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NATIONAL BANK OF ETHIOPIA

## DEMATERIALIZATION OF GOVERNMENT AND NBE SECURITIES

### DIRECTIVE NO. MFAD/001/2025

**WHEREAS**, it is necessary to transition from physical paper-based securities to an electronic book-entry form, which is held in a Central Security Depository (CSD), which is essential for enhancing market efficiency, integrity, security, transparency, accessibility, reducing systemic risks, stability of the securities market and promote investor confidence.

**WHEREAS**, a secure electronic system for issuance, ownership, and transfer of government/NBE securities will foster a dynamic and sustainable market, benefiting investors, institutions, and the broader economy.

**WHEREAS**, as a banker, fiscal agent and financial advisor of the Government; National Bank of Ethiopia is empowered to determine the manner of dematerialization of government securities.

**NOW, THEREFORE**, in accordance with Article 6 (20), Article 53 (2) of the National Bank of Ethiopia Proclamation No. 1359/2025 and Article 53(1(b)) of the Capital Market Proclamation No. 1248/2021, the National Bank has issued this Directive as follows.

#### 1. Short title

This Directive may be cited as “**Dematerialization of Government and NBE Securities DIRECTIVE NO./MFAD/001/2025**”.

#### 2. Definitions

For the purpose of this Directive, unless the context provides otherwise:

- 2.1. “**Beneficial Owner**” means the ultimate owner of a government or NBE security, entitled to all the rights, benefits, powers and privileges and all liabilities, duties and obligations in respect of, or arising from the security.



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- 2.2. **“Book-entry”** means an electronic record system for dematerialized securities where records of ownership changes are kept electronically using a computerized system.
- 2.3. **“Central Securities Depository”** Means to a system:
- 2.3.1. for central handling of securities;
- a. where securities are immobilized or dematerialized and held in custody by, or registered in the name of the company or its nominee company for depositors and dealings in respect of these securities are effected by means of entries in securities accounts without the physical delivery of certificates; or
  - b. which permits or facilitates the registration, clearing and settlement of securities transactions or dealings in securities without the physical delivery of certificates; and
- 2.3.2. that provides other facilities and services incidental thereto.
- 2.4. **“Central Securities Depository (CSD) Member”** Any institution that has authorized access to the CSD.
- 2.5. **“Central Securities Depository Rules”** means the set of rules, procedures, and guidelines issued by the Central Securities Depository operator under the National Bank of Ethiopia, which govern the rights, responsibilities, and conduct of participants in the CSD system, including the processes for the registration, clearance, settlement, and safekeeping of securities.
- 2.6. **“Dematerialization”** means converting existing physical government securities into electronic form and issuance of new government and NBE securities only in electronic recoding form.
- 2.7. **“Dematerialization Date”** means a specific day, declared by the National Bank on which paper-based Government Securities no longer serve as evidence of ownership and the official record of ownership is maintained exclusively by the CSD.
- 2.8. **“Electronic Record”** means an electronic representation of ownership, transaction details, or other relevant information related to government or NBE securities, maintained in a secure electronic system.





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- 2.9. **“Licensed securities exchange”** means a securities exchange to which an exchange license has been issued under Ethiopia Capital Market Authority Proclamation;
- 2.10. **“Government”** means the Government of the Federal Democratic Republic of Ethiopia
- 2.11. **“Government Securities”** means Debt instruments issued by the Federal Democratic Republic of Ethiopia.
- 2.12. **“Investor”** means any person or legal entity that buys or holds government or NBE securities with the expectation of a financial return from such transaction.
- 2.13. **ISIN (International Securities Identification Number)** means a security code that uniquely identifies a security globally for the purposes of facilitating clearing, reporting and settlement of trades.
- 2.14. **“Issuer”** refers to the Ministry, or the National Bank of Ethiopia (NBE) as an agent of the Ministry or on its own behalf, issuing government securities and NBE securities to investors.
- 2.15. **“Know Your Customer or Client (KYC)”** means a mandatory and recurring process of identifying and verifying a client's identity, to understand a client's activities, provide better service, and prevent financial crime and money laundering.
- 2.16. **“Ministry”** means the Ministry of Finance or the Ministry for the time being responsible for matters relating to finance of the Federal Government of Ethiopia
- 2.17. **“National Bank”** means the National Bank of Ethiopia.
- 2.18. **National Securities Identification Number (NSIN)** means an alphanumeric code used to identify a specific security or financial instrument for the purposes of facilitating clearing, reporting and settlement of trades.
- 2.19. **“NBE Securities”** means debt securities issued by the National Bank for the purpose of monetary policy operation.
- 2.20. **“Nominee Account”** means an account where securities are held in the name of a third-party other than the beneficial owner for convenience and administrative purposes.



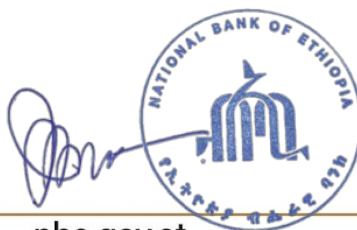


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- 2.21. **“Omnibus Account”** means an account where Securities of several beneficial owners are consolidated in one account opened in the name of a Central Security Depository (CSD) Member or a Nominee.
- 2.22. **“Person”** means any natural individual or legal entity
- 2.23. **“Pledged Security”** means a security used as collateral by a Beneficial Owner in securing a debt/ a loan or any other commitments.
- 2.24. **“Pledgee”** means a person to whom a pledge is given.
- 2.25. **“Pledger”** means a Beneficial Owner who pledges his security to guarantee payment on a loan contract, the payment of a debt or any other commitments.
- 2.26. **“Securities Account”** means an account opened on Central Security Depository in which Government or NBE Securities are credited or debited.
- 2.27. **“Securities”** means any financial instrument, in any legal form, that represents ownership of a government security or NBE securities in a financial transaction. Such instruments are negotiable subject to approval from the relevant authority, tradable, and issued by the federal government or NBE.
- 2.28. **“Shadow Register”** means a separate register of holders of securities maintained by the issuer to reflect the record of the Central Securities Depository (CSD).
- 2.29. **“Untendered securities”** means government securities that have not been dematerialized due to either the security holder not presenting the securities or valid proof of ownership to a CSD member for dematerialization or the failure of the security holder to collect the physical certificate from the issuer.
- 2.30. In this Directive, any expression in the masculine shall include the feminine.

### 3. Scope of Application

- 3.1. This Directive shall apply to all Government and National Bank of Ethiopia (NBE) Securities which have been issued or to be issued using the CSD,



whether traded on a licensed securities exchange or in an over the counter (OTC) market.

#### **4. Registration of Securities with CSD**

- 4.1. All government and NBE securities shall be registered in the Central Securities Depository (CSD).
- 4.2. The National Bank, acting as an agent, shall be responsible for categorizing and registering Government Securities or its own Securities at the CSD.
- 4.3. The registration process shall ensure the centralization and accurate documentation of securities issuance, ownership, and transfers, to support transparency and efficiency within the Government Securities market.
- 4.4. The registration shall include up-to-date details of government or NBE securities holders. NBE, as an agent, shall ensure the completeness and maintenance of this information in collaboration with the Ministry.
- 4.5. The CSD's registry electronic record shall include identification details of securities holders, securities, quantity issued and other information as required in the Central Securities Depository Rules.

#### **5. Legal Nature of Dematerialized Government and NBE Securities**

- 5.1. Dematerialized Government and NBE securities are legally recognized, valid and enforceable financial instruments.
- 5.2. Ownership shall be documented through electronic records maintained by the CSD registry, serving as definitive proof for all transactions and claims.
- 5.3. Ownership transfers shall occur electronically through book-entry transactions within the CSD system.
- 5.4. The electronic register maintained by the CSD shall serve as the authoritative record of ownership, documenting securities holders and their respective holdings.
- 5.5. Dematerialized securities of the same issue shall be fungible, ensuring uniform valuation and market liquidity.



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- 5.6. Securities of the same class, type, and rights issued by the same issuer are interchangeable in the market without affecting their value.
- 5.7. The issuance, ownership, and transfer of dematerialized government securities shall be governed by applicable laws regulating the CSD and government securities market, ensuring investor protection and enforceability of rights.

## 6. Responsibility of Stakeholders

- 6.1. The National Bank as an Agent shall:
  - 6.1.1. Initiate and oversee the dematerialization processes in collaboration with the Ministry.
  - 6.1.2. Communicate relevant timelines and requirements to securities holders.
  - 6.1.3. Verify the authenticity of securities issued in the form of physical certificates and resolve discrepancies in collaboration with the Ministry.
  - 6.1.4. Collaborate with CSD Members and other stakeholders to ensure smooth execution of the process.
- 6.2. The responsibility of the Central Securities Depository Operator of the National Bank shall include:
  - 6.2.1. Acting as Custodian of Electronic Government and NBE Securities records.
  - 6.2.2. Maintaining the electronic book-entry system.
  - 6.2.3. Creating unique accounts for securities holders when asked by CSD member specifically for Omnibus Account.
  - 6.2.4. NSIN/ISIN(National Security Identification Number/International Securities Identification Numbers) and ticker symbols for Government and NBE Securities
  - 6.2.5. Ensuring data integrity, accuracy, and compliance with regulatory standards.
  - 6.2.6. Providing timely notifications to investors and authorized entities.



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- 6.3. CSD Members are mandated to act as intermediaries between Government securities holders and the Central Securities Depository (CSD) operator. They shall:
- 6.3.1. Facilitate and guide investors through the dematerialization application process.
  - 6.3.2. Conduct Know Your Customer (KYC) verification to authenticate investor identities.
  - 6.3.3. Collect physical certificates and required forms from investors and promptly forward them to the CSD operator.
  - 6.3.4. Relay updates, notifications, and instructions from the CSD to investors.
  - 6.3.5. Address investor inquiries and assist in resolving any discrepancies in the dematerialization process.
- 6.4. All CSD Members must ensure full compliance with regulatory requirements issued by;
- 6.4.1. National Bank
  - 6.4.2. The Ministry
  - 6.4.3. CSD
- 6.5. Investors holding government securities shall:
- 6.5.1. Respond to notifications from NBE and comply with specified deadlines.
  - 6.5.2. Submit physical certificates along with duly completed dematerialization forms given by the CSD operator to CSD Members.
  - 6.5.3. Verify and ensure the accuracy of all submitted information, including personal details, contact information, and account credentials.
  - 6.5.4. Regularly monitor his accounts to confirm the successful crediting of securities.
  - 6.5.5. Adhere to all applicable regulations as prescribed by Ministry, NBE, CSD operator and CSD Members.

## 7. Investor Onboarding and Account Management Framework

### 7.1. Know-Your-Customer (KYC)







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- 7.1.1. Investors shall provide a valid government-issued identification, a unique identifier for recognition within the CSD system, and additional details such as contact information, tax identification numbers, as required by the CSD.
- 7.1.2. CSD Members shall verify all submitted documents for authenticity and accuracy.
- 7.1.3. The KYC process shall ensure compliance with CSD requirements, mitigating risks of unauthorized access or fraud.
- 7.1.4. CSD Members shall maintain accurate KYC records for regulatory and audit purposes.

## **7.2. Account Opening Framework and Investor Requirements**

- 7.2.1. No person shall deal in dematerialized Government Securities without first opening a Government Securities account.
- 7.2.2. Investors shall provide the required documentation, including:
  - a. A unique identifier, such as a national ID and tax identification number
  - b. Any other documents required as per the CSD rule
- 7.2.3. CSD Members shall:
  - a. Conduct due diligence to ensure transparency and compliance in the Government Securities market.
  - b. Collect and verify all required documentation per Central Securities Depository Rules.
- 7.2.4. Upon successful KYC verification, the CSD Member shall:
  - a. Open a government account for the investor in the CSD system accordingly.
  - b. Link the investor's account to the CSD Member, granting the member the authority to perform authorized transactions on behalf of the investor.
  - c. Notwithstanding sub-article 7.2.4(a) of this Article, apply for account opening to the CSD registry in the case of an omnibus account.







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### 7.3. Securities Account Types and Management

7.3.1. A CSD Member shall open and maintain securities accounts for themselves and their clients.

- a. Accounts shall be segregated to protect ownership rights, ensuring:
  - i. CSD member assets are distinct from client assets.
  - ii. Clients' ownership rights are clear and protected.
- b. The CSD shall establish various types of securities accounts, including:
  - i. **Segregated Client Accounts:** Opened in the name of a Beneficial Owner for direct ownership identification.
  - ii. **Nominee Accounts:** Opened in the name of an authorized nominee (CSD Member) acting on behalf of one or more Beneficial Owners.
  - iii. **Omnibus Accounts:** Opened in the name of a CSD Member, consolidating multiple Beneficial Owners' securities into a single account. CSD Member shall verify KYC and apply to the CSD admin for Omnibus account creation.
- c. Each securities account registered with the CSD shall be under the name of either:
  - i. The Beneficial Owner, or
  - ii. A CSD Member, as applicable.

## 8. Government Securities Reconciliation and Data Migration to CSD

The transition of Government Securities from physical certificates to the Central Securities Depository (CSD) in the form of electronic record shall follow a structured process of reconciliation, verification, and dematerialization to ensure accurate migration of ownership records.

### 8.1. Data Reconciliation and Preparation

- 8.1.1. The NBE in collaboration with the Ministry shall collect and review all existing records of Government Securities holders, including issued securities, holder details, and transaction history and pledged securities.





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- 8.1.2. NBE in collaboration with the Ministry shall validate the total issued Government Securities against outstanding debt ledgers.
- 8.1.3. NBE in collaboration with the Ministry shall cross-check the face values of Government Securities with issuance records.
- 8.1.4. Holder details, including names, addresses and legal beneficiaries, shall be updated to comply with Central Securities Depository Rule requirements.
- 8.1.5. The reconciliation process shall ensure that the total securities issued match with the holdings recorded for investors and shall resolve any identified discrepancies
- 8.1.6. The Ministry in collaboration with NBE shall verify pledged securities, ensuring accurate records of pledgers and pledgees.
- 8.1.7. Once reconciliation is done, NBE in collaboration with the Ministry shall segment the register by category under security type and maturity date.
- 8.1.8. The reconciled data shall be registered on CSD for NSIN/ISIN creation for each government security.
- 8.1.9. The CSD operator shall allocate NSIN/ISIN and ticker symbols to uniquely identify securities throughout the dematerialization process.

## 8.2. Migration and Dematerialization Process

- 8.2.1. The NBE shall notify all Government Securities holders of the migration and dematerialization initiative and shall provide instructions for updating contact details and submitting relevant documentation.
- 8.2.2. Securities holders shall submit their physical certificates to CSD Members, along with a standardized dematerialization form which will be provided by the CSD operator and a unique CSD account number.
- 8.2.3. CSD Members shall forward the collected forms and certificates to the CSD operator at NBE
- 8.2.4. The CSD operator of NBE shall send the collected certificates to the Ministry for verification





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- 8.2.5. Upon verification by the Ministry, the CSD operator shall credit the investor's government securities account with the corresponding NSIN/ISIN and ticker details.
- 8.2.6. The NBE stores the dematerialized physical government securities for a minimum of two years.
- 8.2.7. After two years NBE in collaboration with the Ministry, shall deface and destroy the physical certificates to prevent misuse.
- 8.2.8. The CSD operator shall notify securities holders and CSD Members of successful dematerialization.
- 8.2.9. Investors shall access their electronic account status through CSD Members for secure management of their securities.

## 9. Pledged Government Securities and Dematerialization Process

- 9.1. Pledged government securities used as collateral to secure loans, provide guarantees, or fulfill other contractual obligations shall remain with the original holder of securities unless formally transferred to third party.
- 9.2. The dematerialization process for pledged securities shall require explicit recognition of their pledged status, adhering to the following:
  - 9.2.1. Relevant documentation, such as agreements between the Pledger and the Pledgee, shall confirm the pledge arrangement and verify that ownership has not been transferred.
  - 9.2.2. Pledger should have prior consultation with the Pledgee necessary to surrender physical certificates for dematerialization.
  - 9.2.3. The Pledgee shall cooperate in the dematerialization process to ensure its success.
- 9.3. All pledged Government Securities shall be eligible for dematerialization, guided by the following principles:
  - 9.3.1. Ownership and associated rights shall remain with the Pledger, subject to the terms of the pledge.
  - 9.3.2. The Pledgee's rights shall be secured through marking and lien placement within the CSD.

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9.3.3. Dematerialized securities shall be inaccessible for trading and transferring to both parties until the pledge conditions are fulfilled and the pledge is formally released.

9.4. After successful dematerialization, pledged securities shall be electronically recorded in the CSD under the following provisions:

9.4.1. Securities shall be registered under the Pledger's account and marked as "pledged" to restrict access.

9.4.2. A lien, in accordance with Central Securities Depository Rules, shall ensure that neither the Pledger nor the Pledgee can trade or transfer the securities until all contractual obligations are met.

9.4.3. The CSD operator shall maintain transparency by clearly reflecting the pledged status in its records.

## 10. Communication During Dematerialization

10.1. The National Bank in collaboration with the Ministry, as an issuer, shall notify all Government Securities holders to initiate the dematerialization of Government Securities

10.2. The notification shall be published in a widely circulated newspaper, in both Amharic and English, at least once per month for three consecutive months.

10.3. In addition to the newspaper publication NBE and the Ministry shall publish on their websites.

## 11. Dispute Handling During Dematerialization

11.1. A complainant shall submit any errors or disputes related to the dematerialization of Government Securities to the NBE within ten (10) working days of their occurrence.

11.2. The National Bank shall investigate and resolve the issue or make necessary corrections within forty-five (45) working days from the date of receiving the complaint.

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- 11.3. The NBE, acting as the issuer's agent, will assess the complaint using the details provided by the complainant and cross-checking with the Ministry's internal records.
- 11.4. If the complaint remains unresolved after forty-five (45) working days or if the complainant disagrees with the NBE's decision, they may escalate the matter to the higher judicial authorities for final resolution.

## 12. Official Record, Shadow Register and Statement of Account

### 12.1. Official Record of Investors

12.1.1. The Central Securities Depository (CSD) shall maintain the official ownership record for all dematerialized Government Securities. This record shall include:

- a. The names of Government Securities holders who have surrendered their physical certificates for crediting into their securities accounts maintained with the depository.
- b. The names of securities holders who have not yet surrendered their physical certificates.
- c. any additional information required by the CSD operator at any time.

12.1.2. The records maintained by the CSD shall be kept in electronic form, and securities that have the same issuance date and tenor have the same ISIN/NSIN.

12.1.3. The CSD operator role in maintaining the records shall not be interpreted as making it an agent of the Issuer for registration services.

### 12.2. Shadow Register Maintained by Issuers

12.2.1. The Issuer shall maintain an electronic shadow register of its investors.

12.2.2. The issuer shall continuously update the shadow register to reflect transactions and transfers recorded in the electronic system of the CSD.

12.2.3. The CSD operator shall provide periodic reports to the issuer detailing transactions on issued securities.





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12.2.4. The Issuer maintaining the shadow register shall have systems in place to facilitate continuous reconciliation and updates with the CSD's operator official records.

### 12.3. Statement of Accounts

12.3.1. The CSD Operator/CSD member shall issue periodic account statements to all account holders in accordance with its Central Securities Depository Rules, detailing the securities held in their names.

12.3.2. Account holders may request an account statement at any time from CSD member.

12.3.3. Account holders may submit a written request to the CSD operator for an official statement of account covering all or any of their deposited securities.

12.3.4. The CSD operator shall provide the account holder with an official account statement, duly signed and stamped upon receipt of such a request.

## 13. Declaration of Government and NBE Securities Dematerialization

13.1. The National Bank shall declare all Government Securities as dematerialized, thereby converting them from physical to electronic form. This declaration shall include the official date on which dematerialization takes effect.

13.2. The National Bank shall issue a formal public notice specifying the dematerialization date. The notice shall be disseminated through appropriate and widely accessible channels to ensure all stakeholders are adequately informed of the transition.

## 14. Special Account for Untendered Government Securities

14.1. The Ministry shall maintain two accounts: one designated as a special securities account for untendered securities, and another as a special fund account to which any benefits accruing from the special securities account shall be transferred.

14.2. Five years after the declaration of dematerialization, all Government Securities represented by physical certificates that have not been tendered

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for Dematerialization shall be automatically transferred to a special account administered by the Ministry at the Central Securities Depository (CSD) registry.

- 14.3. All distributions, interest payments, or other benefits accruing to such government securities shall be irrevocably transferred to the special fund account and shall not be refunded or paid to the securities holder unless such holder provides both reasonable and legally valid justification for non-compliance.
- 14.4. Any securities holder seeking to reclaim securities from the special account must submit a formal written request to the NBE, accompanied by sufficient justification for failure to complete dematerialization within the specified timeframe.
- 14.5. Upon verification and confirmation of ownership by the NBE, and upon determination that the justification presented is legally acceptable, the securities shall be reinstated to the holder's CSD account together with all associated benefits.
- 14.6. In cases where the justification is deemed unacceptable under this article sub article 14.5, the matter shall be conclusively resolved in accordance with Article 19, Sub-article 19.1(19.1.1).

## 15. Cost of Dematerialization

- 15.1. The transition of Government Securities to dematerialization involves financial and non-financial costs, including investment in technology to enable seamless interactions with the CSD, such costs shall be covered by each market participant.

## 16. CSD as a Transfer Agent

- 16.1. The CSD operator shall create a specific NSIN/ISIN for the specific security which replaces individual Government Securities certificates.
- 16.2. The specific NSIN/ISIN created by the CSD operator shall serve as the legal and operational foundation for the electronic transfer and settlement of Government Securities.



## 17. Investor Protection

- 17.1. The CSD shall safeguard investor interests by implementing secure electronic transaction systems, using advanced encryption and authentication measures to prevent unauthorized access, fraud, and cyber threats.
- 17.2. The CSD shall adhere to strict data privacy regulations to ensure the confidentiality and security of investor information.

## 18. Prohibited Practices

- 18.1. Refusal to submit physical certificates of Government Securities for dematerialization.
- 18.2. Submission of any false or misleading information or documents during the dematerialization process.
- 18.3. Dematerialization of physical certificates or crediting of a CSD account for securities holders where the submitted documents contain known errors or inconsistencies.
- 18.4. Unauthorized transfer of Government Securities from the special account without prior approval from the Ministry.

## 19. Penalties and Corrective Actions for Prohibited Practices

Violation of the prohibited practice stated under article 18 of this directive shall result in the following penalties:

- 19.1. Refusal to submit physical certificates of Securities for Dematerialization
  - 19.1.1. Investors who refuse to tender physical certificates for dematerialization within the specified time frame shall be penalized by up to 5% of the face value of the securities in question.
  - 19.1.2. CSD Members who refuse investors request for dematerialization shall be penalized up to 3% percent of the face value of the securities that the investor wants to dematerialize
- 19.2. Submission of False or Misleading Information or Documents



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- 19.2.1. A fine of **5 %** of the face value of the affected securities by the misleading information/document.
- 19.2.2. Legal prosecution under the applicable Criminal Code.
- 19.3. Dematerialization of physical certificates or crediting the CSD account of securities holders with errors and inconsistencies shall result in the immediate correction of the error or inconsistency and the person responsible for such error or inconsistency shall be punished in accordance with the employees Administration of Employees of the National Bank of Ethiopia Council of Ministers Regulation Council of Ministers Regulation No.157/2008;
- 19.4. Transfer of Government securities from the special account without the approval of the ministry shall result in the immediate reversal of the unauthorized transfer and the person responsible for the transfer shall be punished in accordance with the Administration of Employees of the National Bank of Ethiopia Council of Ministers Regulation Council of Ministers Regulation No.157/2008;
- 19.5. A Pledgee who fails to surrender the physical securities will be fined Birr 10,000, plus Birr 1,000 for each day of delay.

## 20. Effective Date

This Directive shall enter into force as of 30 day of June 2025.

  
**Mamo Esmelealem Mihretu**  
Governor

