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Ethiopian Capital Market Authority

## **DIRECTIVE ON LICENSING AND OPERATING SECURITIES EXCHANGES AND TRADING PLATFORMS**

This draft is furnished to seek public comments as per the requirements of the Federal Administrative Procedure Proclamation No. 1183/2020.

All comments on the draft should be forwarded to [ecmadirective@gmail.com](mailto:ecmadirective@gmail.com) within 15 working days or by March 6, 2023.

**DRAFT FOR PUBLIC CONSULTATION**

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WHEREAS, the Capital Market Proclamation No. 1248/2021 mandates the establishment of the Ethiopian Securities Exchange and provides for certain issues relating to it to be determined by directive;

WHEREAS, it is necessary to provide the regulatory requirements for the establishment and operation of securities exchanges, derivative exchanges and other trading platforms and facilities;

WHEREAS, it is necessary to adopt a regulatory framework that protects investors, ensures market integrity and ensures the existence of orderly, fair, efficient and transparent markets, while promoting the development of Ethiopia's capital markets;

NOW, THEREFORE, in accordance with Articles 31(5), 32, 107(2) and 108(2) of the Capital Markets Proclamation No. 1248/2021., this directive is issued.

## CHAPTER ONE: GENERAL PROVISIONS

### 1. Short title

This Directive may be cited as the “Directive on Licensing and Operating Securities Exchanges and trading platforms No. .../2022.”

### 2. Definitions

- a. “Annual Compliance Report” means the report provided to the Authority by the entity licensed pursuant to this Directive which contains the overall confirmation of compliance with the provisions of this Directive.
- b. “Applicant” means the person or entity seeking to establish, launch or operate a business as a securities exchange, a derivatives exchange or an over-the-counter facility pursuant to Article 31 or 32 of the Capital Markets Proclamation No. 1248/2021.
- c. “Application” means the initial request or any subsequent revisions or material updates to the facts, attestations and conditions related to such request pertaining to a Securities Exchange License, Derivatives Exchange License or OTC Market license.
- d. “Authority” means the Capital Markets Authority established by the Proclamation.
- e. “Derivatives Exchange” means as defined in Article 2(23) of the Proclamation, a securities exchange which has been granted a license to list exchange-traded derivative contracts by the Authority under the Proclamation or approved for such purposes and in accordance with the regulations or directives issued thereunder.
- f. “Licensed Securities Exchange” means as defined in Article 2(39) of the Proclamation, a securities exchange to which an exchange license has been issued under the Proclamation and this Directive;
- g. “Over-the-Counter Market” or “OTC” means as defined in Article 2(48) of the Proclamation, a market in which securities and/or derivatives are traded by parties directly face-to-face or using communication devices such as telephones and networked computers with each other rather than through a recognized exchange. For the avoidance of doubt, the term includes an “Over-the-Counter facility” or “Over-the-Counter trading platform”.
- h. “Publicly Traded Security” means as defined in Article 2(57) of the Proclamation, a security traded on a securities exchange or through over-the-counter markets.
- i. “Quotation System” means any inter-dealer quotation system or any publication, set of procedure or electronic communications network or other device, or a combination thereof, which is used by brokers or dealers, singly or in concert with others, to make known to others

to buy or sell at a stated price or otherwise, or invitations of offers to buy or sell, either for the account of customers or for the principal account.

- j. “Registered Person” means, for purposes of Chapter Three of this directive, a person eligible to operate, use or maintain the Quotation System of an “OTC Market”.
- k. “Securities” means, as defined in Article 2(62) of the Proclamation, any instrument - in any legal form - that evidences ownership of a share in a financial transaction and that is negotiable pursuant to approval from the Authority.
- l. “Securities Broker” means, as defined in Article 2(63) of the Proclamation, a person who conducts the business of purchase and sale of securities for the account of others in consideration of a commission.
- m. “Securities Dealer” means, as defined in Article 2(64) of the Proclamation, any person who engages either for all or part of his time, directly or indirectly, as agent, broker, or principal, in the business of offering, buying, selling, or otherwise dealing or trading in securities issued by another person.
- n. “Securities Depository and Clearing Company” or “SDCC” means, as defined in Article 2(65) of the Proclamation, any legal entity that offers securities depository, clearing and settlement, and other related services.
- o. “Securities Exchange” means as defined in Article 2(67) of the Proclamation, in relation to premises of a licensed securities exchange, the one place in those premises which constitutes, maintains or provides a market or a facility for securities.
- p. “Self-Regulatory Organization” or “SRO” means as defined in Article 2(70) of the Proclamation, an entity that is recognized under the Proclamation to regulate its own members through the adoption and enforcement of rules of conduct for fair, ethical, and efficient practices in the capital market; with a view to promoting the protection of investors and the public interest.
- q. “Senior Personnel” means as defined in Article 2(71) of the Proclamation, a senior executive or any employee of a licensed person whose appointment requires consent or prior approval of the Authority.

### **3. Scope of this Directive**

This Directive shall apply to Applicants seeking to establish, launch or operate a business as a securities exchange, a derivatives exchange or an over-the-counter facility as referenced in Article 30(1) of the Proclamation.

#### **4. The Authority's principal objectives**

1. The Authority shall exercise its power and duty to grant a license to an Applicant in accordance with the Authority's "principal objectives" set out in Article 5 of the Proclamation.
2. The Authority may refuse to grant a Securities Exchange License to any Applicant other than the Ethiopian Securities Exchange ("ESX" for purposes of this Article for such period of time as deemed necessary by the Authority to enable the development of the Ethiopian capital markets in accordance with its "principal objectives".
3. The Authority may also limit the number of OTC Market Licenses it issues in furtherance of its "principal objectives".
4. Notwithstanding sub-articles 2 and 3 of this Article, the Authority shall have regard to the services and activities of ESX and shall grant a license to other Applicants, at its discretion, where such grant facilitates the existence of a comprehensive, efficient and fair capital market ecosystem in Ethiopia in accordance with Authority's "principal objectives".

#### **5. Application for a license**

1. An Application for a license pursuant to this Directive shall address the criteria and conditions set out in the Proclamation and this Directive.
2. All Applications for a license pursuant to this Directive shall be accompanied by the information and documents in the First Schedule and shall specify:
  - a. Whether the requested license pertains to a Securities Exchange, a Derivatives Exchange or an Over-the-Counter Facility; and
  - b. The types of securities proposed for trading and the classes of investors proposed to trade in those securities.
3. An Application pertaining to a Securities Exchange license or a Derivatives Exchange license shall address the requirements set out in Chapter 2 of this Directive: "Securities Exchange License".
4. An Application pertaining to a license for all other trading platforms or facilities shall address the requirements set out in Chapter 3 of this Directive: Over-the-Counter Market License.



## 6. Application process

1. An Application for a license shall be made in accordance with the guidelines which may be issued by the CMA from time to time.
2. All Applications and accompanying documents shall be filed with the Authority in the English or Amharic languages. If any information and/or document to be filed with the Application is in any other language, then it shall be accompanied by a certified translated version to English or Amharic.
3. All Application information and documents or copies of such information and documents, in so far as practicable, shall be submitted in electronic form, and in all cases shall be clear and easily readable.
4. Any material changes to the information previously submitted which would be relevant to an assessment of the Applicant's compliance with this Directive shall be provided to the Authority promptly.
5. Where the Applicant sends new information to the Authority to correct, update or clarify information previously submitted, it does not need to include information which is of a purely minor or technical nature that would not be relevant to an assessment of its compliance with this Directive.
6. Within thirty (30) working days from the receipt of the Application, the Authority shall assess whether the Application is complete.
  - a. If the Application is not complete, the Authority shall set a time limit by which the Applicant has to provide additional information.
  - b. The Authority shall inform the Applicant when the Application is considered complete.
7. An Application may be terminated by the Authority where the Applicant fails or neglects to continue with the processing of the Application for a period of sixty (60) consecutive calendar days without due notification to and approval of the Authority, notwithstanding payment of the prescribed Application fees and compliance with some requirements.
8. Within ninety (90) days from the submission of a complete Application, the Authority shall inform the Applicant in writing whether the license has been granted or refused.

9. The Authority's decision in respect of an Application may be appealed in accordance with Article 65 of the Proclamation
10. An Applicant becomes subject to the requirements and conditions of this Directive from the date of submission of its initial Application.

## **7. Refusal of a License application**

1. The Authority may refuse to grant a license where the Authority establishes that the Applicant:
  - a. Has not satisfied the requirements of this Directive;
  - b. Has not demonstrated that it has adequate capacity and competent personnel to carry out its functions;
  - c. Has given a false or misleading information;
  - d. Has omitted a material fact during the Application for a license or failed to mention any other material information that should be submitted to the Authority;
  - e. Has rules and policies which are inconsistent with the Proclamation or related regulations and directives; or
  - f. Has violated any provision of the Proclamation or regulations or directives issued thereunder.
2. Every Applicant shall be provided with an opportunity to be heard by the Authority before a decision is taken with respect to the rejection of an application or refusal to grant a license.

## **8. Renewal, suspension and revocation of license**

1. Subject to the Authority's assessment of compliance with the applicable Ongoing Obligations set out in this Directive, the license to operate a Securities Exchange, a Derivatives Exchange or an Over-the-Counter Market shall be renewed upon payment of the fees specified by the Authority in its Fees schedule.
2. The Authority may suspend or revoke the license in accordance with Article 33(3)-(10) of the Proclamation.

## 9. Fees

Every Applicant shall pay fees as specified in the Authority's Fee Schedule.

# CHAPTER TWO: SECURITIES EXCHANGE OR DERIVATIVES EXCHANGE LICENSE

## PART ONE: GENERAL

### 10. Exchange licensing and recognition

1. The Authority shall grant a license to a securities exchange or to a derivative exchange (for purposes of this Part referred to as an "Exchange") only where the Authority is satisfied that the relevant exchange complies with the requirements of Part 4 of the Proclamation and Chapter 2 of this Directive.
2. The entity granted an Exchange License:
  - a. Shall be considered a "Licensed Securities Exchange" as defined in the Proclamation; and
  - b. Shall be recognized as a "Self-Regulatory Organization" (SRO) in accordance with Article 22(2) of the Proclamation.
3. An Exchange which meets the requirements of a Derivatives Exchange (as defined) shall be granted a Derivatives Exchange license and, for the avoidance of doubt, shall also constitute a Licensed Securities Exchange as indicated in sub-article 2.
4. A Licensed Securities Exchange may operate one or more Securities Exchange, Derivatives Exchange, OTC market or other platform, system or facility upon obtaining the appropriate license.
5. A Licensed Securities Exchange shall submit an application to the Authority to undertake or provide new or additional activities and services and shall obtain the appropriate license from the Authority, as applicable.
6. The licenses granted to the Licensed Securities Exchange shall reflect the approved activities and services of the Licensed Securities Exchange, including any variations and qualifications set by the Authority.

## **11. Exchange licensing requirements**

1. The Applicant shall provide the Authority with the necessary information to enable the Authority to satisfy itself that Licensed Securities Exchange meets the requirements under Chapter 2 of this directive.
2. An Application for an Exchange License shall include the information set out in Second Schedule of this directive.
3. The Applicant for such license shall demonstrate that:
  - a. It satisfies the requirements for recognition as an SRO in accordance with Article 22 of the Proclamation and the directives issued thereunder;
  - b. It satisfies the capital adequacy requirements as set out in this Directive;
  - c. It has an appropriate business organization, including its ownership, management and governance arrangements;
  - d. It has sufficient and appropriate human resources and technological expertise;
  - e. It uses trading platforms or systems which are appropriate and well governed;
  - f. It has adequate and effective operational policies, practices, procedures;
  - g. It can adequately undertake monitoring, surveillance and supervision of the markets it operates; and
  - h. It has appropriate clearing and settlement arrangements, including in relation to the services of an SDCC.

## **12. Conditions applicable to the Exchange**

1. In accordance with Article 23 of the Proclamation, the Authority shall specify in writing the terms and conditions for the delegation of power and duties to the Licensed Securities Exchange.
2. The Authority may impose any condition or restriction it deems appropriate as a condition to granting an exchange license.
3. The Licensed Securities Exchange shall specify, with the Authority's consent, the person authorized to exercise the delegation on behalf of Licensed Securities Exchange.

## **13. Capital adequacy and financial resource requirements and reports**

1. The capital adequacy of a Licensed Securities Exchange shall consist of the minimum capital set out in sub-article 2 and adequate and sufficiently liquid financial resources as described in this Article.

2. The minimum capital required shall be:
  - a. [XXX birr] for a Securities Exchange license; and
  - b. [XXX birr] for a Derivatives Exchange license.
3. In considering if the Licensed Securities Exchange has adequate and sufficiently liquid financial resources, the Authority:
  - a. Shall take into consideration the business organization (including its ownership and arrangement of its affairs); the nature and scale of its operations; its forward-looking business plan, its membership and governance arrangements, and the associated risks; and
  - b. Shall have regard to the nature and extent of the transactions concluded on the markets it operates, and the range and degree of the risks to which it is exposed.
4. The financial resources of the Licensed Securities Exchange shall include resources sufficient:
  - a. To enable the Licensed Securities Exchange to carry on its current and proposed operations and activities, including its operational costs and any capital expenditure;
  - b. To address exposure to market risk or counterparty (credit) risk, including during periods of major market turbulence or substantial stress in wider financial system, with assessment of such exposure taking into account any settlement guarantee arrangements which may be established for the trading activity;
  - c. To cover a forward-looking period of at least one year taking into account the risks and the scenarios assessed; and
  - d. To undertake an orderly wind down or closure of its activities in accordance with the principal objectives of the Authority.
5. The financial resources of the Licensed Securities Exchange shall be held in cash and liquid financial instruments which have minimal market risk and credit risk and are capable of being liquidated with minimal adverse price effect.
6. The Licensed Securities Exchange shall meet the requirements of this Article at all times; and it shall provide the Authority with a financial risk assessment and financial report that demonstrates compliance with the requirements of this Article, at the time of application and on an ongoing basis thereafter in accordance with its reporting obligations to the Authority.
7. The Authority shall provide further guidance on the capital adequacy requirements of a Licensed Securities Exchange, as necessary.

## **14. Restrictions applicable to the Exchange**

A Licensed Securities Exchange shall not execute client orders against proprietary capital (meaning its own capital), nor shall it engage in matched principal trading on any exchange or trading platform, market or facility that it operates.

## **PART TWO: BUSINESS ORGANISATION, GOVERNANCE AND MANAGEMENT**

### **15. Business Organization**

1. The Authority must be satisfied with the organization, ownership and control, competence and integrity, business arrangements and management of the Licensed Securities Exchange.
2. The Licensed Securities Exchange shall be required to comply with the guidelines on corporate governance for capital market service providers issued by the Authority or the applicable corporate governance guideline as may be published by the Authority from time to time.
3. Where Licensed Securities Exchange has close links to another natural or legal person (whether by shareholding or by virtue of the ability to exercise significant influence over the Licensed Securities Exchange, either directly or indirectly); the Authority must be satisfied that such close links are not likely to impair the effective supervision of the Licensed Securities Exchange by the Authority, nor its operations or compliance and adherence with the requirements in the Directives and the Proclamations.
4. The Licensed Securities Exchange shall provide to the Authority, and make public, information regarding the organizational structure and the ownership of the Licensed Securities Exchange, and in particular, the identity and scale of interests of any parties with close links referenced in sub-article 3 and any subsequent changes thereto.
5. Where the Authority exercises the provision in sub-article 3, it shall be in accordance with its “principal objectives” set out in Article 5 of the Proclamation.

### **16. Board of Directors**

1. An exchange licensed pursuant to this Chapter shall be managed by a board of directors in accordance with the requirements of Article 34 of the Proclamation.
2. The board of directors shall:
  - a. In its overall composition reflect an adequately broad range of experience, and

- b. Its members shall collectively possess the knowledge, skills and experience to be able to understand the activities, including the main risks, of the exchange.
3. The Board of Directors shall be elected by the shareholders of the Licensed Securities Exchange and such election shall be effective subject to the consent of the Authority in accordance with Articles 34(2) and (3) of the Proclamation.
4. The Authority may refuse to consent to a member of the board of directors:
  - a. If it is not satisfied that such member is of sufficiently good repute, possesses sufficient knowledge, skills and experience and is able to commit sufficient time to perform their functions; or
  - b. If there are objective and demonstrable grounds for believing that such member or members may pose a threat to its effective, sound and prudent management and to the adequate and effective consideration of the integrity of the market.
5. Each member of the board of directors shall at all times, while remaining in their position, be subject to the following conditions:
  - a. The “Fit and Proper” requirements set out in the Authority’s Directives for Recognition of Self-Regulatory Organizations;
  - b. Possess sufficient knowledge, skills and experience to perform their duties;
  - c. Commit sufficient time to perform their functions;
  - d. Act with honesty, integrity and independence of mind to effectively assess and challenge the decisions of the senior management where necessary and to effectively oversee and monitor decision-making; and
  - e. Provide demonstrable evidence of continuously working towards improving their qualification and experience in finance, management, economics, legal, or related affairs.

#### **17. Responsibilities of the Board of Directors**

1. The board of directors of a Licensed Securities Exchange, in accordance with Article 34(5) of the Proclamation, shall:
  - a. Ensure the exchange is operated in compliance with the Proclamation and related regulations and directives;
  - b. Ensure the exchange is operated in compliance with the its own rules;
  - c. Be responsible for the general oversight of the affairs of the exchange; and

- d. Oversee the administrative affairs of the exchange in order to ensure sound financial management structures and processes.
2. The board of directors shall implement governance arrangements, including the decision-making framework, for the Licensed Securities Exchange.
  - a. The governance arrangements shall ensure effective and prudent management of the exchange, including the segregation of duties in the organization and the prevention of conflicts of interest; and shall be a manner that promotes the integrity of the market;
  - b. The board of directors shall monitor and periodically assesses the effectiveness of the governance arrangements and take appropriate steps to address any deficiencies.
3. The board of directors shall have adequate access to information and documents to discharge their responsibilities, including monitoring the decision-making of the management and providing the appropriate oversight over the operations of the Licensed Securities Exchange.
4. Notwithstanding the information sharing, reporting and assistance a Licensed Securities Exchange is required to provide to the Authority, the Board of directors shall inform the Authority of any disciplinary action taken against any of its members, the details of the violation committed and the procedures taken and the penalty imposed in accordance with Article 37(3) of the Proclamation.

## **18. Chief Executive Officer**

1. The chief executive officer of the Exchange shall be appointed by the board of directors and such appointment shall be subject to the consent of the Authority.
2. The Authority may refuse to consent if it is not satisfied that the chief executive officer:
  - a. Possesses the appropriate qualifications, knowledge, skills and experience to manage the Licensed Securities Exchange;
  - b. Satisfies the “Fit and Proper” requirements set out in the Authority’s Directives for Recognition of Self-Regulatory Organizations; or
  - c. Is able to commit sufficient time to perform their functions.
3. The chief executive officer shall not be the chairman of the board of directors established under Article 16.



## **19. Other Senior Personnel**

1. The following senior personnel of the Licensed Securities Exchange shall require the prior approval of the Authority: the senior operating officer, senior financial officer, the senior risk and compliance officer, and any other senior level personnel as deemed necessary by the Authority.
2. The Authority may withhold approval of the person referenced in sub-article 1 if it is not satisfied that such person:
  - a. Possesses the appropriate qualifications, knowledge, skills and experience;
  - b. Satisfies the “Fit and Proper” requirements set out in the Authority’s Directives for Recognition of Self-Regulatory Organizations; or
  - c. Is able to commit sufficient time to perform their functions.

## **PART THREE: STAFF, RESOURCES AND EXPERTISE**

### **20. Staffing and technical expertise**

1. A Licensed Securities Exchange shall employ adequate number of staff with the necessary skills and sufficient knowledge to manage its operations.
2. The Licensed Securities Exchange shall ensure the staff’s skills remain up to date and shall evaluate their skills on a regular basis.
3. The staffing requirements of a Licensed Securities Exchange shall take into account the nature, scale and complexity of its activities.
4. The staff of a Licensed Securities Exchange shall at all times include:
  - a. The relevant regulatory oversight staff;
  - b. Appropriate risk and compliance staff; and
  - c. Internal audit staff.
5. The staff referred to in sub-article 3 shall include staff with sufficient seniority to perform their functions effectively within the Licensed Securities Exchange.

6. The relevant senior risk and compliance staff and senior internal audit staff referenced in sub-article 4:
  - a. Shall be appointed by the Board of Directors; and
  - b. Shall functionally report directly to the Board of Directors.

## **21. Risk and compliance**

1. A Licensed Securities Exchange shall adopt a sound risk management framework for the comprehensive management and oversight of the risks relating to the Licensed Securities Exchange.
2. The Licensed Securities Exchange shall have a risk and compliance function which shall be responsible for independent oversight of the Licensed Securities Exchange.
3. The responsibilities of this function include:
  - a. Providing the oversight with respect to the exchange's adherence to the requirements and obligations as set out in the Proclamation and the directives; and
  - b. Developing and maintaining the policies and procedures to enable the exchange to comply with such requirements and obligations.
4. The staff of this function shall have at least a general understanding of:
  - a. The legal and regulatory obligations established by this Directive and the Proclamation;
  - b. The way in which trading systems and trading algorithms operate;
  - c. Knowledge of the relevant trading systems; and
  - d. The types of trading undertaken by the relevant trading platforms.
5. The relevant senior staff within this function shall provide risk and compliance reports to the Authority as part of the Licensed Securities Exchange periodic reporting obligations and as considered necessary by the Authority.
6. Depending on the size and complexity of the business undertaken by the Licensed Securities Exchange, the risk and compliance function may require two distinct functional units for risk and compliance, respectively, within the business organization.

## **22. Outsourcing**

1. A Licensed Securities Exchange may outsource the execution of one or more tasks to a third-party service provider provided that the outsourcing:
  - a. Does not result in any restriction to the responsibility of the Licensed Securities Exchange toward Authority;
  - b. Does not result in the delegation of senior management responsibilities;
  - c. Does not hinder in any way the effectiveness of the supervision of the Licensed Securities Exchange and the surveillance of trading;
  - d. Does not alter the relationship and the duties of the Licensed Securities Exchange with the exchange members, issuers and investors.
2. Notwithstanding sub-article 1, the following tasks of a Licensed Securities Exchange are not permitted to be outsourced or assigned to third parties:
  - a. Trading surveillance and market control over the automated trading system;
  - b. Admission, expulsion or suspension of exchange members;
  - c. Receipt of ad hoc message via trading systems;
  - d. Decisions in connection with trading halts or suspensions;
  - e. Decision regarding the listing or admission to trading, or removal from trading of a security.
3. Taking into account the type of task to be outsourced, the third-party service provider shall have the appropriate qualifications and shall be able to carry out the task assigned.
4. The Licensed Securities Exchange shall ensure that the outsourcing arrangement avoids exposure to additional unnecessary or unacceptable risks.
5. The rights and duties between the Licensed Securities Exchange and the third party shall be clearly assigned and reflected in a written agreement.
6. Prior to entering into an agreement with the third-party service provider, the Licensed Securities Exchange shall notify the Authority in writing of its intention to outsource and provide its assessment of such outsourcing in accordance with the requirements of this Article, and shall obtain written confirmation no-objection from the Authority.

## **PART FOUR: REQUIREMENTS OF THE TRADING PLATFORM OR SYSTEM**

### **23. Trading system capacity**

1. The Licensed Securities Exchange shall ensure that the trading systems have sufficient capacity to perform its functions without systems failures, outages or errors in matching transactions.
2. The elements of a trading system to be considered for the purposes of sub-article 1 shall be those supporting the following activities:
  - a. Upstream connectivity, order submission capacity, throttling capacities and ability to balance customer order entrance through different gateways;
  - b. Trading engine which enables the trading venue to match orders at an adequate latency;
  - c. Downstream connectivity, order and transaction edit and any other type of market data feed;
  - d. Infrastructure to monitor the performance of the abovementioned elements.
3. Sufficient capacity for purposes of sub-article 1 shall be measured taking into account:
  - a. Any input, including orders and modifications or cancellations of orders; and
  - b. Any output, including the system's response to an input, display of order book data and dissemination of post-trade flow that implies independent use of the trading system's capacity.
4. The Licensed Securities Exchange shall ensure that:
  - a. The systems are able to cope with rising message flows without material degradation of the systems' performance; and
  - b. The design of the trading system enables its capacity to be expanded within reasonable time whenever necessary.
5. The Licensed Securities Exchange shall assess the capacity of the trading systems to ensure it remains adequate at relevant message volumes recorded on that system; and after the assessment, the Licensed Securities Exchange shall inform the Authority about any measures planned to expand their capacity and the time to implement such measures.

6. The Licensed Securities Exchange shall immediately make public, and report to the Authority and to members, any severe trading interruption including any material connectivity disruptions.

#### **24. General requirements for trading platforms or systems**

1. The Licensed Securities Exchange shall have in place effective systems, procedures and arrangements to ensure its trading platforms or systems:
  - a. Have sufficient capacity to deal with peak order and message volumes,
  - b. Are resilient,
  - c. Are able to ensure orderly trading under conditions of severe market stress,
  - d. Are fully tested to ensure such conditions are met; and
  - e. Are subject to effective business continuity arrangements to ensure continuity of its services if there is any failure of its trading systems.
2. The Licensed Securities Exchange shall have in place effective systems, procedures and arrangements to reject orders that exceed pre-determined volume and price thresholds or are clearly erroneous.
3. In accordance with Article 33(1) of the Proclamation, the Licensed Securities Exchange shall temporarily halt or constrain trading if there is a significant price movement in a security or derivative on that market or a related market during a short period and, in exceptional cases, shall cancel, vary or correct any transaction.
  - a. For purposes of sub-article 3, the Licensed Securities Exchange shall ensure that the parameters for halting trading are appropriately calibrated in a way which takes into account the liquidity of different asset classes and sub-classes, the nature of the market model and the types of users and, are sufficient to avoid significant disruptions to the orderliness of trading.
  - b. The Licensed Securities Exchange shall provide to the Authority the parameters for halting trading and any material changes to those parameters to the Authority in a consistent and comparable manner.
  - c. Notwithstanding the above, the parameters for halting trading, any material changes to those parameters and any actual halt or constrain on trading shall require the prior approval of the Authority.
4. A Licensed Securities Exchange shall have in place effective systems, procedures and arrangements;

- a. To address disorderly trading conditions;
  - b. To ensure that algorithmic trading systems cannot create or contribute to disorderly trading conditions on the market, including requiring members or participants to carry out appropriate testing of algorithms and providing environments to facilitate such testing;
  - c. To manage any disorderly trading conditions which arise from such algorithmic trading systems, including systems to limit the ratio of unexecuted orders to transactions that may be entered into the system by a member or participant;
  - d. To be able to slow down the flow of orders if there is a risk of its system capacity being reached; and
  - e. To limit and enforce the minimum tick size that may be executed on the market.
5. A Licensed Securities Exchange shall be able to identify orders generated by algorithmic trading, the different algorithms used for the creation of orders and the relevant persons initiating those orders and such information shall be made available to the Authority upon request.
6. The Licensed Securities Exchange shall be required to:
- a. Make available to the Authority data relating to the order book or shall give the Authority access to the order book so that it is able to monitor trading; and
  - b. Retain and make available the appropriate records of post-trade information for the Authority to inspect or investigate.

**25. Trading platform or system: condition for use**

1. The Licensed Securities Exchange shall set out the conditions for using its electronic order submission systems by its members.
2. Those conditions shall be set having regard to the trading model of the trading platform and system and shall cover at least the following:
  - a. Pre-trade controls on price, volume and value of orders, usage of the system and post-trade controls on the trading activities of the members;
  - b. Qualifications required of staff in key positions within the members;
  - c. Technical and functional conformance testing by members;

- d. Policy of use of the halt functionality referenced in Article 35 – Prevention of disorderly trading conditions;
- e. Provisions on whether the member may give its own clients direct electronic access to the system and if so, the conditions applicable to those clients.

## **26. Systems and controls and governance arrangements**

1. The Licensed Securities Exchange shall be adequately equipped:
  - a. To implement appropriate arrangements and systems to identify all significant risks to its operation; and
  - b. To manage and put in place effective measures to mitigate the risks to which it is exposed.
2. The Licensed Securities Exchange shall:
  - a. Have arrangements for the sound management of the technical operations of the system, including the establishment of effective contingency arrangements to cope with risks of systems disruptions; and
  - b. Have effective arrangements to facilitate the efficient and timely finalization of the transactions executed under its systems.
3. The Licensed Securities exchange shall have arrangements to clearly identify and manage:
  - a. The potential adverse consequences of the operation of the trading platform or system including on its members or participants; and
  - b. Any conflict of interest which could impact the sound functioning of the trading platform or system or the Licensed Securities Exchange; in particular where such conflicts of interest might prove prejudicial to the accomplishment of any functions delegated to the Licensed Securities Exchange by the Authority.

## **27. Market and trading risk management**

1. A Licensed Securities Exchange shall have in place mechanisms to monitor open positions, or credit exposures, on unsettled trades that may pose a risk to the market or to the Securities Depository and Clearing Company.
2. The Licensed Securities Exchange shall provide the Authority with details of any settlement guarantee arrangement or solution used by the trading platforms or systems it operates.

3. The Licensed Securities Exchange shall provide the Authority with up-to-date reports on its risk management arrangements as part of the Licensed Securities Exchange periodic reporting obligations and as considered necessary by the Authority.

## **PART FIVE: OPERATION OF THE TRADING PLATFORM AND SYSTEM**

### **28. Prevention of disorderly trading conditions**

1. A Licensed Securities Exchange shall have at least the following arrangements in place to prevent disorderly trading and breaches of capacity limits:
  - a. Limits per member of the number of orders sent per second;
  - b. Mechanisms to manage volatility;
  - c. Pre-trade and post-trade controls.
2. For the purposes of sub-article 1, a Licensed Securities Exchange shall be able to:
  - a. Request information from any member (or user of sponsored access if direct electronic access is permitted) on their business organizational arrangements and systems, and their trading controls;
  - b. Suspend access to the trading system at the initiative of the exchange or at the request of that member, a clearing member, the SDCC if provided for in the SDCC's governing rules, or the Authority;
  - c. Operate a halt functionality to cancel unexecuted orders submitted by a member, or by a sponsored access client under the following circumstances:
    - i. Upon request of the member or of the sponsored access client, where the member or client is technically unable to delete its own orders;
    - ii. Where the order book contains erroneous duplicated orders;
    - iii. Following a suspension initiated either by the Licensed Securities Exchange or the Authority;
  - d. Cancel or revoke transactions in case of malfunction of the mechanisms to manage volatility or of the operational functions of the trading system; and



- e. Balance entrance of orders among their different gateway in order to avoid collapses where more than one gateway is used.
3. A Licensed Securities Exchange shall set out policies and arrangements in respect of:
- a. Mechanisms to manage volatility;
  - b. Pre-trade and post-trade controls used by the venue and pre-trade and post-trade controls necessary for their members to access the market;
  - c. Members' obligation to operate their own halt functionality; information requirements for members;
  - d. Suspension of access;
  - e. Cancellation policy in relation to orders and transactions including:
    - i. Timing;
    - ii. Procedures;
    - iii. Reporting and transparency obligations;
    - iv. Dispute resolution procedures;
    - v. Measures to minimize erroneous trades;
  - f. Order throttling arrangements including:
    - i. Number of orders per second on pre-defined time intervals;
    - ii. Equal-treatment policy among members unless the throttle is directed to individual members;
    - iii. Measures to be adopted following a throttling event;
4. The Licensed Securities Exchange shall make public their policies and arrangements set out in sub-articles 2 and 3; however, that obligation shall not apply with regard to the specific number of orders per second on pre-defined time intervals and the specific parameters of their mechanisms to manage volatility.
5. The Licensed Securities Exchange shall maintain full electronic records of their policies and arrangements for the prevention of disorderly trading for a minimum period of [10] ten years.

## **29. Testing of the trading platforms or systems**

1. Prior to deploying or updating a trading platform or system, the Licensed Securities Exchange shall make use of clearly defined development and testing methodologies which ensure at least that:
  - a. The trading system does not operate in an unintended manner;
  - b. The compliance and risk management controls embedded in the systems work as intended, including the automatic generation of error reports; and
  - c. The trading system can continue to work effectively in case of a significant increase of the number of messages managed by the system.
2. The Licensed Securities Exchange shall be able to demonstrate at all times that they have taken all reasonable steps to ensure that the trading platform or systems they operate do not contribute to disorderly trading conditions.

## **30. Ongoing monitoring of trading platform or system**

1. The Licensed Securities Exchange shall be able to demonstrate at all times to the Authority that they monitor in real time the performance and usage of the elements of their trading systems in relation to the following parameters:
  - a. Percentage of the maximum message capacity utilized per second;
  - b. Total number of messages managed by the trading system broken down per element of the trading system, including:
    - i. Number of messages received per second;
    - ii. Number of messages sent per second; and
    - iii. Number of messages rejected by the system per second;
  - c. Period of time between receiving a message in any outer gateway of the trading system and sending a related message from the same gateway after the matching engine has processed the original message;
  - d. Performance of the matching engine.
2. The Licensed Securities Exchange shall take all appropriate action in relation to any issues identified in the trading system during the ongoing monitoring as soon as reasonably

possible, in order of priority, and shall be able to adjust, wind down, or shut down the trading system, if necessary.

### **31. Mechanisms to manage volatility**

1. The Licensed Securities Exchange shall ensure that appropriate mechanisms to automatically halt or constrain trading are operational at all times during trading hours.
2. The Licensed Securities Exchange shall ensure that:
  - a. Mechanisms to halt or constrain trading are tested before implementation and periodically thereafter when the capacity and performance of trading systems is reviewed;
  - b. Technology and human resources are allocated to deal with the design, maintenance and monitoring of the mechanisms implemented to halt or constrain trading;
  - c. Mechanisms to manage market volatility are continuously monitored.
3. The Licensed Securities Exchange shall maintain records of the rules and parameters of the mechanisms to manage volatility and any changes thereof, as well as records of the operation, management and upgrading of those mechanisms.
4. The Licensed Securities Exchange shall ensure that their rules on the mechanisms to manage volatility include procedures to manage situations where the parameters have to be manually overridden to ensure orderly trading.
5. Volatility, as used herein, refers to the price changes within the market or to a security or a group of securities during a specified period of time.
6. Notwithstanding the provisions set out in this Article, the Authority shall have the discretion to direct the Licensed Securities Exchange to halt trading during periods of volatility, including in the circumstances set out in Article 33(1) and (2) of the Proclamation.

### **32. Pre-trade and post-trade controls**

1. The Licensed Securities Exchange shall carry out the following pre-trade controls adapted for each security or derivative traded on its trading platform or systems:
  - a. Price collars, which automatically block orders that do not meet pre-set price parameters on an order-by-order basis;

- b. Maximum order value, which automatically prevents orders with uncommonly large order values from entering the order book by reference to notional values per securities or derivatives;
  - c. Maximum order volume, which automatically prevents orders with an uncommonly large order size from entering the order book.
2. The pre-trade controls laid down in sub-article 1 shall be designed to ensure that:
- a. The automated application has the ability to readjust a limit during the trading session and in all its phases;
  - b. The monitoring has a delay of no more than five seconds;
  - c. An order is rejected once a limit is breached;
  - d. Procedures and arrangements are in place to authorize orders above the limits upon request from the member concerned. Such procedures and arrangements shall apply in relation to a specific order or set of orders on a temporary basis in exceptional circumstances.
3. The Licensed Securities Exchange may establish the post-trade controls that they deem appropriate on the basis of a risk assessment of activity of its members.

### **33. Tick Sizes**

- 1. The Licensed Securities Exchange shall adopt tick size regimes in all securities.
- 2. The tick size regime shall be:
  - a. Calibrated to reflect the liquidity profile of the security or derivative in different markets and the average bid-ask spread, taking into account the desirability of enabling reasonably stable prices without unduly constraining further narrowing of spreads; and
  - b. Adapted for each security or derivative appropriately.

### **34. Synchronization of business clocks**

- 1. The business clocks used to record the date and time of any reportable event shall be synchronized between trading platforms or systems and the members or participants.
- 2. The Authority may develop guideline to specify the level of accuracy to which clocks are to be synchronized in accordance with international standards.

### **35. Market making arrangements**

1. The Licensed Securities Exchange shall have written agreements in place with all members or participants pursuing a market making strategy on any trading platform or facility it operates.
  - a. Such agreements shall require them to post firm quotes at competitive prices with the result of providing liquidity to the market on a regular and predictable basis, where such a requirement is appropriate to the nature and scale of the trading on that Trading venue.
  - b. The Licensed Securities Exchange shall have in place schemes or arrangements to ensure there are a sufficient number of members or participants in such agreements.
2. The written agreement referred to in sub-article 1 shall at least specify:
  - a. The obligations of the member or participant in relation to the provision of liquidity and where applicable any other obligation arising from participation in the scheme referred to in sub-article 2(b);
  - b. Any incentives in terms of rebates or otherwise offered by the Licensed Securities Exchange to member or participant so as to provide liquidity to the market on a regular and predictable basis and, where applicable, any other rights accruing to the investment firm as a result of participation in the scheme referred to in sub-article 2(b).
3. The Licensed Securities Exchange shall monitor and enforce compliance with the requirements of such binding written agreements.
4. The Licensed Securities Exchange shall inform the Authority about the content of the binding written agreement and shall, upon request, provide all further information to the Authority necessary to enable the Authority to satisfy itself of compliance with this Article.

### **36. Fees related to trading platform or system**

1. A Licensed Securities Exchange shall ensure:
  - a. That its fee structures including execution fees, ancillary fees and any rebates are transparent, fair and non-discriminatory;
  - b. That they do not create incentives to place, modify or cancel orders or to execute transactions in a way which contributes to disorderly trading conditions or market abuse;
  - c. That it imposes market making obligations in individual shares or a suitable basket of shares in exchange for any rebates that are granted.

2. Any fees for cancelled orders shall be adjusted according to the length of time for which the order was maintained and to calibrate the fees to each security or derivative to which they apply.
3. A higher fee shall be imposed for placing an order that is subsequently cancelled than an order which is executed, on members placing a high ratio of cancelled orders to executed orders, and on those operating a high-frequency algorithmic trading technique in order to reflect the additional burden on system capacity.

## **PART SIX: DATA, CYBER RISKS AND BUSINESS CONTINUITY REQUIREMENTS**

### **37. Data protection**

The Licensed Securities Exchange shall ensure that it has in place mechanisms to protect the data and information under its custody with respect to its members and customers, and such mechanisms shall be in line with principles of data protection applicable to the Licensed Securities Exchange as set out in the Proclamation, as promulgated by the Authority from time to time, and as required by other relevant government agencies.

### **38. Technology and security**

1. The Licensed Securities Exchange shall establish a governance and decision framework regarding technology and security matters relevant to its operations.
2. The Licensed Securities Exchange shall utilize appropriate tools and mechanisms for purposes of ensuring the security, safety and soundness of its technology.
3. Such tools and mechanism shall include the requirements established by other relevant government agencies, including the requirements promulgated by the Information and Network Security Agency of Ethiopia (INSA), or other relevant government agency, where applicable.
4. The Licensed Securities Exchange shall provide the Authority with evidence of compliance with this article, when it seeks to obtain a license from the Authority and as requested from the Authority thereafter.

### **39. Business continuity arrangements**

1. The Licensed Securities Exchange shall be able to demonstrate at all times that their systems have sufficient stability by having effective business continuity arrangements to address disruptive incidents.

2. The business continuity arrangements shall ensure that trading can be resumed within or close to two hours of a disruptive incident and that the maximum amount of data that may be lost after a disruptive incident is close to zero.

#### **40. Business continuity plan**

1. A Licensed Securities Exchange shall, in the context of its governance and decision-making framework, establish a business continuity plan to implement effective business continuity arrangements as required by this Directive.
2. The business continuity plan shall:
  - a. Set out the procedures and arrangements for managing disruptive incidents;
  - b. Set out procedures to address any disruptions of outsourced critical operational functions, including where those critical operational functions become unavailable; and
  - c. Shall provide for the following minimum content specified in sub-article 3.
3. The minimum content of the business continuity plan shall include:
  - a. A range of possible adverse scenarios relating to the operation of the algorithmic trading systems, including the unavailability of systems, staff, work space, external suppliers or data centers or loss or alteration of critical data and documents;
  - b. The procedures to be followed in case of a disruptive event;
  - c. The maximum time to resume the trading activity and the amount of data that may be lost in the IT system;
  - d. Procedures for relocating the trading system to a back-up site and operating the trading system from that site;
  - e. Back-up of critical business data including up-to-date information of the necessary contacts to ensure communication inside the trading venue, between the trading venue and its members, and between the trading venue and clearing and settlement infrastructures;
  - f. Staff training on the operation of the business continuity arrangements;
  - g. Assignment of tasks and establishment of a specific security operations team ready to react immediately after a disruptive incident;

- h. An ongoing program for testing, evaluation and review of the arrangements including procedures for modification of the arrangements in light of the results of that program; and
      - i. Clock synchronization after a disruptive incident shall be included in the business continuity plan.
- 4. The Licensed Securities Exchange shall ensure that their senior management:
  - a. Establish clear objectives and strategies in terms of business continuity;
  - b. Allocate adequate human, technological and financial resources to pursue the objectives and strategies under point (a);
  - c. Approve the business continuity plan and any amendments thereof necessary as a consequence of organizational, technological and legal changes;
  - d. Are informed, at least on a yearly basis, of the outcome of the impact assessment or any review thereof and of any findings concerning the adequacy of the business continuity plan;
  - e. Establish a business continuity function within the organization.
- 5. The Licensed Securities Exchange shall ensure that an impact assessment identifying the risks and consequences of disruption is carried out and periodically reviewed.
  - a. For this purpose, any decision by the Licensed Securities Exchange not to take into account an identified risk of unavailability of the trading system in the business continuity plan shall be adequately documented and explicitly approved by the board of directors.

## **PART SEVEN: REQUIREMENTS OF EXCHANGE MEMBERSHIP**

### **41. Assessment of members**

- 1. A Licensed Securities Exchanges shall undertake a due diligence assessment of their prospective members and participants (including persons with direct electronic access as set out in Article 46 and shall establish procedures for such assessment.
- 2. At least once a year, a Licensed Securities Exchanges shall conduct a risk-based assessment of its members and participants which:



- a. Shall include assessment of compliance with the membership criteria and conditions, including confirming that members and participants remain duly licensed by the Authority as capital markets service providers; and
  - b. Shall take into account the scale and potential impact of trading undertaken by each member as well as the time elapsed since the last risk-based assessment.
3. The Licensed Securities Exchange shall undertake additional assessments of their members and participants as necessary.
4. The License Securities Exchange shall provide to the Authority, on a regular basis, the list of its members and participants.
5. The Licensed Securities Exchange shall maintain, for at least [10] ten years, electronic records of:
  - a. The conditions and procedures for the due diligence assessment;
  - b. The criteria and procedures for imposing sanctions;
  - c. The initial due diligence assessment of their members;
  - d. The annual risk-based assessment of their members;
  - e. The members that failed the annual risk-based assessment and any sanctions imposed on such members.

#### **42. Technical and functional conformance testing**

1. A Licensed Securities Exchange shall require their members to undertake conformance testing of the access to the relevant trading platform or system and the member's trading system, trading algorithm or trading strategy, prior to the deployment or a substantial update.
2. The conformance testing shall ensure that the basic functioning of the member's trading system, algorithm and strategy complies with the trading platform or system's conditions for use.
3. The conformance testing shall verify the functioning of the following:
  - a. The ability of the member's system, algorithm or strategy to interact as expected with the matching logic of the trading platform or system of the Licensed Securities

Exchange and the adequate processing of the data flows from and to the Licensed Securities Exchange;

- b. The basic functionalities such as submission, modification or cancellation of an order or an indication of interest, static and market data downloads and all business data flows;
  - c. The connectivity, including the cancel on disconnect command, market data feed loss and throttles, and the recovery, including the intra-day resumption of trading and the handling of suspended instruments or non-updated market data.
4. The Licensed Securities Exchange shall provide a conformance testing environment to their actual and prospective members which:
- a. Is accessible on conditions equivalent to those applicable to the Licensed Securities Exchange other testing services;
  - b. Provides a list of securities or derivatives which can be tested and which are representative of every class of instruments available in the production environment;
  - c. Is available during general market hours or, if available only outside market hours, on a pre-scheduled periodic basis;
  - d. Is supported by staff with sufficient knowledge.
5. The Licensed Securities Exchange:
- a. Shall ensure effective separation of the testing environment for the conformance testing;
  - b. Shall require their actual and prospective members to use their conformance testing facilities; and
  - c. Shall deliver a report of the results of the conformance testing to the actual or prospective member, and shall provide such report to the CMA when requested.

#### **43. Testing of algorithms**

1. The Licensed Securities Exchange shall require its members or participants to certify that the trading systems, strategy or algorithms they deploy have been tested to avoid contributing to or creating disorderly trading conditions.
  - a. Such testing shall take place prior to the deployment or substantial update of a trading system, strategy or algorithm; and
  - b. Relevant member or participant shall explain the means used for that testing.
2. The Licensed Securities Exchange shall provide their members with access to a testing environment which shall consist of the following:
  - a. Simulation facilities which reproduce as realistically as possible the production environment, including disorderly trading conditions, and which provide the functionalities, protocols and structure that allow members to test a range of scenarios that they consider relevant to their activity;
  - b. Testing symbols as defined and maintained by the exchange.
3. The Licensed Securities Exchange shall ensure an effective separation of the testing environment from the production environment for the tests referred to in sub-article 1.

### **PART EIGHT: RULES OF THE EXCHANGE**

#### **44. Rules of the exchange – general**

1. In accordance with Article 24(1) of the Proclamation, the License Securities Exchange shall make rules relating to matters for which it has regulatory or supervisory functions, including sanctions and disciplinary powers to be exercised in connection with the function delegated to it.
2. The rules referenced in sub-article 1 shall include procedures for dispute resolution between members, users, investors and their clients and shall include the right to appeal to the Authority.
3. In accordance with Article 24(3) and 38 of the Proclamation, any amendment, whether by way of rescission, alteration or addition, to the rules of the exchange (including rules regarding membership trading or listing at admission), shall require the approval of the Authority.

#### **45. Rules on access to the trading platform or system**

1. The Licensed Securities Exchange shall establish, implement and maintain rules governing access to or membership of the relevant trading platform or system which are:
  - a. Transparent and non-discriminatory rules;
  - b. Based on objective criteria; and
  - c. Include provision necessary for the protection of investors and for the maintenance of the good reputation of securities exchanges.
2. The rules referred to in sub-article 1 shall specify any obligations for the members or participants arising from:
  - a. The legal and regulatory requirements of the Licensed Securities Exchange;
  - b. Rules relating to transactions on the market;
  - c. The rules and procedures for the clearing and settlement of transactions concluded on the trading platform or system.
3. The rules referred to in sub-article 1 shall address whether a member may give its own clients direct electronic access to the relevant trading platform or system, and if so, the conditions applicable to those clients.

#### **46. Direct electronic access**

1. A Licensed Securities Exchange that permits direct electronic access shall have in place effective systems, procedures and arrangements to ensure that members or participants are only permitted to provide such services if they are licensed by the Authority to undertake regulated capital market activities and services.
2. For purposes of this Article, direct electronic access shall mean services that allow member's client to place, buy or sell orders for securities without, or with limited, intervention of such member.
3. Any direct electronic access permitted shall:
  - a. Have appropriate criteria set and applied regarding the suitability of persons to whom such access may be provided; and
  - b. Ensure that the member retains responsibility for orders and trades executed using that service in relation to the requirements of this Directive.

4. The Licensed Securities Exchange shall set appropriate standards regarding risk controls and thresholds on trading through such access, and shall be able to distinguish, and if necessary to stop, orders or trading by a person using direct electronic access separately from other orders or trading by member.
5. A Licensed Securities Exchange shall have arrangements in place to suspend or terminate the provision of direct electronic access by a member to a client in the case of non-compliance with this Article.

#### **47. Member rules**

1. The Licensed Securities Exchange shall set out the criteria and conditions for membership or participation in its trading platform or systems.
2. A Licensed Securities Exchange shall set out guidelines of behavior and conduct applicable to all members specifying:
  - a. Standard of behavior for its members or participants;
  - b. Market conduct requirements including the avoidance of Prohibited Trading Practices set out in Part 12 of the Proclamation;
  - c. The criteria and procedures for imposing sanctions on a non-compliant member or participant;
  - d. The circumstances wherein suspension of access to the trading platform or system and loss of membership could result.

#### **48. Trading rules**

1. The Licensed Securities Exchange shall establish transparent and non-discretionary rules and procedures for its trading systems, facilities and arrangements, and such rules shall provide for fair and orderly trading and shall establish objective criteria for the efficient execution of orders.
2. Exchange members shall be required to address investor protection obligations with respect to their clients when they, acting on behalf of their clients, execute their orders on the exchange trading platform or systems.

#### **49. Co-location**

A Licensed Securities Exchange shall ensure that its rules on co-location services, which for purposes of this Article means an opportunity to place automated trading machinery near or next to the exchange's trading platform or system, are transparent, fair and non-discriminatory.

### **PART NINE: LISTING AND ADMISSION TO TRADING STANDARDS**

#### **50. Listing or admission of securities and derivatives to trading**

1. The Licensed Securities Exchange shall have rules regarding listing or admission of securities or derivatives to trading:
  - a. That are clear and transparent; and
  - b. That ensure that any securities or derivatives admitted to trading are capable of being traded in a fair, orderly and efficient manner.
2. In the case of derivatives, the rules referred to in sub-article 1 shall ensure in particular that the design of the derivative contract allows for its orderly pricing as well as for the existence of effective settlement conditions.
3. The Licensed Securities Exchange shall establish and maintain effective arrangements to verify that an issuer of securities seeking a listing or admission to trading on its trading platform or systems, meets and complies with the rules established by the Licensed Securities Exchange and to regularly review their ongoing compliance at all times.
4. The Licensed Securities Exchange shall establish arrangements which facilitate its members in obtaining access to information which have been or are required to be made public in respect of the initial, ongoing or ad hoc disclosure obligations required of an issuer of securities pursuant to the Proclamation.
5. The Licensed Securities Exchange shall ensure it has the appropriate staffing, with sufficient technical expertise, dedicated to listing and admission to trading as set out in herein.
6. The Authority may develop guidelines specifying the additional conditions with regarding to trading of securities on the exchange's trading platform.

## **51. Suspension and removal of securities or derivatives from listing or trading**

1. Without prejudice to the right of the Authority to demand suspension or removal of a security or derivative from trading, the Licensed Securities Exchange may suspend or remove from listing or trading a security or derivative which no longer complies with the relevant rules set by the Licensed Securities Exchange, provided it obtains the prior written confirmation from the Authority that it does not object such suspension or removal.
2. A suspension or removal from listing or trading of a security shall require the suspension or removal of the derivatives that relate to or are referenced to that security, where it is necessary to support the objectives of the suspension or removal.
3. The suspension or removal of a security, including any related derivative, shall be made public by the Licensed Securities Exchange.

## **PART TEN: MONITORING AND SURVEILLANCE, INVESTIGATIONS AND DISCIPLINARY ACTION**

### **52. Monitoring and surveillance**

1. The Licensed Securities Exchange shall establish and maintain effective arrangements and procedures to regularly monitor the compliance by their members with the rules it has established in accordance with this directive.
2. The Licensed Securities Exchange shall monitor orders sent including cancellations and the transactions undertaken by their members under their systems in order to identify:
  - a. Infringements of those rules;
  - b. Disorderly trading conditions;
  - c. Conduct that may indicate behavior that is prohibited under the directive or the Proclamation; or
  - d. System disruptions in relation to a security or derivative.
3. The Licensed Securities Exchange shall ensure it allocates and provides the necessary resources to undertake the activities referenced in this Article.

### **53. Investigation and disciplinary action**

1. A Licensed Securities Exchange may take a disciplinary action in accordance with the Proclamation, including Article 37(2), and the rules it has established pursuant to this directive, and it shall inform the Authority of any such action immediately.

2. A decision undertaken by the Licensed Securities Exchange is subject to a right of appeal to the Authority
3. The Licensed Securities Exchange shall ensure it maintains appropriate records for purposes of this Article and it shall cooperate with the Authority to investigate and enforce laws and regulations.

## **PART ELEVEN: ONGOING OBLIGATION AND SUPERVISORY ARRANGEMENTS**

### **54. Ongoing obligations**

1. The Authority shall monitor the Licensed Securities Exchange, including all the exchanges and other trading platforms, facilities or markets it operates, for compliance with the conditions for approval of its license pursuant to this directive.
2. The Licensed Securities Exchange shall provide the Authority with the information, periodic reports and assessments described in the Directive including:
  - a. A financial risk assessment and financial report in Article 13(6), including any capitalization adjustment required relative to the services and functions proposed to be undertaken by the Licensed Securities Exchange;
  - b. An assessment of the governance arrangements in Article 17(2);
  - c. Risk and compliance reports in Article 21(5);
  - d. A trading platform or system capacity report in Article 23(5);
  - e. Order book information in Article 24(6);
  - f. An assessment of the systems and controls and other arrangements of the trading platform or system in Article 26;
  - g. Risk management reporting, including the stability of any settlement guarantee arrangement utilized in accordance with Article 27;
  - h. Findings and action related to testing and ongoing monitoring of the trading platform in Articles 29 and 30;
  - i. Evidence of compliance with technology and security requirements in Article 38(3);
  - j. Business continuity plan in Article 40(2);



- k. Membership risk assessment in Article 41(2); and
  - l. Updates to the rules of the exchange in accordance with Article 44.
3. The Licensed Securities Exchange shall provide an overall confirmation of compliance with the provisions of this Directive, together with information in sub-article 2 at least once a year (an Annual Compliance Report) or more frequently as determined by the Authority as part of the supervisory arrangement with the Licensed Securities Exchange.
  4. Notwithstanding sub-article 3, the following shall be provided more frequently as follows:
    - a. Risk management reporting (including the stability of any settlement arrangements) shall be provided daily;
    - b. Trading platform or system assessment (including operational capacity) shall be provided quarterly; and
    - c. The financial risk assessment and financial report shall be provided as and when any capitalization adjustment may be required relative to the services and functions proposed to be undertaken by the Licensed Securities Exchange.

#### **55. Reporting and assistance to the Authority**

1. The Licensed Securities Exchange shall immediately inform the Authority of significant infringements of their rules, or disorderly trading conditions or system disruptions in relation to a security or derivative or conduct that may indicate behavior that is prohibited under the Proclamation.
2. The Licensed Securities Exchange shall supply the relevant information without undue delay to the Authority for the investigation and prosecution of market abuse and prohibited trading practices and shall provide full assistance to the Authority in investigating and prosecuting these practices occurring on or through the its trading platforms or system.

#### **56. Submission of Financial Reports to the Authority**

1. A Licensed Securities Exchange shall prepare the following financial statements in line with the applicable international financial reporting standards, and submit to the Authority:
  - a. Quarterly Financial Statements within thirty (30) days after the end of the quarter:

- b. Annual Audited Financial Statements within ninety (90) calendar days after the end of a financial year; and
  - c. Any other periodic report within the period stipulated as may be required by the Authority.
- 2. The Audited Financial Statements shall include an opinion from an external auditor approved by the Authority, reporting on the following where applicable:
  - a. Whether the minimum capital and adequate financial resources has been maintained;
  - b. Going concern status of the Licensed Securities Exchange. That is, whether in the opinion of the External Auditor, the financial position of the Licensed Securities Exchange is such as to enable it to conduct its business on sound lines, having regard to the nature and volume of the business transacted during its past financial year as shown by its Books of Accounts and Records; and
  - c. Whether the accounts contain misstatements.
- 3. A Licensed Securities Exchange shall disclose in its Audited Financial Statement:
  - a. A list of shareholders with five percent (5%) or more of the issued capital as may be applicable;

## **CHAPTER THREE – OVER- THE-COUNTER MARKET**

### **PART ONE: GENERAL PROVISIONS**

#### **57. Application for an OTC Market license**

1. The Applicant shall provide the Authority with the necessary information to enable the Authority to satisfy itself that the necessary arrangements to meet the obligations of this chapter have been addressed.
2. The entity granted a license pursuant to this chapter shall obtain Over-The-Counter (OTC) Market license.
3. The Applicant shall provide the information set out in the Third Schedule which shall include the following:
  - a. The proposed operations of the market;
  - b. An explanation of the quotation system;
  - c. The participants in the quotation system;
  - d. Rules of the market to be licensed which demonstrate appropriate operation and sufficient regulation.
4. The Applicant shall identify the Registered Persons (as defined in this chapter) who operate, use or maintain the Quotation System (as defined).
5. The Applicant shall be required to comply with the guidelines on corporate governance for capital market service providers, or the applicable corporate governance guideline as may be published by the Authority from time to time.

#### **58. Capital Adequacy Requirements**

The capital requirements of a holder of an OTC Market license shall consist of:

1. Minimum capital of [XX Birr]; and
2. Adequate and sufficient liquid resources as prescribed by the Authority in accordance with the activities undertaken by the Applicant/license holder.

## **PART TWO: PARTICIPANTS**

### **59. Eligible participants**

1. The use of an over-the-counter market shall be limited to Registered Persons as set out in this Chapter.
2. A Registered Persons shall be duly licensed by the Authority as Capital Markets Service Providers eligible to trade or deal in securities in the secondary market.

### **60. Registration of Dealers and Brokers**

1. A person construed as a Dealer or a Broker, as set out in this article, shall be registered in accordance with Chapter 3 of this Directive, and thereafter shall be a Registered Person.
2. A person shall be construed to be acting as Dealer in an OTC market, if in the ordinary course of his business:
  - a. The person buys, sells or publishes or submits for publication a quotation to a quotation system, or
  - b. The person holds themselves before the public that they are ready, or this act is perceived that they are ready, to buy or sell or to publish or submit for publication a quotation to a quotation system;
3. A person shall be construed to be acting as Broker in an OTC market if:
  - a. The person searches for a counterparty to a buy or sell order that is left with them by another person for disposal, or
  - b. The person holds themselves before the public that they are ready, or they are perceived that they are ready, to search for a counterparty to a buy or sell order that is left with them for disposal, whether by direct search or participation in a quotation system.

### **61. Eligible investors in the OTC Market**

1. An investor in the OTC market shall be treated either as qualified investor or as a non-qualified investor as defined by the Authority in its directives.
2. A non-qualified investor shall not participate in an OTC market unless such participation is in any of the following manners:

- a. Through the service of another person such as broker, investment firm or bank, each in its capacity as a licensed broker in an OTC market; or
- b. Through participation in a registered collective investment scheme such as an investment company or an alternative investment fund, a pension fund or another established institutional investor, as appropriate.

### **PART THREE: QUOTATION SYSTEMS**

#### **62. Conditions for activating the quotation system**

1. A quotation system shall not be activated unless the following has been submitted to the Authority for approval:
  - a. A description of such quotation system or amendment thereof;
  - b. A description showing how an actual transaction would be executed;
  - c. The internal rules and procedures specifying, at a minimum:
    - I. How a person may participate in the quotation system;
    - II. How a person accepted to participate in the system may submit a quotation for publication;
    - III. How a person accepted to participate in the system may view the quotation of other participants and act as a counterparty to a published quotation;
    - IV. Other rights and responsibilities of a participant that shall allow the viewing, submission, execution and settlement of a published quotation
  - d. The procedures for making available to participants information about the security and the issuer of the security being quoted.
2. The Applicant shall also provide the following to the Authority for prior approval:
  - a. A list of and a written description of each software system or program and a diagram or matrix showing its applications and functions, if any;
  - b. A written description of the hardware component and the communication facility of the system which shall include configuration, capacity, and the ability to interconnect with other OTC markets and Exchanges and a central trade reporting system;
  - c. A business continuity and recovery plan;

- d. Copy of pro-forma agreement between and/or among participants in the quotation system;
- e. Copy of agreement between the operator of a quotation system and any third-party service provider;
- f. The ground(s) and procedures that may disqualify an accepted participant from participating in the quotation system;
- g. The ground(s) and procedure for terminating the quotation on a security;
- h. Risk management (including clearing and settlement arrangements);
- i. Manual relative to the operation of a quotation system; and
- j. Other requirements that the Authority may prescribe.

### **63. Dealer related conditions**

1. A dealer who operates a quotation system shall be deemed to act as market maker for security quoted in said system.
2. A dealer acting as a market maker shall publish two (2) way quotes for a security in a continuous manner.
3. A dealer shall immediately publish in the quotation system the price, volume, date and time of the transaction done or executed in his quotation system.
4. A dealer shall also immediately publish the trade details of transactions executed in his quotation system.
5. A dealer shall also immediately publish the trade details of transactions executed in another quotation system on a security for which he makes market upon being made available by central trade reporting system.

### **64. Broker related conditions**

1. A broker who operates a quotation system shall only facilitate the publication and/or execution of published quotation but such broker shall not act as a counterparty to a quotation published in the quotation system he is operating.
2. A broker shall immediately publish in the quotation system the price, volume, date and time of the transaction done or executed in another quotation system on a security that is also being quoted in his quotation system.

3. A broker shall also immediately publish the trade details of transactions executed in another quotation system on a security for which he creates a market upon being made available by a central trade reporting system.

## **PART FOUR: REQUIREMENTS FOR TRADING OVER THE COUNTER**

### **65. Eligible securities in an OTC Market**

1. A broker or dealer shall buy or sell or quote a buy or sell price in the OTC market only to securities that are not traded on a Securities Exchange or a Derivatives Exchange.
2. Notwithstanding sub-article 1 of this Article, a large block of securities (as defined) traded on a Securities Exchange or a Derivatives Exchange can be traded in an OTC market.
3. The Authority shall develop guideline detailing the large block of securities referenced in sub-article 2.
4. Government securities can be traded in an OTC market.

### **66. Derivative contracts**

Any derivative contract which trades in the OTC market shall be designed to allow for its orderly pricing and shall have effective settlement conditions.

### **67. Prospectus and other reports**

1. A broker or dealer shall not submit a quotation on a security for publication in a quotation system unless such broker or dealer has in his records the following documents:
  - a. Copy of the prospectus or the relevant information memorandum relative to the subject security;
  - b. Copy of the most recent periodic and current reports that have been filed to the Authority; and
  - c. Copy of the most recent annual report that has been filed to the Authority.
2. Sub-article 1 shall not apply to Government securities.

## **68. Publication of transactions**

1. All transactions executed in the quotation system shall be posted or published in the quotation system within one (1) minute from execution.
2. All transactions executed in the quotation system shall be reported to a central trade reporting system in a manner and within the period prescribed by the Authority, the SDCC or the provider of the central trade reporting system, whichever is stricter or earlier, but in no case shall it be more than fifteen (15) minutes from execution of transaction.
3. The details of the trade or transaction shall be posted or published in the quotation system and reported to the central trade reporting system, and it shall include the price, volume, date and time of execution of the transaction.
4. The central trade reporting system shall make available such trade details to other quotation systems quoting or authorized to quote the same security for immediate publication in such other quotation systems.

## **69. Disclosure of Commissions, Charges and Fees**

1. A broker or dealer shall not execute a transaction in an OTC market unless the various fees (if any) involved in effecting such transaction have been disclosed and explained to the customer, and the customer has agreed to such fees.
2. The transaction fees shall be presented in the form of a confirmation advice and in a clear and understandable manner.

## **70. Clearing and Settlement**

1. No broker or dealer shall execute a transaction in an OTC market unless the clearing and settlement arrangements of a transaction have been disclosed to the counterparty, and the counterparty has agreed to such arrangement.
2. The clearing and settlement of an OTC transaction shall be through an entity licensed as a Securities Depository and Clearing Company (SDCC) by the Authority.
3. Although the SDCC is expected to have rules establishing the consequences where delivery is not in accordance with published timelines, the broker or dealer shall ensure that the clearing and settlement arrangement are prompt and accurate and defines, at a minimum: (1) Due date as to settlement; (2) Due date as to delivery of the security, and (3) Due date as to payment of cash.



## **PART FIVE: REPORTING TO THE AUTHORITY**

### **71. Ongoing obligations**

1. The Authority shall monitor the entity licensed pursuant to this chapter for compliance with the conditions for approval of a license pursuant to this directive.
2. The licensed entity shall provide the Authority with an overall confirmation of compliance with the provisions of this Directive (an Annual Compliance Report) and with periodic reports and assessments, as required, to demonstrate that it continues to comply with the requirements set out in Chapter three.
3. The licensed entity shall prepare and submit to the Authority, the financial statements and reports set out in Article 56 of this directive.

## **FIRST SCHEDULE: General information on for all Applicants**

The information and documents required pursuant to Article 5 of this Directive shall include the following:

1. General
  - a. Legal name of the Applicant
  - b. Registered address and business address of the Applicant
  - c. Information pertaining to signatory of the applicant
2. Corporate information
  - a. Confirmation that the Applicant is a share company
  - b. Date and place of incorporation
  - c. Memorandum or articles of association, certificate of incorporation etc.
  - d. Registration and/or business license number
  - e. Tax identification number
3. Business organization
  - a. A corporate or organizational structure chart
  - b. Details on the ownership/shareholder of the Applicant
  - c. Details of the proposed board of directors and senior management
4. Business operations and activities
  - a. The Applicant's current and proposed operations and activities
  - b. The Applicant plans with regard to the operation and expansion of its business over the next 3 to 10 years.
  - c. Details of the types of securities proposed for trading and the classes of investors proposed to trade in those securities.
5. License requested
  - a. Indicate if the application pertains to a Securities Exchange, Derivatives Exchange or an OTC facility.
  - b. If the application is submitted on behalf of Licensed Securities Exchange in order to obtain a license for purposes of undertaking or providing new or additional activities and services, provide all the relevant details of such activity or service so as to enable assessment in accordance with the requirements of the relevant directive.

## **SECOND SCHEDULE: Information to be provided for Exchange license under Chapter 2**

The Applicant is required to demonstrate that it complies with the requirements and conditions set out in Chapter 2 of this Directive.

The Authority reserves the right to request additional information or evidence to demonstrate compliance with the Directive.

The Applicant shall provide confirmation that requirements of a self-regulatory organization have been met.

- a. Applicant should attest that it complies with the requirements of a self-regulated organization and should provide the supporting documentation set out in the directive for the recognition of self-regulated organizations.
- b. The supporting documentation shall include the Applicant's program of operations and business and regulatory plan (including its rules, procedures and relevant sanctions, disciplinary and dispute resolution processes).

The information and documents required pursuant to Article 11 of this Directive shall include the following:

1. Capital adequacy and financial resource requirements
  - a. Provide evidence demonstrating compliance with the minimum capital requirements for an Exchange license in accordance with Chapter 2 of this directive.
  - b. Provide details of financial projections and the resources available to maintain its current and proposed operations and activities.
2. Board of directors
  - a. Provide an indicative list of the proposed board of directors
  - b. Provide the cv or resume of each proposed board member
  - c. Include the information prescribed to undertake an assessment of fitness and propriety
  - d. Provide a comprehensive description of the business organization's governance, oversight and decision-making framework to demonstrate adherence to Article 17(2) of this Directive.
3. Senior management and staff
  - a. Provide brief particulars of the CEO, the senior personnel and staff of the Applicant
  - b. Indicate each persons' function, responsibility and internal reporting structure
  - c. Provide a description of the governance and decision-making arrangements of each such person.

4. Risk management
  - a. Provide details of the risk management framework to be used including any settlement guarantee mechanism of facility to be used.
  - b. Identify person who are responsible for internal audit and risk and compliance.
  
5. Trading platform or system
  - a. In relation to the requirements set out in Chapter two: Part Four and Seven, provide all the relevant details regarding the trading platforms or systems which the Applicant proposes to use including:
    - i. Matters relating to the platform or system's capacity and prevention of disorderly trading conditions.
    - ii. Matters pertaining to the operation of the such platform or system including general requirements and conditions for use.
    - iii. Evidence to demonstrate that the platform or system has appropriate systems and controls and governance arrangements in place.
  
  - b. Prior to the approval of the Application, the Applicant must provide evidence to demonstrate compliance with the functional and testing requirements including those applicable to the trading platforms or systems and to the members of the exchange.
  
6. Data, cyber security and business continuity requirements
  - a. Provide a description data protection mechanisms and arrangements which are in place
  - b. Provide a detailed business continuity plan together with evidence of the sufficiency of the business continuity arrangements
  - c. Provide the relevant and applicable supporting evidence demonstrate adherence to the requirements promulgated by other relevant government agencies, as required, such as the National Bank of Ethiopia or Information Network Security Agency of Ethiopia (INSA).
  
7. Clearing and settlement arrangements
  - a. Provide details of the proposed clearing and settlement arrangements.
  - b. Describe the expected or proposed interaction with the any licensed SDCC.
  - c. Address whether a member-based settlement guarantee mechanism or a similar arrangement is to be utilized.

- d. Explain the impact, if any, that the proposed clearing and settlement arrangements may have on the Compensation Fund established pursuant to Article 103 of the Proclamation.

## 8. Exchange Rules

To the extent not included as part of the Applicant's supporting documentation accompanying the Applicant's confirmation that it complies with the requirements of the SRO provisions of the Proclamation and the directives thereunder, the Applicant shall provide the Authority with following rules established or to be established by the Applicant:

- a. Rules pertaining its regulatory and supervisory functions as an SRO covering sanctions, disciplinary provisions, dispute resolution
- b. Membership rules including criteria and conditions and procedures for assessment
- c. Rules pertaining to access to the trading platform or system
- d. Rules and procedures for its trading platform or system
- e. Any other material operational rules, policies or procedures
- f. Rules or standards on listing or admission to trading on its trading platform or system.

## 9. Monitoring and surveillance

- a. Provide details of the proposed monitoring and surveillance arrangements including the tools, methods or equipment to be utilized.
- b. Describe mechanisms that will be used to monitor open positions or credit exposures on unsettled trades as referenced in Article 27.

### **THIRD SCHEDULE: Information to be provided for OTC license under Chapter 3**

An Application for a license to establish, launch or operate an over-the-counter market shall include the following information.

1. Capital adequacy and financial resource requirements
  - a. Evidence demonstrating compliance with the minimum capital requirements for an Exchange license in accordance with Chapter 3 of this Directive.
  - b. Provide details of financial projections and the resources available to maintain its current and proposed operations and activities.
  
2. Board of directors and senior management
  - a. Provide an indicative list of the proposed board of directors, together with the cv or resume of each proposed board member
  - b. Describe management arrangements for Applicant's OTC market including senior personnel
  
3. Market arrangements
  - a. Provide a comprehensive description of proposed operations of the market and an explanation of the quotation system.
    - i. This should include a description showing how an actual transaction would be executed;
  - b. Provide a description of the participant eligibility criteria and the due diligence arrangement to assess eligibility.
  - c. Provide a copy of the rules and procedures of the market to be licensed, ensuring it demonstrate appropriate operation and sufficient regulation including:
    - i. How a person may participate in the quotation system;
    - ii. How a person accepted to participate in the system may submit a quotation for publication;
    - iii. How a person accepted to participate in the system may view the quotation of other participants and act as a counterparty to a published quotation; and
    - iv. Other rights and responsibilities of a participant that shall allow the viewing, submission, execution and settlement of a published quotation.

4. Clearing and settlement arrangements
  - a. Provide details of the proposed clearing and settlement arrangements.
  - b. Describe the expected or proposed interaction with the any licensed SDCC.
  
5. Data, cyber security and business continuity requirements
  - a. Provide a description data protection mechanisms and arrangements which are in place
  - b. Provide a detailed business continuity plan together with evidence of the sufficiency of the business continuity arrangements
  - c. Provide the relevant and applicable supporting evidence demonstrate adherence to the requirements promulgated by other relevant government agencies, as required, such as the National Bank of Ethiopia or Information Network Security Agency of Ethiopia (INSA).
  
6. Monitoring and surveillance
  - a. Provide details of the proposed monitoring and surveillance arrangements including the tools, methods or equipment to be utilized.
  - b. Describe mechanisms, if any, that will be used to monitor open positions or credit exposures on unsettled trades.

