



SEC Circular To All Public Companies And Capital Market Operators On The Transmutation Of Independent Non-Executive Directors And Tenure Of Directors

On the 19th of June 2025, the Securities and Exchange Commission (SEC) released a circular addressed to all public companies and capital market operators on the tenure of directors and the transmutation of Independent Non-Executive Directors (INEDs). The directive, made pursuant to the powers of SEC under the Investment and Securities Act (ISA) 2025,¹ introduces binding governance measures designed to reinforce board independence, improve transparency, and close longstanding gaps in board appointment practices.

Provisions of the SEC Circular

The Circular introduces the following key provisions:

- 1. Prohibition on the transmutation of INEDS into Executive Directors:** INEDs of public companies and significant public interest capital market operators are now expressly prohibited from transitioning into executive roles within the same entity or within a group structure. This includes positions such as Chief Executive Officer or other Executive roles. This provision seeks to preserve the objectivity and oversight function of the INEDs, in line with the expectations under the Nigerian Code of Corporate Governance and the SEC Code of Corporate Governance.²
- 2. Director Tenure Limits:** The Circular also limits the tenure of directors of all Capital Market Operators considered as significant public interest entities to 10 consecutive years in the same company and a total of 12 consecutive years within the same group structure. Furthermore, such CEOs or Executive Directors who step down after these periods must observe a three-year cool-off period before assuming the role of chairman, with a subsequent tenure limit of four years.

¹ Section 355(r) (iv) of the Investments and Securities Act (ISA) 2025

² Principle 5.5 SEC Code of Corporate Governance for Public Companies

Implication of the Circular on Public Companies and Capital Market Operators

The SEC circular which takes effect immediately, introduces a necessary shift towards more disciplined board governance. Although SEC reserves the power to determine which Capital Market operators (CMOs) fall within the category of "significant public interest entities", all public companies and CMOs are expected to review and revise their existing corporate governance practices to reflect the requirements set out in the Circular.

While the directive is clear, the immediate enforcement of the Circular may give rise to practical challenges for public companies and capital market operators in view of the fact that the circular stipulates that years already served by the affected appointees will count in computing the exit date for the 10 and 12 years tenure respectively. These may include gaps in succession planning, and short-term disruption in leadership continuity.

Nonetheless, the SEC circular reflects a clear intent to strengthen the integrity of corporate governance within Nigeria's capital markets. The prohibition on the transmutation of INEDs into executive roles helps safeguard the integrity of board oversight by maintaining a clear separation between governance and management, particularly in companies where INEDs are routinely appointed into executive positions, thereby ensuring that INEDs can exercise objective judgment free from undue influence. By addressing issues around director independence and board tenure, the Commission has provided clarity where ambiguity previously existed. Public companies and capital market operators must now take practical steps to comply, reassess their board composition, and institutionalise good governance practices.

Authors



Idunnuoluwa Obisesan
Associate



Ayomide Oduyela
Associate