International Journal of Law
www.lawjournals.org
ISSN: 2455-2194
Received: 02-06-2026, Accepted: 02-07-2026, Published: 17-07-2026
Volume 12, Issue 3, 2026, Page No. 122-126

The legal status of a debenture holder in relation to enforcement of Security

Uke Uke Igbe
Department of Public Law, Faculty of Law, University of Calabar, Nigeria

Abstract
A debenture is one of the most important security instruments in corporate financing, providing lenders with legal rights and remedies to recover debts in the event of default. Despite the statutory recognition of debenture holders under the Companies and Allied Matters Act (CAMA) 2020 and established judicial authorities, the enforcement of security by debenture holders in Nigeria continues to present significant legal and practical challenges. This article examines the legal status of a debenture holder in relation to the enforcement of security under Nigerian law. It analyses the nature and legal characteristics of debentures, the proprietary rights conferred on debenture holders, and the various enforcement mechanisms available for the realization of secured debts. The study adopts a doctrinal research methodology, relying on primary sources, including statutes and judicial decisions, as well as relevant textbooks and scholarly literature. The findings reveal that although Nigerian law provides extensive remedies, including the appointment of a receiver or receiver-manager, foreclosure, the exercise of the power of sale, and winding-up proceedings, procedural complexities, delays in judicial processes, and inadequate protection of secured creditors continue to impede effective enforcement. The article argues that the legal status of a debenture holder extends beyond that of an ordinary unsecured creditor by conferring proprietary interests capable of securing priority over charged assets. It concludes that strengthening the legal and institutional framework governing secured transactions, ensuring strict compliance with statutory requirements, and promoting efficient enforcement mechanisms are essential for enhancing creditor confidence and facilitating commercial lending in Nigeria.

Keywords: Debenture, debenture holder, security interest, enforcement of security, secured credit, corporate finance, companies and allied matters Act, Nigeria

Introduction

The availability of secured credit is fundamental to the growth and sustainability of modern business enterprises. Companies frequently depend on external financing to expand operations, acquire assets, and meet working capital requirements. To minimise the risk associated with lending, creditors commonly require borrowers to provide security over their assets, thereby ensuring that the debt can be recovered in the event of default. Among the various forms of security recognised under corporate law, the debenture occupies a prominent position due to its flexibility and effectiveness in securing corporate indebtedness.

A debenture enables a company to raise capital by creating a security interest over its present and future assets while allowing it to continue its business operations. Depending on its terms, a debenture may create a fixed charge, a floating charge, or a combination of both, thereby granting the debenture holder proprietary rights that distinguish secured creditors from ordinary unsecured creditors. These rights assume particular significance where the company defaults in repayment or becomes insolvent, as the debenture holder may invoke statutory and contractual remedies to realise the secured assets.

The legal framework governing debentures in Nigeria is primarily contained in the Companies and Allied Matters Act (CAMA) 2020, which regulates the creation, registration, perfection, and enforcement of charges created by companies. Judicial decisions have further clarified the nature of debenture securities and the legal rights accruing to debenture holders, particularly regarding priority among creditors and the enforcement of security interests. Consequently, the legal status of a debenture holder extends beyond a mere contractual relationship with the debtor and encompasses proprietary interests enforceable against both the company and, in appropriate circumstances, third parties.

Despite the comprehensive statutory framework, the enforcement of debenture security in Nigeria continues to encounter significant legal and practical challenges. Delays in judicial proceedings, disputes relating to the priority of competing security interests, non-compliance with statutory perfection requirements, and complexities arising from insolvency proceedings frequently impede the efficient realization of secured debts. These challenges not only undermine the commercial value of debenture securities but also discourage investment and increase the cost of corporate borrowing.

This article critically examines the legal status of a debenture holder in relation to the enforcement of security under Nigerian law. It analyses the legal nature of debentures, the rights and remedies available to debenture holders, the statutory framework governing the enforcement of security, and the practical challenges confronting secured creditors. The article further proposes measures aimed at strengthening creditor protection and enhancing the effectiveness of secured transactions within Nigeria's corporate legal system.

The Concept and Legal Nature of a Debenture

A debenture is one of the most important security instruments employed in corporate financing. Although the term has no universally accepted definition, it generally refers to a document issued by a company acknowledging indebtedness and creating security over its assets in favour of a creditor. The security may extend to specific assets through a fixed charge, the company's circulating assets

through a floating charge, or both. Consequently, a debenture serves the dual purpose of evidencing a debt and securing its repayment.
The Companies and Allied Matters Act (CAMA) 2020 does not provide an exhaustive definition of a debenture. Its legal meaning has therefore been developed largely through judicial interpretation and academic commentary. Gower describes a debenture as a document that either creates or acknowledges a debt and is commonly, though not invariably, secured by a charge over the company's property. Similarly, Orojo observes that a debenture is a written instrument under seal by which a company undertakes to repay borrowed money and may charge its assets as security for that obligation. These definitions underscore the essential characteristics of a debenture as both an acknowledgment of indebtedness and a security device.
The legal significance of a debenture lies in the proprietary interest it confers upon the debenture holder. Unlike an ordinary unsecured creditor whose remedies are confined principally to an action for debt, a debenture holder acquires enforceable rights over the charged assets. These proprietary rights become particularly valuable upon the occurrence of specified events such as default in repayment, breach of the terms of the debenture, or the insolvency of the company. Depending on the nature of the charge created, the debenture holder may be entitled to appoint a receiver or receiver-manager, exercise a contractual power of sale, institute foreclosure proceedings where appropriate, or commence winding-up proceedings against the company.
A distinction is commonly drawn between fixed and floating charges created under a debenture. A fixed charge attaches immediately to identified assets, such as land, buildings, or machinery, thereby restricting the company's ability to dispose of those assets without the consent of the debenture holder. A floating charge, by contrast, hovers over a class of changing assets, including stock-in-trade, receivables, and inventory, allowing the company to deal freely with those assets in the ordinary course of business until the charge crystallises. Upon crystallisation, usually triggered by default, insolvency, or the appointment of a receiver, the floating charge attaches to the assets then subject to the charge and assumes the characteristics of a fixed charge.
The proprietary nature of a debenture distinguishes the debenture holder from other creditors and confers priority in the distribution of secured assets. Nevertheless, these rights are not absolute. Their enforceability depends upon compliance with statutory requirements governing the creation, registration, and perfection of charges under CAMA 2020. Failure to comply with these requirements may render the security ineffective against a liquidator, other secured creditors, or third parties, thereby exposing the debenture holder to the risks ordinarily associated with unsecured lending.
The legal nature of a debenture therefore extends beyond its function as evidence of indebtedness. It constitutes a comprehensive security arrangement designed to protect creditors while facilitating access to corporate finance.

The Legal Status of a Debenture Holder

The legal status of a debenture holder is determined by the proprietary interest created by the debenture and the rights conferred under the terms of the security instrument and the applicable law. Unlike an unsecured creditor, whose claim is founded solely on contractual obligations, a debenture holder acquires a secured interest over the assets charged by the company. This proprietary interest entitles the holder to priority in the realization of the secured assets upon the occurrence of specified events, particularly default or insolvency.
The Companies and Allied Matters Act (CAMA) 2020 recognises the validity of fixed and floating charges created by companies and provides the legal framework for their registration and enforcement. Once a debenture is duly created and perfected in accordance with the Act, the debenture holder enjoys enforceable rights against the company and, subject to statutory requirements, against third parties. These rights are generally superior to those of unsecured creditors and may also take precedence over subsequent security interests depending on the order of registration and the terms of the debenture.
The legal status of a debenture holder extends beyond that of a conventional lender. In appropriate circumstances, the holder assumes a position akin to that of a secured proprietor, with the authority to preserve, realise, and apply the charged assets towards the liquidation of the outstanding debt. This status is reinforced by contractual provisions commonly incorporated into debenture deeds, including powers relating to the appointment of receivers, acceleration of repayment obligations, and realization of secured assets upon default.
However, the proprietary rights of a debenture holder are not absolute. Their effectiveness depends on compliance with statutory requirements governing the creation, perfection, and registration of charges. A failure to register a registrable charge within the prescribed period may render the security void against a liquidator and other creditors, although the underlying debt remains recoverable as an unsecured obligation. Consequently, perfection of security constitutes an essential prerequisite to the protection of a debenture holder's legal interests.
Furthermore, the priority enjoyed by a debenture holder may be affected by statutory preferences, judicial intervention, and competing proprietary claims recognised under insolvency law. Courts have consistently maintained that while the law affords significant protection to secured creditors, the exercise of enforcement powers must be undertaken in accordance with the provisions of the debenture instrument, statutory requirements, and equitable principles governing secured transactions.
Accordingly, the legal status of a debenture holder reflects a careful balance between protecting secured creditors and safeguarding the legitimate interests of debtors and other stakeholders. This balance is fundamental to promoting commercial certainty and maintaining confidence in secured lending within Nigeria's corporate legal framework.

Enforcement of Debenture Security under Nigerian Law

The primary purpose of creating a debenture is to secure repayment of a debt. Accordingly, where a company defaults in fulfilling its obligations, the law provides several mechanisms through which a debenture holder may enforce the security and recover the outstanding indebtedness. These remedies are derived from the terms of the debenture, the Companies and Allied Matters Act 2020, equitable principles, and judicial precedents.

1. Appointment of a Receiver or Receiver-Manager

The appointment of a receiver or receiver-manager remains the most common and effective method of enforcing a debenture secured by either a fixed or floating charge. A receiver is appointed to take possession of the charged assets, preserve their value, realise them where necessary, and apply the proceeds towards the repayment of the secured debt. Where the appointment extends to the management of the company's business, the receiver-manager assumes responsibility for operating the undertaking with the objective of preserving its value while satisfying the creditor's claim.

The power to appoint a receiver may arise from an express provision in the debenture deed or, in appropriate circumstances, by order of the court. Upon appointment, the receiver acts primarily for the benefit of the debenture holder while remaining subject to statutory and fiduciary obligations in the administration of the charged assets.

2. Exercise of the Power of Sale

A debenture holder may also enforce the security through the exercise of a contractual or statutory power of sale. This remedy permits the sale of the charged assets following the occurrence of an event of default without necessarily commencing prolonged judicial proceedings, provided the conditions stipulated in the debenture instrument have been satisfied.

The proceeds realised from the sale are applied first towards the costs of enforcement and subsequently in liquidation of the secured debt, with any surplus being returned to the company or other persons entitled thereto. The exercise of this power must, however, be undertaken in good faith and for the purpose of obtaining a fair market value for the assets.

3. Foreclosure

Although foreclosure is more commonly associated with mortgages, it may constitute an available equitable remedy where the nature of the security and the circumstances of the transaction justify its application. Through foreclosure, the debtor's right to redeem the charged property is extinguished, and the secured creditor acquires complete ownership of the property in satisfaction of the debt. Owing to its severe consequences, courts exercise considerable caution before granting an order of foreclosure and generally regard it as a remedy of last resort.

4. Action for Recovery of Debt

The existence of security does not deprive a debenture holder of the right to institute an action for the recovery of the outstanding debt. Where appropriate, the creditor may commence proceedings to recover the debt personally against the company, particularly where the value of the secured assets is insufficient to satisfy the entire indebtedness. This contractual remedy may be pursued independently or concurrently with other enforcement mechanisms, subject to the terms of the debenture.

5. Winding-Up Proceedings

A debenture holder may also petition for the winding up of the company where statutory grounds exist under the Companies and Allied Matters Act 2020. Although winding-up is not primarily an enforcement mechanism, it enables the orderly realization and distribution of the company's assets under judicial supervision. In the course of liquidation, a secured creditor generally retains the option of enforcing the security independently of the winding-up process or proving for any balance remaining after the realization of the secured assets.

The commencement of winding-up proceedings does not ordinarily extinguish the proprietary rights of a perfected debenture holder. Instead, the holder retains priority over the assets subject to the security, subject only to statutory exceptions recognised by law.

6. Judicial and Equitable Limitations

While Nigerian law provides substantial protection for debenture holders, the exercise of enforcement powers remains subject to judicial oversight and equitable principles. Courts may intervene where enforcement is tainted by fraud, bad faith, procedural irregularity, or abuse of contractual powers. Similarly, statutory requirements relating to registration, notice, and perfection must be strictly complied with before the security can be effectively enforced against third parties.

The effectiveness of debenture security therefore depends not merely on the existence of statutory remedies but on compliance with the legal framework governing secured transactions. Effective enforcement promotes confidence in commercial lending, reduces credit risk, and contributes significantly to the stability of corporate financing in Nigeria.

Challenges in the Enforcement of Debenture Security

Despite the comprehensive legal framework governing debenture securities in Nigeria, the practical enforcement of the rights of debenture holders remains beset by several legal and institutional challenges. These challenges often undermine the effectiveness of secured transactions and reduce the confidence of financial institutions and other lenders in corporate lending.

One of the most significant challenges is the delay associated with judicial proceedings. Although certain enforcement remedies, such as the appointment of a receiver or the exercise of a contractual power of sale, may be exercised without prior court approval, disputes concerning the validity of the security, priority of claims, or the propriety of enforcement frequently result in protracted litigation. Such delays diminish the commercial value of secured assets and frustrate the objective of prompt debt recovery.

Another challenge concerns compliance with statutory requirements relating to the creation, perfection, and registration of debenture securities. The Companies and Allied Matters Act 2020 prescribe mandatory procedures for registering registrable charges. Failure to comply with these requirements may render the security unenforceable against a liquidator and other creditors, thereby depriving the debenture holder of the priority ordinarily associated with secured lending. In practice, procedural errors and delays in registration continue to expose lenders to avoidable legal risks.

Priority disputes among competing creditors also present considerable difficulties. Conflicts frequently arise between holders of fixed charges, floating charges, subsequent secured creditors, judgment creditors, and statutory preferential creditors. Although the law provides rules governing priority, their application in complex insolvency proceedings is often contentious and may delay the realization of secured assets.

Furthermore, the crystallisation of floating charges has generated considerable judicial debate, particularly where companies continue to dispose of assets in the ordinary course of business before crystallisation occurs. Determining the precise moment at which a floating charge crystallises may significantly affect the rights of competing creditors and the availability of assets for enforcement.

The insolvency of debtor companies presents an additional obstacle to effective enforcement. Although perfected security generally survives liquidation, insolvency proceedings often involve competing statutory interests, administrative costs, and procedural complexities that delay asset realization. The diminishing value of corporate assets during prolonged insolvency proceedings frequently reduces the amount ultimately recoverable by secured creditors.

Beyond legal challenges, institutional factors such as bureaucratic inefficiency, inadequate record management, and the slow administration of commercial disputes continue to impede the effective enforcement of debenture securities. These systemic deficiencies increase transaction costs and reduce the attractiveness of secured lending as a mechanism for facilitating commercial investment.

Taken together, these challenges demonstrate that the effectiveness of a debenture depends not only on the legal rights conferred upon the holder but also on the efficiency of the legal and institutional mechanisms responsible for enforcing those rights.

Reforming the Legal Framework

Enhancing the effectiveness of debenture security in Nigeria requires both legislative refinement and institutional reform. While the Companies and Allied Matters Act 2020 has significantly modernised the law relating to corporate securities, further measures are necessary to strengthen creditor protection and improve the efficiency of enforcement mechanisms.

First, greater emphasis should be placed on simplifying the registration and perfection of security interests. The Corporate Affairs Commission should continue to strengthen its electronic registration systems to ensure timely registration of charges, minimise administrative delays, and reduce the incidence of defective registrations that jeopardise the validity of security interests.

Secondly, judicial efficiency in commercial dispute resolution should be improved. Commercial courts should adopt more robust case-management procedures to ensure the expeditious determination of disputes involving secured transactions. Prompt resolution of enforcement proceedings would preserve the value of charged assets and reduce the financial losses associated with prolonged litigation.

There is also a need for clearer statutory guidance on the priority of competing security interests, particularly in insolvency proceedings. Although existing legal principles provide a framework for determining priority, legislative clarification would reduce uncertainty and promote consistency in judicial decisions. Such reforms would enhance predictability for lenders and facilitate access to corporate finance.

Furthermore, parties involved in secured lending should ensure strict compliance with statutory requirements governing the creation, registration, and perfection of debenture securities. Financial institutions and legal practitioners should undertake thorough due diligence before advancing credit and should regularly review security documentation to ensure continued compliance with applicable legal requirements.

In addition, greater use should be made of alternative dispute resolution mechanisms where disputes arise from the interpretation or enforcement of debenture agreements. Mediation and arbitration offer faster and more commercially efficient means of resolving disputes than conventional litigation and may contribute to preserving commercial relationships while reducing enforcement costs.

Finally, continuous judicial training in corporate finance, insolvency law, and secured transactions is essential. Given the increasing complexity of modern commercial transactions, specialised judicial expertise will enhance consistency in decision-making and improve confidence in Nigeria's commercial justice system.

A legal framework that combines effective statutory regulation, efficient judicial administration, and institutional accountability will significantly strengthen the position of debenture holders while promoting investment, financial stability, and sustainable economic development. Such reforms will not only improve debt recovery but also reinforce the role of debenture securities as reliable instruments of corporate finance in Nigeria.

Conclusion

Debentures remain one of the most effective legal mechanisms through which companies secure access to credit while protecting the interests of lenders. The proprietary rights conferred upon a debenture holder distinguish secured creditors from ordinary unsecured creditors and provide a legal basis for enforcing security upon the debtor's default. Under the Companies and Allied Matters Act 2020, debenture holders are afforded a range of enforcement remedies, including the appointment of a receiver or receiver-manager, the exercise of the power of sale, foreclosure in appropriate circumstances, actions for debt, and participation in winding-up proceedings.

Notwithstanding these legal protections, the effectiveness of debenture security in Nigeria is frequently undermined by procedural delays, deficiencies in the perfection and registration of charges, priority disputes among creditors, and the complexities associated with insolvency proceedings. These challenges diminish the commercial value of security interests, increase the risks associated with secured lending, and ultimately affect access to corporate finance.

This article has demonstrated that while the existing legal framework provides a sound foundation for the protection of debenture holders, its practical effectiveness depends largely on efficient enforcement mechanisms and strict compliance with statutory requirements. Legislative reforms alone are insufficient unless accompanied by institutional efficiency, judicial responsiveness, and greater adherence to best practices in secured transactions.

Strengthening the administration and enforcement of debenture securities will not only enhance the protection of secured creditors but will also promote commercial certainty, improve access to finance, and contribute to the continued development of Nigeria's corporate and investment environment. As commercial transactions become increasingly sophisticated, the law governing debentures must continue to evolve in a manner that balances the interests of creditors, companies, and the broader economy while preserving confidence in secured credit transactions.

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