial product.

Alternative Trading Systems; which bring together buy and sell orders and can operate either at a physical location or online.

This classification is essential for several reasons:

- It allows the SEC apply tailored regulatory standards and oversight procedures to each type of security exchanges,
- It aids market efficiency as investors will be able to benefit from having options that are best suited to their trading requirement,
- It encourages healthy competition which will in turn drive innovation,
- It aligns Nigeria's capital market infrastructure with international practices. Such alignment will provide for a transparent and predictable market environment thus attracting more foreign investment.

e. Introduction of Legal Entity Identifiers (LEIs)

Another section of the ISA 2025 that represents a significant advancement is section 123 which requires the use of Legal Entity Identifiers (LEIs) by all entities engaging in securities transactions. By this section, the ISA 2025 ensures:

- Improvement in Transparency:** In each transaction, each party must disclose their LEI, which they must have acquired from an authorized issuer. This criterion guarantees that every entity is identified accurately, lowering uncertainty and improving the accuracy of financial data.
- Improved Risk Management:** By requiring LEIs the ISA 2025 helps market players and regulators monitor and reduce systemic risks. It becomes easy and effective to track exposures and connections when each entity is uniquely tagged, enabling the early identification of possible market instability.
- Standardizes Data Reporting:** By using LEIs, financial data from the market may be better collected and analyzed. This uniformity preserves market integrity and supports strong regulatory supervision.

f.Regulation of Financial Market Infrastructure

·Sections 42 to 44 of the ISA 2025 establishes a thorough framework for the statutory regulation of Nigeria's financial market infrastructure (FMI). The purpose of these clauses is to guarantee that FMIs uphold market integrity and act in the public interest. Here is a brief analysis:

·Approval and Registration of FMI: According to the section 42 of the ISA 2025, any organization wishing to establish or operate an FMI must apply in the way the Commission stipulates. The Commission assesses whether the proposed infrastructure is in the public interest when evaluating these applications. This section highlights that establishment of an FMI is subject to regulatory examination as well as the more general goal of safeguarding investors and maintaining a stable market environment.

·Revocation and Withdrawal of permission: section 43 of the ISA 2025 provides that if an FMI's actions endanger investor protection or the public interest, the Commission may withdraw or revoke its permission under the ISA 2025. This power of the Commission includes the ability to direct the concerned entity to stop engaging in particular acts. Significantly, the ISA of 2025 requires procedural fairness, providing that before any action is taken, the entity must be given an opportunity to be heard. Even where approval is revoked, previously established contractual rights or responsibilities remain intact . This balance allows for maintenance of current market arrangement, even while allowing the Commission to intervene when needed.

·Rule-making by FMIs - Section 44 of the ISA 2025 gives FMIs the duty to develop their own policies to carry out their duties/functions efficiently. But these policies must first be approved by the Commission in order to guarantee that they are in line with the public interest and the regulatory framework, thus encouraging consistency, openness, and responsibility in the way FMIs function.

g.Enhanced Access to State Governments and Their Agencies to Raise Funds Through the Market:

Section 268 – 269 of the ISA 2025 applies to the Federal, State, and Local Government organizations and their owned businesses, empowering these bodies with the ability to raise money directly from the capital market through the issuing of public debt securities such as bonds, promissory notes, and non-interest financial instruments. The ISA 2025 goes further to set clear criteria which these bodies must meet before they can issue debt securities. Such criterion include; maintaining a minimum level of internally generated revenue and adhering to specified debt sustainability ratios.

By subsection 7 of section 269 of the ISA 2025, “the proceeds of securities issued under this Part shall be utilised solely for the purpose for which the securities were issued.” This restriction promotes transparency and accountability in public borrowing, aligning funding with specific developmental objectives.

Implications for Capital Markets

• **Innovation and Growth:** Under the Investment and Securities Act of 2007, digital assets were not explicitly recognised as part of the financial and capital market. However, by an explicit recognition of assets like cryptocurrency, the Nigerian capital market is gradually adopting financial innovation which is capable of expanding the market and bringing about growth. Given Nigeria's youthful population, and since the digital assets market is populated by young people, this initiative entrenched in the new law is capable of fostering innovation and growth in the capital markets.

• **Strengthened supervision and authority:** The increased oversight power and authority which the new law has bestowed upon the Securities and Exchange Commission has made way for a better and stronger regulated market. This makes the Nigerian Capital Market safer and trustworthy for investments. By virtue of the several powers conferred on it, the SEC is able to tighten its grip on the Nigerian Capital Markets, and further establish it as an investment choice for investors.

• **Alignment with global best practices:** The signing of this new law in itself aligns with the International Organisation for Securities Commissions (IOSCO) requirement that Investment laws be updated from time to time. Furthermore, the various amendments included in the law, took cognisance of the three-pronged objective of the IOSCO which are: Investor protection, Fair, efficient and transparent market, and mitigating systemic risks. Furthermore, with the adoption of tools like the Legal Entity Identifier (LEI) which is like an identification card for financial entities, the Nigerian capital markets is aligning itself with international best practices.

Implications for the Nigerian Economy

• **Attraction of foreign investors:** It is well known fact that stronger and safer markets often attract foreign investments. As the new law commences the stipulation of stiffer penalties, enhanced oversight of public companies, innovations that reduce the time to market, and even the expansion of the scope of the Investment Protection Fund, all ensure that the Nigerian capital market is made stronger and safer, thereby gaining the favour of foreign institutional and retail investors.

• **Increased retail investments and participation:** With the explicit recognition and clarity in the regulation of digital assets by the new law, it is certain that retail investments are sure to skyrocket as a result of the interest of the teeming youthful Nigerian population in the trading of digital assets. The law further expands the range of entities allowed to issue securities to the public, which could lead to the introduction of more diverse financial products and potentially unlock new forms of capital raising.

·Increased flexibility for Sub-national capital raising: The law provides a benign opportunity for states to access long-term funding for the purpose of regional development. Under the previous law, a number of states could not access funds in the capital market. However, with the increased flexibility created by the new law, it is easier to access funds in the capital markets through bonds, promissory notes, etc. This would reduce the overdependence of states on federal government allocation for the execution of regional developmental projects.

·Strengthened regulations around commodity exchanges: The Investment and Securities Act of 2025 has also strengthened regulations around commodity exchanges, making it easier for government enterprises, particularly those in the agriculture and mining sectors like the Nigerian Mining corporation and the National Agricultural Insurance Corporation to raise funds in the market, giving easy access to the market and promoting growth of the commodities ecosystem.

Conclusion

By introducing very robust reforms, the Act has indeed enabled and strengthened the Securities and Exchange Commission to regulate the capital markets, ensure capital formation, protect investors, maintain a fair, efficient, and transparent market and reduce systemic risk. This will set the Nigerian capital markets at par with global capital markets, while ensuring compliance with international best practices and the sustainable growth of the Nigerian economy. With these new reforms set in place, the Nigerian capital markets is being positioned as a favoured destination for foreign investors.