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In carrying its mission, the Financial Services Commission aims to:

- promote the development, fairness, efficiency and transparency of financial institutions and capital markets in Mauritius;

- suppress crime and malpractices so as to provide protection to members of the public investing in non bank financial products; and

- ensure the soundness and stability of the financial system in Mauritius.
Chairman’s Statement

Re-engineering our Financial Services

Maintaining a strong position in a fast-paced and competitive sector presents challenges and consequently the Financial Services Commission (FSC) needs to steer a clear path ahead for all non-banking financial services. The role of the Board of the Commission will be central to the successful delivery of our strategic objectives whilst fostering our corporate values and promoting a robust corporate governance framework. In 2011, there has been significant change in executive leadership with Ms Clairette Ah-Hen being appointed as the new Chief Executive.

Despite the difficult international economic conditions that prevail, the financial services sector showed resilience in the financial year 2011. On this note, and on behalf of the employees and Board of the FSC, I present to you the FSC’s Annual Report 2011.

Times of crisis and uncertainty generate a momentum which, if well harnessed, can help build the foundations for a new strategic vision. Many economies are still facing the post-crisis effects: economic growth is weak, unemployment is on its peak, capital markets are volatile, and the overall macroeconomic picture is uncertain. Mauritius witnessed a slight decline of the real GDP growth down to 4.1% in 2011 as compared to 4.2% in 2010 with a forecast of 3.6% for 2012.

Amidst such an environment, there is one certainty; the need to revisit our business strategy for our global business, capital markets and insurance sectors while capitalising on our sound regulatory framework, international best practices, fairness, efficiency and transparency of financial institutions and markets. Within the Mauritius International Financial Centre, the FSC will continue to play a major role in promoting cross-border financial services and structuring worldwide investments.

It is time however, to re-engineer the financial services sector, in relation to changing needs and challenges in our business environment. The financial services segment is a success story in Mauritius but we are now at crossroads and rethinking is essential.

There is a golden opportunity to tackle the issue of “substance”. Some critics have pointed out that Mauritian companies might lack substance and a business transaction is said to have commercial substance when its activities are tied down to the real economy. The current trend towards substance will require that Management Companies optimise on the soft and hard infrastructure and encourage their clients to reinforce their presence in Mauritius by making it the place of effective administration and management for their companies in operation.

By sovereign choice, Mauritius has opted to be a low tax jurisdiction. The various international assessments conducted by the IMF, World Bank and the OECD testify our commitment to international norms and standards and reaffirm our position as a jurisdiction of substance. We need to tap into the opportunities that exist in Mauritius and expand global business by employing more local people and leveraging on our proximity with Africa at a time where many are looking towards Africa. Global Business Companies should be encouraged to be listed on the Stock Exchange to spur liquidity on the stock market. The FSC will for its part consolidate the legislative framework to re-affirm our reputation as a clean and transparent jurisdiction.

The FSC has, over the past years, maintained an excellent reputation and forged a robust, regulatory framework with the right balance between regulation and business development. We have also widened the scope of application of our laws to accommodate more market players while ensuring a proper regulatory framework to spur the growth of the financial services sector.

Such an approach has enabled Mauritius to develop cost effective business operations, broad-based and sophisticated financial products which coupled with other factors such as our geographical location, a hybrid legal system of civil and common law and its growing network of double taxation agreements give us a competitive edge. What is required from the
Chairman’s Statement

industry is a well planned diversification strategy to encourage more companies from different sectors of the economy to do business from Mauritius, to be listed on the Stock Exchange or to penetrate new markets such as Islamic finance. The synergy and partnership between operators, government and regulators is of prime importance and is vital for healthy development of the financial services industry.

Our target market strategy is also being revisited. McKinsey Global Institute in its report of June 2010 forecasts that in 2020, Africa’s collective GDP will amount to USD 2.6 trillion with a consumer spending USD 1.4 trillion while Sub-Saharan Africa in 2011 showed an unprecedented opportunity for transformation and sustained growth. Economic growth in Sub-Saharan Africa, according to IMF forecasts is to grow by 6% in 2012.

As the shift for businesses moves to Africa, the diversification of target markets to mitigate the risks associated with the over-reliance on our actual major trading partners will be key to the sustainability of the Mauritius International Financial Centre. The number of Global Business Companies being registered in target African markets is increasing and this is encouraging. We need to tackle new markets with new tools and products. We now have the Limited Partnership Act 2011 and the Foundations Act 2012. We need now to venture into other fields such as Islamic finance, aircraft and shipping, treasury management or arbitration.

In today’s global economy, knowledge is an asset and our qualified pool of professional and dedicated bilingual workforce is one of the main assets we can today leverage on. However, our workforce will need to position itself in new niche areas and aim at providing more specialised expertise. To this effect, adequate career guidance is critical for our population all along the primary, secondary and tertiary education path. The industry must also ensure that their staff are re-skilled and keep pace with the ever-evolving nature and complexity of financial products.

Education will provide the structure for informed decisions and proper evaluation of risks related to financial products and services. It may be timely for us to include in our academic curriculum adequate information on a sector which is called to become the main pillar of our economy.

My final observation will be on our role as regulator in protecting consumers of financial services products and investors. Recent events have brought up the need for consolidation of consumer financial laws that are currently being handled by more than one body. In the insurance sector, we note lapses on the part of operators in certain instances such as for cases of damages and compensation for road accidents. In order to take action and bring significant change, we need a concerted effort by all stakeholders to look into remedial measures.

For us to succeed, everyone has to be part of this common innovative vision and the need to re-engineer our non-banking financial services sector is therefore critical for us to move ahead and remain competitive. The FSC has already adopted this innovative approach which needs to be encouraged.

Finally, my words of thanks go to the Board and Chief Executive for their dedication and invaluable support, the staff for their hard work and I extend my feeling of appreciation to Mr. Said Laloo, my predecessor for his wise leadership over the past six years.

Marc Hein
Chairman

1McKinsey Global Institute – Lions on the move: the progress and potential of African economy, June 2010
2Ernst and Young 2011 – Africa attractiveness survey
Report from the Former Chairperson on the Year 2011

The FSC spared no efforts in 2011 to further consolidate the financial services sector as a strong pillar of the economy.

The FSC achieved the key and strategic objectives set in late 2005 when I joined the Commission as Chairman and has worked relentlessly to sustain its vision as an internationally recognised financial supervisor committed to the sustained development of Mauritius.

The Commission showed its commitment to position Mauritius as a jurisdiction of substance on the world map with the right mix of legal vehicles, regulatory standards and levels of supervision. The latest World Bank’s Doing Business ranked the Mauritius jurisdiction 1st in Africa for the Ease of Doing Business. Mauritius remains amongst the top performing countries in terms of the ease of starting business and protecting investors.

A major milestone was reached recently following the admission of Mauritius as signatory to the IOSCO MMoU, demonstrating the FSC’s willingness and commitment to cooperate with international regulatory and supervisory authorities, and to preserve and strengthen the credibility of our regulated securities markets in Mauritius. This achievement demonstrates the result of considerable efforts by the FSC, and I have to thank the Ministry of Finance and Economic Development and the Bank of Mauritius for their strong support in this long process.

Sound Regulatory Development

The 2008 global financial crisis changed the regulatory landscape worldwide, and the FSC spared no efforts to ensure that the non-banking financial services sector in Mauritius remains well-regulated and whereby market confidence and integrity are preserved.

The Commission played a pivotal role to create a sound and favourable regulatory environment. 2011 was characterised by major developments, in the regulatory field, for the benefit of our licensed entities and stakeholders.

The Limited Partnerships Act was enacted in 2011 as a response to the increased business needs of our service providers and stakeholders, and the FSC actively engaged in consultation with industry’s stakeholders during the year under review on two pioneering laws, the Private Pension Schemes Bill and the Foundations Bill.

The above initiatives and efforts were focused to achieve a set of legislations so as to keep pace with cross-border trends in the offerings of products and services. Mauritius boasts a well-diversified and dynamic financial sector to cope with product innovations and changes.

In its continuous urge to adopt the highest norms of international standards and best practices, the FSC further ensured the reinforcement of its regulatory and disclosure regimes for GBC 2’s, which clearly demonstrates the seriousness of the Commission to meet the requirements of international standards setting-bodies.

Business and Markets Development

The FSC adopted since 2005 a business friendly approach which fostered, over time, a better understanding and greater proximity between the FSC and its various stakeholders.

With a view to encourage competition and facilitate market developments, a wide range of licences and authorisations were granted to companies interested to do business in several new and innovative areas, inter alia payments intermediary services and structured finance. The FSC continuously provided the necessary support for the introduction of new products and services in the non-banking financial sector of Mauritius.

Organisational Effectiveness

The FSC devoted significant amount of resources and time to up-skill and enhance capacity building during 2011.

The Commission revisited its organisational structure in order to address on-going challenges. Several specialist
groups and teams were established to work in a Matrix environment, to meet the project deliverables and targets established and approved by the Board.

A modern and dedicated Performance-Based Management system was implemented in 2011, and the Commission fine-tuned its continuous learning and development plan for the benefits of its staff.

**Domestic and International Cooperation**

The FSC expanded its collaboration with several domestic and international supervisory agencies through the signature of bilateral MOUs. A number of MOUs are being finalised with various regulatory counterparts since 2011.

Amendments were initiated to existing legislative framework to facilitate information exchange, technical cooperation and investigative assistance during 2011.

The FSC was associated with international standards setting bodies and domestic professional bodies in Mauritius in the organisation of major regional events. For instance, the February 2011 IOSCO-AMERC Conference, the October 2011 CFA Institute Conference series and the November 2011 IAIS Regional Seminar were co-hosted by the FSC.

**Note of Thanks**

I wish to record my deep thanks and sincere appreciation to the Vice-Chairperson and other members of the Board for their full support and contribution to the FSC’s achievements and active participation at meetings of the Board and Sub-Committees.

The initiatives taken by industry stakeholders to promote business development in Mauritius are highly commendable, and I thank them for their continuous support and cooperation with the FSC.

I seize the opportunity to wish my successor and the new Chief Executive all the very best in their respective missions.

The FSC staff performed an excellent job during the year under review, for which they deserve my congratulations.

_Said Laloo_
Chief Executive’s Statement

During the twelve-month period ended 31 December 2011, the FSC faced a number of challenges on various fronts. Let me take the opportunity through this statement, to mention some pertinent events and developments which occurred during the year.

The cascades of events, which led to the global financial crisis, brought enormous losses of wealth worldwide and there is now a strong need for regulators to promote higher standards of conduct which encourage efficient and well-functioning markets. Developed markets are imposing new conditions which require substantial resources and expenditure to demonstrate implementation and compliance, while other jurisdictions in the region are setting up international financial services centres. In this rapidly changing environment, the development of the sector, or even its survival, depends on our ability to operate more effectively than our competitors, to innovate and offer pragmatic solutions to the challenges we face.

At a time when an upsurge in the global economic outlook is uncertain, business levels slow down generally and lead to lower international financial flows. The year 2011 witnessed such a scenario and had an adverse impact on the flows of financial business to Mauritius. Furthermore, uncertainty with respect to the tax treatment of foreign institutional investors slowed down funds flow directed to the Indian market and coupled with adverse press coverage on the Mauritius jurisdiction, raised concerns amongst operators. In face of such adverse conditions, our focus has been to ensure the preservation of the image of Mauritius as a financial centre of substance and the FSC has continued to adhere to the highest standards of regulation.

On the local front, the non-bank financial sector displayed resilience. The non-bank financial sector in Mauritius has in fact recorded growth and it is encouraging to note that existing and new operators have consistently applied for licences for new products from the FSC.

Legislative Programme

Bearing in mind the economic challenges, new legislation and regulatory standards were introduced without undue impediment to the conduct of business. Draft legislation benefited from discussions with industry professionals with a view to ensuring a collective effort to overcome differences through constructive dialogue.

Following the financial crisis, there has been a call for more regulation and such reform can easily be blamed for any loss of business. Without any doubt, if the purpose of regulation is not properly understood, the task of the regulator to implement and to enforce rules will be challenging. The FSC has, in this perspective, adopted a non-conflicting attitude whereby divergence of opinions led to solutions rather than counterproductive activities.

Operations

In carrying out its functions, the FSC is guided by its main statutory objectives namely:

- to ensure orderly administration of the financial services and global business activities;
- to ensure sound conduct of business in the financial services sector and the global business sector;
- to elaborate policies to ensure fairness, efficiency and transparency of financial and capital markets; and
- to respond to new challenges and to take full advantage of new opportunities for achieving economic sustainability and job creation and study new avenues for development in the financial services sector.

In order to ensure a congruent regulatory framework, the FSC adopted an approach that addresses objectivity, efficiency and effectiveness. This approach ensures that the FSC strikes the right balance between relevant and fair rules and enforcement to maintain its competitive and innovative edge. Good regulatory standards are an integral part of our long-term strategic
Chief Executive’s Statement

objectives of maintaining a sound and well-reputed financial centre in Mauritius.

We cannot compromise on regulatory standards or the exercise of surveillance. To achieve optimal efficiency, the structural framework of the FSC is built upon a Matrix arrangement. This Matrix is composed of three Directorates – each made up, on average, of four clusters with focus on the core functions of the FSC.

Relationship with other organisations

In pursuing its statutory objective of fighting against financial crimes, the FSC relied on effective mutual cooperation with both local and foreign regulators.

The FSC continued to strengthen its partnership with other regulators of the region (CISNA and AMERC), in terms of assessment of the regulatory framework and capacity building in all non-bank financial services - capital markets, insurance, and the investor protection and education areas. The FSC devoted substantial resources in hosting workshops and conferences as well as in working committees for the development of a regional strategy for financial services. The commitment of the FSC to the success of this regional African partnership is built on sharing of knowledge, experience and capacity and maximising the strengths of each country for mutual benefits.

Information gathering and analysis

Statistics are unavoidable tools for trend analysis and policy-making both for the FSC and the industry at large for the decision-making process. To meet our regulatory responsibilities, quantitative information and regular accurate data obtained from licensees are crucial for ensuring prudential supervision. As the demand for statistics grows from international institutions on our markets, activities, numbers and types of participants, it is likely that we will require more information from our licensees. We do not underestimate the efforts required in compiling information and we are grateful to our licensees who participated in the statistics gathering exercises.

Licensing

The FSC processes applications for licences, registrations, approvals and authorisations of changes in the original application documents and reporting obligation of licensees. We are conscious that, to remain a competitive jurisdiction, applications must be processed in a timely manner, at no cost to quality. The Licensing cluster is committed to rendering the application approval process more efficient, transparent and reliable and reviewed its internal procedures to streamline the application process. The Licensing cluster processed more than 3,000 licences and registrations besides authorisations and approvals during the year under review.

Surveillance

As stated earlier, we cannot compromise on regulatory standards or the exercise of supervisory scrutiny. However, we are aware that we need to remain efficient by implementing best practices with appropriate and relevant supervision tools.

The FSC focused its risk-based approach on the level of risks to financial institutions. This approach ensures that adequate regulatory resources are appropriately dedicated according to the risks of providers of financial services.

Off-site examination of licensees’ accounts, filing of documents, on-site inspections as well as investigations were carried out by the Surveillance Directorate during the year under review. The Surveillance Directorate conducted offsite examinations of statutory returns and accounts of its licensees of the insurance and global business industries. The Capital Markets cluster braced up to the challenges of the quick-paced changes in the economic and financial environment. The sector attracted growing attention as major investment groups went through restructuring exercises in a bid to step up their presence in the market. With an increasing number of funds and funds’ intermediaries, a new cluster was established to review and revamp the existing RBS questionnaires and to better coordinate
Chief Executive’s Statement

the 2011/2012 on-site inspections cycle. Substantial resources were devoted to the systematic monitoring of the submissions of final constitutive documents and material contracts by newly licensed entities, within the prescribed deadlines.

Corporate Services

The Mauritius jurisdiction has the necessary ingredients to continually meet the test of a soundly regulated financial centre and the FSC, as the regulator of NBFI’s and global business, must adequately resource itself to meet expectations as an internationally recognised regulator.

Human Resources

The effectiveness of the regulatory work of the FSC depends on the quality of its staff. It is thus imperative for the FSC to have proficient staff dispensing high-quality and effective supervision over the institutions it regulates. Our human resource development programme lays emphasis on professional development and training. In this respect, members of our staff attended in-house, local and overseas training programmes. The staff shortage, in particular at executive level, was recognised and a needs analysis exercise was carried out. An extensive recruitment plan has been put in place to remedy the situation by 2012.

Other than the considerable efforts put in by Management and Staff, Board Members have played a critical role, committing their time and tendering wise counsels for the advancement of the FSC’s objectives.

Information Technology

Given the role that technology plays at the FSC in its operational and supervisory activities, the FSC engaged on a number of projects and initiatives which include the consolidation of the IT infrastructure, the enhancement of security systems, internal controls and business continuity planning.

With the end of the first phase of the implementation of an integrated information system, the Enterprise Resource Planning project, the FSC is embarking on the second phase to include remaining processes and other projects such as on-line applications, enhancement of surveillance tools and electronic archiving.

Fair treatment of investors and consumers

To ensure fair treatment of investors and consumers of financial services, it is important that an effective complaints mechanism is in place. The Communications cluster handles complaints and ensures that queries are lodged according to the procedures set by the FSC in a timely, efficient and professional manner.

A new programme for the promotion of consumer education which leads to a better understanding of the financial services sector amongst the youth, the media and the general public was launched in December 2011. It is expected that such a programme will contribute to greater inclusiveness of the whole community in the development of financial services.

It is equally important to ensure that licensees and staff apply high ethical standards and integrity in all their endeavours. To mark the 10th anniversary of the creation of the FSC, on the 1st of December 2011, all staff signed the pledge to uphold the FSC Staff Code of Conduct.

Conclusion

I would like to take this opportunity to express my gratitude to Mr. Said Laloo who served as the FSC’s Chairperson in the year 2011 and all members of the Board for their support since I joined the FSC in August 2011.

To conclude, it would be remiss of me to exclude reference to Mr. Prakash Seewoosundur, who acted as officer in charge for the period 1 January to 31 July 2011. I must congratulate him and the staff for showing such patience and resilience in what has been a
Chief Executive’s Statement

challenging year for the FSC. Most of them – if not all – would have realised that all the changes made as well as all our actions are geared towards making the FSC a highly respected and coveted regulatory institution. This Report testifies to their work and dedication.

Clairette Ah-Hen
Chief Executive
Our Organisation
Our Organisation

Financial Services Commission

The Financial Services Commission, Mauritius ('FSC') is the integrated regulator for the financial services sector other than banking and global business. The FSC was established in 2001 and operates under the Financial Services Act ('FSA'), the Securities Act ('SA') and the Insurance Act ('IA'). The FSC licenses, regulates, monitors and supervises the conduct of business activities in the non-banking financial services and global business sectors. On 01 December 2011, the FSC celebrated its ten years of existence.

In carrying out its mission, the FSC aims to:

- promote the development, fairness, efficiency and transparency of financial institutions and capital markets in Mauritius;
- suppress crime and malpractices so as to provide protection to members of the public investing in non-banking financial products; and
- ensure the soundness and stability of the financial system in Mauritius.

Key Objectives

- Ensure orderly administration of the financial services and global business activities;
- Ensure sound conduct of business in the financial services and global business sectors;
- Elaborate policies which are directed to ensuring fairness, efficiency and transparency of financial and capital markets in Mauritius; and
- Study new avenues for development in the financial services sector, to respond to new challenges and to take full advantage of new opportunities for achieving economic sustainability and job creation.

FSC Vision Statement

"To be an internationally recognised Financial Supervisor committed to the sustained development of Mauritius as a sound and competitive Financial Services Centre".
Board of Directors

The Board comprises of the following members:

Chairperson

Mr. Marc Hein (appointed 19 March 2012)

Vice Chairperson

Ms Mary Anne Philips

Other Board Members

Mr. Y. W. Manoj Appado
Mr. Radhakrishna Chellapermal
Mr. Sanjay Gopaul
Mr. Oliver Lew Kew Lin
Mr. Raj Makood

During the year under review:

- Mr. Said Laloo was the Chairperson of the FSC from 01 January 2011 to 31 December 2011;
- Mr. Prakash Seewoosunkur was the Officer in Charge for the period from 01 January 2011 to 31 July 2011;
- Ms Clairette Ah-Hen was appointed as Chief Executive of the FSC on 01 August 2011.
Mr. Marc Hein  
Chairperson

Marc Hein holds an LLB (Honours) from the University of Wales and a Licence en Droit from the University of Aix/Marseille. He is a barrister from Gray’s Inn, London and started practising law in 1980. He is the founder and Head of Juristconsult Chambers, an established law firm dealing with legal, corporate and fiduciary issues on a local and international basis. He was elected to the Mauritius Parliament in 1983 and was Chairman of the Mauritius Bar Council in 1992.

Marc Hein is the Editor of the Mauritius Business Law Review and was the Chairperson of the National Economic and Social Council of Mauritius from March 2011 to April 2012. He has acquired substantial expertise in all aspects of the practice of law whilst specialising in business law, including corporate, insurance, commercial, tax, insolvency, labour and intellectual property. Marc Hein is a member of the International Bar Association, International Fiscal Association and a fellow of the Mauritius Institute of Directors.

Ms Mary Anne Philips  
Vice-Chairperson

Mary Anne Philips is a practising Attorney since 1995. She holds a Maîtrise en droit and previously worked in the banking sector as in-house lawyer for the BNPI Group and in the insurance sector.

She specialises in company law, commercial law, bankruptcy law, insurance, financial services and banking as well as civil law. She is currently Chairperson of the American Chamber of Commerce - Mauritius.
Board of Directors

Mr. Y. W. Manoj Appado

A practising Attorney for the last 21 years, Manoj Appado has been the legal advisor of two local government authorities and of the Tourism Authority, another regulatory body.

Manoj Appado’s main field of practice is civil and commercial law. He has also previously been the Vice-President of the Association of Mauritian Jurists, an organisation defending human rights issues.

Mr. Radhakrishna Chellapermal

Radhakrishna Chellapermal is a member of the Association of Chartered Certified Accountants since 1980. He is presently Director, Economic and Finance at the Ministry of Finance and Economic Development. After working in the private sector for 6 years, he joined the Ministry of Finance in 1983, where he has been involved in various projects relating to the financial services sector including the setting up of the Stock Exchange.

He also assisted in the review of company legislation and the regulatory framework governing international business. Radhakrishna Chellapermal has served on various committees, including the Company Law Advisory Committee and the Mauritius Accounting and Auditing Standards Committee.

Mr. Sanjay Gopaul

Sanjay Gopaul is an economist and a graduate of the London School of Economics. He is the lead partner in DCDM E&M, an independent economic and management consultancy firm, part of the De Chazal Du Mée organisation. Before joining the private sector in 1999, he conducted research on export market development and foreign direct investment for the Mauritius Export Development and Investment Authority.

He now practises as a management consultant and works almost exclusively in sub-Saharan Africa. Sanjay Gopaul advises governments and public sector institutions on privatisation, public sector reform and organisational restructuring. He is widely solicited by the private sector for advice on corporate strategy and new business ventures.
Board of Directors

Mr. Oliver Lew Kew Lin

Oliver Lew Kew Lin is a graduate in Engineering and Computing from Oxford University. He set up one of the first Business Process Outsourcing companies in Mauritius in 1990, specialising in Desktop Publishing for export.

Oliver Lew Kew Lin is presently the Managing Director of the Services Arm of the Harel Mallac Group. He was formerly the Chairperson of the Mauritius Institute Advisory Council and the Export Processing Zone Development Authority. Oliver Lew Kew Lin has served on various boards and committees, including the National Computer Board, the Board of Governors of the University of Technology, Mauritius as well as the Board of a private bank.

Mr. Raj Makoond

Raj Makoond is the Executive Director of the Joint Economic Council. He is a Board Member of the European Centre for Development Policy Management and member of the Mauritius Negotiating Team on WTO matters as well as ACP-EU relations.

Raj Makoond has served as the Deputy-Secretary General of the Mauritius Chamber of Commerce and Industry from 1990 to 1993. From 1976 to 1990, he was economist and senior economist at the Ministry of Economic Planning and Development and was seconded to the Ministry of Commerce and Deputy Prime Minister’s Office and Ministry of Tourism. Raj Makoond holds a BA (Hons) in Economics and an MSc in Tourism Planning.
Ms Clairette Ah-Hen

Clairette Ah-Hen has a wide and in-depth experience in financial reporting and corporate capital structures. Before joining the FSC, she was responsible for monitoring compliance with financial reporting standards across the Sub-Saharan Africa for a large international accounting firm. She was the first Chief Executive Officer of the Mauritius Financial Reporting Council in 2005, and held the post of Senior Advisor for Corporate Affairs to the Ministry of Economic Development from 2003 to 2004. Prior to 2006, she was an Associate Professor and Dean of the Faculty of Law and Management of the University of Mauritius as well as a visiting fellow of the University of Birmingham (UK).

Clairette Ah-Hen also chaired several Committees at national level on Accounting and Auditing Standards and worked in collaboration with the World Bank. She has conducted management seminars and facilitated financial reporting and risk management training sessions in the United States, Europe and Africa.

In her capacity as Chief Executive of the FSC, Clairette Ah-Hen currently holds the post of Vice-Chairperson of the SADC-CISNA. She is a Council member of the Mauritius Financial Reporting Council and a member of Committee 1 – Issuer Accounting, Audit and Disclosure Committee of IOSCO.

She holds an MPhil and a BA (Hons) in Accounting and Finance and is a fellow member of the Institute of Chartered Accountants in England and Wales (ICAEW), and of the Chartered Institute of Management Accountants, UK (CIMA) and is a Chartered Global Management Accountant (CGMA).
Organisation Chart
Management Team

In carrying out the FSC’s mission, the Management Team is guided by the Code of Conduct for FSC Staff and the Core Values of the organisation, namely:

- Ethical Behaviour
- Team Work
- Professionalism
- Compliance with Rules

1st Row Seated (Left to Right):
Ashveena Gajeelee (International Cooperation and External Relations), Khemalini Hurdowar (Legal), Bharatee Bholah-Bissonauth (Insurance and Pensions Surveillance), Asha Gopee (Communications)

2nd Row Standing (Left to Right):
Namita Jagarnath-Hardowar (Human Resources), Jayshree Guness (Administration and Enterprise Risk), Shameema Jeeho (Licensing), Leena Doman-Brette (Market and Technical Development), Prakash Seewoosunkur (Information Technology), Jamshed Ali Khadaroo (Investment Funds and Intermediaries Surveillance), Veena Moloye (Executive Office)

3rd Row Standing (Left to Right):
Shailendrasingh Doongoor (Global Business Surveillance), Rajhans Puram (Finance), Warren Vardin (Capital Markets Surveillance), Dhamraj Oree (Insurance and Pensions Surveillance), Amit Kumar Ramjeet (Communications), Charlene Louis-Planche (Licensing), Pristy Tharanee (Licensing), Vishal Nawruttun (Global Business Surveillance)
Our Focus
Review of Trends

International Economic Perspective

After enduring a major slow down during 2011, global prospects are steadily strengthening again, but downside risks remain important. Indeed, during the last quarter of 2011, global economic activity weakened with the intensification of the Euro-zone crisis according to the International Monetary Fund (IMF) World Economic Outlook. The Global Gross Domestic Product (‘GDP’) expanded by 3.5%, lower than the worst scenario as compared to the September 2011 forecast of the IMF. Going forward, in contrast with the upside growth in the US due to a cut in interest rate, the shocks following the Japanese earthquake and unstable oil prices will not sustain the momentum. Emerging and developing economies witnessed a slow growth due to tightened macroeconomic policies.

Regional Outlook

Developing economies in the Sub-Saharan Africa, least affected by the crisis, continued to record economic growth, despite the weaker global economic environment. Regional output rose by 5% in 2011, with growth set to increase slightly in 2012, backed by strong commodity prices, new resource exploitation, and the improved domestic conditions that have underpinned several years of solid trend growth in the region. Nonetheless, variation in performance across the region was noted, with output in middle-income countries tracking more closely the global slowdown. Threats to the outlook include the risk of intensified financial stresses in the Euro area spilling over into a further slowing of the global economy and the possibility of an oil price surge triggered by rising geopolitical tensions.

The Mauritian Economic Environment

Whilst the Mauritian economy remained resilient, the economy grew by 4.1% in 2011 driven by a rise of the textile industry and a robust performance of the financial intermediation sector. Latest economic indicators are confronted to the challenges of the recurring and prolonged nature of international economic and financial shocks. The tertiary sector (including financial services), accounting for 69.9% of GDP, grew by 3.4% in 2011.

Financial Services

Financial intermediation grew by 5.5% in 2011 as compared to 4.3% in 2010, representing 10.1% of the GDP. This is explained by a growth of 4.5% in the insurance sector, 6.0% in the banking sector and 6.0% in ‘Other financial intermediation activities’.

Global Business sector

The number of GBCs witnessed an upward trend with 9,758 GBC 1’s and 14,166 GBC 2’s serviced by 154 MC’s in 2011. The top three target markets for GBCs were Africa, India and Asia. There were 829 Global Funds licensed by the FSC as at 31 December 2011.

Capital Markets

As at December 2011, official market capitalisation on the SEM stood at Rs 172 billion, that is, 53% of GDP whilst the market capitalisation on the DEM rose to Rs 59 billion, representing a growth of 9% as compared to 2010. The third quarter of 2011 was characterised by an increased volatility with the intensification of the Euro-zone crisis.

Other Non-Banking Financial Institutions (NBFI’s)

In 2011, the FSC licensed 16 NBFI’s under the FSA, 19 under the SA and 694 under the IA, bringing the total number of other NBFI’s to 729, representing an increase of 7% as compared to 2010.

Insurance market

The domestic insurance industry continued to grow in 2011 with assets amounting to Rs 95.9 billion for 21 insurance companies, representing an increase of 8%. Total gross premium expanded by 9% from Rs 17.5 billion in 2010 to Rs 19.2 billion in 2011. The FSC licensed 18 insurance agents, one insurance broker and 675 insurance salespersons in 2011.
Review of Trends

The growth of the Mauritian economy will remain modest in 2012, reflecting global vulnerabilities and inherent structural imbalances. In 2012, the Mauritian economy is expected to grow by 3.6% and the financial services sector growth is estimated at a rate of 4.8%. The financial services sector is poised to become one of the most important growth engines of the economy.
2011 Key Performance Statistics

2011 Key Performance Statistics – Mauritius

<table>
<thead>
<tr>
<th>Population as at 31 December 2011 (Million)</th>
<th>1.3</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP at basic prices (million)</td>
<td>9,510</td>
</tr>
<tr>
<td>GDP at market prices (million)</td>
<td>10,766</td>
</tr>
<tr>
<td>GDP per Capita at basic prices (USD)</td>
<td>7,393</td>
</tr>
<tr>
<td>FDI (Total) (million)</td>
<td>315</td>
</tr>
<tr>
<td>FDI Financial and insurance activities (million)</td>
<td>55</td>
</tr>
</tbody>
</table>

Source: 1 Statistics Mauritius  
2 Bank of Mauritius  
Exchange Rate: 1 USD = 30.043 MUR

Financial Sector Statistics

<table>
<thead>
<tr>
<th>2012¹</th>
<th>2011²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution to GDP (%)</td>
<td>Growth Rate (%)</td>
</tr>
<tr>
<td>Insurance</td>
<td>3.1</td>
</tr>
<tr>
<td>Banking</td>
<td>5.7</td>
</tr>
<tr>
<td>Other</td>
<td>1.4</td>
</tr>
<tr>
<td>Financial Intermediation</td>
<td>10.2</td>
</tr>
</tbody>
</table>

Note: ¹ Forecast ² Revised  
Source: Statistics Mauritius

Rankings - Mauritius

<table>
<thead>
<tr>
<th>World Bank Doing Business 2012 (out of 183 Countries)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall Ranking on the Ease of Doing Business</td>
</tr>
<tr>
<td>Ease of Starting a Business</td>
</tr>
<tr>
<td>Protecting Investors</td>
</tr>
<tr>
<td>Trading Across Borders</td>
</tr>
<tr>
<td>Mo Ibrahim Index of African Governance 2010 (Out of 53 Countries)</td>
</tr>
<tr>
<td>Environmental Performance Index 2010 (Out of 163 Countries)</td>
</tr>
<tr>
<td>Global Competitiveness Index 2011-2012 (Out of 142 Countries)</td>
</tr>
<tr>
<td>The Wall Street Journal &amp; The Heritage Foundation</td>
</tr>
<tr>
<td>Index of Economic Freedom 2012 (Out of 184 Countries)</td>
</tr>
</tbody>
</table>
The FSC is required under the Statutory Bodies (Accounts and Audit) Act to submit a report highlighting a 3-year strategic plan with a view to attaining its goals and objectives.

To successfully implement the Strategic Plan 2012-2014, the FSC devised a framework which provides a clear link between the Strategic Plan and the FSC’s vision. The FSC, as an integrated regulator, considers prudential regulation and regulation of conduct as critically important to achieve its Strategic Plan 2012-2014 and statutory objectives.

The vision of the FSC, to be an internationally recognised regulator and supervisor, is best demonstrated by meeting globally accepted norms and standards.

The FSC has:

- an efficient mechanism to adhere to international best practices;
- a set clear guidance for the setting-up of key performance measurement indicators of projects and organisational processes as well as for regulatory impact assessment;
- a dynamic network of cooperation with local and international counterparts to ensure effective and efficient regulation, and enhanced capacity building initiatives;
- developed a strategy to sustain the competitiveness of the Mauritius jurisdiction, by inter-alia promoting diversified products and encouraging market entrance and cost of financial regulation; and
- a key mandate for maintaining sound and stable financial markets through the establishment of a proper framework to identify and mitigate risks.
The achievements of the FSC’s strategic goals and plans rest hugely on its human capital. Each Directorate of the FSC is consolidating its efforts for optimal implementation of various initiatives and projects to meet the organisation’s objectives and regulatory standards. In this pursuit, the FSC staff is driven by ethics, professionalism, teamwork and integrity.

The Board of the FSC has identified three strategic objectives for the organisation which are:

(i) Competitive Jurisdiction;
(ii) Developed & Diversified; and
(iii) Stability

Action plans have been formulated by the Management for the smooth implementation of these objectives.

The strategic objective to achieve a competitive jurisdiction entails four key elements as depicted in Chart 1a.

**Chart 1a: Competitive Jurisdiction**
FSC Strategic Plan 2012 – 2014

The second strategic objective evolves mainly around the setting-up of the necessary frameworks to create a developed and diversified financial market environment.

Chart 1b: Developed & Diversified

The third strategic objective to ensure the stability of the non-bank financial sector by the FSC rests on the establishment of a comprehensive mechanism to address and monitor systemic risks, as shown in Chart 1c.

Chart 1c: Stability

Need to have a Risk Framework with identified:
- Risk Monitoring
  - Means to Track / Reporting Systems
- Risk Trigger Systems
  - Means (Legal / Regulatory, Qualitative and Quantitative) to Action Effectively
The FSC Business plan for the year 2011 was geared toward the consolidation of the legal and regulatory frameworks, reinforcing the supervisory and enforcement actions, financial stability, international relations, consumer and investor protection, working towards a high performance oriented organisation, and maintaining its competitive advantage.

A status of the various key tasks and projects, as at 31 December 2011, is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Consolidation of the Legal and Regulatory Frameworks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Enactment of Pending legislations</td>
</tr>
<tr>
<td></td>
<td>Private Pension Schemes Bill</td>
</tr>
<tr>
<td></td>
<td>Limited Partnerships Bill</td>
</tr>
<tr>
<td></td>
<td>Foundations Bill</td>
</tr>
<tr>
<td>1.2</td>
<td>Drafting of Regulations and Rules</td>
</tr>
<tr>
<td></td>
<td>Rules and Regulations under FSA, SA and IA</td>
</tr>
<tr>
<td>1.3</td>
<td>Codes, Guidelines and Manual</td>
</tr>
<tr>
<td></td>
<td>Guide to Global Business</td>
</tr>
<tr>
<td></td>
<td>Draft appropriate guidelines for fitness and propriety</td>
</tr>
<tr>
<td></td>
<td>Anti-Money Laundering and Combating the Financing of Terrorism Code</td>
</tr>
<tr>
<td></td>
<td>Enforcement Manual</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Reinforcement of our Supervisory and Enforcement Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Risk-Based Supervisory Framework</td>
</tr>
<tr>
<td></td>
<td>To review and implement new specifications in the risk-based supervisory framework, taking into consideration any gaps and omissions in our supervisory model since its implementation</td>
</tr>
<tr>
<td>2.2</td>
<td>Review Inspections Cycles and Assessment Criteria</td>
</tr>
<tr>
<td></td>
<td>To resume the cycles of on-site inspections</td>
</tr>
<tr>
<td></td>
<td>To align on-site and off-site inspections so that licensees are subject to review within defined timeframe</td>
</tr>
<tr>
<td>2.3</td>
<td>Review inspection procedures and manuals for each sector</td>
</tr>
<tr>
<td></td>
<td>Align supervisory approaches with international best practices (IOSCO, IAIS and IOPS principles) to ensure financial soundness of regulated entities</td>
</tr>
</tbody>
</table>
## FSC Business Plan 2011

<table>
<thead>
<tr>
<th>3</th>
<th>Financial Stability</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1</td>
<td>Financial Stability Cluster</td>
</tr>
<tr>
<td>3.2</td>
<td>Monitoring &amp; Research</td>
</tr>
<tr>
<td>3.3</td>
<td>Crisis management</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>4</th>
<th>International Relations</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1</td>
<td>Meeting International Standards</td>
</tr>
<tr>
<td>4.2</td>
<td>Promoting Exchange of Information through the signature of Multilateral Memorandum of Understanding</td>
</tr>
<tr>
<td>4.3</td>
<td>Promoting Regional and International Cooperation</td>
</tr>
<tr>
<td>4.4</td>
<td>Impact of the regulatory and taxation reforms on the international scene</td>
</tr>
</tbody>
</table>
### FSC Business Plan 2011

<table>
<thead>
<tr>
<th>5</th>
<th>Consumer and Investor Protection</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1</td>
<td>Legislative and Regulatory framework</td>
</tr>
<tr>
<td></td>
<td>Drafting of relevant amendments, regulations, rules under FSA, IA and SA</td>
</tr>
<tr>
<td></td>
<td>Introduce a Compensation Fund for the financial services sector</td>
</tr>
<tr>
<td>5.2</td>
<td>Access to financial services</td>
</tr>
<tr>
<td></td>
<td>Scoping study to be conducted on financial literacy and access to financial services in Mauritius</td>
</tr>
<tr>
<td></td>
<td>Partnership - Industry Associations and other stakeholders</td>
</tr>
<tr>
<td>5.3</td>
<td>Consumer Education and Protection</td>
</tr>
<tr>
<td></td>
<td>Developing a financial services culture</td>
</tr>
<tr>
<td></td>
<td>Industry Platforms: FSC to hold regular meetings with various industry representatives so as to formulate and implement strategies relevant to consumers of financial services products</td>
</tr>
<tr>
<td>5.4</td>
<td>Complaints Handling</td>
</tr>
<tr>
<td></td>
<td>Review the complaints handling mechanism to improve efficiency and effectiveness</td>
</tr>
</tbody>
</table>

### Towards a High Performance Oriented Organisation

<table>
<thead>
<tr>
<th>6</th>
<th>Promoting human capital and a knowledge based organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.1</td>
<td>Capacity Building</td>
</tr>
<tr>
<td></td>
<td>Annual Learning and Development Plan Sector</td>
</tr>
<tr>
<td></td>
<td>Training Needs Analysis: special focus on hands on/practical knowledge required</td>
</tr>
<tr>
<td></td>
<td>Leadership Development Programme</td>
</tr>
<tr>
<td></td>
<td>Enlist the services of qualified and competent professionals</td>
</tr>
<tr>
<td>6.1.2</td>
<td>Human Resource Development</td>
</tr>
<tr>
<td></td>
<td>Training and development mapped on organisational priorities</td>
</tr>
<tr>
<td></td>
<td>Young Graduates Development Programmes</td>
</tr>
<tr>
<td>6.1.3</td>
<td>Performance Management System</td>
</tr>
<tr>
<td></td>
<td>Implementation of the Performance Management System - link to Reward Management</td>
</tr>
<tr>
<td>6.1.4</td>
<td>Knowledge Management</td>
</tr>
<tr>
<td></td>
<td>Dissemination of information - Leverage on the use of the intranet</td>
</tr>
<tr>
<td></td>
<td>Communities of Practice</td>
</tr>
</tbody>
</table>
## FSC Business Plan 2011

<table>
<thead>
<tr>
<th>6</th>
<th>Towards a High Performance Oriented Organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.2</td>
<td>Technology in the workplace</td>
</tr>
<tr>
<td>6.2.1</td>
<td>Upgrading existing IT infrastructure</td>
</tr>
<tr>
<td>6.2.2</td>
<td>Review of existing database system</td>
</tr>
<tr>
<td>6.2.3</td>
<td>Implementation of on-line applications</td>
</tr>
<tr>
<td>6.2.4</td>
<td>Disaster Recovery and Business Continuity</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 6.3 Corporate Branding and Conducive Environment

| 6.3.1 | Conducive Working Environment | High Performance Work Organisation |
| 6.3.2 | Redefining strategy to position FSC as a lead organisation/Corporate Social Responsibility Strategy | Adopt the 3R (Reduce, Reuse, Recycle) programme |
| | | Saving energy and resources |
| | | Promoting eco-friendly organisation |
| 6.3.3 | Improving Communication Tools | Launching of New Website - to include future FSC requirements (e.g. online applications) |
| | | Improving Internal communications |

### 7 Mauritius IFC (Maintaining our Competitive Advantage)

| 7.1 | Optimise on the FSC – Industry Partnership | To maintain and optimise on industry committees/associations as stakeholders to maintain the competitiveness of the Mauritius Jurisdiction |
| | | Industry Associations: as a platform for regular interaction between FSC and the industry and to improve on compliance with the legislative framework |
| 7.2 | Diversify and promote innovative financial products and services | Strategy for development of new and innovative products and services |
| | | To work with other stakeholders towards recognition of Mauritius by other Jurisdictions |
FSC Business Plan 2011

<table>
<thead>
<tr>
<th>7</th>
<th>Mauritius IFC (Maintaining our Competitive Advantage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.3</td>
<td>Promotion and marketing of the Mauritius IFC as a</td>
</tr>
<tr>
<td></td>
<td>platform for investment into Africa / Asia</td>
</tr>
<tr>
<td></td>
<td>Positioning Mauritius IFC as a Hub for Africa</td>
</tr>
<tr>
<td>7.4</td>
<td>Maintaining a business friendly approach</td>
</tr>
<tr>
<td></td>
<td>To maintain a business friendly approach without</td>
</tr>
<tr>
<td></td>
<td>leniency on regulation and compliance</td>
</tr>
<tr>
<td></td>
<td>Streamlining of procedures, e.g. Licensing procedures</td>
</tr>
</tbody>
</table>

- Completed
- In Progress / Ongoing
Regulatory Developments
Regulatory Developments

Legal Framework

1. Amendments to Acts

During the year under review, the FSC worked on several amendments to the legislation to enable it to carry out its functions effectively and to respond to the needs of stakeholders.

Amendment to the FSA

Section 75 of the FSA was amended to clarify that the FSC may, for the purpose of discharging its obligations under an agreement or arrangement for the exchange of information, request a Global Business Company to furnish all such information and produce such documents as may be required.

Amendment to the IA

The framework for the payment of fees by insurance salespersons was amended, by an amendment to section 76 of the IA. Henceforth, the registration of insurance salespersons no longer lapses automatically one month after the annual licence fee is due. Where payment of the annual fee is made after the date specified in FSC Rules, the FSC may either accept the late payment by the insurer or insurance agent, or terminate the registration of the insurance salesperson, on such conditions as it may determine.

Amendments to the SA

With the coming into force of the Securities (Takeover) Rules 2010, section 94 of the SA was amended to widen the scope of the term “associate” in order to include a person acting in concert with individuals or companies who cooperate, through the acquisition of shares in a company, to obtain or consolidate effective control of that company.

In order to comply with international standards and best practices, section 122 of the SA was amended to enable the FSC to obtain information in relation to securities or securities transactions from unregulated persons. This amendment was necessary to enhance the FSC’s ability to exchange information with inter alia public sector agencies, international organisations and supervisory institutions, under an agreement or arrangement, and in furtherance of the objects and functions of the FSC.

Amendment to the Trusts Act

Section 9 of the Trusts Act was amended such that all purpose trusts, whether charitable or not, may be of perpetual duration.

2. Amendments to Rules and Regulations

Several amendments were made to Regulations and FSC Rules.

Amendment to the Insurance Regulations 2007

Regulation 3(2) of the Insurance Regulations 2007, that would have allowed local assets to be insured with insurance companies based in a foreign country in 2013, was repealed following the National Budget 2012.

Amendments to the Financial Services (Consolidated Licensing and Fees) Rules 2008

The Financial Services (Consolidated Licensing and Fees) Rules (the “Fees Rules”) were amended to provide for payment of a processing fee of Rs 2,500 and an annual fee of Rs 15,000 by Investment Dealers (Government of Mauritius Securities and Bank of Mauritius Securities Segment).

The Fees Rules were further amended such that annual fees for companies holding a Management Licence and entities holding a Category 1 Global Business (‘GBC 1’) Licence, increased from USD 3,000 to USD 5,000 and from USD 1,500 to USD 1,750 respectively.
Regulatory Developments

Amendments to the Securities (Licensing) Rules

Rule 4 (1) of the Securities (Licensing) Rules was amended to introduce the Investment Dealer (Government of Mauritius Securities and Bank of Mauritius Securities Segment) category.

Rule 18 was amended to exempt Investment Dealers (Government of Mauritius Securities and Bank of Mauritius Securities Segment) from the requirement to:

- set up a subsidiary, as provided in Rule 4 (3) of the Securities (Licensing) Rules; and
- appoint a representative, as required under Rule 7 (3).

The Fourth Schedule of the Rules was amended to provide for a minimum stated unimpaired capital of Rs 200 million for Investment Dealers (Government of Mauritius Securities and Bank of Mauritius Securities Segment).

3. New legislations

Limited Partnerships Act 2011

In view of promoting Mauritius as a competitive International Financial Centre, the Limited Partnerships Act (‘LPA’) came into force in December 2011.

The LPA provides for a legal structure under which individuals and institutions may invest funds as limited partners, while the management of those funds are entrusted to the general partners. This legal structure is convenient for investors who wish to avoid being involved directly in the operations and management of the business, whilst focusing on the returns of the investment.

The LPA strengthens the institutional capabilities of Mauritius to boost global funds including private equity funds, Collective Investment Schemes (‘CIS’) and venture capital investments.

Securities (Brokerage Fee For Government of Mauritius and Bank of Mauritius Securities) Rules 2011

The purpose of the Securities (Brokerage Fee For Government of Mauritius and Bank of Mauritius Securities) Rules 2011 is to allow for the implementation of a new segment on the Stock Exchange of Mauritius (‘SEM’) to enable market participants to have real-time access to a centralised system and to benefit from investment opportunities in Government of Mauritius Securities and Bank of Mauritius Securities.

The Stock Exchange (Brokerage Fee for Government of Mauritius Securities and Bank of Mauritius Bills) Regulations 2003 were accordingly repealed.

4. Forthcoming legislations

The National Budget Speech 2012 provided that a legal framework for foundations and private pension schemes be implemented.

Foundations Bill

The Foundations Bill will provide for foundations, as a new financial vehicle for the Mauritian jurisdiction. The setting-up of foundations will promote Mauritius as a platform for wealth management and other activities such as succession and estate planning as well as pension funds.

Private Pension Schemes Bill

Following discussions and consultations with industry stakeholders, the FSC has worked extensively on the Private Pension Schemes Bill. The main object of this bill is to provide for a regulatory and supervisory framework for the establishment and operation of private pension schemes, in order to ensure the protection of beneficiaries of private pension schemes and the soundness of such schemes.
Licensing & Policy


- The Directorate is responsible for the formulation of the policy framework with a view to spearheading the Mauritius jurisdiction development as an International Financial Centre of good repute and substance.

- The Directorate is responsible to license and regulate the conduct of business activities in the non-banking financial services and global business sectors.

- The Directorate keeps abreast of the local and international developments in the non-banking financial services and global business sectors, and their impact on the Mauritius jurisdiction.

- The Directorate analyses the impact of economic developments to ensure financial stability, and focuses on market and technical developments.

- The Directorate assists Management and the Board in formulating and making appropriate recommendations on policies and standards to be adopted in line with the requirements of the international standards setting bodies.
Licensing

1. Global Business

The global business sector attracted new entrants during the year under review. In effect, the FSC issued 9 Management Licences, bringing the total to 153 licensed Management Companies as at 31 December 2011.

The contribution of the global business sector to the overall economy in 2011 was marked by the establishment of offices by GBC 1’s in Mauritius to support their main business activities, thus creating employment and value addition in Mauritius. This reinforces Mauritius as a jurisdiction of substance.

In 2011, the FSC issued 1,142 GBC 1’s licences, out of which 133 authorisations under the SA to operate as CIS / Closed-End Funds (‘CEFs’), compared to 1,183 GBC 1’s Licences and 113 authorisations for CIS/CEFs in 2010.

The breakdown of target markets for investment purposes, during the year under review, is shown in Chart 2.

Chart 2: Target Markets in 2011

Despite the reinforced disclosure requirements framework for Category 2 Global Business Companies (‘GBC 2’s’), the global business industry registered a rise of 13 % in the number of GBC 2’s in 2011 as compared to 2010 (i.e., 1,300 GBC 2’s in 2011 and 1,146 GBC 2’s in 2010). This upward trend is indicative that a regulated jurisdiction ensures certainty and attractiveness for business operations.

In its endeavour to maintain the good repute of Mauritius as an International Financial Centre, the FSC did not proceed with 7 applications for GBC 1’s for financial services in 2011.
2. Domestic Non-Banking Financial Institutions

In addition to the global business sector, the FSC issued licences to financial services providers/ institutions, other than banking institutions, in the domestic market.

The following table depicts the number of licences issued to these financial institutions in 2011.

<table>
<thead>
<tr>
<th>Enabling Laws</th>
<th>Categorisation as per the FSC Rules</th>
<th>Number of entities licensed during 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Services Act</td>
<td>Financial Service Providers</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Specialised Financial Services/Institutions</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Corporate and Trust Service Providers</td>
<td>9</td>
</tr>
<tr>
<td>Securities Act</td>
<td>Capital Market Intermediaries</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>CIS and CEFs</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>CIS Functionaries and Professionals</td>
<td>3</td>
</tr>
<tr>
<td>Insurance Act</td>
<td>Insurance Service Providers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Insurance Agents</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>- Insurance Brokers</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>- Insurance Salespersons</td>
<td>675</td>
</tr>
</tbody>
</table>

The table excludes the approval of nominee companies and qualified trustees, enforcers and successors to enforcers.
International Cooperation and External Relations

To be an internationally recognised financial supervisor, the FSC’s international relations policy focuses on:

- adherence to international norms and standards;
- promoting disclosure and transparency through effective exchange of information;
- strong collaboration with regulatory bodies for supervisory oversight and ensuring regional financial stability; and
- optimisation of industry partnerships.

The FSC is a member of international standards setting bodies, namely the International Organisation of Securities Commissions (‘IOSCO’), the International Association of Insurance Supervisors (‘IAIS’), the International Organisation of Pension Supervisors (‘IOPS’) and an associate member of the Islamic Financial Services Board (‘IFSB’).

1. Adherence to international norms and standards

The FSC voluntarily underwent an assessment on the Observance of Standards and Codes for the IAIS Insurance Core Principles (‘ICPs’). The assessment focused on supervision and regulation of the insurance sector and the contribution of the FSC to meet international standards. The Report on the Observance of Standards and Codes stated that given the “complete and quite radical renovation of its regulatory and supervisory arrangements, the Mauritian insurance sector and the FSC as supervisor have made exceptional progress”. The Report on the Observance of Standards and Codes further testified that “with limited exceptions, the regulatory reform work is complete. The FSC has been and continues to develop a risk-based approach which is the right direction”.

2. Promoting disclosure and transparency through effective exchange of information

IOSCO Multilateral Memorandum of Understanding (‘MMoU’)

Mauritius made considerable efforts to meet criteria set by IOSCO. Following changes brought to the regulatory framework, the FSC has the power to:

- request and exchange banking information obtained from the Bank of Mauritius under the IOSCO MMoU;
- request information from unregulated persons;
- direct any person to furnish information, in relation to securities or securities transaction; and
- request information from licensees.

OECD Peer Review Report on Transparency and Exchange of Information

The Organisation for Economic Co-operation and Development (‘OECD’) ‘Peer Review Report of Mauritius’ on Transparency and Exchange of Information, released in October 2011, recognised the efforts of Mauritius which voluntarily underwent the Peer Review Exercise for both Phase I – legal and regulatory framework assessment and Phase II – international standards.

The legal and regulatory framework for the prevention of money laundering and terrorist financing for the non-banking sector was assessed as well as the practical implementation and effectiveness of the framework in line with international standards for transparency and exchange of information.

The OECD acknowledged the progress of the Mauritius legal and regulatory framework that gives the competent authority broad access to the full range of relevant information. The Report mentioned that “in line with the international movement towards more transparency and exchange of information, Mauritius has taken significant steps to enhance its exchange of information and its legal and regulatory framework. Mauritius is now able to exchange information on non-
International Cooperation and External Relations

resident individuals and companies. There are accounting requirements for all Mauritius entities, resident and non-resident."

The Report highlighted that the Mauritius economy is open, dynamic, diversified and fully integrated into world markets; and confirms the status of Mauritius as a trusted, transparent and well-established International Financial Centre.

The FSC has put in place the necessary measures required of its licensees to meet OECD standards.

Memoranda of Understanding

As at 31 December 2011, the FSC signed 20 Memoranda of Understanding (MoUs) with international and local counterparts. The key objectives of the MoUs are to:

- consolidate supervision of cross-border operations of financial institutions;
- define mechanisms to share information in accordance with international standards; and
- reinforce collaboration amongst institutions in the fight against crime, money laundering and financing of terrorism.

Table 2: MoUs signed between the FSC and its Counterparts

<table>
<thead>
<tr>
<th>Local Authorities</th>
<th>International Authorities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  Bank of Mauritius</td>
<td>5 Capital Markets Authority of Uganda</td>
</tr>
<tr>
<td>2  Financial Intelligence Unit</td>
<td>6 Central Bank of Lesotho</td>
</tr>
<tr>
<td>3  Mauritius Revenue Authority</td>
<td>7 Financial Services Board, Republic of South Africa</td>
</tr>
<tr>
<td>4  Competition Commission Mauritius</td>
<td>8 Insurance Supervisory Department of Tanzania</td>
</tr>
<tr>
<td>10 Pensions and Insurance Authority of Zambia</td>
<td>9 Namibia Financial Institutions Supervisory Authority</td>
</tr>
<tr>
<td>11 Reserve Bank of Malawi</td>
<td>12 Securities and Exchange Commission of Zambia</td>
</tr>
<tr>
<td>13 Guernsey Financial Services Commission</td>
<td>14 Isle of Man Financial Supervision Commission</td>
</tr>
<tr>
<td>15 Jersey Financial Services Commission</td>
<td>16 Labuan Financial Services Authority</td>
</tr>
<tr>
<td>17 Malta Financial Services Authority</td>
<td>18 Securities and Exchange Board of India</td>
</tr>
<tr>
<td>19 South Asian Securities Regulators Forum</td>
<td>20 Committee of Insurance, Securities and Non-bank financial Authorities</td>
</tr>
</tbody>
</table>

3. Strong collaboration with regulatory bodies for supervisory oversight and ensuring regional financial stability

During the year under review, the FSC was represented at various regional and international forums.

IAIS Annual General Meeting, South Korea

The 18th IAIS Annual Conference on 'Towards a New Horizon of Insurance Supervision' was held from 29 September to 01 October 2011, in Seoul. A wide range of topics was covered including financial stability, macroprudential surveillance, ComFrame, product innovation, market conduct and promoting access to insurance in developing markets. A special session was held on the response of the insurance sector to recent natural disasters.

At its Annual General Meeting, the IAIS announced the adoption of the revision of the IAIS ICPs, Standards, Guidance and Assessment Methodology. The ICPs constitute the globally-accepted framework used in the evaluation of supervisory regimes under the Financial Sector Assessment Program ('FSAP') conducted jointly by the World Bank and International Monetary Fund. The principles prescribe the essential elements that must be present in a supervisory regime, in order to promote a financially sound insurance sector.
International Cooperation and External Relations

**IOSCO Annual Conference, South Africa**

The FSC attended the 36th IOSCO Annual Conference from 17 to 21 April 2011 in Cape Town. The conference focused on securities regulators and systemic risk, the challenges of debt markets, international corporate governance and consumer education.

IOSCO adopted the IOSCO Principles and the *Methodology for Assessing Implementation of the IOSCO Principles*, which is used by national jurisdictions for self-assessments purposes and by the international financial institutions for the FSAP.

**IOSCO Emerging Markets Committee (EMC) Annual Meeting 2011, Dominican Republic**

The FSC participated in the EMC Annual Meeting held from 17 to 19 October 2011 in Punta Cana. The implementation of the new IOSCO principles and methodology, effective regulation and oversight of financial markets infrastructure, developing the investor base and systemic risks in the Emerging Markets were discussed.

The FSC further attended the IOSCO-Toronto Center Seminar on ‘Compliance with IOSCO information sharing: Admission to the MMoU’ on 20 October 2011.

**OECD/IOPS Global Forum on Private Pensions, South Africa**

The FSC participated at the Annual Global Forum on Private Pensions, jointly organised by the OECD and IOPS on 25 to 26 October 2011 in Cape Town. The forum emphasised on how reform of the pension system can deliver adequate old-age income protection while contributing to economic development and financial stability.

The FSC also participated in the conference on ‘Financial Literacy: Financial Education for All’ from 27 to 28 October 2011, held back-to-back with the OECD/IOPS Global Forum on Private Pensions.


**Regional Cooperation**

Regional cooperation plays an important role in addressing common challenges in the region, such as:

- efficient utilisation of resources in terms of training and capacity building;
- macro-prudential and financial stability policies for the region;
- effective regulation of financial services by promoting integrity in financial markets, assessing vulnerabilities affecting the financial system; and
- adoption of common legislative reform programmes and harmonisation of strategy.

The FSC is strongly committed to regional cooperation. The FSC’s election as Southern African Development Community – Committee for Insurance, Securities and Non-Banking Financial Authorities (‘SADC-CISNA’) Vice-Chair is an opportunity to reinforce this commitment.

**SADC-CISNA Meetings**

Two CISNA meetings were held in 2011:

**Swaziland Meeting**

During the first bi-annual meeting held from 03 to 05 August 2011 in Ezulwini, the CISNA adopted its strategic plan 2011-2015 which covers *inter alia* regional systemic risks, harmonisation of frameworks, cooperation and exchange of information, and adherence to international best practices.

**Zimbabwe Meeting**

The second CISNA bi-annual meeting was held from 06 to 09 December 2011, in Victoria Falls. The meeting was preceded by a workshop on IAIS MMoU, where members were informed on international
International Cooperation and External Relations

developments in supervisory cooperation and information exchange, the IAIS MMoU framework and administration procedures, the role of IAIS Secretariat and future work plan for the implementation of MMoU framework, and experience with validation of MMoU applications amongst others.

The FSC was nominated as a member on four newly constituted committees for the implementation of the CISNA Strategic Plan, namely:

- Strategic Planning Committee;
- Anti-Money Laundering / Combating the Financing of Terrorism Committee;
- Consumer Education Committee; and
- Training Committee.

The 2012 bi-annual meetings of CISNA will be held in Angola and Mauritius.

**IOSCO-Africa Middle East Regional Committee (‘IOSCO-AMERC’)**

As a member of IOSCO, the FSC is part of the AMERC, one of the four IOSCO Regional Committees.

The FSC hosted the 26th IOSCO-AMERC meeting, conference and training session from 09 to 11 February 2011, attended by 11 member countries and 2 observers.

The objectives of the meeting were *inter alia* to:

- provide opportunities to exchange information on issues affecting development amongst members;
- discuss IOSCO policy decisions and implementation;
- provide a forum for regional counterparts to have face-to-face interaction; and
- identify and discuss specific issues of interests common to members.

The IOSCO-AMERC conference on *“Regulatory Cooperation and New Challenges”* was held on 11 February 2011 and served as a platform for AMERC members and industry representatives to interact with distinguished speakers on the future challenges of securities supervision and consumer education.

At the request of the FSC, a training session on *“Handling Investor Complaints in Emerging Markets and Investor Education”* was conducted by IOSCO on 11 February 2011. The importance of regulators in complaints handling and consumer education were addressed.

**Attachment Programme**

A familiarisation programme on capital markets in Mauritius was conducted on 09 February 2011 for delegates from the Capital Markets Authority, Kenya and the Capital Markets Authority, Uganda.

The programme provided an overview of surveillance mechanisms, supervisory role of the FSC and challenges of demutualised exchanges.

**International Monetary Fund - Special Data Dissemination Standards (‘IMF-SDDS’) Mission, Mauritius**

Following an IMF mission in September 2011, the graduation of Mauritius to SDDS was recommended. Part of the required data involved information on cross-border transactions by GBC 1’s. The FSC was entrusted with the tasks of organising the relevant survey and compiling outputs, for onward validation by the IMF.

**FSB RCG Sub-Saharan Africa**

Following proposal of the Financial Stability Board (‘FSB’) to establish RCGs for different regions, Mauritius was appointed as member on the Regional Consultative Committee (‘RCG’) for Sub-Saharan Africa and is represented by the FSC, the Ministry of Finance and Economic Development and the Bank of Mauritius.

RCGs bring together financial authorities from FSB member and non-member countries to exchange views on vulnerabilities affecting financial systems and on initiatives to promote financial stability.
Financial Stability, Research and Economics

Financial stability is fundamental for the achievement of important macroeconomic objectives such as sound employment rate, sustainable output growth and price stability. Mauritius, as an international financial centre in the Africa region, cannot operate in isolation given the non-banking financial services are intricately linked to cross-border activities provided by financial institutions. The need to consistently monitor trends in local and international markets, is of paramount importance to assess inherent risks, which can impact on financial stability.

In achieving its financial stability objectives, the FSC is working towards:

- adopting a macro-prudential oversight of regulated institutions to identify risks to financial stability and take effective measures to mitigate and control these risks;
- designing periodic stress test scenarios with regards to plausible systemic threats to the stability of the non-banking financial system;
- consulting its stakeholders to assess the impact of local, regional and international issues and developments on financial stability;
- providing the necessary support for the coordination of crisis prevention, management and resolution mechanisms; and
- engaging in international cooperation in support of its financial stability objective.

1. Domestic Outlook

The non-banking financial services sector includes capital markets, insurance and pension, and global business activities. The risks to stability of the financial system, though viewed as modest in the short-term, may nevertheless have a long term impact if appropriate reform strategy is not implemented by regulators. The domestic banking system, while demonstrating sound financial indicators, is still vulnerable to external economic shocks and potential downturn arising from global business. The relatively good performance of the global business industry in Mauritius, that is, its positive growth over the years, does not unconditionally shelter the financial system (both banks and non-banking institutions) from future risks and instability.

2. International Outlook

The global financial environment faced unprecedented economic challenges in the aftermath of the 2008 global and the European zone debt crises. The crises will urge world leaders to adopt strong and bold reform measures at the upcoming G20 meeting. World leaders of developed economies will have to deal with unpredictable future and convince their population about the need to limit expenditures within acceptable limits for sustaining economic growth and employment.

This unprecedented scenario reinforced the widespread calls for changes in the worldwide regulatory systems. The FSC must adapt its supervisory and risk frameworks, in line with the international policy and reform measures to tackle financial stability.

3. Key Targets=Milestones

The FSC undertook key steps and identified milestones that allow to keep close tabs on the domestic markets for signs of instability.

In developing strategy and setting out the necessary framework to address stability, the FSC will ensure that they are well-coordinated with other competent authorities in the domestic financial system.

The aim of the FSC is to address the challenges of conducting risk reviews and analyses, in a more forward-looking context, so as to avoid poor predictability and performances.

During the last quarter of 2011, the FSC dedicated a significant amount of its resources to address the issue of financial stability. A number of projects were earmarked by an Internal Task Force for implementation in the near to medium term.
Financial Stability, Research and Economics

The newly set up Financial Stability, Research and Economics cluster will ensure that the FSC meets its financial stability targets and objectives. The cluster will coordinate the FSC’s intensive supervisory approach that will, in turn provide for an effective mitigation of risks, through the implementation of sound macro-prudential risk indicators and tools.

The FSC is addressing the introduction of advanced risk analysis software application to enhance its in-house capabilities to work on simulated models and tools. These analytical solutions will allow for a deeper and more sound understanding of the various risks affecting the entities operating in the non-banking financial sector, on an individual and systemic basis.
Market and Technical Development

The FSC set up the Market and Technical Development cluster to promote diversification of markets and services of the non-bank financial services sector and to ensure competitiveness of the Mauritius jurisdiction. The overall objective of the cluster is the enhancement and development of the Mauritius financial services centre and maintaining confidence in the financial system.

In order to meet these objectives, the cluster focuses on four areas namely:

- competencies;
- regulation of conduct;
- financial centre development; and
- market development.

1. Competencies

This includes:

- defining the key competencies required by licensees in terms of minimum qualifications, skills and working experience; and
- ensuring capacity building.

2. Regulation of Conduct

This encompasses:

- ensuring that the conduct of participants is compatible with fair and safe markets; and
- outlining the procedures for developing or changing regulations on conduct which may have an impact on the trust and confidence in the financial services sector.

3. Financial Centre Development

This includes:

- keeping abreast of developments in the financial services sector;
- closely monitoring trends in the sector and making appropriate analysis;
- conducting comparative studies and ensuring follow-up on developments and changes in competing jurisdictions; and
- providing advice for the development of new products and services.

4. Market Development

This considers:

- formulating strategies for the development of the sector and the jurisdiction;
- making recommendations for the enhancement of the competitiveness of the sector and Mauritius as an IFC; and
- advising on avenues for new product development after consultation with relevant stakeholders.

The cluster is assigned the task of assessing the need for new products and services to develop the non-bank financial services sector. For a smooth implementation of plans and strategies to enhance Mauritius’ position as a global business centre, the cluster works closely with industry partners.

The cluster analyses the existing framework and systems, and formulates recommendations towards implementation.
Surveillance

- The Directorate ensures that all regulated firms and intermediaries comply with regulatory and disclosure requirements on an ongoing basis.
- The Directorate ensures sound and stable markets from both prudential and conduct perspectives.
- The Directorate is responsible for overseeing the conduct of licensed market infrastructures as well as market intermediaries.
Capital Markets

1. Capital Market Structure

The FSC regulates and monitors different types of licensees which are categorised as:

- Market Infrastructure licensed under the SA;
- Market Intermediaries licensed under the SA; and
- Financial Business Institutions licensed under section 14 of the FSA.

2. Market Infrastructure

The Market Infrastructure consists of two Securities Exchanges licensed by the FSC, namely, the Stock Exchange of Mauritius Ltd. (‘SEM’) and the Global Board of Trade Ltd. (‘GBOT’).

**SEM**

The Market experienced both bullish and bearish trends during the year under review. A dip was witnessed in February 2011 as a result of uncertainties prevailing in North Africa, and in the second half of the year, as a result of volatility. The market rose temporarily during the second quarter of the year and again in December 2011. The charts below illustrate the market trends for the SEMDEX, SEM-7, SEMTRI, DEMEX and DEMTRI respectively.

**Chart 3a: Evolution of SEMDEX and SEM-7 for 2011**

Source: SEM Ltd

**Chart 3b: Evolution of SEMTRI (Rs) and (USD) for 2011**

Source: SEM Ltd

**Chart 3c: Evolution of DEMEX and DEMTRI (Rs) and (USD) for 2011**

Source: SEM Ltd
On the international front, due to the United States of America’s struggle for recovery and the Euro-zone debt crisis, most capital markets retreated sharply. With globalisation, the financial turmoil took a greater dimension and hit the capital markets in other regions, such as Asia, where a loss in resilience and on-going volatility and bearish trends were registered.

Foreign Investment

For the year 2011, a total net outflow of Rs 444,898,582 was registered on the SEM as compared to a total net inflow, in the previous year.

Table 3: Foreign Investment

<table>
<thead>
<tr>
<th>SEM</th>
<th>Volume Shares</th>
<th>Purchases (Rs)</th>
<th>Volume shares</th>
<th>Sales (Rs)</th>
<th>Net Investments (Rs) - 2011</th>
<th>Net Investments (Rs) - 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Official Market</td>
<td>47,183,467</td>
<td>6,157,932,376</td>
<td>57,059,328</td>
<td>6,636,199,858</td>
<td>(478,267,482)</td>
<td>1,536,556,286</td>
</tr>
<tr>
<td>DEM</td>
<td>10,172,772</td>
<td>133,521,914</td>
<td>12,032,114</td>
<td>100,153,014</td>
<td>33,368,900</td>
<td>45,890,380</td>
</tr>
<tr>
<td>Total</td>
<td>57,356,239</td>
<td>6,291,454,290</td>
<td>69,091,442</td>
<td>6,736,352,872</td>
<td>(444,898,582)</td>
<td>1,582,446,666</td>
</tr>
</tbody>
</table>

Source: SEM Ltd
**GBOT**

The total turnover for the 294,441 contracts traded on the GBOT during 2011 was USD 8.155 billion. Turnover for the commodity segment amounted to USD 4.976 billion, with 117,074 contracts traded. With respect to the currency segment, total turnover was USD 3.179 billion, for 177,367 contracts traded. The average daily turnover is depicted below.

**Chart 4: Average Turnover (in Million USD) for 2011**

![Chart 4: Average Turnover (in Million USD) for 2011](image)

*Source: GBOT Ltd.*

The crisis in the Euro-zone had a consequent impact on global financial markets in 2011. Japan’s stocks declined by 17% in 2011 while the Japanese Yen climbed to record high, as a safe haven currency. The Japanese Yen/Dollar futures contract was the most actively traded currency futures on the GBOT in 2011. 44,889 contracts were traded with a total turnover of USD 706.65 million. Several attempts were made by the Bank of England in 2011 to boost UK growth. All these market movements were reflected in the trading activity of the Euro/Dollar futures and British Pound/Dollar futures contract. Performance of these products is depicted below.

**Chart 5: Performance of GBOT EUR/USD Futures and GBOT GBP/USD Futures for 2011**

![Chart 5: Performance of GBOT EUR/USD Futures and GBOT GBP/USD Futures for 2011](image)

*Source: GBOT Ltd.*
Capital Markets

On the commodity segment, the geopolitical turmoil in the Middle East and North Africa coupled with the Euro-zone debt crisis, accounted for increased nervousness among investors. Gold and Silver prices were affected by inflationary pressures due to the global economic slowdown. The situation was reflected in the rising price trend of GBOT Gold futures. Price movements in gold and silver prices are illustrated below.

Chart 6: GBOT Gold Futures (USD/Oz) versus GBOT Silver Futures (US Cents/Oz) for 2011

Source: GBOT Ltd.

Product Development

The FSC granted its approval to the Securities Exchanges, in respect of new product development, as follows:

- amendments to SEM Listing Rules to meet the listing requirements of Global Business corporations and specialised debt instruments, and the alignment of the Rules on the listing of Global funds with the Securities (CIS and CEF) Regulations 2008;
- authorising SEM/Central Depository and Settlement Co. Ltd ('CDS') to list and trade financial products, and to settle the underlying transactions in USD, EUR and GBP, to reduce currency conversion costs for international investors; and
- the specifications of the West Texas Intermediate crude oil futures contracts with expiry dates were submitted by the GBOT for approval by the FSC. This became the third commodity contract which GBOT offered to investors apart from gold and silver.

3. Surveillance

Risk-Based Supervision ('RBS') Framework

The FSC conducted a third cycle in respect of the RBS Exercise, during the year under review. As part of on-going obligations, all capital markets licensees were required to submit online questionnaires to the FSC. The risk profiles of licensees were generated in terms of the operating and compliance environments. Licensees were assessed and rated with respect to the following parameters: corporate governance and prudential procedures, market conduct procedures, financial performance, risk-to-objective matrix, risk profile and systems. For every licensee, the RBS scores were compared to the previous cycle results, so as to determine whether there was any improvement or otherwise in the performance of the companies.

Securities Exchanges

On-line RBS questionnaires were submitted on time. RBS findings revealed that the two securities exchanges, namely SEM and GBOT, have put in place different committees, as recommended under the National
Capital Markets

Code of Corporate Governance. Both securities exchanges set up procedures, systems, risk management, internal control, enforcement and disciplinary procedures for the smooth running of operations, as per the prevailing laws.

Market Intermediaries (Investment Dealers and Investment Advisers)

Most licensees submitted on-line questionnaires on time. As part of the RBS findings, the FSC noted that:

- licensees established Sub-Committees whereby proper reporting and accountability mechanism were set up;
- licensees documented internal control manuals which included systems and procedures on anti-money laundering and financing of terrorism, complaints handling, conflicts of interests, confidentiality of information, and dispute resolutions among others; and
- licensees filed annual reports for the period under review and sought appropriate approvals from the FSC, as per applicable laws.

Section 14 Companies

Licensees authorised under the Second Schedule of the FSA were required to submit online RBS questionnaires. This third RBS cycle enabled the FSC to observe that licensees:

- sought the approval of the FSC in respect of the appointments of Directors;
- ensured clear responsibilities and reporting duties for the Chief Executive Officers and senior managers;
- submitted copies of relevant operational contracts and services agreements to the FSC; and
- implemented appropriate internal control manuals detailing the procedures for safety of clients’ information and assets, complaints handlings and conflicts of interests among others.

4. Off-Site Supervision

The FSC conducted its on-line monitoring of the trading activities on the two securities exchanges namely orders, volumes and prices were viewed in real time during the trading hours on both exchanges.

During the year under review, the FSC identified situations whereby abnormal trading was suspected, for which the FSC requested further trade details from the CDS and conducted preliminary enquiries. The analysis revealed that the suspected cases were not due to market abuse.

During the year 2011, the FSC ensured that licensees complied with on-going prescribed obligations, including submission of annual reports, submission of reports (such as the financial reporting requirements of investment dealers on SEM), and notifications in terms of substantial shareholding.

5. On-Site Inspections

The Capital Markets cluster conducted on-site inspections during the year under review. The exercise consisted of verifying the books and records of licensees to ascertain whether the latter were compliant with requirements of the laws, and satisfied the prescribed criteria and standards. 2011 was marked by on-site inspections of new business activities, such as Payment Intermediary Services.

6. Reporting Issuers

During the year under review, the FSC registered a number of applications in respect of reporting issuers pursuant to section 86 of the SA. These companies either sought a listing on the SEM, or had more than 100 shareholders. The FSC ensured that the Reporting Issuers complied with the applicable set of legislation as part of its supervisory framework, especially in terms of disclosure requirements. These included prompt submission of financial statements and report, notification of interests in securities by insiders and other notifications. Companies listed on a securities
Capital Markets

exchange also filed in details of ownership by foreign shareholders to the FSC.

7. Takeover Rules

The Securities (Takeover) Rules 2010 became effective in May 2011. The first time these Rules were applied related to a reporting issuer which is listed under the category of Commerce on the SEM. The company notified the FSC of a restructuring at international group level. Since the company was listed on SEM, the FSC worked in close collaboration with the securities exchange on this case.

As a prudential measure, to avoid prejudice to the interests of any minority shareholders, the FSC requested the Company to ensure that the transaction was effected at a fair market price, within the spirit of the Securities (Takeover) Rules.

8. Capacity Building

IOSCO AMERC - Workshop on Risk Based Supervision, Uganda

In line with the objective to foster capacity building on the RBS Framework, staff of the FSC attended a workshop organised by the IOSCO on risk based supervision for securities regulators. The workshop was held, from 11 to 14 October 2011, in Kampala, Uganda.

9. Investor Protection

Investor protection is a key mandate for the FSC and as such, staff had the opportunity to attend the following seminars, during the year under review:

IOSCO Seminar Training Programme on 'Investor Protection', Spain

A four-day Seminar Training Programme was organised at the seat of IOSCO in Madrid, from 24 to 28 October 2011. The programme delved into emerging issues and challenges faced by regulators for providing investor protection.
Investment Funds and Intermediaries

The last two decades witnessed significant growth and dynamism in global capital markets which created new markets, exchanges and intermediaries and also led to the emergence of complex financial products and instruments. This evolving market scenario combined with the need for better allocation of limited supervisory resources, prompted regulators to find improved methods of identifying, measuring and mitigating risks posed by the new breed of market participants and the new financial products. Consequently, an increasing number of supervisors is now moving away from a rigid rule-based system to a system that is more reliant on the supervisor’s discretion and professional judgment through the adoption of a risk-based supervisory structure.

1. Supervisory Regime for Funds

Risk-Based Supervision

The supervisory framework for the funds sector has been enhanced consistently by the FSC to ensure that it remains effective in the face of investors’ needs and dynamics of the financial markets. The FSC’s risk-based framework for the supervision of funds and funds’ intermediaries are underpinned by the:

- focus of resources on those funds and funds’ intermediaries that pose the greatest risk to its regulatory goals;
- shift of the primary responsibility for risk management and internal control to the funds and funds’ intermediaries; and
- changes in the inspection mode, henceforth evaluating whether risk management and internal controls are adequate and updated, instead of merely verifying for compliance with rules.

2011 was characterised by the third cycle of the RBS. Most licensees submitted the relevant RBS questionnaires to the FSC in a timely manner. In few and exceptional cases, subsequent to representations in writing, the FSC extended the time-frame for the filing of RBS questionnaires.

A dedicated working group was established within the FSC to review and revamp the existing RBS questionnaires. New questionnaires were introduced for Custodians and Administrators of funds.

Prior to embarking with the RBS cycle, the FSC performed an off-site review of the companies’ records. This off-site review process prompted the FSC to query licensees for additional or outstanding information and documents, where appropriate. Responses from funds and funds’ intermediaries were processed by the FSC to gauge and monitor effectively the business risks of these entities. The final RBS scorings assisted in the planning of on-site inspections for 2011/2012.

2. Off-Site Monitoring and Compliance

Off-site monitoring and compliance constitute essential components of prudential supervision for funds and funds’ intermediaries. Investment Funds and Intermediaries cluster ensures that entities fulfill a wide range of post-licensing obligations, attend to regulatory approvals and to the reporting of financial statements.

Post-Licensing Compliance

Once licences are granted by the FSC, funds and funds’ intermediaries are required to comply with prescribed requirements as per the terms of licence.

In 2011, the FSC monitored systematically the submissions of final constitutive documents and material contracts by newly licensed entities within the prescribed deadlines.

Other post-licensing obligations, such as meeting the minimum stated unimpaired capital, submission of professional indemnity insurance cover and renewals thereof, adherence to Code of Ethics, and the establishment of documented internal control rules were also subject to scrutiny by the Cluster.
Investment Funds and Intermediaries

**Regulatory Approvals**

The FSC dealt with several applications for the categorisation of existing funds as Expert Fund, Professional CIS and Specialised CIS. Prior approvals were granted by the FSC in cases of appointment of officers and transfer of shares by funds and funds’ intermediaries. Whenever directors were appointed and shares transferred, without the relevant prior approval, corrective actions, such as the issue of warning letters, were taken by the FSC.

In 2011, the FSC addressed requests for change in the appointment of CIS Managers, Custodians and other functionaries of funds. A number of requests was not acceded, as a result of the funds’ intermediaries/functionaries not holding the necessary licences or authorisations.

Various applications for change in the auditors of funds and funds’ intermediaries were acknowledged. Since in most cases, auditors are duly licensed by the Financial Reporting Council, the FSC had no major concerns to issue its approval. The reasons for such changes in auditors were mainly commercial.

Off-site compliance monitoring of funds and funds’ intermediaries by the FSC also consisted of assessments to changes in the organisational structure, approvals for publication of advertisements, and orderly winding-up/termination, by the entities.

**Review of Financial Statements**

The review of interim and audited financial statements for funds and funds’ intermediaries by the FSC, ensured that financial reports were made in accordance with the prescribed standards, were duly dated and signed, and did not comprise of qualified audit reports. Where the standards and requirements were not met, necessary enquiries were made and steps taken to ensure the going-concern and financial viability of the entities. As part of the review of financial statements, data on funds and funds’ intermediaries were extracted and compiled by the FSC for statistical recording purposes.

**3. Rules**

**Rules on Private Placement**

Private placement is defined in the SA as "an offer of securities where the total cost of subscription or purchase for each person to whom the offer is made is at least equal to the amount determined by the FSC Rules and where each person subscribes or purchases for his own account and no publicity is made by the person making an offer."

The introduction of ‘private placement’ rules aims to facilitate the structure and setting-up of funds that are essentially offered to sophisticated investors in the domestic and global business markets.

**Exemption Rule under section 23 of FSA**

The FSC is working on new rules, pursuant to section 23 of the FSA, that will exempt particular classes or categories of funds and funds’ intermediaries from seeking the approval of the FSC, when dealing in the issue or the transfer of shares/units, that are not entitled to voting rights and do not have a significant influence on the appointment of directors, amongst others.

The new rules will provide flexibility for funds, especially with open-ended structures, to organise the issue, redemption and transfer of shares/units, in a more conducive manner.
Global Business

The cornerstone of any regulatory regime is the extent to which the regulator ensures adherence by the market participants with the framework of regulatory requirements. Mauritius is well-positioned as a globally trusted and reputed international financial centre of substance. The global business sector contributed on average 3% to 5% of GDP over the last few years. As at 31 December 2011, there were 9,758 GBC 1’s licensed in Mauritius.

The success of the Mauritius global business sector is largely based on treaty-related business. Following the global financial crisis coupled with the Euro-zone debt crisis, and subsequently the critics leveraged against global business jurisdictions by advanced economies, Mauritius continues to support business of substance.

Supervisory Approach for Global Business

To ensure that the global business sector is monitored closely and that licensees are supervised effectively, the FSC places emphasis on both off-site and on-site supervision.

1. Post-Licensing Compliance

Monitoring of licensees enables the FSC to ensure that licensees are complying with the legal and regulatory framework in place. This process involves the general good standing of GBCs with regard to customer due diligence requirements, changes in ownership, and monitoring the status of licensees in accordance with the provisions of the laws. Post licensing monitoring also includes the assessment of internal control measures and procedures, appropriate compliance, and records keeping procedures at the Management Companies.

2. Risk-Based Supervision

Since the introduction of the RBS framework, the FSC focused its supervisory resources on risks that have the greatest potential to undermine the FSC’s regulatory objectives. The RBS assisted the global business cluster to identify potential weaknesses of licensees, and hence identify appropriate supervisory actions required, in relation to the assessed risk profile of the licensees, and to determine the needs for on-site inspections. In 2011, a total of 146 Management Companies responded to the online RBS questionnaires and more than 80% of the Management Companies (including Corporate Trustees) was reported as being compliant with the RBS requirements.

3. Off-Site Supervision

Off-site supervision is vital to continuously monitor the conduct of business of licensees. This exercise includes ensuring that licensed entities fulfill post-licensing obligations, including obtaining regulatory approvals, filing of documents and audited financial statements within the prescribed deadlines, and adherence to laws and regulations.

For the year under review, off-site supervision revealed that a few Management Companies failed to adopt sound prudential measures and good market conduct including not seeking FSC’s approval for the appointment of officers and transfer of shares, failure to seek prior approval of the FSC while dealing with residents, misplacing GBC licences of client companies, inability to file audited financial statements or financial summaries on time, and insufficient knowledge in relation to the duties of a Management Company. Following reminders or instructions to remedy the situation, the Management Companies were identified for on-site inspections or for appropriate enforcement actions.

4. Review of Accounts

The review of the audited financial statements ensured that financial reports were made in accordance with prescribed standards. When audit reports were qualified, further assessment was made in respect of the nature of the qualification. The FSC looked into cases where standards and requirements were not met and depending on the findings, further enquiries were initiated with respect to the financial viability, business strategy, management and internal control.
Global Business

The FSC reviewed the reporting obligations in terms of submission of audited financial statements for GBC 1’s and a sample of 2,035 audited financial statements was analysed during 2011. GBC 1’s that failed to submit same were identified for enhanced monitoring and supervision.

5. On-Site Supervision

On-site supervision is an effective means to provide the FSC with valuable insights regarding the regulatory health of the global business sector. In practice, whenever discrepancies are detected during on-site inspection visits, licensees are required to implement remedial actions and to report to the FSC on the progress made.

On-site inspections focused on the on-going customer due diligence checks by Management Companies, internal controls and procedures in place, corporate governance issues, and monitoring of the client companies’ business.

In 2011, on-site inspections were systematically organised for newly licensed Management Companies. Inspections were conducted at the end of 6 months after the issue of the management licence. The assessment of the Management Companies’ compliance with business plan at the application stage and legislation enabled the FSC to take remedial action, where necessary, at an early stage.

6. Market Trends

The turnover reported by Management Companies (including Corporate Trustees) for the year ended 31 December 2011 was USD 86,937,514. During the year under review, the profit before tax realised by the Management Companies and Corporate Trustees was USD 24,803,149.

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010(^1)</th>
<th>2011(^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover (thousand USD)</td>
<td>93,285</td>
<td>129,379</td>
<td>146,524</td>
<td>151,303</td>
<td>86,938</td>
</tr>
<tr>
<td>Profit Before Tax (thousand USD)</td>
<td>39,189</td>
<td>79,519</td>
<td>59,210</td>
<td>53,884</td>
<td>24,803</td>
</tr>
</tbody>
</table>

Note: Figures refer to period 01 January to 31 December

\(^1\) Restated figures

\(^2\) Relate to Audited Financial Statements submitted by 72 Management Companies and Corporate Trustees (Note: 61 Management Companies Audited Financial Statements were not due for submission – the due date is 30 June 2012)
Insurance and Pensions

1. General Overview

The insurance industry landscape witnessed a significant change with the end of the transitional period under the IA. The split of business of insurers was concluded smoothly without any major operational disruptions, facilitated by constructive dialogues and interactions between the insurers and the FSC. The industry was marked by a consolidation of insurance businesses, driven by the regulatory changes and the quest for economies of scale, which were also consistent with market realities.

As at 31 December 2011, 13 general and 8 long term insurance companies were serving the needs of the Mauritius market. For a sector continuously experiencing major changes in its regulatory framework and in the industry infrastructure, remarkable progress was noted during the year under review.

The number of insurance intermediaries namely insurance brokers, insurance agents, and insurance salespersons licensed and registered by the FSC during the year ending 31 December 2011 is shown in Table 5.

<table>
<thead>
<tr>
<th>Code</th>
<th>Type of insurance intermediaries</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>INS–2.2 A</td>
<td>Insurance Agent (Company)</td>
<td>15</td>
</tr>
<tr>
<td>INS–2.2 B</td>
<td>Insurance Agent (Individual)</td>
<td>3</td>
</tr>
<tr>
<td>INS–2.3</td>
<td>Insurance Brokers</td>
<td>1</td>
</tr>
<tr>
<td>INS–2.4</td>
<td>Insurance Salespersons</td>
<td>675</td>
</tr>
</tbody>
</table>

2. Market Trends

Domestic Market Review

Total assets of domestic insurers increased from Rs 88.5 billion to Rs 95.9 billion, representing an increase of 8%, as shown in Table 6.

In the year 2011, gross claims paid by general insurers increased by 27% compared to the year 2010. The total gross premiums of general insurers in the domestic market grew by 9%, from Rs 17.5 billion to Rs 19.2 billion during the year under review.
Insurance and Pensions

Table 6: Figures for the insurance sector in 2010 and 2011

<table>
<thead>
<tr>
<th></th>
<th>Dec 2011</th>
<th>Dec 2010</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Long term Insurance</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Premiums</td>
<td>12,953,342,000</td>
<td>11,962,757,000</td>
<td>8%</td>
</tr>
<tr>
<td>Assets</td>
<td>84,244,200,000</td>
<td>75,380,174,000</td>
<td>12%</td>
</tr>
<tr>
<td>Gross Claims</td>
<td>10,583,575,000</td>
<td>7,786,807,000</td>
<td>36%</td>
</tr>
<tr>
<td>No. Policies</td>
<td>497,228</td>
<td>437,108</td>
<td>14%</td>
</tr>
<tr>
<td><strong>General Insurance</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Premiums</td>
<td>6,246,871,000</td>
<td>5,574,601,000</td>
<td>12%</td>
</tr>
<tr>
<td>Assets</td>
<td>11,659,437,000</td>
<td>13,158,375,000</td>
<td>-11%</td>
</tr>
<tr>
<td>Gross Claims</td>
<td>3,250,208,000</td>
<td>2,561,172,000</td>
<td>27%</td>
</tr>
<tr>
<td>No. Policies</td>
<td>419,516</td>
<td>446,270</td>
<td>-6%</td>
</tr>
<tr>
<td><strong>Total Gross Premiums</strong></td>
<td>19,200,213,000</td>
<td>17,537,358,000</td>
<td>9%</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>95,903,639,000</td>
<td>88,538,550,000</td>
<td>8%</td>
</tr>
<tr>
<td><strong>Total Gross Claims</strong></td>
<td>13,833,783,000</td>
<td>10,347,979,000</td>
<td>34%</td>
</tr>
<tr>
<td><strong>Total No. Policies</strong></td>
<td>916,744</td>
<td>883,378</td>
<td>4%</td>
</tr>
</tbody>
</table>

**General Insurance Business**

The number of policies in force in the general insurance business sector for the year under review stood at 419,516 as compared to 446,270 for the previous year. A breakdown of the policies by classes for general insurance business is illustrated in Chart 7.

**Chart 7: Breakdown of General Insurance Policies by Class**
Insurance and Pensions

The 287,370 motor policies and 132,146 non-motor policies generated Rs 6.2 billion of gross premiums for the year 2010/2011, representing an increase of 12%, compared with the previous year.

From Chart 8, it can be seen that most of the claims paid out were related to the class of motor insurance (Rs 1.35 billion) followed by accident and health policy (Rs 0.98 billion).

![Chart 8: Breakdown of Total Gross Claims paid in 2011](chart)

**Long-Term Insurance Business**

The long-term insurance business sector registered an increase of 8% in gross premiums to reach Rs 12.95 billion in the year 2010/2011. A similar growth rate was observed for net premiums which grew from Rs 11.7 billion to Rs 12.6 billion, during the year under review. Total consolidated assets of the 11 long-term insurers stood at Rs 84.2 billion as compared to Rs 75.4 billion during the previous year, representing an increase of 12%. Chart 9 depicts the assets distribution of the long-term insurers for the year under review.

![Chart 9: Assets Distribution for Long-Term Insurers](chart)
3. Risk Based Supervision

The critical goals of financial supervision are to ensure that:

- institutions are financially sound and in a position to discharge all obligations to the policyholders; and
- these obligations are in fact discharged, in a fair and timely manner.

In pursuit of the critical goals, the FSC focused on a risk-based approach for the supervision of insurers.

The third cycle of self-assessments questionnaires was launched in June 2011. Responses were assessed and rated in relation to the risks inherent to the insurance businesses respectively, in accordance with the parameters of the RBS framework. This exercise allowed the FSC to identify insurers with higher risk profiles and thereby contributed to the schedule of on-site inspections, during the year under review.

4. Capital Adequacy and Solvency Margin Requirements

The purpose of capital resources is to protect the interests of insurance policyholders by meeting the following two objectives:

- reduce the probability of insolvency by absorbing losses on a going-concern basis or in run-off; and/or
- reduce the loss to policyholders in the event of insolvency or winding-up.

The FSC implemented a set of risk-based capital requirements intended to cater for the aforesaid objectives in the distinct Solvency Rules for the Long Term Insurance and the General Insurance businesses respectively.

As per the latest financial returns submitted to the FSC, the general insurance business sector, on the whole, maintained capital requirements ratios higher than the target prescribed level of 150%. The majority of the long term insurers was assessed as being solvent by their actuaries. Insurance companies which did not meet the required solvency margins were monitored closely by the FSC during the year under review.

5. Asset Liability Management

Asset Liability Management is of primary importance for the licensed insurers to co-ordinate the management of risks associated with assets and liabilities. Licensed insurers submitted actuarial valuation reports to the FSC, during the year under review.

A review of actuarial valuation reports for general insurance business revealed that technical liabilities for the majority of general insurers are supported by a combination of cash and near cash and fixed interest assets having terms of one year or less and which are highly liquid in nature. This type of investment strategy reflected the short-tailed nature of general insurance business in the domestic market.

6. Offsite Monitoring and Compliance

Off-site supervision of insurance companies is a continuous exercise undertaken by the FSC which involves a two-tier approach namely:

- monitoring of legal and statutory requirements; and
- assessing compliance with prudential requirements.

7. Review of Statutory Returns

The sources of information to enable the offsite monitoring of insurers in 2011 included annual reports and audited financial statements, statutory returns and actuarial valuation reports, amongst other documents submitted to the FSC.

During the offsite review, financial conditions of insurers were assessed and monitored. The review also identified areas of concern and risk areas that required prompt corrective measures and which were to be
considered and further analysed during onsite inspections. Inconsistencies and concerns noted during the offsite review were communicated to the insurers and implementation of corrective actions and measures were closely monitored by the FSC.

8. Regulatory Approvals

The FSC assesses applications for approvals and authorisations as required under distinct provisions of the IA.

In 2011, the FSC assessed applications for the appointment of officers and other functionaries by insurers. Authorisations for accepting reinsurance inwards were processed and granted to some insurers. The FSC approved request from one insurer to run-off its long term insurance business and to allow this run-off segment of business as incidental to its main business. Termination of the licences and registrations for intermediaries, namely insurance agents and insurance salespersons were also processed accordingly.

The FSC is mandated to review new long-term insurance products that insurers propose to launch in the market.

In 2011, the FSC approved shares issue which conferred preferential rights to distributions of capital or income and subordinated loans to be reckoned as capital available for solvency purposes.

9. Compliance with IAIS ICPs

In view of the FSAP mission in July 2011, the FSC assessed its insurance regulatory framework in accordance with the ICPs self-assessment programme. The assessment was based on the ICPs issued by the IAIS in 2007. The assessment exercise revealed that Mauritius fully observed 7 ICPs whilst 15 ICPs were largely observed and 6 ICPs were partly observed.

The FSC will ensure that it adheres to the new set of ICPs issued by the IAIS in October 2011.

10. Capacity Building

IAIS/ FSI Regional Seminar on Strengthening Insurance Supervision

The FSC hosted the regional seminar for insurance supervisors from Africa, on 8 to 10 November 2011. The seminar was jointly organised by the IAIS and the FSI. The seminar aimed at enhancing capacity building of mid-level managers in insurance supervision and reinforcing regulatory strength and regional stability. The Seminar served as a forum for the insurance regulators to share experiences and measures undertaken in the respective countries.

The main topics of the seminar were:

- macro-prudential surveillance and the role of the regulator and supervisor;
- supervisory intervention levels and tools, and policyholder protection schemes;
- supervision of internationally active insurance groups, including the assessment of group-wide solvency;
- risk management, including stress and scenario testing, and
- regulation and Supervision of captive insurers and reinsurers.

11. Pensions

The Private Pension Schemes Bill

In the National Budget Speech 2012, the Minister of Finance and Economic Development announced introduction of a new legal framework for the promotion and regulation of the private pension sector in Mauritius. The FSC consulted the insurance industry for the preparation of the new Private Pension Schemes Bill, during the year under review. This new legislation is set to provide an enhanced regulatory and supervisory framework for the private pension industry, to ensure the protection of members and beneficiaries, and the soundness of the private pension market in line with the principles and guidelines of the IOPS.
Insurance and Pensions

OECD/IOPS Global Forum on Private Pensions, South Africa

In October 2011, the FSC attended the annual Global Forum on Private Pensions and the Conference on Financial Literacy held in Cape Town. These international capacity building events stressed how the pension reform system can deliver adequate old-age income protection while contributing to economic development and financial stability.
Enforcement
Enforcement

1. Enforcement Committee

In accordance with the FSA, the Chief Executive of the FSC may refer a matter to the Enforcement Committee for such action as the Enforcement Committee may deem appropriate. The Enforcement Committee can exercise the disciplinary powers of the FSC to impose an administrative sanction on a licensee.

Composition of Enforcement Committee

The Enforcement Committee is an internal committee set up by the Board of the FSC in accordance with section 52 of the FSA. During the year 2011, the Committee comprised of two Non-Executive Board members, namely Ms Mary Anne Philips and Mr. Radhakrishna Chellapermal and two staff at Executive level, namely Mrs. Namita Jagamath-Hardwar and Mrs. Ashveena Gajeelee. For one case, an external practising Barrister at Law, namely Mr. Dev Erriah was, in accordance with the FSA, co-opted as a member of the Committee.

2. Regulatory actions

During the period under review, the Enforcement Committee unanimously took the decision to revoke the licence of a Management Company, pursuant to sections 52 (3) and 7 (1) (c) (vi) of the FSA, after assessing the alleged breaches and hearing representations made by the latter.

The FSC took several other enforcement actions during 2011:

Suspension and Revocation of licence

The FSC suspended with immediate effect the GBC 1’s Licence of a company, in accordance with Section 74 of the FSA, in 2010. The licensee was given the opportunity to make representations to the FSC and following an assessment of the representations, the FSC revoked the GBC 1’s Licence, in October 2011.

Appointment of Administrator

The FSC, in exercise of its powers under section 48(1) of the FSA, appointed an Administrator in relation to the whole business activities of a Management Company on 30 March 2011.

Conservator and Liquidator

An insurance company is under conservatorship since June 2008, pursuant to section 106 of the IA. The conservatorship was maintained during the year 2011.

Another insurance company is under provisional liquidation since 10 December 2007.

3. Others

Financial Services Review Panel (‘FSRP’)

Sub-part B of Part IX of the FSA provides for an ad-hoc review panel which is known as the FSRP. A person aggrieved by the decision of the Enforcement Committee can apply to the FSRP for a review of such decision.

Composition of the FSRP

The FSRP for the year 2011 consisted of a Chairperson, a representative of the Solicitor-General, and a representative of the Ministry of Finance and Economic Development.

Determinations of the FSRP

During the year under review, the FSRP filed its determination in the matters of (i) Denis Serge Rivalland v. The Financial Services Commission and (ii) Anderson Ross Consulting Limited v. The Financial Services Commission.

In both cases, the application for review was set aside.
Enforcement

Court Proceedings

Voet and Co (Mauritius) Ltd v. Financial Services Commission

In May 2011, the Supreme Court of Mauritius delivered its judgment in the case of Voet and Co (Mauritius) Ltd v. Financial Services Commission. The applicant had applied to the Court for judicial review of the decision by the FSC not to renew its management licence on the grounds that the decision was unfair, unreasonable, unlawful, in breach of the rules of natural justice and constituted an abuse of power. The Court held that the FSC had acted reasonably in the discharge of its statutory obligations to preserve the reputation of Mauritius as a sound international financial centre. The application was set aside with costs.

Anderson Ross Consulting Ltd v. FSC in presence of the Financial Services Review Panel

Following the revocation of the management licence of Anderson Ross Consulting Ltd, in April 2011, the company applied to the Honourable Judge sitting in Chambers for an interim order, in the nature of an injunction, restraining and prohibiting the FSC from appointing an Administrator to its business. The applicant subsequently withdrew the application in November 2011.

The company also applied for a judicial review of the decision by the FSRP to set aside its application.
Corporate Services

Corporate Services act as an enabler and facilitator to ensure the smooth and effective functioning of the various operations of the FSC.

- **Human Resources (‘HR’)**
  The HR cluster is committed to the transformation of the FSC into an employer of choice. Its engagement is to create and foster a conducive professional work culture across FSC.

- **Administration & Enterprise Risk**
  This cluster embraces a holistic approach to ensure the smooth conduct of business at the FSC. It is responsible to conduct Enterprise Risk Management to ensure Business Continuity. It acts as a facilitator to ensure that daily operations are well organised and coordinated, while ascertaining the efficient and judicious use of assets.

- **Finance**
  The Finance cluster ensures that the finances of the FSC are managed in a judicious manner. It is responsible for the preparation of statutory accounts and monitoring of the FSC’s budget while ensuring that Management and Board are provided with timely and accurate information for effective and efficient decisions.

- **Information Technology**
  The Information Technology cluster is responsible for the creation of an efficient technology-based work environment to facilitate the operations of the FSC. It endeavours to improve the FSC’s responsiveness through state-of-the-art technological infrastructure while ensuring the efficient flow of accurate and timely information.

- **Communications**
  The Communications unit is responsible for monitoring an effective communication strategy within the FSC and with all stakeholders. It ensures smooth implementation of the internal and external communications plan and initiatives.
Human Resources

1. Human Capital

The FSC believes that its success as an effective regulator and supervisor of the non-banking financial services sector fundamentally depends on the quality of its human capital. The FSC’s engagement is to become an employer of choice by creating and fostering a conducive professional work culture across the organisation whilst unleashing the potential of each staff.

2. Qualifications and Skills

Attracting and retaining top talent is one of our main priorities. The FSC relies on its people’s talent, enthusiasm, engagement, and commitment to maintain the good repute of the Mauritius International Financial Centre.

Having the right mix of highly qualified and experienced people possessing the right knowledge, skills and attitudes is critical to ensure that the statutory objectives of the FSC are met in an effective and efficient manner, whilst contributing to the overall development of the financial services sector.

The FSC presently has a staff strength of 147. A breakdown by Job Family and gender is provided in Chart 10.

![Chart 10: Breakdown of staff by Job Family and Gender](image)

It must be highlighted that 70% of staff hold tertiary/professional qualifications. Chart 11 shows the qualification profile of the professional staff at the FSC.
3. Building Expertise

The competencies and capabilities required at the FSC are very specialised and can only be acquired through experience, training, development and exposure - both local and international.

As a knowledge-based organisation, the FSC is totally committed to investing in the continuous learning and development of its people. The FSC spares no efforts to ensure the ongoing nurturing and growing of talent.

Further to a Competency Needs Assessment exercise, a structured Learning and Development Plan for the year under review was elaborated. The various training programmes amounted to a total of 5,748 contact hours in 2011. A breakdown of the contact hours by type of training is given in Chart 12.
Human Resources

Chart 12: Breakdown of contact hours by type of training programme

Regular in-house training sessions were conducted on a weekly basis. Staff also attended webinars by industry experts in order to keep abreast of evolving trends and developments in the financial services sector.

Staff benefitted from training organised by local as well as international institutions.

Table 8: Local / External Training 2011 by Job Family

<table>
<thead>
<tr>
<th>Job Family</th>
<th>No of Training sessions</th>
<th>No of Officers</th>
<th>Contact Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managerial</td>
<td>17</td>
<td>11</td>
<td>137</td>
</tr>
<tr>
<td>Technical</td>
<td>46</td>
<td>70</td>
<td>1,796</td>
</tr>
<tr>
<td>Administrative</td>
<td>9</td>
<td>8</td>
<td>322</td>
</tr>
<tr>
<td>Support</td>
<td>3</td>
<td>3</td>
<td>128</td>
</tr>
<tr>
<td>Total</td>
<td>75</td>
<td>92</td>
<td>2,383</td>
</tr>
</tbody>
</table>

The overseas trainings were more specific to regulatory functions of the FSC.

Table 9: Overseas Training 2011 by Job Family

<table>
<thead>
<tr>
<th>Job Family</th>
<th>No of Training sessions</th>
<th>No of Officers</th>
<th>Contact Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managerial</td>
<td>4</td>
<td>4</td>
<td>90</td>
</tr>
<tr>
<td>Technical</td>
<td>16</td>
<td>19</td>
<td>427</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>23</td>
<td>517</td>
</tr>
</tbody>
</table>
Human Resources

The FSC continues to work closely with its stakeholders. The Speaker’s series enabled high level industry professionals to deliver talks and presentations to staff.

During the year under review, the concept of focus group interaction workshops was introduced, whereby professionals from the financial services industry were invited to share their views on the practical aspects of funds/functionaries’ operations and on latest developments.

4. Knowledge Management

The FSC remains committed to be transformed into a Knowledge-Based Organisation. The FSC Intranet serves as a vital tool and is widely used as a repository for the dissemination of knowledge within the organisation. Thematic Communities of Practice have been set up to enhance the competencies of staff within functional areas of expert knowledge. The areas in which such Communities of Practice currently exist include Corporate Governance, Islamic Finance and Accounting Standards.

5. Leadership Capability

The FSC continued to focus on developing leadership capabilities in order to allow its young leaders to build a higher level of assertiveness and to take up new and higher roles and responsibilities. The need for Leadership Development in a structured manner, through a customised Leadership Development Programme in line with international best practices, is set to be started at the beginning of next year.

6. Performance Management System

With a view to transforming the FSC in a high-performance work organisation, a Performance Management System was initiated some time back. The system was fully implemented during the year 2011, with a Performance Related Pay as part of the reward strategy. Staff who demonstrated enhanced levels of performance with the desired behaviours and competencies, were eligible for a performance bonus.

The FSC endeavours to provide a transparent link between skills, performance, contribution and reward.

7. Recognising People

The 10th Anniversary of the creation of the FSC was a privileged moment to recognise and celebrate the loyalty and contribution of staff. In all, 32 staff received a FSC Shield for dedicated service to the FSC.

8. Staff Well-being

The well-being of staff remains a priority for the FSC, and it augurs well within the policy of encouraging work-life balance. After the setting up of a well-equipped and fully subsidised in-house gym with coach facilities, a Health Camp was organised in June 2011. The Health Camp was conducted by professional medical staff and comprised of a health screening session as well as talks on the importance of maintaining proper life hygiene. A health card was designed and issued to all staff to ensure regular monitoring of their health. Weekly walks are organised to encourage staff to adopt a habit of regular exercising.

In order to demonstrate commitment to the well-being of staff and their family, the FSC organised a Children’s Day in December 2011.

9. Young Graduate Development Programme

During the year under review, the FSC maintained its Young Graduate Development Programme, whereby some 20 fresh graduates were given the opportunity to gain exposure in the financial services sector. The aim of the programme is to ensure the availability of qualified and trained manpower to meet the forthcoming needs of the FSC and the sector.

During their internship at the FSC, graduates are provided with structured and on-the-job training, and development opportunities to enhance their performance which translate into potential for progression and growth. Graduates undergo job
Human Resources

rotation in order to build breadth and gain a better appreciation of organisational and regulatory issues whilst being closely monitored and coached by experienced in-house specialists.

Graduates were from different fields of study, namely Accounting, Banking and International Finance, Economics, Finance, Law, Human Resources and Statistics

10. Corporate Social Responsibility

An Annual Blood Donation Day in collaboration with the Blood Transfusion Services of the Ministry of Health and Quality of Life and the Blood Donors Association was held in June 2011.

During the National Day celebrations, to demonstrate engagement towards the community, the FSC organised a donation of educational materials to children of Dubreuil village. The children of the village were also invited to participate in the FSC Children’s Day in order to allow them to interact with the staff’s children.
Risk Management and Infrastructure

1. Enterprise Risk Management

The FSC adopted a Risk Management approach which addresses both value preservation and value creation. Governance and risk management are high-priority issues that are embedded in the daily operation.

The FSC clearly defined key risk management roles, responsibilities, and authority. Risk governance is the responsibility of the Board, while the responsibility for risk infrastructure and oversight remains with Executive Management. The Board and more specifically the Audit and Risk Committee, has adequate visibility into risk management practices, through regular reporting from the Internal Audit unit, to enable the discharge of its oversight responsibilities.

Executive management is responsible for designing, implementing, and maintaining risk management capabilities by:

- using a common risk management infrastructure to support different clusters and functions;
- giving different clusters and functions full ownership of risks associated with day-to-day operation, including responsibility for keeping executive management informed; and
- tasking key centralised functions, such as finance and IT, with providing guidance to the business units and monitoring and reporting the effectiveness of risk management activities.

The Risk Management approach adopted by the FSC is partly inspired by the International Organisation for Standard – ISO 31000, which provides guidance for best practices in Risk Management Framework.

Industry Framework

The FSC consolidated its regulatory framework relating to risk management, through implementation of new regulatory standards set by the international standard-setting bodies like IAIS and IOSCO.

In 2011, the FSC set up a taskforce on Financial Stability to look at how the FSC can consolidate its role in ensuring financial stability of the system.

Business Continuity Management (‘BCM’)

BCM is a high priority at the FSC. The FSC continuously reviews its processes and adopts new measures to ensure the resilience of its business, and to help ensure continuity of services to its key stakeholders and the protection of its reputation.

In respect of the support services, the FSC’s building and contents are insured against fire, flood and other disasters. The FSC maintains daily backup of its files at a remote site, off the premises.
Information Technology

Technology plays a pivotal role in the FSC's strategy to improve its operational and supervisory capabilities. The FSC was engaged on a number of projects and delivered several significant initiatives to improve the way in which technology and business changes are delivered. The major focuses of those projects were the consolidation of the IT infrastructure, the enhancement of security systems, internal controls and business continuity planning.

1. Enterprise Resource Planning

The FSC embarked on the project of implementing an integrated information system to ensure that its processes are seamlessly integrated, with a view to adopt a cost optimisation policy as well as to improve efficiency, while allowing the generation of accurate and timely management reports and accounts.

The system caters for the collection and management of fees, the management of inventory items and fixed assets, the processing of daily financial transactions, and availability of reports for control and monitoring of all transactions. The Enterprise Resource Planning system will contribute to the FSC in terms of increased efficiency and seamless integration across software applications. As at end of 2011, the project reached a completion stage of 80% and it is expected that the project will be fully implemented in the next few months.

2. Disaster Recovery

Being highly technology dependent, the daily operations of the FSC may face disruptions in case of either natural disasters or man-made disasters. The disasters can pose serious threats to the capacity of the FSC to continue business in the normal way. It is therefore critical for the FSC to initiate disaster recovery project.

The key objective of disaster recovery is to minimise the impact of any disaster events on the daily business operations at the FSC with the view to having a minimum acceptable downtime. Disaster recovery will benefit the FSC through minimising the extent of interruption to routine operations and preventing the loss of important operational information, limiting the severity of disruption, damage, and hazards to employee welfare and safety, enhancing stakeholders' confidence in the organisation, defining alternatives for accomplishing critical information systems and other functional services.

A risk assessment, business impact analysis, an inventory of information systems, identification of critical applications, systems and data were performed as per a standard disaster recovery policy.

3. Work Area Improvement

Following relocation of the FSC from Port-Louis to Ebene, a temporary set-up of workstations was put in place due to urgency. The FSC decided to review the existing network and electrical infrastructure to enhance compliance to the Health and Safety Regulations. All temporary arrangements were leveraged by installation of electric poles and additional sockets as replacement to loose trunkings and hot-fixes in the different workspaces in the FSC.

4. Review of IT Infrastructure / Security Systems / Anti Virus

Part of the current IT infrastructure, which consists of servers, storage, firewalls and UPS systems, has reached near its factory end of life and will become increasingly difficult to maintain over time.

In 2011, a number of projects was identified for the consolidation of IT infrastructure, IT Security systems and Antivirus / Anti Spam systems. The objective of these projects is not only to substantially improve security, service availability, computing capabilities and ease of recovery in case of failure or loss of data, but also to lay the foundation in terms of capacity for future projects.
5. Purchase of Computers

The purchase of new computers was necessary at the FSC for the gradual replacement of existing computers, which impacted on the work output of staff.

The replacement policy of 50 to 55 workstations per annum was started in 2011 and is expected to continue over a period of 3 years. The new computers are up-to-date in terms of hardware technology and performance, and are set to:

- increase end user productivity;
- enable deployment of up to date productivity tools and other technologies;
- be more efficient in terms of power consumption and workspace arrangements e.g. replacement of CRT monitors by LCD screens and use of small form factor computers; and
- be in line with the review of IT Infrastructure exercise that was initiated in 2011.

6. Website

Backed by latest tools and technologies with greater accessibility and readability, the FSC spurred innovation by redesigning the website, to provide a more user-friendly navigation for its licensees and stakeholders.

With innovative search mechanisms and graphics, the website, launched on 30 August 2011, provides more flexibility to convey the latest regulatory information. In the same vein, the dynamic website reflects the notions of integrity, collaboration and professionalism at the FSC. As an effective tool of communication, this second generation website will pave the way for consolidating the FSC’s reputation as a clean and transparent jurisdiction.

7. Future developments

In line with its reform and modernisation strategy, the FSC initiated several projects.

- Online Payment
  The project will leverage on a full suite of integrated online payments, which will cater for security and data protection, interoperability and market access for existing and new service providers.

- Online Applications
  The project will provide an efficient network that would enhance accessibility and readability by Management Companies. It will streamline business processes, reduce the overhead associated with administrative management, as well as convert much of the current paper-based application process.

- Document Management Systems
  The project aims at creating an electronic repository of all documents at the FSC, providing a platform for managing documents in a secure way, and implementing a mechanism for convenient information search.

  In 2011, the FSC started the implementation of an Electronic Document Management System project, to track and store electronic documents and/or images of paper documents to enable the FSC to maintain electronic backup of all its records.

- Archiving Project
  The implementation of the project provides many strategic advantages like a centralised electronic platform with enhanced knowledge management, improved processing and tracking of documents, a proper search mechanism, secured access to files with enhanced confidentiality and integrity. Most important, paper usage at the FSC will be reduced which will lead towards paperless office – hence a ‘Green initiative’.

- Review of Database Systems
  The FSC is considering the review of the database systems to improve the overall efficiency
of the licensing and post-licensing processes, through elimination of manual entry of licensee-related data and automatic extraction of structured information.

- **Information Security**
  Information security means protecting information against unauthorised disclosure, transfer, modification and destruction, regardless whether it is intentional or accidental. The FSC started the process by investing in capacity building of its staff through information security and management system training programme organised by the National Computer Board. The information security management system will help to form the security policies, procedures and rules which create the framework for the security programme, and help to educate users on how to be secure.
Communications

1. Overview

The Communications unit supports the FSC in the development and implementation of its internal and external corporate communication plan and initiatives. It streamlines information towards FSC’s target audiences and manages critical information, on a daily basis.

Maintaining an effective communication strategy and collaboration with the media to ensure efficient flow of information to stakeholders and the general public, has been among the priorities of the FSC throughout the year 2011. To ensure up-to-date coverage of its events by the media, emphasis was laid on the development of media information kits and the issue of press releases.

2. Events

The FSC was active on several fronts in the organisation of major events both internally and externally.

The Communications team was highly solicited, during the year under review, to give support for the coverage of external events where the FSC Chief Executive was invited.

The Chief Executive was invited to deliver presentations/addresses to a number of events – amongst others, the American Chamber of Commerce Forum on “Economic Liberty: laissez faire or regulated?” in August, the 10th Anniversary Event of Curatus Trust Company in September, presentation on the “Urgency of Ethical Governance” at the University of Mauritius and the CFA Institute Travelling Conference Series held in October 2011.

3. Telephone Etiquette Guide

With the aim to enhance both internal and external communications, the FSC has endeavoured to implement a comprehensive telephone etiquette guide during the year under review, in order to enhance staff skills in dealing with communication with stakeholders.

4. Intranet

The FSC reviewed and revamped the internal communication process through the effective use of an intranet system to disseminate organisational and operational news, as well as for the sharing of information about events updates and internal newsletters.

5. Website

The new revamped website was designed to reinforce the position of Mauritius as an international financial centre reflecting a sound regulatory framework, international norms and standards, professionalism and effective disclosure of information. The use of the website is a critical and effective tool to maintain and enhance corporate communications and the image of the FSC by providing timely updates to licensees, stakeholders, the media and the general public.

6. Publications

An important objective of the FSC was to ensure timely release of major publications, like the Annual Report and the Annual Statistical Bulletin, during the year under review. Other publications included corporate brochures, updating of information about the FSC in local and international directories.

7. Complaints Handling

The handling of complaints from financial services consumers is an integral part of the FSC’s functions. Consumer complaints were handled on a daily basis. A timely, efficient and professional treatment was given in respect of complaints that were lodged, as per the procedures set by the FSC.
Communications

8. Consumer Education

During the year 2011, a new height was reached in relation to Consumer Education through the launching of the “Promoting Financial Literacy and Young Talent Competition”. The objective of the National competition is to promote financial literacy and a better understanding of the financial services sector, amongst the youth. The Competition is poised to become a yearly feature of the FSC.

The FSC also plans to launch a nationwide programme for creating a better awareness about the non-bank financial products and services sector amongst the general public.
Statutory Reporting
Corporate Governance Committee Report
Report of the Corporate Governance Committee to the Board of the Financial Services Commission

Preamble

The Code of Corporate Governance for Mauritius requires that Boards appoint a Corporate Governance Committee and to include in its terms of reference the key areas normally covered by a Nomination Committee and a Remuneration Committee or to ensure that the reporting requirements on Corporate Governance are in accordance with the principles of the Code.

Composition of the Corporate Governance Committee

The Corporate Governance Committee of the FSC consists of the Vice Chairperson, Ms Mary Anne Philips and two other members of the Board, namely, Mr. Raj Makoond (Chairperson of the Committee) and Mr. Oliver Lew Kew Lin. The Secretary to the Board, Mr. Ramanaidoo Sokappadu acts as Secretary to the Committee.

Role of Corporate Governance Committee

The objective of the Committee is to ensure that the FSC complies, as far as is applicable, to the Code of Corporate Governance. The Committee also ensures that necessary disclosures regarding any conflict of interests are made.

During the year the Committee met on 2 occasions. The Compliance Officer of the FSC attended all the Corporate Governance meetings.

The FSC has set up a mechanism to review compliance with the Code of Corporate Governance on a periodical basis and the Compliance Officer is required to report on the extent of compliance to the Committee.

To the extent applicable, the Corporate Governance Committee is satisfied that the FSC has met its disclosure requirements under the Code of Corporate Governance

Management

The Board approved that in the absence of a substantive Chief Executive, its powers be delegated to the Chairperson and the Vice Chairperson to sign on behalf of the FSC in accordance with requirements of the Financial Services Act. The Board further agreed that the Chairperson or Vice Chairperson may delegate their respective powers and in that respect, an Officer in Charge was appointed for the period from 01 January 2011 to 31 July 2011. This arrangement was a temporary measure necessary due to vacancy of the position of the Chief Executive during the first seven months of the year.

On 01 August 2011, Ms Clairette Ah-Hen assumed duty as the Chief Executive of the FSC.
Report of the Corporate Governance Committee
to the Board of the Financial Services Commission

Attendance and remuneration of Board members

Board meeting is held at least once per month and is attended by the Chief Executive.
Apart from the Corporate Governance Committee, the Board has appointed an Audit and Risk Committee, a Staff Committee and an Investment Committee.
The table below shows attendance to meetings of the Board and its Committees during the year 2011:

<table>
<thead>
<tr>
<th>Members</th>
<th>Board meeting</th>
<th>Corporate Governance Committee</th>
<th>Audit and Risk Committee</th>
<th>Staff Committee</th>
<th>Investment Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Meetings</td>
<td>15</td>
<td>2</td>
<td>3</td>
<td>2</td>
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<tr>
<td>Mr. S. Laloo</td>
<td>14</td>
<td></td>
<td></td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Chairperson</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ms M. A. Philips</td>
<td>12</td>
<td>2</td>
<td></td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Vice-Chairperson</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr. Y.W.M Appado</td>
<td>13</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr. R. Chellapermal</td>
<td>14</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Mr. S. Gopaul</td>
<td>9</td>
<td></td>
<td></td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Mr. O. Lew Kew Lin</td>
<td>10</td>
<td>2</td>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr. R. Makoond</td>
<td>12</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In attendance:

| Ms C. Ah-Hen                  | 6             |                                | 2                        | 1               |                      |
| (Aug to Dec 2011) Chief Executive |               |                                |                          |                 |                      |
| Mr. P. Seevoosunkur           | 9             |                                |                          |                 |                      |
| (Jan to Jul 2011) Officer in Charge |               |                                |                          |                 |                      |

A profile of Board members and the Chief Executive can be found on pages 14 to 17 in the “Our Organisation” section of the Annual Report.
Board fees, salaries and allowances paid are shown in Notes 15 of the Financial Statements.

Disclosures

No Board member of the FSC is a director of a company licensed by the FSC except for Mr. R. Chellapermal who is a Board Director of Sicom Financial Services Ltd. In addition, Mr. R. Makoond is a Board director of Les Moulins de la Concorde Ltd which is a listed company.

R. Makoond
Chairperson

M. A. Philips
Member

O. Lew Kew Lin
Member
Audit and Risk Committee Report
Report of the Audit and Risk Committee
to the Board of the Financial Services Commission

Preamble

The Board of Directors has oversight responsibilities for the financial reporting process, the system of internal control over financial reporting, the audit process and the processes for identifying, evaluating and managing the FSC’s principal risks impacting on financial reporting. To fulfill these responsibilities, the Board needs to review important accounting issues, compliance in regard to specific disclosures in the financial statements as well as regularly ensure that all internal accounting, administrative and risk control systems and procedures are designed to provide ongoing assurance that assets are safeguarded and that transactions are executed and recorded in accordance with the FSC’s policy.

The Code of Corporate Governance for Mauritius requires that Boards appoint an Audit Committee and a Risk Committee or to opt to delegate the risk management process to the Audit Committee. The Board had opted for the latter and has appointed an ‘Audit and Risk Committee’ to assist it in fulfilling its responsibilities.

Composition of the Audit and Risk Committee

The FSC’s Audit and Risk Committee comprises three Non-Executive Board Directors namely Mr. Oliver Lew Kew Lin (Chairperson), Mr. Radhakrishna Chellapermal and Mr. Sanjay Gopaul. Mr. Ramanaidoo Sokappadu, Secretary to the Board, also acts as Secretary to the Audit and Risk Committee.

Main Responsibilities of the Audit and Risk Committee

The main responsibilities of the Audit and Risk Committee are:

- Monitoring the integrity of the FSC’s financial statements;
- Reviewing with management and the external auditors, the adequacy and compliance of internal control systems;
- Monitoring and reviewing the internal audit function and considering regular reports from internal audit on internal financial controls, operations and risk management;
- Considering the appointment of the external auditors, overseeing the process for their selection and making recommendations to the Board in relation to their appointment;
- Monitoring and reviewing the external auditors’ independence, objectivity and effectiveness;
- Overseeing the operation of the policies on conflicts of interest; and
- Ensuring that recommendations from external and internal audit, as approved by the Audit and Risk Committee and the Board, are followed upon and implemented.

Meetings and Proceedings at Meetings

In carrying out its responsibilities, the Audit and Risk Committee met 3 times during the year ended 31 December 2011.

The agenda are prepared by the Secretary in consultation with the Committee Chairperson. The Committee Secretary takes minutes of the meetings and such minutes are circulated to all members and included in the Board papers for the next meeting.

The Internal Auditor attended all the Audit and Risk Committee meetings. The Committee also meets with the external auditors with any executive in attendance on invitation.
Report of the Audit and Risk Committee
to the Board of the Financial Services Commission

Items reviewed

*Financial Reporting*
The Audit and Risk Committee reviewed the draft annual report and discussed the accounting policies, estimates and judgments applied in preparing the report with the Finance Officer.

The Committee has taken note that the financial statements for the year ended 31 December 2011 have been prepared in accordance with International Financial Reporting Standards (IFRS) and according to all relevant legal and regulatory requirements.

The Committee received reports from the External Auditor on their review of the financial statements for the year and the proposed recommendations raised by the External Auditor in the management letter.

*Internal Control and Risk Management*
The Audit and Risk Committee has an ongoing process for reviewing the effectiveness of the system of internal controls and of the internal audit function.

The Committee received and considered the reports of the Internal Audit team summarising the audit findings and recommendations and describing actions taken by management to address any weaknesses.

Committee welcomed the initiatives started by Management in terms of Business Continuity Management and Enterprise Risk Management.

*Compliance audit report on Procurement*
The Committee received and considered the report of the Internal Audit Team on the procurement activities at the FSC. The Internal Audit team tested compliance with the requirements of the Public Procurement Act and to the FSC’s internal policy relating to approval or ratification prior to purchase.

All procurements for the year under review, except those through delegated authority as per FSC’s internal procedure, were duly approved / ratified and effected as recommended by the Procurement Committee and approved by Chief Executive or the Board.

*Other Issues*
The Audit and Risk Committee took note of the amendments to regulation made to the Statutory Bodies (Accounts and Audit) Act, which exempted the FSC from the requirement to prepare its financial statements as per International Public Sector Accounting Standards (IPSAS) issued by IFAC.

*Audit Planning*
The Committee also considered the planning of the audit for the financial year ending 31 December 2012.

O. Lew Kew Lin  
Chairperson

R. Chellapermal  
Member

S. Gopaul  
Member
Board’s Report
Board’s Report 2011

The Board of the Financial Services Commission presents its report and the audited financial statements of the FSC for the period ended 31 December 2011.

Review of activities

The FSC is an independent regulatory authority deemed to be established under the Financial Services Act 2007 to regulate the financial services sector other than banking, and global business. The FSC licenses, regulates, monitors and supervises the conduct of business activities in the said sectors.

Statement of Board’s responsibilities in respect of the financial statements

The Board of the FSC is responsible for the preparation of the financial statements for each financial year, which gives a true and fair view of, the state of affairs of the FSC, its income and expenditure, and its cash flows for that period.

In preparing those financial statements, the Board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards i.e. the International Financial Reporting Standards (‘IFRS’) have been followed, and explained in the financial statements;
- prepare the financial statements on the going concern basis; and
- prepare the financial statements in accordance with the Financial Services Act 2007 and the Statutory Bodies (Accounts and Audit) Act 1972.

The Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the FSC. The Board is also responsible for safeguarding the assets of the FSC, designing, implementing and maintaining effective internal controls relevant for the preparation and presentation of financial statements that are free from material misstatements.

The Board confirms that the Board has complied with the above requirements and the relevant statutes in so far as they relate to the preparation of the financial statements.

Approved by the Board of the FSC on 31 May 2012.
Auditors’ Report
Independent Auditors’ Report

To,
The Chairman of the Board of Financial Services Commission, Mauritius

1. We have audited the accompanying Statements of Financial Position of the Financial Services Commission (the Commission) as at 31 December 2011, and also the Statements of Comprehensive Income, Statement of Changes in Funds and the Cash Flow Statement for the year ended 31 December 2011, and notes to the financial statements which include a summary of significant accounting policies and other explanatory notes.

2. These financial statements have been prepared in accordance with the relevant International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS).

3. Responsibilities of the Board of the Commission

The Board of the Commission is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, The Financial Services Act 2007, The Statutory Bodies (Accounts & Audit) Act 1972 and The Financial Reporting Act 2004. This responsibility inter alia includes complying with the relevant statutes, safeguarding the assets, designing, implementing and maintaining effective internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

• Responsibilities of the Auditors

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and report our opinion to you.

• Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. We planned and performed our audit so as to obtain the relevant information, explanations, and management representations and undertake examinations on test basis, which we considered necessary in order to provide us with sufficient and appropriate evidence to give reasonable assurance that the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Commission as well as evaluating the overall presentation of the financial statements.
Independent Auditors’ Report

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

• Opinion

In our opinion, the financial statements on pages 98 to 132 present fairly in all material respects the financial position of the Commission as at 31 December 2011, the financial performance and cash flows of the Commission for the year ended 31 December 2011.

• Report on the Other Legal and Regulatory Requirements.

7.1 The Financial Services Act, 2007

In our opinion, we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of the audit and in our opinion proper accounting records have been maintained;

In our opinion, and relying on Board representation and explanations to this effect, more particularly in respect of transfer of amounts to the General Reserve Fund, Financial Services Fund and the Consolidated Fund of the Government of Mauritius, the provisions of The Financial Services Act 2007 in so far as they relate to the accounts have been complied with;

7.2 The Statutory Bodies (Accounts and Audit) Act, 1972

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of the audit;

In our opinion, to the best of our information and according to the explanations given to us, the financial statements give a true and fair view of the financial performance of the Commission for the year under audit and of its financial position as at 31 December 2011;

In our opinion, the provisions of the Statutory Bodies (Accounts and Audit) Act, 1972 in so far as they relate to the accounts have been complied with and no directions have been received from the Minister;

In our opinion, as far as could be ascertained from our examination of the financial statements submitted to us and relying on Board representation and explanations to this effect, no expenditure is incurred of an extravagant or wasteful nature, judged by normal commercial practice and prudence;

In our opinion, as far as could be ascertained from our examination of the financial statements and relying on Board representation and explanations to this effect, the Commission has been applying its resources and carrying out its operations fairly and economically.
Independent Auditors’ Report

7.3 The Financial Reporting Act, 2004

The directors are responsible for preparing the Corporate Governance Report and making disclosures required by Section 8.4 of the Code of Corporate Governance for Mauritius. Our responsibility is to report on these disclosures.

In our opinion, as far as could be ascertained from our examination of the relevant records and relying on Board representation and explanations to this effect, the disclosures in the Corporate Governance Report are consistent with the requirements of the Code of Corporate Governance for Mauritius.

7.4 The Public Procurement Act, 2006

The Commission is responsible for complying with the provisions of the Public Procurement Act, 2006.

In our opinion, based on test checks as considered appropriate and relying on Board representation and explanations to this effect, provisions of Part V of the Public Procurement Act, 2006, in regard to the bidding process, have been complied with.

For Chokshi & Chokshi
Chartered Accountants
Kemp’s Corner,
Mumbai, India
FRN 101872W
Licensed By FRC

Mital Chokshi
Partner
M.No.47745
Date: 31 May 2012
Financial Statements
# STATEMENT OF FINANCIAL POSITION

**AS AT 31 DECEMBER 2011**

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>NOTE</th>
<th>2011</th>
<th>2010</th>
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<tr>
<td><strong>Non-Current Assets</strong></td>
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<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
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<td>226,989,239</td>
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<tr>
<td>Intangible assets</td>
<td>6 (b)</td>
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<tr>
<td>Defined benefit asset</td>
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<td>8,915,000</td>
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<tr>
<td>Other financial assets</td>
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<td>15,135,990</td>
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<td>252,486,191</td>
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<td>Receivables</td>
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<td>38,923,181</td>
<td>30,682,181</td>
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<tr>
<td>Cash and bank balances</td>
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<td>249,771,829</td>
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<td>Bank deposits</td>
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<td><strong>TOTAL ASSETS</strong></td>
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<td>2,251,537,231</td>
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<td><strong>LIABILITIES</strong></td>
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<tr>
<td><strong>Current liabilities</strong></td>
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<td>Payables</td>
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<td>Contribution to Consolidated Fund</td>
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<td>950,173,506</td>
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<td><strong>TOTAL LIABILITIES</strong></td>
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<td><strong>NET ASSETS</strong></td>
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<td>Represented by:</td>
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<tr>
<td>General Fund</td>
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<tr>
<td>General Reserve Fund</td>
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<td>Financial Services Fund</td>
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<td><strong>NET ASSETS</strong></td>
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<td>959,854,746</td>
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</table>

Approved by the Board of the Commission on 31 May 2012

Signed on their behalf

R.M.M. Hein  
Chairperson

M.A. Philips  
Vice Chairperson

C. Ah-Hen  
Chief Executive

The accounting policies on pages 103 to 118 and the notes on pages 119 to 132 form an integral part of these financial statements.
# Statement of Comprehensive Income

## For the Year Ended 31 December 2011

<table>
<thead>
<tr>
<th></th>
<th>Note</th>
<th>12 Months Ended 31 Dec 2011</th>
<th>18 Months Ended 31 Dec 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td></td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td>Fees</td>
<td>13</td>
<td>721,126,524</td>
<td>970,529,934</td>
</tr>
<tr>
<td>Interest</td>
<td>14</td>
<td>57,283,098</td>
<td>52,562,270</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td></td>
<td>778,409,622</td>
<td>1,023,092,204</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td></td>
<td>149,895,423</td>
<td>207,740,601</td>
</tr>
<tr>
<td>Salaries and allowances</td>
<td>15</td>
<td>93,104,001</td>
<td>133,023,923</td>
</tr>
<tr>
<td>Training and seminars</td>
<td>16</td>
<td>8,330,268</td>
<td>12,403,548</td>
</tr>
<tr>
<td>Legal and professional fees</td>
<td>17</td>
<td>12,610,659</td>
<td>5,565,776</td>
</tr>
<tr>
<td>Office and administrative expenses</td>
<td>18</td>
<td>15,789,992</td>
<td>27,244,065</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>6(a), 6(b)</td>
<td>20,060,503</td>
<td>29,503,289</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td></td>
<td>149,895,423</td>
<td>207,740,601</td>
</tr>
<tr>
<td><strong>Surplus of Income Over Expenditure</strong></td>
<td></td>
<td>628,514,199</td>
<td>815,351,603</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>19</td>
<td>401,598</td>
<td>1,119,267</td>
</tr>
<tr>
<td>Exchange fluctuation loss</td>
<td></td>
<td>(30,962,313)</td>
<td>(7,569,365)</td>
</tr>
<tr>
<td><strong>Surplus for the Year/Period</strong></td>
<td></td>
<td>597,953,484</td>
<td>808,901,505</td>
</tr>
</tbody>
</table>

Approved by the Board of the Commission on 31 May 2012
Signed on their behalf

R.M.M. Hein  
Chairperson

M.A. Philips  
Vice Chairperson

C. Ah-Hen  
Chief Executive

The accounting policies on pages 103 to 118 and the notes on pages 119 to 132 form an integral part of these financial statements.
# STATEMENT OF CHANGES IN FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2011

<table>
<thead>
<tr>
<th></th>
<th>General Reserve Fund Rs</th>
<th>Financial Services Fund Rs</th>
<th>General Fund Rs</th>
<th>TOTAL Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance brought forward</td>
<td>944,076,716</td>
<td>15,778,030</td>
<td>-</td>
<td>959,854,746</td>
</tr>
<tr>
<td>01 January 2011</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Surplus for the year</td>
<td>-</td>
<td>-</td>
<td>597,953,484</td>
<td>597,953,484</td>
</tr>
<tr>
<td>Transfer from General Fund to</td>
<td>89,693,023</td>
<td>-</td>
<td>(89,693,023)</td>
<td>-</td>
</tr>
<tr>
<td>General Reserve Fund as per Section 82A(2) of The Financial Services Act, 2007.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfer from General Fund to</td>
<td>-</td>
<td>11,959,070</td>
<td>(11,959,070)</td>
<td>-</td>
</tr>
<tr>
<td>Financial Services Fund as per Section 82(6) of The Financial Services Act, 2007.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proposed Contribution to</td>
<td>-</td>
<td>-</td>
<td>(496,301,391)</td>
<td>(496,301,391)</td>
</tr>
<tr>
<td>Consolidated Fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 31 December 2011</td>
<td>1,033,769,739</td>
<td>27,737,100</td>
<td>-</td>
<td>1,061,506,839</td>
</tr>
</tbody>
</table>
# Statement of Changes in Funds

For the Year Ended 31 December 2011 (Contd)

<table>
<thead>
<tr>
<th></th>
<th>General Reserve Fund Rs</th>
<th>Financial Services Fund Rs</th>
<th>General Fund Rs</th>
<th>TOTAL Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>At 01 July 2009</strong></td>
<td>-</td>
<td>-</td>
<td>1,317,285,747</td>
<td>1,317,285,747</td>
</tr>
<tr>
<td><strong>Surplus for the period</strong></td>
<td>-</td>
<td>-</td>
<td>808,901,505</td>
<td>808,901,505</td>
</tr>
<tr>
<td><strong>Contribution to Consolidated Fund</strong></td>
<td>-</td>
<td>-</td>
<td>(216,159,000)</td>
<td>(216,159,000)</td>
</tr>
</tbody>
</table>

**At 31 December 2010 before transfers and contribution**

<table>
<thead>
<tr>
<th></th>
<th>General Reserve Fund Rs</th>
<th>Financial Services Fund Rs</th>
<th>General Fund Rs</th>
<th>TOTAL Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Transfer from General Fund to the General Reserve Fund as per Section 82A(2), (4) &amp; (5) of The Financial Services Act, 2007.</strong></td>
<td>944,076,716</td>
<td>-</td>
<td>(944,076,716)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Transfer from General Fund to the Financial Services Fund as per Section 82(6) of The Financial Services Act, 2007.</strong></td>
<td>-</td>
<td>15,778,030</td>
<td>(15,778,030)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Proposed Contribution to Consolidated Fund</strong></td>
<td>-</td>
<td>-</td>
<td>(950,173,506)</td>
<td>(950,173,506)</td>
</tr>
</tbody>
</table>

**At 31 December 2010**

<table>
<thead>
<tr>
<th></th>
<th>General Reserve Fund Rs</th>
<th>Financial Services Fund Rs</th>
<th>General Fund Rs</th>
<th>TOTAL Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td>944,076,716</td>
<td>15,778,030</td>
<td>-</td>
<td>-</td>
<td>959,854,746</td>
</tr>
</tbody>
</table>

Approved by the Board of the Commission on 31 May 2012
Signed on their behalf

R.M.M. Hein  
Chairperson

M.A. Philips  
Vice Chairperson

C. Ah-Hen  
Chief Executive

The accounting policies on pages 103 to 118 and the notes on pages 119 to 132 form an integral part of these financial statements.
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

Cash Flow from operating activities

<table>
<thead>
<tr>
<th>NOTE</th>
<th>12 months ended 31 Dec 2011</th>
<th>18 months ended 31 Dec 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Cash Flow from investing activities

<table>
<thead>
<tr>
<th></th>
<th>12 months ended 31 Dec 2011</th>
<th>18 months ended 31 Dec 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition of property, plant and equipment</td>
<td>(6,111,922)</td>
<td>(15,401,041)</td>
</tr>
<tr>
<td>Acquisition of intangible assets</td>
<td>(459,421)</td>
<td>(3,115,063)</td>
</tr>
<tr>
<td>Proceeds from disposal of property, plant and equipment</td>
<td>401,598</td>
<td>1,119,267</td>
</tr>
<tr>
<td>Net Cash used in investing activities</td>
<td>(6,169,745)</td>
<td>(17,396,337)</td>
</tr>
</tbody>
</table>

Cash flow from financing activities

<table>
<thead>
<tr>
<th></th>
<th>12 months ended 31 Dec 2011</th>
<th>18 months ended 31 Dec 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution paid against retirement benefit obligation</td>
<td>(1,430,191)</td>
<td>(3,844,333)</td>
</tr>
<tr>
<td>Contribution to Consolidated Fund</td>
<td>(950,173,506)</td>
<td>(216,159,000)</td>
</tr>
</tbody>
</table>

Net (decrease) / increase in cash and cash equivalents

<table>
<thead>
<tr>
<th></th>
<th>12 months ended 31 Dec 2011</th>
<th>18 months ended 31 Dec 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net (decrease) / increase in cash and cash equivalents</td>
<td>(343,897,342)</td>
<td>576,289,462</td>
</tr>
</tbody>
</table>

Cash and Cash Equivalents at start of year/period

<table>
<thead>
<tr>
<th></th>
<th>12 months ended 31 Dec 2011</th>
<th>18 months ended 31 Dec 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Cash Equivalents at start of year/period</td>
<td>1,968,368,859</td>
<td>1,398,091,162</td>
</tr>
</tbody>
</table>

Cash and Cash Equivalents at end of year/period

<table>
<thead>
<tr>
<th></th>
<th>12 months ended 31 Dec 2011</th>
<th>18 months ended 31 Dec 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Cash Equivalents at end of year/period</td>
<td>1,624,471,517</td>
<td>1,974,380,624</td>
</tr>
</tbody>
</table>

Cash and cash equivalents consist of cash in hand, balances with the bank in savings account and investments in fixed deposit.

Cash and cash equivalents included in the Cash Flow Statement comprise of

<table>
<thead>
<tr>
<th></th>
<th>12 months ended 31 Dec 2011</th>
<th>18 months ended 31 Dec 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and bank balances</td>
<td>102,596,143</td>
<td>249,771,829</td>
</tr>
<tr>
<td>Bank deposits</td>
<td>1,492,470,661</td>
<td>1,718,597,030</td>
</tr>
<tr>
<td>Effect of exchange loss</td>
<td>1,595,066,804</td>
<td>1,968,368,859</td>
</tr>
<tr>
<td></td>
<td>29,404,713</td>
<td>6,011,765</td>
</tr>
<tr>
<td></td>
<td>1,624,471,517</td>
<td>1,974,380,624</td>
</tr>
</tbody>
</table>

Approved by the Board of the Commission on 31 May 2012
Signed on their behalf

R.M.M. Hein
Chairperson

M.A. Philips
Vice Chairperson

C. Ah-Hen
Chief Executive

The accounting policies on pages 103 to 118 and the notes on pages 119 to 132 form an integral part of these financial statements.
Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2011

1. GENERAL INFORMATION

1.1. Corporate information

The financial statements of the Commission for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the Board on 31 May 2012. The Financial Services Commission was established in Mauritius under the Financial Services Development Act 2001 on 1 August 2001 as an independent regulatory authority to regulate the non-banking financial services sector and the global business sector. With the enactment of the Financial Services Act 2007, the Commission is deemed to have been established under this Act.

The office of the Commission is located at FSC House, 54, Cybercity, Ebene, Republic of Mauritius, Indian Ocean.

1.2. Contribution to the Consolidated Fund of the Government of Mauritius

The Commission, being an independent regulatory authority, in terms of amendments to the Financial Services Act 2007 (FSA), is required to maintain its General Reserve Fund to attain its objectives under Section 82 of the FSA:

a) The Commission has created a General Fund into which all money received by the Commission has been accumulated, and out of which all payments required to be made including future charges and commitments, have been adjusted.

b) The Board has determined the net excess of income over expenditure after meeting all expenditure for that year and after making such provisions as it thinks fit for bad and doubtful debts, depreciation in assets, contribution to staff funds and superannuation funds and other contingencies.

c) The Commission allocates 2% of the excess of income over expenditure and contingencies, from the General Fund to the Financial Services Fund at the end of every financial period.

d) The Commission allocates 15% of the excess of income over expenditure and contingencies, from the General Fund to the General Reserve Fund at the end of every financial period.

e) The Commission has, after the allocations to the Financial Services Fund and the General Reserve Fund, provided for transfer of the remaining balance in the General Fund to the Consolidated Fund of the Government of Mauritius.

During the financial year the Commission has contributed Rs.950,173,506 towards the Consolidated Fund, and has made a further provision for the transfer of Rs.496,301,391 to the Consolidated Fund of the Government of Mauritius.
Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2011

2. PRESENTATION AND IFRS

2.1. Basis of preparation

The Commission has been excluded from the Part I of the Second Schedule to the Statutory Bodies (Accounts and Audit) Act in terms of the Government Notice number 210 of 2011 and hence is not required to prepare its financial statements in accordance with the International Public Sector Accounting Standard (IPSAS). Accordingly, the Commission has prepared its financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These statements have been prepared on the historical cost basis, except for financial assets and liabilities. These financial statements are presented in Mauritian Rupee being the reporting currency and rounded off wherever appropriate. The accounting policies adopted for the current period are consistent with those of the previous financial year except that the Commission has adopted new/revised standards and interpretations mandatory for financial years beginning on or after January 1, 2011.

The current Financial Statements cover the 12-month period ended 31 December 2011 in comparison with the previous reporting period of 18 months from July 2009 to December 2010, being transitional period pursuant to the amendments in the Statutory Bodies (Accounts and Audit) Act 1972, requiring change of financial year from July-June to January-December. Hence, the amounts of the current year are to that extent not comparable to the previous period.

2.2. Adoption of New and Revised International Financial Reporting Standards

The following new and revised IFRSs have been applied in the current year and have affected the amounts reported in these financial statements. Details of other new and revised IFRSs applied in these financial statements that have had no material effect on the financial statements are set out in section 2.3.

New and revised IFRSs affecting presentation and disclosure only

The Commission has adopted the following standards, revisions and interpretations as of January 1, 2011 to the extent applicable:

- IFRS 7 Financial Instruments: The Commission has applied enhanced disclosures in regard to Recognition, Measurement and De-recognition of financial instruments as described in Note 3(g).

- IAS 24 Related Party Disclosures (as revised in 2009): The disclosures for the current year have been reflected to conform to revisions therein.
2.3. New and revised IFRSs applied with no material effect on the financial statements.

The following new and revised IFRSs have also been adopted in these financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendment to IFRS 1 Additional Exemptions for First-time Adopters
- Group Cash-settled Share-based Payment Transactions – Amendment to IFRS 2
- IFRS 3 Business Combinations
- IAS 27 Consolidated and Separate Financial Statements
- Amendment to IAS 32 Classification of Rights Issues
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
- Prepayments of a Minimum Funding Requirement – Amendments to IFRIC 14
- IFRIC 17 Distributions of Non-Cash Assets to Owners
- IFRIC 18 Transfers of Assets from Customers
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

2.4. Amendments to IFRS

The following amendments to the Standards did not have any material impact on the accounting policies or financial position of the Commission:

- IFRS 2 Share-based Payment (effective 1 January 2010)
- IFRS 3 Business Combination
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 7 Financial Instruments Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 7 Statement of Cash Flows
- IAS 8 Accounting Policies, Change in Accounting Estimates and Errors
- IAS 10 Events after the Reporting Period
- IAS 16 Property, Plant and Equipment
- IAS 18 Revenue
- IAS 19 Employee Benefits
- IAS 20 Accounting for Government Grants and Disclosures of Government Assistance
- IAS 23 Borrowing Costs
- IAS 27 Consolidated and Separate Financial Statements
- IAS 28 Investment in Associates
- IAS 29 Financial Reporting in Hyperinflationary Economies
- IAS 31 Interest in Joint ventures
- IAS 34 Interim Financial Reporting
- IAS 36 Impairment of Assets
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments
- IAS 40 Investment Property
- IAS 41 Agriculture
2.5. Improvements to IFRSs

In May 2010, the IASB issued improvements to its standards. These did not have any material impact on the financial position or performance of the Commission.

- IFRS 1 First-time Adoption of International Financial Reporting Standards
- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Reporting
- IFRIC 13 Customer Loyalty Programmes

2.6. Future Applicability

Standards issued but not yet effective up to the date of issuance of the Commission’s financial statements are listed below. This listing of standards and interpretations issued are those that the Commission reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Commission intends to adopt these standards when they become effective.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Commission’s financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity’s continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Commission’s financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Commission’s financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Commission will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared
Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2011

with the requirements that were in IAS 27. The Commission does not present consolidated financial statements. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements
IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities (JCEs)—Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for JCEs using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The Commission does not have any joint arrangement. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Involvement with Other Entities
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity’s interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The Commission does not prepare consolidated financial statements. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Commission is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 1 Financial Statement Presentation—Presentation of Items of Other Comprehensive Income (OCI)
The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or ‘recycled’) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment will affect presentation only and will have no impact on the Commission’s financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 12 Income Taxes—Recovery of Underlying Assets
The amendment clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The Commission is exempt from payment of tax and as such the amendments will have no impact on the Financial Statements. The amendments become effective for annual periods beginning on or after 1 January 2012.

IAS 19 Employee Benefits (Amendment)
The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Commission is currently assessing the full impact of the remaining amendments. The amendments become effective for annual periods beginning on or after 1 January 2013.
Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2011

**IAS 27 Separate Financial Statements (as revised in 2011)**
As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Commission does not present consolidated financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

**IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)**
As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The Commission has neither any associates nor investments in joint ventures. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

**3.1 Significant Accounting Policies**

**a) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Commission and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment.

**Fees from licensees**

Revenues arising from processing, annual license, registration and brokerage, where no significant uncertainty as to its collectability exists, have been accounted on accrual basis.

**Expenditure**

All expenses have been accounted on accrual basis. Office rental payments termed operating lease are charged off on straight line basis over the lease period.

**Interest income**

For all financial instruments measured at amortised cost and interest bearing financial assets, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

Interest on bank deposit and treasury bills have been accounted for, on an accrual basis.

**b) Pensions and other post employment benefits**

The Commission contributes to a defined benefit plan for non-contractual employees, the assets of which are held independently and administered by an insurance company, taking account of the recommendations of independent qualified actuaries as per IAS 19, Employee Benefits.
Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2011

Pension is payable to eligible employees upon retirement / death of employees as per Section 7 of the Regulations 2000 to the Statutory Bodies Pension Fund Act 1978 (as amended).

For defined pension benefit plans, the pension costs are assessed using the projected unit credit method. Actuarial gains and losses are charged to the Statement of Comprehensive Income so as to spread the regular cost over the service lives of employees in accordance with advice of the actuaries who carry out a full valuation of the plans. Past service costs are recognised immediately. The pension obligation is measured at the present value of the estimated future cash outflow using interest rates of government securities which have terms to maturity approximating the terms of the related liability.

The defined benefit asset or liability comprises the present value of the defined benefit obligation, less unrecognised past service costs and less the fair value of plan assets out of which the obligations are to be settled. Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Fair value is based on market price information and, in the case of quoted securities, it is the published bid price. The value of any defined benefit asset recognised is restricted to the sum of any unrecognised past service costs and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

c) Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded at their respective functional currency spot rates at the date the transaction first qualifies for recognition (date of recording). Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date.

All differences arising on settlement or translation of monetary items are taken to the Statement of Comprehensive Income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

d) Property, plant and equipment

All property, plant and equipment of the Commission are shown at historical cost less accumulated depreciation and/or accumulated impairment losses, if any. Where the carrying amount of an asset is greater than its recoverable amount, it is written down to its recoverable amount. Impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the asset’s net realisable value or its value in use. Gains and losses on disposal are determined by comparing proceeds with carrying amounts and are included in operating surplus or deficit. Repairs and maintenance are charged to Statement of Comprehensive Income during the financial period in which they are incurred.
Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2011

Building and leasehold rights are measured at fair value less accumulated depreciation on building and accumulated impairment losses, if any, recognised.

Depreciation is calculated on the straight line method to write off the cost of each asset to residual value over its estimated useful life as follows:-

<table>
<thead>
<tr>
<th>Item</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor Vehicles</td>
<td>20</td>
</tr>
<tr>
<td>Furniture</td>
<td>20</td>
</tr>
<tr>
<td>Fixtures and fittings</td>
<td>10</td>
</tr>
<tr>
<td>Office Equipment</td>
<td>20</td>
</tr>
<tr>
<td>Computer Equipment</td>
<td>33.33</td>
</tr>
<tr>
<td>Building</td>
<td>30 years</td>
</tr>
<tr>
<td>Leasehold rights</td>
<td>30 years</td>
</tr>
</tbody>
</table>

The Commission reviews residual values for the purpose of depreciation calculations and impairment provisions.

e) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Lease payment under an operating lease is recognised as an expense on straight-line basis over the lease term. The Commission has acquired leasehold rights effective from 11 February 2008 for an initial period of 30 years with an option for its renewal for a further period of 30 years over land on which the office building of the Commission is constructed.

f) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the Statement of Comprehensive Income in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of every three reporting periods. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Comprehensive Income in the expense category consistent with the function of the intangible assets.
Intangible assets are amortised over the estimated period of utilisation not exceeding three years.

(g) Financial instruments – initial recognition and subsequent measurement

(i) Financial assets

Initial recognition and measurement
Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Commission determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Commission commits to purchase or sell the asset.

The Commission’s financial assets include cash and short-term deposits, fees receivables, staff loans and other receivables.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at fair value through profit or loss
The Commission did not have any financial assets at fair value through profit or loss during the period/year 2010 and 2011.

The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, these instruments cannot be reclassified after initial recognition.

Staff loans and fees receivables
Staff loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in the Statement of Comprehensive Income. The losses arising from impairment are recognised in the Statement of Comprehensive Income

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Commission has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the EIR, less impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in the Statement of Comprehensive Income. The losses arising from impairment are recognised in the Statement of Comprehensive Income.
Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2011

The Commission classifies its bank deposits as held-to-maturity investments.

Available-for-sale financial investments
The Commission did not have any Available-for-sale financial investments during the period/year 2010 and 2011.

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

1. The rights to receive cash flows from the asset have expired

2. The Commission has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either the Commission has
   (a) transferred substantially all the risks and rewards of the asset, or
   (b) neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Commission has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Commission’s continuing involvement in the asset. In that case, the Commission also recognises an associated liability.

The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Commission has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Commission could be required to repay.

Impairment of financial assets
The Commission assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and when observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost
For financial assets carried at amortised cost, the Commission first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Commission determines that no objective evidence of impairment
Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2011

exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Commission. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the Statement of Comprehensive Income.

(ii) Financial liabilities

Initial recognition and measurement
Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Commission determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value plus directly attributable transaction costs.

The Commission’s financial liabilities consist of accounts payable and provision for contribution to the Consolidated Fund.

Subsequent measurement
The measurement of financial liabilities depends on their classification as described below:

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability.

The difference in the respective carrying amounts is recognised in the Statement of Comprehensive Income.

(iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if:

✓ There is a currently enforceable legal right to offset the recognised amounts; and
✓ There is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.
Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2011

(iv) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

✓ Using recent arm’s length market transactions
✓ Reference to the current fair value of another instrument that is substantially the same
✓ A discounted cash flow analysis or other valuation models.

h) Impairment of non-financial assets

The Commission assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Commission estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

The Commission bases its impairment calculation on detailed budgets and forecast calculations, which generally cover a period of five years.

For assets an assessment is made at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Commission estimates the asset’s recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement, in which case, the reversal is treated as a revaluation increase.

Intangible assets with indefinite useful lives are tested for impairment annually as at end of financial year individually, and when circumstances indicate that the carrying value may be impaired.

i) Cash and short-term deposits

Cash and short term deposits in the statement of financial position comprise of cash at bank, cash in hand and bank deposits.
Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2011

j) Provisions

Provisions are recognised when the Commission has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Commission expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

k) Taxation

The Commission is exempt from payment of tax as per the provisions of the Income Tax Act 1995 (as amended).

l) Related Parties

Parties are considered related to the Commission if they have the ability, directly or indirectly, to exercise significant influence over the Commission in making financial and operating decisions, or vice versa. Related parties may be individuals or other entities.

m) Comparatives

Comparative figures have been reclassified and restated to conform with the presentation of current period.

3.2 Significant accounting judgments, estimates and assumptions

The preparation of the Commission’s financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Commission based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Commission. Such changes are reflected in the assumptions when they occur.

Pension benefits

The cost of defined benefit pension plans and other post employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the
discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

4. CONTINGENT LIABILITIES / COMMITMENTS

4.1 Contingent Liabilities

There are pending lawsuits against the Commission with claims estimated at Rs 47 million, excluding interests and costs (previous period - Rs 20 million). The Commission is of the view that the liabilities, if any, that may arise in future shall be appropriately dealt with in the year of settlement of the claims.

4.2 Financial Commitments

The Commission has approved, in principle, plans aimed at enhancing the tangible and intangible infrastructure commensurate with the scale of operations. The total amounts committed internally and externally till the 31st December 2011 is NIL.

4.3 Statutory Deposits of Insurance Companies not included in the Statement of Financial Position

Statutory security deposit certificates of insurance companies, amounting to Rs 321,937,110 (previous period Rs 326,570,381) are in the physical custody of the Commission in accordance with the Insurance Act 2005 and not included in the Statement of Financial Position.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

5.1 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise of the following types of risk: interest rate risk, currency risk, and other price risk, such as equity price risk. Financial instruments affected by market risk include receivables, bank deposits, accounts payable denominated in foreign currency, and provision for contribution to the Consolidated Fund.

The sensitivity analyses in note 23 (a) and (b) relate to the positions as at 31 December 2011 and 2010.

The following assumptions have been made in calculating the sensitivity analyses:

- The statement of financial position sensitivity relates to financial assets and liabilities
- The sensitivity of the relevant income statement item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 December 2011 and 2010.
5.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Commission’s exposure to the risk of changes in market interest rates relates primarily to the Commission’s bank balances with floating interest rates.

The Commission manages its interest rate risk by placing its excess funds in term-deposits with fixed interest rates.

5.3 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Commission’s exposure to the risk of changes in foreign exchange rates relates primarily to the Commission’s operating activities (when revenue or expense is denominated in a different currency from the Commission’s functional currency) which includes the Commission’s bank deposits.

5.4 Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Commission is exposed to credit risk from its operating activities (primarily for fees receivables and staff loans) and from its financing activities, including deposits with banks and financial institutions.

Fees receivable
Licensee credit risk is managed subject to the Commission’s established policy, procedures and control relating to licensee credit risk management. Only cases where collectability is certain are accounted as fees receivable.

Financial instruments and cash deposits
Credit risk from balances with banks and financial institutions is managed by the Commission’s Finance cluster in accordance with the Commission’s policy. Investments of surplus funds are made only with approved counterparties. Counterparty credit limits are reviewed by the Commission’s Investment Committee on an annual basis, and may be updated throughout the year. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty’s failure.

5.5 Liquidity risk

The Commission monitors its risk to a shortage of funds using a recurring liquidity planning tool. The Commission’s objective is to maintain a balance between continuity of funding and flexibility by keeping a minimum float and investing any excess in short term deposits. The Commission has no debts, nor does it plan to raise debts in the foreseeable future.

5.6 Capital risk management

The Commission’s objectives when managing its funds and reserves are to safeguard the Commission’s ability to continue as a going concern. The FSA requires the Commission to maintain certain funds to serve different purposes.
5.7 Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Commission’s performance to developments affecting a particular industry.

The Commission derives 88% (2010: 89%) of its income from the Global Business sector, and as such the concentration of risk is high around this sector. The Global Business sector is largely dependent on the International climate and Double Tax Avoidance treaties with certain prominent countries.

In line with its strategic plan, the Commission is taking various measures to further diversify the markets within the financial services sector, through increased partnership with emerging markets, in particular in other African jurisdictions. The Commission is also working with local stakeholders to further develop the local financial services market.

Moreover, various financial management control measures are being considered to ensure that the Commission is able to maintain its operational capabilities, should there be any substantial decrease in the activities of the Global Business sector.
## Notes to the Financial Statements
### FOR THE YEAR ENDED 31 DECEMBER 2011

### 6 (a) Property, plant and equipment

<table>
<thead>
<tr>
<th></th>
<th>MOTOR VEHICLE</th>
<th>FURNITURE</th>
<th>COMPUTER EQUIPMENT</th>
<th>OFFICE EQUIPMENT</th>
<th>BUILDING and LEASEHOLD RIGHTS</th>
<th>FIXTURES &amp; FITTINGS</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>COST</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 January 2011</td>
<td>9,536,414</td>
<td>15,217,453</td>
<td>14,079,915</td>
<td>4,828,381</td>
<td>173,275,311</td>
<td>75,976,893</td>
<td>292,914,367</td>
</tr>
<tr>
<td>Purchases</td>
<td>3,678,901</td>
<td>224,424</td>
<td>95,933</td>
<td>118,155</td>
<td></td>
<td>-</td>
<td>6,111,922</td>
</tr>
<tr>
<td>Disposals</td>
<td>(2,533,135)</td>
<td>-</td>
<td></td>
<td>-</td>
<td></td>
<td>-</td>
<td>(2,533,135)</td>
</tr>
<tr>
<td>At 31 December 2011</td>
<td>10,682,180</td>
<td>15,441,877</td>
<td>14,175,848</td>
<td>4,946,536</td>
<td>173,275,311</td>
<td>77,971,402</td>
<td>296,493,154</td>
</tr>
</tbody>
</table>

| **DEPRECIATION**     |               |           |                    |                  |                               |                     |       |
| At 1 January 2011    | 4,129,812     | 12,624,365| 12,664,213         | 3,543,583        | 14,439,610                    | 18,523,545          | 65,925,128 |
| Charge for the year  | 2,087,430     | 827,146   | 1,046,617          | 535,387          | 5,775,843                     | 7,797,140           | 18,069,563 |
| Disposal adjustments | (2,533,135)   | -         |                    | -                |                               | -                   | (2,533,135) |
| At 31 December 2011  | 3,684,107     | 13,451,511| 13,710,830         | 4,078,970        | 20,215,453                    | 26,320,685          | 81,461,556 |

| **NET BOOK VALUE**   |               |           |                    |                  |                               |                     |       |
| At 31 December 2011  | 6,998,073     | 1,990,366 | 465,018            | 867,566          | 153,059,858                   | 51,650,717          | 215,031,598 |
| At 31 December 2010  | 5,406,602     | 2,593,088 | 1,415,702          | 1,284,798        | 158,835,701                   | 57,453,348          | 226,989,239 |

Leasehold rights
Building

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Leasehold rights</td>
<td>4,858,333</td>
</tr>
<tr>
<td>Building</td>
<td>148,201,525</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>153,059,858</td>
</tr>
</tbody>
</table>
6. (b) Intangible assets (see note below)

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td>COST</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At January</td>
<td>26,160,342</td>
<td>23,045,279</td>
</tr>
<tr>
<td>Purchases</td>
<td>459,421</td>
<td>3,115,063</td>
</tr>
<tr>
<td>At 31 December</td>
<td>26,619,763</td>
<td>26,160,342</td>
</tr>
<tr>
<td>AMORTISATION</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At January</td>
<td>23,284,189</td>
<td>19,807,708</td>
</tr>
<tr>
<td>Charge for the year/period</td>
<td>1,990,940</td>
<td>3,476,481</td>
</tr>
<tr>
<td>At 31 December</td>
<td>25,275,129</td>
<td>23,284,189</td>
</tr>
<tr>
<td>NET BOOK VALUE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 31 December</td>
<td>1,344,634</td>
<td>2,876,153</td>
</tr>
</tbody>
</table>

Note: Intangible assets consists solely of acquired computer software
7. DEFINED BENEFIT ASSET

The pension scheme is a defined benefit plan and is fully funded. The assets of the funded plan are held independently and administered by SICOM.

<table>
<thead>
<tr>
<th></th>
<th>12 months ended 31 Dec 2011</th>
<th>18 months ended 31 Dec 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td>Current service cost</td>
<td>881,688</td>
<td>1,155,403</td>
</tr>
<tr>
<td>Interest cost</td>
<td>6,749,194</td>
<td>7,661,859</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(5,339,375)</td>
<td>(7,324,774)</td>
</tr>
<tr>
<td>Actuarial Gain Recognised</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total included in staff cost</td>
<td>2,291,507</td>
<td>1,492,488</td>
</tr>
</tbody>
</table>

Actual return on plan assets

2,291,507 1,492,488

Movement in liability recognized in the balance sheet as determined by the actuarial valuation

<table>
<thead>
<tr>
<th></th>
<th>12 months ended 31 Dec 2011</th>
<th>18 months ended 31 Dec 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td>Opening balance</td>
<td>(7,484,809)</td>
<td>(3,640,476)</td>
</tr>
<tr>
<td>Expense for the year/period</td>
<td>2,291,507</td>
<td>1,492,488</td>
</tr>
<tr>
<td>Actuarial reserves transferred in</td>
<td>(4,851)</td>
<td>(194,576)</td>
</tr>
<tr>
<td>Contribution paid</td>
<td>(3,716,847)</td>
<td>(5,142,245)</td>
</tr>
<tr>
<td>As at the close of the year/period</td>
<td>(8,915,000)</td>
<td>(7,484,809)</td>
</tr>
</tbody>
</table>
7. DEFINED BENEFIT ASSET (Contd)

Movements in the present value of the plan assets in the current period were as follows:

<table>
<thead>
<tr>
<th></th>
<th>12 months ended 31 Dec 2011 Rs</th>
<th>18 months ended 31 Dec 2010 Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td>At start of year/period</td>
<td>54,491,563</td>
<td>46,398,638</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>5,700,824</td>
<td>7,357,803</td>
</tr>
<tr>
<td>Actuarial gain</td>
<td>(4,263,656)</td>
<td>99,977</td>
</tr>
<tr>
<td>Actuarial reserves transferred in</td>
<td>4,851</td>
<td>194,576</td>
</tr>
<tr>
<td>Contributions from the employer</td>
<td>3,716,847</td>
<td>5,142,245</td>
</tr>
<tr>
<td>Contributions from the employees</td>
<td>2,658,399</td>
<td>3,417,076</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(6,776,102)</td>
<td>(8,118,752)</td>
</tr>
<tr>
<td>At close of year/period</td>
<td>55,532,726</td>
<td>54,491,563</td>
</tr>
</tbody>
</table>

The major categories of plan assets, and the expected rate of return at the balance sheet date for each category, are as follows:

<table>
<thead>
<tr>
<th></th>
<th>12 months ended 31 Dec 2011 %</th>
<th>18 months ended 31 Dec 2010 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Securities and Cash</td>
<td>50.90</td>
<td>52.20</td>
</tr>
<tr>
<td>Loans</td>
<td>7.90</td>
<td>7.80</td>
</tr>
<tr>
<td>Local Equities</td>
<td>22.90</td>
<td>25.20</td>
</tr>
<tr>
<td>Overseas bonds and equities</td>
<td>17.40</td>
<td>14.00</td>
</tr>
<tr>
<td>Property</td>
<td>0.90</td>
<td>0.80</td>
</tr>
<tr>
<td>Debenture Stocks</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.00</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

**Rates used for accounting purposes were**

<table>
<thead>
<tr>
<th></th>
<th>%</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount Rate</td>
<td>10.50</td>
<td>10.50</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>10.50</td>
<td>10.50</td>
</tr>
<tr>
<td>Future Salary increase</td>
<td>7.50</td>
<td>7.50</td>
</tr>
<tr>
<td>Future Pension increase</td>
<td>4.00</td>
<td>4.00</td>
</tr>
</tbody>
</table>
Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2011

8 OTHER FINANCIAL ASSETS

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td>Staff loans, restated</td>
<td>15,253,421</td>
<td>15,135,990</td>
</tr>
<tr>
<td>at fair value (note 10)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>15,253,421</td>
<td>15,135,990</td>
</tr>
</tbody>
</table>

9 RECEIVABLES

Fees receivable (unsecured and considered good) | 15,156,475 | 10,467,656 |
Staff loans, receivable within one year, restated at fair value (note 10) | 5,578,240 | 5,209,842 |
Other receivables | 8,400 | 1,877,150 |
Prepayments | 6,967,706 | 5,014,535 |
Accrued interest | 11,212,360 | 8,112,998 |
|                        | 38,923,181 | 30,682,181 |

10 STAFF LOANS

Total staff loans at face value | 28,611,235 | 28,039,145 |
Less adjustment for fair value | (8,789,616) | (6,884,682) |
Interest adjustment, calculated on fair value | 1,010,042 | (808,631) |
Balance at fair value | 20,831,661 | 20,345,832 |

Shown as:-
Receivables (Note 9) | 5,578,240 | 5,209,842 |
Other non-current assets (Note 8) | 15,253,421 | 15,135,990 |
|                        | 20,831,661 | 20,345,832 |

The staff members of the Commission are granted loans at preferential rates as per the Commission’s Salary Terms and Conditions. Types of Staff loans are Housing Loan, Car Loan, Motorcycle / Autocycle Loan, Computer Loan, Multipurpose Loan.

Staff Loans - Secured
Secured staff loans consist of Housing Loan, Car Loan and Motorcycle / Autocycle Loan which are secured by way of inscription / lien on the property of the staff.

Staff Loans - Unsecured
Unsecured loans consist of Computer Loan and Multipurpose Loan which are granted under personal guarantees.
10  STAFF LOANS (Contd)

Balances of loans are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secured</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Secured Staff Loans at face value</td>
<td>18,556,686</td>
<td>18,183,715</td>
</tr>
<tr>
<td>Less adjustment for fair value</td>
<td>(7,329,376)</td>
<td>(6,990,472)</td>
</tr>
<tr>
<td>Balance at fair value</td>
<td>11,227,310</td>
<td>11,193,243</td>
</tr>
<tr>
<td>Unsecured</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Unsecured Staff Loans at face value</td>
<td>10,054,550</td>
<td>9,855,428</td>
</tr>
<tr>
<td>Less adjustment for fair value</td>
<td>(450,198)</td>
<td>(702,839)</td>
</tr>
<tr>
<td>Balance at fair value</td>
<td>9,604,352</td>
<td>9,152,589</td>
</tr>
</tbody>
</table>

11  CASH AND BANK BALANCES

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash in hand</td>
<td>7,096</td>
<td>21,000</td>
</tr>
<tr>
<td>Bank balances</td>
<td>102,589,047</td>
<td>249,750,829</td>
</tr>
<tr>
<td></td>
<td>102,596,143</td>
<td>249,771,829</td>
</tr>
</tbody>
</table>

12  PAYABLES

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accruals</td>
<td>11,635,515</td>
<td>10,071,320</td>
</tr>
<tr>
<td>Other Creditors and provisions</td>
<td>7,284,840</td>
<td>5,933,857</td>
</tr>
<tr>
<td>Deposit from Management Companies</td>
<td>17,932,392</td>
<td>16,009,604</td>
</tr>
<tr>
<td>Prepaid Licence Fee</td>
<td>279,873,661</td>
<td>309,494,198</td>
</tr>
<tr>
<td></td>
<td>316,726,408</td>
<td>341,508,979</td>
</tr>
</tbody>
</table>

13  FEES

<table>
<thead>
<tr>
<th></th>
<th>12 months ended</th>
<th>18 months ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 Dec 2011</td>
<td>31 Dec 2010</td>
</tr>
<tr>
<td>Global business</td>
<td>637,075,978</td>
<td>868,865,658</td>
</tr>
<tr>
<td>Brokerage</td>
<td>16,621,818</td>
<td>20,728,558</td>
</tr>
<tr>
<td>Non-Banking Financial Institutions</td>
<td>67,428,728</td>
<td>80,935,718</td>
</tr>
<tr>
<td></td>
<td>721,126,524</td>
<td>970,529,934</td>
</tr>
</tbody>
</table>
14 **INTEREST**

<table>
<thead>
<tr>
<th>Treasury Bills</th>
<th>12 months ended 31 Dec 2011</th>
<th>18 months ended 31 Dec 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td>Bank Deposits</td>
<td>55,898,383</td>
<td>48,321,945</td>
</tr>
<tr>
<td>Staff Loans</td>
<td>1,384,715</td>
<td>1,883,708</td>
</tr>
<tr>
<td></td>
<td>57,283,098</td>
<td>52,562,270</td>
</tr>
</tbody>
</table>

15 **SALARIES AND ALLOWANCES**

<table>
<thead>
<tr>
<th>Description</th>
<th>12 months ended 31 Dec 2011</th>
<th>18 months ended 31 Dec 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff Salaries and Allowances</td>
<td>69,639,001</td>
<td>102,104,189</td>
</tr>
<tr>
<td>Adjustment to staff cost due to restatement of staff loans at fair value</td>
<td>86,263</td>
<td>2,533,009</td>
</tr>
<tr>
<td>Pension Contribution</td>
<td>4,945,055</td>
<td>4,716,248</td>
</tr>
<tr>
<td>Family Protection Scheme</td>
<td>1,694,479</td>
<td>2,095,277</td>
</tr>
<tr>
<td>National Savings Fund</td>
<td>486,792</td>
<td>453,573</td>
</tr>
<tr>
<td>Passage Benefits</td>
<td>2,565,052</td>
<td>3,608,500</td>
</tr>
<tr>
<td>Board and Committee Fees</td>
<td>2,100,000</td>
<td>3,150,000</td>
</tr>
<tr>
<td>Travelling</td>
<td>8,251,987</td>
<td>10,680,289</td>
</tr>
<tr>
<td>Staff Welfare</td>
<td>3,335,372</td>
<td>3,682,838</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>93,104,001</strong></td>
<td><strong>133,023,923</strong></td>
</tr>
</tbody>
</table>
### Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2011

#### 15 SALARIES AND ALLOWANCES (Contd)

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Board Fees</th>
<th>Enforcement Committee</th>
<th>12 months ended 31 Dec 2011 Rs</th>
<th>18 months ended 31 Dec 2010 Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr S. Laloo,</td>
<td>Board Fees</td>
<td></td>
<td></td>
<td>480,000</td>
<td>720,000</td>
</tr>
<tr>
<td>(Chairperson)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ms M.A. Philips,</td>
<td>Board Fees</td>
<td>300,000</td>
<td></td>
<td>400,000</td>
<td>450,000</td>
</tr>
<tr>
<td>(Vice Chairperson)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr R. Chellapermal</td>
<td>Board Fees</td>
<td>240,000</td>
<td></td>
<td>340,000</td>
<td>360,000</td>
</tr>
<tr>
<td></td>
<td>Enforcement Committee</td>
<td></td>
<td></td>
<td>100,000</td>
<td></td>
</tr>
<tr>
<td>Mr R. Makoond</td>
<td>Board Fees</td>
<td></td>
<td></td>
<td>240,000</td>
<td>360,000</td>
</tr>
<tr>
<td>Mr S. Gopaul</td>
<td>Board Fees</td>
<td></td>
<td></td>
<td>240,000</td>
<td>360,000</td>
</tr>
<tr>
<td>Mr O. Lew Kew Lin</td>
<td>Board Fees</td>
<td>240,000</td>
<td></td>
<td>240,000</td>
<td>360,000</td>
</tr>
<tr>
<td>Mr Y.W. Appado</td>
<td>Board Fees</td>
<td>240,000</td>
<td></td>
<td>240,000</td>
<td>360,000</td>
</tr>
<tr>
<td>Mr J.N. Meetarbhans</td>
<td>Salaries and allowances</td>
<td>-</td>
<td></td>
<td></td>
<td>12,594,194</td>
</tr>
<tr>
<td>(Chief Executive)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(01 June 2009 to 31 December 2010)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ms C. Ah-Hen</td>
<td>Salaries and allowances</td>
<td>1,700,000</td>
<td></td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>(Chief Executive)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(01 August 2011 to 31 December 2011)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr Prakash Seewoosunkur</td>
<td>Salaries and allowances</td>
<td>1,120,895</td>
<td></td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>(Officer In-Charge)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(04 January 2011 to 31 July 2011)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2011

16 TRAINING AND SEMINARS

<table>
<thead>
<tr>
<th></th>
<th>12 months ended 31 Dec 2011</th>
<th>18 months ended 31 Dec 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overseas conferences and seminars</td>
<td>4,765,636</td>
<td>10,408,508</td>
</tr>
<tr>
<td>Local events</td>
<td>2,532,482</td>
<td>1,237,701</td>
</tr>
<tr>
<td>Staff training</td>
<td>1,032,150</td>
<td>757,339</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,330,268</strong></td>
<td><strong>12,403,548</strong></td>
</tr>
</tbody>
</table>

17 LEGAL AND PROFESSIONAL FEES

<table>
<thead>
<tr>
<th>Service Type</th>
<th>Rs 31 Dec 2011</th>
<th>Rs 31 Dec 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auditor's Fees</td>
<td>1,503,000</td>
<td>1,695,380</td>
</tr>
<tr>
<td>Professional advisory fees</td>
<td>9,942,659</td>
<td>3,870,396</td>
</tr>
<tr>
<td>Financial Services Review Panel (provisions)</td>
<td>1,165,000</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>12,610,659</strong></td>
<td><strong>5,565,776</strong></td>
</tr>
</tbody>
</table>

18 OFFICE AND ADMINISTRATIVE EXPENSES

<table>
<thead>
<tr>
<th>Expense Type</th>
<th>Rs 31 Dec 2011</th>
<th>Rs 31 Dec 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rental &amp; maintenance of office premises</td>
<td>253,152</td>
<td>373,217</td>
</tr>
<tr>
<td>Land lease</td>
<td>193,512</td>
<td>218,000</td>
</tr>
<tr>
<td>Insurance of office premises</td>
<td>597,930</td>
<td>927,602</td>
</tr>
<tr>
<td>Post, telephone, internet and fax charges</td>
<td>2,700,367</td>
<td>4,384,287</td>
</tr>
<tr>
<td>Electricity and water</td>
<td>2,829,586</td>
<td>3,874,261</td>
</tr>
<tr>
<td>Stationery</td>
<td>1,214,249</td>
<td>2,191,691</td>
</tr>
<tr>
<td>Subscription* **</td>
<td>3,574,498</td>
<td>6,580,811</td>
</tr>
<tr>
<td>General office expenses</td>
<td>2,967,984</td>
<td>5,506,796</td>
</tr>
<tr>
<td>Vehicle expenses</td>
<td>885,703</td>
<td>1,686,119</td>
</tr>
<tr>
<td>Advertising and publication</td>
<td>573,011</td>
<td>1,501,281</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>15,789,992</strong></td>
<td><strong>27,244,065</strong></td>
</tr>
</tbody>
</table>

*Includes membership fees for IAIS, IOPS, IFSB, IOSCO and software licenses.

19 OTHER COMPREHENSIVE INCOME

Other Comprehensive Income relates to gain on disposal of the Commission's old assets.

<table>
<thead>
<tr>
<th></th>
<th>Rs 31 Dec 2011</th>
<th>Rs 31 Dec 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gain</strong></td>
<td><strong>401,598</strong></td>
<td><strong>1,119,267</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>401,598</strong></td>
<td><strong>1,119,267</strong></td>
</tr>
</tbody>
</table>
## 20 CASH FLOW FROM OPERATING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th>12 months ended 31 Dec 2011</th>
<th>18 months ended 31 Dec 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus for the year</td>
<td>597,953,484</td>
<td>808,901,505</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff loans restated to fair value</td>
<td>8,789,616</td>
<td>6,884,682</td>
</tr>
<tr>
<td>Interest on staff loans restated to fair value</td>
<td>(1,010,042)</td>
<td>808,631</td>
</tr>
<tr>
<td>Gain on disposal of property, plant and equipment</td>
<td>(401,598)</td>
<td>(1,119,267)</td>
</tr>
<tr>
<td>Unrealised exchange loss</td>
<td>29,404,713</td>
<td>6,011,765</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>20,060,503</td>
<td>29,503,289</td>
</tr>
<tr>
<td><strong>Cash flow from operating activities, before working capital changes</strong></td>
<td><strong>654,796,676</strong></td>
<td><strong>850,990,605</strong></td>
</tr>
<tr>
<td>Increase in fees receivable</td>
<td>(4,688,819)</td>
<td>(5,953,607)</td>
</tr>
<tr>
<td>Increase in staff loans</td>
<td>(8,265,403)</td>
<td>(9,886,653)</td>
</tr>
<tr>
<td>Increase in interest receivable</td>
<td>(3,099,362)</td>
<td>(3,424,885)</td>
</tr>
<tr>
<td>Decrease in other receivables</td>
<td>1,868,750</td>
<td>-</td>
</tr>
<tr>
<td>Increase in prepayments</td>
<td>(1,953,171)</td>
<td>(3,183,630)</td>
</tr>
<tr>
<td>Decrease in accrued expenses and other payables</td>
<td>(24,782,571)</td>
<td>(14,852,198)</td>
</tr>
<tr>
<td><strong>Net cash flow from operating activities</strong></td>
<td><strong>613,876,100</strong></td>
<td><strong>813,689,632</strong></td>
</tr>
</tbody>
</table>
Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2011

21 LIQUIDITY RISK

The liquidity risk with regard to outflows is limited to contribution to the Consolidated Fund and operative expenses. The outflows to the Consolidated Fund are matched with the corresponding bank deposits of maturities around the expected time of outflows. The outflows to operative expenses are matched with the corresponding licence fee income based on budget estimates. The surplus based on decisions of the Investment Committee, are invested with maturity profiles as at 31 December 2011.

Maturity profiles are as under:-

<table>
<thead>
<tr>
<th>Maturity</th>
<th>0 - 1 Year</th>
<th>&gt; 1 year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>38,923,181</td>
<td>15,253,421</td>
</tr>
<tr>
<td>Cash and bank balances</td>
<td>102,596,143</td>
<td>nil</td>
</tr>
<tr>
<td>Bank deposits</td>
<td>1,492,470,661</td>
<td>nil</td>
</tr>
<tr>
<td><strong>Financial liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables</td>
<td>36,852,747</td>
<td>nil</td>
</tr>
<tr>
<td>Contribution to Consolidated Fund</td>
<td>496,301,391</td>
<td>nil</td>
</tr>
</tbody>
</table>

The Committee monitors the adequacy of cash inflows in terms of the budget estimates at all times.

22 CREDIT RISKS

In the normal course of business, the Commission is exposed to the credit risk from accounts receivable, loans to staff and transactions with banking institutions.

The Commission manages its exposure to credit risks as follows:-

(a) with regards to Accounts Receivable, credit risk is limited as the Commission is a regulatory body, and fees are charged in terms of the legislation;
(b) for staff loans, the Commission maintains control procedures and requests security when loan is granted to staff. For certain types of loans the security involves inscriptions on the property of the staff while for other loans personal guarantees are required; and
(c) for transactions with banking institutions, it holds bank balances and short term deposits with the State Bank of Mauritius Ltd, Mauritius Post and Cooperative Bank Ltd, The Mauritius Commercial Bank and SBI (Mauritius) Ltd. As such, the Commission mitigates the risks related to bank balances and deposits by keeping its funds in a wide spread of banks of a certain level of repute.
23 CURRENCY AND EXCHANGE RISK

The Commission receives licence fees in US Dollars (USD). Consequently, the Commission is exposed to the risk that the exchange rate of the USD relative to the Mauritian Rupees (MUR) may change in a manner which has a material effect on the reported values of the Commission’s licence fee income, which are denominated in USD.

The Commission is exposed to currency risk as a result of conversion of foreign currency balances held in USD and NZD. The fund has been maintained in USD and NZD over the financial year. The exchange fluctuation of Rs. 30,962,313 has occurred mainly due to translation of the foreign currencies. During the year 2011, the rupee has appreciated against USD by 4.0% and the NZD by 2.98%. The exchange fluctuation for the year is as follows:

<table>
<thead>
<tr>
<th>Exchange fluctuation loss</th>
<th>12 months ended 31 Dec 2011 Rs</th>
<th>18 months ended 31 Dec 2010 Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(30,962,313)</td>
<td>(7,569,365)</td>
</tr>
</tbody>
</table>

Currency profile is as under:-

<table>
<thead>
<tr>
<th></th>
<th>2011 Rs</th>
<th>2010 Rs</th>
<th>2011 %</th>
<th>2010 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand Dollars</td>
<td>114,151,598</td>
<td>399,836,105</td>
<td>7</td>
<td>20</td>
</tr>
<tr>
<td>US Dollars</td>
<td>877,833,341</td>
<td>1,237,854,916</td>
<td>55</td>
<td>63</td>
</tr>
<tr>
<td>Indian Rupees</td>
<td>(1,589,663)</td>
<td>(1,540,000)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mauritian Rupees</td>
<td>615,027,685</td>
<td>339,327,006</td>
<td>38</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>1,605,422,961</td>
<td>1,975,478,027</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

The assessment of currency fluctuation are being reviewed by the Investment Committee from time to time.
23(a) Interest Rate Risk

Changes in market interest rates have a direct effect on the contractually determined cash flows associated with specific financial assets whose interest rates periodically changes as per market rate. The following table demonstrates the sensitivity of the Commission’s Surplus to interest rate changes, all other variables held constant:

<table>
<thead>
<tr>
<th>Change in Yield (basis point)</th>
<th>Effect on Surplus</th>
<th>Effect on Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011 Rs</td>
<td>2010 Rs</td>
</tr>
<tr>
<td>Bank balances</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-50</td>
<td>526,256</td>
<td>1,254,479</td>
</tr>
<tr>
<td>-50</td>
<td>(219,018)</td>
<td>(1,117,542)</td>
</tr>
</tbody>
</table>

23(b) Foreign Currency Risk

The following table shows the sensitivity of the Commission’s Funds to exchange rate changes, all other variables held constant:

<table>
<thead>
<tr>
<th>Change MUR exchange rate</th>
<th>Effect on Funds</th>
<th>Effect on Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011 Rs</td>
<td>2010 Rs</td>
</tr>
<tr>
<td>Financial assets and liabilities</td>
<td>+50 cents</td>
<td>17,795,833</td>
</tr>
<tr>
<td></td>
<td>-50 cents</td>
<td>(17,795,833)</td>
</tr>
</tbody>
</table>
Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2011

24 EXPENDITURE AND DEPLOYMENT OF RESOURCES

The Commission's expenditures are considered to be reasonably justifiable and reflect plans for continual macro development of the jurisdiction. Though, at times, certain expenses are incurred in excess of budgeted, there has been compliance with the Public Procurement Act 2006. In many instances, expenditures have been below budget reflecting the staff vacancies and lower activity levels. However, the overall quantum of expenditure and deployment of resources compares favourably with the levels in other jurisdictions.

25 RELATED PARTY TRANSACTIONS DISCLOSURE

<table>
<thead>
<tr>
<th>Name of Key Management Personnel</th>
<th>Designation</th>
<th>Interest in related entities of self or family members</th>
<th>Transactions undertaken with interested entities by FSC during the year 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ms C. Ah-Hen</td>
<td>Chief Executive</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>(August to December 2011)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr. P. Seewoosunkur</td>
<td>Officer in Charge</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>(January to July 2011)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr. S. Laloo</td>
<td>Chairperson</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>(till December 2011)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr. Marc Hein</td>
<td>Chairperson</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>(from March 2012)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ms M.A. Philips</td>
<td>Vice Chairperson</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Mr. Y.W.M. Appado</td>
<td>Director</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Mr. R. Chellapermal</td>
<td>Director</td>
<td>Yes¹</td>
<td>Yes¹</td>
</tr>
<tr>
<td>Mr. S. Gopaul</td>
<td>Director</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Mr. O. Lew Kew Lin</td>
<td>Director</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Mr. R. Makoond</td>
<td>Director</td>
<td>Yes²</td>
<td>No</td>
</tr>
</tbody>
</table>

¹ Mr. R. Chellapermal is a Board Director of SICOM Financial Services Ltd (SICOMFS) which is licensed by the Commission and also it is a subsidiary State Insurance Company of Mauritius Ltd (SICOM). Post-employment benefit plans for the employees of the Commission are managed by SICOM.

² Mr. R. Makoond is a Board Member of Les Moulin de la Concorde Ltée which is a listed company.

These transactions have been undertaken at market quotations and are at arm's length price.

26 REPORTING CURRENCY

The Financial Statements have been presented in Mauritian rupees.
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This Report contains references to Acts of Parliament and secondary legislations. In the event of any discrepancy or inconsistency, the authoritative version of the text of any Act or other secondary legislation, as published in the Government Gazette, will prevail.

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FSC

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ABBREVIATIONS AND ACRONYMS

AMERC - Africa Middle-East Regional Committee
CEF - Closed-End Fund
CIS - Collective Investment Schemes
CISNA - Committee for Insurance, Securities and Non-Bank financial Authorities
FSA - Financial Services Act
FSAP - Financial Sector Assessment Program
FSB - Financial Stability Board
FSC - Financial Services Commission
FSI - Financial Stability Institute
FSRP - Financial Services Review Panel
GBC 1’s - Category 1 Global Business Company
GBC 2’s - Category 2 Global Business Company
GBOT - Global Board of Trade Ltd.
IA - Insurance Act
IAIS - International Association of Insurance Supervisors
ICPs - Insurance Core Principles
IFRS - International Financial Reporting Standards
IMF - International Monetary Fund
IOPS - International Organisation of Pension Supervisors
IOSCO - International Organisation of Securities Commissions
MMoU - Multilateral Memorandum of Understanding
NBFI’s - Non-Banking Financial Institutions
OECD - Organisation for Economic Co-operation and Development
RBS - Risk-Based Supervision
RCG - Regional Consultative Group
SA - Securities Act
SADC - Southern African Development Community
SEM - Stock Exchange of Mauritius Ltd.