



Institutional Innovation or Regulatory Vacuum? Legal Foundations of Somalia's National Stock Exchange

Biographical Note

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Introduction

In June 2025, Somalia formally inaugurated the National Securities Exchange of Somalia (NSES) as the country's official, state-supported stock exchange. This development marked a significant institutional milestone in the evolution of Somalia's financial sector. However, organized securities trading in Somalia did not begin with this launch. A decade earlier, the Somali Stock Exchange (SSE), founded in 2015 by the private Somali Economic Forum, had already initiated structured trading activities. (Tugba Bas, 2022).

The Somali Stock Exchange (SSE) operated on a formal basis and introduced preliminary mechanisms for share trading within Somalia's emerging financial landscape. Although privately established and functioning in a developing regulatory environment, it represented an early attempt to create market-based financial infrastructure. The establishment of the National Securities Exchange of Somalia (NSES), therefore reflects not the birth of securities trading in Somalia, but rather a transition from private initiative to formal state-backed institutionalization (Tom Minney, 2025).

At the inauguration event, the President of Somalia, Hassan Sheikh Mohamud, addressed attendees and remarked that;

'...Somalia is open to investment and collaboration with both domestic and international partners. He emphasized that the country has begun establishing its national stock exchange, which is expected to create a formal market for the buying and selling of shares by Somali citizens and foreign investors alike. He characterized this initiative as an important milestone in Somalia's ongoing economic transformation....'

At its core, the issue is not simply the creation of a stock exchange, but whether a system of market-based governance can meaningfully function in the absence of a coherent legal framework. Securities markets are not merely financial platforms; they are legal institutions. They regulate ownership, disclosure, fiduciary duties, investor protection, listing standards, enforcement mechanisms, and dispute resolution. Without a statutory architecture defining these elements, the operation of a securities market risks becoming a financial activity detached from legal certainty.

Market-based governance presupposes enforceable rules. Share trading involves contracts, transparency obligations, minority shareholder protections, and supervisory authority. In the absence of securities legislation, regulatory oversight, and clear allocation of institutional competence, capital market activity may occur, but it does not necessarily constitute structured market governance. Rather, it may reflect financial experimentation without juridical consolidation (Chris Brummer, 2008).

Accordingly, the central analytical question is whether the emergence of a stock exchange, unsupported by comprehensive securities law, represents genuine market-based reform or merely the appearance of financial modernization. A functioning market-based governance model requires more than trading infrastructure; it requires a normative and regulatory foundation capable of sustaining investor confidence, ensuring accountability, and embedding the market within the rule of law.

A robust legal framework underpins the effective functioning of a dynamic financial sector. It provides the structural assurance necessary for financial institutions to operate with certainty, integrity, and transparency. When properly designed and enforced, such a framework enhances investor confidence, advances financial inclusion, and creates conditions conducive to responsible innovation (Ewhubare, 2024).

It may be likened to the foundation of a carefully constructed building. Just as a stable foundation ensures structural durability, a sound legal framework sustains the institutional architecture of the financial system. It supports essential pillars such as consumer protection, safeguards against money laundering, and the harmonization of regulatory standards, thereby ensuring coherence, stability, and long-term resilience (Ewhubare, 2024).

The trading platform reflects a range of listed entities drawn from sectors such as finance, telecommunications, infrastructure, real estate, technology, logistics, and utilities. This sectoral spread suggests an effort to position the exchange as a broad-based capital market aligned with national economic development. However, the legal status of these entities and the regulatory framework governing their listing remain central to determining whether the market operates within a consolidated securities regime or primarily under general corporate law (see, *Somali Stock Exchange, 2026*).

What is Stock Exchange Market?

A stock exchange market is a centralized, regulated marketplace either a physical location or an electronic platform where investors, traders, and brokers buy and sell shares of publicly listed companies, bonds, exchange-traded funds (ETFs), and other financial instruments. It functions as a, secure ‘trading floor’ that brings together buyers and sellers to ensure fair, transparent, and efficient transactions (CFI, 2023). As of January 2026, the New York Stock Exchange (NYSE) is the world's largest stock exchange, with a total market capitalization exceeding \$44 trillion.

What is the National Market System (NMS)?

The National Market System (NMS) is designed to regulate how stocks are traded across different exchanges. It ensures that trades are executed efficiently and fairly, and promotes transparency by giving all investors access to accurate trading information (James Chen, 2025).

Why the Financial Sector Particularly Somalia’s Stock Market Requires a Legal Framework

The financial sector is among the most heavily regulated areas of economic activity because it operates at the core of capital allocation and macroeconomic stability. A credible legal framework provides the certainty, enforceability, and institutional trust necessary for financial markets to function efficiently. Where rules governing contracts, property rights, insolvency, and regulatory oversight are unclear or fragmented, financial transactions become uncertain and investor confidence weakens (Agnieszka Paulina, 2025).

Modern financial systems also depend on statutory authorization for core operations, including securities issuance, exchange supervision, payment systems, and banking regulation. Legal rules mitigate systemic risk, prevent excessive speculation, and protect market participants. In their absence, financial activity may occur, but it lacks structural safeguards and long-term stability.

This directly informs the present discussion: the establishment of a national stock exchange must be anchored in a coherent legal and regulatory framework. Market infrastructure alone does not create market governance; it is the consolidation of legal authority, supervisory competence, and investor protection that determines whether a securities market is institutionally sustainable (World Bank, 2012).

In assessing the development of a national stock exchange, three analytically distinct dimensions may be identified.

First, there is the functional dimension, where a trading platform exists, securities are listed, and investors are able to buy and sell shares. At this level, the market operates in fact.

Second, there is the institutional dimension, reflected in formal state endorsement, public inauguration, and support from relevant governmental authorities. This layer confers political and administrative recognition upon the exchange.

Third, the critical inquiry, however, concerns the regulatory dimension. The sustainability and credibility of a capital market depend upon the existence of a coherent legal framework governing securities issuance, disclosure standards, supervisory authority, enforcement mechanisms, and investor protection. In the absence of a consolidated securities regime, the market may exist operationally and institutionally, yet remain legally under-structured.

Fragmented Legal Foundations of Somalia's Emerging Capital Market

1. Central Bank of Somalia

As Somalia continues to rebuild its institutional and financial capacity, the Central Bank occupies a pivotal supervisory position within the financial system. It exercises oversight over a wide range of entities, including commercial banks, remittance service providers, mobile money operators, insurance companies, real estate financing businesses *as per article 1 of the Financial Institution law of 2025*, capital market intermediaries, and microfinance institutions. Its mandate extends to licensing, supervision, regulatory enforcement, and, where necessary, revocation of authorization.

However, the concentration of such diverse regulatory responsibilities within a single institution raises structural concerns. While centralized supervision may reflect institutional constraints in a post-recovery context, the aggregation of multiple sectors under one authority risks administrative overload and regulatory inefficiency. In more mature financial systems, distinct regulatory bodies often oversee banking, insurance, capital markets, and other financial services separately, allowing for specialized expertise and clearer functional mandates (Llewellyn, 2006).

Under the existing legal framework, the Central Bank may exercise regulatory oversight over stock market activities to promote market integrity, investor protection, and transparency. Securities transactions would therefore be required to occur through brokers registered with the Central Bank, and any trading conducted outside authorized platforms would lack legal validity. However, in the absence of a dedicated securities statute specifically governing capital market operations, the regulatory basis for comprehensive securities market supervision remains incomplete.

2. Financial Institutions Law of Somalia No. 38 as amended in 2025

‘Financial institution’ means any company that is legally authorized to carry out or facilitate financial activities within the territory of the Federal Republic of Somalia. This includes banks, microfinance banks, mortgage finance companies, foreign exchange bureaus, money transfer businesses; deposit-taking institutions; savings and credit cooperatives (SACCOs); postal savings banks; capital market intermediaries; securities dealers; and any other financial institution or entity which, under the regulations of the Central Bank, is deemed to be a financial institution operating in accordance with Islamic Sharia.

While the statutory definition of **‘financial institutions’** is sufficiently broad to include capital market intermediaries and securities dealers, it does not create a comprehensive securities regulatory framework governing the operation of a national stock exchange.

Under **article 13 of the Financial Institution Act of 2025** the Central Bank is responsible for establishing, keeping, and regularly updating an official register of all financial institutions authorized under this law, including branch offices of financial institutions operating within the country.

Article 26 of the same act concerns registration and disclosure of share ownership, particularly where shares are held through financial institutions or nominees. Its relevance to a stock exchange is significant but limited in scope. It states that any person who holds shares in a company, whether in their own name or as a nominee on behalf of another person in a financial institution, regardless of the circumstances, the financial institution shall submit to the Central Bank a written report containing information relating to the ownership and any subsequent benefits derived from those shares.

3. Establishing the Investment Authority of Somalia Law No. 43 as amended in 2025

The *Law establishing the Investment Authority* does not expressly regulate the operation of a stock market. Although **Article 4 requires** domestic and foreign investors to obtain approval before commencing investment activities, this provision governs economic entry rather than securities trading.

A functioning stock market, by contrast, requires a distinct and specialized legal framework. Such a framework ordinarily includes comprehensive securities legislation, licensing requirements for brokers and dealers, formal listing rules for issuers, mandatory disclosure obligations, a clearly designated supervisory authority, and enforceable investor protection mechanisms. These elements are designed to regulate trading conduct, ensure transparency, and safeguard market integrity.

4. Basic Incorporation Requirements under the Companies Act (2019)

The Companies Act does not establish a securities regulatory regime; rather, it prescribes the foundational requirements applicable to any entity incorporated in Somalia, including those engaged in stock exchange activities. These statutory provisions govern matters of corporate identity, capital structure, governance organs, and managerial responsibility, thereby conferring legal personality upon establishment.

In this context, both the Somali Stock Exchange (SSE), established in 2015 as a private initiative, and the National Securities Exchange of Somalia (NSES), inaugurated in 2025 with State endorsement, would be subject to the incorporation requirements set out under the Companies Act. Compliance with these provisions ensures formal legal existence and organizational structures among others (*See, Article 13 of the Companies Act*)

Compliance with these provisions ensures legal personality, defined governance structures, share capital specification, and managerial accountability. However, incorporation under company law does not equate to authorization to operate as a regulated securities market. Corporate formation provides juridical existence, but it does not substitute for a specialized capital markets regime governing listing standards, trading conduct, disclosure obligations, and investor protection.



Conclusion, Findings and Recommendations

The establishment of the National Securities Exchange of Somalia (NSES) represents a significant institutional milestone in Somalia's financial development. However, the analysis demonstrates that the exchange currently operates within a fragmented legal framework. Its existence is functionally and institutionally recognized, yet its regulatory foundation remains dispersed across general corporate law, financial institutions legislation, and central bank oversight rather than consolidated within a dedicated securities statute.

In Somalia's current setting, the stock exchange appears to function largely on the basis of internal rulebooks and general corporate or financial legislation, rather than under a dedicated securities statute (***The National Securities Exchange of Somalia, Trading Rules (2025)***). In that respect, it may be compared to an early developmental phase similar to that of the United States prior to the 1930s, when exchanges operated primarily as self-regulating entities.

Historically, exchanges such as the New York Stock Exchange established their own listing requirements, enforced trading standards, and supervised member conduct without the oversight of a centralized federal securities authority. This changed following the 1929 market crash, when Congress enacted the Securities Exchange Act of 1934, which established the U.S. Securities and Exchange Commission and placed exchange self-regulation within a formal statutory and supervisory framework.

Absence of Dedicated Securities Legislation: No comprehensive securities statute currently governs listing standards, disclosure obligations, insider trading, market manipulation, or enforcement mechanisms.

Fragmented Regulatory Structure: Oversight is distributed across: The Central Bank of Somalia act of 2012, The Financial Institutions Law of 2025, The Investment Authority Law of 2025, and the Companies Act (2019). These laws regulate entry, incorporation, and prudential supervision, but do not constitute a unified capital market regime.

Institutional Concentration within the Central Bank: The Central Bank exercises wide supervisory authority over banking, remittance services, insurance, microfinance, and capital market intermediaries. This centralized structure may pose capacity and specialization challenges as the capital market expands.

Recommendations

Enact a Comprehensive Securities and Capital Markets Law: Somalia should adopt a dedicated securities statute defining: Listing requirements, Disclosure standards, Market conduct rules, Insider trading prohibitions, Enforcement powers, Investor protection mechanisms.

Establish a Specialized Capital Markets Regulatory Authority: Consideration should be given to creating either: An independent Securities Commission; or A distinct capital markets division within the Central Bank with clear statutory authority.

Formalize Exchange Self-Regulatory Status: If the National Securities Exchange of Somalia (NSES) is to operate with rule-making authority, its status as a self-regulatory organization should be explicitly recognized and supervised under statute.

Strengthen Transparency and Disclosure Frameworks: Mandatory prospectus requirements, continuous reporting obligations, and beneficial ownership transparency should be codified.

Develop Institutional Capacity and Technical Expertise: Regulatory development must be accompanied by training, technological infrastructure, and supervisory specialization to support sustainable market growth.

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