TSA | TSEGAMLAK SOLOMON & ASSOCIATES

MONTHLY LEGAL UPDATE

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Foreign Portfolio Investment (Draft)

Ethiopian Legal Intelligence

Keeping you informed. Keeping you ahead.

WHAT'S COVERED THIS MONTH

1	**Collective Investment Schemes Operation Directive No. 1150/2026** Capital Market Authority framework for the registration, governance, offering and supervision of collective investment schemes
2	**Addis Ababa Revenues Bureau Procedure for the 2018 Tax Year** One-time assessment procedure for taxpayers who did not keep books of account in the 2018 Ethiopian fiscal year
3	**Draft Crowdfunding Directive** Capital Market Authority draft on investment crowdfunding by small and medium-sized share companies, published for consultation on 25 September 2026
4	**Draft Foreign Portfolio Investment Regulation** Draft rules on foreign portfolio investment in Ethiopian securities, published by the Capital Market Authority on 29 September 2026

EXECUTIVE SUMMARY: IF YOU READ NOTHING ELSE, READ THIS

ACTION NOW	Taxpayers in Addis Ababa who kept no books for the 2018 fiscal year should check their position under the Revenues Bureau's one-time procedure and put bookkeeping in place for the 2019 fiscal year. Sponsors and operators planning a collective investment scheme should settle the fund category, board composition, fee terms and custody arrangement before applying for registration under Directive No. 1150/2026, since material changes later require investor approval.
MONITOR	The final texts of the Crowdfunding Directive and the Foreign Portfolio Investment Regulation. Written comments on the crowdfunding draft closed on 14 October 2026, and consultation on both drafts followed in October 2026 (see our October 2026 update). The directive on deductible expenses for professionals without books of account, anticipated under Proclamation No. 1395/2025 and not yet issued.
OPPORTUNITY	Directive No. 1150/2026 gives sponsors, operators, custodians and advisers a registrable framework for money market funds, mutual funds, exchange traded funds, real estate investment funds and alternative investment funds. If adopted, the crowdfunding draft would give small and medium-sized share companies a supervised route to raise up to ETB 50 million in twelve months, and the foreign portfolio investment draft would create the first dedicated route for foreign investors into Ethiopian securities.
NOTE	The instruments are at different stages. Directive No. 1150/2026 is in force. The Revenues Bureau procedure applies only in Addis Ababa and only to the 2018 fiscal year. The two capital market instruments are drafts: they have no legal effect, and their content may change before adoption.

COMPLIANCE DEADLINE CALENDAR

23 September 2026	Collective Investment Schemes Operation Directive No. 1150/2026 registered by the Ministry of Justice; it takes effect on registration and publication.
25 September 2026	ECMA publishes the Draft Crowdfunding Directive for consultation.
29 September 2026	ECMA publishes the Draft Foreign Portfolio Investment Regulation.
14 October 2026	Closing date for written comments on the Draft Crowdfunding Directive; ECMA's consultation session follows on 15 October 2026.
26 October 2026	Public consultation on the Draft Foreign Portfolio Investment Regulation.
Within 30 business days	ECMA decides on an application to register a collective investment scheme. Registration is renewed annually.
Within five business days	Collective investment schemes pay redemption proceeds (Directive No. 1150/2026).
Within 90 days of year end	Collective investment schemes file annual reports; semi-annual reports are due within 45 days.
2019 fiscal year	Category A and B taxpayers remain required to keep books of account; the Addis Ababa Revenues Bureau's one-time procedure covers the 2018 fiscal year only.

1 Collective Investment Schemes Operation Directive No. 1150/2026

Ethiopian Capital Market Authority (ECMA) | Registered by the Ministry of Justice on 23 September 2026

ECMA issued the Directive under the Capital Market Proclamation No. 1248/2021. It takes effect on registration and publication and operates alongside the Capital Market Service Providers Licensing and Supervision Directive No. 980/2024 and the Public Offering and Trading of Securities Directive No. 1030/2024. It is the first comprehensive operational rulebook for collective investment schemes in Ethiopia, covering their establishment, registration, governance, marketing, valuation, administration and winding up.

Categories and Portfolio Rules

The Directive regulates six categories of scheme: money market funds, mutual funds, exchange traded funds, real estate investment funds, alternative investment funds and special designation funds. A money market fund must hold at least 80 percent in money market instruments with a weighted average maturity of no more than 365 days. A real estate investment fund must hold at least 80 percent in income-producing real estate and distribute at least 90 percent of distributable profits. An exchange traded fund must hold at least 80 percent in the tracked index or basket. Exposure to a single issuer is generally limited to 20 percent, with an exception for government securities. Leverage, short selling and similar techniques are restricted to alternative investment funds offered to qualified investors.

Registration and Offering

A scheme must be registered before it is offered, advertised or listed. ECMA decides within 30 business days, and registration is renewed annually. A public offer requires a registered scheme and an approved prospectus, and retail investors in a public scheme must receive a key investor information document. Alternative investment funds may not be marketed to the public, and exempt offers must be filed with ECMA before any solicitation.

Governance and Custody

The board must have at least five voting members, a majority of them independent, with an independent chair, and an audit, risk and compliance committee on which the operator may not sit. Material changes to a scheme require the approval of holders of two-thirds of its capital. The operator may invest up to 10 percent of the scheme, locked in for two years; related-party transactions must be at arm’s length; and certain breaches must be notified to ECMA within 24 hours. The custodian must be independent and scheme assets must be segregated. A bank acting as custodian needs a separate ECMA licence and must show independence from the operator.

Redemption and Reporting

Units in open-ended schemes may be redeemed on any dealing day, with payment within five business days. Redemptions may be suspended only with the approval of the board and ECMA, and generally for no more than 28 business days. Annual reports are due within 90 days of year end and semi-annual reports within 45 days. Umbrella structures must ring-fence the assets and liabilities of each sub-scheme.

Sanctions

Fines may reach ETB 2,000,000 for operating an unregistered scheme, fraud or disregard of the investment policy, and ETB 3,000,000 for suspending redemptions without approval. Late payment of redemption proceeds attracts a fine of up to ETB 1,000,000 plus ETB 10,000 per day. ECMA may grant waivers and operate a regulatory sandbox.

Sponsors and Operators	Structure the fund category, board composition, fee terms and custody arrangement at the outset, since material changes later require investor approval.
Custodians and Banks	Confirm the licensing and independence requirements before accepting appointments.
Investors and Advisers	Review the prospectus and key investor information document, and the redemption and suspension terms, before subscribing.

TSA VIEW

The Directive turns collective investment schemes from a concept recognised in the Capital Market Proclamation into a regulated industry, with clear fund categories, governance standards, custody requirements, redemption procedures and disclosure obligations from formation to liquidation. It gives Ethiopia's asset management sector the legal certainty it needs, and the structure chosen at launch will be costly to change later.

2 Addis Ababa Revenues Bureau: Procedure for the 2018 Tax Year

Taxpayers without books of account | Issued in Meskerem 2019 E.C. (September to October 2026) | Applies in Addis Ababa only

The Addis Ababa City Administration Revenues Bureau has issued an operational procedure for assessing taxpayers who did not keep books of account in the 2018 Ethiopian fiscal year (2025/26). It rests on the Income Tax Proclamation No. 979/2016, as amended by Proclamation No. 1395/2025, the Tax Administration Proclamation No. 983/2016, as amended, and Council of Ministers Regulation No. 410/2017. The Bureau describes it as a one-time measure for that year. Category A and B taxpayers remain required to keep books, and eligible taxpayers regularise their position by signing a written undertaking to keep books in later years and paying the penalties for failing to submit records.

Assessment Rules for Identified Groups

- **Government-contracted associations.** Associations providing government-contracted services, such as school feeding, sanitation, solid waste management and landscaping, submit their contracts and evidence of payments and are assessed under Schedule C of Regulation No. 410/2017.
- **Organised service associations.** Loaders and unloaders, power-pole diggers, security guard associations and taxi queue associations are assessed on the profit margins set for their sector.
- **Professionals without a trade licence.** Professionals operating under a professional licence only, including lawyers and insurance agents, are assessed by treating 35 percent of income as deductible expenses and 65 percent as taxable, because the Ministry's directive on deductible expenses has not been issued.
- **Transport sector.** Category A taxpayers in the transport sector are assessed by applying a 57 percent inflation adjustment under the method used for Category B taxpayers.
- **Reclassified taxpayers.** Taxpayers reclassified from Category B or C to Category A by Proclamation No. 1395/2025 are assessed under the Category B procedure on the basis of business income tax and turnover tax paid or payable for the 2017 fiscal year.
- **Residential rental income.** Category A residential rental income taxpayers without records are assessed by treating 35 percent of receipts as expenses and 65 percent as taxable rental income.

Alternative Minimum Tax

Category A taxpayers remain subject to the alternative minimum tax introduced by Proclamation No. 1395/2025. The tax computed under the procedure is compared with the 2.5 percent calculation, and the higher amount is payable.

Other Taxpayers

Taxpayers outside the identified groups who did not declare, pay or keep records are treated as having sought to evade tax. The presumptive profit margin may be doubled, and the administrative penalties for understatement and evasion under the Tax Administration Proclamation may be imposed.

Eligible Taxpayers	Confirm which group applies, assemble the contract and payment evidence where required, and put bookkeeping in place for the 2019 fiscal year.
Other Taxpayers	Expect the evasion treatment described above and consider the exposure before the Bureau raises an assessment.
Tax Advisers	Confirm the Bureau's classification of each client before a 2018 assessment is finalised, and review the evasion exposure of clients outside the identified groups.

TSA VIEW

The procedure is an administrative accommodation for one year. It does not amend the statutory bookkeeping obligation, and the Bureau's stricter treatment of other taxpayers indicates how non-compliance in the 2019 fiscal year is likely to be handled.

3 Draft Crowdfunding Directive

Ethiopian Capital Market Authority (ECMA) | Published for consultation on 25 September 2026 | Draft, not yet law

ECMA published the draft Directive for consultation on 25 September 2026 under the Capital Market Proclamation No. 1248/2021 and invited written comments until 14 October 2026. It is a draft: it has no legal effect, and its content may change before adoption. Existing rules deal mainly with crowdfunding intermediaries. The draft regulates the whole fundraising process: issuers, investors, intermediaries, disclosure, investor protection, fundraising limits and enforcement. Its stated aims are to widen access to finance for start-ups and small and medium-sized enterprises, to replace informal fundraising with a supervised route, and to channel domestic savings into productive investment. It relies on the Capital Market Service Providers Licensing and Supervision Directive No. 980/2024 for licensing and intermediary concepts, on the Public Offering and Trading of Securities Directive No. 1030/2024 for disclosure concepts, and on the Commercial Code, Proclamation No. 1243/2021.

Eligibility

Only share companies incorporated under the Commercial Code may use the framework. Sole proprietorships, partnerships, foreign-established entities, public companies, collective investment schemes, state-owned enterprises, financial institutions and capital market service providers are excluded, as are companies associated with fraud, financial misconduct, money laundering, terrorism financing or capital market violations. A company must also meet at least two of three size tests: paid-up capital not above ETB 50 million, total equity not above ETB 100 million, or annual net turnover not above ETB 100 million.

Fundraising Limits and Disclosure

Fundraisers fall into three categories. Whatever the category, no fundraiser may raise more than ETB 50 million in twelve months, and amounts raised on several platforms are aggregated.

Category	Limit in twelve months	Disclosure required
One	Up to ETB 10 million	Company, management, significant shareholders, securities, objectives and intended use of proceeds
Two	Up to ETB 25 million	More extensive business information and one year of audited financial statements
Three	Up to ETB 50 million	Business plan, growth milestones, two years of audited statements, liabilities, projections, risks, funding history, intellectual property, litigation and material contracts

A material change during an offer must be notified to investors, who then have at least fifteen business days to reconsider and withdraw.

Investors

Retail and qualified investors may participate. A retail investor may not commit more than 5 percent of annual net income to a single offer or more than 10 percent across all platforms in a year. Before investing, a retail investor must complete a risk acknowledgment and suitability assessment and provide identification and source-of-funds information, including a Fayda number. The investor must acknowledge that crowdfunded investments are not covered by the Investor Compensation Fund, that the securities may be hard to transfer, and that the whole investment may be lost.

Intermediaries

The intermediary is the main gatekeeper. Before a campaign opens, it must verify the issuer's incorporation and eligibility, its proposal, business information and financial disclosures, and the suitability of directors and controlling shareholders, and it may extend the review to technical partners and major investors. It must notify ECMA and file a due diligence attestation before approval, after which ECMA may object. Continuing duties include investor risk education, collection of risk acknowledgments, complaint handling, moderated investor forums, monitoring of limits, ten-year record keeping and quarterly reports to ECMA. An intermediary may not raise funds for itself or related parties, give investment advice or accept success-based compensation.

Escrow, Campaign Terms and Refunds

Investor money must be held in a segregated escrow account at a licensed commercial bank. It may be released only after the campaign closes, the minimum threshold is met, no material adverse change has occurred and ECMA authorises release. A campaign may run for up to 120 days, with one 30-day extension approved by ECMA. The disclosed minimum threshold may not be less than 50 percent of the maximum target; if it is not reached, the offer lapses and investors are refunded. Investors have a 48-hour cooling-off period and a further right to withdraw after a material change.

Advertising and Continuing Obligations

Advertising must match the approved offering document and appear only on the hosting platform. It may not promise profits or returns, use testimonials, use celebrity or model endorsements, or suggest approval by ECMA or the intermediary. After a successful raise, the company must deliver audited annual financial statements and a report on the use of proceeds within 105 days of fiscal year end, and disclose material changes, a change of control or discontinuation of business within 24 hours. These duties last until the company becomes a registered public company, liquidates or repurchases the securities.

Sanctions

Operating a platform without a licence may attract fines of ETB 1 million to ETB 5 million, refund orders and blacklisting. Fraudulent or misleading conduct may attract fines of ETB 500,000 to ETB 5 million, restitution, revocation of the intermediary's licence and permanent bans on fundraisers. A fundraiser that raises funds

while ineligible may be fined 5 to 15 percent of the amount raised or sought and barred from platforms. ECMA may inspect with or without notice and order corrective action.

Next Steps

Written comments on the draft closed on 14 October 2026, and ECMA held a consultation session on 15 October 2026. The issues raised there are covered in our October 2026 update.

Prospective Issuers	Share companies should test eligibility against the three size criteria and identify the applicable category. Private limited companies should note the proposed exclusion and the cost of conversion.
Platforms and Intermediaries	The due diligence attestation, escrow arrangements, record keeping and quarterly reporting will drive operating costs and licensing requirements.

TSA VIEW

The draft goes beyond licensing platforms. It regulates the whole fundraising process, from issuer eligibility and tiered disclosure to escrow, refunds and reporting after the raise. For start-ups and growing businesses it would open a route to public capital without the cost of a full public offering; for retail investors it pairs access with investment caps, a cooling-off period and refund protection. Much of the compliance burden falls on the intermediary as gatekeeper, which will shape the cost and availability of platforms.

4 Draft Foreign Portfolio Investment Regulation

To be made by the Council of Ministers under the Capital Market Proclamation No. 1248/2021 | Published by ECMA on 29 September 2026 | Draft, not yet law

The draft Regulation would establish the first dedicated framework for foreign participation in Ethiopian capital markets, covering investment in securities without control of the issuer. It applies to shares, bonds, treasury bills, units in collective investment schemes and other approved securities, and is meant to operate alongside the Capital Market Proclamation, the National Bank of Ethiopia Establishment Proclamation No. 1359/2025, the Investment Proclamation No. 1180/2020 and the AML/CFT Proclamation No. 780/2013. Until now the investment laws dealt with direct investment, and there was no mechanism for passive investment in securities, which left eligibility, registration, ownership limits and repatriation uncertain.

Eligibility and Categories

Foreign nationals, foreign-owned or foreign-incorporated entities, and Ethiopians abroad who elect to be treated as foreign investors may participate. All funds must originate outside Ethiopia and be remitted in foreign currency through authorised banking channels, which is meant to prevent domestic money returning as foreign investment. Investors fall into two categories: Category I, institutional investors such as sovereign wealth funds, central banks and other public bodies, multilateral organisations and regulated pension funds; and Category II, all others, including corporates, foundations and non-resident retail investors. Every investor must enter through a licensed Designated Custodian, which carries out know-your-customer and anti-money laundering checks. Complex ownership structures and higher-risk applicants receive closer scrutiny.

Instruments and Ownership Limits

Investors may hold money market instruments, shares, debt securities, public debt, collective investment scheme units and approved derivatives. A single investor, together with affiliates and persons acting in concert, may hold no more than 10 percent of an issuer’s paid-up capital, unless a sector law permits more.

An approved Category I investor may hold up to 15 percent with ECMA's prior approval, and any acquisition above 10 percent needs that approval. Combined foreign portfolio holdings in a listed company are generally capped at 30 percent.

An investor that breaches a limit through circumstances beyond its control, such as a merger or restructuring, must notify ECMA and its custodian within five business days and divest the excess within 15 business days. Foreign portfolio investors may not hold board seats or take part in management, which would risk reclassification of the investment as foreign direct investment; ordinary voting rights are unaffected.

Custody and Accounts

The framework is custodian-led. Investors maintain securities and trading accounts, custody arrangements and foreign currency or non-resident birr accounts, trade through licensed Ethiopian intermediaries and settle through the central securities depository. A global custodian must act through a locally licensed sub-custodian. Banks may offer custody if they hold an ECMA licence, obtain a no-objection letter from the National Bank of Ethiopia, meet capital adequacy and ring-fencing standards, keep custody functions segregated and refrain from using client assets or information commercially.

Repatriation

Investors may repatriate dividends, interest, gains, sale proceeds and maturities in foreign currency, subject to settlement, tax and reporting requirements. A minimum holding period of one year applies before repatriation, which ECMA may adjust or waive by directive according to the instrument and market conditions. The National Bank of Ethiopia may delay or restrict repatriation in a period of financial or economic stress, for up to 180 days at a time, by measures that must be public, proportionate and time-limited and that may be renewed.

Monitoring and Enforcement

Custodians are the main gatekeepers: they monitor holdings, disclose beneficial ownership at significant thresholds, report periodically, notify material changes within 24 hours and keep records for ten years. ECMA and the National Bank of Ethiopia monitor systemic risk from cross-border flows and may issue warnings, tighten prudential requirements and adopt temporary stabilisation measures. A Coordination Committee chaired by the Minister of Finance, with the National Bank, ECMA, the Ethiopian Investment Commission, the Ministry of Trade and Regional Integration and the Financial Intelligence Service, would oversee systemic risk. Foreign portfolio investors are to be treated no less favourably than domestic investors.

Complaints go first to ECMA, with further recourse to the Administrative Tribunal. Regulators may suspend activity, revoke authorisations, impose fines and order the return of improper gains; the detailed penalty schedule is left to later directives.

Next Steps

The draft has no legal effect until it is made by the Council of Ministers, and its content may change. A public consultation was held on 26 October 2026; the issues raised there are covered in our October 2026 update.

Foreign Investors and Custodians	Build the 10, 15 and 30 percent limits, the one-year holding period and the repatriation power into any entry plan, and confirm custodian availability before committing capital.
Listed Companies and Issuers	The aggregate foreign ownership limit and the disclosure and divestment rules may affect share register management.

TSA VIEW

The draft balances two objectives: attracting foreign capital into Ethiopia's capital market and safeguarding financial stability. It would replace legal uncertainty with a defined route of entry through licensed custodians, clear ownership limits and a recognised right of repatriation. That right is qualified by the one-year holding period and by the National Bank's power to delay repatriation in periods of stress, and those two conditions are the terms investors should follow most closely in the final text.

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