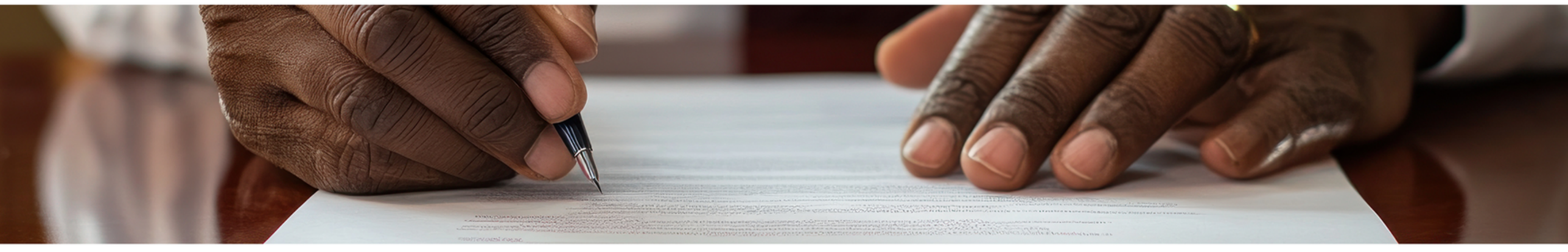
MOROOM AFRICA

Beyond Trading Floors:

Securities Exchanges Under a New Regulatory Lens



On 25 March 2025, President Bola Ahmed Tinubu signed into law, the Investment and Securities Act, 2025 (the **"ISA 2025"**), repealing the earlier Investment and Securities Act, 2007 (the **"ISA 2007"**), and introducing wide-ranging reforms aimed at strengthening Nigeria's capital markets.

This article highlights key innovations under the ISA 2025 that relate to securities exchanges, including registration reforms, regulatory oversight, and governance controls. Where relevant, we draw parallels with similar regimes in other jurisdictions to offer practical context.

Being platforms[1] that facilitate the trading of securities such as stocks, bonds, commodities, and derivatives, the focus on securities exchanges is timely. As market activity deepens, and the range of tradable instruments expands, regulatory clarity and flexibility around the operation and supervision of these platforms has become critical.

1. Expanded Definition of Securities Exchanges

The ISA 2025 introduces a broader and more structured definition of what constitutes a securities exchange in Nigeria. Under the new regime, a "securities exchange" is now defined as any organised facility that:

(a) brings together buyers and sellers of securities, virtual assets, commodities, or financial instruments;
(b) matches bids and offers from multiple participants; and
(c) facilitates transactions where matched bids and offers constitute completed trades.

This articulation aligns more closely with international norms, particularly the definition of an "exchange" under South Africa's Financial Markets Act, which also centres on matching systems and transaction infrastructure. Notably, this revised formulation extends beyond traditional securities to include virtual assets and other financial products, reflecting the growing diversification of instruments traded on modern platforms.

1. Traditional stock exchanges such as the Nigerian Exchange Limited (NGX), commodities exchanges, and alternative trading systems.

The broader definition may have been introduced to provide regulatory clarity as newer asset classes and non-traditional trading systems emerge. With increasing interest in digital asset markets, commodities platforms, and alternative trading systems, a more inclusive statutory definition ensures that such entities do not fall outside regulatory oversight simply due to the novelty of their instruments or the technology they employ.

2. A Redefined Registration Framework

A key innovation under the ISA 2025 is the clear categorisation of securities exchanges into aomposite and non-composite entities. Composite exchanges can list and trade all types of securities and financial instruments, while non-composite exchanges are limited to either specific asset classes (mono exchanges), or alternative trading systems.

This reclassification provides the regulatory clarity that was lacking under the ISA 2007, where all exchanges were lumped into a single undifferentiated category.

Notably, the ISA 2025 also expands the scope of entities eligible to register as securities exchanges beyond traditional corporate structures. Entities registered under Acts of the National Assembly, including free zone legislation or supranational frameworks, are now eligible applicants.

While the ISA 2025 appears to have widened access to market participants, it allows the Securities and Exchange Commission (the "SEC"), set the operational ground rules for proposed market participants, a design choice likely to evolve as market complexity increases. In comparative terms, Kenya, remains prescriptive by mandating that only limited liability companies may apply for exchange status.

3. Strengthened Governance and Oversight

The SEC now plays a more active role in exchange governance, as the ISA 2025 requires SEC approval for the appointment and removal of a securities exchange's Chief Executive Officer, and other principal officers. While the SEC historically had powers to remove officers in limited circumstances (often post-breach), the ISA 2025 introduces a preemptive layer of governance control. Officers may be suspended, or removed for failure to comply with the ISA or the SEC rules, after being given a fair hearing.

The structure creates a quasi-dual board approval model, where both the securities exchange and the regulator share gatekeeping responsibilities over leadership. This development signals a move beyond passive regulatory oversight, into a proactive governance regime where the SEC not only monitors, but also approves the stewardship of capital market infrastructure entities.

This mirrors the regulatory posture in South Africa, where governance assessments are undertaken for market infrastructure entities, requiring pre-approval in cases where leadership changes could impact systemic stability. While the United States SEC does not mandate prior approval for such appointments, exchanges are required to notify the regulator, and are expected to demonstrate that senior officers meet statutory 'fit and proper' standards.

4. Self-Listing and Regulatory Discretion

The ISA 2025 introduces an important framework for the listing of securities by securities exchanges and their holding companies. While the specifics are currently undefined, the law explicitly mandates regulatory oversight in areas such as conflicts of interest, governance standards, trading integrity, and procedural listing requirements. The objective is to mitigate the risks of self-listing, and ensure that exchanges do not compromise regulatory impartiality by serving as both market operators and listed entities.

Globally, the treatment of exchange listings varies. In the United Kingdom, the Financial Conduct Authority regulates self-listings through bespoke requirements in its Listing Rules, while exchanges like the London Stock Exchange maintain operational autonomy under close supervision. In South Africa, licensed exchanges may permit internal listings, provided such listings comply with the exchange's own listing requirements, which must also be approved by the Financial Sector Conduct Authority, thereby ensuring independent regulatory oversight. The Johannesburg Stock Exchange, for instance, operates under this model and maintains a structural separation between its regulatory and commercial functions; a safeguard designed to mitigate conflicts of interest. In the United States, exchanges such as the New York Stock Exchange are subject to stringent regulatory oversight, and any self-listing proposal typically undergoes heightened scrutiny to avoid conflicts of interest.

Nigeria's approach, being a formal regulatory entry point without over-specification, offers the SEC flexibility to tailor listing rules as our capital markets evolve. It also leaves room for the development of best practice frameworks to address the unique governance tensions inherent in self-listing scenarios

Now formally anchored in legislation, Nigeria's approach builds on the precedent[2] set under the previous regime. The ISA 2025 introduces a clearer statutory entry point without prescribing detailed mechanics, thereby offering giving the SEC the flexibility to issue fit-for-purpose rules as the market evolves. It also creates room for best practice frameworks to emerge around the governance and conflict-of-interest challenges that typically arise in self-listing scenarios.

5. Oversight on Major Transactions

Another innovation under the ISA 2025 is the introduction of regulatory pre-approval for asset acquisitions and disposals by securities exchanges and their holding companies. Specifically, any transaction that exceeds a value threshold, will require the consent of the SEC prior to execution. While the threshold is yet to be prescribed, the mere inclusion of this provision marks a new era of transactional oversight that could impact market operations or investor confidence.

The provision reflects a growing concern around the operational risks and systemic exposure that may arise from unregulated corporate restructurings or asset transfers.

In the United States, material transactions by exchanges must be disclosed to the regulator, and depending on the nature of the change, may trigger antitrust or systemic risk reviews.

On the other hand, South Africa requires its exchange operators to maintain transparent reporting of material financial positions, but does not impose explicit pre-approval requirements. Kenya, while less prescriptive, empowers its Capital Markets Authority to review restructuring events where public interest may be affected.

Although its full implementation is dependent on further regulations, the inclusion of this requirement signals a deliberate move to bring significant exchange

2. NGX Group PLC was listed on the NGX in 2021.

transactions within the SEC's oversight, particularly where such actions could affect market confidence, or operational continuity. By introducing pre-approval for significant transactions, the ISA 2025 brings exchanges under the type of scrutiny typically applied to systemically important institutions — reinforcing accountability without imposing unnecessary rigidity.

6. Sanctions and Market Recovery Measures

Under the ISA 2025, the SEC's sanctioning toolkit has been materially expanded, particularly in relation to breaches involving prohibited trading, or continued violations of regulatory directives. The requirement under the ISA 2007 for a second suspension window prior to deregistration has been eliminated, allowing the SEC to act with greater agility when enforcing market prohibitions. This signals a deliberate pivot toward timeliness in regulatory enforcement.

Perhaps the most transformative addition is the SEC's new ability to seek court-ordered administration of a non-compliant exchange, reflecting a shift from punitive action to potential recovery. This aligns with modern insolvency principles introduced under the Companies and Allied Matters Act, 2020, which prioritises business continuity and creditor protection over outright liquidation. It is important to note that the ISA 2025 clarifies that administrators need not be court officials, rather, any qualified professional may be appointed. This flexibility will definitely increase the SEC's operational range in market stabilisation efforts.

In comparative terms, administration as a restructuring tool is common in the United Kingdom, the United States, and other African jurisdictions such as South Africa, as company rescue is often prioritised over creditor piecemeal recovery.

Nigeria's incorporation of these elements, within a capital markets context, is both progressive and practical, strengthening the resilience of critical market infrastructure.

7. Directives and Enforcement Reform

Another critical reform introduced by the ISA 2025 relates to the enforcement mechanics surrounding SEC issued directives. By removing the requirement for the SEC to be joined as a party in legal actions involving its guidelines, the ISA 2025 eliminates a procedural bottleneck that delayed swift adjudication. In effect, legal challenges to SEC directives may now proceed without a formal joinder, reducing friction, and insulating the regulator from undue litigation entanglement.

Also significant is the removal of the '*without reasonable cause*' qualifier. Under the ISA 2007, a regulated entity's failure to comply with a directive was penalised only if done without justification. The ISA 2025 drops this subjectivity entirely, making non-compliance, regardless of rationale, a strict liability trigger.

Securities exchanges must now acknowledge and respond to all SEC directives, with the monetary penalties attached to this breach increased in its severity. The regulatory philosophy here appears to mirror certain aspects of the administrative enforcement in the United States, where its SEC has a broad discretion to sanction exchanges and intermediaries for failure to comply with orders, or reporting obligations.

The ISA 2025's firm stance reflects an increasingly interventionist posture, likely influenced by the urgency of market modernisation and the SEC's evolving role as both regulator and risk manager.

In adopting the ISA 2025, Nigeria joins a growing cohort capital markets jurisdictions that are recalibrating regulations to reflect evolving market realities. The reforms bring Nigerian practices closer to global standards in areas such as registration breadth, governance oversight, enforcement, and transaction monitoring.

The ISA 2025 offers a more coherent and future-facing framework for the regulation of securities exchanges in Nigeria. By redefining registration pathways, enhancing regulatory supervision, and introducing mechanisms such as administration and transactional oversight, the new law signals a deeper understanding of the role exchanges play in safeguarding market integrity and investor confidence.

Rather than replicating foreign models wholesale, it is laudable that the law opts for a hybrid approach; it expands its regulatory reach while allowing the SEC flexibility to respond to specific market realities. This may well position Nigeria's securities exchanges as not just trading venues, but regulated financial infrastructure with systemic relevance.

Ultimately, the impact of these reforms will depend on execution. For securities exchanges and infrastructure players, agility will be key, not only in meeting heightened regulatory expectations, but in capturing the opportunities these reforms are designed to unlock.

Famsville is a full-service commercial law firm advising international clients, investors, and institutions on cross-border transactions, capital markets, and regulatory strategy across Africa. The content of this article is intended to provide a general guide. ***For further enquiries, please reach out to temitope.sowunmi@famsvillelaw.com.***

Authors

Temitope Sowunmi

Partner

Halima Aigbe

Associate

MOROOM AFRICA