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ETHIOPIAN CAPITAL  
MARKET AUTHORITY

**ETHIOPIAN CAPITAL MARKET AUTHORITY (ECMA)**

**SUPERVISION GUIDELINES FOR CAPITAL MARKET SERVICE PROVIDERS,  
EXCHANGES, OVER-THE-COUNTER MARKETS, MARKET INFRASTRUCTURES AND SELF-  
REGULATORY ORGANIZATIONS**

**October 2025**

## **DISCLAIMER**

The content of this document does not constitute legal, business (commercial) or investment advice. Rather, this document seeks to provide guidance to regulated entities (i.e., licensed service providers, securities exchanges, derivatives exchanges, Over the Counter (OTC) markets, Securities Depository and Clearing Companies and Self-Regulatory Organizations (SROs) on supervision practices, frequency of regulatory inspections, and procedures for addressing non-compliance and corrective actions.

This Guideline should not be interpreted as preventing the ECMA from exercising its discretion to request information or assess other factors not indicated in this Guideline, on a case-by-case basis. Regulated entities may be required to adhere to higher compliance standards or fulfill additional obligations as determined by the ECMA. These enhanced requirements may be based on the unique risk profiles, operational complexities, or regulatory considerations relevant to each regulated entity. As such, regulated entities should be prepared to meet any supplementary compliance directives issued by the ECMA to ensure the integrity and stability of the capital market.

Regulated entities have an obligation to proactively identify and implement such higher standards or requirements. It is essential for regulated entities to continuously assess their operations and stay informed about potential regulatory changes or enhanced compliance obligations to maintain alignment with the highest standards of market conduct.

This Guideline shall be read in conjunction with the existing laws, regulations, directives, and guidelines issued by the ECMA. Any amendments to referenced legal and regulatory instruments shall be deemed automatically incorporated into and amended within these guidelines, as applicable. In cases where multiple legal or regulatory requirements apply to the same situation, the stricter provision shall take precedence to ensure maximum compliance and adherence to regulatory and security standards.

The frequency of regulatory supervision and inspections will be determined based on the risk profile and operational complexities of each entity. ECMA will conduct regular onsite and offsite inspections to ensure compliance with regulatory requirements and to identify any areas of concern. In the event of non-compliance, ECMA will follow established procedures to address the issue, which may include issuing corrective actions, imposing penalties, or taking other enforcement measures as deemed necessary to protect the integrity and stability of the capital market.

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## 1. Definition of key terms

- 1.1.** Governance structure the organizational and ownership framework of an entity, outlining the distribution of responsibilities, reporting lines, and authority among its governing body, management, and operational units. It defines how functions are arranged to support effective management and regulatory compliance.
- 1.2.** Corporate governance is the framework of responsibilities, decision-making structures, and control mechanisms that ensure Capital Market Service Providers and Market Infrastructures operate prudently, transparently, and in the best interest of clients and the market. It includes the roles and accountability of the board, senior management, and control functions in safeguarding operational integrity and compliance with regulatory standards.
- 1.3.** Risk based supervision refers to the application of risk assessment methods such as sensitivity analysis, stress testing and risk monitoring techniques to identify the likelihood of an (negative) event and its impact on the system in the process of the risk assessment and risk management.
- 1.4.** Stress testing refers to a forward-looking risk assessment technique that evaluates the potential impact of extreme but plausible adverse scenarios to assess an entity's resilience under severe market, liquidity, credit, or operational shocks and to determine whether existing risk management frameworks, capital buffers, and contingency plans are adequate to withstand such conditions.
- 1.5.** Books and Records refer to all documents, data, and information in physical or electronic form that accurately reflect the business activities, transactions, financial condition, governance structures and compliance status of a regulated entity.

## 2. OVERVIEW

### 2.1. Introduction (Purpose and Scope of Applicability)

This Guideline provides explanation of the ECMA's expectations for licensed capital market service providers, securities exchanges, derivatives exchanges, over the counter (OTC) markets, securities depository and clearing companies (SDCCs), and other self-regulatory organizations (SROs). It outlines the supervision practices, regulatory reporting requirements, and the process for imposing penalties and handling appeals in certain circumstances.

By adhering to these guidelines, licensed entities will be well-positioned to maintain compliance with ECMA's regulatory requirements, thereby contributing to a stable and transparent capital market environment in Ethiopia.

This Guideline should be read in conjunction with all applicable Ethiopian laws, including the relevant proclamations, directives, and other regulatory instruments governing the Ethiopian capital market. It is intended to serve as a reference and guide for regulated entities and the public, ensuring that all activities are conducted in accordance with established legal and regulatory standards.

ECMA remains committed to fostering a transparent, efficient, and compliant capital market environment, to achieve the following objectives:

- i. Protection of Investors.
- ii. Ensuring the existence of a capital market environment in which securities can be issued and traded in an orderly, fair, efficient, and transparent manner.
- iii. Reducing systemic risk by ensuring the integrity of the capital market and transactions; and
- iv. Creating, promoting and facilitating a robust capital market environment fit for long-term investments.

## 2.2. Legal and Regulatory Framework

The regulatory framework for the Ethiopian capital market is rooted in the Capital Market Proclamation No. 1248/2021 (hereinafter referred to as “the Proclamation”) and supplemented by the following:

- a. Directive on Licensing, Operation, and Supervision of Securities Exchanges, Derivatives Exchanges, and the Over-the-Counter Market No. 1009/2024 (hereinafter referred to as “Exchanges and OTC Directive”).
- b. Capital Market Service Providers Licensing and Supervision Directive No. 980/2024 (hereinafter referred to as “CMSP Directive”).
- c. Recognition and Supervision of Self-Regulatory Organizations Directive Number 1031/2024 (hereinafter referred to as “SRO Directive”).
- d. Other directives, regulations, and instruments issued pursuant to the Proclamation.

In addition to the foregoing, regulated entities operating in the Ethiopian capital market may be subject to the provisions of the Commercial Code of Ethiopia Proclamation No. 1243/2021 (hereinafter referred to as “Commercial Code”), Investment Proclamation No.1180/2020 (hereinafter referred to as “Investment Proclamation”), and Personal Data Protection Proclamation No. 1321/2024 (hereinafter referred to as “Data Protection Proclamation”), among others.

The Investment Proclamation governs who may invest, under what conditions, providing the entry and ownership framework for both domestic and foreign investors. The Commercial Code establishes the legal personality, corporate governance, and business conduct requirements applicable to all entities, including Capital Market Service Providers (CMSPs) and Capital Market Infrastructures (CMIs). The Personal Data Protection Proclamation ensures the lawful collection, processing, and protection of personal and financial data,

which is particularly critical given the sensitive nature of investor and client information handled by market participants.

Within this broader legal framework, the Capital Market Proclamation and its directives regulate how CMSPs and CMIs are licensed, governed, and supervised by the Ethiopian Capital Market Authority (ECMA). Accordingly, investors, whether domestic or foreign, must comply with the Investment Proclamation to obtain investment approval, meet the Commercial Code's corporate requirements to establish a valid legal entity, and secure ECMA's authorization under the relevant capital market directives to operate.

Furthermore, once licensed and operational, CMSPs and CMIs must continue to adhere to all applicable laws and directives of the Capital market, including the Investment, Commercial, and Data Protection frameworks, to maintain their authorization to provide services. Continuous compliance across these regimes ensures sound corporate governance, investor protection, and the integrity and stability of Ethiopia's capital market ecosystem.

These legal and regulatory instruments establish the foundational principles for licensing, supervision, and enforcement activities in the Ethiopian capital market, pursuant to which this guidance document had been issued to standardize processes, improve understanding, promote compliance, and ensure market integrity.

### **3. GENERAL PROVISIONS**

#### **3.1. Supervisory Approach**

ECMA adopts compliance-based supervision with elements of a risk-based approach in its supervision and oversight of the market. This hybrid approach will be maintained to ensure adherence to regulatory requirements while proactively addressing risks, aligning with global best practice.

Regulated entities are required to be open and cooperative during supervision, providing accurate and timely information, facilitating access to relevant records, and actively engaging with the ECMA.

### **3.1.1. Compliance-Based Supervision**

The Compliance-Based Supervision approach enables the ECMA to monitor compliance consistently across all regulated entities. To effectively manage this process, the Directives of the ECMA have been drafted to prescribe certain specific requirements in line with global best standards that must be complied with by regulated entities.

However, to promote flexibility in regulation and create a balance within the system, not all the provisions of the Directives are prescriptive in nature, as some Directives will serve as guidance for regulated entities to adopt across certain situations and business models.

### **3.1.2. Risk-Based Supervision**

As a forward-looking framework, Risk Based Supervision (RBS) enables anticipation, early detection, and management of prudential and market conduct failures by regulated entities. This approach allows the ECMA to proactively identify risks and evaluate the potential consequences of failure or material breach on individual entities and the broader capital market ecosystem, ensuring resources are effectively allocated to address high-risk regulated entities.

The RBS approach seeks to enhance transparency, provide early warning signals, and encourage regulated entities to regularly self-assess their positions and their risk exposures. These risk exposures will guide the supervisory program applicable to each market participant, encompassing off-site supervision and on-site inspections, and addressing prudential, business conduct, and governance requirements.

## 3.2. Supervisory Framework

### 3.2.1. Off-Site and On-Site Supervision

The ECMA's supervisory framework focuses primarily on off-site supervision and on-site inspections as the main approaches to overseeing regulated entities.

Off-site supervision involves monitoring regulated entities remotely, through proactive analysis of regulatory filings, financial statements, periodic reports, and market surveillance to ensure compliance with regulatory requirements and identify potential risks. This process also includes reviewing findings from previous inspections and other relevant information. Together, these measures support effective monitoring of the ongoing performance, business conduct, risk exposure, and continuous adherence to regulatory directives by all regulated entities.

On-site inspection activities involve a thorough review of the practices of regulated entities, such as the operations, risk management, governance, and compliance activities. These activities include physical visits to their offices with or without prior notice to verify the accuracy of financial records and submitted reports, review business operations, and establish the effectiveness of risk mitigation controls. Prior to a scheduled onsite inspection, a regulated entity may request rescheduling the visit, subject to discussion and approval by the Authority. The regulated entity shall notify the ECMA of any required personnel that may not be available during the inspection period. Prior to an onsite visit by ECMA, the regulated entity may be requested to submit documents that complement the onsite supervision. CMSP shall provide the document within the timeframe specified by the Authority.

To carry out its off-site supervision or on-site inspection, the Authority may use, in addition to its staff, law enforcement officers, auditors, or any other person authorized by the Authority. Regulated entities shall provide access to all

necessary books and records to the authorized person as per the request of the Authority.

These core methods will incorporate supervisory techniques reflecting established practices, such as various forms of inspections and consolidated supervision with other regulatory bodies (where relevant), to ensure thorough and effective oversight of the capital market.

### **3.2.2. Inspections**

The ECMA assesses regulated entities to evaluate their compliance with applicable directives and identify corrective measures required to address deficiencies. This process may involve special inspections or audits where necessary to safeguard investors, manage systemic risk, or uphold market integrity.

Such special inspections or audits may involve collaboration with other regulators or law enforcement agencies, particularly in cases requiring specialized expertise or skills to thoroughly assess compliance.

Additionally, the ECMA may appoint a third party to conduct a special inspection or audit, with all associated costs borne by the regulated entity as applicable.

The main inspection categories are listed below.

#### **A. Routine Inspections**

A routine inspection involves periodic physical visits to the office of the regulated entities to conduct compliance checks, assess accuracy of financial records and other reports submitted, their business operations, their governance structure and practices, the quality of control mechanisms in place to mitigate risk, and engagement with the Management.

The ECMA implements a structured approach to determining the frequency of routine inspections, ensuring consistent oversight while addressing the varying

levels of systemic importance, risk exposure, and operational complexities of different regulated entities. As provided below, this balanced approach enables the ECMA to allocate resources effectively, identify and mitigate potential vulnerabilities proactively, and maintain trust in the integrity and stability of the capital market.

Routine inspections conducted for regulated entities are as follows.

**i. Capital Market Service Providers:**

Routine inspections on CMSPs will be conducted in accordance with the ECMA's annual inspection and supervision plan, which will be strategically designed to align with the Authority's key priorities for the year. This approach ensures that inspections are targeted and purposeful, addressing the most critical areas of risk and concern in a systematic manner. By tailoring the inspection schedule to the annual plan, the ECMA can effectively allocate resources, respond to emerging risks, and maintain a dynamic oversight framework that prioritizes financial stability and market integrity.

**ii. Exchanges, Over-the-Counter Markets, SDCCs and Other Market Infrastructures:**

For these entities, routine inspections will be conducted annually, ensuring that evaluations occur at least once every year. This consistent annual schedule fosters predictability and guarantees regular oversight of these critical regulated entities to uphold transparency, operational efficiency, and adherence to regulatory standards. Due to the systemic importance of these entities, an annual inspection cycle enables the ECMA to promptly identify and address potential vulnerabilities, thereby safeguarding the stability of the broader financial ecosystem and reinforcing investor confidence in the market.

### **iii. Other Self-Regulatory Organizations:**

For other self-regulatory organizations, the frequency of routine inspection will be determined by ECMA based on factors such as the systemic importance of the organization, its risk profile, and its history of compliance with regulatory standards. In between inspections, ECMA will continuously review regulatory filings by these institutions to ensure compliance with governance, prudential, and conduct of business requirements. This combination of periodic inspections and continuous monitoring aims to promote accountability, transparency, and market integrity, while efficiently utilizing supervisory resources.

### **B. Spot Inspections**

Spot inspections are unscheduled reviews conducted to investigate alleged or suspected infractions by a market participant. These inspections are initiated by the ECMA when deemed necessary to address issues such as investor complaints, whistleblower reports, or other relevant matters.

### **C. Target Inspections**

Target inspections are focused assessments aimed at addressing specific or sensitive areas of priority to the ECMA, including critical matters or emerging trends within the market.

#### **3.2.3. Inspection Focus Areas**

##### **a. Financial Condition**

Evaluating the financial condition of regulated entities plays a crucial role effectively. The ECMA will focus on evaluating capital adequacy, asset quality, management efficiency, earnings potential, and liquidity in ensuring that they remain financially sound and capable of meeting their obligations among other criteria. The objectives of the ECMA in applying these prudential requirements are to:

- i. Ensure that regulated entities maintain sufficient capital to support the scale and nature of their operations and provide a buffer against unexpected or significant losses, safeguarding customer interests.
- ii. Examine the composition, concentration, and quality of regulated entities' assets and confirm whether adequate provisions are being made for losses.
- iii. Assess the profitability and earnings capacity of regulated entities to determine their ability to absorb future losses.
- iv. Evaluate the liquidity of regulated entities and their ability to convert assets to meet liquidity challenges that may arise.
- v. Conduct a detailed review of the regulated entities' management quality and strategy, ensuring that management possesses the necessary skills, integrity, and competence to operate the market institution.
- vi. Verify the effectiveness of risk management controls to confirm that regulated entities have robust systems for identifying, managing, and monitoring risks that could impact their financial stability and ability to fulfill counterparty obligations.

### **b. Governance Requirements**

Effective governance and management of regulated entities are critical to sustaining financial soundness and stability while enhancing investor confidence in the market. The ECMA will assess the structure and performance of Boards and their Committees in providing oversight, management practices, corporate culture, and adherence to approved corporate governance frameworks and directives. The aim of assessing governance requirements is to ensure that Directors and Management:

- i. Fulfill their responsibilities to regulated entities.
- ii. Implement adequate control processes, procedures, and policies.

- iii. Act in the best interests of stakeholders.

The assessments may involve examining internal policies, analyzing ownership structures, reviewing meeting minutes, conducting interviews with Board members and senior management, and assessing compliance with personnel competency frameworks issued by the ECMA, along with other relevant measures. In addition, assessments will be conducted to confirm whether Boards and Committees are actively incorporating risk management into their oversight practices. This includes verifying the adequacy of internal controls and policies designed to address governance-related risks.

### **c. Conduct of Business Requirements**

ECMA will assess regulated entities to monitor how they conduct their business and evaluate the existence and effectiveness of risk management frameworks in mitigating operational, ethical, and compliance risks.

These requirements address practical aspects such as the process for onboarding clients (including Know Your Customer procedures), record keeping, the activities of the various business units (e.g., defined responsibilities, segregation of functions, Chinese walls, etc.), procedures for handling client complaints to ensure timely and fair resolution, employee conduct and ethics, fit and proper assessments for key personnel, the governance of financial products and services to align with client needs and regulatory standards, and adherence to ECMA directives and guidelines through effective compliance frameworks.

The objectives of enforcing conduct of business requirements on regulated entities include:

- i. Ensuring fair treatment of stakeholders with due care, diligence, and adherence to professional ethics and acceptable standards.
- ii. Promoting integrity and transparency in the capital market.
- iii. Building confidence and trust in the capital market, thereby encouraging increased and sustained investor participation.

## 4. COMPLIANCE EXPECTATIONS

### 4.1. Ongoing Obligations

Regulated entities are required to fulfill continuous compliance obligations to maintain their regulatory standing. These obligations include the submission of periodic reports detailing financial performance, governance updates, and regulatory requirements.

Regulated entities must adhere to governance and prudential requirements, maintain robust risk management frameworks, and notify the ECMA promptly of any material changes. They must also obtain prior approval where stipulated in the directives, such as for amendments to ownership structures, key personnel, or operational strategies. A regulated entity is required to update policies and procedures as per newly issued regulatory frameworks of ECMA.

Compliance with these requirements is essential to ensure transparency, accountability, and the integrity of the market.

Prior approval of the Authority is required before:

- a. Change to its shareholding structure or partnership structure.
- b. The dismissal or reassignment of a Chief Compliance Officer and any of the relevant appointed representatives or senior personnels.
- c. Appointment or reappointment of a director.
- d. Change to its business name; change office location, opening of a branch.

### 4.2. Annual Renewal of Licenses/Recognition

Regulated entities are required to renew their licenses or recognition/registrations by the deadlines specified by the ECMA in the applicable directives. Where deficiencies are identified in the renewal application, participants must address and correct these deficiencies within the timeframe stipulated by the ECMA.

### 4.3. Administrative measures

To ensure adherence to applicable laws, directives, and guidelines issued by the Authority, all licensed and recognized entities are required to maintain full compliance with regulatory requirements. Where instances of non-compliance are identified, the Authority may impose appropriate administrative measures in accordance with its enforcement mandate. The following section outlines the administrative measures that may be applied in response to non-compliance.

#### a. Administrative Measures for Non-Compliance

Failure to comply with may result in administrative measures/sanctions, including fines, temporary business restrictions through suspensions, revocation of a license, or withdrawal of recognition.

The specific sanctions are outlined in the applicable directives. In cases where the directive provides a range of options, the ECMA will evaluate each instance of non-compliance on a case-by-case basis to determine the most appropriate sanction. This evaluation will consider the specific circumstances and severity of the violation. The decision-making process will consider the following key factors:

- i. History of Compliance: The regulated entities track record of adhering to renewal requirements in previous cycles, and other regulatory requirements, demonstrating consistent effort to maintain compliance.
- ii. Rectification of Deficiencies: The extent to which the regulated entities promptly address and correct any deficiencies identified in the renewal application within the stipulated timeframe.
- iii. Impact on Market Operations: The extent to which the delay or failure to renew has affected the regulated entity's ability to fulfill regulatory responsibilities and its broader implications on market stability and investor confidence.
- iv. Good Faith Efforts: Evidence of proactive steps taken by the regulated entities to comply with the renewal requirements, such as early

engagement with the ECMA to resolve issues or providing valid explanations for delays.

- v. Systemic Importance and Role: The regulated entities size, influence, and systemic significance within the capital market, which may determine the proportionality of the sanction.
- vi. Mitigating or Aggravating Factors: Specific circumstances, such as unforeseen external events hindering compliance, or repeated non-compliance, which could influence the severity of the sanction imposed.

**b. Formal Appeal and Reconsideration Process:** In cases where a license is suspended or revoked, or recognition is withdrawn due to failure to fulfill renewal requirements, regulated entities have the right to a formal appeal and reconsideration process to ensure transparency and fairness. The following steps outline the process:

- i. Submission of Appeal: The appeal should be submitted hard copy to the Authority and electronically, via the designated filing portal or official email address, to the individual or signatory specified in the suspension or revocation letter within thirty (30) calendar days of the notice. It should include a detailed explanation of non-compliance, supported by relevant evidence or mitigating factors.
- ii. Acknowledgment of Appeal: Upon receipt, the ECMA will formally acknowledge the appeal and inform the participant of the subsequent steps within five (5) business days.
- iii. Review Process: The ECMA will conduct a comprehensive review of the submitted appeal, considering the documentation and evidence provided. Where necessary, the regulated entities may be invited to present their case during a hearing, conducted virtually or in person, to

clarify any aspects of the submission. Hearings will be scheduled within fifteen (15) business days of acknowledging the appeal.

- iv. Decision on Appeal: Following the review or hearing, the ECMA will render a decision within fifteen (15) business days. The written decision will detail the outcome, which may include reinstatement of the license or recognition, conditional reinstatement subject to specific corrective measures, confirmation of the suspension or revocation of license, or withdrawal of recognition.
- v. Escalation to the Capital Market Administrative Tribunal: Should the regulated entity remain dissatisfied with the ECMA's decision, such regulated entity may file a petition with the Capital Market Administrative Tribunal, requesting a review of the decision of the ECMA. The Tribunal, functioning as an independent body, will review the petition in accordance with its established procedures.

#### **4.4. Mode of Submission of Regulatory Reports**

To promote transparency, accountability, and regulatory alignment, regulated entities are required to submit periodic reports to the ECMA. These reports serve as a critical tool for monitoring their performance and compliance in areas such as financial performance, governance, and regulatory compliance and enforcement (where applicable).

Each report is tailored to provide relevant insights that reflect the regulated entities' activities and adherence to its obligations. Regulated entities are expected to submit accurate and complete reports. Incomplete reports will not be reviewed until submitted as complete. All regulatory reports are submitted duly signed and stamped both in hard copies to the ECMA headquarter and electronically through the ECMA's designated filing portal or official email. This streamlined process ensures secure, efficient, and consistent communication.

Timely and accurate submissions remain crucial for maintaining compliance, and failure to provide required information and documents within stipulated timelines may result in penalties.

#### **a. Reporting Obligations of CMSPs**

S/N	Type	Reporting Entity	Frequency	Content	Due Date
1	Monthly Transaction Report	Crowdfunding Intermediaries	Monthly	Summary of all activities on the funding portal.	15 calendar days after the end of the month.
		Securities Brokers, Securities Dealers, and Investment Banks		Summary of all investors' transactions (domestic and foreign, whether retail or institutional).	
2	Monthly Report on Collective Investment Schemes Managed	Collective Investment Scheme (CIS) Operators	Monthly	Summary of the activities of each CIS, including redemption, subscriptions, and Net Asset Values (NAVs).	15 calendar days after the end of the month.
3	Complaints Management Report	All CMSPs	Quarterly	a. Summary of complaints received, categorized by type and severity. b. Resolution status and timeframes.	30 calendar days after the end of the quarter (to be submitted alongside the Quarterly Financial Statements)

S/N	Type	Reporting Entity	Frequency	Content	Due Date
				c. Trends or recurring issues identified, and corrective actions implemented.	
4	Quarterly Financial Statements	All CMSPs	Quarterly	a. Detailed financial statements (balance sheet, income statement, and cash flow)	30 calendar days after the end of the quarter
5	Audited Financial Statements		Annually	b. Explanation of significant budget variances.	90 calendar days after the end of the year
6	Annual Training Report	All CMSPs	Annual	Summary of annual training of all staff on compliance and market conduct.	90 calendar days after the end of the year
7	Business Continuity Test Reports	All CMSPs	Annually and after major system updates or business changes	a. Test objectives. b. Test scenario. c. Participants and roles. d. Execution summary (how the test was conducted).	Reports must be ready within 90 calendar days after the end of the year/ after implementing a major system update or business (organizational) change and submit the

S/N	Type	Reporting Entity	Frequency	Content	Due Date
				e. Results and findings. f. Lessons learned (including required corrective actions) and next steps.	report to the ECMA within 24 hours of completion of the BCP report
8	Custodian Service Agreement Termination and Asset Transfer Report <i>(Not applicable to agreements with Collective Investment Schemes)</i>	Securities Custodians	Ad-Hoc	a. Summary of the terminated service agreement, including client details, asset types, and transfer instructions provided by the client. b. Confirmation of the transfer of assets, funds, and documents, including transaction dates, receiving institution, and relevant documentation	Five (5) business days after the transfer.

S/N	Type	Reporting Entity	Frequency	Content	Due Date
9	Incident and Violation Report	All CMSPs, employees, concerned citizen	24 hours after the change	<p>a. Violations of any of the provisions of Directive No. 980</p> <ul style="list-style-type: none"> <li>i. Report any suspected market manipulation or insider dealing</li> <li>ii. any material, public and non-public, information that may reasonably have any significant effect on its business or function or on the integrity of the capital market</li> <li>iii. All conflict of interest shall be recorded, actions to manage them shall be recorded and reported to the Authority.</li> </ul>	Within 24 hr.
10	Material Change	All CMSP	N/A	Where there is a change in Control, ownership structures and	Within 48 hours

S/N	Type	Reporting Entity	Frequency	Content	Due Date
				significant influence	

**b. Reporting Obligations of SROs (including Exchanges, Securities Depositories and Clearing Companies)**

S/N	Type	Reporting Entity	Frequency	Content	Due Date
1	Administrative Sanctions Report	All SROs	Weekly	<ul style="list-style-type: none"> <li>a. List of sanctions imposed on members during the reporting period.</li> <li>b. Details of violations leading to sanctions and corresponding penalties.</li> <li>c. Status of ongoing investigations or appeals.</li> </ul>	Last business day of the week.
2	Financial Performance Reports	All SROs	Quarterly and annually.	<ul style="list-style-type: none"> <li>a. Detailed financial statements (balance sheet, income statement, and cash flow).</li> <li>b. Explanation of significant budget variances.</li> </ul>	30 calendar days after the end of the quarter/ 90 calendar days after the end of the year

S/N	Type	Reporting Entity	Frequency	Content	Due Date
3	Governance Report	All SROs	Quarterly and annually.	a. Updates on board meetings and key decisions. b. Changes to governance structures or policies. c. Adherence to governance standards.	30 calendar days after the end of the quarter/ 90 calendar days after the end of the year
4	Regulatory Compliance Report	All SROs	Quarterly and annually.	a. Summary of member compliance monitoring activities, including findings from inspections and special audit. b. Details of breaches, sanctions, and disciplinary actions.	30 calendar days after the end of the quarter/ 90 calendar days after the end of the year
5	Complaints Management Report	All SROs	Quarterly and annually.	a. Summary of complaints received, categorized by type and severity. b. Resolution status and timeframes. c. Trends or recurring issues identified, and corrective	30 calendar days after the end of the quarter/ 90 calendar days after the end of the year

S/N	Type	Reporting Entity	Frequency	Content	Due Date
				actions implemented.	
6	Claims Compensation Report	All SROs (excluding SDCCs)	Annually	<ul style="list-style-type: none"> <li>a. Overview of claims submitted, including categories and statuses (approved, pending, or rejected).</li> <li>b. Total compensation disbursed during the period.</li> <li>c. Updates on the financial health of the Client Compensation Fund, including contributions, fund balance, and anticipated liabilities.</li> <li>d. Analysis of trends, recurring issues, and challenges in processing claims.</li> <li>e. Confirmation of compliance with fund governance and operational guidelines.</li> </ul>	90 calendar days after the end of the year

S/N	Type	Reporting Entity	Frequency	Content	Due Date
7	Annual Training Report	All SROs	Annually	Summary of annual training of all staff on compliance and market conduct.	90 calendar days after the end of the year
8	Trading Platform or Systems Capacity Report	Exchanges, SDCCs	Quarterly (To be maintained internally)	<ul style="list-style-type: none"> <li>a. System capacity, processing limits, downtime logs, and performance benchmarks.</li> <li>b. Ability of the platform to handle peak transaction volumes while maintaining system reliability.</li> </ul>	For CSDs, 30 calendar days after the end of the quarter.  For others, as directed by the ECMA
9	Financial Risk Assessment Report	Exchanges, SDCCs	Weekly (To be maintained internally)	<ul style="list-style-type: none"> <li>a. Capital and liquidity buffers based on the scale and nature of operations.</li> <li>b. Changes in buffer over the period.</li> <li>c. Compliance with minimum liquidity threshold.</li> <li>d. List of liquid assets considered.</li> <li>e. For CSDs, adequacy of Trade Guarantee Fund.</li> </ul>	Expected to be submitted Within 48 hours of receipt of a request from ECMA

S/N	Type	Reporting Entity	Frequency	Content	Due Date
10	Report on Failed Settlements	SDCCs	Daily (To be maintained internally)	<ul style="list-style-type: none"> <li>a. Details, frequency and volume of failed trade settlements.</li> <li>b. Root cause analysis and remedial actions taken to mitigate future risks.</li> </ul>	Responses are expected within twenty-four (24) hours of receipt of a request from ECMA
11	Business Continuity Test Reports	Exchanges, and SDCCs	Annually and after major system updates or business changes	<ul style="list-style-type: none"> <li>a. Test objectives.</li> <li>b. Test scenario.</li> <li>c. Participants and roles.</li> <li>d. Execution summary (how the test was conducted).</li> <li>e. Results and findings.</li> <li>f. Lessons learned (including required corrective actions) and the next steps.</li> </ul>	90 calendar days after the end of the year/ after implementing a major system update or business (organizational ) change.
12	Incident Report (e.g., system outages and breaches, etc.)	All SROs	Ad-Hoc	<ul style="list-style-type: none"> <li>a. Notification to relevant authorities, including the ECMA</li> <li>b. Investigation report describing the incident including nature, impact, parties involved,</li> </ul>	Expected to be submitted Within 24 hours of occurrence and detection  Within 30 calendar days of occurrence and detection,

S/N	Type	Reporting Entity	Frequency	Content	Due Date
				and corrective steps taken.	or as directed by the ECMA

#### **4.5. Notification of Changes to Capital and Liquidity Requirements**

The ECMA will notify regulated entities of any changes to capital and liquidity requirements, which may apply market-wide, to specific categories of participants, or to individual entities. To ensure adequate preparation, the ECMA will provide a reasonable notice period for such changes, allowing participants sufficient time to adjust their financial and operational frameworks, and raise the required capital.

For changes specific to an individual entity, the ECMA may require the submission of a supervisory action plan, detailing the steps the entity will take to meet the revised requirements within the stipulated timeframe.

#### **4.6. Circumstances for Entity-Specific Capital or Liquidity Requirement Changes**

A change to capital or liquidity requirements may apply to an individual entity in situations where its unique circumstances or risk profile necessitate specific regulatory adjustments. Examples include:

- i. Corrective Action Measures: If an entity is found to have violated regulatory requirements or poses a risk to market integrity, the ECMA may impose tailored changes to capital/liquidity requirements to address these issues.
- ii. Financial Distress or Instability: If an entity is experiencing financial instability, the ECMA may require higher capital reserves or other measures to safeguard against potential default or systemic risk.

- iii. Operational Risk Factors: Entities with higher operational risks, such as those with governance weaknesses or inadequate risk management practices, may face entity-specific adjustments to mitigate potential threats.
- iv. Unique Business Models: Entities with non-standard or innovative business models (e.g., FinTech's or new market entrants) may be subject to customized requirements to account for their operational or risk characteristics.
- v. Compliance Failures: If an entity has repeatedly failed to meet compliance standards, the ECMA may tailor capital requirements to encourage corrective actions and ensure compliance moving forward.
- vi. Systemic Importance: Entities deemed systemically important within the market may have specific capital and liquidity requirements to reflect their critical role and to minimize broader market risks.

#### **4.7. External Auditors Appointment Approval**

In accordance with the Capital Market Proclamation, market infrastructures and CMSPs must obtain approval from the Ethiopian Capital Market Authority for the appointment of their external auditor.

The audit committee holds the responsibility of soliciting, selecting, proposing, and recommending the external auditor. Following this, the Board is tasked with endorsing the auditor's appointment, after which shareholders are formally expected to approve the appointment during the Annual General Meeting (AGM). Finally, prior approval is required before the auditor can officially begin their duties.

The audit committee, formed by the Board, shall consist solely of non-executive board members. It will review the appointment, audit fees, and any matters related to the resignation or dismissal of the external auditor.

The committee is required to meet with the external auditors at least once a year, without the presence of executive Board members.

In the absence of audit committee non-executive Board members will exercise act of the committee.

CMSPs are required to submit a request letter for approval along with the documents listed below (referring to Annex III, Information and Documents Required for Approval of a Newly Appointed or Re-appointed External Auditor) within seven (7) working days, as approved by the shareholders.

- I. Competitive Bid Documentation: Evidence of the competitive bidding process, including selection criteria and evaluation results.
- II. Independence Declaration: A signed declaration confirming the auditor's independence and lack of conflicts of interest as per a form suggested by ECMA (refer Annex II, *External Audit Team Members' Fit and Proper Declaration Form*).
- III. Audit Engagement Letter: Outlining the scope, terms, and conditions of the audit engagement, which specifies that the agreement may be terminated at any time should any issues affecting independence or conflicts of interest emerge.
- IV. Audit Firm Profile: Details about the audit firm's qualifications, experience, and capacity to undertake the audit.
- V. Other: In addition, the ECMA may require other information it considers necessary.

## **5. SECURITIES EXCHANGES, DERIVATIVES EXCHANGES, AND OVER-THE-COUNTER MARKETS**

### **5.1. Minimum Structure and Competency Requirements for Boards**

Without prejudice to the Corporate Governance legislations and/or frameworks applicable in Ethiopia, a securities exchange, derivatives exchange, or over-the-

counter market (i.e., trading venue) shall be governed by boards that meet specific minimum structural and competency requirements.

These requirements are designed to ensure effective governance, promote accountability, and support the stability and integrity of the financial markets. By adhering to these requirements, boards can effectively oversee operations, manage risks, and uphold the confidence of market participants and stakeholders.

## **5.2. Independent Oversight of Regulatory and Supervisory Obligations committee**

Trading venues shall establish a Committee responsible for providing oversight of governance to ensure the effective discharge of the exchange's regulatory and supervisory obligations.

### **5.2.1. Composition of the Committee**

To ensure objectivity and uphold market integrity, the Committee shall be established as either a standalone Committee or a Board-level committee, as long as its independence and authority are preserved to ensure effective governance and oversight. Independence is essential to avoiding conflicts of interest and ensuring impartial decision-making. Where the Committee functions as a standalone body, it shall be entrusted with board-level powers to effectively fulfill its responsibilities. Key principles include:

- a. Independence: The Committee shall operate autonomously, with its responsibilities segregated from operational and business matters to avoid conflicts of interest. Whether established as a standalone entity or a board-level committee, it shall focus exclusively on regulatory and supervisory governance responsibilities.
- b. Composition: It shall be composed of individuals who are:

- i. Not affiliated with the trading venue's management or its day-to-day operations.
- ii. Not current or recent employees, executives, or its participants (such as brokers or dealers), or issuers with securities listed.
- iii. Free from any financial, professional, personal, or political relationships that could impair their impartiality or create a conflict of interest.
- iv. Not Politically Exposed Persons (PEPs), defined as individuals who are or have been entrusted with prominent public functions such as heads of state, senior politicians, senior government officials, judicial or military officials, and key executives of state-owned enterprises as per applicable regulatory definitions used in Ethiopia.
- v. Ideally, representatives from academia, regulatory bodies, institutional investors, or experienced professionals in governance, finance, or law.

Members shall possess expertise in areas such as governance, finance, regulation, law, or market operations.

- c. Meetings and Decision-Making Processes: The Committee's Terms of Reference (TOR) shall clearly define meeting procedures, voting processes and requirements for decision-making. Key aspects include:

- i. Quorum Requirements:

A quorum for meetings, which shall not be less than two thirds of the total members, shall be established in the Committee's TOR.

- ii. Majority Rule:

- 1. All decisions and recommendations of the Committee shall be determined by a majority vote.

2. To be valid, the majority of votes cast must consist of a majority of independent or public-interest directors/members.
3. In the event of a tie, the Chairperson shall cast the deciding vote.

iii. Voting Methodology:

1. Voting may take place during in-person meetings, virtual meetings, or via secure electronic platforms, provided that all members have equal access to participate.
2. Each member shall have one vote, ensuring equality in decision-making.
3. Proxy voting shall not be allowed to promote active participation and accountability.

iv. Conflict of Interest Protocols:

1. Members with a material conflict of interest on any matter shall recuse themselves from deliberations and voting related to that matter.
2. All conflicts of interest shall be recorded, and actions to manage them documented for transparency.

v. Documentation and Reporting:

1. All decisions shall be thoroughly documented, including the rationale for decisions, the votes cast, and any dissenting opinions, in the Committee's meeting minutes.
2. The Committee shall provide periodic reports of its decisions and actions to the Board to ensure alignment with the entity's governance objectives.

### 5.2.2. Functions of the Committee

The responsibilities of the Committee shall include:

- a. Approving Rules and Policies: Providing oversight for the development, review, and approval of rules and policies governing participation on the exchange. The Committee shall ensure that proposed rules align with governance standards, regulatory requirements, and international best practices. This includes membership rules, trading rules, listing rules, and disciplinary activities, among others.  
  
The Committee shall also oversee periodic or ad-hoc review and updates to rules to reflect evolving market conditions and mitigate operational, regulatory, and systemic risks. Operational implementation and enforcement of these rules shall remain the responsibility of management.
- b. Supervising Market Regulation: Overseeing the enforcement of rules and standards governing trading activities and the conduct of market participants, such as brokers, dealers, and other stakeholders, to ensure fairness, transparency, and alignment with the regulatory framework.
- c. Oversight of Listings: Supervising the governance aspects of the listing process, including setting policies for eligibility criteria, disclosure requirements, and ongoing compliance. For efficiency, functions related to approving listing applications may be delegated to a standalone committee, with periodic reporting to ensure alignment with strategic objectives.
- d. Approving Budgets for Regulatory Functions: Reviewing and approving budgets allocated for regulatory and supervisory activities, to ensure the applicable teams have adequate resources for effective operation,

including staffing and technological tools. Key areas for budget allocation include:

- i. Staffing and Recruitment: Hiring and retaining skilled personnel for critical roles such as compliance officers, legal analysts, and market surveillance specialists.
  - ii. Technology and Infrastructure: Investing in advanced regulatory technology (RegTech) and supervisory technology (SupTech) tools for automated monitoring, surveillance, data analytics, and fraud detection systems.
  - iii. Training and Capacity Building: Providing ongoing professional development programs to ensure staff stay updated on emerging regulatory trends and global best practices.
  - iv. Operational Resources: Allocating funds for office equipment, software licenses, cybersecurity measures, and communication platforms for efficient day-to-day operations.
  - v. External Consultancy Services: Engaging experts for specialized audits, legal advice, or support in complex investigations and risk assessment.
  - vi. Public Awareness Campaigns and Stakeholder Engagement: Funding initiatives to educate market participants and investors on compliance requirements, rights, and obligations.
- e. Approving Key Personnel Appointments: Approving the appointment of senior staff and specialized personnel in regulatory and supervisory functions, ensuring the exchange is equipped with qualified individuals to fulfill critical oversight roles.

- f. Reviewing and Enforcing Sanctions: Providing governance oversight of the investigation and resolution of violations to ensure that sanctions are applied in a fair, consistent, and transparent manner. The Committee shall review and approve sanctions related to significant breaches (such as management recommendation for the withdrawal of membership or delisting of a security/listed company) or complex cases while delegating the approval of routine sanctions to management, subject to periodic reporting and audits to maintain accountability.
- g. Upholding Investor Protection: Implementing measures to safeguard investor interests by preventing market abuse, ensuring transparency, and enhancing investor trust in the market's operations.

### **5.3. Other Operational Requirements**

To ensure the efficient and transparent functioning of trading venues, this section addresses various operational aspects, including risk management, reporting, data accessibility, and member communication on matters relating to fees and sanctions.

#### **5.3.1. Risk Management Considerations and stress Testing Requirements**

Trading venues are required to implement comprehensive risk management frameworks to address the following risks:

- a. Market Risk: The risk of losses due to changes in market prices. Trading venues should have systems in place to monitor market volatility and implement circuit breakers to mitigate extreme price movements. This ensures market stability and protects investors from excessive losses.
- b. Credit Risk: The risk of loss arising from the failure of a counterparty to fulfil its obligations under a contract. This includes managing margin

requirements, collateral, and counterparty credit limits to mitigate potential defaults, as applicable. This requirement helps ensure that trading venues are not unduly exposed to the risk of default by participants, which could jeopardize the financial integrity of the entire market.

- c. Operational Risk: The risk of loss resulting from inadequate or failed internal processes, people, and systems. This includes ensuring robust IT infrastructure, cybersecurity measures, and disaster recovery plans as well as recruitment of skilled staff and continuous training. Adequate operational risk management is critical to prevent disruptions in trading activities and protect the market from cyber threats.
- d. Liquidity Risk: The risk that a trading venue will not be able to meet its financial obligations as they come due. Trading venues must maintain sufficient liquidity buffers and monitor liquidity needs in real-time. Ensuring liquidity helps maintain market confidence and prevents sudden liquidity crises that can affect trading operations.
- e. Legal and Compliance Risk: The risk of legal or regulatory actions that could impact the trading venue's operations. Venues must ensure compliance with all relevant laws and regulations and have a legal team to address potential legal issues. This helps mitigate the risk of legal penalties and ensures the venue operates within the legal framework.
- f. Systemic Risk: The risk that the failure of one participant or a group of participants could trigger a broader market crisis. Monitoring systemic risk involves key market participants, assessing their interconnectedness, and evaluating potential contagion and amplification effects.

Contagion effects occur when the failure of one entity spreads to other entities due to their interconnectedness. For example, if a market participant defaults, it can lead to a chain reaction of defaults by other participants who are financially linked, thereby destabilizing the entire market.

Similarly, amplification effects refer to magnification of initial shocks in the market. For example, if an issuer of both equity and fixed income securities experiences significant financial distress, such issuer may be forced to default on their debt obligations, leading to a decline in investor confidence and a sell-off of the issuer securities (including the equity securities). Hence, the initial shock is amplified as more market participants react, leading to a general further decline in asset prices and increased market volatility.

### **5.3.2. Trading System Capacity and Disruptions (Applicable to Securities Exchanges)**

In line with Article 25: Trading Platforms or Systems Capacity (Directive on Licensing, Operation, and Supervision of Securities Exchanges, Derivatives Exchanges, and the Over-the-Counter Market No. 1009/2024), securities exchanges are required to conduct annual trading system capacity assessments. These assessments ensure that the trading systems can handle peak loads and maintain performance standards and should be conducted not later than the end of the first quarter of each calendar year. These reports must be submitted to ECMA.

In addition, a securities exchange is required to make public and report to the ECMA and its members when it encounters any severe trading interruption or material connectivity disruptions. In the event of trading connectivity disruptions, securities exchanges must adhere to the following public notification and reporting requirements for the specified scenarios, even if the disruption does not significantly affect market trading.

Failure to comply with the requirements may result in administrative measures, including application of financial penalties, to be determined by the ECMA commensurate with the quantified impact of the disruption.

- a.** Before Market Opens: Where a connectivity disruption occurs before the market opens, securities exchanges should notify market participants of any anticipated impact on trading activities. Notifications should be made at least one (1) hour prior to the market opening or as soon as the disruption is identified, whichever occurs last, via the securities exchange's official website, email alerts, and other appropriate communication channels. Where the connectivity disruption subsequently affects trading activities, the steps under "During Market Trading" below will apply.
- b.** During Market Trading: If a connectivity disruption occurs during market trading and disrupts trading operations, securities exchanges are required to notify market participants within thirty (30) minutes. This notification should include information on the nature of the disruption, affected systems, expected duration, any interim measures in place, and relevant contact details for further assistance and inquiries from market participants. Notifications should be made through the trading venue's official website, email alerts, and other appropriate communication channels.  
In addition, an incident report should be submitted to the ECMA within two (2) hours of the disruption. A follow-up report should be submitted within twenty-four (24) hours, providing comprehensive details on the disruption, actions taken, and resolution status.
- c.** After Market Closes: Where a connectivity disruption occurs after the market closes, securities exchanges should notify market participants of any anticipated impact on trading activities. Notifications should be made not later than thirty (30) minutes after such exchange resumes official business operations on the next trading day, via the securities exchange's

official website, email alerts, and other appropriate communication channels.

Where the connectivity disruption subsequently affects trading activities, the steps under "During Market Trading" above will apply.

### **5.3.3. Trading Halts, and Transaction Cancellations/Modifications (Applicable to Securities Exchanges)**

- a.** Reporting to the ECMA on Transaction Cancellations/Modifications: To achieve the objective of Article 26: Trading Platforms or Systems Capabilities (Directive on Licensing, Operation, and Supervision of Securities Exchanges, Derivatives Exchanges, and the Over-the-Counter Market No. 1009/2024), Securities exchanges are required to report events leading to significant transaction cancellations or modifications within twenty-four (24) hours of occurrence.

A significant transaction refers to any individual transaction or a series of aggregated transactions that have the potential to impact the price of a security.

- b.** Review of Trading Halt Calibrations: Securities Exchanges should ensure that trading halt calibrations are reviewed at least semi-annually (twice a year) to ensure they are effective in preventing disorderly markets.
- c.** Data Requests: Data requests from the ECMA should be responded within forty-eight (48) hours to ensure timely regulatory oversight.

### **5.3.4. Trade Data Accessibility (Applicable to Exchanges and OTC Markets)**

- a.** Publication of Bid-Offer Spreads and Execution Prices: Bid, ask, and execution prices, must be published in real-time, on the trading system to

ensure fair access to market information. For OTC markets, in cases where real-time publication is not feasible due to operational constraints, and for website publications by all trading venues, a maximum latency of thirty (30) minutes shall be permitted, after which the data must be made publicly available to all market participants.

- b. Order Books and Post-Trade Data: Trading venues are required to make order books and post-trade data accessible within twenty-four (24) hours of the transaction. This data must be available to the ECMA (at no cost, and on-demand) and market participants (subject to payment of applicable fees, where the exchange has predefined fees for such data) to enhance market transparency and allow for informed decision-making.
- c. Audit Trails: Trading venues must maintain and securely store electronic audit trails that record all trade-related instructions, including order details, counterparties, order modifications, timestamps, and trade execution status.
- d. Data Retention: Trading venues must retain trade data records for the minimum period required by law, covering both completed and non-completed transactions, including canceled, rejected, and/or failed trades.

#### **5.3.5. Daily Price List Publication**

Trading venues are required to publish the daily price list of all listed securities, in real-time, ensuring that there is no more than thirty (30) minute delay in the information provided. To meet this requirement, trading venues must implement robust and efficient systems capable of real-time data processing and dissemination.

### **5.3.6. Capital and Liquidity Requirements for Market Makers**

Securities exchanges are required to set minimum capital and liquidity requirements for Market Makers. This is to ensure that market makers have the financial resources to meet their obligations and provide liquidity to the market.

Market making agreements should be submitted to the ECMA within two (2) business days.

### **5.3.7. Maintaining Financial Transparency: Communication of Fees and Penalties**

- a. Predefined Fees Sanctions:** Trading venues are required to establish rules that outline fees, and various violations with corresponding predefined sanctions. These rules should be comprehensive, covering a range of situations, and infractions from minor to severe.
- b. The predefined fees and sanctions must be approved by the ECMA to ensure they are fair and proportionate.** Use of Ranges for Sanctions: To allow for flexibility in enforcement, trading venues can implement a range of penalties for each type of infraction. These ranges should also be predefined and approved by the ECMA. This approach allows trading venues to tailor penalties to the specific circumstances of each case while ensuring that the sanctions remain fair and proportionate.
- c. Transparency and Member Notification:** Trading venues should ensure that all fees and financial penalties are transparent and communicated clearly to the market participants. This includes providing detailed information on the nature, amount, and rationale for each fee and penalty. The public and Members, as applicable, should be informed about the predefined fees and sanctions, and any updates should be communicated promptly.
- d. Periodic Review and Updates:** Trading venues are encouraged to periodically review their predefined fees and sanctions to ensure they

remain sufficient, relevant and effective. Note that any proposed changes must be submitted to the ECMA for approval before implementation.

- e. Member Appeals and Dispute Resolution: Trading venues should establish a formal process for members to appeal sanctions or dispute fees. This process should be transparent and provide a fair opportunity for members to present their case. Appeals and disputes should be resolved in a timely manner to maintain market confidence.
- f. Reporting and Accountability: Trading venues are required to maintain detailed records of all fees and penalties imposed and provide regular reports to the ECMA. These reports should include information on the number and nature of penalties imposed, as well as any appeals or disputes related to fees and penalties. This requirement ensures accountability and allows the ECMA to monitor the effectiveness of the fee and penalty framework.

#### **5.4. Formal Appeal Process for Revoked Licenses**

Where the ECMA revokes the license issued to a trading venue, such trading venue may appeal the decision of the ECMA by filing a petition with the Capital Market Administrative Tribunal, requesting a review of the decision of the ECMA. The Tribunal, functioning as an independent body, will review the petition in accordance with its established procedures.

### **6. SECURITIES DEPOSITORIES AND CLEARING COMPANIES**

#### **6.1. Minimum Structure and Competency Requirements for Boards/ committees**

Without prejudice to the corporate governance legislations and/or frameworks applicable in Ethiopia, and with cross-references to the MoU signed and the ECMA authorization of the National Bank of Ethiopia with special terms and conditions, an SDCC shall be governed by boards and or committees that meet

specific minimum structural and competency requirements, such as organization, governance, and management. The governance arrangements shall include a clear organizational structure with well-defined, transparent lines of responsibility, a clear decision-making framework, and effective written organizational and administrative procedures to enable the SDCC and its managers and employees to comply with the requirements of the Proclamation and this guideline. The Board of directors shall monitor and periodically assess the effectiveness of the governance arrangements and take appropriate steps to address any deficiencies. The management of the SDCC shall be comprised of persons with the appropriate experience, mix of skills, and integrity necessary to ensure the sound and prudent management of the SDCC.

These requirements are designed to ensure effective governance, promote accountability, and support the stability and integrity of the financial markets. By adhering to these requirements, boards/ committees can effectively oversee operations, manage risks, and uphold the confidence of market participants and stakeholders.

In addition to the board/ committee an SDCC may establish a Working Group with representation from the regulator, CSD Operator, Securities Exchange, securities broker dealers and other market participants. The Working Group shall play an essential role in facilitating the early resolution of issues before they are escalated to formal decision-making mechanisms. It will be responsible for assessing and providing recommendations on risk management policies and procedures, ensuring alignment with applicable laws, regulations, and international best practices. The Working Group will convene on a monthly basis to discuss emerging issues, identify potential solutions, and address matters at the operational level to prevent unnecessary escalation. In addition, the Working Group may provide technical advice and support. The specific composition,

mandate, and operating procedures of the Working Group shall be defined in its Terms of Reference (ToR).

## 6.2. Technology Requirements

Central depositaries are required to implement and maintain up-to-date technology and automated systems as set out in Article 40 (6) of the Proclamation under Obligations of Security Depository and Clearing Company.,

### 6.2.1. Adoption of Up-to-Date Technology

Regular upgrade and modernization of the technological infrastructure of SDCCs is important to remain aligned with international standards and ensure optimal operations. This requires ongoing evaluation of current systems to identify outdated technologies and ensure that updates and improvements are made in a timely manner rather than delayed to a later stage, which could result in overwhelming costs and operational disruptions.

Notwithstanding the foregoing, changes should also be implemented strategically, with careful consideration given to whether a total system overhaul may be more cost-efficient and sustainable compared to incremental, piecemeal updates. While efficiency and long-term savings are key factors, vulnerabilities in the system must be addressed immediately to safeguard the integrity of operations.

In all circumstances, decisions on the adoption of advanced technologies must prioritize market stability and integrity. SDCCs must ensure that any changes to their systems reinforce the resilience, reliability, and trustworthiness of their operations within the financial ecosystem. This principle must also guide decisions in the nature and scope of changes, particularly when assessing cost implications. Any cost-driven decisions must balance financial efficiency with the need to maintain robust and secure systems, ensuring that the chosen approach does not compromise operational stability or market integrity.

### 6.2.2. Automation of Systems

The operational systems of SDCCs are expected to be fully automated to ensure streamlined processes, reduce the likelihood of human error, improve transaction processing speed, and reduce operational bottlenecks. This automation should not only cover core functions such as securities settlement, recordkeeping, reconciliation, and reporting activities, but should extend to all critical operational functions integral to the smooth running of clearing and settlement operations.

For clearing activities, automation should encompass margin calculations and management to enhance efficiency and accuracy in assessing collateral requirements and ensuring the financial stability of clearing members. Automated systems must also support risk management functions, including stress testing, monitoring of exposure limits, and contingency planning, to uphold resilience in market operations.

Furthermore, automation must enable real-time transaction tracking, swift exception handling, and seamless communication between parties, facilitating the coordination and transparency necessary for robust clearing processes.

### 6.3. The Need for Adequate Oversight

Notwithstanding the obligation for SDCCs to adopt up-to-date technologies as well as to automate systems and processes, proper mechanisms must be in place to monitor and manage these systems effectively, as any lapse or failure does not exempt the SDCC from its associated liabilities.

Therefore, regular evaluation of automated processes is essential to identify potential errors, anomalies, or weaknesses that could compromise operations. Key areas, including but not limited to, margin calculations, transaction reconciliations, and cybersecurity protocols require focused attention during the integration of new technologies. These sensitive activities require careful monitoring to ensure that associated risks are identified and mitigated effectively.

Establishing structured frameworks would help ensure that the related systems are implemented and maintained securely, supporting their role in improving efficiency without introducing unintended risks. In this regard, structured frameworks involve the formal development of policies, procedures, and reporting protocols to guide the design, implementation, and monitoring of automated processes. These frameworks should include clearly defined roles and responsibilities, ensuring that oversight is built into every stage of system integration.

In addition, human oversight remains an imperative to provide a layer of supervision and complement automation. Competent and adequately trained personnel should routinely perform the underlisted activities.

a. Internal Verification:

- i. Audit Reviews: Periodic audits to verify system outputs, identify deviations, and validate that systems are functioning as intended.
- ii. Anomaly Detection: Monitoring of system-generated data to detect irregularities that could indicate errors or vulnerabilities, using pre-established thresholds or indicators to flag issues.
- iii. Stress Testing: Simulation of extreme scenarios to assess the resilience of automated processes and identify potential failure points under abnormal conditions.
- iv. Dual Approval Processes: Implementing multiple levels of review for critical system changes, such as modifications to margin calculations or cybersecurity configurations.
- v. Incident Reporting Mechanisms: Establish clear channels for reporting and escalating system malfunctions or suspected breaches, ensuring swift resolution and accountability.

- b. External Verification: Engaging external evaluators or specialized teams to review high-risk functions and validate compliance with regulations and best practices.

#### **6.4. Maintenance of Up-to-Date Records and Reconciliation Process**

SDCCs play a critical role in maintaining the integrity and confidence of the capital markets by safeguarding securities and ensuring accurate recording of ownership. To fulfill this mandate, CSDs must maintain up-to-date, accurate, and auditable records of all securities held in custody and transacted through their systems. Regular and precise reconciliation of these records with the data held by issuers is fundamental to mitigating the risk of discrepancies, fraudulent activity, or systemic errors.

To this end, Securities Depository and Clearing Corporations (SDCCs) are required to implement robust systems and processes that enable at least daily reconciliation of the total securities issued and recorded within the CSD against the registers maintained by each issuer. This ensures that the number of securities held in the CSD accurately reflects the actual number issued, thereby preserving the credibility of the securities to register and protecting investor interests.

Moreover, consistent reconciliation strengthens the checks and balance mechanisms within the post-trade infrastructure, supporting regulatory compliance, facilitating prompt detection of anomalies, and reinforcing the reliability of corporate actions processing, settlement, and reporting. Inaccurate or outdated records can have far-reaching consequences—disrupting settlement processes, distorting market disclosures, and potentially eroding investor trust. Thus, maintaining accurate records and conducting regular issuer-level reconciliations are not just operational best practices, they are foundational to the stability and transparency of the securities market ecosystem.

## 6.5. SDCCs as Self-Regulatory Organizations

Self-regulatory organizations (SROs) play a crucial role in maintaining the integrity and efficiency of financial markets. By establishing and enforcing rules and standards, SROs help ensure fair and transparent market practices, protect investors, and promote market stability.

The recognition of SDCCs as SROs by default is essential to achieving these objectives, as SDCCs are entrusted with the responsibility of overseeing and regulating the activities of clearing members, settlement banks, and other entities (non-SROs) involved in the clearing and settlement process.

In view of the foregoing, all SDCCs must develop and implement rules guiding their participants and establish clear supervisory procedures for monitoring and enforcing compliance.

## 7. SELF REGULATORY ORGANIZATIONS (SROs)

### 7.1. Applicability

Unless otherwise specified, this section is applicable to self-regulatory organizations (SROs). That is, trade associations, professional bodies, industry groups, and non-profit organizations.

This guideline outlines key policies and requirements tailored to their operational and regulatory responsibilities. These policies and requirements are designed to be relevant across all these organizational types while ensuring effective governance, compliance, and self-regulation.

#### 7.1.1. Policies and Documented Procedures for Self-Regulatory Organizations (SROs)

SROs play a critical role in the regulation and oversight of their respective industries, fostering transparency, accountability, and ethical practices. Their

policies and frameworks are essential for maintaining industry standards, ensuring compliance, and protecting market participants.

The following policy and documented procedure requirements outline the foundational principles and operational requirements that SROs must adhere to. These policies are designed to ensure that SROs effectively regulate their members, mitigate risks, and maintain the integrity of the capital market. By implementing these guidelines, SROs can align with regulatory expectations, enhance governance, and support the sustainable development of their respective industries.

#### **7.1.1.1. Governance and Ethical Oversight**

- a. Organizational Structure: Establish governance frameworks that clearly define roles, responsibilities, and decision-making processes.
- b. Board (or its equivalent) Governance Policies: Outline the duties and accountability mechanisms of the board of directors (or its equivalent) to ensure transparency and effective oversight.

#### **7.1.1.2. Membership Governance**

- a. Membership Admission and Supervision Policy/Rules:
  - i. Establish criteria for eligibility based on qualifications, industry relevance, and ethical standards.
  - ii. Define a structured process for application, review, and approval of new members.
  - iii. Include procedures for continuous supervision, ensuring members adhere to the SRO's rules and standards.
- b. Membership Code of Conduct Policy/Rules:
  - i. Outline expected ethical and professional behavior, including compliance with industry standards and regulatory requirements.

- ii. Clearly define unacceptable conduct, with reference to integrity, fairness, and respect for market participants.
- c. Disciplinary Action Policy/Rules:
  - i. Define specific violations and the corresponding consequences, such as warnings, fines, or suspension.
  - ii. Incorporate a transparent appeal process to ensure fairness in the disciplinary system.
- d. Rule-Making Policy:
  - i. Outline procedures to ensure that rules governing members' operations are clear, transparent, and in line with regulatory expectations.
  - ii. Outline the procedures for developing rules in consultation with stakeholders.
  - iii. Define requirements for periodic and/or ad-hoc updates to rules to reflect evolving industry needs.
- e. Compliance Monitoring Policy:
  - i. Establish mechanisms to monitor and evaluate the SRO's and member compliance, including regular inspection and reporting requirements.
  - ii. Define processes for identifying and addressing compliance gaps, ensuring corrective actions are implemented promptly.

#### **7.1.1.3. Risk Management and Operational Policies**

- a. Risk Management Framework: Establish the framework for identifying, evaluating, and mitigating risks associated with operations, compliance, and governance.
- b. Internal Control/Audit Policy:
  - i. Establish robust internal controls to ensure effective oversight of operations and promote organizational integrity.

- ii. Include mechanisms for monitoring daily activities, maintaining secure systems for managing financial transactions, and ensuring compliance with all operational requirements.
  - iii. Define approval hierarchies and segregation of duties must be defined clearly to minimize operational risks.
  - iv. Provide regular internal audits to evaluate the efficiency and adequacy of control systems.
- c. Information Technology and Cybersecurity Policies: Establish protocols to secure data, prevent cyber threats, and ensure system resilience.

#### **7.1.1.4. Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) Policy**

SROs are required to implement comprehensive AML/CFT policies to safeguard their organizations and members from being exploited for illegal financial activities.

These policies should include regular training programs to ensure staff and members have a comprehensive understanding of AML/CFT regulations, while all relevant records must be securely maintained for the legally stipulated retention period.

Recognizing that certain members may be subject to KYC requirements set by other regulators primarily responsible for administering AML/CFT requirements, in addition to the Authority, SROs must align their AML/CFT policies with these external obligations. This alignment should preserve consistency across frameworks while ensuring compliance within the SRO's regulatory jurisdiction.

- a. Recognition and Alignment with External KYC Standards: The AML/CFT policies of SROs should explicitly recognize that certain members may already be subject to KYC obligations imposed by other regulatory bodies. In such cases,

SROs may allow members to adhere to these pre-existing requirements, provided they meet or exceed the minimum standards established by the SRO. This ensures consistency while avoiding redundant compliance burdens for members.

- b. Harmonization of KYC Requirements: SROs should develop clear guidelines to harmonize their KYC requirements with external regulators. This involves reviewing applicable regulatory frameworks, identifying overlapping areas, and streamlining obligations to prevent conflicting or duplicative compliance requirements for members.
- c. Documentation and Proof of Compliance: Members subject to external KYC regulations should be required to provide evidence of compliance with those obligations. SROs may request periodic submissions, such as compliance reports, certifications, or audit findings, from the relevant regulator. This enables the SRO to verify that members' practices align with its AML/CFT objectives.
- d. Supplemental KYC Measures: If external KYC requirements fail to meet the standards set by the SRO, supplemental measures may be imposed. These could include additional verification steps, periodic reviews, or enhanced due diligence procedures to ensure comprehensive compliance with the SRO's AML/CFT policy.
- e. Legal Obligations and Information Sharing: SROs are required to comply with legal obligations to share information with regulatory authorities, whether formal agreements or Memorandums of Understanding (MOUs) are in place. While formal MOUs may enhance coordination, SROs should be prepared to provide necessary information as required by law to support AML/CFT efforts effectively.

#### **7.1.1.5. Establishing a Client Compensation Fund**

While it is not mandatory to establish a Client Compensation Fund, an SRO may choose to implement one as a proactive measure to protect investors and enhance confidence in the market. Such a fund can serve as a mechanism to compensate clients for losses arising from member defaults or other unforeseen financial disruptions, strengthening trust and fostering stability within the capital market ecosystem.

However, the ECMA may require an SRO to establish a Client Compensation Fund if deemed necessary to protect client interests and address specific market risks.

In both cases, the SRO will be expected to submit a comprehensive proposal for regulatory approval, detailing the governance framework, funding mechanisms, and operational procedures for the fund.

The following minimum information must be included to support the proposal.

- a. Fund Objectives and Purpose: Clearly articulate the intended purpose of the Client Compensation Fund, demonstrating how it will protect clients and address potential financial disruptions caused by member defaults.
- b. Governance Framework: Describe the governance structure of the fund, specifying the roles and responsibilities of administrators and the measures to ensure transparency and accountability in its operation.
- c. Funding Mechanisms: Specify the sources of funding, such as member contributions, levies, or alternative mechanisms. Include a comprehensive explanation of how contributions will be calculated, collected, and managed effectively.
- d. Disbursement Criteria and Procedures: Define eligibility for claims of compensation in detail. This section should also outline the maximum payout limits and elaborate on the step-by-step processes for claim submission, review, and disbursement.

- e. Sustainability and Risk Management: Provide an analysis of how the fund will be sustained over time, incorporating assessments of potential liabilities and scenarios. Highlight strategies for mitigating risks to ensure the fund's long-term viability.
- f. Regulatory Compliance: Illustrate alignment with existing regulatory standards, emphasizing how the fund will comply with applicable laws and fulfill transparency and accountability requirements.
- g. Periodic Review Plan: Outline a schedule and methodology for regular reviews of the fund to ensure it remains effective, adequately sized, and aligned with evolving market and regulatory needs.
- h. Legal and Operational Documentation: Submit drafts of the legal documents or operational rules that will govern the administration and management of the fund. These documents should include bylaws, agreements, or any related operational guidelines.
- i. Projected Financial Model: Present a detailed financial projection, showcasing expected contributions (inflows) and claim payouts (outflows) over a specified period. The assumptions behind these projections to demonstrate the fund's financial robustness should be clearly stated.

## 8. ANNEXURE

### Reporting Templates

#### 8.1. Capital Market Service Providers

- 8.1.1. CMSP Securities Advisory Services Regulatory Compliance Report Content Outline
- 8.1.2. Securities Broker Dealer, Investment Bank Compliance Report Content Outline
- 8.1.3. External Auditors Approval related annexes
- 8.1.4. Template - CMSPs Quarterly Complaints Management Report
- 8.1.5. Template - Monthly Report on Collective Investment Schemes Managed by CIS Operators
- 8.1.6. Template - Monthly Transaction Report for Crowdfunding Intermediaries
- 8.1.7. Template - Monthly Transaction Report for Securities Brokers, Dealers and Investment Banks

#### 8.2. Securities Exchanges, Derivative Exchanges, and Over-the-Counter Markets /Self-Regulatory Organizations (SROs)

- 8.2.1. Template - SRO Quarterly Regulatory Compliance Report
- 8.2.2. Template - SRO Weekly Report on Administrative Sanctions
- 8.2.3. Template - SROs Quarterly Complaints (Against a Third-Party) Management Report (1)
- 8.2.4. Template - SROs Quarterly Complaints (Against a Third-Party) Management Report (2)
- 8.2.5. Template - SROs Quarterly Complaints (Against a Third-Party) Management Report (3)
- 8.2.6. Template - SROs Quarterly Complaints (Against a Third-Party) Management Report (4)





## **CMSA Securities Advisory Services Regulatory Compliance Report Outline**

### **1. Executive Summary**

A high-level overview that summarizes key compliance activities, firms' operations, incidents, and developments during the reporting period. This helps the Authority quickly understand the firm's overall compliance position.

### **2. Regulatory Framework**

- 2.1. Lists the main regulatory frameworks the firm complies with.
- 2.2. Describes how internal policies and procedures align with these regulations.

### **3. Compliance Structure and Resources**

- 3.1. Details of the compliance team: number of staff, their roles, reporting hierarchy, and any changes during the period.
- 3.2. Shows the regulator that there are adequate resources and independence in the compliance function.

### **4. Licensing and Approvals**

- 4.1. Confirms that the firm's licenses are valid and up to date.
- 4.2. Lists any new licenses obtained or changes in business activities that require regulatory approval.

### **5. Monitoring Activities**

- 5.1. Describes how the firm monitors regulatory breaches.
  - 5.2. Includes systems, controls, or manual processes used to detect irregularities.
- 5.2.1. Suitability of Advice

Ensuring recommendations fit the client's profile, risk tolerance, and objectives.

Reviewing advice records to confirm compliance with suitability requirements.

#### **5.2.2. Advice Documentation and Record Keeping**

- Monitoring the completeness and accuracy of advice records, disclosures, and disclaimers.

- Verifying that advice is given in line with internal policies and regulatory standards.

#### 5.2.3. Client Communication

- Surveillance of marketing materials, emails, and calls to ensure no misleading or unapproved claims.
- Monitoring promotional activities for compliance with fair practice rules.

#### 5.2.4. Conflict of Interest

- Ensuring any potential conflicts (e.g., commissions, tied products) are properly disclosed and managed.
- Periodic review of fee structures and incentives of advisors.

#### 5.2.5. Compliance with Regulatory Requirements

- Checking adherence to rules, KYC/AML procedures, and licensing conditions.
- Reporting any breaches or issues promptly.

#### 5.2.6. Employee Conduct and Ethics

- Monitoring advisor behavior to prevent unethical practices such as mis-selling or unauthorized advice.
- Oversight of personal trading activities if relevant.

### 6. Compliance Breaches and Incidents

- Lists any violations of law, regulation, or internal policy.
- Provides context: what happened, why, how it was detected, and what was done to fix and prevent recurrence.

### 7. Complaints Handling

- Summarizes client complaints: number received, types, and how they were resolved.
- Demonstrates fair treatment of clients and the effectiveness of the firm's complaint process.

### 8. Training and Awareness

- Outlines compliance training given to staff (e.g. ethics, AML, product suitability).
- Shows the firm's efforts to build a culture of compliance and staff competency.

## 9. AML/CFT (Anti-Money Laundering / Countering the Financing of Terrorism)

- Highlights the firm's AML program: KYC procedures, transaction monitoring, STRs filed.
- Confirms the firm's compliance with AML/CFT laws and risk mitigation measures.

## 10. Internal Audit and Risk Assessments

- Summarizes any internal audits or risk reviews conducted on compliance-related areas.
- Lists key findings, management responses, and actions taken to address weaknesses.

## 11. Outsourcing (if applicable)

- Identifies any compliance-related functions that are outsourced (e.g. transaction monitoring).
- Explains how the firm ensures outsourced vendors comply with regulatory expectations.

## 12. Regulatory Engagement

- Describes any interactions with regulators: inspections, queries, or feedback.
- Reports on how the firm responded to any regulatory concerns or findings.

## 13. Planned Improvements

- Lists initiatives to enhance compliance (e.g. new systems, policy updates, staff training).
- Shows a proactive approach to continuous improvement in compliance.

14. Subsequent events" (any significant event happening after the reporting period but before the issuance of compliance report) might be important to



incorporate material aspects after the reporting period to issuance date of the compliance report which makes the report more updated.

#### 15. Finding and observation

- Compliance strength: area where the firm demonstrates strong adherence to regulatory requirements.
- Recommendation
- Appendices: supporting document that may ask the authority for clarification and evidence.

#### 16. Declaration / Sign-Off

- A formal confirmation by the Chief Compliance Officer that the report is accurate and complete.
- Provides accountability and a point of contact for further clarification.

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**ANNEX I: EXTERNAL AUDIT TEAM MEMBER'S INDEPENDENCE CONFIRMATIONS FORM (This form should be completed at the engagement planning stage by each of the audit team members)**

This confirmation of independence and compliance with ethical requirements is provided in respect of the audit of the financial statements of the \_\_\_\_\_ and its related entities including \_\_\_\_\_ and \_\_\_\_\_ for the financial year ended \_\_\_\_\_.

I confirm that I am in compliance with the applicable independence rules as specified below, with respect to \_\_\_\_\_ hereafter referred to us “a client”, in addition to the requirement of the International Ethical Requirements for external auditors.

- 1) I or my immediate family members do not have a financial interest in a joint venture or business relationship (or commitment to do so) with the client or any related entity or any chief executive officer, senior executive officer, director or other individual who performs senior managerial functions for this client thereof.
- 2) I or my immediate family members are not the beneficiaries of any estate or trust which has a direct financial interest in this audit client or any related business entity.
- 3) No close family member is a director, chief executive officer, senior executive officer or is in a position to exert direct and significant influence over the financial statements of this client or any related entity, or was employed in such a role.
- 4) I or my immediate family members including spouse and dependents do not have a direct or indirect financial interest in this audit client or any related entity.
- 5) I or my immediate family members have not served as a trustee or as an executor over any interest that has or is committed to acquire a direct or material indirect financial interest in this client or any related entity.
- 6) I or my immediate family members do not have any loans, other than those extended under arm's length basis and within the ordinary course of business with this client or any related entity or any shareholder, chief executive officer, senior executive officer or director thereof.
- 7) I do not have a close personal relationship with a director, executive officer or any employee of the client or related entity that is in a position to exert direct and significant influence over the financial statements.
- 8) I am not an employee of this client or any related party and I will not entertain an offer of employment with this client or a related entity during my office term.
- 9) I further confirm that if the above circumstances change during the engagement period, I will notify the audit manager or the client any such changes in a timely manner.
- 10) I signed under the table below that I am in compliance with independence rules listed from No.1 to 9 hereinabove and I will comply with independence rule No. 9, hereinabove. Otherwise, I will be legally responsible.

No.	Name of engagement team member	Designation/Engagement Role	Signature
1.			
2.			
3.			
4.			

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#### **ANNEX II: EXTERNAL AUDIT TEAM MEMBERS' FIT AND PROPER DECLARATION FORM**

Name of the audit firm: \_\_\_\_\_

Name of the audit team member: \_\_\_\_\_

Engagement Role: \_\_\_\_\_

**Specific Tests to Assess Fit and Proper Criteria:** Please answer "YES"/"NO" questions and sign accordingly.

No.	Items	Yes	No
1.	Have you been insolvent or declared bankrupt by a court?		
2.	Have you been convicted by the court for any criminal offence, fraud/forgery, financial crime or other illegal activities?		
3.	Have you been a defaulter of any financial institution?		
4.	Have you been a defaulter of any tax?		
5.	Have you ever been subject to any proceeding of a disciplinary or criminal nature, or notified of any impending proceedings or of any investigation, which might lead to such proceedings?		
6.	Have you, or any business in which you have had controlling interest or have exercised significant influence, been investigated, suspended or criticized by a regulatory or professional body, a court, whether publicly or privately?		
7.	Have you ever been associated, in ownership or management capacity, with a company, partnership or other business association whose license revoked, withdrawn or terminated?		
8.	Have you ever contravened any of the requirements and standards of a regulatory body, professional body, government or its agencies?		
9.	Have you ever been a director, partner, or otherwise involved in the management, of a business that has gone into receivership, insolvency or liquidation while you have been connected with that business or within one year after that connection?		
10.	Have you ever been dismissed, asked to resign or resigned, from employment or from a position of trust, fiduciary appointment or similar for negligence, incompetence or mismanagement?		
11.	Have you ever been disqualified from acting as director or serving in a managerial capacity?		
12.	Have you ever been diagnosed as being mentally ill or unstable?		
13.	Do you have reasons to believe that any of your close relatives or business associates, if subject to the above tests, would have responded as "Yes" to any of the above questions?		

I hereby **declare** that to the best of my knowledge and belief the statements made and the information supplied in this questionnaire hereinabove and the attachments are

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correct and that there are no other facts that are relevant for assessing my fitness and propriety;

I understand that the client may seek additional information from any third parties it deems necessary in view of my fit and proper test; and I undertake to bring to the attention of the Engagement Partner/Manager and/or a **Client** any matter which may potentially affect my status as being a fit and proper person as and when they arise.

Name\_\_\_\_\_

Signature\_\_\_\_\_

Date: \_\_\_/\_\_\_/\_\_\_

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### **ANNEX III: INFORMATION AND DOCUMENTS REQUIRED FOR APPROVAL OF A NEWLY APPOINTED OR RE-APPOINTED EXTERNAL AUDITOR**

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#### **A. Profile/s of External Auditor/s**

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1. Name of the regulated entity: \_\_\_\_\_
2. Date of application: \_\_\_\_\_
3. Name of the external auditor \_\_\_\_\_
4. Name of the external auditor's partner (if any) \_\_\_\_\_
5. Type of appointment:

First appointment  Re-appointment for 2nd time  Re-appointment for 3rd time:

6. Address of the external auditor

- City/Town: \_\_\_\_\_
- Sub-city: \_\_\_\_\_
- Woreda \_\_\_\_\_
- Kebele: \_\_\_\_\_
- Telephone: \_\_\_\_\_
- P.O. Box: \_\_\_\_\_
- E-mail: \_\_\_\_\_
- House No: \_\_\_\_\_

#### **B. Documents Required to be submitted**

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- 1) Application letter;
- 2) Copy of board of directors meeting minutes and annual general meeting minutes of shareholders showing approval of the appointment of the external auditor;
- 3) Proposed contract or audit engagement letter to be signed;
- 4) "Independence confirmations" and "fit and proper declarations";
- 5) Renewed trade license and renewed professional license provided by AABE;
- 6) Curriculum vitae of the proposed audit team members including audit certifications if any;
- 7) The name, qualification and experience of the audit manager in this specific audit;
- 8) Details of the audit firm's and audit team members experience in auditing;
- 9) Details of any existing business relationships between the external auditor or its partners or its staff with the audit client;
- 10) Copy of the license to practice auditing, including for each partner;
- 11) Taxpayer registration number, and tax clearance certificate;
- 12) A copy of certificate from AABE that the audit firm does not have any record of disciplinary action taken against unethical and unprofessional conduct;
- 13) Certificate of good conduct from police for the auditor and all audit team members;
- 14) Copy of ID card or Passport of all audit team members;

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- 15) In case of re-appointment, a regulated entity may not submit some of the above documents which have already been submitted previously; and
  - 16) The ECMA may require verification of any information submitted by a regulated entity for the purpose of approval of the external auditor.
  - 17) In addition, the ECMA may require other information it considers necessary.

## Securities Broker-Dealer Regulatory Compliance Report Outline

### 1. Executive Summary

- 1.1. High-level overview of key compliance activities, incidents, developments, and the overall compliance position of the firm.
- 1.2. Brief highlights of trading activity, client base trends, and key risk exposures during the reporting period.

### 2. Regulatory Framework

- 2.1. List of primary laws, regulations, directives, and guidelines applicable to brokers/dealers.
- 2.2. Mapping of internal policies and procedures to these requirements.

### 3. Compliance Structure and Resources

- 3.1. Details of the compliance function (staff, reporting lines, independence).
- 3.2. Any changes during the period (staffing, escalation protocols, compliance committee).

### 4. Licensing and Approvals

- Status of broker-dealer license(s), renewals, and scope of permitted activities.
- Any new approvals (e.g., new product categories, trading rights, market memberships).

### 5. Monitoring & Supervision Activities

- 5.1. Client Onboarding and KYC – Procedures for account opening, due diligence, risk profiling, and PEP/sanctions screening.
- 5.2. Suitability & Appropriateness – Checks to ensure investment recommendations and orders are appropriate for the client's profile.
- 5.3. Order Handling and Best Execution – Policies for ensuring fair treatment of client orders and monitoring execution quality.
- 5.4. Client Communication & Disclosures – Review of marketing, reports, promotional materials, and monitoring disclosures.
- 5.5. Segregation and Conflict of Interest Management – Monitoring inducements, commissions, and proprietary trading alongside client trading.
- 5.6. Employee Conduct and Ethics – Monitoring staff trading activities, compliance with personal account dealing rules.

### 6. Compliance Breaches and Incidents

- 6.1. Details of any breaches of law, regulation, or internal policy.

6.2. Root cause, remediation measures, and status of corrective actions.

## 7. Complaints Handling

- 7.1. Statistics on complaints received, types, resolution times, and remediation provided.
- 7.2. Analysis of patterns and systemic issues.

## 8. Training and Awareness

- 8.1. Summary of training sessions held (AML, ethics, insider trading prevention, best execution, client interaction).
- 8.2. Assessment of staff competency.

## 9. AML/CFT Compliance

- 9.1. Overview of KYC processes enhanced due diligence, and ongoing monitoring.
- 9.2. Suspicious Transaction Reports (STRs) and regulatory filings.

## 10. Internal Audit, Risk Assessments

- 10.1. Findings from audits covering trading, AML, and market conduct.
- 10.2. Key risks identified and mitigation steps.

## 11. Outsourcing (if applicable)

- 11.1. Outsourced functions (e.g., IT systems, back-office reconciliation, compliance monitoring).
- 11.2. Oversight arrangements and service-level reviews.

## 12. Regulatory Engagement

- 12.1. Summary of inspections, queries, regulatory correspondence.
- 12.2. Status of responses, remediation, or ongoing supervisory actions.

## 13. Planned Improvements

Policy updates, system upgrades, new controls, or compliance enhancement initiatives.

## 14. Operational Report

Overview of trading volumes, client activity, partnerships, technology changes, and significant business developments.

## 15. Declaration / Sign-Off

Confirmation by the Chief Compliance Officer (or equivalent) that the report is accurate and complete.



## 16. Appendices

Supporting documents (audit reports, training logs, compliance checklists, regulatory correspondence, etc.).