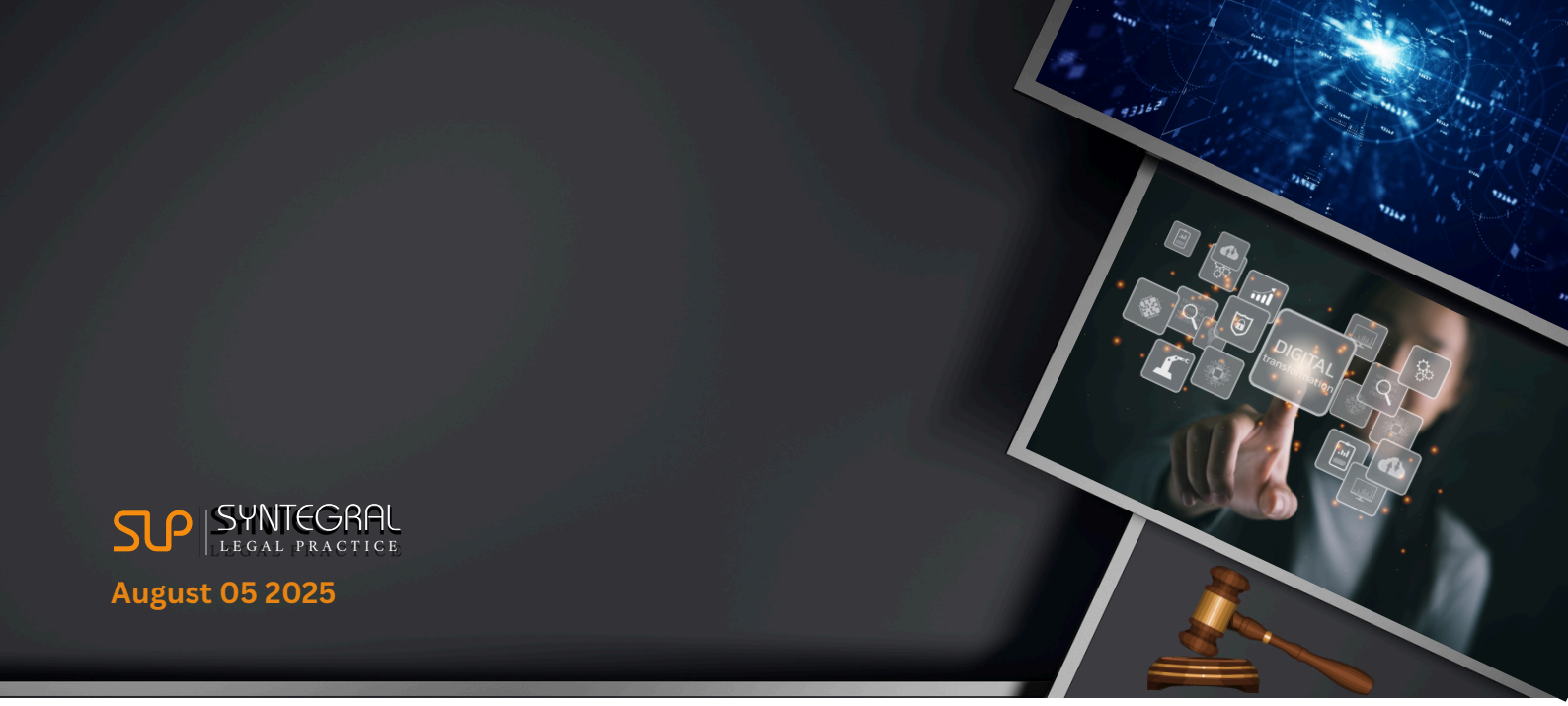


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Digital Assets Custody: Institutional Challenges and Opportunities in the Nigerian Context

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Overview

The early 2020s witnessed a breakthrough in digital assets, particularly with the rise of cryptocurrencies such as Bitcoin and Ethereum. These assets, often erratic and decentralized, have attracted institutional investors who now face unique challenges regarding their safe storage and management, which is where Digital Asset Custodians come into play. In Nigeria, the regulatory landscape has undergone a major transformation with the enactment of the Investment and Securities Act 2025 (ISA 2025). This Act explicitly recognizes digital and virtual assets as securities, bringing them under the regulatory purview of the Securities and Exchange Commission (SEC). The SEC is now empowered to register, supervise, and regulate all entities and platforms dealing in digital assets, including custodians and exchanges. These measures aim to provide legal clarity, enhance investor protection, and ensure the security of digital assets in a rapidly evolving Nigerian landscape. This article explores the challenges faced by institutions in custody of digital assets, along with the opportunities created by this new legislation.

Keywords: Digital Assets, Digital Assets Custody, Security and Exchange Commission.

Introduction

The 21st century has witnessed rapid advancements in digital technology, notably with the emergence of digital assets such as Bitcoin, Ethereum, and other cryptocurrencies. These assets have garnered significant interest from institutional investors worldwide, including Nigeria. As an increasing number of Nigerian institutions explore the potential of digital assets for growth and profitability, the urgent need for secure and efficient mechanisms to store and manage these assets has become increasingly apparent. In common law jurisdictions, the legal system is undergoing a quiet but meaningful transformation. England and Wales set the tone in 2019 when the Law Commission released a seminal report proposing that digital assets be recognized as a distinct category of property.[1] The question is no longer whether the law should adapt, but how far it must evolve to remain relevant in an era where concepts of ownership, identity, and exchange are becoming increasingly virtual. This evolution has played a pivotal role in reshaping the legal treatment of digital assets, with growing recognition under English common law that assets such as cryptocurrencies and non-fungible tokens (NFTs) may be classified as property. Such legal clarity has provided a vital foundation for institutions and regulators in their efforts to manage digital assets securely and effectively.

In Nigeria, the regulatory environment has shifted dramatically with the passage of the Investment and Securities Act 2025 ("ISA 2025"). Prior to its enactment, the Central Bank of Nigeria (the "CBN") had issued advisories cautioning banks and other financial institutions against providing services to cryptocurrency exchanges. However, the ISA 2025 expressly classifies digital and virtual assets as securities, thereby extending the SEC's regulatory authority to register, supervise, and oversee any platform or custodian that deals in such assets. Hence, this article examines the key challenges Nigerian institutions face in the custody of digital asset, while also highlighting the opportunities arising from the country's evolving regulatory landscape.

[1] Law Commission, Annual Report 2019-2020

Digital Asset Custody in Nigeria: The Regulatory Landscape

Since as far back as 2017, the stance of the CBN has been of caution and avoidance as it relates to digital assets. This stance led to widespread de-banking of crypto platforms, pushing crypto users towards peer-to-peer trading models and contributing to a broader sense of caution and hesitation regarding digital assets in the country. However, the regulatory attitude is beginning to experience a shift as a result of the newly enacted ISA 2025.

This legislation expands the definition of securities to include digital and virtual assets[2] such as cryptocurrencies and tokens, which brings digital assets under the regulatory purview of the SEC. All businesses and platforms wishing to issue, trade, or offer digital assets to the public in Nigeria are now mandated to register with the SEC and comply with its rules.[3] As part of these efforts, the SEC has introduced specific rules for the registration of Digital Asset Custodians , recognizing their critical role in safeguarding digital assets. The SEC's regulations require all Digital Asset Custodians (whether domestic and foreign) operating in Nigeria must be duly registered. These regulatory measures are designed to ensure that institutions within Nigeria, and those seeking to enter the Nigerian market, comply with established standards for custody of digital assets.

Institutional Challenges in Digital Assets Custody

Digital assets custody in Nigeria faces several significant challenges, even with the legal clarity brought by the ISA 2025 and ongoing regulatory reforms. Not too long ago, Nigeria's approach to digital assets could be summed up in one word: avoidance. Regulators, led by the CBN, kept a safe distance by issuing stern warnings and the outright banning financial institutions from facilitating cryptocurrency transactions in 2021.

But that stance has since begun to shift. What was once a gray zone is slowly being carved into a defined regulatory landscape. The SEC took the lead, recognizing digital assets as securities under the ISA 2025, an important signal that these assets are no longer outside the purview of formal regulation. Even the once cautious CBN has softened its tone, now allowing financial institutions to open accounts for licensed Virtual Asset Service Providers (VASPs), provided they comply with Know-Your-Customer, Anti-Money Laundering, and risk mitigation requirements.[4]

Still, this evolving framework is far from simple. The rules remain fluid, and institutions must continually recalibrate to meet new compliance standards. Adding to the complexity is the need to navigate overlapping mandates from the SEC, CBN, and potentially the Federal Competition and Consumer Protection Commission (FCCPC). As finance and technology become increasingly intertwined, stakeholders are navigating uncharted waters, striving to steer a course between innovation and regulation, while avoiding costly missteps.

Beyond regulatory considerations, the operational integrity of digital asset custody raises significant legal and technological concerns. Central to this function is the secure management of the private cryptographic keys, which confer exclusive authority over digital assets.

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[2] Section 357, Investment and Securities Act 2025, which expanded the definition of securities to include virtual and digital assets.
[3] Rule 66.0, Amended Digital Assets Rules
[4] Guidelines on Operations of Bank Accounts for Virtual Asset Service Providers

Custody goes far beyond simply storing private keys. It is about providing the foundational assurance that clients' assets are safe, compliant and accessible, while recognizing that these keys are not only essential to asset access and control but also represent a single point of failure. The loss, theft, or compromise of private keys, whether through cyberattack, internal malfeasance, or inadequate key management protocols, can result in the permanent and untraceable loss of client assets. Furthermore, deficiencies insufficient segregation of duties, and failures in operational oversight significantly elevate institutional risk-exposure. In this context, custodians must implement robust risk management frameworks that integrate advanced technological safeguards with rigorous internal controls, consistent with their fiduciary obligations under applicable securities and data protection laws.

Another major challenge is the security risks and cybersecurity threats associated with the custody of these digital assets. Digital assets, by their very nature, are attractive targets for hackers. Nigerian custodians face the same cybersecurity threats as their global counterparts. In July 2025, Indian cryptocurrency exchange CoinDCX suffered a security breach, resulting in a loss of approximately USD 44 million. Prior to the CoinDCX incident, reports[5] indicated that total cryptocurrency thefts had already surpassed USD 2.17 billion. This succession of breaches underscores the persistent security vulnerabilities within the cryptocurrency sector and highlights the escalating cyber threats facing the digital currency ecosystem. In Nigeria, where cybersecurity infrastructure is not fully developed, custodians must invest heavily in secure storage solutions, including multi-signature wallets, encryption, and advanced threat detection systems to mitigate these risks.

Overlaying these infrastructural vulnerabilities is a different threat to market integrity, driven by Nigeria's historical encounters with fraudulent investment schemes, Ponzi operations, and illicit digital platforms. Despite the evolving regulatory oversight, enforcement remains a formidable challenge. The decentralized and pseudonymous nature of many digital asset systems makes it difficult for regulators to trace illicit flows or hold perpetrators accountable, particularly where such actors operate across borders or leverage regulatory arbitrage. Unlicensed platforms continue to emerge in the digital space, often exploiting jurisdictional blind spots and the limitations of existing surveillance infrastructure. As fraudsters grow more sophisticated, regulatory authorities must adopt a proactive enforcement posture, supported by inter-agency cooperation, real-time monitoring technologies, and clear sanctions regimes. Without such measures, the credibility of Nigeria's digital asset ecosystem, and the safety of investor funds, remains vulnerable to exploitation.

Digital assets are inherently volatile, and this volatility poses an ongoing challenge for custodians responsible for safeguarding institutional holdings. Custodians must grapple with the unpredictable price movements of assets such as Bitcoin and Ethereum, which can fluctuate dramatically short periods [6]. This instability complicates the accurate valuation of assets under custody, impairs long-term planning, and heightens risk exposure. For Nigerian investors and institutions such volatility continues to act as a significant barrier to wider adoption and complicates regulatory oversight, particularly in areas such as financial reporting, prudential supervision, and collateral management.

[5] https://economictimes.indiatimes.com/tech/technology/mid-year-update-crypto-thefts-top-2-17-billion-in-2025-shows-data/articleshow/122817826.cms?utm_source=chatgpt.com

[6] CoinMarketCap (2023). Volatility in the Cryptocurrency Market: A Historical Perspective. CoinMarketCap. <https://www.coinmarketcap.com/> Accessed on the 23rd of February 2025.

Another critical challenge is that the taxation and accounting rules for digital assets are still evolving and often unclear. The recently enacted Nigeria Tax Act 2025 officially include "digital assets" as taxable property, The Act described digital assets as "digital representation of value that can be digitally exchanged, including crypto assets, utility tokens, security tokens, non-fungible tokens (NFT), such as other similar digital representations or derivatives of any of the listed or similar assets and any other asset as may be defined by the relevant regulatory authority"[7]. However, beyond this, it is still unclear how other types of digital asset activities, such as staking[8], lending, or receiving airdropped tokens, should be taxed. This level of uncertainty and lack of clarity makes it difficult for custodians and institutional investors to stay fully compliant and increases the risk of legal issues or penalties. On the accounting side, it's also hard to track the value of digital assets accurately, especially since prices are highly volatile. Without standardized rules on how to report these assets in financial records, organizations face challenges in being transparent and may unknowingly expose themselves to financial risk.[9]

As the digital asset ecosystem matures, it reveals a sobering reality: the scarcity of skilled professionals with the technical, legal, and compliance expertise needed to manage the complex risks inherent in custodial operations. In Nigeria, this talent gap is even more pronounced. Asides the deficiencies in cybersecurity infrastructure, there is a general lack of, or difficulty in procuring technical capacity. The custodianship of digital assets demands not just fluency in emerging technologies, but also a deep understanding of regulatory obligations, cybersecurity protocols, and cross-border legal considerations. Yet, institutions often find themselves navigating this terrain without adequately trained personnel. This deficit not only exposes firms to operational vulnerabilities but also undermines investor confidence in the security and reliability of the custodial infrastructure. Worse still, this gap often results in substantial spending on talent acquisition. Unfortunately, this added financial strain is exacerbated by stringent regulatory requirements for hiring foreign professionals.

The integration of digital asset custody solutions into existing institutional operations presents significant technical and organizational challenges. As Nigeria's financial sector undergoes a gradual digital transformation, custodians must navigate emerging technologies such as blockchain networks, cryptographic wallet infrastructure, and smart contract mechanisms. These systems differ fundamentally from traditional asset custody models, requiring specialized technical expertise, robust cybersecurity protocols, and significant investment in systems architecture. Moreover, aligning these digital frameworks with existing risk management, compliance, and internal control systems remains a considerable hurdle for many Nigerian financial institutions.[10]

On a different note, the legal and jurisdictional challenges associated with digital assets have reduced significantly with the ISA 2025. The legal rights of digital asset owners present one of the most significant hurdles for custodians, however, the regulatory tide has turned decisively with the formal recognition of Digital Asset Custodians (DACs) under the Rules on Issuance Offering and Custody of Digital Assets 2022, issued by the Securities and Exchange Commission in furtherance of the ISA 2025. Defined by the CBN as any entity engaged in the safekeeping, storage, or custody of digital tokens or virtual assets on behalf of others, DACs are now squarely within the ambit of the SEC.[11]

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7 Section 202 of the Nigeria Tax Act 2025

8 Staking is a process in the cryptocurrency world that allows users to earn rewards by locking up their digital assets to help support the operations and security of a blockchain network, typically one that uses a Proof of Stake (PoS) or a variant of it as its consensus mechanism

9 Oleh Diak, 'Operating activities of cryptocurrency exchanges and specifics of their accounting', (2024) Economics Finances Law.

10 Deloitte (2020). Navigating Operational Risks in the Digital Asset Space. Deloitte Insights. <https://www.deloitte.com/> Accessed on the 24th of February 2025.

11 Guidelines on Operations of Bank Accounts for Virtual Assets Service Providers 2023.

Registration with the SEC is not merely procedural, it is a legal prerequisite for operation. The Commission is vested with powers to register both local and foreign custodians, provided that foreign entrants are subject to equivalent regulatory oversight in their home jurisdictions. Importantly, the SEC's expanded enforcement mandate allows it to impose significant penalties, ranging from fines to criminal prosecution, on entities that operate without authorization or engage in fraudulent activity.[12] These measures aim to bring order to a rapidly evolving space, protect investor interests, and signal that regulatory tolerance for non-compliance is narrowing.

The mandatory registration of Digital Asset Custodians by SEC is a step in the right direction. With ISA 2025, digital assets are now formally recognized as securities, which clarifies their legal status and strengthens the enforceability of ownership rights. However, the cross-border nature of digital assets continues to pose jurisdictional challenges, particularly for foreign custodians and investors. The SEC's authority to cooperate with foreign regulators under reciprocal agreements is intended to mitigate some of these complexities.

Opportunities in Digital Assets Custody in Nigeria

Leveraging SEC Regulations to Foster Innovation: The SEC's focus on regulating innovation while ensuring safety and market deepening presents a unique opportunity for Nigerian custodians. With the expanded regulatory framework under ISA 2025, custodians can innovate within a clear legal structure, develop new products such as tokenized securities, and facilitate the integration of digital assets into the broader financial system. The SEC's commitment to aligning with international best practices further enhances Nigeria's attractiveness as a digital asset hub in Africa.

Bridging the Gap Between Traditional and Digital Finance: As the regulatory landscape evolves, there is an opportunity for Nigerian custodians to partner with traditional financial institutions, such as banks and wealth management firms, to facilitate the integration of digital assets. Through collaboration and regulatory compliance, Nigerian custodians can play a key role in the seamless integration of digital assets into the Nigerian financial system. One method is through the tokenization of traditional assets such as real estate, equities, and commodities presents an opportunity for Nigerian custodians to innovate. Tokenization offers greater liquidity, transparency, and accessibility to institutional investors. By supporting tokenized assets, Nigerian custodians can bridge the gap between traditional and digital asset markets, providing local investors with creative new ways to participate in blockchain-based opportunities.

Growing Demand for Institutional-Grade Custody Solutions: As digital assets continue to gain traction in Nigeria, institutional investors require safe, compliant custody services. The legal clarity introduced under the ISA 2025 is expected to encourage greater institutional participation by establishing a safe and regulated framework for digital asset custody. In this context, the recent amendments to the SEC Rules offer a timely opening for specialized Nigerian custodians to enter the market. Those able to demonstrate full regulatory compliance and implement robust security infrastructure will be well-positioned to capitalize on the growing demand and shape the future of institutional digital asset management.

Additionally, offering institutional-grade solutions, such as multi-signature technology, cold storage, and blockchain security protocols, will position Custodians to adequately cater to the needs of Nigerian banks, hedge funds, and insurance companies. This demand will only grow as the Nigerian market becomes more integrated into the global digital asset ecosystem.[13]

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[12] Section 26 & 27, ISA 2025.

[13] Fidelity Digital Assets (2021). Institutional Interest in Cryptocurrency and Custody. Fidelity Insights. <https://www.fidelity.com/> Accessed on the 23rd of February 2025

Conclusion

Digital asset custody in Nigeria presents both significant challenges and unique opportunities for market innovation and growth. The enactment of ISA 2025 marks a turning point, providing much-needed legal certainty through a comprehensive regulatory framework for digital assets. The SEC's enhanced powers to register, supervise, and enforce compliance among all digital asset service providers, including custodians, are expected to foster a safer, more transparent, and innovative market. With this development, the country is set to not only safeguard investor value but also fuel economic growth, deepen capital markets, and chart a pioneering path for digital asset custody across Africa. Institutions that can adapt to these regulatory changes and maintain high standards of security and compliance will be well-positioned to capitalize on the expanding digital asset market in Nigeria and beyond.

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