

Capital Market Service Providers Licensing and Supervision

Description

By Dagnachew Tesfaye, Managing Partner at DMLF



Introduction

The Ethiopian Capital Market Authority (ECMA) has been authorized by Capital Market Proclamation Number 1248/2021 to regulate the capital market in Ethiopia. Accordingly ECMA issued a directive namely Capital Market Service Providers Licencing and Supervision Directive No 980/2024(hereafter the Directive). The Directive became effective in January 2024, as the Directive is registered by the Ministry of Justice and posted on the website of ECMA. The Directive contains 21 Parts with 183 Articles and three schedules. This article shall provide a general view of each Part of the Directive and the schedules attached to the Directive. A brief conclusion shall follow.

The 1st Part of the Directive is about definition of words and terms as well as scope of the Directive. Part 2 covers Licencing of Capital Market Service Providers. There are 15 designated capital market service licenses. These include **Service Brokers; Securities Dealers; Security Digital Sub-brokers; Investment Banks; Securities Investment Advisers; Securities Shariah Advisors; Securities Robo Advisers; Collective Investment Scheme Operators; Crowdfunding Intermediaries; Securities Market Makers; Security Custodians; Securities Portfolio Managers; Credit Rating Agencies; Securities Appraisal Firms and Appointed Representatives**. When the applicant is a share company or private limited company, such companies need to have a Board of Directors that will be responsible for its governance. There is a fee to be paid to acquire the license as determined by the Fee Directive of ECMA.

Part 3 deals with **General Obligations and Responsibilities** of the capital market service providers. Among the several obligations and responsibilities, one obligation is to maintain minimum net liquid capital to meet its base and risk requirements.

To deal with contravention of the provisions of the Directive, Part 4 outlined **Enforcement and Administrative Measures**. Part 5 covers **Voluntary Exit** from the Market by relinquishing the service license.

Part 6-16 lists **eligibility** requirements for each type of capital market service licenses. Some licenses are open for individuals, limited liability partnerships, limited partnerships, general partnerships, private limited companies or share companies and few others are restricted for only share companies and private limited companies.

Part 17 deals with **Minimum Capital Requirements** for capital market service providers. To obtain the license to operate as a capital market service provider, the minimum capital in cash has to be deposited in a licensed commercial bank in Ethiopia. The **net shareholders' fund or partners' fund or net worth** has to comply with Schedule 1 of the Directive.

Corporate Governance for Capital Market Service Providers, Competency Framework for Capital Market Service Providers and **Code of Conduct** are covered in Part 18-120 respectively.

Finally Part 21 namely **Miscellaneous Provisions** contain principles about circulars and notices, inapplicable laws and effective date of the Directive. Schedule 1 is about *Minimum Capital Requirements*. Schedule 2 deals with *Capital Market Service Providers Functions and Competency Requirements* and Schedule 3 covers *Penalties, Fines and other Enforcement Actions*.

Conclusion

The Directive identifies 15 different types of capital market services licenses. The Directive has stipulated the functions, authorized activities, related governance and ethical principles in regulating capital market service providers. The Directive embodies detailed rules on how to obtain a license and responsibilities and obligations of licensed service providers. As the Director General of ECMA said 'this Directive is a significant milestone in the development of the capital market in Ethiopia'.

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