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**Ethiopian Securities Exchange**

# A Multifaceted Market Infrastructure

## Financing the Ethiopian Economy

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# ABOUT
# ESX

01

# Who we are

**The Ethiopian Securities Exchange (ESX) is Ethiopia's first, and only organized securities exchange established as a public private partnership in line with Article 31 of the Capital Market Proclamation No.1248/2021.**

As a securities exchange, ESX fulfills the roles of a self-regulatory organization (SRO) and central market organizer, offering an integrated suite of products through its equity, fixed income and alternative market segments.

ESX supports mobilization of finance for both public and private sector institutions while providing investors a platform to invest in a reliable and efficient environment.

The core objective of the ESX is to facilitate access to capital and support effective capital allocation in a manner that promotes the country's economic growth.

# Our Journey

## Ethiopia's Wide Ranging Economic Reform and the Establishment of the Ethiopian Securities Exchange

In line with its *Homegrown Economic Reform Program,* I & II and the 10 years Perspective Development Plan (2021-30), the Government of the Federal Democratic Republic of Ethiopia implemented a set of wide ranging macro-economic, structural, and sectoral reforms that paved the path for sustainable and inclusive growth.

One of such key economic policy measures is the development of capital markets as these would be instrumental in raising national savings, addressing domestic financing gaps and help in alleviating prevailing external imbalances. A well-functioning capital market would ensure financial system stability, financial risk mitigation and efficiently channel savings towards capital that is essential for economic growth. This, among others will:

> Support the expanding Ethiopian economy by promoting access to long-term local currency, financing and improving access to capital for the public and private sector.

> Improve the intermediation and mobilization of savings (especially consumer savings) for investment to support economic development, especially capital-intensive infrastructure investment that requires economically viable long-term capital.

> Improve corporate governance, discipline, transparency, and disclosure.

> Bring about an orderly market for listing, trading and settlement of securities thereby protecting investors.

> Bring about price discovery, market-based company valuation and liquidity.

Ethiopia has the foundation to establish a vibrant capital markets ecosystem, which would play a key role in transforming multiple sectors including the relatively underdeveloped financial sector. The Majority of Ethiopian businesses rely heavily on leveraged short-term bank finance for raising capital, which tends to be relatively expensive compared to using the capital markets for long term funding needs.

The Government of Ethiopia has since mid-2020 taken the following steps:

> Adoption of the Capital Market Proclamation by Parliament on July 2021.

> Establishment of a Capital Market Project Implementation Team (CMPIT) under the National Bank of Ethiopia (NBE) (August 2021 – December 2022)

> Establishment the Ethiopian Capital Market Authority (ECMA) (December 2022)

> Setting up of the ESX Project Office under the Ethiopian Investment Holdings (EIH), that was tasked with the mandate of leading the establishment of the Securities Exchange (June 2022 – September 2023)

> The Establishment of the ESX with the appointment of Board of Directors and management (October 2023).

> Successful completion of the capital raise process of ESX – March 2023.

# ESX Project Office
## (June 2022 – September 2023)

The establishment of ESX was primarily facilitated by EIH with the support of Financial Sector Deepening Africa ("FSD Africa") and a dedicated Project Office, which is monitored and supervised by a national Steering Committee.

Between June 2022 and September 2023, the Project Office, with the support of various technical experts and advisors, undertook wide-ranging activities to operationalize ESX including, developing the ESX business plan and information memorandum, assessment of the technology needs, developing the operational rules, policies, conducting various stakeholder communication and capacity development activities as well as other preparations to launch ESX.

During the same period, the project office reported to a 10-member independent Project Steering Committee ("PSC"), constituting of senior financial sector representatives from both the public and private sector. Some of the key functions of the PSC during the project phase included:

> Providing strategic direction towards the establishment of ESX.

> Providing guidance to the project managers as and when required to ensure the successful establishment of ESX.

> Supporting ESX fundraising initiatives as part of its capital raise.

# Ethiopian Securities Exchange S.C.

ESX transitioned from a Project Office and was formally set up as a share company under EIH during October 2023. In addition to EIH, four subsidiary entities under EIH - Ethio-telecom, Ethiopian Insurance Corporation, Ethiopian Shipping and Logistics Services Enterprise and Berhanena Selam Printing become founding members of the Exchange. A seven-member board of directors and senior managers were also appointed at the same time.

Post establishment, ESX conducted various preparatory activities including the on-boarding of its founding staff, identification and procurement of exchange technology and development of various policies, procedures and manuals, including a comprehensive Rulebook.

During the same period ESX conducted a successful capital raise process whereby its offer was **oversubscribed by 240%.**

Initiated in November 2023, with intensive efforts by its management and advisors which included roadshows in Addis Ababa, Nairobi, and London, the ESX witnessed a high level of interest from domestic and foreign investors.

The list of investors with the founding members includes foreign strategic investors, along with 16 domestic private commercial banks, 12 private insurance companies, as well as 17 other private domestic investors.

# Corporate Governance and Management of ESX

ESX is committed to implementing and adhering to good corporate governance and best practices, recognizing their fundamental importance to the achievement of the Company's mission and fulfillment of its corporate responsibilities. ESX is dedicated to complying with all applicable Laws of Ethiopia.

## ESX Governance Structure

In line with the Capital Market Proclamation, Commercial Code, and its Memorandum of Association, ESX is led by a Board of Directors ("the Board") that is responsible for ensuring the Exchange is operating in compliance with the relevant laws and regulations.

ESX has a corporate governance and management structure constituting of:

**Shareholders General assembly**

**Board of Directors**

**Relevant Committees**

**Senior Management**

**Auditors (Internal and External)**

Financing
the Ethiopian
Economy

# Objectives, Mandates and Responsibilities of ESX

In line with Article 36 (1) of the Capital Market Proclamation No. 1248/2021, the mandates and responsibilities of ESX include, among others:

✓ Serving as a central marketplace for the listing, trading and post-trade reporting of various asset classes creating transparency, enhancing financial reporting and corporate governance, efficiency and reliability, enabling price discovery and overall, the liquidity of the securities market in Ethiopia.

✓ Adhering to provide and operate its services in accordance with the Directives issued by the Ethiopian Capital Market Authority (ECMA).

✓ Providing market participants with equitable access to market rules and operating procedures.

✓ Adhering to organizing its operations, standards of its practices and its members' behaviors in accordance with its rules, policies, and procedures.

✓ Monitoring, surveillance and supervision of the Exchange and its members to ensure fairness, efficiency, transparency, and investor protection, as well as compliance with the securities regulatory framework.

✓ Ensuring that the trading venue has in place, suitable trading control mechanisms including trading halts, volatility interruptions, limit up/ limit down controls and other trading limitations to deal with volatile market conditions.

✓ Issuing rules with requirements for providing pre-trade information, post-trade information and information on completed transactions on an equitable basis to all market participants.

✓ Making sure that execution rules and trade order routing procedures are clearly disclosed to the Authority and to market participants and consistently applied to all participants.
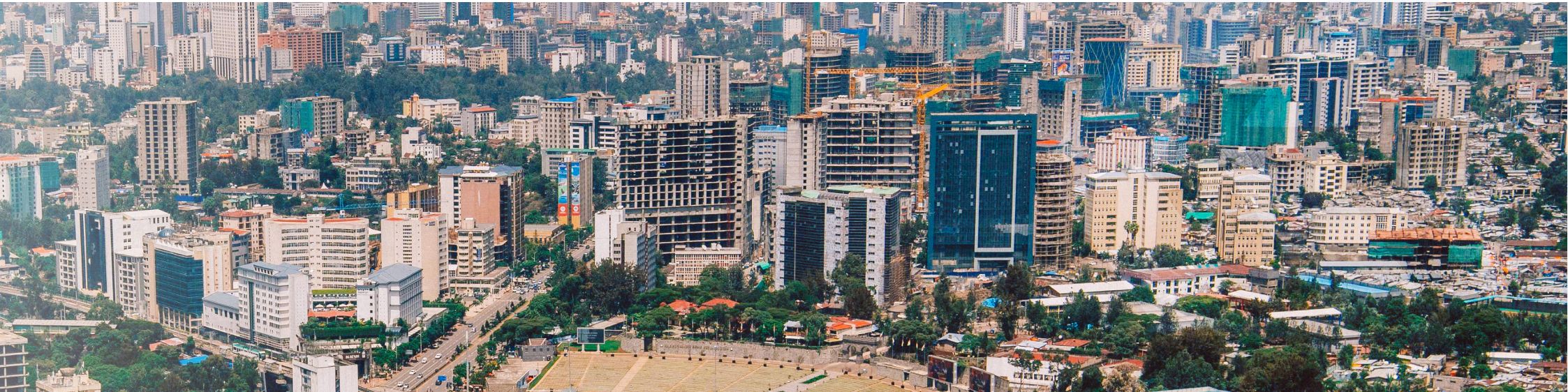
- Providing members with access to relevant pre and post-trade information on a real-time basis.

- Providing equal opportunity to all system users to connect, and maintain the connection to, the electronic trading system.

- Prioritizing public interest in case of a conflict of interest with the securities exchange or its members, shareholders or management.

- Having market dispute resolution and appeal procedures as appropriate, technical systems standards and procedures related to operational failure record keeping system, reports of suspected breaches of law, arrangements for holding client funds and securities, if applicable, and information on how trades are cleared and settled.

- Having mechanisms to monitor open positions, or credit exposures, on unsettled trades that are sufficiently large to pose a risk to the market or to the Securities Depository and Clearing Company.

- Designing systems and controls to enable the management of risk about fair and orderly trading including, in particular, automated pre-trade controls that enable members to implement appropriate risk limits.

- Ensuring the existence of a management that is aware of the risks associated with its business and operations.

- Adhering to organizing the operations and standards of practices of the companies listed therein and their employees in accordance with the governing regulations; and

- Maintaining the confidentiality of all information under its custody with respect to its members and customers unless it is required by law to publish or disclose such information; not disclose such information except for the Authority or by an order from the Authority or the court.

# OUR PRODUCTS AND SERVICES

02

# Our Products and Services

ESX offers diverse range of markets and financial products across three key areas: the ***Equity Market, Fixed Income Market,*** and ***the Alternative Market***. These offerings cater to the varied needs of investors, companies, as well as public sector financing needs, promoting a holistic and dynamic capital market ecosystem in Ethiopia.

## Equity Market

ESX aims to play a key role in organizing the pre-existing unregulated equity market to create a formal, transparent and regulated venue for companies to raise capital. By providing a reliable, adequate and transparent listing and trading venue and therefore, liquidity, ESX serves as a critical foundation for saving, investment and development of the broader financial market ecosystem.

In organizing its equity market ESX will have two segments, a Main Market and a Growth Market. These two market segments are designed to address the needs of the different categories of companies. The scope of each segment is determined based on various qualitative and quantitative criteria related to the issuers of the securities. Among others this includes company size/ capitalization, operational track record, information disclosure requirements, and other similar considerations.

### Main Market

The ESX main market provides a market for the most mature companies to list and trade their equity securities (shares) effectively. Large financial institutions, state owned enterprises and other large private enterprises are the primary candidates to be listed on the main market.

### Growth Market

ESX Growth market is designed to cater for the needs of Ethiopian SMEs (companies with high growth potential). While serving as a platform to raise capital, the Growth Market will also serve as an environment where SMEs develop their corporate governance, financial reporting and other elements that will propel them to be listed on the main market.

## Fixed Income Market

ESX Fixed Income Market segment is a market where investors buy and sell fixed income securities. The market will facilitate the trading of debt securities with the aim to increase efficiency, transparency, and liquidity of the fixed income market.

Securities going to be traded on the market include:

- Government/treasury bills and bonds
- Corporate bonds
- Sharia compliant securities (Sukuks)
- Other thematic instruments such as green bonds, gender bonds etc.

- The market will also serve as a platform for money market instruments such as Repurchase Agreements (REPOs) and Commercial Papers

# ESX Interbank Money Market

The Interbank Money Market is a market in which financial institutions extend loans to one another for a specified term. Most interbank trades are for maturities of one week or less, including overnight. These trades occur at prevailing interbank interest rates. The establishment of the interbank market will boost liquidity among financial institutions and support the government bond market by efficiently allocating financial institution's liquidity positions as they are the key participants in the Treasury debt markets globally. This will enable institutions to meet their short-term funding needs and to participate more actively in the short-term T-Bill auctions and longer-dated government issued bonds.

## ESX Repurchase Agreements (REPO) Platform

In most modern financial markets, banks often raise short term funds/ liquidity through a repurchase agreements (Repo) or unsecured money market. A Repo is a sale of securities with a simultaneous agreement by the seller to repurchase them at a later predetermined date.

ESX Repo platform serves as a key infrastructure facilitating interbank liquidity in Ethiopia. The lack of a Repo market in Ethiopia, in which banks can pledge government securities as collateral for short- term funding, has significantly limited the options available to banks looking to add liquidity or lend out excess funds for short term balance sheet management. With the introduction of the Interbank Money Market Directive and Interbank Market Code of Conduct by the National Bank of Ethiopia (NBE) along with the increased interest and institutional readiness of banks to operate in a regulated interbank money market, this environment will see a transformational change.

- A Repo transaction alleviates the credit risk for the lender (buyer of the Repo, effectively the investor who buys the security temporarily) in the transaction. At the same time, the seller of the Repo (lender/ seller of the security temporarily) mitigates the liquidity risk for the bank by obtaining funding in a transparent and market-based manner.

- Building the repo market from ground up in Ethiopia through the ESX platform will foster transparency, disclosure, and an efficient solution for multiple stakeholders; including financial institutions and the NBE and lead to much improved price discovery on the critical short end of the yield curve.

- The ESX interbank platform will provide a variety of trading and negotiating models for the participants and will also provide transparent market data in the form of trades and prices. The trading platform can also provide for pre-trade transparency, allowing participants to publish their interest to trade.

- The platform is fully conversant with the mechanism whereby participants can initiate Repo buy/ sell order in the system by validating all business and trading rules configured within it. The system automatically calculates accrued interest, collateral value at clean/dirty prices as per the pre-determined haircut applicable to the securities deposited as collateral, as well as the purchase and repurchase prices, etc. The system also sends margin calls to the respective party to meet net exposure stands on the part of the buyer or seller.

- The platform allows Repo market participants to substitute the collateral with similar nature acceptable to the collateral holder, while at the same time, recalculates the value and generates margin call accordingly.

- The platform also provides an appropriate environment to enforce regulatory requirements and provide regulators access to implement regulatory oversight.

# ESX Alternative Market

ESX alternative market focuses on innovative and niche financial products, including Crowd-investment platforms/ CrowdX', and Over The Counter (OTC)/ Unlisted Market for trading securities that are not publicly listed.

The market allows SMEs to raise capital through capital market regulated platforms. For investors the market offers investment options to diversify their portfolios and reduce overall risk.



**ESX Platform for Unlisted Securities ('OTC Market'):**

In addition to the main and growth markets, ESX Unlisted Securities Platform, will provide an efficient marketplace for unlisted securities. The platform will also serve as a pipeline/ stepping-stone for SMEs that cannot be listed on ESX markets to gradually transition to the growth and main markets.

The platform will also serve those companies that are delisted from ESX main and grwoth markets.

**Crowd-Investment Platform:** ESX aims to organize an investment crowdfunding platform offering SMEs the opportunity to raise equity and/or debt capital as well as a platform to garner support for their overall business strategy and operation. The platform provides an efficient avenue to access capital, raises awareness amongst investors and serves as a stepping-stone to attract listing to ESX main and growth markets. The platform will serve as a virtual hub allowing Start-Ups and SME founders to meet/interact with potential investors giving them an opportunity to refine their business plan and better attract investors.

# Trading and Market Structure

The ESX market structure and trading mechanisms are designed with the aim of giving utmost efficiency to the market in line with the nature of asset classes and the type of market participant involved. Broadly the exchange has the following market structures:

- ✓ The central limit order book (CLOB): an order driven market in which a matching engine is utilized to execute orders

- ✓ A negotiated market: Request For Quote (RFQ) driven bilateral/multilateral negotiation

- ✓ Block trade order book: a regulated market where a minimum size of shares - i.e. a block of shares - is required

- ✓ Quote driven market: As the Ethiopian capital market develops and market makers join the exchange, ESX trading infrastructure caters for a quote driven market, an environment where a market maker submits two-way quotes that include both bid and ask prices.

- ✓ The ESX rulebook governs trading activity on the exchange and the trading manual provides details of the applicable lot sizes, tick sizes, circuit breakers, settlement cycle etc. for each respective market.

# Market Structure of the Equity Market

ESX equity market is a fully electronic market. Trading is anonymous and will be conducted through licensed members of the ESX (i.e. brokers, dealers, investment banks and market makers that are licensed by ECMA and admitted to membership by ESX). Investors/clients of members can place orders via the licensed member. Additionally, by utilizing technology platforms, investors may participate directly in the market through a member using the Direct Market Access (DMA)feature.

ESX's main equity market models a conventional CLOB operating in a continuous trading format.

Its main features include:

| Can handle both order and quote driven trading models | Orders submitted are anonymous. | Orders are executed/matched based on price – time priority. If orders have the same price, the time with which the order is submitted (timestamp) will be taken as a condition for setting the priority of orders. | Various types of orders are allowed for market participants. |
|---|---|---|---|

These types of orders includes;

> Price based orders (limit, market, stop-loss, etc.)
> Time based orders (Good Till Day (GTD), Good Till Week (GTW),Good Till Month (GTM), Good Till Cancel (GTC), Good Till Date (GTD))
> Non-queuing orders (fill or kill,immediate or cancel) and Iceberg Orders or Hidden orders and all or none, and minimum fill orders.

✓ Trading operation is conducted throughout the day. Beginning of the trading day activities between 9:00 am to 9:30 am having the following phases:

> A pretrading phase 9:00–9:30 am during which market participants can enter buy and sell orders and quotes to participate in the opening auction. During this phase the order book will be consolidated into one market equilibrium price which establishes the daily opening price of the specific security traded in the market.

> A continuous trading phase follows between 9:30 AM – 3:00 PM in which order execution is prioritized/matched based on the above stated price and time priority methodology. The order book is open to all trading members of the exchange during this segment.

> Trading day officially ends at 3:00PM and the order book is closed until the next trading day.

## Market Structure of the Fixed Income Market

The ESX fixed income market lays down a market friendly and efficient trading environment that allows institutional investors and traders to interact directly within a regulated market for debt and money market instruments:

✓ The ESX Debt ATS provides a comprehensive management of negotiated trades for multiple asset classes including debt securities, interbank trading and commercial papers.

✓ A dedicated platform for order submission is provided in the trading workstation to negotiate a deal.

✓ A seller/buyer can negotiate the deal with single or multiple counter parties (sellers or buyers), upon affirmation from counterparty – the system generates a trade and sends confirmation to both seller and buyer.

✓ Real-time and historical data reports of negotiated deals will be available for trading participants and publication.

# Clearing and Settlement

✓ The clearing and settlement process (i.e. the transfer of securities and cash between buyers and sellers) in the market is conducted in a fully automated manner.

✓ All securities (shares, T-Bills, bonds etc.) issued by issuers are dematerialized and placed in an electronic format within the Central Securities Depository (CSD). This enables security to be delivered by book-entry rather than physical transfer of securities.

✓ The CSD hosted by the NBE serves as the clearing and settlement infrastructure:

> - The CSD holds all public and private sector securities on behalf of the security holders.
> - The CSD, integrated with NBE's Real Time Gross Settlement System (RTGS), handles the security settlements, while cash settlements are executed by NBE's RTGS
> - ESX trading members are expected to have two separate settlement accounts within their settlement bank – client settlement/pool account and own/proprietary settlement account.

✓ Clearing and settlement of securities and proceeds will be specific to the types of markets and securities

> - Settlement type of the ESX equity market will be conducted on a delivery vs payment method (DVP). Settlement of trades between market participants on ESX markets is carried out by delivery of securities against cash payment on a reciprocal and simultaneous basis. This process will also occur within a standard timetable, which refers to the period from the trade date to settlement date.
> - The market is a pre-funded model i.e. securities and cash need to be provided before submitting an order.
> - Relevant short selling and margin trading rules will be set in due course for relevant participants and types of asset class.
> - The settlement period for various asset classes trading on ESX maybe different (e.g. the equity trades settle at T+2 , while for fixed income market (T-Bills, T-Bonds, Corporate Bonds etc.) trades settle at T+1, settlement period of money market instruments will be set at T+0 .

# OUR TECHNOLOGY

03

# Automated Trading System (ATS)

We provide an electronic trading solutions for the Ethiopian Capital Market Ecosystem. ESX's ATS provides an integrated matching engine, comprehensive off- market & negotiated trade mechanism, pre-trade risk management, post-trade reporting, in-built surveillance reports and a market dissemination system.

## Multi – Exchange, Multi- Market,  Multi-Asset Classes

The ESX ATS facilitates the configuration of multiple ESX markets i.e. order driven, quote driven and hybrid markets with various attributes including operating hours, access to market, risk management.

Similarly, the ATS allows trading of multiple asset classes such as Equities, Bonds, Mutual Funds and Exchange Traded Funds (ETFs) etc.

## Multilateral trading

The system supports ESX operations by offering multilateral trading, allowing multiple participants to trade different instruments in a centralized market. Orders are matched automatically based on predefined criteria, such as price and time.

## Negotiated Trades – Bilateral Trading

The system facilitates management of negotiated trades for multiple asset classes. Through a separate Graphical User Interface (GUI), order submission is provided in the trading workstation to negotiate a deal. A seller / buyer can negotiate the deal with single or multiple counter parties (sellers or buyers), upon affirmation from the counter party the system generates a trade and sends confirmation to both seller and buyer. Prior to trade affirmation, the negotiated deals can be cancelled.
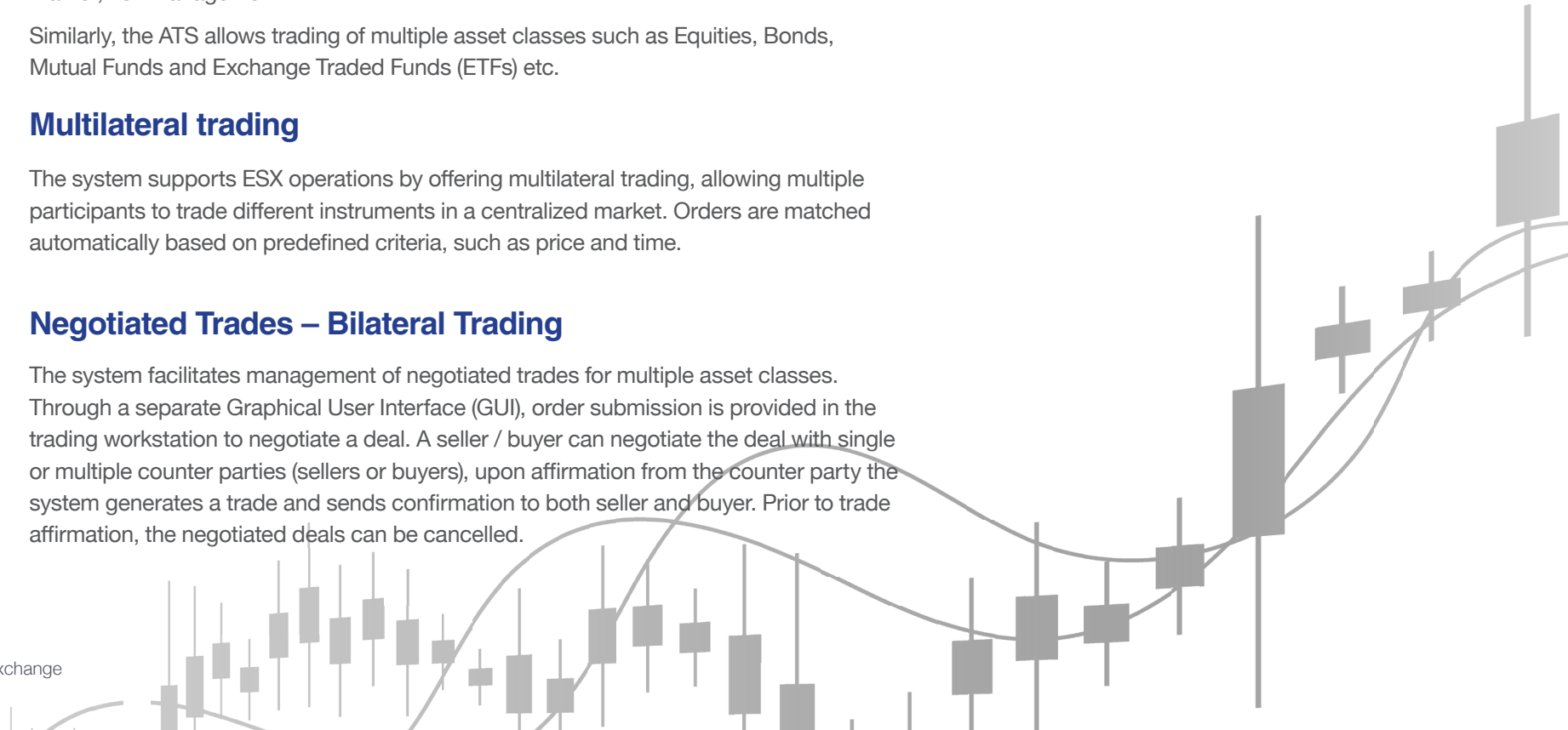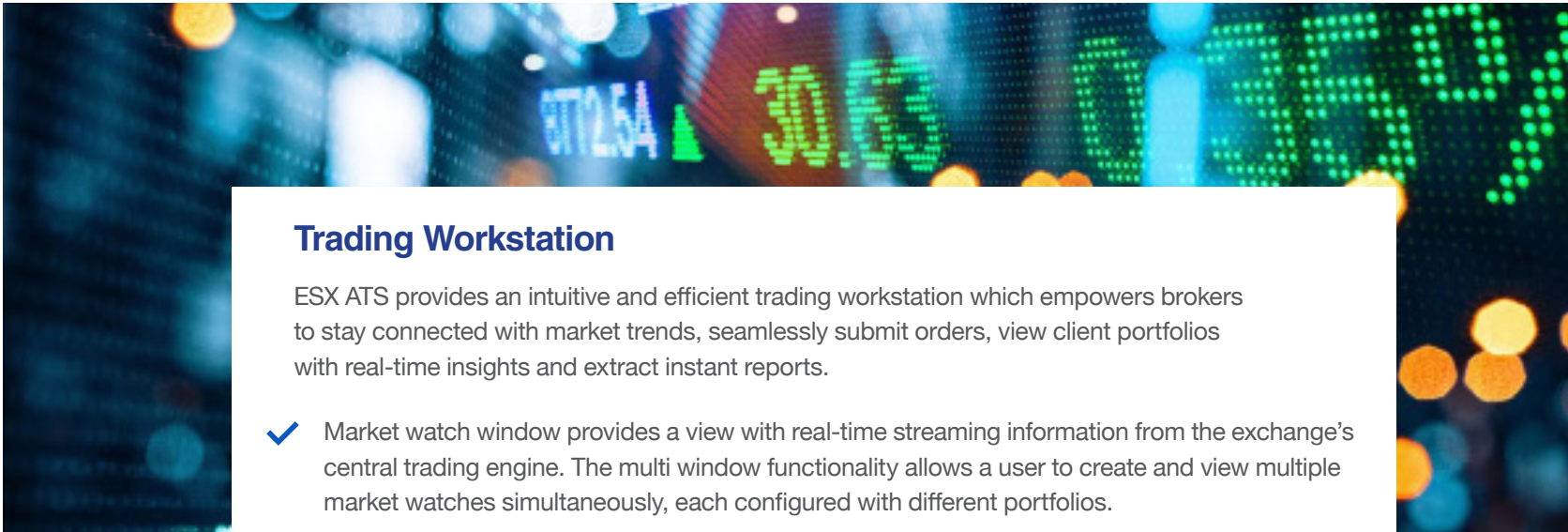
## Trading Workstation

ESX ATS provides an intuitive and efficient trading workstation which empowers brokers to stay connected with market trends, seamlessly submit orders, view client portfolios with real-time insights and extract instant reports.

✓ Market watch window provides a view with real-time streaming information from the exchange's central trading engine. The multi window functionality allows a user to create and view multiple market watches simultaneously, each configured with different portfolios.

✓ The market picture provides information related to the order book at the exchange level for a particular contract/instrument.

✓ Traders can group various contracts/instruments to create various portfolios. These portfolios can then be applied to views such as the market watch or the ticker.

✓ Order Book: queued order attributes are displayed in the order book. Traders can cancel or change the status of queued order by using the order book

✓ Trader view provides details in respect to previous trade executed during the day. Trade filters can enable a trader to query any specific trade and can effectively search for trades based on client code, trade specifications etc.

✓ Trades can set net positions and exposures where they can track their own as well as their clients' positions contact/instrument wise. Real-time marks to market competition provides the trader with an immediate view of profits and losses. At the same time, traders can analyze the exposure of the client to the brokerage firm.
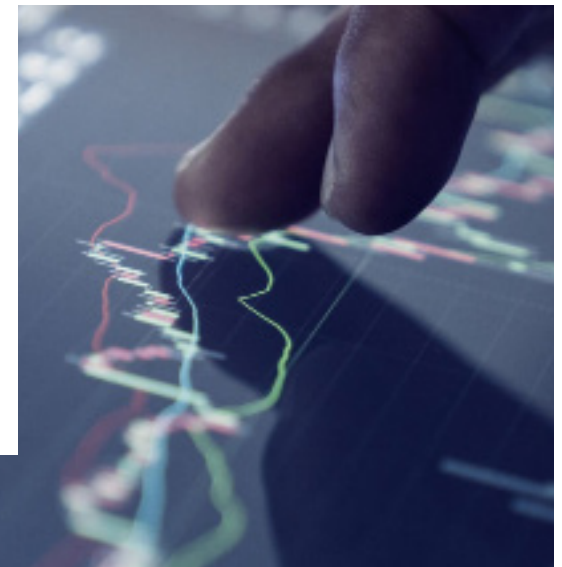
# Key Features

- Can employ various latency management techniques, including true HTTP, streaming, adaptive streaming, congestion handling, frequency & bandwidth control

- Supports industry standard protocols, such as FIX/FAST & SWIFT to support integration with other industry systems along with database to database and file- based information exchange

- Integrated risk management system linked with CSD to validate brokers/ client balances against respective depository positions

- Complete audit trail of all order and trade activity, including sequence accounting and micro-time stamping of transactions maintained for auditing purposes

- Manages internal transaction journal to reconstruct market to exact point in time.

- All communication (except public/market data) exchange is encrypted using industry standard procedures

- User authentications are supported by passwords, two-factor authentication, pin-codes, IP bound access, machine specific access etc.

- Designed as a parallel and distributed system for high availability and supports horizontal as well as vertical scaling.

# Shared Broker Back Office & Order Management System

As part of its market development objective, ESX is availing its members a state-of-the- art broker back office and order management system (ESX BBO) that automates the business process of the brokerage firm as per industry standards. It reduces administrative work of the users via process automation and allowing broker-dealers to focus on core business activities.

The order management system provides web enabled interfaces as well as an easy-to- use mobile trading app, user interactions through multiple channels, including emails, SMS, and includes in built pre-trade risk management terms of portfolio, collateral and margin adequacies.

## Key Features

- End to end process automation for brokers and dealers that reduces paperwork

- Integrated risk management system to corroborate brokers/client balances against corresponding depository positions.

- Web based platform for brokers integrated with mobile trading platform supporting all features of real-time trading along with watch list management, live market data streaming & portfolio tracking

- Integration with CSD for quick reconciliation

- Complete Straight Through Processing

- Role-based access control, instant contract notes generation and issuance

- Adherence to Know-Your-Customer policy for improved compliance

- Multi-level transaction authorization control – Maker-Checker Model

- Support to multiple asset classes

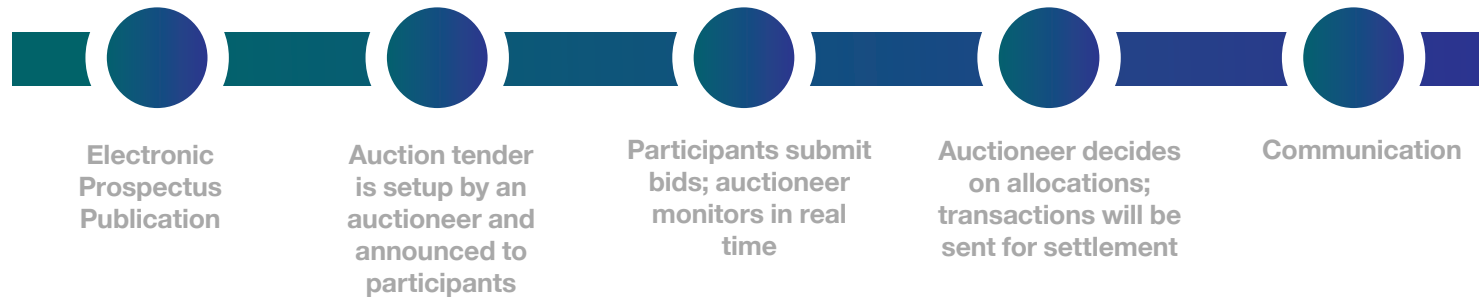- Management of multiple settlement types at instrument level

# ESX e-IPO / e-Auction Platform

## Your Gateway to Efficient Securities Auctioning

ESX's upcoming e-IPO/ e-Auction Platform supports issuers, market intermediaries and investors in achieving a fair and efficient allocation of financial instruments via either a market-based book building exercise or fixed price auction-based method of primary market equity or debt offerings. ESX expects the service to transform primary market securities auctioning, serving the needs of investors, bidders, and administrators alike. It enables an issuer to conduct a primary offering and auction process with various market participants across a wide variety of equities, fixed income, and money market instruments in an efficient manner.

The e-Auction platform enables an auctioneer (i.e. issuer of securities in primary offering) to manage the complete auction life cycle: from the publishing of the auction calendar through to auction results announcement and delivery of the transaction data to its chosen third parties for settlement and clearing.

| Electronic Prospectus Publication | Auction tender is setup by an auctioneer and announced to participants | Participants submit bids; auctioneer monitors in real time | Auctioneer decides on allocations; transactions will be sent for settlement | Communication |

Various types of Auction style and customizable allocation algorithms

- ✔ Primary issuance
- ✔ Competitive
- ✔ Non-competitive
- ✔ Dutch

## Highlights
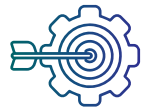
**Bid Management**

**Auction Management**

**News Management**

**Prospectus Management**

**Bidding Trends**

**Role Based Access control**

## Key Features

✓ **AUCTION MANAGEMENT**
Creates new auctions, manages ongoing auctions, and adjusts or cancels auctions as required.

✓ **INTEGRATION**
Can be integrated with Trading System, Currency Exchange system, Depository and any third party.

✓ **BID MANAGEMENT**
Submits bid in the ongoing auctions and provides the flexibility to adjust or retract bids as needed.

✓ **BID CHART**
Displays all bids with varying prices and their corresponding volumes from each participant, alongside the current cut-off price.

✓ **DASHBOARD**
Provides a comprehensive overview of auction-related data and offers insightful analytics on primary market transactions.

✓ **SECURITY**
Offers multi-factor authentication, role-based access control, and encryption options to ensure robust security measures

✓ **PROSPECTUS MANAGEMENT**
Publish and circulate prospectus of configured securities.

✓ **MULTI-LINGUAL SUPPORT**
Emphasizes user-friendliness and inclusivity by offering multi-lingual support, benefiting user of diverse language backgrounds.

✓ **REPORTING**
Offers transactional reports, auction reports, summary transaction reports & list reports

✓ **ACCESS CONTROL**
Creates the users, assigns roles, and manages their privileges.

✓ **SETTLEMENT TYPE**
Supports multiple settlement types (configurable) up to

# Auction Management

Creates new auction with the following types, natures and methods:

## AUCTION TYPE

### Initial Offering:

Issuing of new instruments.

### Reopening:

Reissuing of existing instruments.

## AUCTION METHOD

### Fix Price:

Allocation is done on a fixed process, specified by the issuer.

### Book Building:

The system or administrator determine the cut off price based on the configured price discovery mechanism and allocation is done.

## AUCTION NATURE

### Competitive:

Open for all members and their clients

### Non-competitive:

Open for Specific members

## Dashboard

It provides a holistic view of auction-related data and insightful analytics of the primary market transactions. Dashboard explicitly displays graphical visuals representing data including:

- ✓ Comparison of Issued, Demanded and Allotted quantities
- ✓ Auction Type Percentage Ratio
- ✓ Bidding Trend
- ✓ Successful Allocations

**Dashboard**          **Chart Section**          **Auction Detail Section**

## Bid Management

Efficiently submit bids in the ongoing auctions along with the feature to modify or cancel their bids, as necessary.

**Bid Submission**

## Reporting

Comprises a comprehensive reporting module offering various reports accessible to authorized users.

| Auction History Report | Auction Result Report | List of Participants | List of Issuers |
|---|---|---|---|
| User List | Securities List Report | Summary of Transactions | Payment Schedule |
| ISIN Statement in Chronological Order | Settlement Report of Primary Market | Primary Market Collection Report | Primary Market Payment Report |

# OUR SELF-REGULATORY ORGANIZATION (SRO) MANDATES

04

# ESX Rulebook: Highlights

## Volume A

### General Rules

The volume provides the definition of key terms used in the Rulebook and sets out the general principles that will be applicable across the remainder of the volumes.

## Volume B

### Membership Rules

This volume provides rules governing the relationship between the Exchange and Trading Members. The membership rule states that a securities broker, securities dealer, investment banks, and market makers may be admitted as ESX's Trading Members. The volume also provides:

- ✔ The condition for approval-in-principle and full-membership admission

- ✔ The ongoing obligations of trading members such as periodic financial reporting and notifications of changes in the conduct of their business, beneficial ownership etc.

- ✔ Rules governing the registration of participants such as market makers, digital sub-brokers, and appointed representatives of the trading members

- ✔ Administrative measures that can be taken by ESX Vis-à-Vis trading member.

## Volume C

### Listing Rules

ESX's listing rules provide the listing requirements for both the equity and fixed income market. This

listing rules outline the main requirements for listing, which include among others,

- ✔ Market capitalization, track record, profitability or revenue growth, public float requirements

- ✔ The financial and corporate governance reporting requirements

## Volume D

### Trading Rules

This volume sets out rules that are relevant for:

- ✓ The management of client accounts, and client assets by trading members

- ✓ The trading operations including order handling and best execution principles, the management of error trades and orders

- ✓ The exchanges trading operations including trading days and hours, principles of matching orders,

- ✓ direct electronic market access, clearing and settlement

- ✓ The conduct of trading members prohibited activities and schedules of administrative sanctions.

## Volume E

### Disciplinary Procedures and Dispute Resolution

The volume sets out rules that deal with:

- ✓ Complaints management and disciplinary procedures against trading members

- ✓ Settlement of civil disputes between trading members

# ESX Trading Members

ESX trading members are licensed brokers, dealers, investment banks and market makers that are admitted as members of the exchange. Members play a pivotal role in the financial ecosystem by actively executing trades on behalf of themselves or their clients and providing liquidity to the overall market. Their operations are fundamental to market efficiency and stability.

## Categories of ESX Trading Members

Trading members can vary based on regulatory frameworks and exchanges but generally include:

- ✓ **Broker:** A firm that buys and sells securities on behalf of clients, earning a commission for its services.

- ✓ **Dealer:** A firm that buys and sells securities on behalf of clients' accounts or for their own account.

- ✓ **Investment Bank:** is a non-deposit taking financial institution that facilitates companies and governments to raise capital through underwriting, facilitates mergers and acquisitions, and acts as a financial adviser or broker.

- ✓ **Market-Maker:** A firm that ensures the availability of supply and demand for one or more securities by continuously quoting buy and sell prices for those securities, committing to buy or sell at those prices, thus providing liquidity.

# Services Provided by Trading Members

### 1 Execution of Trades

- ✓ Members facilitate the buying and selling of securities on behalf of clients or for their own accounts and report these trades to the clearing and settlement system.
- ✓ Efficiently manage and execute trade orders to ensure timely and accurate transactions.

### 2 Investment Advisory and Research

- ✓ Provide tailored investment advice based on market conditions, financial goals, and risk tolerance.
- ✓ Offer detailed research and analysis on market trends, securities, and investment opportunities.

### 3 Underwriting and Issuance

- ✓ Assist in the issuance of new securities by underwriting and distributing shares or bonds for companies raising capital.
- ✓ Facilitate Initial Public Offerings (IPOs) by managing the process of listing new companies on stock exchanges.

### 4 Market Making

- ✓ Offer to buy and sell securities at specified prices to provide liquidity, ensuring a continuous market for these securities.
- ✓ Maintain the bid-ask spread to facilitate trading and price discovery.

### 5 Client Services and Support

- ✓ Offer various support to clients including account management, trade execution, and other trading-related inquiries.
- ✓ Provide resources and training to help clients understand market dynamics and trading strategies.

# Regulation and Supervision of Members

Trading members are expected to adhere to the highest standards of integrity, competence, and financial soundness, ensuring reliable and transparent trading practices.

# Benefits of Membership

### Exclusive Trading Rights

Members have direct access to trade on the ESX platform, allowing them to execute buy and sell orders on behalf of their clients or for proprietary accounts.

### Comprehensive Support Services

ESX provides members with cutting-edge technology platforms, advanced analytics, and real-time data to optimize trading strategies and ensure seamless operations. Additionally, members receive ongoing support, including training, regulatory updates, and access to ESX's network of professionals.

### Networking and Collaboration

ESX membership connects you with a wide network of market participants, including domestic and international investors, issuers, regulatory bodies, and financial service providers. This provides ample opportunities for collaboration, partnerships, and deal-making.

### Regulatory Overview

Operating within a regulated and transparent framework, ESX Membership provides members with an opportunity to operate within a trusted market environment. Adherence to regulatory requirements and international best practices in market operations ensures that both issuers and investors have confidence in the marketplace.

# How to Become a Trading Member

**In line with the Capital Market Proclamation 1248/2021, ECMA Service Providers Directive and ESX Rule Book; capital market service providers have to fulfil the following conditions to become members:**

## Becoming a member

### 1. Qualification/ Eligibility

> Only a share company or private limited company can apply to become a member of the ESX.

> To be eligible, the company must either be licensed by the ECMA or be in the process of obtaining a license as a Securities Broker, Securities Dealer, Investment Bank, Market Maker from ECMA.

> An application for a membership license shall be made as prescribed by the ESX Membership Rules.

### 2. Application Requirement

The applicant shall provide the following documents to obtain Approval In Principle (AIP):

> Completed ESX membership application form

> Certificate of commercial registration or investment permit from the relevant government body

> Relevant incorporation documents, such as the memorandum of association and amendments thereof

> If there is a legal entity as a shareholder of the applicant, incorporation documents showing the beneficial owners and/or directors of the legal entity.

> List of key individuals and entities with significant influence in the organization

> Board resolution approving the application for membership

> Corporate profile, including the board of directors and proposed registered individuals

> Business plan outlining strategy, objectives, and services

> Organizational chart showing reporting lines

> Confirmation that senior executive officers and registered individuals meet the required qualifications and criteria

> Attestation of ethics and conduct from the applicant, investors, directors, or officers

> Audited financial statements, if applicable

> Addresses for the registered office

> Attestation of compliance with relevant laws, directives, and regulations

> Proof of payment of applicable ESX fees

Once an applicant meets the membership admission requirements and ESX conducts interviews with the board of directors, and top management, as applicable, ESX will grant an AIP. The AIP is valid for six months, during which time the applicant must complete all operational requirements.

An AIP shall be converted to a full membership certificate only when ESX has conducted a certification Inspection. To obtain a membership certificate an applicant must fulfill the requirements illustrated below.

### *Documents Required:*

- > Valid capital market services provider license from ECMA for trading/dealing in securities
- > Copy of the letter of registration for Appointed Representatives from ECMA
- > Undertaking by the applicant and registered individuals
- > Sample client account opening forms, including KYC requirements
- > Compliance status with technology (documented the extent of its technological capacity), internal control, and risk management as specified by ESX
- > Details of operating systems in place
- > Evidence of registration with a licensed or authorized CSD
- > Proof of payment of the membership admission fee
- > Business systems and procedures for proper conduct

### *Bank Accounts Required:*

- > Client bank account for receiving and paying client funds (for securities brokers or dealers)
- > Proprietary bank account for securities transactions (for Securities Dealers)
- > Operational bank account for the applicant's funds

### *Compliance Requirements:*

- > The Registered Individual(s) meet(s) the ECMA's fit and proper criteria and competency requirements
- > Proof of compliance with regulatory and supervisory requirements specified by The Exchange
- > Adherence to any additional requirements set by ESX.

# Market Surveillance

To ensure a fair, reliable, orderly, and transparent trading environment for investors, ESX continuously monitors its markets to detect and prevent market abuse, including activities such as insider trading and market manipulation.

ESX employs a specialized surveillance system tailored to the needs of its markets, conducting real-time monitoring of all transactions. The system generates alert signals, which are then analyzed alongside findings from investigations into suspicious activities. These measures help safeguard the transparent, orderly, and fair operation of the market.

In its market surveillance efforts, ESX works closely with key stakeholders, including the ECMA, the CSD, market intermediaries, and issuers. This collaboration enables ESX to take timely and effective action against any identified market abuse, further enhancing the security and integrity of the market.
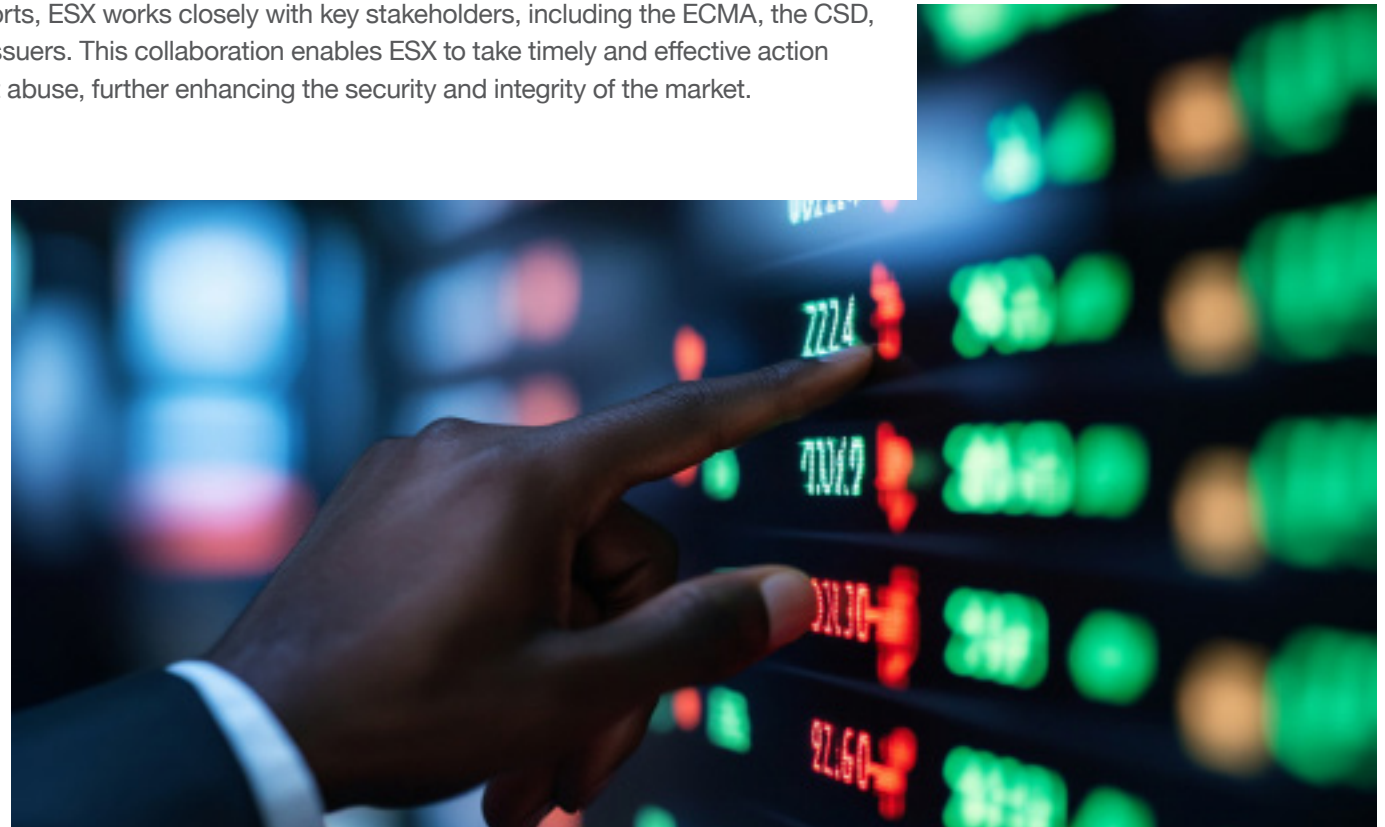
**Ethiopian Securities Exchange**

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