



Innovating Commodity Finance: The Legal Framework for Warehouse Receipts Under Nigeria's ISA 2025

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Introduction

The commodity market is a significant driver of Nigeria's economic output, contributing between one-third and two-fifths of the national GDP.¹ But its growth and stability are hindered by systemic challenges such as inflation, market volatility, climate-related risks, insecurity, and regulatory unpredictability. These factors create financing gaps for producers and traders, making it difficult to obtain capital through conventional means.

In response, the Investment and Securities Act 2025 (ISA 2025) introduced legal recognition of warehouse receipts as a means of leveraging assets by commodity owners and derisking investment in the commodity market. This article examines how the ISA 2025 framework supports the classification of warehouse receipts as tradable securities and assesses the extent to which this innovation enhances financial inclusion and deepens market efficiency in Nigeria's commodities ecosystem.

¹ AFEX Commodities Exchange, 2025 Annual Commodities Outlook (AFEX 2025)
https://blog.afex.africa/uploads/Annual_Commodities_Outlook_2025_6640b936a7.pdf accessed 2 July 2025

Legal Framework for Warehouse Receipts Under ISA 2025

The Act defines warehouse receipts as documents of title to commodities in whatever form issued by a warehouse operator, collateral manager, or other persons permitted by the Securities and Exchange Commission to issue a warehouse receipt in respect of commodities deposited in a warehouse. By this provision, commodities could be produce, item, article, right or interest of any nature in such commodities. When a person, natural or otherwise, has title to such, the commodity can be deposited with a registered warehouse and the receipt which is essentially the proof of such deposit² can be used to secure funding for business. The receipts attest to the existence and quality of the commodity for which they are issued.

In respect of the warehouses that can validly issue receipts, section 240 of the Act provides for prior registration with the Securities and Exchange Commission. Where a warehouse is registered, it can issue warehouse receipts which are tradable on the floor of an exchange in Nigeria or another jurisdiction³. The Act further provides for the conditions to

be fulfilled before a warehouse can become a tradable receipt issuing warehouse.

The conditions for a warehouse to be registered with the Commission are as follows.⁴

- a. It is suitable for the proper storage of the particular commodities;
- b. The operator meets the conditions for eligibility to operate a registered warehouse of the kind applied for as may be prescribed in the rules and regulations made under this Act; and
- c. The operator agrees, as a condition to the granting of the registration, to comply with and abide by the provisions of regulations made under this Act.

Operating while failing to meet these requirements is an offence which carries a stiff penalty of **N3 million or imprisonment for not less than five (5) years.**

² Section 246(1) of the Investments and Securities Act, 2025.

³ Section 248(1) of the Investments and Securities Act, 2025.

⁴ Section 240(3) of the Investments and Securities Act, 2025.

Regulatory Framework for Warehouse Receipts

The successful implementation and integrity of the warehouse receipt system under the ISA 2025 relies heavily on the coordinated efforts of key regulatory institutions. They include,

- a. The Securities and Exchange Commission
- b. The Central Bank of Nigeria
- c. The Nigerian Agricultural Insurance Corporation

A. The Securities and Exchange Commission

The Securities and Exchange Commission is the primary regulator of the warehouse receipt system as it administers the Investments and Securities Act which provides legal basis for the system. The Commission in regulating the warehouse receipt system is to ensure all warehouses intending to issue receipts are registered. An application for registration of the warehouse can be submitted by its operators in the form prescribed in the Commission's rules and regulations.⁵

Beyond guiding the registration of warehouses under section 240 of ISA 2025, the Commission also licenses and

supervises the commodity exchanges in Nigeria where such warehouse receipts can be traded. Some of the registered commodities exchanges in Nigeria include the Nigeria Commodity Exchange (NCX), Afex Commodities Exchange Limited (AFEX), Lagos Commodities and Futures Exchange (LCFE), and the Gezawa Commodity Market (GCMX).

With its supervisory role over the operations of warehouse operators and the exchanges as well as the transactions and interactions of sellers and buyers in the commodities exchange, the Securities and Exchange Commission is a major regulatory body whose policies affect market behaviour and outcome.

B. The Central Bank of Nigeria (CBN)

The Central Bank of Nigeria (CBN) plays a vital role in ensuring that warehouse receipts are not just recognized but usable within the broader financial system. One of the ways it does this is by allowing banks and finance companies to treat properly issued warehouse receipts as acceptable collateral for loans.

⁵ Rule 3, Rule on Warehousing and Collateral Management, Securities and Exchange Commission (Nigeria), Executed Rules and Amendments (22 March 2021) <https://sec.gov.ng/executed-rules-and-amendments-22-march-2021/>

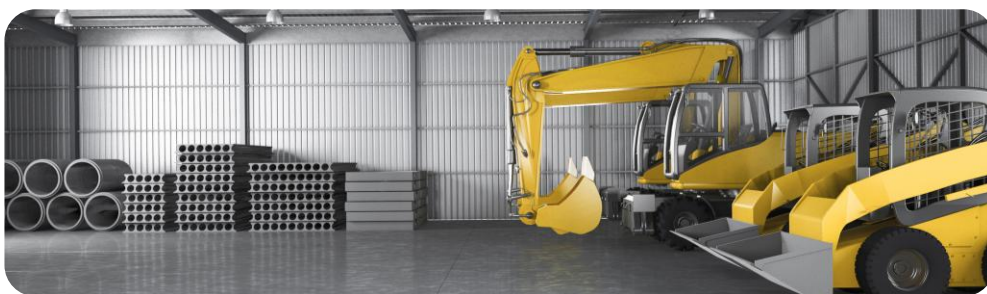
Through its revised guidelines for finance companies, the CBN has formally permitted “warehouse receipt financing”, which enables farmers, traders, and agribusinesses to access credit using their stored commodities without needing to sell immediately.⁶ This is a significant step toward reducing the financial pressure that often leads to post-harvest losses and low farmgate prices.

Beyond policy, the CBN has also shown institutional support for warehouse receipt systems through its involvement with the Nigeria Commodity Exchange (NCX). It holds a major stake in the NCX and has backed pilot programs aimed at linking warehouse receipts to structured commodity trading. In addition, the CBN’s broader push for digital financial systems aligns well with the electronic warehouse receipt systems (e-WRS) being rolled out. Whether it’s the introduction of e-invoicing for exports, the growth of QR-based payments, or the development of bank-neutral cash hubs, the central bank is working to ensure that warehouse receipts can easily fit into modern, tech-enabled finance. This digital alignment helps farmers and traders use

receipts in real-time to access loans, make payments, or even trade electronically, making the warehouse receipt system more than just a piece of paper, but a tool for real economic empowerment.

C. The Nigerian Agricultural Insurance Corporation (NAIC)

The Nigerian Agricultural Insurance Corporation also plays a critical role in the success of the warehouse receipt ecosystem. The Corporation is a wholly owned Federal Government of Nigeria insurance company set up to provide insurance cover to producers of agricultural produce in Nigeria. It offers insurance for both the commodities and the warehouses where they are stored thus reducing financial risks that could arise in the course of business. Since ISA 2025 mandates that all commodities in a warehouse under the warehouse receipt system is to be insured, insurance must be taken with the Corporation as the Corporation helps build a system of trust and accountability which are attractive to potential investors.⁷



⁶ Guideline 2, Central Bank of Nigeria, Revised Guidelines for Finance Companies in Nigeria (10 September 2014) 4, National Monetary Policy Department, CBN <https://www.cbn.gov.ng/out/2014/ccd/revise%20guidelines%20for%20finance%20companies%20in%20nigeria.pdf>

⁷ Section 3(e) of the Nigerian Agricultural Insurance Corporation Act 1993

Operational Framework and Market Infrastructure

The Investments and Securities Act 2025 has spelt out the requirements for smooth operations of the warehouse receipt ecosystem, highlighting the obligations of warehouse operators, commodity depositors and third parties with interests in the deposited commodities.

A. Issuance and Registration:

The owner of title to commodities can deposit them with a warehouse as they are usually equipped for efficient management of such commodities for delivery on a future date. Before such commodities are deposited, however, they must be insured.⁸ If the warehouse operator is satisfied that the depositor has title and the commodity is insured, it can then issue a receipt to the depositors which can then be traded. Where a person deposits commodities with no or a defective title, such a person commits an offence and is liable on conviction to a fine of not less than N5,000,000 or imprisonment for a term not more than two years or both.⁹ Depositors must therefore ensure that they have title and there is no undisclosed lien or mortgage over commodities deposited before the issuance of a warehouse receipt to them.

B. Trading and Settlement:

When the receipt is issued, the depositor can trade the receipt on the floor of a registered commodity exchange where the commodities for which the receipt is issued are listed on the exchange for trading. When that is done, the ownership transfers from the original depositor to the new holder of the receipt.¹⁰ It can also be used as collateral for a loan by the depositor of the commodity. When this is done, a lien is created over the commodity for the third party.

The possibility of creating propriety interest over issued receipt for other parties apart from the initial depositor of commodities is why ISA 2025 mandates that all receipts issued are to be negotiable receipts¹¹ unlike the system obtainable in the United States where the receipts can be negotiable or non-negotiable. Where it is negotiable, it is transferable to a new person by endorsement and delivery. This means it can be bought sold or used as collateral. Where it is, however, non-negotiable, it is not transferable and can simply be used as evidence that the commodities exist. Such a receipt can only be redeemed by the original owner or depositor.¹²

⁸ Section 242 of the Investments and Securities Act 2025.

⁹ Section 266 of the Investments and Securities Act 2025.

¹⁰ Section 357 on the Investments and Securities Act on the definition of 'holder'.

¹¹ Section 249 of the Investments and Securities Act 2025

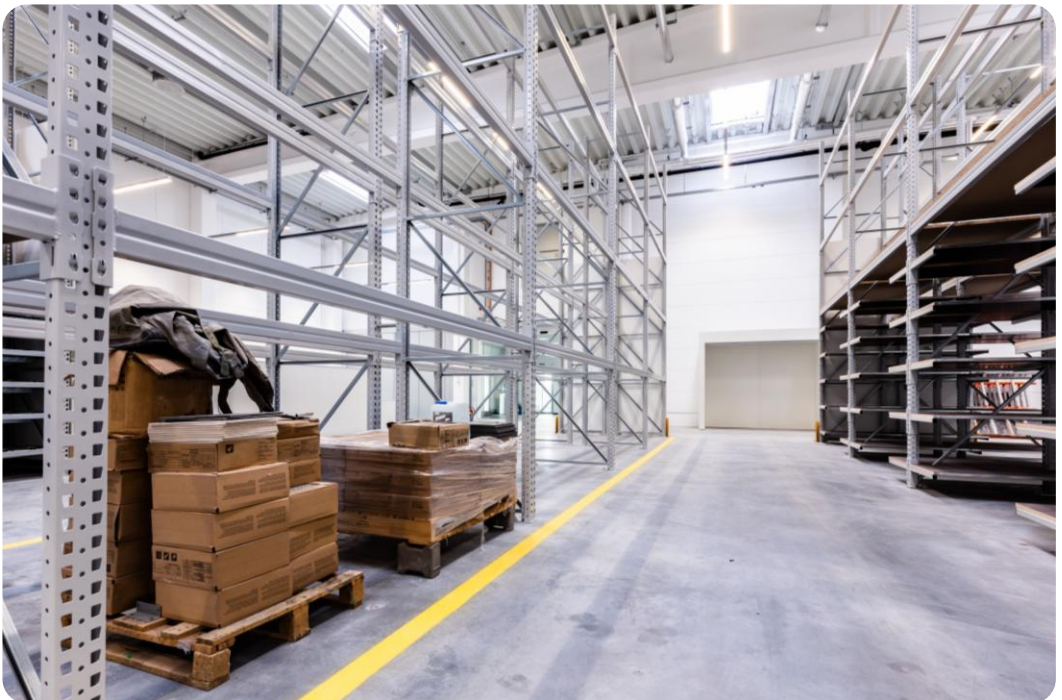
¹² Harold Averkamp, 'Warehouse Receipt' (AccountingTools, 14 November 2023) <https://www.accountingtools.com/articles/warehouse-receipt> accessed 2 July 2025.

C. Warehouse Operators and Licensing:

Warehouse receipts are issued by registered and insured warehouses to owners of commodities, the commodity depositors, to use as tradable securities on the floor of an exchange.¹³ In addition to the requirements to be met by warehouses before registration earlier discussed, the warehouses must also have been inspected by a warehouse inspector authorized by the Securities and Exchange Commission.¹⁴

Another key player in the warehouse receipt ecosystem is the exchange on which the commodities, subject of the receipt, are to be traded. Such as; Afex, LCFE, and GCMX.

Such an exchange must be licensed by the Securities and Exchange Commission.



¹³ Section 242 of the Investments and Securities Act 2025

¹⁴ Section 243 of the Investments and Securities Act 2025

Benefits and Potential Risks of Warehouse Receipt Adoption

The warehouse receipt system has been widely adopted in modern trade finance in different regions as a mechanism for bridging liquidity gaps, especially for small and medium-sized enterprises (SMEs) and a tool for fostering growth in the commodity market.¹⁵ Some of its numerous benefits are

A. Access to credit for smallholder farmers:

Warehouse receipts allow commodity owners to use stored produce to access funding without immediate sale of their produce. This is especially important if the business needs capital in a period when selling the stored commodity will lead to financial loss. With this new system, commodity owners get to keep their produce and access money needed for their business while waiting for more favourable market conditions.¹⁶

B. Deepening of Nigeria's commodities and capital markets:

By introducing standardized, regulated, and tradable instruments into the commodity sector, warehouse receipts expand the scope of Nigeria's financial market beyond equities and bonds. They strengthen the infrastructure for commodity exchanges, attract investment, and improve rural-urban market linkages.

C. Price stabilization and transparency:

The warehouse receipt ecosystem provides for price transparency and price discovery. Coupled with grading, digital tracking, and third-party verification, the system enhances transparency, reduces price manipulation, and builds trust among buyers and lenders.



¹⁵ Accounting Insights Team, 'Warehouse Receipts: Their Role and Impact in Modern Trade Finance' (Accounting Insights, 29 May 2024) <https://accountinginsights.org/warehouse-receipts-their-role-and-impact-in-modern-trade-finance/>

¹⁶ Alliance for a Green Revolution in Africa, National Independent Warehouse Receipt System Bill Factbook (AGRA, December 2019) <https://agra.org/wp-content/uploads/2019/12/Nigeria-National-Warehouse-Receipt-System-Bill-Factbook.pdf>



Potential Risks

Despite its numerous benefits, the warehouse receipt system still poses some risks which must be timeously addressed by regulators. In the absence of robust electronic systems and effective regulatory oversight, the following could happen.

A. Fraud and forgery of receipts:

Entities could offer fake or defective title to warehouses for commodities. Also, fake or false or duplicate warehouse receipts can be issued. All these can lead to double financing, legal disputes, and loss of lender confidence in the system. To this electronic inventory of receipts is suggested to minimise fraud.

B. Warehouse mismanagement:

Inefficient handling, pest infestations, or lack of standardisation in storage facilities can lead to spoilage or loss of goods, undermining the value of receipts and exposing

both farmers and financiers to avoidable risk. To this, it is suggested that a monthly or quarterly visitation to the warehouse and a report be conducted and issued by the SECs' assigned supervisor to ensure that the warehouse is in good condition and that the commodities therein are also in good condition.

C. Enforcement challenges:

Efforts to create tailored and holistic warehouse laws in Nigeria remain stalled with the Warehouse Regulatory Agency bill and the Warehouse Receipt Bill remaining a bill. Until warehouse receipt laws are fully passed and harmonized across federal and state levels, enforcement gaps remain and this leads to insecure property rights, disputes over ownership, or conflicting claims from multiple lenders which can undermine the credibility of the system.



Conclusion

The recognition of warehouse receipts as tradable securities under Nigeria's ISA 2025 marks a decisive step toward transforming the country's commodity finance landscape. By marrying law with market infrastructure, this innovation tackles long-standing structural barriers to access, liquidity, and transparency in the commodity ecosystem. For smallholder farmers and commodity-based SMEs, it unlocks a new era where agricultural assets can be mobilized as capital, not just produce. For investors and regulators, it signals the maturing of a once-informal segment into a robust, regulated space worthy of long-term investment.

However, legal innovation alone is not enough. The full potential of the warehouse receipt system can only be realized through coordinated

implementation, digitisation, institutional alignment, and trust-building across the financial and commodity value chains. Until Nigeria passes dedicated legislation and operationalizes a central warehouse registry backed by digital infrastructure, enforcement gaps and market hesitancy may persist. Nonetheless, ISA 2025 is more than a policy tweak. It is a strategic invitation to rethink how we finance productivity, stabilize prices, and build resilient commodity markets from the ground up.

With the right policy continuity and private-sector collaboration, warehouse receipts could become to agriculture and solid minerals what equities have become to companies: a window into structured capital, scaled trade, and inclusive growth.

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