NIGERIA'S SEC TIGHTENS THE RULES FOR FUND AND PORTFOLIO MANAGERS: WHAT CAPITAL MARKET OPERATORS NEED TO KNOW

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Oladiran Falore
Managing Partner



Adaora Obi-Dike
Associate Counsel

Introduction

The Nigerian Securities and Exchange Commission ("SEC" or the "Commission") has introduced amendments to its Rules and Regulations governing Fund/Portfolio Management Operations, with important implications for fund and portfolio managers, particularly in relation to the management of retail investors' funds, related-party transactions, custody arrangements and investments outside Nigeria.

The amendments, made on 21 August 2026, reflect an increased regulatory emphasis on investor protection, conflicts management, segregation of client assets and suitability of investments. For Capital Market Operators ("CMOs") engaged in fund and portfolio management, the changes provide an appropriate opportunity to review not only their investment practices and client documentation, but also the governance and ethical framework within which investment decisions are made.

This article highlights some of the key amendments and considers the broader standards of conduct expected of fund and portfolio managers operating in the Nigerian capital market.

What Has Changed?

1. A broader conception of fund and portfolio management

The amendments refine the definitions of discretionary and non-discretionary fund/portfolio management by expressly referring to the management of "assets, securities and/or portfolio of securities".

Under a discretionary mandate, the manager exercises discretion and independence in managing client assets in accordance with the investment objectives contained in the relevant Client Service Agreement ("CSA"). Under a non-discretionary mandate, investment decisions remain subject to the client's direction.

The distinction remains important. A discretionary mandate does not confer an unrestricted licence on the manager to deploy client funds as it considers commercially attractive. Investment discretion remains constrained by the client's mandate, risk profile and the applicable regulatory framework.

2. Stricter protection for retail investors

One of the most significant aspects of the amendment concerns the investment of monies belonging to Retail Investors. The Rules classify a Retail Investor, broadly, as an individual who is not a High Net Worth Investor ("HNI") or Qualified Institutional Investor ("QII"), has an aggregate net worth not exceeding ₦100 million, lacks the requisite investment sophistication, has a low-to-moderate risk tolerance, and invests for his or her beneficial account or on behalf of a minor.

Under the amended Rules, monies received from Retail Investors under discretionary management may only be invested in prescribed permissible assets. These include quoted equities on registered securities exchanges in Nigeria, qualifying OTC-traded equities, government securities, qualifying investment-grade corporate debt, units of registered collective investment schemes, fixed or term deposits issued by CBN-licensed banks, qualifying non-interest/Shariah-compliant instruments, and such other assets as the Commission may approve as suitable for retail investors.

The implication is clear: commercial attractiveness or potentially high returns are not, by themselves, sufficient justification for deploying retail client money into an investment. The investment must first fall within the regulatory universe of permissible investments.

3. Express prohibition of related-party investments involving retail funds

Perhaps the most consequential amendment from a governance perspective is the introduction of an express prohibition against investing retail clients' monies in related-party assets or transactions.

The amended Rules provide that:
"*Monies received from Retail Investors/Clients shall not be invested in any related party's asset/instrument or co-invested in any related party transaction.*"

This newly introduced provision has significant implications for financial groups containing fund managers alongside investment, lending, real estate, private equity or other operating businesses. For example, a fund manager should not deploy retail client funds into an investment instrument or project promoted by a related company (e.g. Real Estate subsidiary) merely because the investment offers an attractive yield. Similarly, structuring the exposure as a co-investment with a related party does not avoid the express restriction.

This is an important manifestation of the fundamental fiduciary principle that client money must be managed for the benefit of the client and not used as a convenient source of financing for businesses connected with the fund manager.Fund managers within corporate groups should therefore review their existing portfolios to identify direct and indirect related-party exposures involving retail client monies.

4. Related-party custody is also prohibited
The related-party restriction does not stop at investment selection. The amendments further provide that monies received from retail investors must not be kept with a related-party custodian. This reinforces the importance of institutional independence in the custody of client assets.

The policy rationale is readily apparent. Independent custody creates an additional layer of protection between the investment manager, which makes investment decisions, and the institution that holds the client's assets. It reduces the risk of self-dealing, unauthorised use of client assets and conflicts arising within a corporate group. CMOs should consequently review their custody arrangements, including the ownership and control relationships between the fund/portfolio manager and its appointed custodians.

5. Greater flexibility for HNIs and QIIs

The amended Rules draw a clear distinction between sophisticated investors and Retail Investors. For HNI and QII clients under discretionary management, the fund or portfolio manager may exercise investment discretion, provided each investment remains consistent with the client's stated objectives, defined risk tolerance and a mutually agreed, signed mandate.

The amendments also expressly permit monies belonging to HNI and QII clients, whether managed under discretionary or non-discretionary mandates, to be invested outside Nigeria. This flexibility is subject to a maximum offshore allocation of 20% of the client's assets under management. This is a significant development for portfolio diversification. Fund/Portfolio Managers serving sophisticated investors should therefore revisit their mandates, investment policies, risk disclosures and operational arrangements to determine how offshore exposure can be incorporated appropriately into client portfolios.

Importantly, greater investment flexibility should not be mistaken for reduced responsibility. Fund and portfolio managers must still act within the client's agreed investment objectives, mandate and risk tolerance.

Beyond Compliance: The Ethics Expected of a Fund/Portfolio Manager

The amendments should not be viewed merely as another compliance exercise. They reinforce a broader principle at the heart of professional asset management: a fund manager is entrusted with another person's money and must exercise that responsibility with integrity, competence and loyalty to the client's interests. The SEC Rules themselves contain important conduct requirements. Fund/portfolio managers are expected to execute client transaction orders within 24 hours at the best available terms, maintain Board-approved conflict-of-interest guidelines and refrain from short-selling or making unauthorised use of securities belonging to client portfolios.

In practical terms, several ethical principles should guide fund managers

• Put the client's interest first: Investment decisions should be guided by the client's objectives, risk appetite and agreed mandate, not by the manager's commercial interests, group relationships or desire to support an affiliated business.

• Identify conflicts before transactions proceed: A sound compliance framework should identify situations where the interests of the manager, its directors, employees, shareholders or related companies may conflict with those of clients. Where a conflict cannot be properly managed, the transaction should not proceed.

• Prioritise suitability over yield: A higher return does not automatically make an investment appropriate. Managers should assess liquidity, credit risk, concentration, duration, volatility, valuation and the investor's capacity to bear loss before considering prospective returns.

• Protect and segregate client assets: The prohibition on related-party custody for retail monies reinforces the need for clear institutional separation between managing client money and holding client assets.

• Maintain transparency: Clients should understand what they are investing in, the risks involved, the fees and expenses payable, and the basis on which performance is measured. Client Service Agreements should clearly address investment objectives, benchmarks, risk profiles, investment restrictions and valuation methodology.

• Report performance meaningfully: Periodic investment reports should disclose nominal and inflation-adjusted returns, performance against the agreed benchmark, and all expenses and costs incurred.

• Preserve accountability: A fund or portfolio manager cannot contract out of responsibility for investment losses caused by breach of agreement, fraud, bad faith, gross negligence or wilful default by the manager or its appointed agents.

These requirements collectively reinforce the principle that regulatory compliance and fiduciary culture should operate together.

What Should Fund and Portfolio Managers Do Now?

In our view, affected CMOs should undertake a focused compliance review rather than wait for an issue to arise during a regulatory examination. The immediate priorities should include:

• Client classification and suitability: Confirm that clients are correctly classified as Retail Investors, HNIs or QIIs, and ensure that KYC records, risk assessments and suitability documentation support each classification.

• Retail portfolio review: Review retail client portfolios to confirm that all investments fall within the permissible asset classes prescribed by the amended Rules.

• Related-party exposure and custody: Identify any retail portfolio investments, instruments or co-investment arrangements involving affiliates or other related parties, and confirm that retail client monies are not held with a related-party custodian.

• Client documentation and mandates: Update CSAs and investment mandates to reflect investment objectives, benchmarks, risk profiles, asset restrictions, valuation methodology, fees and other applicable regulatory requirements.

• Conflicts management: Review conflict-of-interest policies, particularly those governing proprietary trading and transactions involving directors, employees, affiliates and other related persons.

• Offshore investment controls for HNIs and QIIs: Review HNI and QII mandates before introducing offshore investments and ensure any offshore allocation remains within the prescribed 20% limit.

• Pre-investment approval and monitoring: Strengthen investment approval and compliance monitoring procedures so that regulatory eligibility, client suitability and related-party status are assessed before an investment is made.

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info@syntegrallp.com | @syntegral_lp | www.syntegrallp.com

Conclusion

The SEC's amendments represent a meaningful step in the continuing evolution of Nigeria's asset management regulatory framework, one that olaces investor protection and governance at the centre of the industry's obligation.

Of particular significance are the new restrictions governing the use and custody of retail investors' funds. The express prohibition on investing retail funds in related-party assets or transactions sends a clear regulatory message: the interests of clients are paramount and must remain wholly distinct from the commercial interests of the fund manager and its wider corporate group. This is not merely a technical rule, it is a restatement of the foundational fiduciary principle on which the asset management industry rests.

For fund and portfolio managers, compliance must therefore extend beyond the revision of policies and client documentation. Firms are required to examine the substance of their investment practices, related-party relationships, custody arrangements, product governance and conflict-management procedures with fresh scrutiny. A policy that is technically complaint but operationally hollow will not satisfy either the letter or the spirit of these amendments.

The enduring obligation of every fund/portfolio managerremains, in essence, straightforward: understand the client, understand the mandate, understand the risk, and manage the client's assets exclusively in the client's interest within the statutory boundaries.

For CMOs, these changes presents both a compliance imperative and a governance opportunity to test whether their structures, practices and culture genuinely meet that standard, and where they do not, to remedy the gap before the regulator does.

Reference

Security and Exchange Commission
Amendment_to_Rules_on_Fund_Portfolio_Management_Operations.pdf

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