

MONTHLY LEGAL UPDATE

WWW.TSEGASOLOMON.COM

March, 2025



Top Update

Ministry of Revenue Enacted Value Added Tax Regulation No. 570/2025

The Council of Ministers issued the VAT Regulation which serves as a detailed implementation instrument for the reforms set out in the VAT Proclamation and marks a pivotal step in the nation's VAT system

What's Covered this Month?

Welcome to the March 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 Issues Directive on Dematerialization of Publicly Offered Securities No. 1047/2025
2. Ministry of Revenue Enacted Value Added Tax Regulation No. 570/2025
3. The Ministry of Revenue Issued Directive on Tax Administration Penalty Waiver No. 189/2025
4. Ethiopian Institute of Certified Public Accountants Establishment Proclamation No. 1372/2025
5. Ethiopia Revises Its Banking Business Legal Framework
6. Bioequivalence Center and Bioanalytical Laboratory Control Directive Number 1043/2025



1. ECMA Issues Directive on Dematerialization of Publicly Offered Securities No. 1047/2025

The Ethiopian Capital Market Authority (ECMA) has introduced Directive No. 1047/2025 (the Directive), effective March 5, 2025, mandating the dematerialization of all publicly offered securities. The Directive transitions Ethiopia's capital markets from paper-based certificates to a fully electronic system, aiming to enhance efficiency, security, and transparency in market operations.

i. What dematerialization of securities means, its scope and effect

Dematerialization, as defined in the Proclamation, refers to the issuance and maintenance of securities exclusively in electronic form, serving as prima facie evidence of legal ownership. The Directive distinguishes between mandatory and voluntary dematerialization: publicly offered securities must be dematerialized, while privately issued securities may opt into the system at the issuer's discretion. Additionally, all newly issued securities are required to be electronic from inception. Legally, dematerialized securities retain full enforceability, with ownership exclusively recorded by the CSDS. Trading and settlement of such securities are conducted through electronic book entries, enhancing liquidity and market efficiency. Notably, any securities that remain in physical form post-dematerialization cannot be traded, potentially impacting investors who fail to comply.

ii. Dematerialization date

The Directive grants ECMA authority to declare the dematerialization date, at which point physical securities certificates will cease to be valid proof of ownership. Issuers must notify securities holders within one month of this declaration and update incorporation documents to reflect electronic record-keeping. The Directive also addresses unclaimed or un-reclaimed securities—those whose physical certificates have not been collected or submitted for conversion. Ten years



የኢትዮጵያ የካፒታል
ገበያ ባለሥልጣን
ETHIOPIAN CAPITAL
MARKET AUTHORITY

after the dematerialization date, these securities will be transferred to a special account managed by ECMA, where they may be subject to suspended rights, including voting privileges. Holders seeking reclamation must provide verifiable proof of ownership to the Authority, reinforcing the importance of active participation in the dematerialization process.

iii. Dematerialization procedure

A structured, multi-step dematerialization process is outlined, beginning with issuer notifications through public announcements and direct communications to securities holders. Issuers must reconcile ownership records before submitting them to the CSDS for integration. Securities holders are required to open accounts with authorized Securities Depository Members (SDMs) and surrender physical certificates for verification. Once validated, the corresponding electronic records are credited to the holders' accounts, with issuers maintaining the dematerialized certificates for at least ten years. This standardized process ensures a seamless transition, minimizing potential disputes and discrepancies.

iv. Complaints

To address disputes arising from the dematerialization process, the Directive mandates a clear resolution mechanism. Securities holders encountering issues must first file complaints with the issuer, who must resolve them within ten working days. If unresolved, the matter must be escalated to ECMA, which has the final authority to issue

binding resolutions within ten working days. Additionally, issuers must report all complaints and their resolutions to the Authority on a monthly basis, ensuring regulatory oversight and accountability in dispute management. This structured framework promotes investor confidence and ensures adherence to fair market practices.

Summed up, the Directive is expected to transform Ethiopia's capital market by enhancing transparency, reducing transaction costs, and –

improving investor accessibility. By centralizing securities records, it mitigates fraud risks and facilitates efficient settlement processes, attracting local and international investors. However, successful implementation hinges on addressing challenges such as infrastructure readiness, investor awareness, and market adaptation. Ensuring the reliability and security of the CSDS remains a critical priority, requiring substantial technological investment and regulatory vigilance.

2. ECMA Extends Deadline for Document Submission by Publicly Held Companies

As part of its ongoing effort to digitalize the capital market, it is noted that ECMA issued a public notice requiring all publicly held companies with more than 50 shareholders to submit detailed shareholding information by March 10, 2025. The Authority, in another notice issued on March 14, 2025, extended the deadline by one additional month for these companies to submit the required information. The notice, in addition to mandating that companies submit shareholders' shareholding details, also requires them to register their existing securities with ECMA by November 13, 2025. Furthermore, any ongoing or new public offers must be registered with ECMA prior to issuance in accordance with the Authority's established rules and procedures.

3. Ministry of Revenue Enacted Value Added Tax Regulation No. 570/2025

Ethiopia's VAT system has been overhauled with the enactment of Value Added Tax Regulation No. 570/2025 on March 17, 2025, under Article 72(1) of Proclamation No. 1341/2024. This Regulation addresses gaps in the outdated Proclamation No. 285/2002, adapting to the evolving economy, digital commerce, and cross-border transactions.



i. Delegation of power to collect VAT

One of the standout features of the new Regulation is its approach to decentralizing tax collection. In areas where the central tax authority has limited physical presence or where electronic filing capacity is constrained, regional or city-level tax collection bodies are now authorized to collect VAT. This measure aims to enhance efficiency and responsiveness in tax administration across diverse geographic regions.

ii. VAT registration

The Regulation also introduces enhanced VAT registration procedures. Every VAT registration certificate now must include essential details such as the registrant's name, address, Taxpayer Identification Number (TIN), a unique VAT registration number, and the dates of issuance and effectiveness. This standardization is designed to bolster transparency and streamline taxpayer identification and record keeping.

A robust set of provisions governs the suspension and cancellation of VAT registration. Businesses that fail to adhere to filing deadlines or engage in non-compliant practices face clear consequences, including potential suspension or cancellation of their VAT registration. These measures are intended to strengthen overall compliance and maintain the integrity of the VAT system.

iii. Divisional Registration

A notable innovation is the introduction of divisional registration, which allows companies with multiple branches or divisions to apply for separate VAT registrations. This provision eases

the compliance burden on larger entities by enabling distinct VAT returns for individual operational segments, thereby improving tax reporting accuracy and administrative efficiency.

iv. Expanded VAT base

The Regulation extends VAT to non-resident digital service providers with annual turnovers above ETB 2 million. To determine taxable transactions, it uses criteria like billing address, payment method, IP address, and SIM card country code, requiring at least two for verification.

v. VAT remittance

Additional administrative measures have been introduced to manage the efficient collection and remittance of VAT. The Regulation details the procedures for transferring collected taxes to the central treasury and outlines mechanisms for managing input tax credits and processing refunds. These protocols are fundamental in maintaining fiscal discipline and ensuring timely revenue collection.

Overall, Regulation No. 570/2025 represents a forward-thinking overhaul of Ethiopia's VAT system. By addressing the limitations of the previous framework and introducing innovative measures that reflect the demands of a modern digital economy, this Regulation sets the stage for enhanced tax compliance and a more agile, responsive fiscal infrastructure. Stakeholders are encouraged to closely review the new provisions to ensure a smooth transition and full compliance with the updated tax regime.

4. The Ministry of Revenue Issued Directive on Tax Administration Penalty Waiver No. 189/2025



In February 2025, the Ministry of Revenue issued the Tax Administration Penalty Waiver Directive No. 189/2025 (the Directive) to establish a structured framework for administrative tax penalty waivers. It classifies penalties, sets conditions for full and partial waivers, and outlines application procedures to enhance tax administration fairness and compliance incentives.

The Directive applies to administrative tax penalties but excludes interest on arrears unless miscalculated due to administrative errors. Penalties are categorized into low, medium, and high levels. Low-level penalties relate to registration, TINs, and noncompliance by tax agents. Medium-level penalties include late payments, withholding tax violations, and excise tax noncompliance. High-level penalties cover severe violations such as record-keeping failures, late filings, tax avoidance, and electronic tax system noncompliance. Certain penalties, including failure to issue tax receipts under the Tax Administration Proclamation No. 983/2016, VAT Proclamation No. 1341/2024, and Stamp Duty Proclamation No. 110/1990, remain non-waivable.

A graduated system governs partial waivers based on payment timeliness. Full payment within 30 days allows 90% of low-level, 80% of medium-level, and 70% of high-level penalties

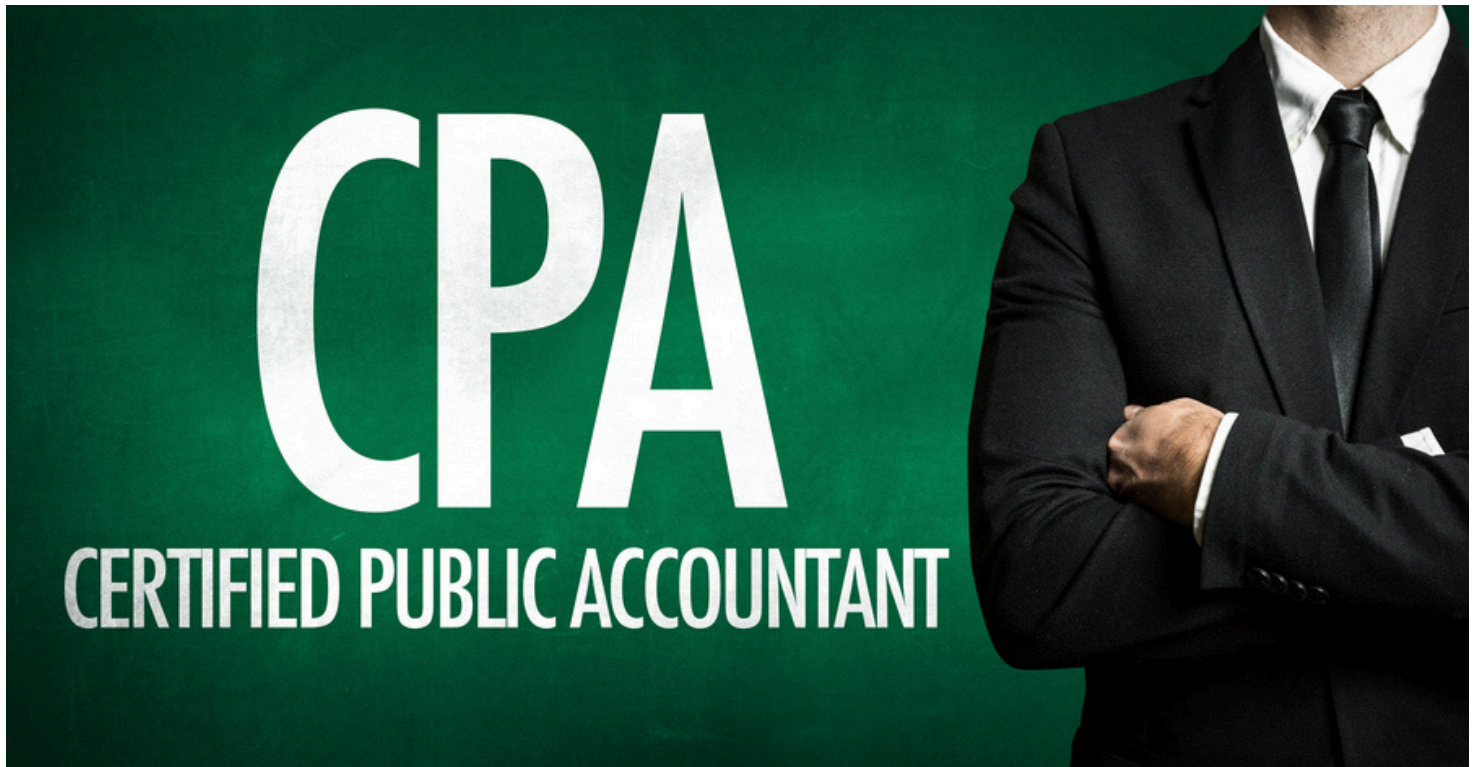
to be waived, decreasing for payments made between 31 and 60 days or after 60 days. If property is seized, waiver percentages depend on whether payment is made before or after an auction notice.

Full penalty waivers apply in cases of force majeure, confirmed bankruptcy, voluntary error correction, substantial property loss, or administrative errors. If a taxpayer fully pays tax, interest, and non-waivable penalties within 30 days of assessment or legal decision, low-level penalties are entirely waived.

The Directive grants the Ministry discretion to approve waivers in special cases based on economic, administrative, or social considerations. Taxpayers must submit requests for verification and review, with disputes handled by the Tax Decision Objection Reviews Department.

For transparency, branch offices must report monthly to the Tax Debt Management Directorate, while the Tax Authority submits quarterly reports to the Ministry of Finance. Installment agreements include only non-waivable penalties, with waivable penalties canceled upon full compliance. The Directive promotes tax compliance while offering structured relief where applicable.

5. Ethiopian Institute of Certified Public Accountants Establishment Proclamation No. 1372/2025



The Ethiopian government has enacted Proclamation No. 1372/2025 to establish the Ethiopian Institute of Certified Public Accountants (EICPA). This new regulatory body is tasked with standardizing and overseeing the accounting profession in Ethiopia. The EICPA will regulate Certified Public Accountants (CPAs), enforce professional ethics, administer examinations, and ensure compliance with international financial reporting and auditing standards. The establishment of this Institute is part of the government's broader initiative to enhance transparency, accountability, and competency in financial reporting within both public and private sectors.

The Proclamation grants the EICPA the authority to accredit and regulate CPAs, administer professional education and examinations, and enforce compliance through disciplinary measures. It also mandates the development of accounting curricula, the provision of continuous professional development, and collaboration with international professional bodies to align Ethiopian accounting standards with global best

practices. The Institute is structured with a General Assembly, a Governing Council, and specialized committees overseeing education, discipline, and auditing. Membership categories include students, affiliates, CPAs, and fellow members, each with distinct qualifications and responsibilities.

To ensure professional integrity, the EICPA has the power to adopt and enforce a Code of Ethics based on international standards. It will conduct regular and special investigations into professional conduct, with disciplinary actions ranging from reprimands to suspension or revocation of certification. The law also establishes an interim governing council to oversee the Institute's initial operations, ensuring its financial and operational readiness before full transition. Non-compliance with the Institute's regulations can result in penalties, including fines and the restriction of practice rights. This proclamation marks a significant step in fostering a more credible and internationally recognized accounting profession in Ethiopia, reinforcing financial integrity and public trust in corporate and governmental financial reporting.

6. Ethiopia Revises Its Banking Business Legal Framework

On March 12, 2025, Ethiopia enacted Banking Business Proclamation No. 1360/2025, replacing Proclamation No. 592/2008. Aligned with economic reforms, it aims to liberalize banking, allow foreign institutions, strengthen governance, and promote digital banking.

i. Liberalization of the banking sector

For decades, Ethiopia's banking sector was closed to foreign involvement. To modernize and attract capital, the new Proclamation allows foreign banks to enter via subsidiaries, branches, or share acquisitions.

a. Entry modalities and licensing

The Proclamation allows foreign banks to enter Ethiopia through subsidiaries, which can be partially or fully owned, operating independently under local regulations. They may also open branches or representative offices but cannot run both deposit-taking and non-deposit-taking branches simultaneously. Additionally, foreign banks can acquire shares in new or existing domestic banks, subject to ownership limits set by the regulation.

b. Licensing

Foreign banks must obtain a license from the NBE, providing details on financial standing, operations, and governance. They must also meet capital adequacy and liquidity standards set by the NBE.

c. Ownership and control

The Proclamation caps foreign investment in Ethiopian banks at 49%, ensuring local majority control. A foreign bank or strategic investor can hold up to 40%, foreign entities up to 10%, and individuals up to 7%.

d. Allowed activities for foreign banks

Foreign banks in Ethiopia can offer deposits, lending, trade finance, forex, securities investment, digital banking, fintech partnerships, advisory services, and cross-border banking but cannot engage in retail microfinance, insurance, or NBE-reserved activities.



ii. Enhancements in corporate governance

The Proclamation mandates strong corporate governance, requiring risk management, transparent reporting, and clear accountability to enhance banking sector integrity and stability.

iii. Integration of digital technology and innovation

Recognizing the transformative potential of technology, the proclamation encourages banks to adopt secure electronic platforms and innovate financial products. The integration of digital technologies is expected to improve operational efficiency and expand access to banking services across the country, fostering greater financial inclusion.

iv. Dispute resolution

The Proclamation outlines procedures for resolving banking disputes through Ethiopia's judicial system or alternative methods like arbitration and mediation, ensuring compliance with Ethiopian law for fair and timely resolution.

v. Overall impact on the economy

Foreign bank entry will boost competition, driving service improvements, technological adoption, and financial inclusion. Ethiopia aims to attract FDI, modernize banking, and strengthen its economy through Proclamation No. 1360/2025.

7. Bioequivalence Center and Bioanalytical Laboratory Control Directive Number 1043/2025



The Ethiopian Food and Drug Authority has issued a new directive titled "Bioequivalence Center and Bioanalytical Laboratory Control Directive Number 1043/2025 (the Directive)." The Directive aims to ensure that bioequivalence studies conducted in Ethiopia meet high standards of quality, efficacy, and safety as it is essential for maintaining the integrity and reliability of generic medicines available in the market.

Scope and Applicability

The Directive applies to all bioequivalence centers and bioanalytical laboratories operating within Ethiopia. It outlines the requirements for obtaining a Certificate of Competence, which is mandatory for any entity wishing to conduct bioequivalence studies. These centers must comply with Good Clinical Practices (GCP) and Good Laboratory Practices (GLP) to ensure the credibility and accuracy of study data.

Ethical and Safety Considerations

A significant focus of the Directive is on the ethical conduct of bioequivalence studies. All studies must have ethical approval from the national ethics committee or an institutional review board. The Directive emphasizes the protection of participants' rights, safety, and well-being, requiring informed consent and proper adverse event reporting mechanisms to be in place.

Organizational and Management Requirements:

Bioequivalence centers must have a clear organizational structure with defined roles and responsibilities. Key personnel, including the technical manager, clinical manager, bioanalytical manager, and quality assurance manager, must possess the necessary qualifications and experience. The Directive also requires centers to implement a robust quality management system to ensure ongoing compliance with regulatory standards.

Facility and Equipment Standards

Bioequivalence centers and bioanalytical laboratories must meet specific facility and equipment standards to ensure the proper conduct of studies. This includes having adequate space, proper environmental controls, and necessary equipment such as High-Performance Liquid Chromatography (HPLC) and Ultra-Performance Liquid Chromatography-tandem Mass Spectrometry (UPLC/MS-MS). The Directive also outlines the requirements for the storage and handling of investigational products to prevent contamination and ensure data integrity.

Compliance and Enforcement

To enforce compliance, the Directive grants the Ethiopian Food and Drug Authority the authority to inspect bioequivalence centers and laboratories. Non-compliance can result in administrative measures, including suspension or cancellation of the Certificate of Competence. The directive also includes provisions for handling conflicts of interest and maintaining confidentiality of study data.



Contact Us



www.tsegasolomon.com



+251-926 354 220



tsolomon@tsegasolomon.com



**Africa Avenue, Getu Commercial
Center, 6th Floor**

Addis Ababa