SEC Mark-to-Market Reform: What It Means for Fixed Income Securities Valuation and Reporting

1. Nigeria's move to mark-to-market bonds: what it means for financial reporting

On 22 September 2025, the Securities and Exchange Commission of Nigeria (SEC) approved a two-year transition to mark-to-market (MTM) valuation for fixed income securities held by collective investment schemes. The reform requires all new fixed income securities purchases to be valued at market price immediately, allows a hybrid valuation mix during the transition period for existing bonds (gradually increasing the share measured at market price), and temporarily relaxes fund asset-allocation thresholds to ease adjustment. Fund managers are required to submit their implementation plans to the SEC by 2 October 2025.

A two-year transition period is allowed, during which a hybrid approach (combining mark-to-market and amortised cost) is permitted. During the transition period, the permitted ratio of MTM to amortised cost for existing fixed income securities portfolios is relaxed from 70:30 to 50:50. By 2027, full adoption is expected, with all fixed income securities required to be measured at fair value.

This is a welcome step for market transparency; it is also a major accounting and operational pivot for asset managers, trustees, auditors, investors, and other capital-market participants. Below are the key International Financial Reporting Standard (IFRS) implications, impacted parties and practical next steps for management and auditors.

2. Key financial reporting implications

a. Measurement basis: from amortised cost to fair value

IFRS 9 *Financial Instruments* requires financial assets measurement to follow an entity's business model and the contractual cash-flow characteristics (the solely payments of principal and interest (SPPI) test). Assets held to collect contractual cash flows are measured at amortised cost; those held to collect, and sell may be measured at fair value through other comprehensive income (FVOCI); otherwise, the default is fair value through profit or loss (FVTPL).

A regulatory mandate to mark fixed income securities to market does not automatically change the accounting classification, but it does force a practical alignment issue between regulatory net asset values (NAVs) and IFRS measurement that entities cannot ignore. Management must document its business-model assessment and be prepared to justify whether regulatory valuation requirements create a de facto business-model change that requires reclassification under IFRS 9.

In practical terms, many funds that historically presented amortised-cost portfolios will face a choice — continue to apply amortised cost for IFRS while reporting MTM regulatory net asset values (NAVs) (creating two NAVs) or re-assess classification which may lead to FVOCI/FVTPL measurement and immediate recognition of market volatility in IFRS results.

b. Profit & loss volatility and investor-reporting alignment:
If instruments move to FVTPL under IFRS 9 (or are reclassified to FVOCI with recycling rules), fair-value movements will flow either through profit or loss or OCI — increasing earnings volatility and affecting performance metrics and fee calculations that are NAV-linked. That volatility may change performance fees, trigger distribution policy reviews, and cause investor behaviour (such as, redemptions and switches). It is expected that legacy low-coupon bonds will show large unrealised losses when the MTM is applied which would create significant volatility.

c. Impairment model adjustments (expected credit losses):
Under IFRS 9 the expected-credit-loss (ECL) model applies to financial assets measured at amortised cost and to debt instruments measured at FVOCI. Conversely, FVTPL assets do not carry a separate ECL allowance because credit risk is reflected in fair value. The move to MTM therefore changes which assets are subject to ECL provisioning and how credit deterioration is disclosed and measured. Entities must update ECL models, staging assessments and forward-looking macroeconomic scenarios accordingly.

d. Fair-value measurement governance and disclosure (IFRS 13 + IFRS 7):
IFRS 13 *Fair Value Measurement* requires robust valuation policies, selection of appropriate valuation techniques, use of observable inputs where possible, and disclosure of the fair-value hierarchy (Level 1/2/3). With Nigerian bond markets thin or not readily accessible, valuation will often rely on Level 2 or Level 3 techniques and independent pricing services — increasing the burden of documentation, independent price verification and audit scrutiny. Disclosures under IFRS 7 *Financial Instruments: Disclosures* —particularly those relating to risk exposures and sensitivity analysis—will require further enhancement.

e. Hedge accounting and treasury strategy implications:
Greater mark-to-market exposure may push fund managers to hedge interest-rate or credit risk. Any hedging strategy will need to be aligned with IFRS 9 hedge accounting requirements, including proper designation, effectiveness assessment, and comprehensive documentation. If hedges are ineffective, earnings volatility could increase further.

f. Reconciliations: regulatory NAV vs IFRS NAV; tax and contractual impacts:
There will be a greater expectation with recurring reconciliations between the SEC-driven NAV (used for investor reporting and fees) and the IFRS-based carrying amounts reported in statutory financial statements. These differences may have tax implications and affect contractual arrangements, including covenants, fee structures, and trustee computations. Corporates, trustees, and service providers will need to clearly map and explain these differences in investor communications and regulatory filings.

3. Who will be most affected?

- **Fund managers / asset managers**
  The rule would impact accounting classification of certain securities and NAV volatility. Also, investor communications, internal models, systems, and fee structures will change significantly.

- **Unitholders / investors (retail and institutional)**
  There would be transparency on true market value but higher reported volatility and potential changes to distributions and liquidity.

- **Trustees, custodians, and transfer agents**
  There would be operational changes to valuation, custody reconciliation and reporting.

4. Strategic implications for Chief Financial Officers (CFOs)

- **Earnings volatility and capital planning**: MTM increases reported profit or loss volatility — particularly where instruments are or become FVTPL— and may impact retained earnings, regulatory capital, and financial convenants. These changes affect planning assumptions around reserves, dividends, and capital buffers.

- **Dual NAV problem (regulatory vs IFRS):** Managing two NAVs becomes permanent for many funds — that creates recurring reconciliation work, increased operational costs, and potential reputational risks when investors encounter differing valuations.

- **Investor behaviour & product economics:** Higher visible volatility can influence redemption patterns, change distribution policy, and necessitate a rethink of fee structures and product positioning (such as, lockups, liquidity gates, risk-targeted funds).

- **Valuation governance becomes strategic:** Valuation policy, vendor selection and dispute resolution are now strategic decisions that affect audit outcomes, investor confidence and ability to launch new products.

- **Tax and contractual consequences:** MTM can create timing differences and unexpected taxable events or potential covenant breaches; tax strategy and contract renegotiation become urgent.

- **Risk management & hedging costs:** More mark-to-market exposure means either accepting volatility or actively hedging (with cost implications). Treasury strategy must be integrated with portfolio management to allow for proper risk management.

- **Systems & control investment**: Producing reliable, auditable fair values and parallel NAVs will require systems and data investment — this is not a one-off compliance project but an ongoing operational expense and capability investment.

- **Competitive positioning:** CFOs who turn compliance into better risk analytics, pricing transparency and product innovation can gain market share; those who treat it as simple compliance will be commoditised.

5. Practical recommendations

a. **Immediate governance action** — Board/Audit Committee to approve a project plan for IFRS-aligned implementation, and to mandate a documented business-model assessment under IFRS 9. The deadline for submission to SEC the implementation plan is by 2 October 2025.

b. **Valuation policy and vendor selection** — Entities should adopt IFRS-13-compliant valuation policies, identify primary pricing sources, formalise independent price verification and escalation paths for Level 3 prices. Vendor selection is strategic, as pricing reliability directly affects audits, investor confidence, and regulatory compliance.

c. **Reassess classi ication & reclassi ication triggers** — Entities should conduct instrument-level reviews using the SPPI test and business model assessment. Document decisions per IFRS 9, and justify any reclassification with a clear change in business model.

d. **ECL model rework** — Entities may need to update their impairment models for any assets remaining at amortised cost or measured at FVOCI and coordinate macroeconomic scenarios with risk teams.

e. **Investor communications** — Entities should prepare clear explanations of differences between regulatory NAV and IFRS NAV, fee-calculation changes, and expected volatility to reduce surprise and potential redemptions.

6. Conclusion

The SEC's move to market-based valuation aligns Nigeria with global practice and will improve price discovery, fund transparency and market discipline. However, IFRS demands more than disclosure—it requires objective, well-documented judgements on business models, impairment, and fair value governance. Companies that treat this as a checklist, risk surprises; those that proactively redesign governance, systems and investor communications will turn the reform into a competitive advantage.

The rule is effective from 22 September 2025 and the SEC's two-year glide path requires tangible plans on paper and in systems by early October 2025. Thoughtful accounting judgement, strong valuation governance, and early investor engagement will be the defining traits of resilient managers in the next market cycle.

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