

Beyond The Headlines: The ISA 2025 and the SEC's Clampdown on Illegal Capital Market Operators

OALP Finance and Capital Markets Practice Newsletter

INTRODUCTION

In recent months, the Securities and Exchange Commission (the **SEC** or **Commission**) has intensified its crackdown on unregistered and illegal Capital Market Operators (**CMOs**) in Nigeria, issuing multiple public alerts on its website. Among these are entities operating as digital asset and exchange platforms without authorization.¹ These platforms have been linked to unregulated cryptocurrency trading, unauthorized token offerings, and other high-risk, deceptive market activities.

In its sanitization efforts, the SEC has also named several unregistered collective investment schemes and other pooled-fund vehicles² found to be soliciting and managing investor funds outside the SEC's regulatory framework, often through unapproved investment programmes and real estate ventures. Despite their varied activities, these operators share a common infraction: carrying on regulated investment activities without SEC registration.

It is an interesting coincidence that these awareness-driven crackdowns have occurred the most within weeks of the Investment and Securities Act 2025 (the **ISA 2025** or the **Act**) coming into force. This informs the expediency of assessing how the Act has strengthened the SEC's mandate to "prevent unauthorised, illegal, unlawful, fraudulent and unfair trade practices relating to securities investments."³ Therefore, this newsletter highlights key SEC enforcement actions, examines the Act's relevant provisions, which underscore the SEC's enforcement powers against infractions under the Act, and

identifies investor safeguards embedded in the Act.

CASES OF INFRACTIONS AND THE SEC'S ENFORCEMENT ACTIONS

Between April and July 2025, the SEC initiated and implemented several enforcement actions targeting unregistered investment operators and schemes in Nigeria's capital market. In April, the Commission commenced proceedings before the Investment and Securities Tribunal against the promoters of a cryptocurrency-based investment platform, alleging that they promised investors exorbitant returns, operated a referral-driven recruitment model, and engaged in digital asset transactions without registration as required under the ISA 2025. The reliefs sought by the SEC against the infractors included: judicial declarations of illegality, the freezing and forfeiture of assets, and a full accounting of investor funds.

Similarly, in July 2025, the Federal High Court delivered convictions in two separate cases involving unregistered collective investment schemes. In one case, the court found two entities guilty of unlawfully collecting investor funds without SEC authorisation, and levied fines of NGN5 million per count. In the other case, a company was convicted and fined NGN10 million for offering a high-yield forex investment plan without a regulatory license. In both cases, the SEC's confirmation of non-registration underpinned the prosecution and subsequent convictions, underscoring the regulator's statutory role in policing unlicensed capital market activities and protecting investors from unregulated operators.

1. <https://home.sec.gov.ng/enforcements/keep-track-of-enforcement-updates/>

2. *Ibid*

3. Section 3(2)(c) of the ISA 2025



THE SEC'S MANDATE AGAINST INFRACTIONS UNDER THE ACT

The trend of capital market illegalities, as highlighted above, largely borders on the unlicensed and unregulated operations of securities exchange platforms and collective investment schemes. The SEC's mandate under the ISA 2025 against illegal market operations is, therefore, considered within these contexts.

Securities Exchanges – Regulatory Powers of the SEC

Under the ISA 2025, the SEC is obligated, among other overarching objectives, to "register and regulate securities exchanges, commodities exchanges, and virtual and digital asset exchanges."⁴ Although the repealed Investment and Securities Act 2007 (the **Old Law**) had provided for the requirement for registration of securities exchanges, recognized the SEC's power to issue directives, prohibited trading in unsafe securities, and set out the grounds for the revocation of their registration as securities exchange platforms, the ISA 2025 has amended and expanded some of these provisions as detailed below:

i. **Penalty-related amendments:**

As an innovation of the Act, penalties are introduced against unregistered entities operating as securities exchanges. The SEC can now halt their operations, and each director or promoter of such operation becomes criminally liable to a minimum of 5 (five) years imprisonment or NGN10,000,000 (ten million naira) fine. Alternatively, the SEC can, in lieu of prosecution, impose a fine not less than the prescribed paid-up share capital of the defaulting entity, and a daily default fine, not less than NGN100,000 (one hundred thousand naira).⁵

The Act also provides for an upward review of the penalty for a securities exchange's failure to comply with the SEC's directive on securities trading and the manner of carrying on business. It increased the fine for criminal liability from NGN1,000,000 (one million naira) to NGN10,000,000 (ten

million naira) and the fine for daily default from NGN50,000 (fifty thousand naira) to NGN500,000 (five hundred thousand naira).⁶

ii. **Expanded SEC powers against trading in prohibited securities:**

Aside from increasing penalties, the Act extends the SEC's regulatory powers against securities exchanges that trade in prohibited securities. While the Old Law empowered the SEC to apply for the winding up of defaulting entities and the appointment of an official receiver, the Act extends this further by empowering the SEC to alternatively apply for the orderly administration of the defaulting securities exchange, and to apply for an administrator or liquidator to take over its management.⁷ The amendment introduces administration as a less drastic alternative to winding up, allowing the SEC to seek restructuring or temporary management rather than outright dissolution, thereby promoting continuity and market stability. In effect, the SEC can, upon a successful application for administration, administer a defaulting securities exchange to:

- rescue it as a going concern;
- achieve a better result for its creditors than would be likely if it were wound up without first being administered; or
- realise property in order to make distribution to one or more secured or preferential creditors.⁸

iii. **Revocation of the registration of a securities exchange:**

The Act also expands the grounds for revoking the registration of a securities exchange to include circumstances where the securities exchange engages in other businesses for which it is not registered, and for failure to comply with the terms and conditions of the registration granted by the SEC.⁹

Collective Investment Schemes

Both the Old Law and the ISA 2025 require that a fund or portfolio manager must be registered with the SEC to administer a collective investment scheme (**CIS** or **Scheme**),¹⁰ Before its establishment or operation, the CIS must have received approval from the SEC,¹¹ and the units or participatory interests must have been registered with the SEC.¹² However, in an attempt to tighten the regulatory clamp

4. Section 3(3)(b) of the ISA 2025. While the Act does not define what virtual and digital asset exchanges are, it has defined securities exchanges to include facilities that provide infrastructure for the trading of virtual assets.

5. Section 26(2) of the ISA 2025

6. Section 35 of the ISA 2025

7. Section 36(4)(c) of the ISA 2025

8. The SEC can make this application for administration in accordance with Section 444 of the Companies and Allied Matters Act, 2020.

9. Section 37(1)(d) of the ISA 2025; the pre-existing grounds for revocation include where the securities exchange: (a) ceases to operate as a securities exchange; (b) is wound up and (c) operates in a manner detrimental to the interests of investors and the public.

10. Section 155(1)(b) of the ISA 2025

11. Section 157(1) of the ISA 2025

12. Section 158(1) of the ISA 2025

against continued infractions of the Act, the ISA 2025 introduces the prohibition of certain schemes, increases penalties, and prohibits the misappropriation of clients' funds or securities.

i. Prohibited schemes

The Act broadly defines prohibited schemes as Ponzi or Pyramid schemes.¹³ Using disjunctive characteristics, the Act classifies such schemes as:

- a. utilising funds from new contributors to pay existing participants, typically under the promise of high returns with little or no risk; operating with or without limits on participant numbers; or running physically, online, or through other electronic means; or
- b. involving participants seeking to earn income primarily by recruiting new members rather than through the sale of a genuine, registered product or service, based on the promise of unrealistic returns; offer of unregistered products; or operating without the requisite licensing or registration.

Under the Act, the SEC is empowered to enter and seal up the premises of any prohibited scheme, and, with a court or Tribunal order, freeze and forfeit its assets to the Federal Government. The commission can also recover its enforcement costs directly from the funds and properties of the scheme and its owners, even if those assets were lawfully acquired. Promoters and operators of such schemes face criminal liability, including fines of at least NGN20,000,000 (twenty million naira), up to ten (10) years' imprisonment, or both. The SEC may also, through the office of the Attorney-General of the Federation, recover investigation costs.¹⁴

ii. Penalty increase

The Act introduces an increased penalty regime across several proscribed CIS activities. Such activities include the use of misleading names and actions by unregistered fund or portfolio managers,¹⁵ failure to register units or participatory interest,¹⁶ unauthorized alteration of trust deed or custodial agreement,¹⁷ communication of material misstatement by a scheme's manager,¹⁸ contravention of the provision on the redemption of units or securities,¹⁹ engaging in transactions



for self-enrichment by a scheme's manager,²⁰ failure to comply with a declaration of irregular or undesirable practices,²¹ failure of a trustee or custodian to discharge its duties,²² and operation of unapproved foreign CIS.²³

iii. Prohibited misappropriation of clients' funds

As a novelty, the Act prohibits managers, trustees, and custodians from misappropriating client funds or securities or withholding proceeds from the sale of such securities. Violation attracts fines of at least NGN50,000,000 (fifty million naira) or four times the profit derived, whichever is higher, with the addition of NGN50,000 (fifty thousand naira) for each day the breach continues. Offenders must also fully restate the client's losses with interest, and the SEC may suspend or revoke their registration.²⁴

CONCLUSION

Beyond the headline-making reports of investment schemes' scandals and the SEC's enforcement efforts, the most emphatic lessons lie with the investing public. Nigerians continue to fall for recurring get-rich-quick scams promoted by unregulated, unscrupulous platforms. From the NGN18 billion loss to the Mavrodi Mundial Movement (MMM) Ponzi scheme in 2017²⁵ to the recent loss of a staggering NGN1.3 trillion to CBEX in 2025,²⁶ the consequences of unchecked desire for instantaneous riches are evident. While the SEC's crackdown is commendable, investors must learn to recognize the hallmarks of fraudulent platforms and embrace safer investments, even if immediate high-yield returns are not guaranteed.

13. Section 357 of the ISA 2025
 14. Section 196 of the ISA 2025
 15. Section 156 of the ISA 2025
 16. Section 158 of the ISA 2025
 17. Section 159 of the ISA 2025
 18. Section 162 of the ISA 2025
 19. Section 163 of the ISA 2025
 20. Section 164 of the ISA 2025

21. Section 175 of the ISA 2025
 22. Section 179 of the ISA 2025
 23. Section 193 of the ISA 2025
 24. Section 169 of the ISA 2025
 25. <https://url-shortener.me/8VTR>
 26. <https://businessday.ng/technology/article/how-cbex-wiped-off-investors-n1-3trn-in-nine-months/>

Notably, the ISA 2025 provides for some investor safeguards. Accordingly, investors should be wary of unregistered CMOs and confirm a platform's registration through the SEC's official website. The Act's identifiers for prohibited schemes, discussed above, also provide a useful vetting tool.²⁷ In addition, the SEC regularly issues illegal operator alerts,²⁸ and has published an investor guide outlining investor rights, how to spot malpractice, steps to take when defrauded, and other support resources.²⁹ Together, these statutory and regulator-driven mechanisms can help protect investors and reinforce confidence in Nigeria's capital market.

27. Section 357 of the ISA 2025, which provides for the features of prohibited schemes, including ponzi or pyramid schemes.

28. Pertinently, Section 346(4) of the ISA 2025 provides that "Where the Commission is empowered to impose a penalty on a person or an entity, it may impose a penalty and in addition, may publish a statement to the effect that the person or entity has engaged in market abuse or violation under this Act."

29. <https://home.sec.gov.ng/enforcements/information-for-harmed-investors/>

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