

A close-up photograph of a pair of black-rimmed glasses resting on a document with blue bar and line charts. A silver pen is also visible on the right side of the document. The background is a blurred office setting.

Financial Market Regulation

A Nigerian Perspective

Volume 2

Abstract

This Article advances the discussion initiated in *Financial Market Regulation: A Nigerian Perspective, Volume 1*, by further examining the regulatory landscape governing the Nigerian financial markets. It provides a detailed analysis of tools employed by key regulators, while analysing the statutory and regulatory frameworks that underpin their oversight functions. Through this continued assessment of the regulatory environment for financial markets in Nigeria, the Article offers a comprehensive understanding of the mechanisms through which transparency, efficiency, and resilience are promoted across the Nigerian financial markets.

Tools of Financial Regulators

The Nigerian financial markets operate under a well-defined regulatory framework aimed at promoting market integrity and financial stability. Although regulators oversee distinct segments of the market, they operate with a common objective to ensure the orderly functioning and long-term resilience of the financial markets. To achieve this, regulators deploy a core set of tools that enable them to guide market conduct, maintain oversight, enforce compliance, and foster market development. These tools outlined below form the foundation of effective financial market regulation:

- **Registration and Licensing:** Financial markets regulators are responsible for the registration and licensing of institutions and individuals operating within their respective segments of the financial system. This process ensures that only fit and proper individuals or entities with adequate financial capacity and technical competence are permitted to operate in the segments of the financial markets which the regulator governs. In particular, the regulators determine the minimum requirements for the registration of relevant market infrastructures and market operators, they also undertake the registration of these infrastructures and market operators
- **Rulemaking:** Financial market regulators are responsible for the development and issuance of comprehensive rules, regulations, guidelines, and circulars inter alia designed to govern the conduct of financial institutions and market participants. These rules, regulations, guidelines, and circulars are meticulously crafted to ensure that market practices align with international best practices and standards and Nigeria's financial markets remains competitive and resilient on a global scale
- **Investigation and Enforcement:** To foster the integrity of the financial markets, regulators carry out investigation of alleged breaches of the laws and regulations governing the financial markets and enforcement of sanctions where appropriate. Similarly, the regulators take enforcement actions against market operators who are found wanting after investigation is carried out
- **Inspection and Surveillance:** To ensure ongoing compliance with regulatory requirements, financial market regulators carry out both on-site monitoring and on-site inspections of regulated entities. These activities involve requesting and reviewing periodic reports, conducting audits, assessing risk exposures, and verifying operational practices. Regulators also deploy surveillance mechanisms to monitor market activities and detect anomalies such as systemic risks, unethical practices, or financial misconduct

The table below presents a detailed analysis of how each primary regulator applies the various tools of regulation, highlighting the scope and extent of their use within the respective regulatory mandate:

S/N	Regulatory Tool	SEC ¹	CBN ²	NAICOM ³	PENCOM ⁴
1.	Registration and Licensing	- Registration of securities exchanges, commodities exchanges, digital asset exchanges and other FMIs - Registration of securities of public companies and securities issuances offered to the public - Licensing of relevant capital market operators including inter alia; issuing houses, stockbrokers, fund managers, registrars and custodians	- Licensing of banks and other financial institutions in Nigeria including - Commercial Banks - Merchant Banks - Non-interest Banks - Microfinance Banks - Development finance institutions - Mortgage Banks - Other financial institutions such as Bureau De Change operators	- Licensing of a broad spectrum of operators within the insurance sector including - insurance and reinsurance companies - insurance brokers and agents - loss adjusters, and other intermediaries	Licensing of PFAs and PFCs
2.	Rulemaking	- Formulation of comprehensive rules and regulations to cover a wide spectrum of matters including <i>inter alia</i> - the regulation of securities issuances and public offerings - oversight of trading practices and market conduct	- Issuance of binding regulations, directives and policies aimed at maintaining monetary and financial system stability - The CBN's rulemaking function is principally executed through three (3) key channels i.e., monetary policy guidelines,	- Issuance of comprehensive regulatory frameworks aimed at ensuring the stability, integrity, and growth of the insurance industry - NAICOM's regulatory frameworks, include regulations and guidelines - underwriting	Formulation and development of structured regulatory frameworks through the issuance of investment guidelines, compliance frameworks, and regulatory circulars, all aimed at fostering prudent management

¹Source ²Source
³Source ⁴Source

S/N	Regulatory Tool	SEC	CBN	NAICOM	PENCOM
		– imposition of robust disclosure and reporting requirements – governance of collective investment schemes, as well as the supervision and approval of mergers, acquisitions, and other forms of corporate restructuring	prudential guidelines, and regulatory circulars	– standards, solvency requirements – investment practices, and market conduct	and effective administration of pension funds
3.	Inspection and Surveillance	▪ Conducting regular information calls, inquiries, and comprehensive audits of market participants ▪ Maintains surveillance over securities exchanges and trading systems to prevent potential breaches of market rules and detect manipulative practices	▪ Conducting periodic and risk-based inspections, reviews, and assessments of banks and other financial institutions to ensure adherence to applicable laws, prudential guidelines, and supervisory expectations ▪ These oversight activities cover a wide range of areas, including but not limited to; anti-money laundering and counter-terrorism financing (AML/CFT), consumer protection, corporate governance, and the licensing and monitoring of foreign bank representatives	▪ Undertaking continuous surveillance and periodic inspections of insurance companies and intermediaries as part of its regulatory mandate to uphold prudential standards, ensure market stability, and protect policyholders	▪ Inspection and ongoing surveillance of PFAs and PFCs to ensure compliance with regulatory standards particularly in relation to investment of pension assets, safeguard pension assets, and promote transparency and stability within Nigeria's pension industry

S/N	Regulatory Tool	SEC	CBN	NAICOM	PENCOM
4.	Investigation and Enforcement	- Conducting investigations into alleged violations of market laws and regulations - Taking enforcement actions which includes monetary penalties, prohibitions, suspensions, and legal actions against market participants found to be in breach	- Conducting investigations into suspected breaches of banking laws, regulations, and regulatory directives by licensed financial institutions - Where violations are established, the CBN exercises its enforcement powers to impose appropriate sanctions including fines, operational restrictions, suspension or removal of key officials, and, in severe cases, revocation of licences	- Initiating investigations in response to suspected infractions of insurance laws, guidelines, or regulatory directives - Upon establishing a breach, NAICOM deploys enforcement actions to ensure accountability and deter future violations ranging from administrative penalties and fines to suspension of licenses	- Conducting investigations into suspected violations of relevant laws and guidelines by PFAs and/or PFCs - Imposition of sanctions on non-compliant PFAs and/or PFCs, including the application of monetary penalties

It is worthy of note that SROs utilise one or more of the regulatory tools outlined above, subject to the scope and limits of the specific nature of their regulatory functions. The table below provides a description of how SROs adopt the aforementioned regulatory tools:

S/N	Tool	Securities Exchanges	FMI	Industry Associations	Commentary
1.	Registration and Licensing	✓	✓	✗	Securities exchanges and FMIs employ this regulatory tool by licensing market participants as members, enabling them to carry out specific activities within their platforms in accordance with established rules and operational standards. In contrast, trade and industry associations do not possess licensing authority. Instead, they admit members, typically firms or professionals. Unlike securities exchanges and FMIs, whose membership confers regulatory or operational access to the platforms provided by these SROs, membership in trade or industry associations is voluntary and primarily serves to promote collaboration, uniformity, and advocacy within the industry.

S/N	Tool	Securities Exchanges	FMI	Industry Associations	Commentary
2.	Rulemaking	✓	✓	✓	Generally, SROs such as securities exchanges and FMIs exercise delegated regulatory authority through rule-making functions that govern the conduct of their members and participants. Operating within the framework established by primary regulators, SROs develop and enforce operational rules, listing requirements, trading procedures, and risk management standards tailored to the markets they oversee. Similarly, industry/trade associations perform quasi-regulatory functions through professional standards, codes of conduct, best practice guidelines, and market conventions that govern the conduct of their members.
3.	Inspection and Surveillance	✓	✓	✗	Securities exchanges and FMIs conduct inspection and surveillance activities to monitor compliance with trading rules, operational standards, and risk controls among their participants. However, trade/industry associations, while influential in setting best practices, generally lack formal inspection and surveillance powers.
4.	Investigation and Enforcement	✓	✓	✓	Securities exchanges and FMIs conduct inspection and surveillance activities to monitor compliance with trading rules, operational standards, and risk controls among their participants. However, trade/industry associations, while influential in setting best practices, generally lack formal inspection and surveillance powers.

Legal and Regulatory Frameworks in the Nigerian Financial Markets

The legal and regulatory frameworks are the cornerstone of financial market oversight, providing regulators with the statutory and institutional authority to execute their mandates. They define the scope of regulatory powers and establish the foundation upon which all supervisory and enforcement functions are carried out. At the core of these frameworks is rulemaking which is arguably the most consequential and enabling of all regulatory tools. Through rulemaking, regulators translate legislative provisions into detailed, actionable standards that govern market conduct and operational norms. Crucially, rulemaking precedes and underpins the effective deployment of all other regulatory functions, including registration and licensing, supervision, surveillance, enforcement, as well as

market development. Without a coherent and enforceable body of rules, regulatory activities would lack legal clarity, procedural consistency, and the authority necessary to ensure compliance. In this sense, the legal and regulatory framework, anchored by robust rulemaking does not merely support regulation but defines and enables it.

Statutory Frameworks

- **The Investment and Securities Act 2025**

The Investment and Securities Act (“ISA”) 2025 is the primary statute that governs the Nigerian capital markets. It was enacted to provide a comprehensive regulatory framework for the operation and development of securities and investment activities in Nigeria. The ISA establishes the SEC as the principal regulatory authority overseeing the Nigerian capital market, detailing its powers and responsibilities. Key provisions of the ISA include amongst others; the regulation of securities issuance and trading, registration of capital market operators and securities exchanges, control and regulation of initial public offerings, regulation of mergers, acquisitions, take-overs and collective investments schemes

- **The Central Bank of Nigeria Act 2007**

The CBN Act is the legal framework that governs the operations, responsibilities, and powers of the CBN. It outlines the CBN's core functions and grants the CBN autonomy to carry out such functions independently while being accountable to the government. The CBN Act serves as the foundation for the CBN's operations and its mandate to promote economic stability in Nigeria

- **The Foreign Exchange (Monitoring & Miscellaneous Provision) Act 1995**

The Foreign Exchange (Monitoring & Miscellaneous Provision) Act (the “FX Act”) governs the management and control of foreign exchange in Nigeria. It grants the CBN the authority to regulate and supervise foreign exchange transactions within Nigeria, ensuring proper monitoring and control over the inflow and outflow of foreign currencies. The FX Act also empowers the CBN to set policies on the allocation and usage of foreign exchange

- **Banks and Other Financial Institutions Act 2020**

Banks and Other Financial Institutions Act (“BOFIA”) regulates the operations, licensing, and supervision of banks and other financial institutions in Nigeria. It stipulates the requirements and procedures for obtaining licenses to operate as financial institutions in Nigeria, such as commercial banks, investment banks, insurance companies, and other non-bank financial institutions. Notably, Financial institutions are key participants in the Nigerian financial markets, as such BOFIA serves as a legislation that governs the activities in the Nigerian financial markets

- **Companies and Allied Matters Act 2020**

Companies and Allied Matters Act (“CAMA”) is secondary in its applicability to the Nigerian financial markets. In particular, CAMA is the statute that governs the incorporation of companies in Nigeria by the Corporate Affairs Commission. To the extent that only incorporated entities are permitted by law to offer and trade securities in the Nigerian financial markets, issuers are required to comply with the provision of CAMA with respect to their incorporation, ability to raise capital through debt, equity and other hybrid securities and corporate governance

Regulatory Frameworks

- **The SEC Rules & Regulations**

To achieve its objectives of securities regulation as embedded in the ISA, the SEC frequently prescribes rules and regulations. These rules are designed to ensure transparency, fairness, and integrity in the capital market, protecting investors, ensuring compliance with legal requirements, and promoting market efficiency. Over the years, the SEC has developed comprehensive regulatory frameworks addressing various facets of the Nigerian capital market including but not limited to the registration and regulation of securities offered and traded in the Nigerian capital market, requirements for the registration of capital market operators, post-registration compliance requirements by capital market operators and other regulated entities, market conduct etc

- **CBN Guidelines and Circulars**

The CBN issues guidelines and circulars to regulate and provide guidance, updates or directives to banks, financial institutions, and other stakeholders in the Nigerian financial system. These guidelines and circulars provide detailed instructions and standards in areas including but not limited to monetary policy updates, exchange rate regulations, capital requirements, prudential guidelines, foreign exchange management, banking operations, consumer protection, financial inclusion, and compliance with international standards

- **Rules of Self-Regulatory Organisations**

To complement the regulations established by primary regulators, SROs play a vital role in fortifying the integrity of the financial markets, safeguarding investors, and promoting fair and equitable practices by developing and enforcing a comprehensive set of rules that address several critical aspects of market operations. These rules encompass registration requirements, ensuring that only qualified and reputable entities are permitted to participate in the market through the platforms. They also typically outline post-registration compliance obligations, which are designed to maintain high standards of conduct and operational integrity among market participants. Additionally, SROs establish detailed disclosure and reporting requirements, which ensure transparency and accountability in financial markets transactions and operational practices

Conclusion

In conclusion, this Article reinforces the central importance of effective financial market regulation in strengthening the stability, integrity, and competitiveness of the Nigerian financial system. By examining the tools employed by regulators alongside the statutory and regulatory frameworks that define their mandates, it demonstrates how well-designed oversight mechanisms can support transparency, efficiency, and resilience across the markets. As Nigeria's financial system continues to evolve and integrate within the global economy, the need for adaptive, coordinated, and forward-looking regulation becomes increasingly critical. The continued efforts of regulators to refine their frameworks, address emerging challenges, and align with international best practices will be vital in ensuring that the Nigerian financial markets remain robust, attractive to investors, and capable of supporting Nigeria's long-term economic goals.



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