

Securities Broker in the Ethiopian Capital Market Framework

1. Introduction

The enactment of the Capital market under Proclamation No.1248/2021 is expected to bring significant changes to the country's financial system. Within this capital market ecosystem, the Securities Broker is a key market participant. Its role is to facilitate transactions by improving market accessibility and protecting investors' trust. This article explains about the definition of a securities broker, licensing requirements, operational activities and regulatory duties based on the Proclamation and the Capital Market

Service Providers Licensing and Supervision Directive.

2. Definition of a Securities Broker

A Securities Broker is a person engaged in the business of buying and selling securities on behalf of its clients for a commission.

"This broker performs the business of buying and selling securities on behalf of clients after obtaining a license from the Authority and becoming a member of a securities exchange."

The term "Securities Broker" is explicitly defined under Article 2(33) of the capital market proclamation. This broker performs the business of buying

and selling securities on behalf of clients after obtaining a license from the Authority and becoming a member of a securities exchange. This positions the securities Broker as an intermediary in transactions, differentiating them from a securities dealer who trades on their own identifiers and accounts. Securities Brokers act as a bridge between investors and the securities exchange. They execute transactions,(sales and purchase of securities) based on instructions or orders given by their clients.

3. Authorized Activities of a Securities Broker

Securities Broker has a significant role in securities trading and performs the following activities:

- ✓ Executes buy/sell orders for clients on licensed securities exchanges.
- ✓ Transmits market information to investors.
- ✓ Serve as an agent in secondary market.
- ✓ Receives, processes, and executes clients' orders efficiently, accurately, and fairly
- ✓ Notifies investors about securities registered and traded on the securities exchange.
- ✓ Issues trade confirmations and maintain records of executed transactions for clients.
- ✓ Ensures compliance with the Ethiopian Capital Market Authority's directives and orders related to Anti-Money

Laundering, Countering the Financing of Terrorism, and know your client (KYC) principles, and establishes its own procedures for implementation.

- ✓ Provides basic guidance to clients regarding market procedures, risks, and trading processes.
- ✓ Facilitates Post-trade clearing and settlement operations to be carried out by licensed settlement, clearing, and depository institutions. They also perform other related activities.

Therefore, the role of a Securities Broker is vital in ensuring efficiency, price

discovery, and investor protection in the securities exchange.

4. Securities Broker Licensing General Requirements

Any person who needs a capital market service provider license, whether an entity or an individual, must submit an application along with accompanying documents and disclosures based on the Capital Market Service Providers Licensing and Supervision Directive No.980/2024. Although the requirements vary based on the type of license requested by the applicant, they share common regulatory and financial disclosure procedures with other capital market service providers.

An applicant for a securities broker license must be organized as a share

company or a private limited company and must fulfill the following general requirements and documents and submit to the Authority. As stipulated in the above mentioned Directive:

- ✓ A valid commercial registration certificate or investment permit issued by the relevant government body, and the memorandum of association,
- ✓ A meeting minute showing that the directors or partners have decided for the organization to operate in the capital market service provide sector.
- ✓ A detailed list identifying the applicant's shareholders and major shareholders.

In addition, the applicant is required to submit a comprehensive business plan

that outlines its long-term strategy and services to be offered. An agreement must also be submitted showing the applicant and its proposed Appointed Representative agree to comply with the capital market service provider's code of ethics and all relevant capital market laws. Furthermore, if the applicant has been operating for 12 months or more, it is required to submit its fiscal year financial statements.

The applicant must also provide proof of net worth, prepared by a certified Accountant, which complies with the minimum capital requirements. In this regard, the required net worth for obtaining a securities Broker license is Birr 6,000,000 (six Million).

Also, the applicant shall provide confirmation of compliance with

technological security, internal control, and risk management standards and procedures. This includes establishing a robust Know Your Customer (KYC) framework, submitting sample client identification forms, and fulfilling any additional supervisory requirements as determined by the Authority.

Related to KYC, securities brokers must inquire about the source of funds of investors for whom they execute purchases or sales, and ensure compliance with the appropriate formalities.

This is to show that the broker has established a due diligence system to prevent the entry of proceeds of crime in to the capital market, prevent the capital market from being used for money

laundering, and ensure that funds are not used to support terrorism.

The applicant must prepare a curriculum and supporting educational materials for educational and professional qualifications. They must be able to provide evidence that they have hired staff with sufficient educational background, work experience, and a relevant capital market training certificate, as per the certification standard set in the Directive.

If the license applicant is a foreign company, it must provide evidence of good standing from the regulatory authority of the country where it is registered. Upon meeting the requirements, the applicant is required to pay the fee set for the sector for which

the license is sought and provide confirmation of payment.

5. Securities Broker Competence Requirements

In accordance with the directive no 980/2024, applicants seeking a securities broker license must appoint a chief compliance officer and other representatives, including qualified and appropriate professionals, in addition to the general requirements listed above. Based on the Directive, applicants wishing to operate as a securities Broker must fulfill not only the general licensing requirements listed under Article 7 (1) Article 7(1) but also fulfill additional conditions prior to the pre-licensing inspection. Specifically, ECMA may require them to provide proof of

approved membership in principle from a recognized securities exchange or an over-the-counter (OTC) market as a trading member. This precondition ensures that the applicant is positioned to actively participate in market operations when the license is granted.

6. Code of Ethics

A securities Broker must adhere to the following code of Ethics for capital market service providers:

- ✓ Maintain accurate client information and detailed records of client transactions,
- ✓ Avoid conflicts of interest,
- ✓ Protect the confidentiality of client information,
- ✓ Provide timely performance report of transactions, and providing up-

to-date reports to the Authority on trading volumes, the number of client they have and compliance status,

- ✓ Disclose any procedural and legal violations or operational risks,

Failure to comply with these and other procedures outlined in the code of ethics may result in administrative penalties, including suspension or revocation of the license,

The Directive also requires securities Brokers to establish the following:

- ✓ Internal complaint handling mechanisms in their dealings with clients.
- ✓ Clear procedures for resolving disputes.

- ✓ Cooperation with the Authority in investigations and enforcement actions.

These conditions are aimed at enhancing investor confidence and maintaining market integrity.

7. Voluntary Exit procedure

When a Securities Broker intends to relinquish its license, it must comply with the additional obligations set out under article 36 of directive No 980/2024, which are designed to protect client interests and ensure market continuity. As part of the exist process, the broker is required to inter into a formal agreement that must clearly specify the terms of the succession. This agreement shall include the transfer of right, obligations, and liabilities that the

successor broker will undertake. The primary purpose of this contract is to ensure that the successor securities Broker serves as a legal and practical bridge to guarantee uninterrupted service to clients.

The broker who relinquishes the license must submit all records of client accounts and assets to the ECMA. These records must detail the mechanisms established for transferring client accounts to the successor broker, which includes full disclosure of the identity and qualification documents of the successor Broker. The broker must notify its clients with a withdrawal notice that they are expected to transfer their accounts and related assets to a targeted successor broker of their choice within fourteen (14) days after the one-month

notification period has elapsed. If a client fails to designate a preferred broker within this timeframe, the existing broker is obliged to appoint a successor securities broker to manage the client's account and assets on their behalf.

To facilitate this transition, the broker must prepare a detailed schedule listing all their clients, securities and portfolios, records, other related assets, and indicating the relevant target or successor broker assigned to each account. This schedule must also include the monetary balance held in each client account.

Before surrendering the license, the broker is required to execute all pending client orders. If unable to do so, a written procedure must be provided detailing how the successor broker will fulfill the obligations assigned to him after the

transition. The broker must then organize the prepared action plan with all supporting documents and transfer it to the designated target or successor securities broker. This transfer must be seamless, ensuring that all client-related records and assets are securely and accurately transferred.

Additionally, the broker is required to inform the central securities depository of its intentions to exit. This notification must be submitted alongside the formal application to the Authority to surrender the license.

Finally, the successor securities broker must exercise utmost diligence on all transferred client accounts. This includes directly verifying the status of each account with the client, ensuring the

accuracy of the transaction and adherence to regulatory standards.