



የኢትዮጵያ የካፒታል ገበያ ባለሥልጣን  
Ethiopian Capital Market Authority

## Recognition of Self-Regulatory Organizations Directives

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**

## **PREAMBLE**

**Whereas**, a regulatory framework that will allow for an entity under the jurisdiction of the Ethiopia Capital Market Authority (hereinafter referred to as the “ECMA” or “Authority”) to be established, licensed, recognized, regulated and operated as a Self-Regulatory Organization (hereinafter referred to as “SRO”) is necessary for the supervision of licensed Capital Market Service Providers (hereinafter referred to as the “CMSPs”);

**Whereas**, the ECMA is empowered to delegate some of its functions as appropriate to an SRO, regulate and sanction an SRO and/or its personnel, as may be applicable, and withdraw the recognition and license of an SRO;

**Now, Therefore**, the Authority hereby issues the following Recognition of Self-Regulatory Organizations Directives in accordance with Part Three of the Capital Market Proclamation No.1248/2021 (hereinafter referred to as the “Proclamation”).

## TABLE OF CONTENTS

1. Short Title .....	5
2. Definitions.....	5
3. Scope of Application.....	6
4. Prohibition and Eligibility .....	7
5. Application Requirements and Conditions.....	7
6. Specific Recognition Requirements.....	8
7. Fees.....	10
8. Approval of a Recognition Application.....	10
9. Refusal of a Recognition Application .....	10
10. Timeline for Processing an Application.....	11
11. Independence of SROs .....	12
12. Obligations of SROs.....	12
13. Power and Duties delegated by the Authority to a Self-Regulatory Organization .	12
14. Financial Capacity and Administrative Resources of a Self-Regulatory Organization .....	13
15. Personnel of a Self-Regulatory Organization .....	14
16. Governance Structure of a Self-Regulatory Organization .....	14
17. Fit and Proper Requirements for Self-Regulatory Organizations and their Personnel.....	14
18. Chief Compliance Officer.....	15
19. Material Changes.....	16
20. Offices of a Self-Regulatory Organization .....	17
21. Records to be Maintained .....	17
22. Disciplinary Actions taken by an SRO.....	18
23. Reporting Obligations.....	18
24. Systems and Controls.....	19
25. Supervision/Inspection by the Authority .....	19
26. Cooperation in Connection with Inspections or Investigations .....	19
27. Client Compensation Fund .....	20
28. Penalties and Others.....	21
29. Withdrawal of Recognition .....	21

**DRAFT FOR PUBLIC CONSULTATION**

**30. Procedure for Appealing Sanctions ..... 22**

## **PART ONE – PRELIMINARY**

### **1. Short Title**

This Directive may be cited as the “Recognition of Self-Regulatory Organizations Directives No. 1/2022.”

### **2. Definitions**

In this Directive, unless the context otherwise requires:

- (1) “Administrative Charges” means charges or fees imposed or levied to cover expenses or costs associated with the administrative activities or services provided by the Authority which may or may not be directly tied to the performance of any specific core regulatory function.
- (2) “Central Securities Depository ” shall have the meaning provided for under the Proclamation.
- (3) “Chief Compliance Officer” means an Officer who shall be responsible for monitoring and ensuring compliance of the SRO with the Proclamation, Directives issued by the Authority, as well as legislations of the Federal Government of Ethiopia.
- (4) “Exchange” shall have the meaning provided for under the Proclamation with respect to a licensed securities exchange.
- (5) “Executive Director” or “Executive Officer” in this Directive means a person responsible for the day to day management of the operations of the SRO and accountable to the Management Committee or Board of the SRO.
- (6) “External Auditor” shall have the meaning provided for under the Proclamation.
- (7) “Financial Year” means the period of twelve months beginning from the 1st day of July every year.
- (8) “Independent Director” means a member of the Board of Directors who satisfies the definition of an Independent Person as provided in this Directive.
- (9) “Independent Person” means an individual who has no material relationship with the SRO or any affiliate of the SRO, any member of the SRO or any affiliate of such member, or any issuer of securities that are listed, traded or cleared on the SRO or a facility of the exchange or association.
- (10) “Material Relationship” means a relationship, whether compensatory, familial or otherwise, that in the Authority’s view reasonably could affect the independent judgment or decision-making of the director.

**DRAFT FOR PUBLIC CONSULTATION**

- (11) "Person" means any natural or juridical person.
- (12) "Proclamation" means the Capital Market Proclamation No. 1248/2021.
- (13) "Public Accountant" means an accountant licensed and registered as a certified public accountant by the pertinent government organ to provide accounting services to the public.
- (14) "Securities Clearing Company" means any legal entity that offers clearing and settlement, and other related services, in line with the provisions of the Proclamation.
- (15) "Securities Depository and Clearing Company" shall have the meaning provided for under the Proclamation.
- (16) "Self-Regulatory Organization" shall have the meaning provided for under Article 2 (70) of the Proclamation.
- (17) "Senior Personnel" shall have the meaning provided for under Article 2(71) of the Proclamation.

### **3. Scope of Application**

This Directive shall apply to the following:

- (1) Entities, including industry associations seeking to be recognized as Self-Regulatory Organizations (hereinafter referred to as "SRO") in Ethiopia as per the provisions of the Capital Market Proclamation No. 1248/2021;
- (2) Exchanges, Central Securities Depositories and Securities Clearing Companies in their capacities as SROs; and
- (3) Any other entity as may be specified by the Authority from time to time.

## **PART TWO – APPLICATION FOR RECOGNITION**

### **4. Prohibition and Eligibility**

- (1) No entity shall operate as an SRO in Ethiopia, except where it has been duly recognized by the ECMA as such.
- (2) Except for an Exchange and a Securities Depository and Clearing Company, only a non-governmental organization that has been issued a certificate of incorporation by the relevant government organ, shall be eligible to apply for recognition as an SRO.
- (3) Notwithstanding the provisions of Sub-Articles (1) and (2) of this Article, Ethiopian licensed Exchanges and Securities Depository and Clearing Companies shall be recognized as SROs without submitting an application, in line with the provisions of Article 22 (2) of the Proclamation.

### **5. Application Requirements and Conditions**

- (1) An application for recognition shall:
  - a. be made in accordance with the provisions of the Proclamation as may be amended from time to time, subsidiary legislations made under the Proclamation as well as Directives and other instruments that the ECMA may issue consistent with the Proclamation;
  - b. be made in accordance with the procedure prescribed thereof by the ECMA and in effect on the date of filing the application; and
  - c. be submitted to the ECMA via the digital Form S1 accessible on the website of the ECMA or such other channel or form prescribed thereof by the ECMA as in effect on the date of filing the application.
- (1) All applications and accompanying documents shall be filed with the ECMA in the English and/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 and/or Amharic.
- (2) Notwithstanding payment of the prescribed application fees and compliance with some registration requirements, an application for recognition may be terminated by the ECMA where the applicant fails or neglects to continue with the processing of the application for a period of thirty (30) consecutive calendar days without due notification to and approval of the ECMA.

## 6. Specific Recognition Requirements

- (1) Unless otherwise stipulated by the Authority in this Directive, each application for recognition shall be accompanied by the following:
  - a. Evidence of payment of the fees prescribed by the ECMA which are in effect on the date of filing the application;
  - b. A copy of the Certificate of Commercial Registration issued by the relevant government organ;
  - c. Applicable incorporation documents showing the directors, members and capital of the applicant as at the date of filing the application;
  - d. Details of the functions and powers that the entity is seeking to exercise upon recognition;
  - e. Existing or proposed rules, policies and such other document governing the conduct of members of the SRO, including Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) procedures in compliance with the applicable AML/CFT legislation in Ethiopia and general international requirements, as may be in effect from time to time;
  - f. Organizational profile of the applicant;
  - g. Organogram of the applicant clearly delineating the reporting lines;
  - h. Undertaking by the applicant and its Senior Personnel as at the date of filing the application, on behalf of its members to comply with the Code of Conduct for Capital Market Service Providers, their Employees and Persons with Significant Influence and other capital market laws and Directives;
  - i. Where the applicant has operated for a period of twelve (12) months or more as at the date of filing the application - Audited Financial Statements for the financial year immediately preceding the date of filing the application and an unaudited Financial Statement for the remaining months;
  - j. Where the applicant has operated for a period of less than twelve (12) months but the fiscal year has ended - Audited Financial Statement for such period;
  - k. Where the applicant has operated for a period of less than twelve (12) months but the fiscal year has not ended - unaudited Financial Statement for such period, except that, the applicant shall provide the Authority with an audited statement within three months of the upcoming end of the fiscal year;



- l. Details of Senior Personnel who meet the fit and proper criteria for their role or function as specified by the ECMA in this Directive or any other regulation as may be in effect at the time of filing the application;
  - m. Police Clearance Certificate, issued by the applicable authority, statutory body and/or agency, for each of its Senior Personnel or such other representatives and employees as may be prescribed or required by the Authority, at the time of filing the application;
  - n. Evidence of the financial capacity and administrative resources of the applicant, including compliance with any minimum financial capacity and administrative resource requirement as may be specified by the Authority in this Directive or any other regulation as may be in effect at the time of filing the application;
  - o. Status of compliance with technology, internal control and risk management requirements as may be specified by the ECMA in this Directive or any other regulation as may be in effect at the time of filing the application;
  - p. Address of the applicant's registered office and proposed Head Office (if different from its registered office) and any other office the applicant intends to operate from; and
  - q. Any other material information as may be required by the Authority from time to time.
- (2) All questions on the application form(s) shall be answered truthfully and correctly, and an undertaking to this effect sworn by the Executive Director/Executive Officer and/or Chief Compliance Officer of the applicant. This shall be provided as part of the application process.
  - (3) Any undertaking required to be filed under this Directive shall be sworn before the Documents Authentication and Registration Service.
  - (4) As part of the application process, at least three (3) of the applicant's Senior Personnel, including the Chief Compliance Officer, shall be required to undergo an interview session with representatives of the ECMA.
  - (5) Where necessary, other Senior Personnel and members of the SRO may also be required to undergo an interview session with representatives of the ECMA.
  - (6) An application for recognition shall only be considered as having been filed when all complete document(s)/information have been submitted to the ECMA and the ECMA's registrar generates an application number to the applicant.
  - (7)

## **7. Fees**

- (1) Every applicant for recognition shall pay such fees as may be determined by the Authority from time to time and in such manner as specified herein, and any other Directives and/or instruments that the ECMA may issue consistent with the Proclamation, inclusive of the following:
  - a. A non-refundable application and processing fee evidence of which shall be provided at the date of filing the application; and
  - b. A non-refundable recognition fee, evidence of which shall be provided within ten (10) business days of the Authority making a demand in this regard and prior to declaration of the applicant as a recognized SRO in line with Article 8 of this Directive.
- (2) Notwithstanding the foregoing, the recognition fee referenced in Sub-Article (1) b of this Article may be refundable in an instance where the applicant withdraws its application, prior to a declaration of the applicant as a recognized SRO by the Authority or if the ECMA refuses to recognize the applicant as an SRO as per Article 9 below.
- (3) Every entity recognized as an SRO pursuant to Article 8. of this Directive shall pay an annual recognition fee not later than one (1) month after the end of a financial year.

## **8. Approval of a Recognition Application**

Upon meeting the requirements set forth in Articles 6 and 7 of this Directive, the ECMA:

- (1) Shall declare the applicant to be a recognized SRO by communicating its decision, in writing, to the applicant.
- (2) May by notice in two (2) widely circulated Ethiopian newspapers (one (1) in Amharic and the other in English), declare an entity to be a recognized SRO.

## **9. Refusal of a Recognition Application**

- (1) The ECMA shall reject an application or refuse to recognize an entity as an SRO where the ECMA establishes that the applicant has:
  - a. Rules and policies which are inconsistent with the Proclamation or related regulations and Directives;
  - b. Not demonstrated that it has adequate capacity and competent personnel to carry out its functions;

**DRAFT FOR PUBLIC CONSULTATION**

- c. Given a false or misleading information;
  - d. Omitted a material fact during the application for recognition or failed to mention any other information that should be submitted to the ECMA;
  - e. Failed to meet the fit and proper criteria, financial capacity and administrative resource requirements, internal organization and risk management, and other regulatory and supervisory requirements for recognition determined by Directive of the ECMA and/or other instruments that the ECMA may issue consistent with the Proclamation; or
  - f. 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 ECMA before a decision is taken with respect to the rejection of an application or refusal to recognize an applicant as an SRO.

#### **10. Timeline for Processing an Application**

- (1) Except otherwise stated in this Directive, The ECMA shall within fifteen (15) business days of receiving a complete application as specified under Article 6 of this Directive, including the submission of additional documents as may be requested by the ECMA, communicate its decision, in writing, to the applicant.
- (2) Where the decision is to recognize the applicant as an SRO, the ECMA shall, via the communication specified under Sub-Article (1) of this Article, demand that the applicant pay the applicable recognition fee, where the applicant is yet to do so.
- (3) The Authority shall within ten (10) business days of confirmation of receipt of the applicable recognition fee paid by the applicant, declare the applicant to be a recognized SRO by notice in two (2) widely circulated Ethiopian newspapers, one (1) in Amharic and the other in English.

## **PART THREE – GENERAL OBLIGATIONS AND RESPONSIBILITIES**

### **11. Independence of SROs**

- (1) SROs shall, where applicable, establish policies and procedures to maintain a separation between their regulatory functions and their commercial activities including maintaining separate staff for both functions.
- (2) Funds received from regulatory fines and fees shall be used for regulatory purposes only, and every SRO shall have a policy on the utilization of fines.
- (3) Securities exchanges, central securities depositories , clearing companies and all other SROs, shall ensure compliance with the applicable ownership restrictions and governance requirements as may be specified in the Proclamation and/or subsidiary legislations and Directives issued by the Authority thereunder.

### **12. Obligations of SROs**

In line with the International Organization of Securities Commissions (IOSCO) principles on self-regulation, a Self-Regulatory Organization should observe standards of fairness and confidentiality when exercising powers and delegated responsibilities. In addition, the SRO is obligated to the following:

- (1) Admit only licensed CMSPs as members;
- (2) Have a fair and transparent procedure for admitting members;
- (3) Prioritize investor protection in its activities;
- (4) Promote market integrity;
- (5) Reduce systemic risk; and
- (6) Strive for the development of the capital market ecosystem, including conduct of training and awareness programs amongst others.

### **13. Power and Duties delegated by the Authority to a Self-Regulatory Organization**

- (1) The Authority may delegate any of its powers and duties to an SRO in line with the provisions of Article 16 and 23 of the Proclamation.
- (2) When delegating any of its powers and duties, the Authority shall specify the conditions for delegation as stipulated under Article 23 of the Proclamation, including:
  - a. The function or power delegated to the SRO;

- b. The extent of disciplinary powers delegated and the scope of sanctions that may be imposed;
  - c. The terms and conditions upon which the power or function has been delegated and may be exercised;
  - d. The persons authorized to exercise the delegation on behalf of the self-regulatory organization;
  - e. The manner in which a self-regulatory organization shall submit a periodical report to the Authority in respect of the exercise of a delegated power or function; and
  - f. Any other matter as the Authority may prescribe.
- (3) Subject to the approval of the Authority, every SRO shall have the powers to carry out the following functions:
- a. Develop and issue rules and guidelines to govern the behavior and activities of its members and Issuers of securities, where applicable;
  - b. Specify minimum operating requirements for its members, relative to their business activities;
  - c. Enforce its rules and initiate disciplinary proceedings against members;
  - d. Impose sanctions on defaulting members as provided for in its rules;
  - e. Carry out off-site supervision as well as routine and special on-site examinations on its members
  - f. Review the financial and non-financial records of its members;
  - g. Conduct market surveillance and investigations;
  - h. Have procedures for fair dispute resolution between members or a member and an investor; and
  - i. Any other duties that may be delegated by the Authority.

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

- (1) An entity shall only be recognized as an SRO where it satisfies and continues to satisfy the Authority that the organization has the financial capacity and administrative resources necessary to carry out its functions as an SRO, including dealing with a breach of the law or of any other applicable guidelines.

- (2) In determining whether an applicant has financial capacity and administrative resources sufficient for the proper performance of its relevant functions, the Authority shall consider:
  - a. the operational and other risks to which the SRO is exposed;
  - b. the amount and composition of the SRO's capital;
  - c. the amount and composition of the SRO's other financial resources (such as insurance policies and guarantees, where appropriate); and
  - d. the applicable rules and practices of the applicant.

#### **15. Personnel of a Self-Regulatory Organization**

- (1) Every SRO shall ensure that persons charged with responsibility of managing and overseeing its governance and administrative affairs shall have sufficient skills and experience in that regard.
- (2) Every SRO shall consider the requirements of the Competency Framework for Capital Market Service Providers in the appointment of a Senior Personnel.
- (3) A person shall not be appointed as a Senior Personnel without the prior written notification to the Authority, pursuant to the provisions of the Proclamation.

#### **16. Governance Structure of a Self-Regulatory Organization**

- (1) The Board of Directors, or its equivalent, of an SRO shall consist of a mix of Independent Directors and industry professionals.
- (2) The Independent Directors shall make up at least one-third (1/3) of the Board of Directors, or its equivalent.
- (3) The Chairman of the Board of an SRO shall be an independent person.

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

- (1) In determining whether an SRO and its personnel are fit and proper, the Authority shall take into consideration their compliance with the criteria for fit and proper persons in respect of:
  - a. Financial capacity;
  - b. Administrative resources;
  - a. Educational or other qualifications or experience with respect to the nature of the application;

**DRAFT FOR PUBLIC CONSULTATION**

- b. Ability to perform their function efficiently, honestly and fairly; and
  - c. Reputation, character, financial integrity and reliability.
- (2) All SROs shall obtain a Police Clearance Certificate, issued by the applicable regulatory authority, statutory body and/or agency, for each of its senior personnel and other employees as may be prescribed or required by the Authority from time to time.
  - (3) The Police Clearance Certificate referenced in Article 16 (2) shall be obtained prior to appointing or employing the applicable individuals.
  - (4) Every SRO shall ensure that it has adequate Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) procedures in compliance with the applicable AML/CFT legislation in Ethiopia and general international requirements, as may be in effect from time to time.
  - (5) An SRO and its senior personnel shall be deemed to have fulfilled the fit and proper criteria if they:
    - a. Establishes to the Authority a minimum level of competency, skills and experience to fulfill the SRO's function as outlined in its application;
    - b. Have not been convicted of any offence relating to fraud, theft, dishonesty or market abuse;
    - c. Have not been adjudged guilty of misconduct relating to activities in the financial sector by any court of competent jurisdiction;
    - d. Have not been declared bankrupt;
    - e. Have not been placed under liquidation;
    - f. Have never been disqualified or expelled from membership of any professional body/association, organization or any trade group/association, or had a practicing/operating license revoked for cause;
    - g. Have not been expelled from any securities exchange or over-the-counter trading facility for cause; and
    - h. Have not been found to be incapacitated on grounds of mental or physical illness.

#### **18. Chief Compliance Officer**

- (1) Every SRO shall, subject to providing the Authority with prior written notification in line with the provisions of Article 15 of this Directive, appoint a Chief Compliance Officer and the necessary support staff who shall be responsible for monitoring and ensuring compliance with the Proclamation, Directives issued by the Authority, as well as legislations of the Federal Government of Ethiopia.

**DRAFT FOR PUBLIC CONSULTATION**

- (2) The Chief Compliance Officer shall immediately and independently report to the Authority any violation of, or non-compliance with, this Directive, the Proclamation or any other relevant law, policies or regulations, observed by his/her.
- (3) The Chief Compliance Officer shall be responsible for organizing annual training for other members of staff on compliance related issues; and undertake such additional functions as may be required from time to time to effectively discharge his/her duties as a Chief Compliance Officer.
- (4) Every SRO shall give a prior written notification to the Authority before the redeployment or dismissal of a Chief Compliance Officer.
- (5) Under no circumstances shall the position of a Chief Compliance Officer be vacant for more than one (1) business day; and an SRO shall have an effective succession plan to this effect by internally identifying employees who can act as the Chief Compliance Officer, immediately the position becomes vacant.

## **19. Material Changes**

- (1) Every SRO shall give a prior written notification to the Authority of its intention to:
  - a. Change its membership composition; and
  - b. Changes to its bylaws, constitution or incorporation documents
  - c. Appoint or change a Senior Personnel, Chief Compliance Officer, or a Director (or its equivalent).
- (1) The change of its membership composition shall be effective where the Authority does not express its objection within fifteen (15) business days after receipt of the notification.
- (2) Notwithstanding the provisions of Sub-Article (2) of this Article, a change in the membership composition arising from a disciplinary action shall be subject to Article 18 of this Directive.
- (3) The appointment or change of a Senior Personnel, Chief Compliance Officer, or a Director (or its equivalent) shall be effective where the Authority does not express its objection within the timeframe specified under Article 27 of the Proclamation, as may be amended.
- (4) Notwithstanding the provisions of Sub-Article (4) of this Article:
  - a. The removal of a Senior Personnel by an SRO shall be guided by the provisions of Article 28 of the Proclamation, as may be amended;

**DRAFT FOR PUBLIC CONSULTATION**



- b. Every SRO shall notify the Authority:
  - i. not later than five (5) business days prior to the effective date of resignation of a Senior Personnel or Director, or within ten (10) business days of receipt of a notice of resignation from the Senior Personnel or Director, whichever occurs first; and
  - ii. not later than five (5) business days after becoming aware of the demise of a Senior Personnel or a Director.

## **20. Offices of a Self-Regulatory Organization**

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

## **21. Records to be Maintained**

- (1) An SRO shall:
  - a. keep and maintain books, records, and detailed and accurate accounts that reflect transactions or transfers of ownership of related assets of the SRO, in accordance with accounting standards set out by the applicable regulatory authority;
  - b. maintain proper, complete, accurate and secure records in relation its members; and
  - c. provide the Authority with information regarding how and where the books of account, records and documents are kept.

**DRAFT FOR PUBLIC CONSULTATION**

- (1) The Members' records in Sub-Article (1) (b) may be kept in a combination of printed, electronic or voice recorded format.
- (2) SROs are required to take precautions necessary to ensure that continuity in record keeping is not lost or destroyed and that sufficient backup of records is available outside the principal place of business.
- (3) An SRO shall maintain and retain all information, records, books and accounts generated, prepared or submitted to it, for ten (10) years from the day of preparation or receipt thereof, during which period, they should be made available for review or viewing upon request.

## **22. Disciplinary Actions taken by an SRO**

- (1) Every SRO shall ensure compliance with the provisions of Article 26 of the Proclamation, as may be amended, with respect to the disciplinary actions taken by such SRO against its members, including but not limited to:
  - a. The obligation to notify the Authority within a specified period; and
  - b. The powers of the Authority with respect to such disciplinary actions.
- (2) A Capital Market Service Provider that is not satisfied with the decision of an SRO may appeal to the Authority within twenty-eight (28) business days in line with provisions of Article 26 (4) of the Proclamation, as may be amended.

## **23. Reporting Obligations**

- (1) An SRO, its Senior Personnel and/or its other employees shall report to the Authority any:
  - a. Violation of this Directive within twenty-four (24) hours of becoming aware of such violation, and propose the appropriate remedy thereto; and
  - b. Suspected market manipulation or insider dealing to the Authority within twenty-four (24) hours of becoming aware of or suspicion of the occurrence of such activity.
- (2) Every SRO shall submit, in the format prescribed by the Authority:
  - a. Quarterly reports of its inspection and examination activities, surveillance activities, disciplinary actions against members, and dispute resolution activities to the Authority, within thirty (30) days after the end of the quarter;
  - b. Annual reports as required under Article 29 of the Proclamation as may be amended; and

- c. Any other reports that may be required by the Authority from time to time.

## **24. Systems and Controls**

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

## **25. Supervision/Inspection by the Authority**

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

## **26. Cooperation in Connection with Inspections or Investigations**

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

## **27. Client Compensation Fund**

- (1) An SRO may establish a Client Compensation Fund, subject to the approval of the Authority.
- (2) Where an SRO establishes a Client Compensation Fund, it shall ensure that such Client Compensation Fund is adequately funded at all times.
- (3) The Client Compensation Fund shall have its documented procedures for funding and utilization, the details of which shall be approved by the Authority, made known and available to the Authority, Members of the SRO and the general public.
- (4) The Client Compensation Fund shall be utilized in compensating a claimant where:
  - a. The Authority determines that a claimant is eligible for compensation consistent with the applicable provisions of the Proclamation with respect to the Compensation Fund established by the Authority and other subsidiary legislations and/or Directives issued thereunder; and/or
  - b. The SRO determines that a claimant is eligible for compensation in line with its rules, policies and procedures.

## **PART FOUR – ENFORCEMENT AND SANCTIONS (ADMINISTRATIVE MEASURES)**

### **28. Penalties and Others**

- (1) The Authority shall have powers to impose any or a combination of the following sanctions for misconduct on an SRO, its Directors, Senior Personnel and other employees:
  - a. Impose a fine or financial penalty;
  - b. Issue a public or private warning or reprimand;
  - c. Issue a public or private notice of censure;
  - d. Withdraw the recognition of the SRO;
  - e. Remove affected Directors, Senior Personnel or employees;
  - f. Blacklist Senior Personnel and/or other employees;
  - g. Suspend a provision of the memorandum and articles of association or rules of an SRO for a period specified in the notice from the Authority;
  - h. Require an SRO to amend its rules;
  - i. Require an SRO to implement or enforce its memorandum and articles of association or its rules;
  - j. Require the payment of administrative charges; and/or
  - k. Any other sanction which the Authority may prescribe from time to time.
- (2) In addition to the provisions of Sub-Article (1) of this Article, the Authority may refer an erring SRO, its Directors, Senior Personnel and other employees for criminal investigations and prosecution according to the Proclamation and/or the Criminal Code.
- (3) The Authority shall, before taking any action under Sub-Article (1) of this Article, give the SRO, its Member(s), Directors and/or Senior Personnel, as may be applicable, an opportunity to be heard.

### **29. Withdrawal of Recognition**

- (1) The Authority may withdraw a recognition of an SRO where:

- a. The SRO has failed to commence operations within one calendar (1) year from the date the notice of recognition was published pursuant to the provisions of Article 8. of this Directive;
  - b. The Authority is not satisfied that the SRO is properly performing or is able to perform the functions or duties under its rules or any Directives issued by the Authority pursuant to Proclamation;
  - c. The Authority determines that -
    - i. The SRO has failed to comply with any directive or instruction given by the Authority;
    - ii. The SRO is being liquidated, wound up or otherwise dissolved;
    - iii. On its own accord, the SRO voluntarily applies to the Authority to cease operating as an SRO; or
    - iv. It has been determined by the Authority that the SRO:
      - A. is no longer eligible for recognition as contemplated under the provisions of Article 9 of this Directive; or
      - B. has ceased operations.
- (2) The decision to withdraw recognition of an SRO shall be published by the Authority in two (2) widely circulated Ethiopian newspapers (one (1) in English and the other in Amharic, and shall become effective on the date of its publication or on any other date as the Authority may specify.

### **30. Procedure for Appealing Sanctions**

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