Investment and Securities Act 2025 – The New Era of Securities Exchanges

Introduction

The Investment and Securities Act, 2025 (ISA 2025) represents a significant regulatory development, particularly for those operating in and around digital asset markets including Fintech. In our previous newsletter*, we highlighted the important changes made to the capital market by the ISA 2025.

A notable development is the expansion of the definition of a "securities exchange" to include platforms dealing in virtual assets, in addition to traditional securities, commodities, and financial instruments. This change aligns with the evolving regulatory direction of the Securities and Exchange Commission (SEC), which includes the introduction of the Rules on Virtual Asset Service Providers (VASPs)* and the Accelerated Regulatory Incubation Program (ARIP)*.

More importantly, this development offers long-awaited regulatory clarity to Fintechs that have enabled users to invest in local and foreign securities as well as virtual assets like crypto. Platforms such as Yellow Card and similar operators, which function in many respects as digital exchanges, can now rely on a statutory framework that permits them to register with the SEC, rather than operating in a legal grey area.

Given the more assertive stance by SEC on unlicensed operations in recent months, this reform is not only timely but essential. The ISA 2025 provides the legal basis for compliance in securities investment, while also recognising the innovation that continues to define Nigeria's Fintech ecosystem.

This newsletter examines the significance of the introduction of the classification of new exchanges and the potential implications for digital investment platforms and broader market integrity.

New Definition of Exchanges

Notably, The ISA 2025 clearly defines "securities exchange or registered exchange" as an organized facility with the following functions:

- bringing together buyers and sellers of securities, virtual assets, commodities, and/or financial products/instruments;
- matching bids and offers among these parties; and
- enabling transactions through the matched orders.

This definition underscores that platforms trading in virtual assets are squarely within the ambit of the ISA 2025.

New Classification of Exchanges

The ISA 2025 establishes two primary categories of securities exchanges:

1. Composite Securities Exchange

A composite securities exchange is permitted to list, quote, and trade all types of securities, commodities, and financial instruments. This broad-based approach is intended for entities that wish to offer a diverse range of assets on a single platform.

2. Non-Composite Securities Exchange

This classification is further segmented into

- Mono Securities Exchange – This exchange is designed for platforms that list, quote, and trade a single type of asset, commodity, or financial product. Given that many fintech and digital asset operators generally deal with a specific asset class – such as virtual assets (which includes cryptocurrency) or digital tokens – this classification might be more appropriate for them.
- Alternative Trading System (ATS) – This exchange is designed for platforms that facilitate trading via electronic systems, either at physical locations or virtually via online platforms.

What Are the Implications for Fintech and Virtual Asset Platforms?

The updated classification system carries several key implications for fintech startups and digital asset operators such as:

1. Regulatory Clarity and Compliance

The clear delineation between composite and non-composite exchanges affords fintech operators a defined regulatory path. Entities that previously operated in a regulatory grey area, particularly those facilitating crypto and tokenized asset trades, now have an opportunity to register under the non-composite category. This will help such platforms secure legitimacy and enhance investor trust by aligning with the new licensing requirements.

2. Alignment with SEC Rules and the ARIP Program

The ISA 2025 explicitly includes virtual assets within the definition of a securities exchange, as it establishes an organized facility where buyers and sellers are brought together to transact in securities, virtual assets, commodities, and financial products. This clear inclusion reinforces the SEC's guidelines on VASPs* and adds legitimacy to digital asset operations. Notably, the ARIP program which is integral to the SEC's framework for registering virtual asset service providers, benefits from this enhanced clarity by offering a practical pathway for these platforms to secure regulatory registration and credibility.

Licensing, Governance, and Compliance Obligations

The ISA 2025 imposes a rigorous framework to ensure that all registered securities exchanges adhere to high standards of licensing, governance, and compliance.

1. Licensing Requirements

- Corporate Structure and Registration – All securities exchanges must be registered as companies with the Corporate Affairs Commission.
- Application and Documentation – Applicants are required to submit comprehensive documentation, which includes detailed proposals on membership rules, listing criteria, and trading procedures.
- Good Character and Business Integrity – A core element of the licensing process is the verification that all members, participants, and executives exhibit a high degree of business integrity.

2. Governance Standards, Compliance and Regulatory Oversight

- The appointment of the chief executive officer and other key officers is subject to prior written approval from the SEC.
- Registered exchanges are required to file quarterly reports detailing their surveillance and enforcement activities.
- Exchanges must maintain clear rules for board composition and have balanced representation

3. Enforcement Provisions and Sanctions

- Suspension or Prohibition of Trading – In circumstances where the SEC deems it necessary for the protection of persons transacting in particular securities, it may suspend or prohibit trading in those securities. Should the exchange fail to prevent trading after receiving a warning notice, the SEC may enforce a prohibition for an initial period of up to 14 days

- Penalties for Non-Compliance – If an exchange continues to permit trading in violation of a notice to suspend trading, it will be subject to severe financial penalties. Specifically, the exchange may face a minimum penalty of NGN1,000,000, with an additional NGN50,000 imposed for each day that the contravention persists.

- Revocation of Registration – The SEC may revoke an exchange's certificate of registration under certain conditions. These include if the exchange ceases to operate as defined under the law, is wound up, operates in a manner detrimental to the interests of investors and the public, or engages in business activities for which it is not duly registered under ISA 2025.

Conclusion

The ISA 2025 redefines the regulatory landscape by integrating virtual assets into the framework governing securities exchanges. Founders who structure their operations in line with this framework can better navigate compliance requirements while positioning their platforms for scale and long-term sustainability.

Endnotes

1. *For more on the ISA 2025, please see our review here - https://pavestoneslegal.com/staying-informed-staying-ahead-a-review-of-the-investment-and-securities-act-2024/*
2. *Please see our newsletter on the ARIP here - https://pavestoneslegal.com/insights-into-the-sec-accelerated-regulatory-incubation-program-framework/*
3. *Please see our newsletter on the VASP rules here - https://pavestoneslegal.com/regulatory-update-regulation-of-virtual-assets-service-providers-in-nigeria/*