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Ethiopian Capital Market Authority

**Directive on Licensing, Operation, and Supervision of Securities Exchanges,
Derivatives Exchanges, and the Over-The-Counter Market No. 1009/2024**



July 2024

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PREAMBLE

WHEREAS, the Capital Market Proclamation No. 1248/2021 provides that the Ethiopian Securities Exchange shall be established as a share company and empowers the Authority to issue a directive regarding its operation upon its establishment;

WHEREAS, it is necessary to determine the requirements for licensing and operating other Securities Exchanges, Derivative Exchanges, and Over-the-Counter Markets by issuing a Directive;

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

NOW, THEREFORE, this Directive is issued in accordance with Article 31(5), Article 32(2), and Article 108 (2) of the Capital Market Proclamation No. 1248/2021.



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PART ONE
GENERAL PROVISIONS

1. Short Title

This Directive may be cited as the "Directive on Licensing, Operation, and Supervision of Securities Exchanges, Derivatives Exchanges, and the Over-the-Counter Market No.1009/2024."

2. Definitions

In this Directive, unless the context otherwise requires:

- 1/ "Proclamation" means Capital Market Proclamation No.1248/2021.
- 2/ "Algorithmic Trading" means any type of automated trading undertaken by computer systems which are programmed to take certain actions in response to varying market data.
- 3/ "Annual Compliance Report" means a report submitted by the entity licensed pursuant to this Directive which contains the overall confirmation of compliance with the provisions of this Directive.
- 4/ "Applicant" means an entity requesting to establish or operate a Securities Exchange, a Derivatives Exchange, or an Over-the-Counter Market.
- 5/ "Authorized Central Securities Depository" means the securities depository and clearing services authorized in accordance with Article 54 of the Proclamation.
- 6/ "Authority" means the Ethiopian Capital Market Authority established under the Proclamation.
- 7/ "Business Days" means Calendar Days excluding Saturdays, Sundays, and public holidays in Ethiopia Calendar.
- 8/ "Calendar Days" means consecutive days including Saturdays, Sundays and public holidays in Ethiopia.
- 9/ "Co-location" means an agreement to place automated trading systems or arrangements near or next to the Exchange's trading platform or system.



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- 10/ "Direct Electronic Access" means any type of electronic connection to a Securities Exchange that allows the client of the Exchange members to place, buy, or sell orders for securities with limited intervention of such member.
- 11/ "Liquid Asset" means cash and financial instruments that can easily be liquidated into cash with minimal adverse price effect.
- 12/ "Registered Person" means, for the purpose of Part Three of this Directive, a person eligible or approved by the Authority to use the Quotation System of an Over-the-Counter Market.
- 13/ "Sponsored Access" means access to an Exchange's trading platform or system provided in accordance with the Direct Electronic Access Rules of the Exchange.
- 14/ "Quotation System" means any inter-dealer Quotation System or any publication, set of procedures, electronic communications network or other device, or a combination thereof. The System shall also be used by securities brokers or securities 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 their account.
- 15/ "Throttling" means the process of managing the flow of data on an electronic communication system.
- 16/ "Tick size" means the minimum price change, whether up or down, of a security traded on an exchange.
- 17/ "Volatility" means the price changes within the market or to a security or a group of securities during a specified period of time.
- 18/ Any terms and phrases defined in the Proclamation shall apply to this Directive.
- 19/ In this Directive, any expression in the masculine gender includes the feminine.

3. Scope of Application

This Directive applies to entities which seek to establish or operate a securities exchange, a derivatives exchange, or an over-the-counter market.



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4. Application for a License

- 1/ The application for a license under this Directive shall include the necessary information to enable the Authority to determine whether the criteria and conditions set out in the Proclamation and this Directive have been fulfilled.
- 2/ All applications shall be accompanied by the documents stated under Article 5 and shall specify:
 - a) whether the requested license pertains to a Securities Exchange, a Derivatives Exchange, or an Over-the-Counter Market; and
 - b) the types of securities proposed for trading and the classes of investors proposed to trade in those securities.

5. Documents to be submitted for Application

The documents required shall include the following information:

1/ General information:

- a) legal name of the Applicant;
- b) registered address and business address of the Applicant; and
- c) information about the 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;
- d) business Registration and Business License Number (if applicable); and
- e) tax identification number.

3/ Information on the business organization:

- a) a corporate or organizational structure chart;



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- b) details on the ownership/shareholder of the Applicant; and
 - c) details of the proposed Board of directors and senior management.
- 4/ Information on the business operations and activities:
- a) the Applicant's current and proposed operations and activities;
 - b) the Applicant plans to operate and expand the business over the next 3 to 10 years; and
 - c) details of the types of securities and financial instruments proposed for trading and the classes of investors proposed to trade in those securities.
- 5/ Information on the license requested:
- a) the information necessary to evidence compliance with the requirements for an Exchange license or an Over-The-Counter Market license as set out in this Directive; and
 - b) if the application is submitted on behalf of Licensed Securities Exchange 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 to enable assessment under the requirements of the relevant Directive.
- 6/ Any other documents required by the Authority

6. **Licenses and Limitations**

- 1/ An Applicant which obtains an Exchange License shall be permitted to operate a “securities exchange” or a “derivatives exchange,” or both as specified in an Application and as approved by the Authority.
- 2/ An Applicant which obtains an “Exchange License” may apply for an “Over-the-Counter Market license” pursuant to this Directive or for any other license granted by the Authority in accordance with the relevant directives issued by the Authority.



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- 3/ An Over-the-Counter Market License obtained by a person other than a Licensed Securities Exchange, as stated in the Proclamation, shall not be permitted to use the words “exchange” in their title or in their business.
- 4/ Notwithstanding any provision in this Directive, the Authority shall grant an “Exchange License” to Ethiopian Securities Exchange in accordance with Article 31(5) of the Proclamation upon fulfilling the criteria in the Proclamation and this Directive.
- 5/ Notwithstanding any provision in this Directive, the Authority shall exercise its discretion in granting an “Exchange License” or an “Over-the-Counter Market License” to all other Applicants in accordance with Article 32(1) of the Proclamation, based on its assessment of the development of the market, its regulatory capacity and furtherance of its objectives under Article 5 of the Proclamation.
- 6/ The requirements in this Directive shall apply to Ethiopian Securities Exchange and to other Applicants who obtain a license pursuant to this Directive.

7. Application Procedure

- 1/ All applications shall be made in accordance with the provisions of the Proclamation and this Directive.
- 2/ Applications and accompanying documents shall be filed with the Authority in English or Amharic. If any information or document to be filed with the application is in any other language, it shall be accompanied by an authenticated translated version to English or Amharic.
- 3/ All application information and documents or copies of such information and documents shall be submitted in electronic format, and in all cases shall be clear and easily readable.
- 4/ Any material changes to the information submitted to the Authority which would be relevant to ascertain the Applicant’s compliance with the requirements of the Proclamation, or this Directive shall be provided to the Authority promptly.
- 5/ The Authority shall inform the Applicant whether an Application is complete or not within thirty (30) consecutive Calendar days from the receipt of the Application.



- 6/ Notwithstanding the payment of the prescribed application fees, an application for a license pursuant to this Directive 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.
- 7/ Within sixty (60) consecutive Calendar days from the submission of a complete application, the Authority shall inform the Applicant in writing whether the license has been granted or refused.

8. Refusal of a License

- 1/ The Authority may refuse to grant a license to an Applicant where the Applicant:
 - a) has failed to fulfill the requirements of this Directive;
 - b) has not demonstrated that it has adequate capacity and competent personnel to carry out its activities or functions;
 - c) has provided false or misleading information;
 - d) has omitted a material fact or information that should have been provided to the Authority during the submission of the application; or
 - e) has rules and policies inconsistent with the Proclamation and Directives of the Authority or has violated any provision of the Proclamation or related regulations or directives issued.
- 2/ Every Applicant shall be provided with an opportunity to be heard by the Authority before a decision is taken concerning the rejection of an application or refusal to grant a license.

9. Renewal, Suspension, and Revocation of License

- 1/ Without prejudice to Article 33(3)-(10) of the Proclamation, the Authority may renew, suspend, or revoke a license issued under this Directive based on its assessment of compliance with the criteria and requirements set out in the Proclamation and this Directive.



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- 2/ A license granted pursuant to this Directive shall be renewed annually and applications for such renewal must be made to the Authority not later than one (1) month before expiry of the existing license.
- 3/ The Authority shall not refuse an application for a renewal without giving the Applicant the opportunity to be heard by the Authority as set out in Article 8 of this Directive.

10. Fees

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



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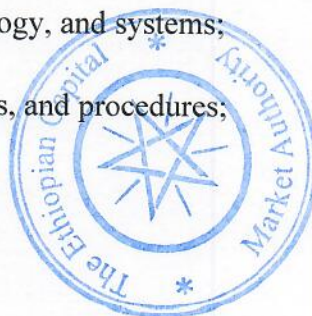
PART TWO
SECURITIES EXCHANGE

11. Requirement for an Exchange to be a Self-Regulatory Organization

- 1/ An Applicant for an Exchange License shall:
 - a) shall meet the requirements for a Self-Regulatory Organization; and
 - b) demonstrate that it can carry out its functions as a Self-Regulatory Organization in accordance with Part Three of the Proclamation and the directives issued thereunder.
- 2/ The Applicant, upon fulfilling the provisions set out in the Proclamation and this Directive, shall be granted an Exchange License for the purposes of establishing or operating a Securities Exchange or a Derivatives Exchange.
- 3/ Upon granting an Exchange License and in accordance with Article 23 of the Proclamation:
 - a) the Authority shall specify in writing the powers and duties delegated to the Exchange, and any conditions thereto; and
 - b) the Exchange shall specify in writing the person authorized to act on its behalf.

12. Requirements for an Exchange License

- 1/ An Application for an Exchange License shall include all of the information necessary to evidence compliance with the requirements in this Part Two of the Directive.
- 2/ The Applicant shall demonstrate that it has:
 - a) the minimum capital requirements specified in this Directive;
 - b) appropriately organized the Exchange in terms of ownership and control, management, and governance arrangements;
 - c) sufficient and appropriate human resources and technological skills;
 - d) appropriate trading infrastructure, technology, and systems;
 - e) adequate and effective operational policies, and procedures;

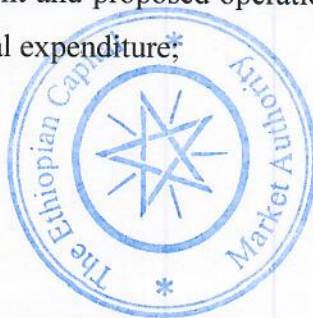


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- f) appropriate Rules for its members and the activities it undertakes;
- g) appropriate arrangements for the listing and trading of securities;
- h) the ability to adequately undertake monitoring, surveillance, and supervision of the market it operates;
- i) the necessary clearing and settlement arrangements with an Authorized Central Securities Depository or a Licensed Securities Depository and Clearing Company;
- j) a documented business continuity plan which includes disaster recovery arrangements; and
- k) appropriate risk management arrangements in relation to its business, activities and operations, technology, and regulatory compliance.

13. Minimum Capital Requirements

- 1/ The minimum paid-up capital for the Exchange License shall be Five Hundred Million (500,000,000) Birr.
- 2/ The Authority may adjust the minimum capital requirements periodically based on the nature and scale of the business and operations of the Exchange, as well as other relevant risks.
- 3/ Any proposed adjustments to the minimum capital requirements shall be communicated to the Exchange by the Authority, in writing, allowing for adequate time for compliance.
- 4/ The amount of capital reflected on the Memorandum of Association and, as applicable, the Commercial Registration Certificate shall equal or exceed the minimum paid-up capital required pursuant to this Article.
- 5/ The Exchange shall maintain capital consisting of cash or Liquid Assets which are sufficient:
 - a) to enable the Exchange to carry on its current and proposed operations and activities, including its operational costs and any capital expenditure;



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- b) to cover a forward-looking period of at least one year taking into account the risk scenarios assessed; and
 - c) to undertake an orderly wind down or closure of the Exchange, if required
- 6/ Notwithstanding sub-article (5) of this Article, the cash and Liquid Assets of the Exchange shall make up at least twenty percent (20 %) of its total assets of the Exchange.
- 7/ The Exchange shall meet the requirements of this Article at all times and shall provide the Authority with a financial risk assessment and financial report that demonstrates compliance with the requirements of this Article, at the time it applies for an Exchange License, and on an ongoing basis in accordance with its reporting obligations to the Authority.

14. Exchange License

An Exchange License obtained pursuant to this Directive shall incorporate:

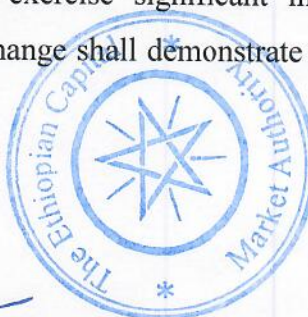
- 1/ whether it pertains to a Securities Exchange, a Derivative Exchange or both;
- 2/ the activities and services approved under such license(s), including the type of securities permitted for trading and the relevant class of investors permitted to trade in those securities; and
- 3/ any limitations or special conditions imposed by the Authority.

15. Restrictions Applicable to the Exchange

The Exchange shall not execute trade orders using its own capital whether held as equity or retained earnings, nor engage in any transactions for its own account on any trading platform, market, or facility it operates.

16. Business Organization of the Exchange

- 1/ The Exchange shall at all times maintain the appropriate ownership, control, management, and governance arrangements and evidence competence and integrity.
- 2/ Where the 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 Exchange, either directly or indirectly; the Exchange shall demonstrate to the satisfaction



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of the Authority, that such close links are not likely to impair the effective supervision of the Exchange by the Authority, nor its operations or compliance and adherence with the requirements in the Directives and the Proclamations.

- 3/ The Exchange shall provide the Authority and the public with information regarding the organizational structure and the ownership of the Exchange, and in particular, the identity and scale of interests of any parties with close links reference in sub-article (2) of this Article and any subsequent changes thereto.
- 4/ The Exchange shall implement the corporate governance notices, guidelines or directives published by the Authority.

17. Board of Directors

- 1/ The Authority may refuse to consent to a proposed member of the Board of Directors:
 - a) if the proposed member does not have a good reputation, sufficient knowledge and skills pertinent to the management of the Exchange, relevant experience, and the ability to commit sufficient time to perform his functions; or
 - b) if there are objective and appropriate grounds that a proposed member could jeopardize the effective and prudent management of the Exchange, or the integrity of the market.
- 2/ Each member of the Board of Directors shall, at all times, while remaining in their position, fulfil 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 his duties;
 - c) commit sufficient time to perform his functions; and
 - 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.



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18. Governance Arrangements

- 1/ In order to ensure that the Exchange operates in compliance with the Proclamation and the related regulations and directives, the Exchange shall:
 - a) have governance arrangements in place that enable effective and prudent management, including the appropriate segregation of duties within the Exchange, effective decision-making arrangements, and the prevention of conflict of interest; and
 - b) ensure that the Board of Directors have access to information and documents to discharge their responsibilities under the Proclamation and the Directive, including monitoring the decision-making of the management of the Exchange and providing the appropriate oversight over the operations of the Exchange.
- 2/ The Board of Directors shall periodically assess the effectiveness of the governance arrangements and take appropriate steps to address the deficiencies.

19. Chief Executive Officer

The Authority may object the appointment of the Chief Executive Officer if:

- 1/ the appointee does not possess the appropriate qualifications, knowledge, skills, and experience to manage the Exchange; or
- 2/ the appointee fails to meet the Fit and Proper requirements set out in the Authority's Directive for Recognition of Self-Regulatory Organizations.

20. Senior Personnel of the Exchange

- 1/ The Senior Personnel of the Exchange, as defined in Article 2(71) of the Proclamation, shall include the senior operating officer, senior financial officer, senior risk and compliance officer, and any other senior-level personnel identified by the Authority as deemed necessary.
- 2/ Notwithstanding the job title or designation used by the Exchange, the personnel responsible for the oversight and management of technology related matters of the Exchange and of matters pertaining to listing and de-listing of securities shall be identified as Senior Personnel as per sub-article (1) of this Article.
- 3/ Personnel identified as a Senior Personnel of the Exchange shall:



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- a) possess the appropriate qualifications, knowledge, skills and experience; and
 - b) meet the "Fit and Proper" requirements set out in the Authority's Directives for Recognition of Self-Regulatory Organizations.
- 4/ The Exchange shall provide evidence to the Authority that its Senior Personnel have successfully passed the examinations required of Senior Personnel of a Self-Regulatory Organization.

21. Staffing and Technical Expertise

- 1/ The Exchange shall employ an adequate number of staff with the necessary skills and sufficient knowledge to manage its operations, and evaluate their skills regularly and ensure that their skills remain up-to-date.
- 2/ The staffing requirements of the Exchange shall take into account the nature, scale, and complexity of the activities and the Exchange shall assess its staffing requirements regularly.
- 3/ The Exchange shall, at all times, have:
 - a) the relevant regulatory oversight staff in accordance with the functions delegated to it as a self-regulatory organization;
 - b) appropriate risk and compliance staff; and
 - c) internal audit staff.
- 4/ The Senior Personnel of the Exchange responsible for risk and compliance and internal audit shall be appointed by the Board of Directors of the Exchange and will directly report to the Board.

22. Risk and Compliance

- 1/ The Exchange shall adopt a sound risk management framework for the comprehensive management and oversight of the risks related to the Exchange.
- 2/ The adequacy and effectiveness of the risk management arrangements implemented by the Exchange shall be assessed within the framework of the specific requirements set out in



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this Directive, and as part of the ongoing obligations and supervisory arrangements of the Exchange as set out in this Directive.

- 3/ The Exchange shall have a risk and compliance unit responsible for independent oversight of the Exchange.
- 4/ The responsibilities of the risk and compliance unit includes the following:
 - a) oversight of the Exchange's implementation and adherence of the requirements and obligations as set out in the Proclamation and this Directive; and
 - b) developing and maintaining the policies and procedures to enable the Exchange to comply with the requirements and obligations under this Article.
- 5/ The staff of the risk and compliance unit shall have at least a general understanding of:
 - a) the legal and regulatory obligations established by the Proclamation and this Directive;
 - b) how trading, trading systems and trading algorithms operate;
 - c) the appropriate knowledge of the Exchange's trading platform and systems; and
 - d) the types of trading undertaken on the Exchange.
- 6/ The relevant risk and compliance Senior Personnel shall provide the Authority with risk and compliance reports as part of the Exchange's ongoing obligations, and when requested by the Authority.
- 7/ The human and technical resources allocated to the risk and compliance unit of the Exchange shall be appropriate for the size and complexity of the business undertaken by the Exchange.
- 8/ Depending on the size and complexity of the business undertaken by the Exchange, the Authority may order the establishment of two distinct risk and compliance units if convinced that the function requires two units for risk and compliance.



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23. Outsourcing

- 1/ The 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 on to the responsibility of the Exchange towards the Authority;
 - b) does not result in the delegation of responsibilities of the senior management of the Exchange;
 - c) does not hinder in any way the effectiveness of the supervision of the Exchange and the surveillance of trading; and
 - d) does not alter its duties or the relationship of the Exchange with its members, issuers, and investors.
- 2/ Notwithstanding the provision of sub-article (1) of this Article, the execution of the following tasks shall not be outsourced to third parties:
 - a) trading surveillance and market control over the trading system;
 - b) admission, expulsion, or suspension of Exchange members;
 - c) receipt of non-standard, unique or ad hoc messages via trading systems;
 - d) decisions in connection with trading halts or suspensions; or
 - e) decision regarding the listing or admission to trading, or de-listing or removal of a security from trading.
- 3/ The third-party service provider shall have the appropriate skill set and shall be able to carry out the tasks outsourced to it.
- 4/ The Exchange shall ensure that the outsourcing arrangement does not expose it to unnecessary or unacceptable risks.
- 5/ The outsourcing agreement between the Exchange and a third-party service provider shall be in writing with rights and duties reflected explicitly.



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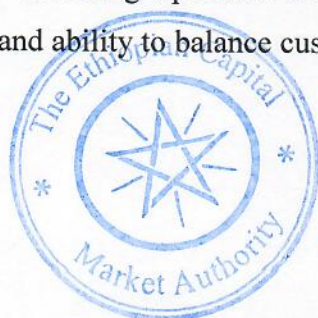
- 6/ Before entering into an agreement with a third-party service provider, the Exchange shall:
- a) notify the Authority in writing of its intention to outsource;
 - b) provide its assessment that the outsourcing agreement is as per the requirements of this Article; and
 - c) obtain a written no-objection confirmation from the Authority.

24. General Requirements for Trading Platforms or Systems

- 1/ The Exchange shall have in place effective systems, procedures, and arrangements to ensure its trading platform or systems:
- a) is resilient;
 - b) have sufficient capacity to deal with peak order and message volumes;
 - c) enable orderly trading under conditions of severe market stress; and
 - d) can reject orders that exceed predetermined volume and price thresholds or that are clearly erroneous.
- 2/ The Exchange shall ensure that the requirements in sub-article (1) of this Article:
- a) are fully tested to ensure such conditions are met; and
 - b) are subject to effective business continuity arrangements to ensure the continuity of its services in case of trading system disturbance.

25. Trading Platforms or Systems Capacity

- 1/ The Exchange shall ensure that its trading platform or system has sufficient capacity to perform its functions without failures, outages, or errors in matching transactions.
- 2/ For the purpose of sub-article (1) of this Article, the elements of a trading system to be considered shall support the following activities:
- a) order entry including upstream connectivity, order submission capacity, Throttling capacities, and ability to balance customer order entrance through different gateways;

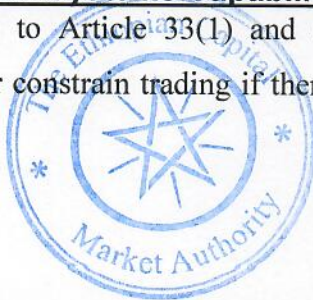


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- b) order routing including the ability of the trading system to match orders at an adequate latency;
 - c) trade execution including downstream connectivity, order and transaction editing, and any other type of market data feed; and
 - d) infrastructure to monitor the performance of the elements mentioned in this Article.
- 3/ Sufficient capacity for purpose of sub-article (1) of this Article, shall be measured taking into consideration the following:
- 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 Exchange shall ensure that:
- a) the trading system can cope with rising message flows without material degradation of the system's performance; and
 - b) the design of the trading system enables its capacity to be expanded within a reasonable time whenever necessary.
- 5/ The Exchange shall assess the capacity of the trading systems annually to ensure it remains adequate at relevant message volumes recorded on that system, and upon assessment, shall inform the Authority of any plan to expand the capacity and the time to implement such plan.
- 6/ The Exchange shall immediately make public and report to the Authority and its members when it encounters any severe trading interruption and any material connectivity disruptions.

26. Trading Platforms or Systems Capabilities

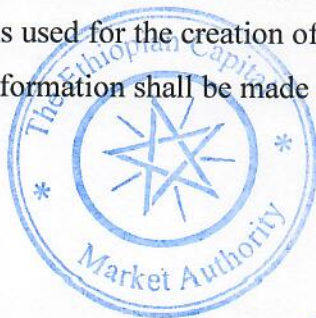
- 1/ Without prejudice to Article 33(1) and (2) of the Proclamation, the Exchange shall temporarily halt or constrain trading if there is a significant price movement in securities



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on the market during a short period and, in exceptional cases, shall cancel, vary, or correct any transaction.

- 2/ The Exchange shall have in place effective systems, procedures, and arrangements to address disorderly trading conditions, and for these purposes, the Exchange shall be able to:
 - a) slow down the flow of orders if there is a risk of system capacity being reached;
 - b) limit and enforce the minimum Tick size that may be executed on the market;
 - c) ensure that Algorithmic Trading systems cannot create or contribute to disorderly trading conditions on the market, including by requiring members or users of Sponsored Access, to conduct appropriate algorithm testing and providing environments to facilitate such testing; and
 - d) manage any disorderly trading conditions that arise from such Algorithmic Trading systems, including systems limiting the ratio of unexecuted orders to transactions that may be entered into the system.
- 3/ For purposes of sub-article (2) of this Article, the Exchange shall:
 - a) ensure that the parameters for halting trading are appropriately calibrated in a way that it takes into account the liquidity of different asset classes and sub-classes, the nature of the market model and the types of users, and is sufficient to avoid significant disruptions to the orderliness of trading;
 - b) provide the parameters for halting trading to the Authority and any material changes to those parameters in a consistent and comparable manner; and
 - c) obtain prior written approval of the Authority to establish or modify the parameters for halting trading, or actually halt or constrain trading.
- 4/ The 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.



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27. Trading Platform or System: Conditions for Use

- 1/ The Exchange shall establish the conditions for using its electronic order submission systems by its members.
- 2/ The conditions established pursuant to sub-article (1) of this Article shall be set having regard to the type of trading undertaken on the trading platform or 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 within the members who use or engage with the trading platform or system;
 - c) technical and functional conformance testing by members;
 - d) a policy for the use of a halt functionality to cancel unexecuted trades for purposes of preventing disorderly trading conditions; and
 - e) provisions on whether the member may give his clients Direct Electronic Access to the system and, if so, the conditions applicable to those clients.
- 3/ The Exchange shall:
 - a) make available to the Authority data relating to the order book or give the Authority access to the order book so that it can monitor trading; and
 - b) retain and make available the appropriate records of post-trade information for the Authority to inspect or investigate.

28. Systems, Controls and Governance Arrangements

- 1/ The Exchange shall be adequately equipped:
 - a) to implement appropriate arrangements and systems to identify significant risks to its operation; and
 - b) to manage and mitigate effectively the risks to which it is exposed.



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2/ The Exchange shall:

- a) implement robust arrangements for a sound management of its technical operations, which includes establishing effective contingency plans to address potential system disruptions; and
- b) have effective arrangements to facilitate the efficient and timely finalization of the transactions executed under its systems.

3/ The Exchange shall have arrangements to clearly identify and manage:

- a) any potential adverse consequences of the operation of the trading platform or system; and
- b) any potential conflict of interest that could impact the functioning of its trading platform or system or its capacity to fulfill any of the functions, duties and responsibilities delegated to it by the Authority.

29. Prevention of Disorderly Trading Conditions

1/ The Exchange shall have at least the following arrangements in place to prevent disorderly trading and breaches of capacity limits:

- a) limits per member the number of orders sent per second;
- b) mechanisms to manage Volatility; and
- c) pre-trade and post-trade controls.

2/ For the purpose of sub-article (1) of this Article, the Exchange may:

- a) request information on the business organizational arrangements, systems, and trading controls of any member or user of Sponsored Access;
- b) suspend access to the trading system at the initiative of the Exchange itself, when requested by a member, the Securities Depository and Clearing Company or the Authorized Central Securities Depository if so provided in their rules, or when ordered by the Authority;



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- c) operate a halt functionality to cancel unexecuted orders submitted by a member or by a user of Sponsored Access under the following circumstances:
 - i) upon request of the member or of the user of Sponsored Access, where the member or user is technically unable to delete its orders;
 - ii) where the order book contains erroneous duplicated orders; and
 - iii) following a suspension initiated either by the 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 platform or system; and
 - e) balance entrance of orders from different gateways to avoid disruption where more than one gateway is used.
- 3/ The Exchange shall set out policies and arrangements in respect of following:
- a) mechanisms to manage Volatility;
 - b) pre-trade and post-trade controls used by the Exchange, and pre-trade and post-trade controls necessary for its members to access the market;
 - c) members' obligation to operate their own halt functionality and information requirements for members and users of Sponsored Access under sub-article (2)(a) of this article;
 - d) suspension of access to trading platform;
 - e) a cancellation policy in relation to orders and transactions including:
 - i) timing;
 - ii) procedures;
 - iii) reporting and transparency obligations;
 - iv) dispute resolution procedures; and



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- v) measures to minimize erroneous trades.
- f) order Throttling arrangements including:
 - i) limits on the number of orders per second during predefined time intervals;
 - ii) an equal treatment policy among members unless the throttle is directed to specific members; and
 - iii) measures to be adopted following a Throttling event.
- 4/ The Exchange shall make public its policies and arrangements set out in this Article; however, that obligation shall not apply with regard to the specific number of orders per second on predefined time intervals and the specific parameters of their mechanisms to manage Volatility.
- 5/ The Exchange shall maintain comprehensive electronic records of measures it took to prevent disorderly trading for a minimum of ten (10) years.

30. Testing of the Proper Functioning of the Trading Platform or System

- 1/ Before deploying or updating a trading platform or system, the Exchange shall use clearly defined development and testing methodologies that ensure at least the following:
 - a) the trading system operates in manner and for its intended purpose;
 - b) the compliance and risk management controls embedded in the trading systems work as intended, including the automatic generation of error reports; and
 - c) the trading system can continue working effectively in case of a significant increase in the number of messages managed.
- 2/ The Exchange shall demonstrate whenever it's requested by the Authority that it has taken all reasonable steps to ensure that the trading platform or system it operates does not contribute to disorderly trading conditions.



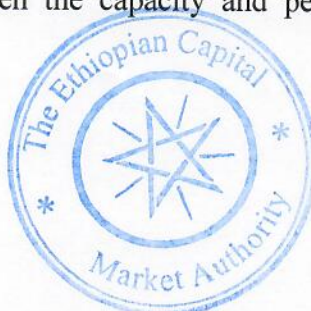
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31. Ongoing Monitoring of the Trading Platform or System

- 1/ The Exchange shall demonstrate whenever it is requested by Authority that it monitors in real-time the performance and usage of the elements of its trading platform or 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 number of messages received, sent, and rejected by the system per second;
 - c) The period 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; and
 - d) the performance of the matching engine.
- 2/ The Exchange shall take all appropriate actions in relation to any issues identified in the trading system during the ongoing monitoring as soon as reasonably possible, in order of priority and it shall be able to adjust, wind down, or shut down the trading system if necessary.

32. Mechanisms to Manage Volatility

- 1/ The Exchange shall have automatic systems to halt or constrain trading operations at all times during trading hours.
- 2/ Notwithstanding sub-article (1) of this article, the Authority may instruct the Exchange to temporary halt or constrain trading as set out in Article 26 of this Directive.
- 3/ The 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 are reviewed;

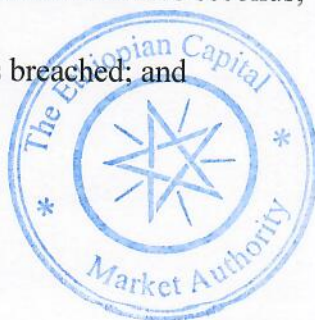


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- b) technology and skilled human resources are allocated to deal with design, maintenance, and monitoring the mechanisms implemented to halt or constrain trading; and
 - c) mechanisms to manage Volatility are continuously monitored.
- 4/ The Exchange 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.
- 5/ The Exchange shall ensure that the mechanisms to manage Volatility includes procedures to manage situations where the parameters have to be manually overridden to provide orderly trading.

33. Pre-Trade and Post-Trade Control

- 1/ The Exchange shall carry out the following pre-trade controls adapted for each security traded on its trading platform or system:
- a) price collars, which automatically block orders that do not meet pre-set 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; and
 - 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) of this Article 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 not more than five seconds;
 - c) an order is rejected once a limit is breached; and



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- 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 to a specific order or set of orders on a temporary basis in exceptional circumstances.
- 3/ The Exchange shall establish post-trade controls that it deems appropriate based on a risk assessment of the activities of its members.

34. Tick sizes

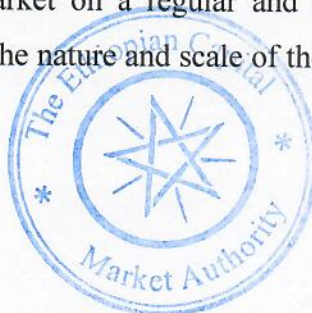
- 1/ The Exchange shall implement a Tick size regime for all securities.
- 2/ The Tick size regime shall be calibrated to reflect the liquidity profile of the securities in different markets and the average bid-ask spread. It shall also take into account the desirability of enabling reasonably stable prices without unduly constraining further narrowing of spreads, and adapted for each security appropriately.

35. 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 user of Sponsored Access.
- 2/ The Authority may develop guidelines to specify the level of accuracy to which clocks are to be synchronized in accordance with international standards.

36. Market Making

- 1/ The Exchange shall have written agreements with all members providing a market making service on the trading platform or system it operates.
- 2/ The Exchange shall ensure that there are a sufficient number of members in the agreements made under sub-article (1) of this Article.
- 3/ The agreements made under sub-article (1) of this Article shall:
 - a) require the members 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 platform or system; and



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b) specify at least the following:

- i) the obligations of the member about the provision of liquidity and, where applicable, any other obligation arising from participation in the market making arrangement; and
- ii) any incentives in terms of rebates or otherwise offered by Exchange to the member to provide liquidity to the market on a regular and predictable basis and, where applicable, any other rights accruing to the member as a result of participation in the arrangement.

4/ The Exchange shall monitor and enforce compliance with the obligations of the written agreements laid down in this Article.

5/ The Exchange shall immediately inform the Authority about the content of the written agreement made under sub-article (1) of this Article, and shall, upon request, provide further information to the Authority as necessary.

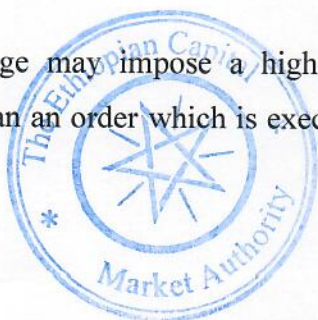
37. Fee Principles Related to Trading Platform

1/ The Exchange shall ensure that:

- a) its fee structure, including trade execution fees, ancillary fees, and any rebates, are transparent, fair, and non-discriminatory;
- b) it does not create incentives to place, modify, or cancel orders or to execute transactions in a way that contributes to disorderly trading conditions or market abuse; and
- c) it imposes market-making obligations in individual securities or a suitable basket of securities in Exchange for any rebates that are granted.

2/ Any fees paid for canceled orders shall be adjusted according to the length of time for which the order was maintained and to calibrate the fees to each security to which they apply.

3/ The Exchange may impose a higher fee for placing an order that is subsequently cancelled than an order which is executed, on members placing a high ratio of cancelled



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orders to executed orders, or on those operating a high-frequency Algorithmic Trading technique, in order to reflect the additional burden on system capacity.

38. Data Protection

The Exchange shall ensure that it has mechanisms in place to protect the data and information under its custody and such mechanisms shall be in line with applicable data protection law.

39. Technology and Security

1/ The Exchange shall establish a governance and decision-making framework regarding technology and security matters relevant to its operations. This framework shall incorporate:

- a) matters such as capacity planning and assessment, management of technology changes;
- b) incident management including root cause analysis;
- c) stakeholder engagement and communication, response framework for extreme market conditions; and
- d) updating and activating the business continuity plan.

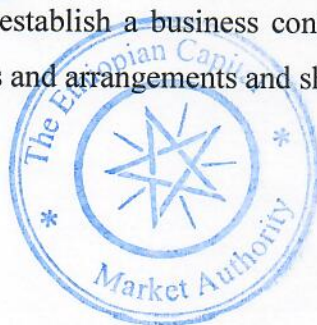
2/ The Exchange shall employ appropriate tools and mechanisms to ensure the security, safety, and soundness of its technology, and they meet all requirements established by relevant government agencies.

3/ The Exchange shall adopt, with the approval of the Authority, an assurance framework of appropriate international standards to ensure that its technology remains resilient, secure and stable.

4/ The Exchange shall provide the Authority with evidence of compliance with this Article at least annually, and in the form and manner to be specified by the Authority.

40. Business Continuity

1/ The Exchange shall establish a business continuity plan to implement effective business continuity procedures and arrangements and shall have an appropriate back-up site.

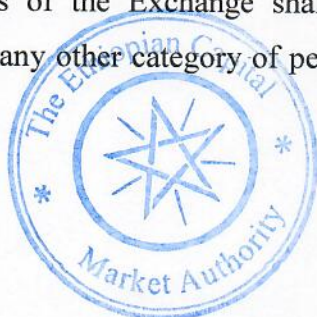


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- 2/ The business continuity plan shall contain detailed procedures and arrangements for handling disruptive incidents including where critical operational functions become unavailable; procedures for relocating the trading system to a back-up site and operating the trading system from that site; and arrangements to back-up critical business data.
- 3/ The business continuity plan shall include a range of possible adverse scenarios relating to the trading system, including unavailability of systems, staff, external suppliers, data centers and loss of critical data and documents.
- 4/ The business continuity plan shall specify the maximum time to resume the trading activity and the amount of data that may be lost in the system, with the aim that trading can be resumed within the 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.
- 5/ The Exchange shall have an ongoing program for testing, evaluating, and reviewing its business continuity plan to ensure it works as intended.
- 6/ The Exchange shall undertake an impact assessment, at least on a yearly basis, to identify the risk and consequences of disruption.
- 7/ The outcome of the impact assessment and any findings concerning the adequacy of the business continuity plan shall be communicated to the Authority and to the board of directors on a timely basis.
- 8/ Any decision by the Exchange not to take into account an identified risk of unavailability of the trading system shall be adequately documented and explicitly approved by the board of directors.
- 9/ The Exchange shall submit its business continuity plan for approval by the Authority and shall provide evidence of compliance with the requirements of this Article as part of its ongoing obligations.

41. Assessment of Members

- 1/ The members of the Exchange shall consist of duly licensed capital market service providers, or any other category of persons which the Authority has specifically approved



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and deemed appropriate to deal in securities in a specified segment of the market operated by the Exchange.

- 2/ The Exchange shall undertake a due diligence assessment of its prospective members and users of Sponsored Access and shall establish procedures for such assessment.
- 3/ At least once a year or when considered necessary by the Authority, the Exchange shall conduct a risk-based assessment of its members and users of Sponsored Access.
- 4/ The risk-based assessment shall:
 - a) include an assessment of compliance with the membership criteria and conditions, including confirming that members remain duly licensed as capital markets service providers; and
 - b) take into account the scale and potential impact of trading undertaken by each member and where relevant, the user of Sponsor Access, as well as the time elapsed since the last risk-based assessment.
- 5/ The Exchange shall undertake additional assessments as necessary.
- 6/ The Exchange shall regularly provide the list of its members and users of Sponsored Access to the Authority.
- 7/ The Exchange shall maintain, for at least ten (10) years, electronic records of the following:
 - a) the conditions and procedures for the due diligence assessment;
 - b) the criteria and procedures used for imposing sanctions and fines;
 - c) the initial due diligence assessment;
 - d) the annual risk-based assessment; and
 - e) the members that failed the annual risk-based assessment and any fines or sanctions imposed on such members.



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42. Technical and Functional Conformance Testing

- 1/ The Exchange shall require its members to undertake conformance and compliance testing of the access to the relevant trading platform or system, and the member's trading system, algorithm, or strategy before the deployment or a substantial update.
- 2/ The conformance testing shall verify the functioning of the following:
 - a) the ability of the member's system, algorithm, or strategy to interact as required with the matching logic of the Exchange's trading platform or system and the adequate processing of the data flows from and to the Exchange;
 - b) the basic functionalities include submitting, modifying or canceling an order or indicating interest, static and market data downloads, and all business data flows;
 - c) the connectivity, including the cancel on disconnect command, such that it mitigates network and data losses and dynamically adapts to data stream throttles to ensure continuous data flow; and
 - d) the recovery, including the intra-day resumption of trading and the handing of suspended instruments, or non-updated market data, such that there is an automated reactivation of suspended instruments within a predetermined time and backfilling of missing data.
- 3/ The Exchange shall provide a conformance testing environment to its actual and prospective members, which:
 - a) is easily accessible on conditions similar to its actual trading platform;
 - b) provides a list of securities that can be tested, and which are representative of every class of instruments within the relevant trading environment;
 - c) is available during general market hours or, if available only outside market hours, on a pre-scheduled periodic basis; and
 - d) is supported by staff with sufficient knowledge.
- 4/ The Exchange shall:



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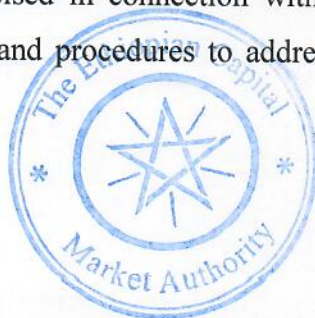
- a) ensure effective separation of the testing environment from the main trading facilities for the conformance testing;
- b) require its actual and prospective members to use its conformance testing facilities; and
- c) deliver a report of the results of the conformance testing to actual or prospective members and the Authority when requested.

43. Testing of Trading Systems, Strategies, or Algorithms

- 1/ The Exchange shall require its members and, where relevant, users of Sponsored Access to certify that the trading systems, strategy, or algorithms they deploy have been tested to avoid contributing to or creating disorderly trading conditions.
- 2/ The testing under sub-article (1) of this Article shall take place prior to the deployment or substantial update of a trading system, strategy, or algorithm.
- 3/ The Exchange shall provide its members with access to a testing environment which has:
 - a) simulation facilities which reproduce the trading environment as realistically as possible, including disorderly trading conditions; and
 - b) functionalities, protocols, and structure that allow members to test a range of scenarios that they consider relevant to their activity.

44. Rules of the Exchange – General

- 1/ An Exchange shall regulate its members through the adoption and enforcement of Rules of conduct.
- 2/ An Exchange shall make Rules relating to matters for which it has regulatory or supervisory functions.
- 3/ The Rules under sub-article (2) of this Article include Rules on sanctions and disciplinary powers to be exercised in connection with the function delegated to it, procedures for dispute resolution, and procedures to address potential conflict of interest and cooperate



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with the Authority to investigate and enforce laws and regulations; and Rules governing or relating to Listing Requirements.

45. Membership Rules

- 1/ The Exchange shall set out and get approval by the Authority the criteria and conditions for membership to its trading platform or systems.
- 2/ The Exchange shall prepare a code of conduct applicable to all members, specifying:
 - a) standard of behavior for its members;
 - b) market conduct requirements, including the avoidance of Prohibited Trading Practices provided under Part 12 of the Proclamation;
 - c) the criteria and procedures for imposing sanctions or fines on a non-compliant member; and
 - d) the circumstances wherein suspension of access to the trading platform or system and loss of membership could result.

46. Rules on Access to the Trading Platform or System

- 1/ The Exchange shall establish, get approval by the Authority and implement rules governing access to the relevant trading platform or system, which are:
 - a) transparent and non-discriminatory;
 - b) based on objective criteria; and
 - c) include provisions necessary for the protection of investors and for the maintenance of good reputation of the Exchange.
- 2/ The Rules referred to in sub-article (1) of this Article shall specify any obligations for the members arising from:
 - a) the legal and regulatory requirements;
 - b) rules relating to transactions on the market or market segment; and



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- 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) of this Article 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.

47. Direct Electronic Access

- 1/ If the Exchange permits Direct Electronic Access to its trading platform or system to eligible persons, it shall have effective systems, procedures, and arrangements to ensure that members are only permitted to provide such access in accordance with this Article.
- 2/ Any Direct Electronic Access permitted shall:
- a) have appropriate criteria set regarding the eligibility of persons to whom such access may be provided; and
 - b) such eligibility criteria shall have regard to whether the eligible persons are retail investors, institutional participants, or qualified investors for purposes of applying investor protection obligations.
- 3/ The Exchange shall ensure that the member retains responsibility for orders and trades executed using Direct Electronic Access in relation to the requirements of this Directive.
- 4/ The Exchange shall set appropriate standards regarding technology, risk controls and thresholds on trading through Direct Electronic Access and shall distinguish, and if necessary, stop orders or trading by a person using Direct Electronic Access separately from other orders or trading by the member.
- 5/ The Exchange shall require a legally binding contract between the member and his client for the provision of Direct Electronic Access and 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.



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48. Trading Rules

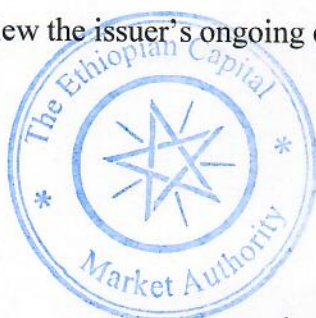
- 1/ The Exchange shall establish and get approval by the Authority, transparent and non-discretionary rules and procedures for its trading systems, facilities, and arrangements, and such rules shall enable fair and orderly trading and shall establish objective criteria for the efficient execution of orders.
- 2/ Exchange members shall comply with investor protection obligations concerning their clients when they, acting on behalf of their clients, execute their orders on the trading platform or system.

49. Co-location

The Exchange shall ensure that its Rules on co-location services are transparent, fair, and non-discriminatory.

50. Rules Relating to Listing or Admission of Securities to Trading

- 1/ The Exchange shall establish and get approval by the Authority, Listing Requirements, as defined in Article 2(40) of the Proclamation, which are:
 - a) clear and transparent; and
 - b) ensure any securities admitted to trading are capable of being traded in a fair, orderly, and efficient manner.
- 2/ In the case of derivatives, the Listing Requirements shall ensure that the design of the derivative contract allows for its orderly pricing and effective settlement conditions.
- 3/ The Exchange shall ensure it has the appropriate staffing, with sufficient technical expertise, dedicated to listing and admission to trading as set out in this article.
- 4/ The Exchange shall establish and maintain effective arrangements to:
 - a) verify that an issuer of securities seeking permission to list or deal in securities on its trading platform or system meets and complies with the Rules established by the Exchange, and
 - b) regularly review the issuer's ongoing compliance with such Rules.



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- 5/ Notwithstanding the verification undertaken in accordance with sub-article (4) of this Article, the Exchange shall:
- a) obtain prior written confirmation from the Authority that it approves of such listing or admission to trading; and
 - b) inform the Authority of any decision it takes to reject or refuse a listing or admission to trading application.
- 6/ The Exchange shall establish arrangements that facilitate obtaining access to disclosure of material information provided by issuers of securities pursuant to Article 77 of the Proclamation.

51. Suspension and Removal of Securities from Listing or Trading

- 1/ Without prejudice to the power of the Authority to demand suspension or removal of a security from trading, the Exchange may suspend or remove from listing or trading securities that no longer comply with the relevant Rules, provided it obtains prior written confirmation from the Authority that it does not object such suspension or removal.
- 2/ A suspension or removal from listing or trading 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 securities, including any related derivative, shall be made public by the Exchange immediately.

52. Monitoring and Surveillance

- 1/ The Exchange shall establish and maintain effective arrangements and procedures to regularly monitor that its members adhere to the Rules of the Exchange.
- 2/ The Exchange shall monitor orders sent, including cancellations, and the transactions undertaken by its members to identify:
 - a) infringements of the Rules of the Exchange;
 - b) disorderly trading conditions;



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- c) conduct that may indicate behavior that is prohibited under this Directive or the Proclamation; and
- d) system disruptions in relation to a security.

3/ The Exchange shall:

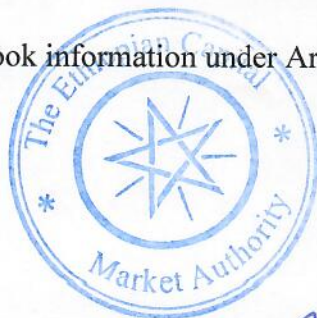
- a) maintain comprehensive electronic records of its monitoring and surveillance activities, including intercepted disorderly trades; and
- b) ensure it allocates and provides the necessary resources to undertake the activities referenced in this Article.

53. Investigation and Disciplinary Action

The Exchange shall inform the Authority immediately of any disciplinary action in accordance with the Proclamation, this Directive and the Rules it has established pursuant to this Directive.

54. Ongoing Obligations

- 1/ The Exchange shall provide an annual confirmation of compliance with the provisions of this Directive, at least once a year, or more frequently as determined by the Authority.
- 2/ For purposes of sub-article (1) of this Article, the Exchange shall provide the Authority with the information, periodic reports, and assessments as described in this Directive, which includes the following:
 - a) a financial risk assessment and financial report under Article 13(7), including any capitalization adjustment required relative to the services and activities proposed to be undertaken by the Exchange;
 - b) an assessment of the governance arrangements under Article 18;
 - c) risk and compliance reports under Article 22(6);
 - d) the trading platform or system capacity report under Article 25(5);
 - e) order book information under Article 27(3);



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- f) an assessment of the systems and controls and other arrangements of the trading platform or system under Article 28;
- g) findings and action related to testing and ongoing monitoring of the trading platform or system under Articles 30 and 31;
- h) evidence of compliance with technology and security requirements under Article 39;
- i) evidence of compliance with business continuity arrangements under Article 40;
- j) the list of members or participants and the membership risk assessment under Article 41;
- k) any changes or updates to the Rules of the Exchange under Article 44; and
- l) any other information deemed necessary by the Authority from time to time.

55. Reporting and Assistance to the Authority

1/ Without prejudice to Article 54 of this Directive, the Exchange shall provide the following information when requested, in the manner and form to be specified by the Authority:

- a) information in respect of dealing in securities on the Exchange trading platform or systems, including daily values and volume of trades, activities, trends, patterns and observations;
- b) risk management reports pertaining to open positions, or credit exposures on unsettled trades that may pose a risk to the market, or information pertaining to clearing and settlement arrangements utilized by the Exchange;
- c) reports related to disorderly trading conditions or system disruptions,
- d) information related to listing or dealing in securities, including supervision listing and delisting of securities and compliance with ongoing Listing Requirements;
- e) market conduct and surveillance findings;
- f) information on investigation and disciplinary actions; and

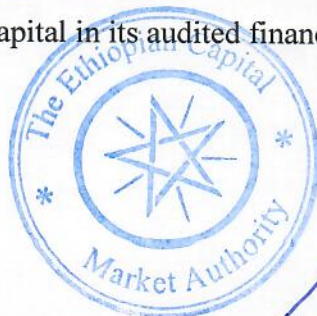


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- g) other matters pertaining to functions and powers delegated to the Exchange by the Authority.
- 2/ In accordance with Article 37(2) and (3) of the Proclamation, the Exchange and the Board, shall provide the relevant information within twenty-four (24) hours and shall provide full assistance to the Authority in investigating and prosecuting Prohibited Trading Practices occurring on or through the Exchange

56. Submission of Financial Reports to the Authority

- 1/ The Exchange shall prepare the following financial statements in accordance with the prevailing accounting and audit standard as set by the Accounting and Audit Board of Ethiopia and submit them to the Authority:
- a) quarterly Financial Statements within thirty (30) days after the end of the quarter;
 - b) annual Audited Financial Statements within four (4) months after the end of a financial year; and
 - c) any other periodic financial report within the period stipulated by the Authority.
- 2/ An Audited Financial Statement shall include an opinion issued by an External Auditor licensed by Accounting and Audit Board of Ethiopia and approved by the Authority pursuant to Article 63 of the Proclamation reporting on the following:
- a) whether the capital requirements established in this Directive have been maintained;
 - b) the going concern status of the Exchange; meaning whether, in the opinion of the External Auditor, the financial position of the Exchange enables 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/ The Exchange shall disclose a list of shareholders who hold five percent (5%) or more of its issued capital in its audited financial statement.



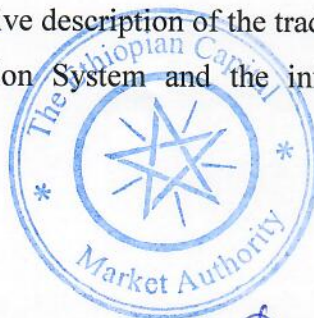
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PART THREE

OVER-THE-COUNTER MARKET

57. Requirements for an Over-the-Counter Market License

- 1/ An Application for an Over-the-Counter Market license shall include all the information necessary to enable the Authority to determine whether adequate arrangements have been made to comply with the obligations of this Part of the Directive.
- 2/ An Application for an Over-the-Counter Market license shall include the following:
 - a) a description of the corporate and organizational structure, together with details of the shareholders of the entity seeking an Over-the-Counter Market license;
 - b) an indicative list of the proposed Board of Directors, together with the CV or resume of each proposed board member;
 - c) a description of the management arrangements for the Over-the-Counter Market, including persons with senior management and compliance responsibilities;
 - d) the Board of Directors and the Senior Personnel, as determined by the Authority, of the Over-the-Counter license holder shall be subject to the "Fit and Proper" requirements set out in the Authority's Directive for Licensing and Supervision of Capital Market Service Providers;
 - e) compliance with the applicable corporate governance notices, guidelines or directives issued by the Authority;
 - f) a comprehensive description of the proposed operations of the market including the nature and type of Financial Instruments and Securities for dealing and the class investors to which they relate;
 - g) the eligibility criteria to become a Registered Person and the due diligence arrangements to assess such eligibility;
 - h) a comprehensive description of the trading facility or platform collectively referred to as Quotation System and the information specified in Article 61 of this Directive;



- i) details of the proposed risk management and clearing and settlement arrangements, including the expected or proposed integration with any Authorized Central Securities Depository or Licensed Securities Depository and Clearing Company;
 - j) A description of the data protection, cyber security and business continuity mechanisms and arrangements that are in place and the applicable supporting evidence to demonstrate adherence to the requirements promulgated by relevant government agencies;
 - k) a documented business continuity and recovery plan;
 - l) details of the proposed monitoring and surveillance arrangements; and
 - m) other requirements that the Authority may prescribe.
- 3/ The Applicant shall identify the Persons who operate, use, and maintain the Quotation System.

58. Minimum Paid-Up Capital Requirement

- 1/ The minimum paid-up capital required for Over-the-Counter Market license shall be Twenty-five million (25,000,000) Birr.
- 2/ The Authority may order adjustment of the minimum capital requirement periodically based on the nature and scale of the operations of the Over-the-Counter market, as well as other relevant risks.
- 3/ Any proposed adjustments to the minimum capital requirement shall be communicated by the Authority to the Over-the-Counter Market license holder, in writing, allowing adequate time for compliance.
- 4/ The amount of capital reflected in the Memorandum of Association, as applicable, and the Commercial Registration Certificate, shall equal or exceed the minimum capital required pursuant to this Article.
- 5/ The Over-the-Counter Market shall maintain capital consisting of cash or Liquid Assets which are sufficient.



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- a) to enable it to carry on its current and proposed operations and activities, including its operational costs and any capital expenditure;
 - b) to cover forward looking period of at least one-year taking into account the risk scenarios assessed; and
 - c) to undertake an orderly wind down or closure of the over-the-counter market, if required.
- 6/ Notwithstanding sub-article (5) of this Article, the cash and Liquid Assets of the Over-the-Counter Market shall make up at least 40% of its total assets.
- 7/ The Over-the-Counter Market 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 it applies for an Over-the-Counter Market license and on an ongoing basis thereafter under its reporting obligations to the Authority.

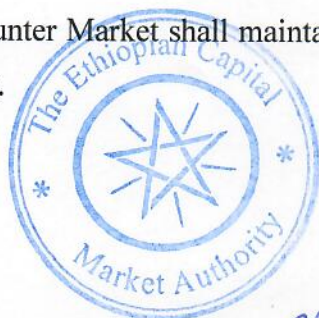
59. Over-The-Counter Market License

An Over-The-Counter Market License obtained pursuant to this Directive shall specify:

- 1/ the type of financial instruments permitted for dealing under such license;
- 2/ the relevant class of investors permitted to trade in the relevant securities; and
- 3/ any limitations or special conditions imposed by the Authority.

60. Registered Persons

- 1/ The use of an Over-the-Counter Market shall be limited to Registered Persons who shall be:
 - a) capital market service providers who are duly license by the Authority; or
 - b) persons or category of persons specifically approved by the Authority to buy, sell or deal in securities in relevant market.
- 2/ The Over-the-Counter Market shall maintain a list of Registered Persons and update such list as appropriate.

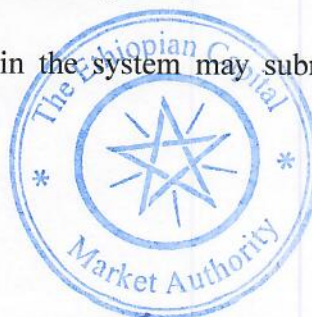


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- 3/ The Registered Persons shall incorporate in their customer agreements and in the proforma agreement between and among themselves, provisions for the settlement of disputes as set out in Article 111 of the Proclamation.
- 4/ Registered Persons shall be subject to the Code of Conduct applicable for Capital Market Service Providers, their Employees and Persons with Significant Influence as set out in the Capital Market Service Providers Licensing and Supervision Directive No. 980/2024.
- 5/ Notwithstanding any provision in this Article, the Authority may exercise its discretion as provided in Article 61 of the Proclamation to require Registered Persons who are capital market service providers to become members of a self-regulatory organization.

61. 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 the Quotation System;
 - b) a description showing how an actual transaction would be executed;
 - c) the procedures for making information about the securities and the issuer of the security being quoted available to participants;
 - d) a description of the connectivity between the Quotation System and the Authorized Central Securities Depository or Licensed Securities Depository and Clearing Company;
 - e) a description of the arrangements for publication of post-trade information and the reporting of trades to the Authorized Central Securities Depository or Licensed Securities Depository or Clearing Company;
 - f) the internal rules and procedures which specify, 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;

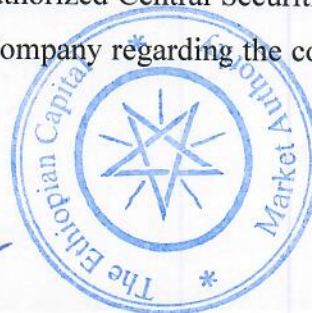


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- iii) how a person accepted to participate in the system may view the quotation of other participants and act as a counterparty to a published quote;
 - iv) the rights and responsibilities of a participant that allow the viewing, submission, execution, and settlement of a published quotation;
 - v) the grounds and procedure for terminating a quotation on a security; and
 - vi) the criteria for providing a quotation and the grounds and procedures that may disqualify a Registered Participant from participating in the Quotation System.
- 2/ The Applicant shall submit the following documents in relation to the Quotation System:
- a) a copy of the pro-forma agreement between and among Registered Persons in the Quotation System;
 - b) a copy of an agreement between the operator of a Quotation System and any third-party service provider; and
 - c) the manual related to the operation of a Quotation System.
- 3/ The Authority shall exercise its authority to access the Quotation System for market monitoring and surveillance purposes.

62. Clearing and Settlement

- 1/ Transactions in an Over-the-Counter Market shall not be executed unless the clearing and settlement arrangements for a transaction have been disclosed to the counterparty and the counterparty has agreed to such arrangements.
- 2/ The clearing and settlement of an Over-the-Counter market transaction shall be through an Authorized Central Securities Depository or a Licensed Securities Depository and Clearing Company.
- 3/ The Over-the-Counter Market may establish a guaranty fund for clearing and settlement of transactions.
- 4/ Notwithstanding the rules established by an Authorized Central Securities Depository or a Licensed Securities Depository and Clearing Company regarding the consequences where



delivery is not in accordance with published timelines, the Over-the-Counter Market shall ensure that clearing and settlement arrangements are prompt, accurate, and, at a minimum, define:

- a) due date as to settlement;
- b) due date as to the delivery of the security; and
- c) due date as to payment of cash.

63. Eligible Securities in an Over-the-Counter Market

- 1/ A Registered Person shall buy, sell, or quote a buy or sell price in the Over-the-Counter Market only those securities that are not traded on a licensed Securities Exchange.
- 2/ Notwithstanding sub-article (1) of this Article, a large block of securities traded on Securities Exchange may be sold, purchased, or transferred in an Over-the-Counter Market.
- 3/ The Over-the-Counter Market shall develop guidelines on large block of securities referenced in sub-article (2) of this Article and such guidelines, and any amendments thereto, shall require the approval of the Authority prior to having force or effect.
- 4/ Without prejudice to sub-article (1) of this directive, Government securities can be traded in an Over-the-Counter Market.

64. Contracts

- 1/ The Over-the-Counter Market shall have internal rules and procedures for buying, selling or dealing in Derivatives or Derivative Contracts or Eligible Contracts including Repurchase Agreements, if relevant. Such internal rules and procedures, and any amendments thereto, shall require the approval of the Authority prior to having force or effect.
- 2/ Any contract purchased or sold in the Over -the-Counter Market shall be structured to enable orderly and accurate pricing and shall have effective settlement procedures.



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65. Information Required Prior to Quotation

- 1/ A Registered Person shall not submit a quotation on security in a Quotation System unless the security is registered with the Authority or exempt from registration by the provisions of the Proclamation or the directives issued by the Authority.
- 2/ A Registered Person shall have in his records the following documents as applicable:
 - a) copy of the prospectus or relevant information memorandum on the subject security, approved by the Authority in accordance with the relevant directive;
 - 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 with the Authority.
- 3/ Sub-article (2) of this Article shall not apply to Government securities.

66. Publication of Transactions

- 1/ All transactions executed in the Quotation System shall:
 - a) be made public no later than the end of the business day that a transaction is executed; and
 - b) be reported to the applicable trade reporting system as established at the time of application for the Over-the-Counter license, and amended with the approval of the Authority thereafter.
- 2/ The relevant details of executed transactions shall include the price, volume, date, and time of execution of the transaction.

67. Disclosure of fees

- 1/ A Registered Person shall not execute a transaction in an Over -the -Counter Market unless the various fees 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.



68. Ongoing Obligations

- 1/ The licensed Over-the-Counter Market shall provide a confirmation of compliance with the provisions of this Directive in an Annual Compliance Report or as determined by the Authority.
- 2/ Notwithstanding sub-article (1) of this Article, the Authority shall require the following information more frequently in the manner and form to be specified by the Authority as part of its supervisory arrangement:
 - a) reports on the transactions and activities on the Over-the-Counter Market;
 - b) information pertaining to any changes, removal, or suspension of Registered Persons including details of the reasons or circumstances on each; and
 - c) suspected prohibited trading practices or violations of the applicable code of conduct.
- 3/ The licensed Over-the-Counter Market shall prepare and submit to the Authority the financial statements and reports set out in Article 56 of this Directive.

69. Revocation or Relinquishment of the Over-the-Counter Market license

- 1/ In line with the applicable provisions of the Proclamation, the Authority may revoke the Over-the-Counter Market License where the Authority determines that the obligations set out in this Directive or obligations arising from the Proclamation, or other related directives are not adhered to.
- 2/ The Over-the-Counter Market License may be relinquished voluntarily by filing an application for the relinquishment with the Authority.
- 3/ An application filed with the Authority pursuant to Sub-Article (2) of this Article shall:
 - a) be submitted at least three (3) months prior to the proposed effective date of relinquishment; and
 - b) include a Board of Directors resolution approving the decision to relinquish the license and a special resolution of the shareholders in a general meeting approving the decision of the Board of Directors to exit the market.



- 4/ Following the effective date of the relinquishment, dealing in securities shall not be permitted on the Over-the-Counter Market which relinquished the license.



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PART FOUR
MISCELLANEOUS PROVISIONS

70. Temporary waiver or reduction of requirements

The Authority may, with prior authorization of the Board of Directors, temporarily waive or reduce any requirements prescribed under this Directive considering the development of capital market, nescient nature of the capital market and readiness.

71. Inapplicable Laws

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

72. Effective Date

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

DONE IN ADDIS ABABA ON THE 16th DAY OF JULY 2024

DR. BROOK TAYE

DIRECTOR GENERAL

ETHIOPIAN CAPITAL MARKET AUTHORITY

