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ETHIOPIAN CAPITAL
MARKET AUTHORITY

Directive Number 1031/2024

**Directive on Recognition and Supervision
of Self Regulatory Organizations**

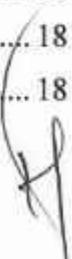


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Whereas a Self-Regulatory Organization (SRO) plays a valuable role in developing and enforcing standards of conduct for market participants, fostering fair competition, and reducing regulatory burdens on the Ethiopian Capital Market Authority;

Whereas the Capital Market Proclamation empowers the Ethiopian Capital Market Authority to institute procedures to recognize and delegate certain powers and duties to an SRO through a directive; and

Now, Therefore, the Authority hereby issues the following Recognition of Self-Regulatory Organizations Directive in accordance with Part Three and Article 108(2) of the Proclamation.

PART ONE

GENERAL PROVISION

1. Short Title

This Directive may be cited as the “Recognition and Supervision of Self-Regulatory Organizations Directive Number 1031/2024.”

2. Definitions

In this Directive, unless the context otherwise requires:

- (1) “Authority” means the Ethiopian Capital Market Authority established under the Proclamation.
- (2) “Chief Compliance Officer” means an officer responsible for monitoring and ensuring compliance of the SRO with the Proclamation, this Directive, the SROs’ internal rules and procedures as well as other relevant legislations.
- (3) “Financial Year” means the period of twelve months beginning from the 1st day of July every year.
- (4) “Independent Director” means a member of the Board of Directors who satisfies the definition of an Independent Person as provided in this Directive.
- (5) “Independent Person” means an individual who has no Material Relationship with the SRO or any affiliate of the SRO, any member of the SRO or any affiliate of such



member, or any issuer of securities that are listed, traded or cleared on the SRO or a facility of the SRO.

- (6) "Material Relationship" means a relationship, whether compensatory, familial, or otherwise, that reasonably could affect the independent judgment or decision-making of an Independent Person.
- (7) "Person" means any natural or juridical person.
- (8) "Proclamation" means the Capital Market Proclamation No. 1248/2021.
- (9) In this Directive, any expression in the masculine gender includes the feminine.
- (10) Any term used in this Directive shall have the meaning assigned to it in the Proclamation.

3. Scope of Application

This Directive shall apply to:

- (1) an entity regulated by the Authority which is recognized as an SRO as per the Proclamation and this Directive; and
- (2) a Securities Exchange and a Securities Depository and Clearing Company as it relates to its function as an SRO.



PART TWO
APPLICATION FOR RECOGNITION

4. Prohibition

Without prejudice to Article 22(2) of the Proclamation, no entity shall operate as an SRO in the Ethiopian Capital Market without recognition from the Authority as an SRO.

5. Application Procedure

- (1) An application for recognition shall be made following the forms and procedures prepared by the Authority.
- (2) All applications and accompanying documents shall be filed with the Authority in the English or Amharic languages. If any information or document to be filed with the application is in any other language, it shall be accompanied by an authenticated translated version to English or Amharic.
- (3) Notwithstanding payment of the prescribed application fees and compliance with some registration requirements, an application for recognition may be terminated by the Authority where the applicant fails or neglects to continue with the processing of the application for a period of sixty (60) days without due notification to and approval of the Authority.

6. Specific Recognition Requirements

- (1) In addition to the requirements in Article 22 (4) of the Proclamation, an application for recognition shall be accompanied by the following:
 - a. Evidence of payment of the fees prescribed by the Authority;
 - b. A copy of the formation documents for the applicant issued by a relevant government organ;
 - c. Applicable incorporation documents showing the board directors, members and capital of the applicant as of the date of filing the application;
 - d. Details of the functions and powers that the entity is seeking to exercise upon recognition;
 - e. Existing or proposed rules, policies and such other document governing the conduct of members of the SRO, including Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) procedures in compliance with the



applicable AML/CFT legislation in Ethiopia and general international requirements, as may be in effect from time to time;

- f. Organizational profile of the applicant;
 - g. Organogram of the applicant clearly delineating the reporting lines;
 - h. Undertaking by the applicant and its Senior Personnel as at the date of filing the application, on behalf of its members to comply with the Code of Conduct for Capital Market Service Providers, their Employees, and Persons with Significant Influence and the Capital Market Proclamation and other laws issued under the Proclamation;
 - i. Where the applicant has operated for a period of twelve (12) months or more as of the date of filing the application, an Audited Financial Statement for the financial year immediately preceding the date of filing the application and an unaudited Financial Statement for the remaining months;
 - j. Where the applicant has operated for a period of less than twelve (12) months, but the fiscal year has ended, an Audited Financial Statement for such period;
 - k. Where the applicant has operated for a period of less than twelve (12) months, but the fiscal year has not ended, an unaudited Financial Statement for such period, except that, the applicant shall provide the Authority with an audited statement within three months of the end of the fiscal year;
 - l. Details of Senior Personnel who meet the fit and proper criteria for their role and function as specified by the Authority in this Directive;
 - m. Police Clearance Certificate, as required under Article 17 of this Directive;
 - n. Evidence of financial resource and administrative capacity necessary to carry out its functions as an SRO;
 - o. Evidence of technology resource and internal control, and risk management procedures necessary to carry out its functions as an SRO;
 - p. Address of the applicant's registered office and proposed Head Office (if different from its registered office) and any other office the applicant intends to operate from; and
 - q. Any other information related to the functions of an SRO as provided for in this Directive and the Proclamation that may be required by the Authority.
- (2) All questions on the application form shall be answered truthfully and correctly.



- (3) As part of the application process, at least three (3) of the applicant's Senior Personnel, including the Chief Compliance Officer, shall be required to undergo an interview session with representatives of the Authority.
- (4) Where necessary, other Senior Personnel and members of the SRO may also be required to undergo an interview session with representatives of the Authority.
- (5) An application for recognition is considered filed when the applicant submits all necessary documents to the Authority.

7. Fees

Every applicant for recognition shall pay such fees as may be determined by the Authority's fee directive.

8. Approval of a Recognition Application

Upon meeting the requirements outlined in Articles 6 and 7 of this Directive, the Authority shall:

- (1) declare the applicant to be a recognized SRO by communicating its decision, in writing, to the applicant; and
- (2) notify the public that it has recognized an entity as an SRO by publications in a widely circulated newspaper in Ethiopia.

9. Refusal of an application for Recognition

- (1) The Authority may reject an application or refuse to recognize an entity as an SRO where the Authority establishes that the applicant:
 - a. has rules and policies that are inconsistent with the Proclamation or other laws issued under the Proclamation;
 - b. has failed to demonstrate that it has adequate capacity and competent personnel to carry out its functions;
 - c. has given false or misleading information;
 - d. during the application for recognition, has omitted a material fact or failed to mention any other information that should be submitted to the Authority;
 - e. has failed to meet the fit and proper criteria, financial capacity and administrative resource requirements, internal organization and risk management, and other regulatory and supervisory requirements for recognition determined by the Authority; or



- f. has violated any provision of this Directive or any other relevant legislation.
- (2) Every applicant shall be given an opportunity to be heard by the Authority before a decision to reject an application for recognition as an SRO.

10. Timeline for Processing an Application

- (1) The Authority shall communicate its decision to the applicant, in writing, within fifteen (15) days, upon receiving a complete application as specified under Article 6 of this Directive.
- (2) Where the Authority decides to recognize the applicant as an SRO, it shall instruct the applicant to pay the applicable recognition fee.



PART THREE

GENERAL OBLIGATIONS AND RESPONSIBILITIES

11. Independence and Governance of Self-Regulatory Organizations

- (1) SROs shall, where applicable, establish and maintain policies and procedures to maintain a separation between their regulatory functions and their commercial activities including maintaining separate staff for both functions.
- (2) Funds received from regulatory fines and fees shall be used for regulatory purposes only, and every SRO shall have a policy on the utilization of such funds in its Rules established under Article 24(1) of the Proclamation.
- (3) SROs shall ensure compliance with the applicable ownership restrictions and governance requirements as may be specified in the Proclamation, this directive and other relevant legislations.

12. Obligations of Self-Regulatory Organizations

An SRO must:

- (1) Admit only licensed Capital Market Service Providers as members;
- (2) Have a fair and transparent procedure for admitting members;
- (3) Prioritize investor protection in its activities;
- (4) Promote market integrity;
- (5) Promote the reduction of systemic risk; and
- (6) Strive for developing the capital market ecosystem, including training and awareness programs.

13. Power and Duties of a Self-Regulatory Organization

- (1) Subject to the approval of the Authority, every SRO shall have the power to develop and issue rules as per Article 24(1) of the Proclamation to govern the behavior and activities of its members and Issuers of securities, where applicable;
- (2) Every SRO shall have the powers to carry out the following functions:
 - a. Specify minimum operating requirements for its members;



- b. Enforce its rules and conduct disciplinary proceedings against members based on such rules;
- c. Conduct off-site supervision as well as routine and special on-site examinations on its members;
- d. Review the financial and non-financial records of its members;
- e. Conduct market surveillance and investigations;
- f. Have procedures for dispute resolution between members or a member and an investor; and
- g. Any other duties that may be delegated by the Authority.

14. Financial Resources and Administrative Capacity of a Self-Regulatory Organization

- (1) An entity shall only be recognized as an SRO where it demonstrates to the Authority that it has the financial resources and administrative capacity necessary to carry out its functions as an SRO.
- (2) In determining whether an applicant has the financial resources and administrative capacity sufficient for the proper performance of its functions, the Authority shall consider:
 - a. the operational and other risks to which the SRO is exposed;
 - b. the amount and composition of the SRO's capital;
 - c. the amount and composition of the SRO's other financial resources including insurance policies and guarantees, where appropriate; and
 - d. the rules and practices of the applicant.

15. Personnel of a Self-Regulatory Organization

- (1) Every SRO shall ensure that persons assigned with the responsibility of managing and overseeing its governance and administrative affairs shall have sufficient skills and experience in that regard.
- (2) Every SRO shall comply with the requirements of the Competency Framework for Capital Market Service Providers in the appointment of a Senior Personnel.



16. Governance Structure of a Self-Regulatory Organization

- (1) The Board of Directors of an SRO shall consist of Independent Directors and industry professionals.
- (2) The Independent Directors shall make up at least one-third (1/3) of the Board of Directors.

17. Fit and Proper Requirements for Self-Regulatory Organizations and their Personnel

- (1) In determining whether an SRO and its personnel are fit and proper, the Authority shall take into consideration their compliance with the criteria for fit and proper stipulated under Article 56 of the Proclamation.
- (2) All SROs shall obtain a Police Clearance Certificate of good conduct, issued by the applicable regulatory authority, for each of its Senior Personnel and other employees as may be prescribed or required by the Authority from time to time.
- (3) The Police Clearance Certificate referenced in Sub-Article 2 of this Article shall be obtained prior to appointing or employing the applicable individuals.
- (4) An SRO and its Senior Personnel shall be deemed to have fulfilled the fit and proper criteria if they:
 - a. Proves to the Authority a minimum level of competency, skills and experience to fulfill the SRO's function as outlined in its application;
 - b. Have not been convicted of any offence relating to fraud, theft, dishonesty, financial misconduct or market abuse;
 - c. Have not been adjudged guilty of misconduct relating to activities in the financial sector by any relevant administrative authority;
 - d. Have not been declared bankrupt;
 - e. Have not been placed under liquidation;
 - f. Have never been disqualified or expelled from membership of any professional association, organization, or any trade association, or had a license revoked for cause;
 - g. Have not been expelled from any Securities Exchange or Over-the-Counter Trading Market; and
 - h. Have not been found to be incapacitated on grounds of mental or physical illness.



18. Chief Compliance Officer

- (1) Every SRO shall, subject to providing the Authority with prior written notification, appoint a Chief Compliance Officer who shall be responsible for monitoring and ensuring compliance with the Proclamation, Directives issued by the Authority, as well as other applicable laws and regulations.
- (2) The Chief Compliance Officer shall immediately and independently report to the Authority any violation of, or non-compliance with, the Proclamation, this Directive or any other relevant law, policies, or regulations, observed by him.
- (3) The Chief Compliance Officer shall be responsible for organizing annual training for staff members on compliance-related issues and undertake such additional functions as may be required by the Authority.
- (4) Every SRO shall give a prior written notification to the Authority before the redeployment or dismissal of a Chief Compliance Officer.
- (5) Under no circumstances shall the position of a Chief Compliance Officer be vacant for more than one (1) business day; and
- (6) An SRO shall establish a Chief Compliance Officer succession plan by internally identifying employees who can act in that capacity immediately when the position becomes vacant.

19. Material Changes

- (1) An SRO shall give a prior written notification to the Authority of any material changes as per Articles 24 and 27 of the Proclamation.
- (2) The change of its membership composition shall be effective where the Authority does not express its objection within fifteen (15) days after receipt of the notification.
- (3) Notwithstanding the provisions of Sub-Article (2) of this Article, a change in the membership composition arising from a disciplinary action shall be made as per Article 22 of this Directive.
- (4) The appointment or change of a Senior Personnel, Chief Compliance Officer, or a Board Director by an SRO shall be as per Article 27 of the Proclamation.
- (5) The removal of a Senior Personnel by an SRO shall be as per Article 28 of the Proclamation.
- (6) An SRO shall notify the Authority:



- a. not later than five (5) days prior to the effective date of resignation of a Senior Personnel or Board Director, or within ten (10) days of receipt of a notice of resignation from the Senior Personnel or Board Director, whichever occurs first; and
- b. not later than five (5) days after becoming aware of the death of a Senior Personnel or a Board Director.

20. Offices of a Self-Regulatory Organization

- (1) Every SRO shall give a prior written notification to the Authority before:
 - a. Change its head office;
 - b. Establishing a new branch office; and
 - c. Closing or changing any of its branch offices.
- (2) The change or closure of an office shall be effective where:
 - a. The Authority does not express its objection within fifteen (15) days after receipt of the notification; and
 - b. The SRO gives its Members and the public a minimum of fifteen (15) days' notice of its intention to close or change its office. Notifications shall be made via the electronic mail addresses of members, publication on the website of the SRO, and publication in two (2) widely circulated digital or paper newspapers, one (1) in Amharic and one (1) in English.

21. Maintenance of Records

- (1) An SRO shall:
 - a. keep and maintain books, records, and detailed and accurate accounts that reflect transactions or transfers of ownership of related assets of the SRO, in accordance with accounting standards set out by Accounting and Auditing Board of Ethiopia or any relevant Authority in Ethiopia;
 - b. maintain proper, complete, accurate and secure records of its Members; and
 - c. provide the Authority with information regarding how and where the books of account, records and documents are kept.
- (2) Members' records may be kept in a combination of printed, electronic or voice recorded format.



- (3) SROs are required to take precautions necessary to ensure that member records are not lost or destroyed and that sufficient backup of records is available outside the principal place of business.
- (4) An SRO shall keep its records for ten (10) years from the day of preparation or receipt thereof and make them available for review by the Authority.

22. Reporting Obligations

- (1) An SRO, its Senior Personnel or its other employees shall report to the Authority any:
 - a. Violation of the Proclamation and this Directive within twenty-four (24) hours of becoming aware of such violation, and intended remedy thereto; and
 - b. Suspected prohibited trading practices to the Authority within twenty-four (24) hours of becoming aware of or suspicion of the occurrence of such activity.
- (2) Every SRO shall submit, in the format prescribed by the Authority:
 - a. Quarterly reports of its inspection and examination activities, surveillance activities, disciplinary actions against members, and dispute resolution activities within thirty (30) days after the end of the quarter;
 - b. Annual reports as per Article 29 of the Proclamation; and
 - c. Any other reports that may be required by the Authority related to the functions of an SRO as provided for in the Proclamation or this Directive.

23. Systems and Controls

- (1) An SRO shall have proper and adequate internal control procedures, risk management systems, and compliance systems to detect, prevent, and correct violations of applicable laws and regulations.
- (2) An SRO that uses or relies on any technological tool, system, or application for carrying out its operations and activities shall ensure that:
 - a. Data privacy laws and requirements are considered and complied with in the development or implementation of such technological tool, system, or application;
 - b. Its digital channels have interfaces that are user-centric with the user experience prioritized; and
 - c. Vulnerability assessment and penetration tests are conducted on a semi-annual basis.



24. Supervision and Inspection by the Authority

- (1) The Authority shall conduct off-site supervision as well as routine and special on-site inspections, with or without prior notice on SROs, with unfettered access to all necessary books, information, and records.
- (2) To carry out its off-site supervision or on-site examinations, the Authority may use, in addition to its staff, auditors, and law enforcement agents and other authorities as appropriate.

25. Cooperation in Connection with Inspections or Investigations

- (1) SROs and their personnel shall cooperate fully with all inspections or investigations conducted by the Authority and respond promptly to inquiries made by the Authority.
- (2) The Authority reserves the right to request any and such information as the Authority may require for the purpose of the inspection or investigation.

26. Client Compensation Fund

- (1) An SRO may establish a Client Compensation Fund, subject to the approval of the Authority.
- (2) An SRO that establishes a Client Compensation Fund shall ensure that it is always adequately funded.
- (3) The Client Compensation Fund shall have funding and utilization procedures approved by the Authority and disclosed to members of the SRO and the public.
- (4) The Client Compensation Fund shall be utilized to compensate a claimant where the SRO determines eligibility under the applicable provisions of the Fund.
- (5) Final decisions of the SRO on a Client Compensation Fund may be appealed to the Authority.



PART FOUR

ADMINISTRATIVE MEASURES

27. Penalties and Others

- (1) As per Article 107 of the Proclamation, the Authority has the powers to impose any or a combination of the following sanctions for misconduct on an SRO, its Board Directors, Senior Personnel, and other employees:
 - a. Impose a fine;
 - b. Issue a public or private warning or reprimand;
 - c. Issue a public or private notice of censure;
 - d. Withdraw the recognition of the SRO;
 - e. Remove affected Board Directors, Senior Personnel or employees;
 - f. Blacklist Senior Personnel or other employees;
 - g. Suspend a provision of the memorandum and articles of association or rules of an SRO for a period specified in the notice from the Authority;
 - h. Require an SRO to amend its rules;
 - i. Require an SRO to implement or enforce its memorandum and articles of association or its rules; and
 - j. Require the payment of administrative fees.
- (2) Before taking any action under Sub-Article (1) of this Article, the Authority shall give the SRO, its member(s), Board Directors, or Senior Personnel, as may be applicable, an opportunity to be heard.

28. Withdrawal of Recognition

- (1) The Authority may withdraw a recognition of an SRO where:
 - a. The SRO has failed to commence operations within one (1) year from the date the notice of recognition was published pursuant to the provisions of Article 8 of this Directive;



- b. The Authority determines that the SRO is not properly performing or is able to perform the functions or duties under the Proclamation or other laws issued under the Proclamation;
 - c. The Authority determines that -
 - i. The SRO has failed to comply with any provisions of this Directive or the Proclamation;
 - ii. The SRO is declared bankrupt; or
 - iii. The SRO has ceased operations.
 - d. On its own accord, the SRO requests the Authority to cease operating as an SRO.
- (2) The Authority shall publish the final decision to withdraw recognition of an SRO in a widely circulated newspaper in Ethiopia.

29. Appeal Procedures

An SRO that is not satisfied with the decision of the Authority may appeal to the Capital Market Administrative Tribunal in line with provisions of Part Seven of the Proclamation.



PART FIVE
MISCELLANEOUS PROVISIONS

30. Inapplicable laws

No directive or customary practice, inconsistent with this Directive, shall have effect with respect to matters governed by this Directive.

31. Effective Date

This Directive shall come into force on the date of its registration with the Ministry of Justice and its uploading on the official website of the Authority.

DONE IN ADDIS ABABA ON NOVEMBER 2024

HANA TEHELKU

DIRECTOR GENERAL

ETHIOPIAN CAPITAL MARKET AUTHORITY

