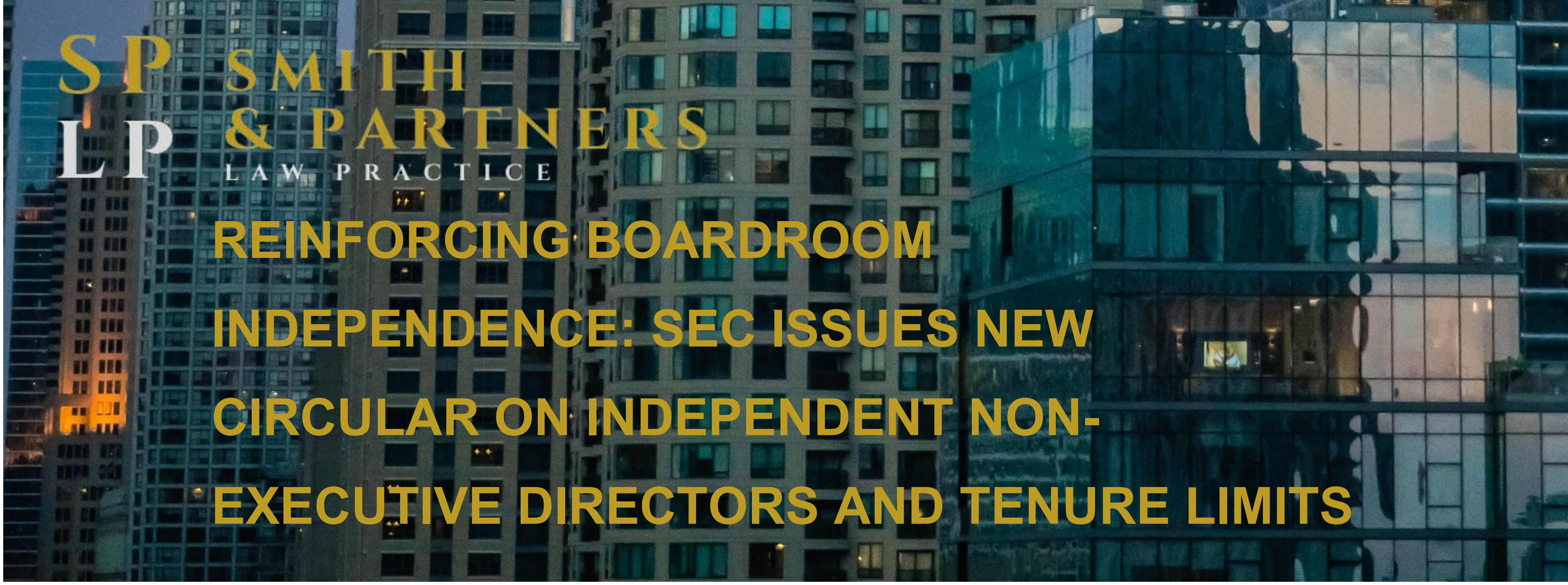

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REINFORCING BOARDROOM INDEPENDENCE: SEC ISSUES NEW CIRCULAR ON INDEPENDENT NON-EXECUTIVE DIRECTORS AND TENURE LIMITS

1.0 Introduction

On June 19, 2025, the Securities and Exchange Commission ("**SEC**") issued a far-reaching circular aimed at reinforcing corporate governance standards within Nigeria's capital markets. Directed at public companies and Capital Market Operators ("**CMOs**") classified as Significant Public Interest Entities ("**SPIEs**"), the circular introduces new restrictions on boardroom transitions and tenure limits with immediate effect.

The regulatory move stems from SEC's growing concern over the trend of Independent Non-Executive Directors ("**INEDs**") being converted into Executive Directors ("**Eds**"), including Chief Executive Officers, within the same entities or across group structures. According to the Commission, such conversions dilute the independence and objectivity expected of INEDs and threaten the integrity of board oversight function.

2.0 Key Directives of the Circular

1. Prohibition of INED-to-ED Transitions

The Circular expressly bars the conversion of INEDs into EDs within the same company or its wider group. This is in line with Principle 7 of the Nigerian Code of Corporate Governance (NCCG) 2018, which underscores the importance of INEDs being free from affiliations that may impair their independence in judgment or perception.

2. Tenure Limits for Directors

For SPIEs, the SEC now caps directorship within a single company at 10 consecutive years and imposes a group-wide cumulative limit of 12 consecutive years. These measures are aimed at curbing entrenched board membership and ensuring periodic board refreshment.

3. Cooling-Off Period for Former Executives Seeking Chair Roles

Former CEOs and EDs are required to observe a three-year cooling-off period before being eligible for board chairmanship roles. If appointed, such individuals may serve in that capacity for a maximum of four years.

3.0 Clarifications and Scope: SEC’s Guidance Note

In response to stakeholder feedback, SEC issued a Guidance Note on July 1, 2025 clarifying the circular’s application, particularly in respect of Financial Market Infrastructures (FMIs) designated as SPIEs. The Note provides interpretive direction on the implementation of the rules and underscores the requirement for affected companies to align their succession planning and governance frameworks accordingly.

4.0 Implications and Observations

While entities regulated by the Central Bank of Nigeria (CBN) such as banks and financial holding companies may already be familiar with similar governance prescriptions under existing CBN Guidelines, the SEC’s framework imposes slightly broader cooling-off periods and longer tenure ceilings. Non-bank public companies, however, may need to reassess their board composition and pipeline planning to ensure compliance.

Ultimately, this circular marks a firm step by the SEC toward strengthening board independence and transparency across Nigeria’s capital markets. By eliminating the pathway from INED to ED within the same group and mandating structured exits, the Commission sends a clear message: the role of an INED is not transitional but deliberately independent.