

# Strategic Importance Securities Registration

## 1. Introduction

Securities registration is a fundamental component of the capital market regulatory framework, designed to ensure transparency, investor protection, and market integrity. In Ethiopia, it is a mandatory legal process through which issuers obtain authorization from the Ethiopian Capital Market Authority to offer securities to the public or trade them on licensed markets. The process requires full and accurate disclosure of material information concerning the issuer and the securities, in accordance with the Capital Markets Proclamation No. 1248/2013 and its implementing directives. By facilitating regulatory

oversight, preventing fraudulent practices, and promoting informed investment decisions, securities registration serves as a cornerstone for the development of a credible and well-functioning capital market.

*"The primary purpose of securities registration is investor protection."*

This article attempts to explain the benefits of registering securities with the Ethiopian Capital Market Authority, which is one of the most important legal and regulatory instruments of the capital market, and the benefits it provides to issuers and investors. In addition, we emphasize on caution to be exercised to

control the financial damage that may be caused to the purchasers of securities by issuers who sell equity securities and other bonds and similar instruments to the public without meeting the registration requirements and without having their prospectus approved by the Authority.

## 2. Purpose and Regulatory Basis of Securities Registration

The requirements for securities registration are based on Articles 75–78 of the capital markets Proclamation No. 1248/2013 and are further explained in the securities offering and trading Directive No. 1030/2017. The main objectives of registration include the following:

- The primary purpose of securities registration is investor protection. Investors must have full, accurate and up-to-date information on the issuer and its securities to make informed decisions.
- To ensure market integrity and to prevent fraudulent and deceptive practices in securities trading and to promote fair access to capital.
- And to facilitate regulatory oversight, allowing ECMA to monitor issuers, enforce compliance obligations, and maintain market discipline.

### **3. Key Features of the Securities Registration Process**

**Prospectus Review:** Issuers must prepare and file a prospectus which is prepared by an investment bank or investment advisor licensed by the Authority, detailing their financial, risk and risk management, as well as use of proceeds. Issuers must not only file a prospectus with the Authority, but also disclose any material changes to the entity, and future ongoing obligations, such as periodic financial reporting. Although the Proclamation imposes the obligation to register securities on the issuer, certain securities such as government bonds or private placements, and others, may be exempted from registration in accordance with the Directives issued by the Authority. Benefit of registering the issuer's securities with the Authority is that it

serves as a prerequisite for the entity's future listing on the securities exchanges. Only registered securities may be listed or traded on a licensed securities exchange or offered to the public.

### **4. The Role of the Ethiopian Capital Market Authority (ECMA)**

The capital market, its participants and transactions are regulated by an authority established by the government. The International Organization of Securities Commissions (IOSCO) is known for periodically issuing various international principles and standards regarding the regulatory objectives of capital market operations. The objectives of this organization for the regulatory system of

securities are three, which are to provide protection to investors, to make the trading process fair, efficient and transparent; and to reduce systematic risks. Therefore, countries with organized capital markets have established capital market regulatory institutions within their jurisdictions to achieve these regulatory objectives set by the international organization. Since a nationally organized capital market has been established in our country, it is necessary to organize a regulatory authority to license and supervise the market and its participants in order to achieve the above-mentioned objectives, and therefore, the ECMA has been established by proclamation.

The powers and functions of ECMA are listed under Article 6 of the

proclamation, and the authority is empowered to give licenses to securities exchange and to capital market service providers, to revoke licenses, suspend licenses; to register securities and to supervise the listing and delisting of securities in the securities exchange; to monitor and control the exchange and trading system; to ensure that services provided by market participants are technologically integrated and other functions including issuing of any directive that may be useful for the implementation of the proclamation,

### **5. Registering Shares for Sale to the Public**

One of the objectives of the ECMA is to prevent systematic risks that may arise in the market. It is worth noting that in the

past several years, due to the lack of a centralized securities exchange governed by law and institutions in our country, citizens have been robbed their money by individuals who claim to establish share company. Therefore, anyone who wants to buy shares should ensure that the company's shares are registered in the authority. As we have seen above, the company is going to be registered through the approval of prospectus. The prospectus shall be prepared by a body authorized by the Authority in accordance with the capital markets proclamation and the Directive of public offering and trading of securities shall contain comprehensive information about the issuing company, including investment policy, asset valuation, audit report, profit, debt, size of major

contracts, analysis of risks in the sector being invested, risk management plan and other basic details. And the public share company or the issuer shall submit this for approval and registration to the Authority. This prospectus shall include the minimum requirements set out under Article 447 of the Commercial Code and other detailed information of the share company mentioned above.

Any person wishing to purchase shares from a public share company must first have sufficient information and knowledge about the company in which he is purchasing shares. The prospectus of the share company is made public when it is registered with the authority, so that buyers can easily access this statement and use the information. According to the above-mentioned

Proclamation and Directives, share companies that issue securities that have been sold to the public and are in the process of being sold must be registered securities with ECMA by November 2025.

Following this, public share companies having more than fifty shareholders and a capital of 100 Million and above are passing through the registration process.

The registration of securities can prevent losses that may occur to people who buy shares without knowing the issuer's information. The registration is expected to protect the securities exchange and market participants from damage by creating transparency. Registration is a fundamental tool for regulation worldwide. Therefore, the public should be careful not to be harmed by

purchasing shares from companies that sell shares to the public without meeting the registration requirements and registering with ECMA. The Directive clearly states that it is prohibited for share companies to advertise the sale of shares in any media without registering with the authority. Therefore, security buyers should exercise due care by checking the prospectus prepared by the issuing company.

## **6. Securities Registration and Protection Offered to Owners**

Issuers offering their shares for public are required to provide the Authority information and documents as the Authority deems necessary for the examination and approval of the

prospectus. This helps those who wish to purchase shares to know the true value of the shares. The securities registration is a system that creates transparency and builds confidence in the market. Another benefit of securities registration is believed to be the establishment of a regulatory and support framework and the establishment of a sound trading system.

Therefore, whether existing or newly issued securities, issuers must register them with ECMA and securities exchange before any transaction, ensuring correct valuation and preventing market manipulation.

So, it is mandatory to register existing and new securities offered for public sale, except in the exceptional circumstances specified in Article 75(4)

(a-e) of the Proclamation. The exception for registration requirement which is specified in the proclamation include securities offered for sale by the government of Ethiopia, securities sold by court order or decree, securities of companies declared bankrupt, securities offered for private placement, and securities exempted from registration in accordance with the Directive to be issued by the Authority from time to time.

### **7. Registration of Securities of Public Companies and its Consequences**

As stipulated in the directive, a public company is a public share company that has issued or sold its shares to more than fifty people, and sells its securities on a

securities exchange or an over-the-counter market. It indicates that a public company that issues securities for public sale is prohibited from trading its shares outside of these two exchanges, and it can be understood that it has no option but to register its securities. In this context, the issuer, whether before or after registration, trading its securities outside the securities exchange or the over-the-counter market is a criminal offense.

Article 106(5) of the Proclamation, which states that any person who issues securities that are not registered, guaranteed by the government or exempted from the registration requirements by a directive issued pursuant to this Proclamation shall be punished with a fine of not less than Birr

150,000 and not more than Birr 300,000, and with rigorous imprisonment of not less than 7 years and not more than 15 years.

On the other hand, Article 106(3) of the Proclamation stipulates that anyone who transact outside of licensed trading systems is prohibited and will result in criminal liability. Any person who knowingly trades in an unlicensed securities exchange or over the counter market shall be punished with a fine of not less than Birr 100,000 and not more than Birr 150,000, and with rigorous imprisonment of not less than 5 years and not more than 12 years. According to Article 2(18) of the Proclamation, trading in securities means buying or selling, issuing or offering for sale, depositing and holding, clearing and

making payments, lending or borrowing for the benefit of oneself or another, or any other activity that the Authority determines to be a transaction in securities. The Directive states that, except for those specified in the Proclamation and the Directive as exempt from registration, any trading in securities offered to the market by issuers or newly issued securities is prohibited.

In this regard, the registration process will be conducted by investment banks or investment advisors licensed by the Authority. In addition, auditors, lawyers, asset valuers, and credit rating agencies as the case may be, will also participate in the process. In this process, including false information in the prospectus, such as an audit report results criminal

liability. As stated in Article 100 of the Proclamation, any person who, directly or indirectly, induces another person to promise to buy or sell securities or any other registered securities; or who makes a false or misleading statement with the intent to maintain, increase, decrease, or stabilize the value of securities shall be punished with a fine of not less than Birr 200,000 and not more than Birr 350,000, and with rigorous imprisonment of not less than 7 years and not more than 15 years.

Article 64 and subsequent provision of the proclamation provides that any administrative decisions of ECMA in the process of registering issuers may be appealed to Ethiopian Capital Market Administrative Tribunal, and the Tribunal may examine the matter and

render decision in accordance with the law.

In addition to ensuring transparency, the registration of issuers' documents by the Authority also helps companies to raise money from the public by disclosing their true nature to the public and selling shares or bonds through the capital market, and it also helps buyers to buy shares of the company they want with complete information about it. So that their money is not wasted and they do not suffer losses. The fact that issuers disclose detailed and true information about their companies to the public and are registered with the Authority is considered to play an important role in providing them with greater credibility and preference among the public, allowing them to regularly check

themselves, and thus playing a significant role in risk management and preventing them from going bankrupt. In addition, registration creates credibility for the market and contributes to the development of a properly functioning capital market in our country, allowing the sector to play a significant role in economic growth.

Therefore, it is a legal obligation for the organization issuing securities for public sale to prepare an appropriate prospectus approve it with the authority first. We would like to point out that caution should be exercised against stock sellers and securities transactions that are various fraudulent.