



AMAN &
PARTNERS

LEGAL
UPDATE
ISSUE 11

LICENSING OF CAPITAL
MARKET SERVICE PROVIDERS

FEBRUARY 2024

Licensing of Capital Market Service Providers



Considering the economic reform and market liberalization efforts of the government, the Ethiopian Capital Market Authority (ECMA) was established with the aim of creating an enabling environment for supporting business growth, enhancing public finance, and promoting sustainable financial inclusion.

Against this backdrop, the ECMA issued the Capital Market Service Providers Licensing and Supervision Directive Number 980/2024 (“the Directive”) in January 2024. The Directive covers a range of issues including licensing, corporate governance, code of conduct, reporting, and other obligations of service providers. The table below summarizes the license categories and general requirements under the Directive. It needs to be noted that license-specific requirements are not covered in this brief.

Table: License Categories for Capital Market Service Providers

No.	Capital Market Service Licenses	Business Structure ¹							Minimum Capital Requirements (in ETB)
		SC	PLC ²	GP	LP	LLP	SC	In	
1.	Securities Brokers	✓	✓						6,000,000
2.	Securities Brokers	✓	✓						10,000,000
3.	Securities Digital Sub-Brokers	✓	✓						1,000,000
4.	Investment Banks	✓	✓						100,000,000 (Within a banking group)
		✓	✓						25,000,000 (Not part of a banking group)
5.	Securities Investment Advisers	✓	✓	✓	✓	✓	✓	✓	500,000 (Corporate)
		✓	✓						100,000 (Individual)
6.	Securities Shariah Advisers	✓	✓	✓	✓	✓	✓	✓	500,000 (Corporate)
		✓	✓						100,000 (Individual)
7.	Securities Robo Advisers	✓	✓	✓	✓	✓	✓		500,000 (Corporate)
8.	Collective Investment Scheme Operators	✓	✓						25,000,000
9.	Crowdfunding Intermediaries	✓	✓						500,000 (Corporate)
10.	Securities Market Makers	✓	✓						Will be determined by the Securities Exchange with the approval of the Authority
11.	Securities Custodians	✓	✓						100,000,000
12.	Securities Portfolio Managers	✓	✓						15,000,000
13.	Securities Credit Rating Agencies	✓	✓						15,000,000
14.	Securities Appraisal Firms	✓	✓						15,000,000

¹SC (Share Company); PLC (Private Limited Company), OPC (One Person Private Limited Company), GP (General Partnership), LP (Limited Partnership), LLP (Limited Liability Partnership), Individuals (In)

²While a PLC is not required to have a board under the Commercial Code of Ethiopia, this Directive makes a particular exception in requiring PLCs to be licensed to provide capital market related services to have a board of directors in their corporate governance structure.

Reflections

We expect this Directive to attract the participation of domestic and foreign service providers in the capital market ecosystem. Among the various capital market services available, it appears that the investment banking space could be a low-hanging fruit for licensed Ethiopian banks. In addition, the possibility of major public enterprises such as Ethio-telecom and Ethiopian Airlines Group or other major private companies potentially going public with an initial public offering (IPO) could increase the appetite of major global and regional capital market service providers to invest in the sector.

In order to ensure that the licensing process of service providers is efficiently managed, the ECMA needs to continue its current efforts/engagement with the Ethiopian Stock Exchange, the Ministry of Trade & Regional Integration, the National Bank of Ethiopia, and the Ethiopian Investment Commission. As an outcome of this process, we expect various ways of workings to be established among regulators and legislative amendments to surface, among others, to allow local banks to set up subsidiaries; and to actualize the collective investment schemes among others.



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