MONTHLY LEGAL UPDATE

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*This month's update commemorates **World statistics day**, observed on October 20th, highlighting the importance of reliable data and statistics in promoting informed decision-making, sustainable development, and inclusive economic growth.*

Top Update

ECMA Released Market Supervision Guideline

ECMA has issued a Market Supervision Guideline to enhance transparency, governance, and investor protection through a hybrid compliance- and risk-based approach

What's Covered this Month?

Welcome to the October 2025 edition of the TSA Legal Update! This newsletter brings you key legal developments to help you stay informed and navigate the evolving legal landscape.

In this issue, we cover:

1. ECMA Released Market Supervision Guideline

The Ethiopian Capital Market Authority (ECMA) has issued its comprehensive Supervision Guidelines for Capital Market Service Providers (CMSPs), Exchanges, OTC Markets, Market Infrastructures, and Self-Regulatory Organizations (SROs). This Guideline marks a pivotal moment, institutionalizing a hybrid supervisory model that moves decisively from a purely compliance-based approach toward the internationally recognized Risk-Based Supervision (RBS) framework. This fundamental shift aims to proactively manage systemic risk, enhance investor protection, and ensure the stability and integrity of the Ethiopian capital market.

The document serves as the authoritative guide for all regulated entities, detailing the ECMA's inspection practices, mandatory corporate governance expectations, required risk management frameworks, and the formal procedures for enforcement and appeal.

The Hybrid Supervisory Model

The ECMA's new framework integrates two essential components:

1. **Compliance-Based Supervision (CBS)**: This layer ensures consistent, universal adherence to the prescriptive, black-letter requirements of the Capital Market Proclamation and all associated ECMA Directives. It establishes the baseline minimum standard of conduct for all market participants.
2. **Risk-Based Supervision (RBS)**: This strategic component allows the ECMA to allocate supervisory resources effectively, concentrating intensive scrutiny on high-impact or high-risk entities. RBS mandates that regulated entities conduct thorough self-assessments of their risk exposures, including advanced sensitivity analysis and mandatory stress testing to model capital and liquidity resilience under severe market shocks. The goal is the anticipation, early detection, and management of prudential and market conduct failures.

The Supervisory Framework: Off-site Monitoring and On-site Inspections

Supervision is executed through continuous off-site monitoring and physical inspections:

1. **Off-site Supervision**: This is the remote, continuous surveillance function, involving the proactive analysis of regulatory filings, periodic financial statements, and real-time market surveillance data. It serves as a continuous early warning system for anomalies and emerging systemic risks.
2. **On-site Inspections**: These physical visits verify that internal controls and processes are effective in practice. Inspections may be conducted with or without prior notice, and regulated entities must grant ECMA inspectors unfettered access to all necessary books and records (physical and electronic).

The Guideline formalizes three inspection categories:

1. **Routine Inspections**: Scheduled annual checks for Exchanges, OTCs, and SDCCs, and planned inspections for CMSPs, focusing on general compliance and governance.
2. **Spot Inspections**: Unscheduled, rapid responses triggered by specific allegations of infraction, such as investor complaints or whistle blower reports.
3. **Target Inspections**: Ad-hoc, strategic assessments focused on specific areas of concern identified by the ECMA, such as cybersecurity risk, or compliance with new product regulations.

Detailed Inspection Focus and New Compliance Mandates

ECMA inspections are anchored by a three-dimensional assessment framework, designed to provide a holistic view of the entity's health and integrity.

Three Critical Inspection Focus Areas

- **Financial Condition & Prudential Requirements**: This assesses the entity's safety and soundness. Key metrics include capital adequacy (ensuring sufficient buffers against losses), asset quality (verifying adequate provisions for potential losses), and liquidity levels. The objective is to confirm the effectiveness of the internal financial and risk management controls.
- **Governance Requirements**: The focus is on the structure and performance of the Board of Directors and its Committees. Inspections verify that Directors and Senior Management are demonstrably fulfilling their fiduciary and oversight responsibilities, implementing adequate internal control processes, and acting in the best interest of stakeholders.
- **Conduct of Business Requirements**: This monitors the entity's ethical and operational integrity in its daily dealings. It demands meticulous compliance with mandatory procedures for robust Know Your Customer (KYC), complete and secure record keeping, mandatory segregation of functions (to prevent internal conflicts of interest), effective handling of client complaints, and regular fit and proper assessments for all key personnel.

Compliance and Reporting Obligations

Regulated entities face continuous and detailed reporting obligations to ensure the ECMA has up-to-date market intelligence. Reports must include granular details across various operational and compliance areas:

1. **Financial and Operational Reports**: Detailed summaries of trading volumes, client activity, and any significant operational changes or technology upgrades.
2. **Compliance and Risk Reports**: Formal findings from internal audits, comprehensive documentation of key risks identified (credit, market, liquidity, and operational risks), and specific mitigation steps taken. This includes formal reviews of outsourcing arrangements (e.g., IT systems, back-office functions) and the specific oversight mechanisms in place.
3. **Market Conduct and Ethics**: Detailed logs of client complaints received, their resolution status, and specific anti-fraud and anti-insider trading measures implemented.
4. **AML/CFT Compliance**: A dedicated section detailing the efficacy of KYC processes, the application of enhanced due diligence procedures, and a full log of Suspicious Transaction Reports (STRs) filed.

Mandatory Prior Approvals

To maintain continuous regulatory oversight of corporate control, the ECMA requires mandatory prior written approval before any regulated entity undertakes the following critical corporate actions:

1. Any substantive change to its shareholding or partnership structure that affects control or ownership.
2. The appointment, reappointment, dismissal, or replacement of any Director, Senior Management personnel, or the Chief Compliance Officer.
3. Any material changes to its business name, registered office location, or the opening of any new branch or representative office.

Enhanced Regulation for Market Infrastructures and Enforcement

Due to their systemic importance, Securities Exchanges, Derivatives Exchanges, and OTC Markets are subjected to highly prescriptive new governance and operational standards.

Independent Regulatory Oversight Committee

Exchanges and OTC markets must establish a high-level Independent Oversight of Regulatory and Supervisory Obligations Committee. This is the key mechanism to ensure that the exchange's commercial interests do not compromise its regulatory function.

- **Composition Mandate**: The majority of the Committee's members must be independent, explicitly excluding current or recent executives, significant market participants (brokers, dealers), and individuals with any material conflicts of interest. Members are also barred from being designated as Politically Exposed Persons (PEPs).
- **Oversight Duties**: The Committee is responsible for Approving all Regulatory Rules and Policies (including trading, listing, and disciplinary rules).

It must supervise the exchange's Market Regulation division, manage the Oversight of Listings, and Approve the Budget allocated for regulatory functions, including mandatory investments in RegTech (Regulatory Technology) and SupTech (Supervisory Technology).

Operational Requirements for Trading Venues

- **Market Maker (MM) Requirements**: Exchanges must establish and enforce minimum capital and liquidity requirements for all Market Makers to ensure continuous liquidity provision. All MM agreements must be submitted to the ECMA within two (2) business days.
- **Trade Data Transparency**: Trading venues must ensure immediate publication of bid, ask, and execution prices in real-time. A maximum latency of thirty (30) minutes is allowed only for OTC markets. Order books and post-trade data must be made accessible to the ECMA (free, on-demand) and market participants within twenty-four (24) hours.
- **Audit Trails and Halt Protocols**: Mandatory electronic audit trails for all trade-related instructions must be securely maintained. All events leading to significant transaction cancellations or modifications must be reported to the ECMA within twenty-four (24) hours, and trading halt protocols must be reviewed at least semi-annually.

Administrative Measures and Formal Appeal Process

Failure to comply may result in sanctions including fines, temporary business restrictions (suspensions), or revocation of a license. The Guideline establishes a clear, multi-stage Appeal and Reconsideration Process for suspended or revoked licenses:

1. **Initial Submission**: The entity must submit a formal appeal within a strict period of thirty (30) calendar days of receiving the notice.
2. **Internal Review and Hearing**: The ECMA reviews the appeal and may invite the entity to a hearing.
3. **ECMA Decision**: A formal, written decision is rendered within fifteen (15) business days following the review.
4. **Escalation**: The entity retains the right to escalate its petition to the independent Capital Market Administrative Tribunal for a judicial review of the ECMA's decision.

Directives for SDCCs and SROs

Securities Depositories and Clearing Companies (SDCCs)

As critical post-trade infrastructures, SDCCs face stringent requirements focused on systemic integrity:

- **Technology and Automation**: SDCCs must adopt up-to-date technology and ensure their core systems are fully automated to minimize manual risks and facilitate efficient operations.
- **Records and Reconciliation**: SDCCs must maintain immaculate, up-to-date records and establish documented, auditable processes for the daily reconciliation of records with market participants to guarantee data integrity.
- **Risk Reporting**: They must maintain a weekly internal financial risk assessment and submit formal Business Continuity Test Reports to the ECMA annually to demonstrate resilience.

Self-Regulatory Organizations (SROs)

SROs are required to establish comprehensive governance and operational frameworks, formalizing their delegated oversight function:

- **Membership Governance**: Detailed procedures are required for setting eligibility criteria, vetting new applications, managing member suspension and termination, and maintaining an accurate member list.
- **AML/CFT Policy**: Mandatory documented policies covering KYC, enhanced due diligence, transaction monitoring, and protocols for accurate filing of Suspicious Transaction Reports (STRs).
- **Mandatory Client Compensation Fund**: A non-negotiable requirement is the establishment of a Client Compensation Fund. SROs must submit a detailed proposal for ECMA approval, outlining the fund's specific objectives, maximum coverage limits per client, a thorough sustainability and risk management analysis, and a formal projected financial model. This step is crucial for establishing a reliable safety net for investors against member failure.

2. Ministry of Revenue Issues Strategy for Transitioning ToT Payers to the VAT Regime

The FDRE Ministry of Revenue (MoR) has issued a strategy to guide taxpayers transitioning from the repealed Turnover Tax (ToT) regime to the Value Added Tax (VAT) system. Following the repeal of Proclamation No. 308/2002 by Amendment Proclamation No. 1395/2025, the strategy introduces a structured VAT registration process under Proclamation No. 1341/2023 and Directive No. 1104/2025, ensuring clarity and consistency across all branch offices.

Classification and Transition Measures

The strategy classifies former ToT taxpayers into two categories: Chapter One and Chapter Two, largely based on their tax compliance history.

A. **Chapter One Taxpayers**: These are ToT payers registered before July 2025 who, in addition to fulfilling the requirements of Article 15 of the VAT Proclamation and Article 2 of the VAT Directive, have:

- Regularly discharged ToT obligations in prior years;
- Settled or agreed to settle liabilities identified through the Tax Liability Tracker or Standard Integrated Government Tax Administration System (SIGTAS);
- Switched cash register machines to the 15% VAT rate;
- Declared unused manual ToT receipts with QR Codes;
- Held undistributed receipts at tax offices or Berhanena Selam Printing;
- Updated business location, contact, and banking details; and
- Continued to supply taxable goods or services, even if below the VAT threshold.

Such taxpayers are to be registered for VAT within 30 days in line with Article 3 of the VAT Regulation.

B. **Chapter Two Taxpayers**: This category includes ToT payers with irregular or non-compliant records, including those who:

- Failed to declare for six consecutive months during the 2017 E.C. financial year or earlier, identified for permanent closure;
- Filed nil ToT returns for two years since 2016 E.C.;
- Have unpaid tax liabilities or failed settlement commitments;
- Did not renew cash registers or request manual ToT receipts;
- Cannot be reached through their registered address or bank contact; or
- Cannot demonstrate ongoing taxable operations as required under VAT laws.

These taxpayers are to be registered for VAT within six months of the strategy's entry into force after compliance verification.

Additional Transitional Measures

The strategy also provides that taxpayers who meet the ETB 2 million VAT registration threshold under Article 12(2) but fail to apply for registration may be registered by the tax authority within seven days, per Article 14(2)(6) and of the VAT Proclamation.

On the other hand, category B taxpayers under Article 50 of the Income Tax Proclamation who do not wish to maintain books of account are allowed to seek to cancel their registration, and the concerned tax office must remove them from registration.

Overall, the Ministry's strategy offers a structured mechanism to manage the transition from ToT to VAT, emphasizing consistency across branch offices and reliance on verified taxpayer data. By distinguishing between compliant and non-compliant taxpayers, the document ensures that the transition proceeds in a controlled and legally grounded manner, marking a key step in Ethiopia's broader tax reform and modernization efforts.

3. National Bank of Ethiopia's Notice Regarding the Use of Personal or Third-Party Bank Accounts

The National Bank of Ethiopia, on October 24, 2025, issued a public notice prohibiting the use of personal and third-party bank accounts for conducting business transactions.

The notice follows an assessment conducted by the NBE that revealed that a significant number of business organizations and individual traders were using personal or third-party accounts in place of their officially registered business accounts. According to the Bank, this widespread practice undermines financial oversight, facilitates tax evasion, and increases the risk of illicit financial activities. Consequently, the NBE directed all banks to identify, collect, and report information on customers engaging in such practices.

Rationale and Objective of the Notice

The NBE's notice addresses widespread use of personal and third-party accounts for business transactions, a practice that undermines financial oversight and facilitates tax evasion. By channeling commercial payments through unregistered accounts, businesses conceal income, compromise transparency, and create avenues for illicit activities, including potential links to fraud or terrorism financing.

The notice therefore seeks to ensure that all commercial transactions are conducted exclusively through registered business accounts, enhancing traceability, accountability, and compliance with tax laws. It also reinforces sound banking practices, strengthens the credibility of Ethiopia's financial system, and empowers banks to identify and report misuse of personal or third-party accounts. In essence, the measure combines public interest, revenue protection, crime prevention, and banking integrity into a single regulatory oversight.

Legal and Practical Implications

- **Implications for Individual Rights**: While the notice does not restrict citizens from owning or operating personal bank accounts, it prohibits their use for business or commercial purposes. The restriction targets the manner of use not the right of ownership and is justified on grounds of public interest, transparency, and prevention of crime.
- **Implications for Businesses and Traders**: All business entities and individual traders are now obliged to conduct commercial transactions exclusively through their registered business accounts. Failure to comply may result in administrative sanctions, tax audits, account suspension, or potential criminal liability if linked to fraudulent activity.
- **Implications for Banks and Financial Institutions**: Commercial banks are required to identify … customers misusing personal or third-party accounts for commercial activity and report relevant information of suspected individual traders and business organizations to the NBE. This increases compliance obligations on banks and may necessitate enhancements in internal monitoring systems.

Practicability and Enforcement Challenges

Effective enforcement may encounter several challenges:

- **Mixed-use accounts**: Small traders often use the same account for personal and business purposes, making strict categorization difficult.
- **Informal economy**: A large segment of Ethiopia's economic activity remains unregistered or cash-based, limiting the directive's reach.
- **Operational capacity**: Banks may face administrative and technological burdens in monitoring every potentially commercial transaction.

4. Ministry of Finance Letter on the Importation of Public Passenger and Cargo Vehicles Promoting the Use of Domestic Natural Gas

The Ministry of Finance (MoF) has issued a letter to the Customs Commission prohibiting the importation of public passenger vehicles and cargo transport vehicles, except those authorised by the Ministry of Transport and Logistics or other competent government bodies. The letter further stipulates that eligible vehicles must be imported within six months from the date of issuance.

In its letter, issued on 10th October 2025, the MoF underscored that Ethiopia possesses substantial potential for the production of natural gas, a resource that had remained largely untapped for centuries. The government has recently achieved a breakthrough in natural gas production at the Calub Gas Development Project and now seeks to introduce this domestically produced fuel into the local market. The overarching policy goal is to gradually replace vehicles powered by gasoline and naphtha with those operating on natural gas.

Accordingly, the MoF instructed that vehicles, including heavy-duty trucks for both dry and liquid cargo, as well as public transport buses, designed to use this cleaner domestic energy source, will be eligible for duty-free importation. The Ministry explained that the measure serves multiple objectives:

- Environmental protection, as natural gas emits significantly lower pollutants than gasoline and naphtha;
- Energy efficiency and diversification, given their broader applicability and superior fuel economy; and
- Foreign exchange conservation, as domestic fuel production reduces the need for imported fossil fuels and strengthens national energy security.

5. MoF Letter Authorizing Duty-Free Importation of Motorboats for Tourism Development

The Ministry of Finance (MoF), through a letter dated September 16 2025, to the Customs Commission, authorised the duty-free importation of motorboats intended for tourism and related water-based service activities for a one-year period from the date of issuance.

The MoF justified the measure by underscoring Ethiopia's rich natural and cultural endowment, including wildlife, birdlife, and historical attractions, and the government's ongoing strategy to make these resources major contributors to the national economy. Recent initiatives focus on developing and promoting lakes and other inland water bodies as tourism destinations capable of attracting both domestic and international visitors.

The Ministry emphasised that advancing the tourism industry's capacity, particularly through services linked with lakes, such as water transport, fishing, recreational boating, and hospitality, would substantially enhance Ethiopia's global tourism competitiveness and foreign-exchange earnings.

Accordingly, pursuant to the powers conferred upon the MoF under Council of Ministers Custom Tariff Regulation No. 153/2008 (amendment) and Council of Ministers Regulation on Social Welfare Levy on Imported Goods No. 519/2021, the Ministry approved the duty-free importation of various categories of motorboats listed under tariff headings 8901.1000, 8903.9200, 8903.9900, 8906.9000, and 9506.2100. The exemption applies exclusively to operators engaged in commercial tourism and water-based service activities, and remains valid for one year from the letter's issuance date.

The letter further instructs the Customs Commission to compile and submit monthly implementation reports to the Ministry of Finance and the Office of the Prime Minister, including details on importers, quantities of imported boats, and their respective operational areas.

6. Ethiopia’s Draft Investment Incentive Regulation: A Shift Toward Performance-Linked and Accountable Incentives

Introduction: Policy Rationale and Strategic Context

The Ministry of Finance of Ethiopia has released a draft regulation proposing a comprehensive revision of the country’s investment incentive framework. The reform aims to replace the Investment Incentive Regulation No. 517/2022 (as amended) with a more transparent, targeted, and performance-based system that balances investment promotion with sustainable revenue generation.

The regulation emerges in the context of fiscal reforms recommended by the IMF’s recent Report on Tax Expenditures in Sub-Saharan Africa, which highlighted that Ethiopia’s broad, non-targeted incentive schemes contributed to a tax-collection gap exceeding five percentage points of GDP. The report emphasized the need for time-bound, conditional, and performance-linked incentives, coupled with robust monitoring and reporting mechanisms. Accordingly, this draft regulation envisions aligning incentives with national priorities, including industrialization, technology transfer, job creation, export growth, and environmental sustainability.

Objectives, Principles, and Incentive Architecture

The draft regulation aims to establish a purpose-driven and accountable framework for granting investment incentives. It attempts to explicitly define the purposes of investment incentives, establishing a legally articulated rationale absent in prior frameworks. Incentives are now granted with a view to:

a)Promote manufacturing, export, and technology transfer;
b)Promoting job creation;
c)Encourage climate change mitigation and renewable energy adoption;
d)Ensuring the efficient and sustainable use of natural resources; and
e)Foster balanced regional development.

These objectives are underpinned by binding principles: incentives must be legally authorized, transparent, time-limited, fiscally sustainable, and subject to performance assessment. Continuation of incentives is contingent upon demonstrable progress toward the intended economic or environmental impact.

Incentive Categories and Eligible Beneficiaries

The regulation differentiates between SEZ developers, industrial investors, startups, climate-focused investors, and exporters, linking each incentive to its intended beneficiary and sector.

- **SEZ Developers and Sub-Developers**: Developers investing over USD 75 million within Addis Ababa or Sheger City benefit from a 5% income tax for ten years, while those outside these cities enjoy the same rate for fifteen years. Both categories are exempt from Alternative Minimum Tax (AMT) for ten years, and shareholders are exempt from dividend tax for five years. These benefits are conditioned upon adherence to proper accounting, demonstrable capital deployment, and compliance with regulatory approvals.

- **Industrial Investors in Designated Sectors**: Investors in SEZs and outside SEZs in priority sectors, including textiles, garments, leather and leather products, wood products, paper and paper products, chemical and chemical products, basic pharmaceuticals, plastics, non-ferrous metals, iron and steel for structural purposes, electronics, electric appliances, transport equipment, machinery, IT, and agro-processing receive reduced income tax rates ranging from 10% to 15% depending on location and sector. Incentives are tied to verified registration, proper accounting, and use exclusively for eligible expenditures.

- **Startups and Startup Ecosystem Builders**: Startups enjoy a 5% income tax rate for ten years and dividend-tax exemption for five years. Investors supporting the startup ecosystem receive no tax on share appreciation, no dividend tax for five years, and AMT exemption for three years, reflecting the government's policy to stimulate innovation and entrepreneurship.
- **Climate Change and Renewable Energy Investors**: Participants in the carbon market are entitled to 15% income tax for ten years, while renewable energy investors certified by the Ministry of Water and Energy receive 15% income tax for five years. These incentives explicitly reward sustainable investment practices and link economic benefits to measurable environmental impact.
- **Exporters**: Export-oriented businesses enjoy preferential tax treatment: 10% income tax for exporters outside SEZs and 5% for those within SEZs, incentivizing foreign exchange generation and global competitiveness.

Investment Capital Allowance: Investors committing over USD 1 million qualify for a one-time capital allowance, applied only to eligible capital expenditures. The allowance is granted under strict conditions:

- Assets must be owned by the investor or rented under their control;
- Proper accounting records must be maintained;
- Deduction applies only to capital expenditure and not to operating costs;
- Benefits accrue from the commencement of revenue generation, not merely the placement of assets.

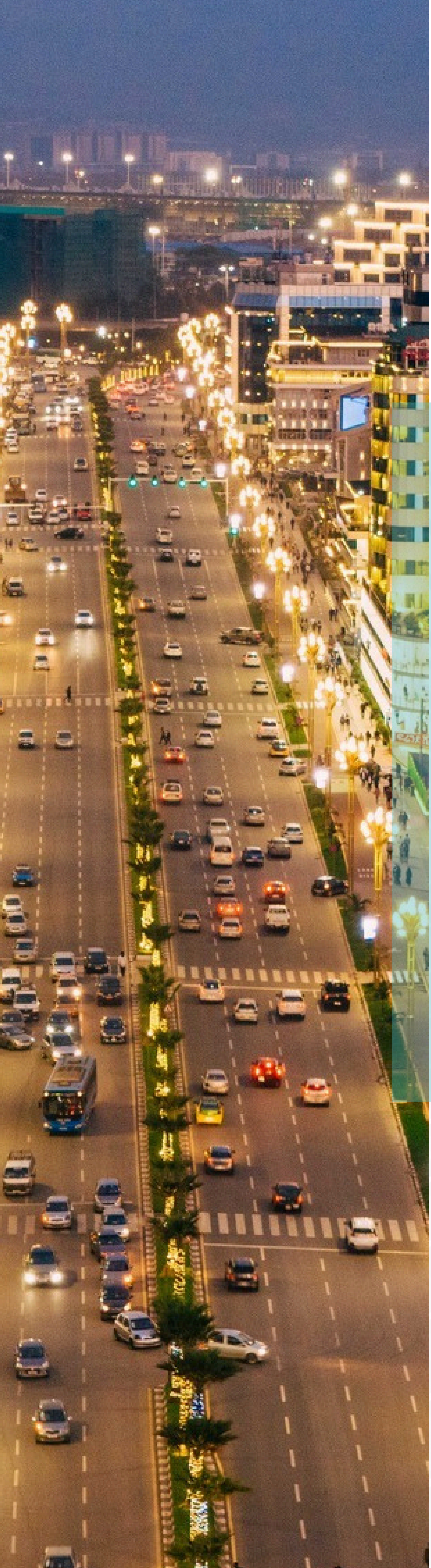
Customs Duty Incentives: SEZ developers, sub-developers, and industrial investors in designated sectors enjoy duty-free imports of capital goods and inputs, subject to submission of an approved list and permission from the competent authority. Incentives remain valid until business licenses are secured in accordance with the investment plan.

Conditionality and Compliance

The draft regulation emphasizes that incentives are conditional, accountable, and time-bound. Investors must:

- Undertake new projects creating additional economic value;
- Be registered taxpayers with separate accounting for each eligible project;
- Implement internal controls to ensure incentives are used only for approved purposes;
- Avoid misuse or transfer of benefits outside permitted scope;
- Not claim duplicative benefits under multiple incentive provisions.

These conditions aim to ensure that incentives are performance-based rather than automatic entitlements.



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