Financial market development, policy and regulation: the international experience and Ethiopia’s need for further reform

Abay Yimer, S.

Citation for published version (APA):

General rights
It is not permitted to download or to forward/distribute the text or part of it without the consent of the author(s) and/or copyright holder(s), other than for strictly personal, individual use, unless the work is under an open content license (like Creative Commons).

Disclaimer/Complaints regulations
If you believe that digital publication of certain material infringes any of your rights or (privacy) interests, please let the Library know, stating your reasons. In case of a legitimate complaint, the Library will make the material inaccessible and/or remove it from the website. Please Ask the Library: https://uba.uva.nl/en/contact, or a letter to: Library of the University of Amsterdam, Secretariat, Singel 425, 1012 WP Amsterdam, The Netherlands. You will be contacted as soon as possible.
# Table of Contents

Acknowledgement .............................................................................................................. i  
Acronyms and Abbreviations ......................................................................................... vii 
Notes on Some Terms .................................................................................................... ix  
Summary in Dutch ........................................................................................................ xi  

**Chapter 1: Introduction**  
1.1. Background ............................................................................................................. 1  
1.2. The Research Problem and Questions ................................................................. 1  
1.3. The Research Objective and Significance ............................................................... 2  
1.4. The State of Literature and Research Methodology ............................................... 2  
1.5. The Scope of Research .......................................................................................... 4  
1.6. The Chapters ......................................................................................................... 4  

**Chapter 2: The Development, Policy and Regulation of the Banking, Insurance and Microfinance Markets**  
2.1. History and Current State ...................................................................................... 6  
2.2. The Objectives of Regulation ............................................................................... 16  
2.3. The Areas and Instruments of Regulation ............................................................. 24  

2.3.1. Prudential Regulation ......................................................................................... 24  

2.3.1.1. Market Entry and Exit Requirements ............................................................... 24  
2.3.1.2. Capital Adequacy, Reserving and Provisioning Requirements ............................. 46  
2.3.1.3. Accounting, Balance Sheet and Valuation Rules ................................................ 54  
2.3.1.4. Liquidity and Solvency Requirements ............................................................... 56  
2.3.1.5. Functional and Ownership Separation Requirements ......................................... 60  
2.3.1.6. Risk Diversification Requirements .................................................................. 66  
2.3.1.7. Risk Transferring Requirements ..................................................................... 69  
2.3.1.8. Information Acquisition and Exchange Requirements ...................................... 72  
2.3.1.9. Fund Guarantee Requirements ....................................................................... 74  

2.3.2. Competition Regulation ..................................................................................... 78  

2.3.2.1. The General Adoption of Competition Regulation ........................................... 78  
2.3.2.2. Treatment of the Financial Markets ................................................................. 81
2.3.3. Market Conduct Regulation ------------------------------------------ 87
  2.3.3.1. Regulation of Insider Dealing and Market Manipulation 87
  2.3.3.2. Regulation of Contract Terms ------------------------------- 90
  2.3.3.3. Regulation of Product Distribution ------------------------ 92
  2.3.3.4. Regulation of Governance and Auditing ------------------ 97
  2.3.3.5. Regulation of Information Disclosure -------------------- 105

2.3.4. Systemic Stability Regulation --------------------------------------- 111
  2.3.4.1. Regulation of Interest, Foreign Exchange and Premium 111
  2.3.4.2. Payments and Settlement Systems Oversight --------------- 117
  2.3.4.3. Emergency Liquidity Support, Lender of Last Resort and State Ownership ----------------------------------------------- 120

Chapter 3: The Development, Policy and Regulation of Securities Market 127

3.1. History and Current State --------------------------------------------- 127
3.2. The Interests for and against Development of the Market ---------- 134
3.3. The Need for Development and Potential Functions of the Market - 135
3.4. The Constraints and Measures to Develop the Market -------------- 142
3.5. Modelling the Market Structure and Its Regulation --------------- 152
  3.5.1. Modelling the Structure and Regulation of Initial Issuance of Securities --------------------------------------------- 152
    3.5.1.1. Modelling the Company Law Regime ----------------------- 152
    3.5.1.2. Modelling the Market for and Regulation of Initial Issuance ----------------------------------------------- 161
  3.5.2. Modelling the Structure and Regulation of Trading in Securities - 167
    3.5.2.1. Modelling Structure of the Market and Its Intermediation 167
    3.5.2.2. Modelling the Clearing and Settlement of Transactions -- 206
    3.5.2.3. Modelling Regulation of the Market --------------------- 213
      3.5.2.3.1. The Approaches of Regulation ----------------------- 213
      3.5.2.3.2. The Regulation of Market Entry --------------------- 223
      3.5.2.3.3. The Ongoing Regulation ---------------------------- 226
Chapter 4: The Development, Policy and Regulation of Private Pensions

4.1. History and Current State .................................................. 243
4.2. The Functions of Pensions ................................................. 252
4.3. The Rationale and Direction of Reform .............................. 255
4.4. Modelling the Pension Structure and Its Regulation ............ 264
   4.4.1. Modelling the Pension Structure ................................. 264
   4.4.2. Modelling the Regulation ........................................ 271
   4.4.2.1. The Reasons and Objectives of Regulation ............. 271
   4.4.2.2. The Instruments, Contents and Approaches of Regulation 273

Chapter 5: The Design of Means of Enforcement of Regulation

5.1. The Enforcing Organs ...................................................... 282
   5.1.1. Identity of the Organs ............................................. 282
   5.1.2. The Powers and Functions of the Organs .................... 287
      5.1.2.1. The Traditional Powers and Functions ............... 287
      5.1.2.2. The New Roles ............................................. 296
   5.1.3. The Coordination between the Organs ....................... 301

5.2. The Sanctions ............................................................... 305
   5.2.1. Administrative Sanctions ........................................ 305
   5.2.2. Civil Sanctions .................................................. 308
   5.2.3. Criminal Sanctions ............................................. 310
   5.2.4. The Problem with the Civil and Criminal Sanctions and the Solution .................................................. 311

5.3. The Legal Protection Against Regulatory Flaw .................... 315
   5.3.1. The Ground for Protection ..................................... 315
   5.3.2. The Means of Protection ....................................... 316
      5.3.2.1. Control by the Legislature and Chief Executive of Government .................................................. 316
      5.3.2.2. Control by Courts ......................................... 317
      5.3.2.3. Control by Peripheral Institutions .................... 320
      5.3.2.4. Control by the Public .................................... 321

5.3.3. The Treatment of Individual Consumers .......................... 322
5.4. The Regulatory Backing --------------------------------- 323
  5.4.1. The Political Support --------------------------------- 323
  5.4.2. The Legislative Backing ----------------------------- 325
  5.4.3. The Funding ---------------------------------------- 326
  5.4.4. The Skill Base ------------------------------------- 328

5.5. The Use of International Cooperation and Principles ------ 330
  5.5.1. The Use of International Cooperation ---------------- 330
  5.5.2. The Use of the Basel and IAIS Principles ----------- 337
  5.5.3. The Use of the IOSCO, IOPS, ICN and Other Principles -- 345

Chapter 6: Summary and Conclusion 353

  6.1. The Development, Policy and Regulation of the Banking,
       Insurance and Micro-Finance Markets ---- 353
  6.2. The Development, Policy and Regulation of Securities Market - 363
  6.3. The Development, Policy and Regulation of Private Pensions -- 369
  6.4. The Design of Means of Enforcement of Regulation ------- 374
  6.5. General Lesson -------------------------------------- 381

List of Reference 382

  Books and Articles ---------------------------------------- 382
  Policies, Laws and Policy Related Documents of Ethiopia ------ 405
  Directives of the National Bank of Ethiopia ---------------- 412
  Reports, Proposals, News and Information in Ethiopia ---------- 418
  International Principles, Standards, Notes and Information ------- 422

Annex 438

  Tables to Chapter Two ----------------------------------- 439
  Tables to Chapter Three ---------------------------------- 465
  Tables to Chapter Four ----------------------------------- 505
  Tables to Chapter Five --------------------------------- 525