



Financial Services Commission
Mauritius

ANNUAL REPORT
2009

CONTENTS

Chairman of the Board	3
Board of Directors	4
Chief Executive	6
Chairman's Statement	7
Chief Executive's Statement	9
1 Corporate Overview	
1.1 About FSC	14
1.2 Our People	16
2 Maintaining and strengthening the good reputation of the Mauritius International Financial Centre	
2.1 Facing the Global Financial Crisis	18
2.2 Meeting International Standards	18
3 Consolidating our Regulatory and Supervisory Frameworks	
3.1 Legal Framework	20
3.1.1 The Consolidated Licensing and Fees Rules 2008	20
3.1.2 Drafting of Regulations and Rules	20
3.2 Risk-Based Supervision Framework	21
3.3 Harmonisation of on-site inspections	22
3.4 Anti-Money Laundering and Combating the Financing of Terrorism	22
3.5 Consumer Protection and Education	22
4 Market Overview	
4.1 Insurance	26
4.1.1 Licensing	26
4.1.2 Surveillance - Off-site supervision	26
4.1.3 Market Trends	26
4.2 Pensions	30
4.2.1 Domestic Overview	30
4.2.2 International Overview	30
4.3 Global Business	34
4.3.1 Licensing	34
4.3.1.1 Management Companies	34
4.3.1.2 Global Business Licences	34
4.3.2 Surveillance	35
4.3.2.1 Off-site supervision	35
4.3.2.2 Tax Residence Certificate (TRC)	35
4.3.3 Market Trends	35
4.4 Capital Markets	38
4.4.1 Licensing	38
4.4.1.1 Financial Institutions licensed under the Securities Act	38
4.4.1.2 Financial Institutions licensed under the FSA	38
4.4.1.3 Registration of Reporting Issuers	39
4.4.2 Surveillance - Off-site supervision	39
4.4.3 Market Trends	39
4.5 Regulatory Actions/Enforcement	44
5 International Relations	46
6 Corporate Governance Committee Report	52
7 Audit Committee Report	54
8 Financial Statements	56
Appendices	76



**Financial Services Commission
Mauritius**

Annual Report
for the year 1 July 2008 to 30 June 2009

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 of the Board

Said Lalloo has worked at directorate level in the Finance Department of the African Development Bank from 1981 to 1990 following a long career in the Ministry of Finance as Chief Accountant from 1971 to 1981. He previously worked at the Government Audit Department for 16 years.

He was the Director of the National Investment Trust from 1994 to 2005 and served as Chairman from 2003 to 2004. He was also Chairman of the National Housing Development Corporation from 1993 to 2000, and Director of the State Investment Corporation from 1994 to 2004.

Said Lalloo is a fellow member of the Association of Chartered Certified Accountants.



Said Lalloo
Chairman

Board of Directors



From Left to Right

Mary Anne Philips, Radhakrishna Chellapermal, Oliver Lew Kew Lin

Mary Anne Philips, *Vice-Chairperson*

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

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 Empowerment. 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 also served on various committees, including the Company Law Advisory Committee and the Mauritius Accounting and Auditing Standards Committee.

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 local branch of the French Group Diadeis. 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.

Board of Directors



From Left to Right

Raj Makoond, Sanjay Gopaul, Y. W. Manoj Appado

Raj Makoond

Raj Makoond is the Executive Director of the Joint Economic Council (JEC). He is also a member of the Board of Investment and of the National Empowerment Foundation. He is a Board Member of the European Centre for Development Policy Management (ECDPM) 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 & Industry from 1990 to 1993. From 1976 to 1990, he was economist and senior economist at the Ministry of Economic Planning & 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.

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 also widely solicited by the private sector for advice on corporate strategy and new business ventures.

Y. W. Manoj Appado

A practising Attorney for the last 20 years, Manoj Appado has been the legal advisor of two local government authorities and for the past three years, the legal advisor 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.

Chief Executive



Milan J. N. Meetarbhan
Chief Executive

Milan Meetarbhan has long been associated with the development of the financial services sector in Mauritius. As legal adviser to the Ministry of Finance from 1986 to 1990, he was involved in the setting up of the Stock Exchange of Mauritius and was subsequently appointed as a Board Member of the Stock Exchange Commission.

Milan Meetarbhan also served as Chairperson of the Financial Services Consultative Committee, set up by the Government in 1997 to review a comprehensive set of legislations relating to the financial services sector. As legal consultant, he was actively engaged in the financial services sector since 1994. He advised a number of international corporations operating in the sector and also served as a director on the boards of several companies and funds. He was Senior Policy Adviser to the Prime Minister from 1995 to 1998 and served as Chairperson of Mauritius Telecom from 1998 to 2000.

Milan Meetarbhan was called to the Bar at the Middle Temple in London. He also obtained a Doctorate in International Law from the Sorbonne in Paris.

Formerly Associate Professor of Law and Head of the Law Department at the University of Mauritius, he was conferred the title of Honorary Fellow in Law by the University in 2007.

Chairman's Statement

In the months building up to 2008, the global financial sector was hit by a crisis of colossal magnitude. Financial intermediation dwindled rapidly followed by a huge drop in consumer spending. Growth of world output fell alarmingly from 3 % in 2008 to - 1.1 % in 2009 as per the World Economic Outlook, October 2009 estimates of the IMF.

Leaders of the G-20 met in London in April 2009 and Pittsburgh in September 2009. The London meeting was significant as member countries agreed on expanding and sustaining their fiscal stimulus packages to revive growth of world output and prescribing similar remedies to non-member countries.

The London meeting also sought to strengthen the global financial oversight by reconstituting the Financial Stability Forum (FSF) as the Financial Stability Board (FSB) with expanded membership and broadened mandate to upgrade financial regulatory standards. The Pittsburgh meeting went a step ahead by seeking radical reforms of the IMF including a greater representative presence of the emerging economies.

Global recession took its toll on the Mauritian economy as well. Following a much weaker external demand for textiles and tourism, growth of national output fell from 5% in 2008 to 2.7% estimated for 2009 . Financial intermediation, transport and communication sectors are expected to be our growth pillars for 2009.

Anticipating a significant decline in national output, the Government of Mauritius kicked-off an Additional Stimulus Package in December, 2008, amounting to Rs 10.4 billion and spread over the following two years. A large component of the package involves spending on infrastructure projects that should help the economy regain its 5% growth in the near future.

“During the year gone by, we extended our supervisory reach by issuing rules covering additional businesses in the financial services sector. We also issued consolidated licensing and fees rules, which make us more business friendly to our existing and prospective licensees.”

¹Source: IMF World Economic Outlook, October 2009

²Source: National Accounts Estimates, September 2009

Chairman's Statement

To prevent future growth from being jeopardised by possible systemic failure in the financial sector, Government also announced the setting up of the Financial Stability Committee comprising the Ministry of Finance, the Bank of Mauritius and the FSC with the mandate of identifying, monitoring and mitigating systemic risks in the Mauritian financial sector.

Our growth of national output did not drop due to diminished financial intermediation. National output growth fell for global reasons, which in turn diminished our financial intermediation. However even then the financial intermediation sector is expected to grow at 5.9% in 2009, mainly on the foundation of our robust regulatory framework.

Not surprisingly, Government noted that unlike the G-20, Mauritius does not have to repair its financial system but only strengthen it in line with global developments. Accordingly, we at the FSC launched the Risk-Based Supervision (RBS) framework with a view to focusing our limited resources on those licensees that constitute the biggest risk to our statutory objectives.

During the year gone by, we extended our supervisory reach by issuing rules covering additional businesses in the financial services sector. We also issued consolidated licensing and fees rules, which make us more comprehensible and business friendly to our existing and prospective licensees.

As a regulator, we have strengthened our presence in the African region with FSC proposing major changes to enhance cooperation amongst regulators in the region

and the nomination of the Chief Executive of the FSC as the Vice-Chairperson of the Committee of Insurance, Securities and Non-Bank Financial Authorities (CISNA). The FSC is committed to providing full support to the upgrading of supervisory standards in the SADC region.

We also reached a milestone in capacity building, when the young graduates recruited under our first Young Graduate Development Programme completed one year at the FSC.

The FSC remains committed to principles of transparency and disclosure of information as advocated by the international community.

I must thank the Chief Executive and his team for sustaining high regulatory standards and successfully facing all challenges that came their way during this exceptional year for financial services worldwide.

I also would wish to express my appreciation to the Vice-Chairperson and Board members of the FSC, who through their active participation at board level and in the various committees, relentlessly pursued the objective of ensuring that Mauritius remains an International Financial Centre of global repute.



Said Lalloo
Chairman

³Source: National Account Estimates, September 2009

Chief Executive's Statement

The year under review was dominated by the debate about reforms of financial regulation and of financial centres. The FSC, as the authority for financial services other than banking and for global business, has therefore been closely following the international debate. The Commission has also been conducting discussions of its own on the issue and has made contributions to the debate in international fora.

Following the financial crisis of 2008 world leaders have blamed (a) greed and (b) regulators. President Obama said that regulators were asleep at the switch and allowed the crisis to happen. Whereas over the last two decades the world's leading economies had moved towards less regulation and closer to the view that markets should be allowed to a large extent to regulate themselves, there was in the immediate aftermath of last year's financial crisis, an ideological shift.

Regulation was suddenly back in fashion. The world witnessed the beginning of a major ideological shift over the role of Government and the extent to which markets should regulate themselves. Francis Fukuyama may have spoken too soon about the End of History. The world may not, after all, have reached a definite conclusion as to how it should organise itself.

For several decades developing countries had been calling for a new international economic order. These calls were resisted by the developed world.

As the developed world acknowledged the failure of its "developed" financial regulation, it was the one which started calling for a new order, a new financial architecture. As leaders pressed for greater international cooperation in response to the crisis there was also a shift towards multilateralism.

However only time will tell if there was indeed an ideological shift or whether the world only witnessed a temporary swing of the pendulum in response to a crisis and as soon as this recedes, the pendulum would swing back to lesser regulation?

"As an International Financial Centre committed to compliance with internationally agreed norms, Mauritius has no difficulty subscribing to internationally agreed rules on disclosure and exchange of information. As a jurisdiction of substance which has ensured over the years that it is and is seen to be an IFC of repute, Mauritius will have to enhance its competitiveness whilst it maintains its initial goals."

Chief Executive's Statement

Global Regulation

One of the main lessons of the recent financial crisis is that regulatory failure in one jurisdiction can have a major impact across many other jurisdictions.

There have therefore been calls for Global Regulation, so that there is a common standard of regulation across the world, and that these standards are set and enforced by one global regulator. Thus, the weaknesses of national regulators and regulatory frameworks will be overcome by a universal regime under which there will be no regulatory arbitrage, no entities within the same group escaping regulatory oversight. Like civil aviation or telecommunications which are subject to the same international norms across the world, financial services would, irrespective of the jurisdiction where they are provided or the nationality of the service provider, be subject to the same norms.

For some, the debate about Global Regulation presupposes a Global Regulator. But it may be argued that there can be global regulation without a global regulator.

Indeed there can be a global normative framework without a global institution to enforce it.

International Law Of Financial Regulation

Global finance needs to be governed by a new International Law of Financial Regulation which will comprise of a set of internationally agreed norms.

The new International Law of Financial Regulation should not necessarily provide for a Supranational or Super regulator but a normative framework which will be enforced by national regulators on behalf of the international community.

Almost 80 years ago Georges Scelle came up with the theory of "dédoulement fonctionnel" of the state. According to Scelle's theory, the State doubles up as

an agent of the international community with respect to some obligations under international law. In these circumstances, the State exercises both its national sovereign functions and also functions as an agent of the international community.

Following agreement on a normative global framework and in the absence of a supranational or global regulator, national regulators should exercise both their national functions and act on behalf of the international community to enforce the global norms.

Regional Pillars: Key To Global Cooperation

Given the relative inadequacy of resources and of capacity, especially in developing countries, to effectively regulate financial services, the global enforcement framework will have to rely on regional and sub-regional blocks.

Countries which need to reinforce their capacity to regulate will have to come together under regional cooperation mechanisms to pool their resources. The areas of cooperation would include macro-prudential and financial stability policies for the region, promoting integrity in financial markets, assessing vulnerabilities affecting the financial system, implementing risk-based supervision and joint inspections, adopting common legislative reforms programmes, training initiatives and for developing sector specialist centres within the region.

Regional Supervisory Colleges would enable regulators who would not have the capacity on their own to provide effective regulation to do so with other regulators from the region so that collectively they complement each other and the strengths of some will compensate for the weaknesses of others. Supervisory colleges have been proposed in more developed jurisdictions for another purpose, essentially to regulate cross-border financial service providers or conglomerates. In other parts of the world, these colleges may be required to increase efficiency.

Chief Executive's Statement

FSC has proposed the adoption of an Enhanced Cooperation Action Plan by the Committee of Insurance, Securities and Non Banking Financial Authorities of the Southern African Development Community (SADC) to ensure a cooperative approach to effective regulation of financial services in the region.

IFC's Challenged

Following the global economic and financial crisis, several world leaders have not only called for reform of financial regulation but have also called into question the role of so-called "tax havens". There has been very little evidence, if any, given to support the view that these havens may have been in any way responsible for the debacle or that they may in future jeopardise any recovery or reformed financial system. However, whether for political expediency or other reason, the earlier debate about harmful tax competition has been revived albeit in a different guise.

The focus this time has been very much on disclosure of information and cooperative jurisdictions. As an International Financial Centre committed to compliance with internationally agreed norms, Mauritius has no difficulty subscribing to internationally agreed rules on disclosure and exchange of information. As a jurisdiction of substance which has ensured over the years that it is and is seen to be an IFC of repute, Mauritius will have to enhance its competitiveness whilst it maintains its initial goals.

FSC invited stakeholders to join a Global Business Competitiveness Committee on 14 August 2008 BEFORE the crisis and following a recommendation of the Committee, a Competitiveness Task Force has been set up as a platform for interaction between the Commission and all stakeholders in the global business sector. This should further enable the Commission to play its developmental role in addition to its regulatory functions.

2008 was a record year in terms of new incorporations and Collective Investment Schemes being authorised, in the global

business sector. It is particularly significant that the number of funds being set up in Mauritius increased threefold between 2005 and 2008. For obvious and expected reasons, this number dropped in the second half of the year under review as the global financial crisis unfolded and cross-border investments took a serious hit.

In Mauritius reforms had started before the financial crisis. We have a new regulatory framework for financial services in force since September 2007. This has been further strengthened with a whole set of rules and regulations made under the new Acts. A new fee structure has been put in place since 2008, a Risk-Based Supervision Framework has been adopted, a Young Graduate Development Programme has been introduced to provide a pool of talent for the future as well as a Performance Management System and Variable Pay structure for the staff.

In spite of initiatives and reforms both with respect to financial regulation and global business, there is no room for complacency. We have to follow closely the current debate and consider proposals for further reforms and for new lines of business.

I wish to express my warmest thanks to the Chairman and members of the Board for their constant support and guidance during these challenging times. I also wish to thank the reinvigorated team of dedicated colleagues for the considerable work accomplished during the year.



Milan J. N. Meetarbhan
Chief Executive

Corporate Overview



Corporate Overview

1.1 About FSC

The Financial Services Commission (FSC) is the integrated regulator in Mauritius for the financial services sector other than banking, and global business. The FSC licenses, regulates, monitors and supervises the conduct of business activities in these sectors.

The FSC operates within a modern and internationally recognised legal framework which includes:

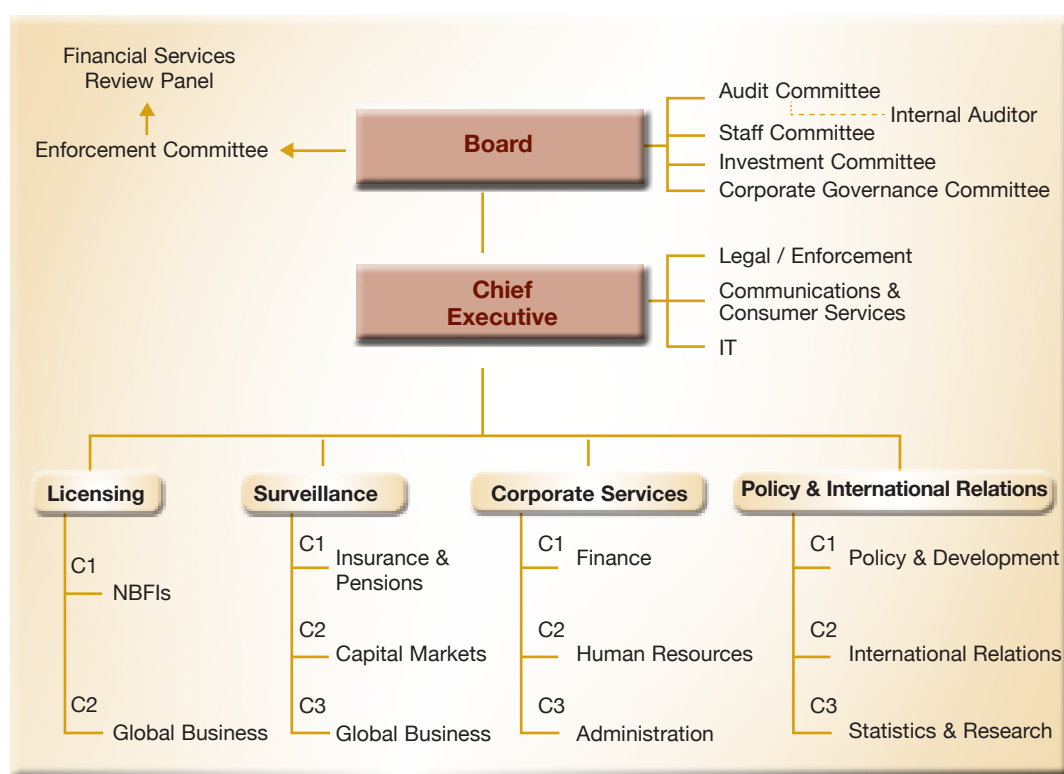
- the Financial Services Act (FSA);
- the Securities Act (SA); and
- the Insurance Act (IA)

which came into force on 28 September 2007.

The FSC ensures fairness, efficiency and transparency of financial institutions and markets.

The FSC also has a developmental role and its statutory objectives include promoting the development of the financial services sector, and ensuring the soundness and stability of the financial system.

Chart 1: FSC Organisational Structure



Corporate Overview

FSC House - Relocation to Ebene

An important milestone in the history of the FSC is its relocation to its own building, FSC House at Cybercity, Ebene in July 2008.



(From left to right) The Chairman, Said Lalloo; the Prime Minister, Dr. The Honourable Navinchandra Ramgoolam, GCSK, FRCP; the Chief Executive, Milan Meetarbhan.

FSC House was officially inaugurated by the Prime Minister of Mauritius, Dr. The Honourable Navinchandra Ramgoolam on 13 August 2008.

The new premises provide for staff welfare facilities, including a staff canteen, a gym, a brainstorming centre, a Knowledge Management Centre (KMC), and a medical room. FSC House has a fully equipped auditorium available for training courses, and seminars for FSC staff, and for the industry.

Corporate Overview

1.2 Our People

Enhancing our capacity to regulate through our human capital

The global financial and economic crisis has tested the adequacy and resilience of regulatory regimes worldwide. The challenges brought about by such unprecedented events on the international scene had to be managed through a high degree of resourcefulness and commitment from our staff.

The various working and brainstorming sessions conducted to assess the impact of the crisis on our jurisdiction and on sectors under the purview of the FSC enabled our staff to learn a number of lessons from the crisis and to make a critical assessment of the potential risk areas in our internal processes and procedures.

With a view to further enhancing our supervisory capability and building in-house capacity in the capital markets cluster, the FSC recruited an expatriate professional reckoning wide experience in regulation to head our Capital Markets cluster. Other professionals with industry experience in fund management and policy issues were also recruited during the year under review.

Developing and nurturing talent

The continuing global debate on regulation has again shown that one of the critical success factors for effective regulation is the quality of our people. The need for continuous learning and development, and the constant nurturing of talent continues to rank high on our agenda.

During the year under review, we have reinforced our efforts and investment in training, learning, and development. Our staff have benefited from both local and international exposure. As part of our strategy, we have introduced weekly

in-house training programmes which enable our subject matter specialists to conduct training sessions, seminars, and workshops for our different teams.

As part of our knowledge management initiative, we rely on the practice of learning from case studies pertaining to the various sectors that we regulate.

Creating a conducive environment

Our relocation to Ebene has provided us with a modern infrastructure creating a conducive work environment for our people. Furthermore, in our endeavour to make the FSC a prime employer, we have in our recent report on review of salary and terms, and conditions of employment, introduced a series of innovative measures, including a Performance Management System which is linked to our reward strategy through the Performance Related Pay.

The YGDP initiative

FSC has, during the year under review, successfully implemented its first Young Graduate Development Programme (YGDP) which offers young graduates a unique opportunity to gain exposure to the financial services sector. This one-year programme has been especially designed using a mix of both practical hands-on experience as well as structured training sessions including lectures, seminars, workshops, and case studies to enable the trainees to gain a sound knowledge of the FSC's functions. During the one-year programme, the young graduates were coached and monitored by experienced in-house specialists. Upon completion of the programme, the young graduates have been offered employment at the FSC.

Maintaining and strengthening the good repute of the Mauritius International Financial Centre



Maintaining and strengthening the good reputation of the Mauritius International Financial Centre

2 MAINTAINING AND STRENGTHENING THE GOOD REPUTE OF THE MAURITIUS INTERNATIONAL FINANCIAL CENTRE

2.1 Facing the Global Financial Crisis

With the global economic slowdown, the role of the regulator has been challenged and revisited. There was a need to restore confidence and work towards recovery. Following the G20 Meeting held in April 2009 in London, governments across the world, regional, and international bodies as well as regulatory authorities have been working on measures to strengthen financial regulation. Emphasis is being laid on the scope of regulation, prudential regulation, enhancing international cooperation, including exchange of information, compensation structures, improved accounting standards and adherence to international standards in the prudential, taxation and Anti-Money Laundering, and Combating the Financing of Terrorism (AML/CFT) framework.

Following the crisis, 2009 witnessed a mounting pressure on International Financial Centres (IFC's) with respect to transparency and exchange of information. Following the G20 Meeting in London, the Organisation for Economic Co-operation and Development (OECD) published a list of "cooperative jurisdictions". The Mauritius IFC has always adopted measures to ensure the soundness and transparency of our jurisdiction, and has extended full cooperation to overseas regulators and judicial authorities requesting information on Mauritian entities. The inclusion of Mauritius on the OECD's 'white list' of jurisdictions which have substantially implemented internationally agreed

standards, has come as a recognition of the constant efforts of the FSC to ensure substance and sound reputation.

To further extend the scope of information that may be exchanged with foreign authorities, measures have been announced in the National Budget 2009 providing for additional information which Category 2 Global Business Companies are required to provide to the FSC.

2.2 Meeting International Standards

Further to the decision of the Government of Mauritius to adhere to the Special Data Dissemination Standard (SDDS), and following advice of the International Monetary Fund (IMF) that assets and liabilities of Global Business Companies should be included in the Balance of Payments statistics, FSC has, during the year under review, worked with the Bank of Mauritius (BoM), and Management Companies (MCs) with a view to providing the required data.

The SDDS, established by the IMF in 1996, aims at guiding member countries on the dissemination of key economic and financial data to the public which is relevant to facilitate access of member countries on the international capital markets.

Consolidating our Regulatory and Supervisory Frameworks



Consolidating our Regulatory and Supervisory Frameworks

3 CONSOLIDATING OUR REGULATORY AND SUPERVISORY FRAMEWORKS

3.1 Legal Framework

3.1.1 The Consolidated Licensing and Fees Rules 2008

The Financial Services (Consolidated Licensing and Fees) Rules 2008 issued by the FSC have enhanced the licensing process by providing a well-defined and consolidated framework.

The new fee structure introduced in these Rules came into force on 1 July 2008. The Rules provide for:

- (i) the processing fee to be submitted with new applications;
- (ii) the annual fee payable in respect of financial services licensed/authorised approved/registered by the FSC; and
- (iii) a codified list of activities and service providers that require a licence.

Moreover, to ensure that the Codified List included in the Rules remains an exhaustive reference and guidance for all applicants, amendments were made to the Rules in September 2008 to specifically provide for activities to be regarded as “other financial business activities”.

The following activities have been added to the list:

- (i) actuarial services;
- (ii) credit rating agencies/rating agencies;
- (iii) payment intermediary services; and
- (iv) representative office (for financial services provided by a person established in a foreign jurisdiction).

3.1.2 Drafting of Regulations and Rules

Following the coming into force of the Financial Services Act, Securities Act, and Insurance Act in September 2007, FSC continued to work during the year under review on rules and regulations to be made under the new Acts. The work focused on the following:

I. Under the Financial Services Act

The Financial Services (Approval of controllers and beneficial owners) Rules

The objective is to define the application of Section 23 of the Financial Services Act which relates to the requirement for FSC’s approval before a change or transfer of shares/beneficial interest in a licensee is considered effective.

II. Under the Insurance Act

(i) The draft (Insurance Agents) Rules

The draft Insurance (Insurance Agents) Rules were circulated in May 2009 to industry stakeholders for consultation. The consultation exercise ended in June 2009.

The rules provide for more transparency and consolidation of policyholders’ protection through the disclosure of commissions and separation of accounts for premium collected. Insurance agents will henceforth be required to keep their own funds and premiums received in separate accounts for each category of

Consolidating our Regulatory and Supervisory Frameworks

insurance business. The rules also aim at reinforcing the independence of insurance agents and providing for restriction on ownership, and the holding of significant interest in corporate insurance agents by insurers and insurance brokers amongst others.

(ii) Insurance (Insurance Salespersons) Rules

Insurance (Insurance Salespersons) Rules will provide the legal and operational framework under which these intermediaries will operate. Provisions relating to independence of insurance salespersons, registers, books, and records to be kept and maintained, as well as disclosure requirements will be included in the proposed rules.

III. Under the Securities Act

(i) **The draft Securities (Takeover) Regulations** will provide for rules governing takeover offers and the rights, and obligations of parties.

(ii) **The Securities (Prudential and Conduct of Business) Rules** will govern the way Investment Dealers, and Investment Advisers licensed by the FSC conduct business, maintain records, deal with clients and report to the FSC.

(iii) **The draft Securities (Real Estate Investment Trust) Rules** will provide a framework for collective investment in real estate or real estate related assets.

3.2 Risk-Based Supervision Framework (RBSF)

During the year under review, the FSC has implemented the Risk-Based Supervision Framework (RBSF). The RBSF is based on international standards and state-of-the-art technology developed with the assistance of international consultants.

The RBSF reinforces the adoption of a unified regulatory and supervisory approach to a diverse range of financial service providers.

The RBSF is a sophisticated supervisory process based on risk-profiling of licensed entities. It enables the FSC to prioritise its supervisory functions and focus on significant risks by channelling available resources to licensed entities that have high-risk profiles. Some of the risk parameters considered in the framework are corporate governance, prudential procedures, market conduct, financial performance, and risks posed to the regulator's objectives of promoting sound conduct; orderly administration of business; ensuring safety and stability while maintaining standards for efficiency, fairness and transparency.

FSC's Risk-Based Supervision Framework was officially launched on 26 February 2009 by Dr. The Honourable Rama Krishna Sithanen, GCSK, Vice-Prime Minister and Minister of Finance and Economic Empowerment.

FSC held a series of consultations and training programmes designed to familiarise licensees with the objectives and methodology of the RBSF. Subsequently, a trial run was conducted over a two-month period during which licensees were invited to submit their comments and feedbacks to enable the FSC to fine-tune the framework. Interactive sessions with licensees were also organised to ensure

Consolidating our Regulatory and Supervisory Frameworks

an effective implementation of the RBSF as from 1 July 2009.

3.3 Harmonisation of on-site inspections

In view of the adoption of the RBSF, FSC reviewed its on-site inspection information needs and processes. As an integrated regulator, FSC has also assessed its internal processes and procedures with a view to adopting a harmonised approach with respect to on-site inspections across sectors.

The FSC conducted on-site inspections of licensees, including investment dealers, insurance brokers and MCs.

3.4 Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)

Further to the joint IMF/World Bank mission in Mauritius towards the end of 2007, the Financial Sector Assessment Program (FSAP) report on AML/CFT was published in December 2008. This exercise assessed Mauritius' level of compliance with the Financial Action Task Force (FATF) 40+9 Recommendations.

The FSAP team noted that the national strategy of Mauritius is to diversify its global financial services sector and that Mauritius must ensure that the AML/CFT framework adequately mitigates the risks associated with such a diversification strategy. The report recognised that Mauritius has already implemented FSAP Recommendations in the 2002/2003 Report with respect to policy and legislative measures. The Report further acknowledges that Mauritius has put in place appropriate institutional structures to enhance its AML/CFT framework, and that the FSA has strengthened the FSC's

regulatory powers, including well-defined provisions for on-site inspections.

The report also highlights the wide range of sanctions introduced by the FSA which enhance the enforceability of the AML/CFT Codes issued by the FSC. It is to be noted that the FSC issued in April 2003 three AML/CFT Codes intended for Insurance Entities, MCs and Investment Businesses respectively. These were subsequently revised in July 2005.

FSC has pursued its work on the consolidation of the three FSC Codes already issued into a single comprehensive document. The new Code will enhance provisions relating to Customer Due Diligence (CDD) checks and be applicable to all service providers with sector specific guidance. The FSC also collaborates with other stakeholders through the AML/CFT National Committee for the full implementation of recommendations made in the report.

3.5 Consumer Protection and Education

A sustainable growth of the financial services industry depends on informed investment choices and decisions made by consumers. Section 6 of the FSA has reinforced the protection of consumers of financial services and financial products.

With a view to enhancing consumer awareness of benefits and risks associated with financial services or products, the FSC aims at promoting understanding of consumers in the financial services industry.

Consequently, FSC has, during the year under review, redefined its consumer education strategy in line with its statutory objective to promote public understanding of the financial system.

Consolidating our Regulatory and Supervisory Frameworks

The FSC issued guidelines in 2007 which require insurers:

- to set up in-house complaints handling mechanisms to address grievances from their clients; and
- to designate a complaints coordinator to attend to these grievances.

Under Section 32 of the FSA, consumers who are not satisfied with the response of the insurer's complaints coordinator can make a complaint to the FSC.¹

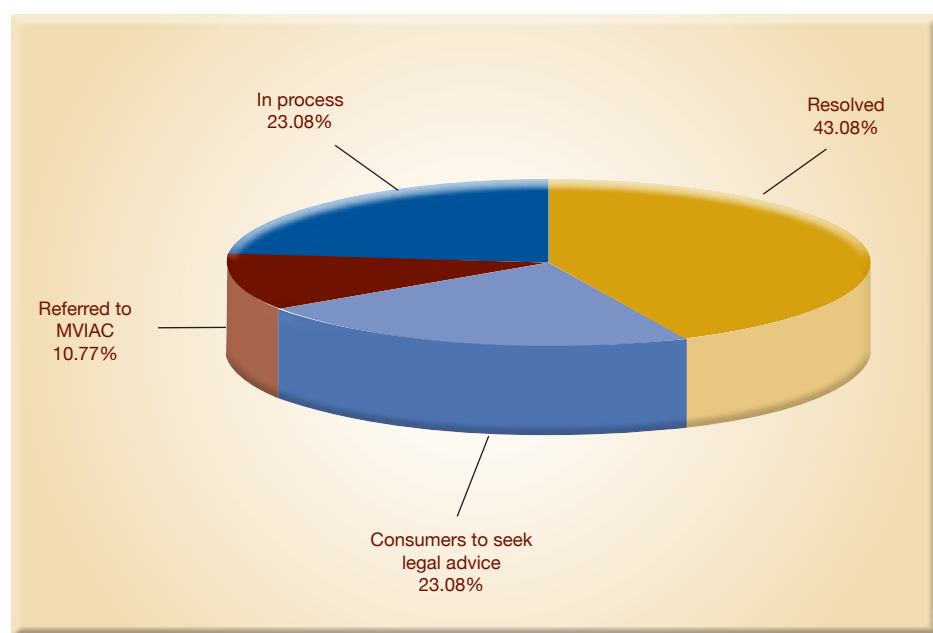
Insurance complaints received have dropped significantly from 837 in 2006 to reach 132 for the period 2008/2009. Out of these 132 cases, 62 were referred

to the complaints coordinator of the respective insurer; and 5 were referred to the liquidators of insurance companies in liquidation.

85.6% of complaints received for the year under review related to motor insurance, 4.0% to non-motor general insurance business and 9.8% to long-term insurance.

43.08% of the complaints registered were successfully resolved and 10.77% were referred to the Motor Vehicle Insurance Arbitration Committee (MVIAC). The chart below shows the status of the complaints registered during the year under review.

Chart 2: Status of complaints for the period 1 July 2008 – 30 June 2009



¹ List of Complaints Coordinators and Complaints Forms are available on the FSC website www.fscmauritius.org

[illegible]

Market Overview

Insurance

4.1 Insurance

4.1.1 Licensing

The domestic insurance sector continued to expand during the period under review which was also marked by the entry of a new general insurance company, the introduction of *Shariah*-compliant insurance products and a growing number of insurance professionals.

The FSC licenses and registers different types of insurance intermediaries, namely Insurance Brokers, Insurance Agents, and Insurance Salespersons. As at 30 June 2009, 24 insurance brokers, and 169 insurance agents held a licence from the FSC, and 839 insurance salespersons were registered.

4.1.2 Surveillance - Off-site supervision

The core functions of off-site surveillance consist of the continuous evaluation of the financial condition and performance of the insurance market players including close monitoring of solvency positions of insurers and assessing compliance with prudential norms, and the established legal framework.

During the year under review, FSC conducted continuous surveillance of insurance companies, and insurance brokers through in-depth examination of statutory returns, audited financial

statements, solvency returns, and actuarial reports. The analysis of these reports provided early warning signals which allowed the FSC to recommend appropriate regulatory and prudential measures.

As part of its off-site supervision exercise, the FSC also assessed applications for the appointment of officers, and other functionaries. Plans for restructuring insurance companies were reviewed and applications for the acquisition of significant shareholding in insurance companies were also examined. Off-site surveillance reports provide valuable inputs to the adoption of on-site inspection programmes and to the formulation of policy recommendations.

4.1.3 Market Trends

Domestic Market Review²

Total assets increased from Rs 61.7 bn to Rs 65 bn, representing an increase of 5.4%, as shown in the table below.

Three insurers contributed 84.2% of the gross premiums generated by the long-term insurance business. The market share was consequently spread among the remaining ten long-term insurers. Likewise, general insurance business was concentrated with six insurers representing 81.6% of the market share.

Gross premium of the domestic market grew by 18.7%, from Rs 11.6 bn to Rs 13.8 bn during the period under review.

Table 1: Total assets and gross premiums of Insurers (2006 - 2008)³

	2006	2007	2008
Total assets (Rs m)	50,707	61,664	65,021
<i>For long-term business</i>	42,708	52,167	54,656
<i>For general business</i>	7,999	9,497	10,365
Total gross premiums (Rs m)	10,509	11,647	13,826
<i>Of which long-term business</i>	6,875	7,743	9,091
<i>Of which general business</i>	3,634	3,904	4,735

² Figures for the domestic insurance sector relate to reporting years ending in 2008

³ Revised as per Insurers' Statutory Returns

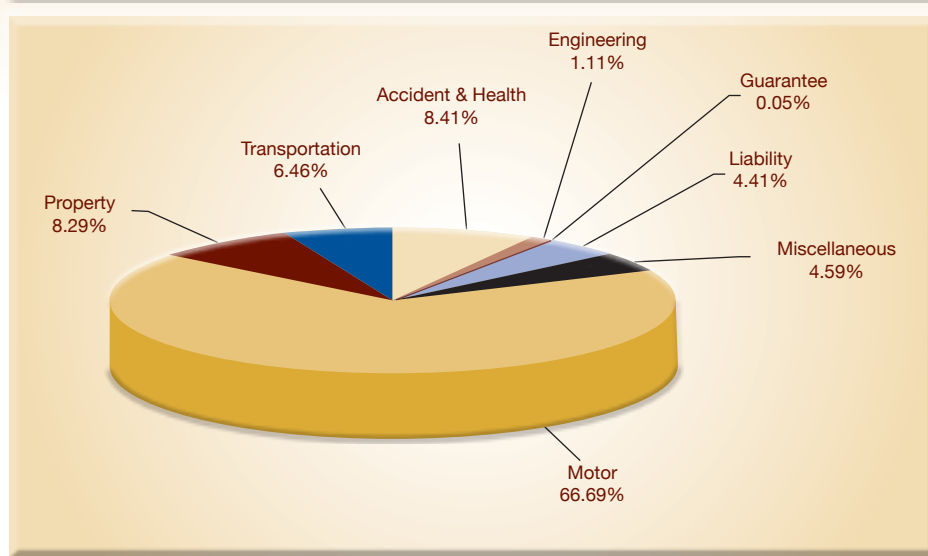
Market Overview

Insurance

General Business

The number of policies in force in the general business insurance sector for the year under review stood at 397,000 as compared to 363,510 the previous year. Breakdown of the policies by classes of insurance is illustrated in the chart below.

Chart 3: Breakdown of general insurance policies by class

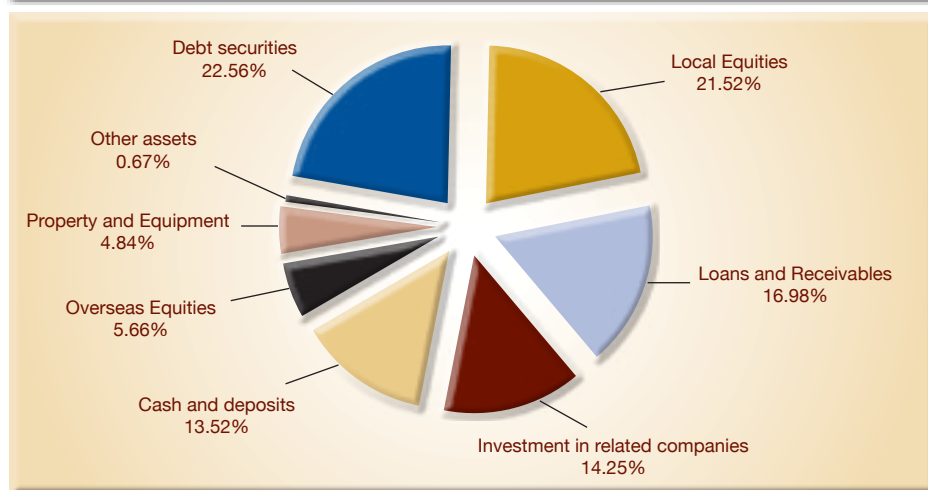


The 264,772 motor policies and 132,228 non-motor policies generated Rs 4.8 bn of gross premiums for the year 2008/2009, representing an increase of 21.3%, compared with the previous year.

Long-Term Business

The long-term insurers generated an increase of 17.4% in gross premium to reach Rs 9.09 bn in the year 2008/2009. A similar growth rate was observed for net premium which grew from Rs 7.5 bn to Rs 8.8 bn this year. Total consolidated assets of the 13 long-term insurers stood at Rs 54.7 bn as compared to Rs 52.2 bn the previous year representing an increase of 4.7%. The chart below depicts the asset distribution of the long-term insurers for the year under review.

Chart 4: Asset distribution for long-term insurers



Market Overview

Insurance

International Trends⁴

In 2008, worldwide insurance premiums rose to approximately USD 4,270 bn amounting to USD 2,490 bn for life insurance premiums, and USD 1,779 bn for non-life. For the first time since 1980, premiums declined in real terms⁵, where life premiums fell by 3.5%, and non-life premiums dropped by 0.8%.

Though underwriting results in non-life insurance remained solid, investment results and the return on equity fell sharply in both life and non-life insurance. While these losses are high, the industry coped well with the deepest financial crisis since the 1930s. The great majority of insurance companies had sufficient risk capital to absorb the losses.

World GDP growth increased by 2.3% and was most pronounced in the industrialised countries. Emerging markets, also affected by the credit crunch, however, recorded a growth of approximately 6%.

Africa contributed to 1.3% of total world premium for both life and non-life insurance business. Mauritius contributed 0.8% to the African insurance market. Mauritius, ranked 84th worldwide, contributed 0.01% to the world total premium volumes.

⁴ Source: Swissre Sigma (No. 3/2009)

⁵ Premium growth has been adjusted for inflation.

Market Overview

Pensions



Market Overview

Pensions

4.2 Pensions

4.2.1 Domestic Overview

During the year under review, the FSC continued consultations on the draft Private Occupational Pension Schemes Bill with representatives of the insurance and pensions industry.

The proposed legislation aims, *inter alia*, at:

- (i) maintaining a fair, safe, stable, and efficient private occupational pensions industry for the benefit and protection of employees, and the public;
- (ii) promoting confidence in the pensions industry;
- (iii) ensuring fair treatment to members of private occupational pension schemes; and
- (iv) ensuring orderly growth of the private occupational pensions industry in Mauritius.

The draft Private Occupational Pension Scheme Bill provides for:

- the registration and recognition of private occupational pension schemes;
- the management and administration of private occupational pension schemes;
- disclosures to members of the private occupational pension schemes and to the FSC;
- cancelling, suspending and surrendering of registration or recognition to the FSC;
- alterations, transfers and amalgamations of private occupational pension schemes; and
- insolvency and winding up of private occupational pension schemes.

Furthermore, the pension reform in the Finance Act 2008 provided for the extension of the Retirement Age from 60 years to 65 years.

Private occupational pension schemes in Mauritius are either self-managed or administered and managed by insurers, Pension Fund Administrators (PFAs) and Pension Scheme Managers (PSMs).

As at 31 December 2008, there were nine insurers, and four PFAs and PSMs managing and administering private occupational pension schemes.

4.2.2 International Overview⁶

The economic crisis has affected pension schemes across the world in several ways. Key developments in relation to pension scheme assets have been:

- exposure to equities that contributed to negative returns in most countries;
- diversification into alternative asset classes that turned out to have much higher correlation to equities in a market sell-off than anticipated;
- assets in jurisdictions which required large weightings in domestic government bonds (the only safe haven asset during the year) were best protected; and
- the 18% fall to USD 25 trillion in the value of global pension assets between end-2007 and end-2008, the largest annual decline for many years.

⁶ Pension Markets 2009 on www.ifsl.org.uk

Market Overview

Pensions

The decline in assets on the liability side was partly offset by:

- a decrease in estimated liabilities (calculated off AA bond spreads) as corporate bond yields rose; and
- liabilities calculated under IAS 19 were lower than liabilities simply marked to market on corporate balance sheets.

This provided some relief to Defined Benefit (DB) schemes, but not to Defined Contribution (DC) and private pension funds, where annuity values for those retiring were substantially reduced. Pension fund returns in most countries turned negative in 2008 as most asset

types fell in value. Nearly all countries worldwide recorded negative nominal rates of return in the first 10 months of 2008, with an average of -19% reported across the OECD member countries.

While year-to-year changes in asset allocation over the past decade have been heavily influenced by volatility in equity markets, these are less influential when viewed over the period between 2003 and 2007. There has been some convergence between these five major investing countries in the share of assets allocated to equities and bonds. Trends in asset allocation in recent years amongst five of the major asset managing countries are shown in the charts below.⁷

Chart 5a: Equities % share of pension fund assets

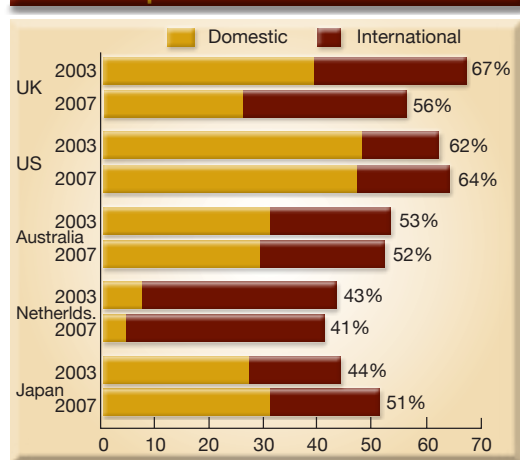


Chart 5b: Bonds % share of pension fund assets

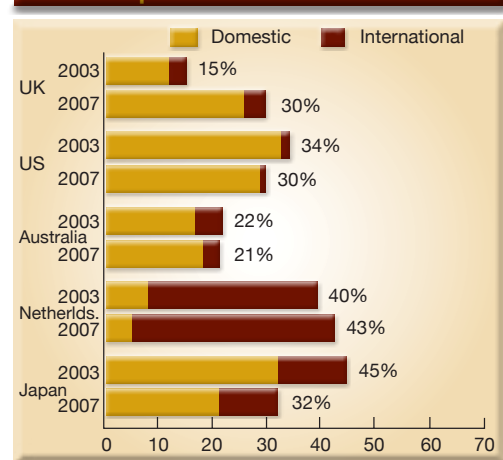
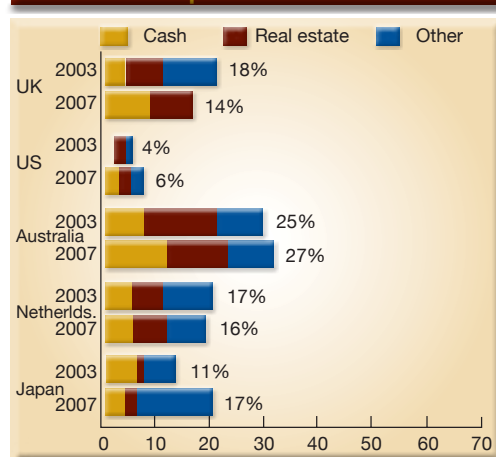


Chart 5c: Other investments % share of pension fund assets



⁷ Pension Markets 2009 on www.ifsl.org.uk

Market Overview

Global Business



Market Overview

Global Business

4.3 Global Business

4.3.1 Licensing

4.3.1.1 Management Companies

MCs are licensed under Section 77 of the Financial Services Act and are also regulated under Part IV of the Act. Applications for global business licences are channelled through MCs.

The FSC has reviewed the application process relating to Management Licences to ensure enhanced assessment of the capacity of the proposed company to deliver quality services.

The FSC has licensed 18 MCs during the period 2008/2009 as compared to 12 MCs in the previous financial year. Although there was a downturn in the economic situation as a consequence of the financial crisis, this has not adversely affected the number of applications received during the current financial year.

4.3.1.2 Global Business Licences

Category 1 Global Business Licences

For the period 2008/2009, 1,277 Category 1 Global Business Licences were issued by the FSC. There was a record number of new incorporations in 2008. However, immediately after the financial crisis hit developed markets, there was a decline in the number of applications for new licences.

Collective Investment Schemes (CIS)

The FSC authorised 112 CIS for the period under review. The number of new CIS

hit a record high during the calendar year 2008 but fell down in the aftermath of the financial crisis. This resulted in a net decrease of around 28.2% in the number of CIS authorised during the year under review as compared to the previous reporting period.

Category 2 Global Business Licences

For the period under review, 1,550 Category 2 Global Business Licences were issued by the FSC. The level of new incorporations peaked during the calendar year 2007 but dropped as the financial crisis unfolded.

Table 2: Number of licences issued (2004-2009)

Type of Licences	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
GBC 1's	472	973	1,367	1,872	1,277
(of which CIS)	46	86	87	156	112
GBC 2's	1,833	2,118	2,410	2,071	1,550

Market Overview

Global Business

4.3.2 Surveillance

4.3.2.1 Off-site supervision

Off-site supervision is fundamental in monitoring the conduct of business activities of licensees. This exercise allows the FSC to ascertain compliance with and to identify breaches of applicable laws, regulations and licensing conditions.

Off-site supervision entails the review and analysis of audited financial statements of MCs and GBC 1's for year-end 2008. The review exercise enabled the Commission to ascertain *inter alia*:

- (i) compliance with relevant laws, codes, circulars, licensing conditions as well as with International Financial Reporting Standards;
- (ii) financial soundness and solvency of licensees; and
- (iii) ongoing assessment of the licensees' fitness propriety.

4.3.2.2 Tax Residence Certificate (TRC)

During the year under review, the FSC recommended 5,382 applications for a TRC, out of which 1,382 were new applications and the remaining were for renewals.

The recommendations to the Mauritius Revenue Authority (MRA) for issuance of a TRC were made upon:

- compliance with prevailing laws, licensing conditions and relevant circular letters; and
- assessment of the applicant's good standing in terms of payment of licence fees and submission of audited financial statements.

4.3.3 Market Trends

The reported turnover from MCs grew by 30.1% over the previous year, amounting to a total of USD 118,183,149, as shown in the table below.

During the period under review, the total reported Profit Before Tax (PBT) generated by MCs recorded a 25.2% increase over the previous year, to reach USD 48,166,667.

The 10 leading MCs accounted for 64.9% of the total turnover.

Table 3: Summary of financial results of MCs (2004-2008)⁸

	2004	2005	2006	2007	2008
Turnover (thousand USD)	39,940	48,646	64,302	90,845	118,183
PBT (thousand USD)	12,214	21,042	28,328	38,479	48,167

⁸Data collected on submission of audited financial statements

Market Overview

Capital Markets



Market Overview

Capital Markets

4.4 Capital Markets

4.4.1 Licensing

4.4.1.1 Financial Institutions licensed under Securities Act

Further to the different transitional periods under the Securities Act, the FSC has issued a number of licences to those persons conducting licensable activities

under the Act. Moreover, investment dealers, and investment advisers had the option to apply for different categories of licences as provided under the Securities (Licensing) Rules 2007. The following table indicates the number of licences issued in the domestic and global business sector for the year under review. The figures are inclusive of applications received from existing operators following the end of the transitional period.

Table 4: Number of new licences issued from 1 July 2008 to 30 June 2009, under the Securities (Licensing) Rules 2007

	Investment Dealers	Investment Advisers	CIS	CIS Managers	CIS Administrators
Total	12	55	121	29	2
Global Business licences	3	55	112	20	-

4.4.1.2 Financial Institutions licensed under Financial Services Act

As at 30 June 2009, the FSC issued licences for financial business activities, as indicated in the table below:

Table 5: Financial Business Activities

Code	Financial Service Providers/Activities	Number of licences issued
FS-1.1	Asset Management	2
FS-1.2	Distribution of Financial Products	8
FS-1.3	Pension Fund Administrators	4
FS-1.4	Pension Scheme Management	1
FS-1.5	Registrar and Transfer Agent	6
FS-1.6	Treasury Management	3
FS-1.7	Custodian Services (non-CIS)	4
Code	Specialised Financial Services/Institutions	Number of licences issued
FS-2.3	Credit Finance	5
FS-2.4	Factoring	3
FS-2.5	Leasing	12
FS-2.7	Actuarial Services	3
FS-2.9	Payment Intermediary Services	2
FS-2.10	Representative Office (for Financial services provided by a person established in a foreign jurisdiction)	1
FS-2.11	Other Financial Business Activity	1

Market Overview

Capital Markets

4.4.1.3 Registration of Reporting Issuers

The Securities Act has introduced the concept of Reporting Issuers. The FSC issued the Securities (Disclosure Obligations of Reporting Issuers) Rules which require issuers to make appropriate disclosures. For the period under review, there were 101 Reporting Issuers registered with the FSC.

4.4.2 Surveillance-Off-site supervision

The FSC monitors the Stock Exchange of Mauritius (SEM) Ltd. Official Market, and the Development and Enterprise Market (DEM) through the SEMATS (the SEM Automated Trading System). The FSC exercises its supervisory functions to supplement surveillance carried out by the SEM Ltd. This is done through daily market watch whereby information during trading hours on orders executed in all securities are available and the volume, price, and time of execution are displayed on the screen in real time. The FSC monitors the market to ensure that there is transparent, fair and equitable dealing in securities. It also identifies situations that could pose a threat of manipulation and initiates appropriate preventive actions. In cases of abnormal fluctuation, trade details are requested from the Central Depository and Settlement Co. Ltd. (CDS) and a preliminary enquiry is made to detect if it relates to market abuse. The FSC also keeps track of market news from the media and SEM publications and updates its database. Additionally, the CDS submits periodical reports to the FSC on its activities and operations. The CDS reported that there has been no failed trade during the period under review.

The FSC also monitors compliance by its licensees with the relevant laws and licensing conditions through submission of statutory returns, periodical disclosures such as interim and annual audited financial statements, registers of interests of relevant persons, foreign investment returns, Net Asset Value (NAV) calculations, and other appropriate information relating to reporting issuers which are to be disclosed to the public where applicable.

4.4.3 Market Trends

Domestic Overview

The performance of the local Stock Market was on average rather satisfactory despite the international economic environment prevailing during the period under review. This was due to the good fundamentals of the local market, which was characterised by relative stability in the economy and attractive investment opportunities. Nevertheless, the upbeat trend, witnessed previously in the bullish run, was hit by occasional dips and volatility. This can be explained by the fact that there was a fall in foreign investment due to the financial meltdown. Moreover, a decrease was registered in the number of tourist arrivals in Mauritius, which resulted in a fall in the share price of hotels listed on the SEM.

Market Overview

Capital Markets

However, in the last quarter of the period under review, there was a gradual pick up in indices. Share prices slowly surged and a bullish trend was observed over the same period. The following charts⁹ provide a snapshot of the trends for the local indices, namely, the SEMDEX, SEM-7, SEMTRI (both in Rs and \$), DEMEX and DEMTRI (both in Rs and \$).

Chart 6a: Evolution of SEMDEX and SEM-7 between July 2008 and June 2009

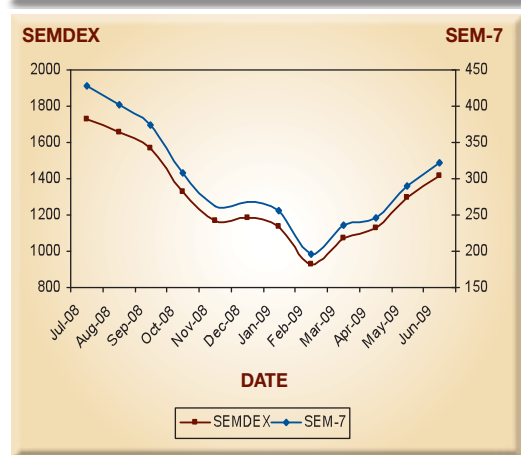


Chart 6b: Evolution of SEMTRI (Rs) and SEMTRI (US\$) between July 2008 and June 2009

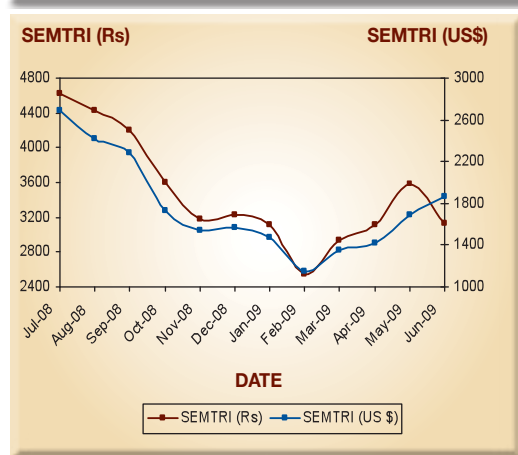


Chart 6c: Evolution of DEMEX between July 2008 and June 2009

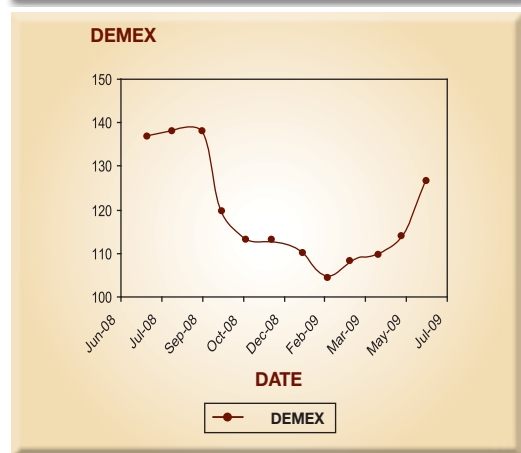
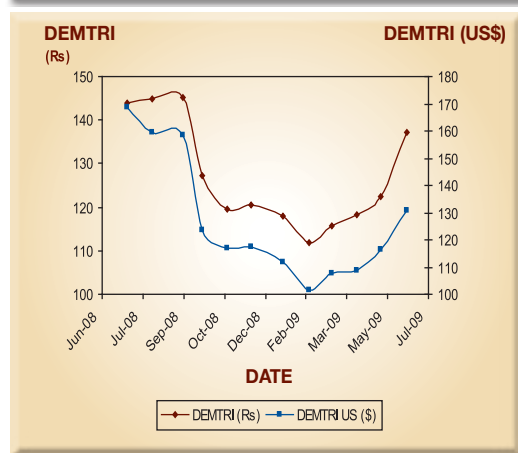


Chart 6d: Evolution of DEMTRI (Rs) and DEMTRI (US\$) between July 2008 and June 2009



⁹Source: SEM Ltd.

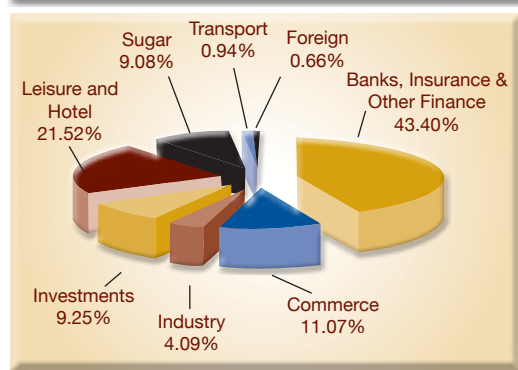
Market Overview

Capital Markets

SEM – Official Market

As at 30 June 2009, there were 46 companies listed on the Official Market of the SEM Ltd. The total traded volume and value of shares for the period under review were 193,085,520 shares and Rs 9.88 bn respectively. The market capitalisation as at 30 June 2009 stood at Rs 130.77 bn, as depicted sector wise in the chart below.¹⁰

Chart 7: Sectorwise breakdown of Official Market capitalisation as at 30 June 2009

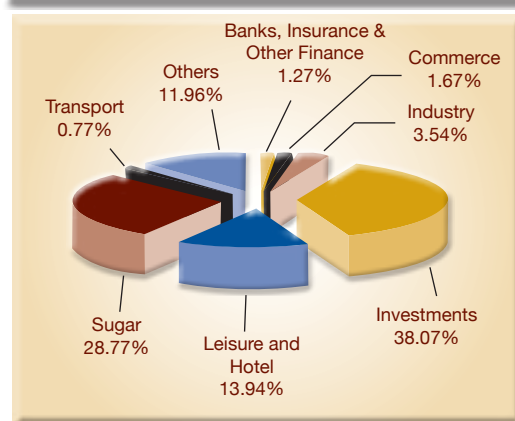


A new series of the Government of Mauritius Treasury Bills (GMTB), namely, 364-day GMTB issued by BoM was listed on the SEM as from 27 May 2009 with maturity date 21 May 2010. Moreover, 1 domestic fund and 4 funds (inclusive of 14 sub funds) operating in the global business sector were granted approval for listing on the Official Market. There was also 1 withdrawal which was registered during the period 2008/2009.

SEM – Development and Enterprise Market (DEM)

55 companies were listed on the DEM as at 30 June 2009 with a new listing on the Market and 2 withdrawals during the period under review. A total volume of 156,325,188 shares was traded for a value of Rs 1.21 bn during the period 2008/2009. The chart below¹⁰ illustrates the market capitalisation distributed among the activities, as categorised under the official classification of SEM. As at 30 June 2009, the market capitalisation reached Rs 45.41 bn.

Chart 8: Sectorwise breakdown of DEM market capitalisation as at 30 June 2009



¹⁰Source: SEM Ltd.

Market Overview

Capital Markets

Foreign Investment

During the year under review, total net purchases for both markets in respect of foreign investments stood at Rs 1.53 bn.

SEM – Derivatives Market

The SEM Ltd., jointly with the CDS, initiated discussions in May 2009 with the FSC for the introduction of derivatives contracts on the Stock Exchange. Initially, the SEM Ltd. intends to provide investors with a wider gamut of products to enable them to hedge their positions in declining markets so as to have a positive return.

Global Board Of Trade Ltd. (GBOT) Exchange

In addition to its securities exchange licence, GBOT has been issued a clearing and settlement facility licence for the commodities market in March 2009. The GBOT Rules (Commodity Market Segment) were approved by the FSC in April 2009.

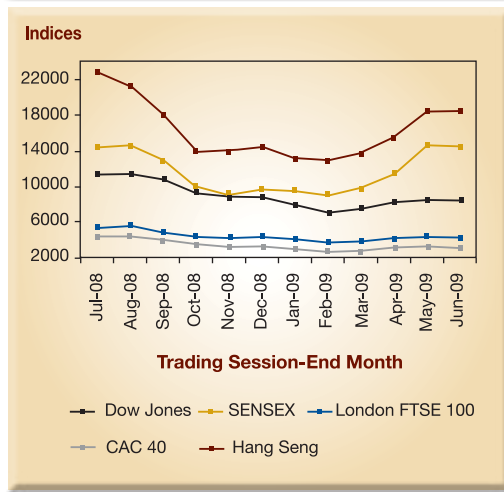
The GBOT initiated discussions with the FSC for the introduction of two new market segments: currency derivatives and listing of global funds. On 5 June 2009, GBOT submitted its application for trading of currency derivatives.

International Overview

In the wake of the financial crisis, the global capital market sector was marked by a loss of investor confidence and disinvestments by investors resulting in severe market volatility.

However, in the last quarter of the period under review, a slight rebound was noted in many markets. The graph below indicates the trends of indices such as the US Dow Jones Industrial Average, SENSEX, London FTSE 100 Index, CAC 40, and the Hang Seng Index.

Chart 9: Evolution of international indices between July 2008 and June 2009



The International Organisation of Securities Commission (IOSCO) and the International Accounting Standard Board (IASB) have been coordinating their efforts to study the causes and impacts of the crisis. At the 34th IOSCO Annual Conference in June 2009, the issues addressed included disclosure relating to asset-backed securities, unregulated market segments and financial products, the regulation of short selling, and hedge funds oversight.

A photograph of a library collection of U.S. Government publications. The books are arranged in rows, with some standing upright and others lying flat. The spines of the books are dark blue or black, featuring gold lettering and decorative elements. Visible titles include "REGULATIONS", "PROCLAMATIONS & REPORTS", "ACTS", "BILLS", and "2006". The books are bound in a traditional style, likely leather or cloth, with gold tooling.

Market Overview

Regulatory Actions/Enforcement

4.5 Regulatory Actions/Enforcement

In April 2008, an investment company submitted an application to acquire significant shareholding in an insurance company. Though the application was still under consideration, the investment company acquired the stake in May 2008 and appointed directors on the insurer's Board of Directors. As such, both the investment company and the insurer were in breach of the Financial Services Act and Insurance Act.

Regulatory actions initiated by the FSC included:

- application made by the investment company was not approved by FSC;
- the insurance company was duly notified that the appointment of directors was in contravention of the law and was therefore of no effect; and
- the investment company and the insurer were required to inform FSC of intended corrective actions with regard to the beneficial interest being held unlawfully.

The insurance company removed these directors from its Board and subsequently applied for approval of new directors while the investment company made representations on the actions taken by the FSC. The FSC rejected the investment company's representations given that the beneficial interest was being held in breach of both the Financial Services Act and the Insurance Act.

Pursuant to Section 46 (2) (a) of the FSA, the FSC issued directions to the investment company in August 2008:

- to divest the stake in the insurance company within a period of 6 months;
- not to exercise any voting or other rights attached to such shares; and
- to take all remedial actions required to restore the *status quo ante*.

Following the FSC's show cause letter, the investment company gave an undertaking to dispose of the totality of its acquisition within a period of 6 months and return all dividends received on the related shares. The investment company disposed of the shares in two phases, namely, in April 2009 and May 2009.

International Relations



International Relations

5 INTERNATIONAL RELATIONS

International and Regional Partners

International Association of Insurance Supervisors (IAIS)

FSC participated in the IAIS Annual Conference on *Insurance and the Globalisation of Financial Services: Challenges for Worldwide Regulation and Supervision* in Hungary in October 2008. Insurance supervisors and industry professionals had the opportunity to exchange views and discuss how to further enhance coordination efforts and move forward in the development of supervisory standards.

The FSC attended the seminar on Evolving Risk-Based Solvency Frameworks and Valuation Methods for the insurance industry hosted by the Financial Stability Institute (FSI)/Bank for International Settlements (BIS) from 30 September to 2 October 2008 in Basel, Switzerland.

The seminar addressed several issues related to the Solvency II framework, including an update on the standard-setting work of the European Union, the main components of the Solvency II framework.

The seminar also covered the management of market risk embedded in insurance contracts; enterprise risk management for solvency purposes; evolving international accounting standards, issues and supervision in relation to the Insurance Accounting Phase II (IASB).

International Organisation of Pensions Supervisors (IOPS)

The FSC participated in the IOPS Annual General Meeting, the IOPS Technical and Executive Committee Meeting, and the OECD/IOPS Global Forum on Private Pensions. The Global Forum was

organised back to back with the IOPS meetings which took place from 29 to 31 October 2008 in Mombasa, Kenya.

The Global Forum attracted more than 150 delegates from over 35 countries. Participants comprised representatives from government, pension regulatory and supervisory authorities and the pensions industry. Given the wide range of issues of high relevance to national policy debate on retirement savings in both developed and emerging economies, the Global Forum provided a platform for interaction among international experts and to facilitate mutual understanding of pension policy issues and priorities. The focus of this year's event was the developments in the pensions industry on the African continent.

International Organisation of Securities Commission (IOSCO)

FSC participated in the IOSCO Emerging Markets Committee (EMC) held in Marrakech, Morocco from 8 to 10 October 2008 and which was hosted by the *Conseil déontologique des valeurs mobilières (CDVM)* of Morocco. The discussions focused on the assessment of the financial crisis in emerging market jurisdictions particularly with respect to structured products. A Task Force was set up by the EMC to consider the implications of the crisis within emerging markets which would lead to the development of standards of good practice aimed at mitigating market vulnerabilities and providing a sound basis for long-term development.

IOSCO Multilateral Memorandum of Understanding (MMoU)

Further to its application to become signatory of the IOSCO MMoU, the FSC has, during the year under review, clarified all queries related to the application to

International Relations

enable the Screening Group to make recommendations in the forthcoming September 2009 meeting.

IOSCO has fixed a deadline up to 1 January 2010 for all member countries to submit their applications to become signatory of the IOSCO MMoU under Appendix A or be listed under Appendix B with the commitment for necessary amendment to their legislations that they will do the needful to be on Appendix A afterwards.

Islamic Financial Services Board (IFSB)

The Islamic Financial Services Board (IFSB) is the international standard setting body of regulatory and supervisory agencies responsible for the oversight of the Islamic financial services industry. The members of IFSB include regulatory and supervisory authorities, international institutions such as the World Bank and the IMF, as well as market operators. The IFSB promotes the development of a prudent and transparent Islamic financial services industry, introducing new or adapting existing international standards consistent with Islamic *Shariah* principles.

With the unprecedented growth in Islamic financial services industry over the past decades, many countries are now providing *Shariah*-compliant products and services. During the year under review, two Islamic products, namely, *Takaful* and *Ijarah* were launched in the non-bank financial services sector in Mauritius. In order to keep abreast of the development of this industry, an international seminar on Capital Markets was held jointly with the IFSB and BoM on 19 and 20 May 2009. Several aspects of the Islamic Capital Markets were considered during the event including *Shariah*-screening process; overview of the *sukuk* market; rating methodologies; and regulatory

and corporate governance framework. The FSC has, in June 2009, submitted its application to become an Associate Member of the IFSB.

African Union – Establishment of a pan-African Stock Exchange

FSC participated in a workshop hosted by the African Union and held in Addis-Ababa, Ethiopia from 6 to 7 November 2008. The objective of the workshop was to consider the feasibility study made by the African Union and discuss the establishment of a pan-African Stock Exchange. The meeting underlined the crucial importance of overcoming challenges for the successful integration of participating countries' stock exchanges into the proposed pan-African Stock Exchange. Discussions were held to assess the differences in bankruptcy rules, listing rules, clearing and settlement requirements, privatisation of pension funds, amongst others, applicable in each participating country.

Further to discussions held, it was agreed that a phased approach would be the best option. This would entail the development of participating countries' stock exchanges and their progress towards the establishment of regional and sub-regional stock exchanges before the setting up of a pan-African Stock Exchange.

Committee for Insurance, Securities and Non-Bank Financial Authorities (CISNA)

The main objective of CISNA is to facilitate the development and implementation of a harmonised, risk-based regulatory framework for member states in SADC that enables market growth and development, reduces the potential for systemic risk, informs and protects consumers, mobilises capital flows and contributes to prosperity in the region.

International Relations

The FSC hosted the CISNA's Market Development Sub-Committee (MDS) at FSC House on 11 September 2008. Discussions related to on-going projects on harmonisation of licensing procedures for brokers/dealers and investment managers as well as listing and prospectus requirements in member countries. New projects such as harmonisation of minimum requirements for Clearing, Depository & Settlement participants were also considered. It was further agreed that a Code of Conduct for brokers/dealers and investment managers should be drafted and that minimum qualification requirements for intermediaries and compliance/settlement officers be set.

The FSC also participated in the first biannual meeting of the CISNA held in Livingstone, Zambia from 4 to 6 February 2009. Patrick C. Mhango, of the Reserve Bank of Malawi, was elected as the Chairperson, and the Chief Executive of the FSC, Milan Meetarbhan, was elected Vice-Chairperson of CISNA. During the next two years, their mandate is to address three principal regional challenges namely, market development, market

harmonisation and systemic stability.

In Zambia, the progress made on the harmonisation of the requirements for the licensing or approval of investment managers; the harmonisation of the requirements for the licensing or approval of collective investment schemes; and the harmonisation of the requirements for the approval of prospectuses during the MDS was considered and finalised.

Moreover, the Technical Sub-Committee on insurance carried on discussions on the harmonisation of the regulatory framework as required under the SADC Treaty, the SADC Finance and Investment Protocol and its Regional Indicative Strategic Development Plans. The 'harmonisation initiatives for authorities within the SADC region' recommended that all jurisdictions within CISNA must observe the IAIS Insurance Core Principles (ICPs) and adhere to the CISNA Basic Standards. Other discussions included development of micro-financial products and greater co-ordination among regulators within the region in a context of financial crisis.

Attachment Programme

- I National Insurance Commission of Ghana - October 2008
- II Capital Markets Authority of Uganda - November 2008

Officers from National Insurance Commission of Ghana and the Capital Markets Authority of Uganda visited the FSC during the period under review with the following objectives:

- to gain exposure on the on-site and off-site procedures and methodologies adopted by FSC, including the Risk-Based Supervision Framework; and
- to have an overview of the main aspects of the new legislative and regulatory framework within which FSC operates.

Visits to a fund management company and an investment dealer were also organised for them. The visitors also shared their experience with the staff of the FSC.

International Relations

Exchange of Information

During the period under review, the FSC has processed 46 requests for exchange of information from both local and international regulators. Exchange of information has been one of the major focal points of various international meetings, including the G20 Summit.

The FSC has several Memoranda of Understanding (MoUs) signed with its counterparts with a view to ensure effective exchange of information.

List of counterparts to MoUs

1. Securities and Exchange Board of India
2. Committee for Insurance, Securities and Non-bank Financial Authorities
3. Financial Services Board of South Africa
4. Malta Financial Services Authority
5. Pensions and Insurance Authority of Zambia
6. Capital Markets Authority of Uganda
7. Namibia Financial Institutions Supervisory Authority
8. Securities and Exchange Commission of Zambia
9. Insurance Supervisory Department of Tanzania
10. Isle of Man's Financial Supervision Commission
11. Reserve Bank of Malawi
12. South Asian Securities Regulators Forum
13. Central Bank of Lesotho
14. Jersey Financial Services Commission
15. Bank of Mauritius
16. Financial Intelligence Unit, Mauritius



Corporate Governance Committee Report

Corporate Governance Committee Report

6 REPORT OF THE CORPORATE GOVERNANCE COMMITTEE TO THE BOARD OF THE FINANCIAL SERVICES COMMISSION

The Corporate Governance Committee is composed of the Vice-Chairperson and two Board Directors, namely, Mary Anne Phillips, Oliver Lew Kew Lin and Raj Makoond (Chairman). The Secretary to the Board, Ramanaidoo Sokappadu, also acts as secretary to the Corporate Governance Committee.

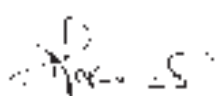
The objective of the Corporate Governance Committee is to ensure that the Financial Services Commission complies as far as possible with the Code of Corporate Governance and ensure best practices in line with international principles within the framework of the Financial Services Act 2007. The Committee also ensures that all relevant disclosures are made by the Commission in its annual reports and make recommendations for the promotion and enhancement of corporate governance at the Commission. The Committee looks into the timely disclosures of information to all those concern.

The Directors of the Board of the Financial Services Commission is independent of management and all of them are independent and non-executive Directors. The Board has set up the following sub-committees to assist it in discharging its functions namely:

- Corporate Governance Committee;
- Audit Committee;
- Staff Committee; and
- Investment Committee.

Ad hoc sub-committees are set up as and when required to look into specific issues. The Corporate Governance Committee is satisfied that necessary disclosures are being made by the Commission.

At the request of the Corporate Governance Committee, the Commission is finalising a Code of Ethics for its Board of Directors and Employees.



Raj Makoond



Mary Anne Phillips



Oliver Lew Kew Lin



Audit Committee Report

Audit Committee Report

7 REPORT FROM THE AUDIT COMMITTEE TO THE BOARD OF THE FINANCIAL SERVICES COMMISSION

The Financial Services Commission's Audit Committee comprises three Non-Executive Board Directors namely: Oliver Lew Kew Lin (Chairman), Radhakrishna Chellapermal and Sanjay Gopaul. Ramanaidoo Sokappadu, Secretary to the Board, acted as Secretary to the Audit Committee.

The Audit Committee was appointed by the Board to assist the Commission in fulfilling its responsibilities under the Financial Services Act 2007. The Audit Committee met on three occasions during the financial year 2008/2009.

The Audit Committee has also recommended the recruitment of a consultant to make a risk assessment of both financial and non-financial including operational risk at the Commission as well as the proposal for the Commission to be considered for ISO certification.

Following the retirement of the Executive of Finance, a new Head of Finance was appointed. The Commission also appointed a new internal auditor as from 1 June 2009.

The Audit Committee had working sessions with the External Auditors on issues raised by the latter on the accounts and on how to resolve these issues in the best interest of the Commission.

The Audit Committee has taken note of the changes made to the Statutory Bodies (Accounts and Audit) Act as amended regarding the new financial year of the Commission. The next Annual Report of the Commission will cover the transitional period 1 July 2009 to 31 December 2010. Thereafter, the annual budget and report will cover the calendar year January to December.

Duties of the Committee include:

- ✎ ensuring the integrity of the Commission's financial accounting process and compliance with the IFRS standards;
- ✎ monitoring and reviewing the systems of internal controls regarding finance, accounting and use of assets to ensure objectivity;
- ✎ ensuring the independence of the external auditors;
- ✎ overseeing the operation of the policies on conflicts of interest; and
- ✎ reviewing with the management and external auditors, the adequacy and compliance of internal control systems.



Oliver Lew Kew Lin



Radhakrishna Chellapermal



Sanjay Gopaul

Financial Statements

Financial Statements

8 BOARD'S REPORT

The Board of the Commission presents its report and the audited financial statements of the Commission for the year ended 30 June 2009.

Review of activities

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

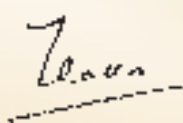
In preparing those financial statements, the Board is required to:

- o select suitable accounting policies and then apply them consistently;
- o make judgments and estimates that are reasonable and prudent;
- o state whether applicable accounting standards i.e. the International Financial Reporting Standards (IFRS) have been followed and explained in the financial statements; and
- o prepare the financial statements on the going concern basis.

The Board confirms that it has complied with the above requirements in preparing the financial statements.

The Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Commission. The Board is also responsible for safeguarding the assets of the Commission and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of the Commission on 30 September 2009.



S. Lalloo



M.A. Philips



J.N. Meetarbhan

Financial Statements

AUDITOR'S REPORT

**Report of the independent auditors to,
The Chairman of the Board of Financial Services Commission, Mauritius
(Under Section 8 of the Statutory Bodies (Accounts & Audit) Act 1972 as amended)**

We have audited the attached Balance Sheet of the Financial Services Commission (The Commission) as at 30 June 2009, and also the income statement and the Cash Flow Statement of the Commission for the year ended on that date annexed thereto. These financial statements have been prepared under the historical cost convention, on the basis of the accounting policies annexed in the notes to the financial statements and comply with the International Financial Reporting Standards (IFRS).

With regards to the compliance with IAS 24 'Related Party Disclosures' concerning disclosure of transactions with key management personnel and with their close family members, this has been based on undertakings provided by the key management personnel.

Responsibilities of the Board of the Commission

The Board of the Commission is responsible for the preparation of the financial statements and safeguarding the assets of the Commission and hence taking reasonable steps for the prevention of fraud and other irregularities.

Responsibilities of the Auditors

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

Basis of Opinion

We conducted our audit in accordance with the International Standards on Auditing. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board of the Commission in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Commission's circumstances and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations, which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements. In forming our opinion we also evaluate the overall adequacy of the presentation of the information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

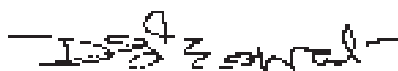
Financial Statements

We have no relationship with or interests in the Commission other than in our capacity as auditors.

Opinion

- (a) 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;
- (b) Proper books of account have been kept by the Commission as far as appears from our examination of those books;
- (c) The balance sheet and the statement of the income and expenditure of the Commission are in agreement with the books of account;
- (d) To the best of our information and according to the explanations given to us, the accounts read with our observations in paragraph above regarding IAS-24, give a true and fair view of the income and expenditure of the Commission for the financial year and of the state of affairs, of the Commission as at 30th June 2009;
- (e) In relation to the accounts, the Act has been complied with, and no directions have been received from the Minister, and
- (f) As far as could be ascertained from our examination of the accounts, and relying on management representation to this effect, no expenditure is incurred of an extravagant or wasteful nature judged by normal commercial practice and prudence.

For Bansal & Co.
Chartered Accountants



D S RAWAT
Partner

Date: 29 October 2009

Financial Statements

BALANCE SHEET AS AT 30 JUNE 2009

	NOTE	2009 Rs	2008 Rs
ASSETS			
Non Current Assets			
Property, plant and equipment	5(a)	237,615,006	237,895,690
Intangible assets	5(b)	3,237,571	1,871,194
Defined benefit asset	6	3,640,476	1,297,130
Receivables	7	13,449,729	15,623,971
		257,942,782	256,687,985
Current assets			
Debtors and prepayments	8	17,612,980	23,835,054
Treasury Bills		177,995,596	-
Bank and cash balances	9	872,492,105	114,114,261
Bank deposits		347,603,461	650,814,740
		1,415,704,142	788,764,055
TOTAL ASSETS		1,673,646,924	1,045,452,040
LIABILITIES			
Current liabilities			
Creditors and payables	10	356,361,177	177,940,078
TOTAL LIABILITIES		356,361,177	177,940,078
NET ASSETS		1,317,285,747	867,511,962
REPRESENTED BY GENERAL FUND		1,317,285,747	867,511,962

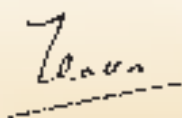
This is the Balance Sheet referred to in our report of even date.

For Bansal & Co
Chartered Accountants

Approved by the Board of the Commission on 30 September 2009
Signed on their behalf



D.S. Rawat
Partner



S. Lalloo
Chairman



M.A. Phillips
Vice-Chairperson



J.N. Meetarbhan
Chief Executive

The accounting policies on pages 63 to 66 and the notes on pages 67 to 74 form an integral part of these financial statements

Financial Statements

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

	NOTE	2009 Rs	2008 Rs
INCOME			
Fees		563,356,460	409,788,917
Interest	11	36,910,491	53,218,993
Other income		550,000	-
		600,816,951	463,007,910
EXPENDITURE			
Salaries and allowances	12	81,219,393	75,039,773
Training and seminars	13	4,599,217	7,183,419
Legal and professional fees		3,758,872	6,293,016
Office and administrative	14	16,664,863	32,565,816
Depreciation and amortisation	5(a), 5(b)	19,696,335	7,776,523
		125,938,680	128,858,547
SURPLUS OF INCOME OVER EXPENDITURE		474,878,270	334,149,363
Exchange fluctuation gain/(loss)		114,895,515	(112,059,077)
SURPLUS FOR THE YEAR		589,773,785	222,090,286

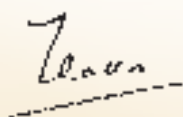
This is the Income Statement referred to in our report of even date.

For Bansal & Co
Chartered Accountants

Approved by the Board of the Commission on 30 September 2009
Signed on their behalf



D.S. Rawat
Partner



S. Lalloo
Chairman



M.A. Philips
Vice-Chairperson



J.N. Meetarbhan
Chief Executive

The accounting policies on pages 63 to 66 and the notes on pages 67 to 74 form an integral part of these financial statements

Financial Statements

STATEMENT OF CHANGES IN GENERAL FUND FOR THE YEAR ENDED 30 JUNE 2009

	NOTE	2009 Rs	2008 Rs
At 1 July		867,511,962	761,166,477
Adjustment to staff loan at fair value		-	3,107,564
Surplus for the year		589,773,785	222,090,286
Prior year adjustments			
Prepayments for computer software		-	1,147,635 *
Contribution to Capital Budget		(140,000,000)	(120,000,000)
At 30 June		1,317,285,747	867,511,962

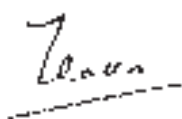
This is the Statement of Changes in General Fund referred to in our report of even date.

For Bansal & Co
Chartered Accountants

Approved by the Board of the Commission on 30 September 2009
Signed on their behalf



D.S. Rawat
Partner



S. Lalloo
Chairman



M.A. Philips
Vice-Chairperson



J.N. Meetarbhan
Chief Executive

The accounting policies on pages 63 to 66 and the notes on pages 67 to 74 form an integral part of these financial statements

Financial Statements

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

	NOTE	2009 Rs	2008 Rs
Cash Flow from operating activities	15	792,604,871	242,834,412
Cash Flow from investing activities			
Acquisition of property, plant and equipment		(15,985,355)	(205,481,456)
Acquisition of intangible assets		(4,796,673)	(59,685)
Proceed from disposal of property, plant and equipment		550,000	-
Net Cash from investing activities		(20,232,028)	(205,541,141)
Cash flow from financing activities			
Contribution paid against retirement benefit obligation		(2,343,345)	(579,311)
Contribution to Capital Budget		(140,000,000)	(120,000,000)
Net Cash (used in) financing activities		(142,343,345)	(120,579,311)
Net Increase in cash and cash equivalents		630,029,498	(83,286,040)
Cash and cash equivalents at 1 July		764,929,000	833,303,771
Cash and cash equivalents at 30 June		1,394,958,498	750,017,731

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

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

Cash and bank balances	872,492,105	114,114,261
Bank deposits	347,603,461	650,814,740
Treasury Bills	177,995,596	-
	1,398,091,162	764,929,001
Effect of exchange gain	(3,132,664)	(14,911,270)
	1,394,958,498	750,017,731

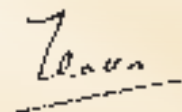
This is the Cash Flow Statement referred to in our report of even date

For Bansal & Co
Chartered Accountants

Approved by the Board of the Commission on 30 September 2009
Signed on their behalf



D.S. Rawat
Partner



S. Lalloo
Chairman



M.A. Philips
Vice-Chairperson



J.N. Meesarbhan
Chief Executive

The accounting policies on pages 63 to 66 and the notes on pages 67 to 74 form an integral part of these financial statements

Notes to the Financial Statements for the year ended 30 June 2009

1 CONSTITUTION AND FUNCTION OF THE COMMISSION

1.1 Constitution

The Financial Services Commission was established in Mauritius under the Financial Services Development Act 2001 on 1 August 2001. With the enactment of the Financial Services Act 2007, the Commission is deemed to have been established under this Act.

1.2 Function

The Commission is an independent regulatory authority established under the Financial Services Act 2007 to regulate the non-banking financial services sector.

2 ACCOUNTING POLICIES

The principal accounting policies adopted by the Commission are as follows:

2.1 Basis of Preparation

The financial statements have been prepared on accrual basis, except cashflow statement, and are in accordance with International Financial Reporting Standards issued by the International Accounting Standard Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB. The presentation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amount and disclosures in the financial statements. Actual results could differ from those estimates.

2.2 Revenue

Revenues arising from processing, annual licence, registration and brokerage fee, where no significant uncertainty as to its collectibility exists, have been accounted on accrual basis and those with significant uncertainty are accrued as and when realised.

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

2.3 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.

2.4 Employee 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.

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).

Notes to the Financial Statements for the year ended 30 June 2009

For defined pension benefit plans, the pension costs are assessed using the projected unit credit method. The costs of providing pension are charged to the Income Statement 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. The pension obligation is measured as 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. Actuarial gains and losses are recognised over the average remaining service lives of the employees.

2.5 Foreign Currency Translation

Foreign currency transactions are translated at the rates of exchange ruling at the dates of the transactions (transactions are occurred on the date of recording).

Assets and liabilities denominated in foreign currencies are translated to Mauritian Rupee (Rs) at the rate of exchange ruling at the end of the financial year.

Gains or losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the Income Statement.

2.6 Property, Plant and Equipment

All property, plant and equipment of the Commission is shown at historical cost less accumulated depreciation. Where the carrying amount of an asset is greater than its recoverable amount, it is written down to its recoverable amount. The 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 Income Statement during the financial period in which they are incurred.

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

Item	%
Motor Vehicles	20
Furniture	20
Fixtures and fittings	10
Office Equipment	20
Computer Equipment	33.33
Building	30 years
Leasehold land	30 years

Notes to the Financial Statements for the year ended 30 June 2009

2.7 Lease

Lease payment under an operating lease is recognized as an expense on straight-line basis over the lease term. The Commission has acquired leasehold rights 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.

2.8 Intangible Assets

All computer software and development costs are considered as intangible assets and are amortised over the estimated period of utilisation not exceeding three years.

2.9 Financial Instruments

The Commission uses only non-derivative financial instruments as part of its normal operation. These financial instruments include bank deposits, staff loans, debtors and receivable. All financial instruments are recognised in the Balance Sheet at their fair value.

Debtors

Debtors are stated at cost, which is its fair value.

Staff loans

Fair value of the staff loans has been computed by applying the effective interest rate to the future repayments (cash flows) and stated in the balance sheet at the amortised cost.

Cash and Cash Equivalents

Cash comprises cash at bank and in hand and bank deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Creditors and Payables

Creditors and payables are stated at the amount certain for payments.

2.10 Taxation

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

2.11 Contributions to the Capital Fund of the Government of Mauritius

The Commission makes a contribution to the Capital Fund of the Government from the General Fund in terms of the provisions of the Financial Services Act 2007, based on income and expenditure estimates, and as determined by the Board of the Commission.

2.12 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.

2.13 Comparatives

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

Notes to the Financial Statements for the year ended 30 June 2009

3 CONTINGENT LIABILITIES/ COMMITMENTS

3.1 Contingent Liabilities

There are pending lawsuits against the Commission with claims estimated at Rs 18 million, excluding interests and costs (previous year- Rs 22.8 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.

3.2 Statutory Deposits of Insurance Companies not included in the Balance Sheet

Statutory security deposit certificates of insurance companies, amounting to Rs 316,518,116 (previous year Rs 340,665,900) are in the physical custody of the Commission in accordance with the Insurance Act 2005 and not included in the Balance Sheet.

4 RISK MANAGEMENT POLICIES

4.1 Financial Risks

A description of the various financial risks to which the Commission is exposed, as well as the approach taken by management to control and mitigate those risks, are shown below.

Liquidity Risk

This refers to the possibility of default by the Commission to meet its obligations because of unavailability of funds to meet both operational and capital requirements. In order to ensure adequacy of its funding, cash flow is managed regularly and actions taken accordingly.

Foreign Exchange Risk

The Commission is exposed to foreign exchange risk with respect to foreign currency arising from receipt of licence fee in foreign currency.

4.2 Insurable Risks

The Commission has adequate insurance cover for its properties and material contents, loss of profits and public liability. The sums insured for each insurance cover are reviewed annually in accordance with recommendations from professional advisers, where applicable.

Notes to the Financial Statements for the year ended 30 June 2009

5 NON CURRENT ASSETS

5(a) PROPERTY, PLANT AND EQUIPMENT

COST	MOTOR VEHICLE Rs	FURNITURE Rs	COMPUTER EQUIPMENT Rs	OFFICE EQUIPMENT Rs	BUILDING Rs	FIXTURES & FITTINGS Rs	TOTAL Rs
At 1 July 2008	11,223,284	11,535,524	9,965,155	2,873,641	-	61,100,176	96,697,780
Building	-	-	-	-	167,775,311	-	167,775,311
Leasehold land	-	-	-	-	5,500,000	-	5,500,000
Purchases	-	1,314,635	2,086,160	1,705,103	-	10,879,457	15,985,355
Disposal	(2,423,900)	-	-	-	-	-	(2,423,900)
At 30 June 2009	8,799,384	12,850,159	12,051,315	4,578,744	173,275,311	71,979,633	283,534,546
DEPRECIATION							
At 1 July 2008	8,876,558	11,241,865	9,786,189	2,172,789	-	-	32,077,401
Charge for the year	1,426,677	455,586	874,353	535,616	5,775,844	7,197,963	16,266,039
Disposal adjustments	(2,423,900)	-	-	-	-	-	(2,423,900)
At 30 June 2009	7,879,335	11,697,451	10,660,542	2,708,405	5,775,844	7,197,963	45,919,540
NET BOOK VALUE							
At 30 June 2009	920,049	1,152,708	1,390,773	1,870,339	167,499,467	64,781,670	237,615,006
At 30 June 2008	2,346,726	293,659	178,966	700,852	173,275,311	61,100,176	237,895,690

Notes to the Financial Statements for the year ended 30 June 2009

5(b) INTANGIBLE ASSETS

	2009 Rs	2008 Rs
COST		
At 1 July	18,248,606	18,129,236
Purchases	4,796,673	119,370
At 30 June	23,045,279	18,248,606
AMORTISATION		
At 1 July	16,377,412	11,934,228
Charge for the year	3,430,296	4,443,184
At 30 June	19,807,708	16,377,412
NET BOOK VALUE		
At 30 June	3,237,571	1,871,194

6 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.

	2009 Rs	2008 Rs
The amounts recognised in the Income Statement are as follows:		
Current service cost	2,190,456	1,967,397
Interest cost	4,735,587	4,302,022
Expected return on plan assets	(5,134,195)	(4,508,573)
Actuarial Gain Recognised	-	1,295,696
Total included in staff cost	1,791,848	3,056,542
Actual Return on plan assets	1,791,848	5,556,448
 Movement in liability recognised in the balance sheet as determined by the actuarial valuation		
Opening Balance	(1,297,130)	(717,820)
Expense for the Year	1,791,848	3,056,542
Actuarial reserves transferred in	(178,263)	-
Contribution paid	(3,956,931)	(3,635,852)
As at the close of the year	(3,640,476)	(1,297,130)

Notes to the Financial Statements for the year ended 30 June 2009

6 DEFINED BENEFIT ASSET *(continued)*

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

	2009 Rs	2008 Rs
At 1 July	46,310,176	37,568,443
Expected return on plan assets	5,134,195	4,508,573
Actuarial gains	(5,864,855)	1,047,875
Actuarial reserves transferred in	178,263	-
Contributions from the employer	3,956,931	3,635,852
Contributions from the employees	522,225	-
Contributions from the government	-	3,465,752
Benefits paid	(3,926,076)	(3,828,540)
Schemes expenses	87,779	(87,779)
At 30 June	46,398,638	46,310,176

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

	2009 %	2008 %
Government Securities and Cash	56.35	46.79
Loans	8.06	8.20
Local Equities	20.97	30.20
Overseas bonds and equities	13.65	13.80
Property	0.97	1.00
Debenture Stocks	0.00	0.01
	100.00	100.00
<i>Rates used for accounting purposes were</i>		
	%	%
<i>Discount Rate</i>	10.50	11.00
<i>Expected return on plan assets</i>	11.00	11.50
<i>Future Salary increase</i>	7.50	8.00
<i>Future Pension increase</i>	4.00	4.00

7 RECEIVABLES

	2009 Rs	2008 Rs
Staff loans, restated at fair value	13,449,729	15,623,971
	13,449,729	15,623,971

Notes to the Financial Statements for the year ended 30 June 2009

8 DEBTORS AND PREPAYMENTS

	2009 Rs	2008 Rs
<i>Debtors (unsecured and considered good)</i>	4,514,049	6,139,167
Staff loan, receivable within one year, restated at fair value	4,702,763	4,688,841
Other receivables	1,877,150	815,900
Prepayments	1,830,905	4,737,015 *
Accrued Interest	4,688,113	7,454,131
	<u>17,612,980</u>	<u>23,835,054</u>
<i>Total staff loans at face value</i>	22,504,162	23,404,857
<i>Less adjustment for fair value</i>	(5,468,861)	(3,900,111)
<i>Add interest adjustment, calculated on fair value</i>	1,117,191	808,066
<i>Balance at fair value</i>	<u>18,152,492</u>	<u>20,312,812</u>
<i>Loan receivable within one year</i>	4,702,763	4,688,841
<i>Loan receivable beyond one year</i>	13,449,729	15,623,971
	<u>18,152,492</u>	<u>20,312,812</u>

9 BANK & CASH BALANCES

	2009 Rs	2008 Rs
Cash in hand	21,000	21,000
Bank balances	872,471,105	114,093,261
	<u>872,492,105</u>	<u>114,114,261</u>

10 CREDITORS & PAYABLES

Accruals	10,847,334	34,436,199
Other Creditors and provisions	9,225,971	8,020,300
Deposit from Management Companies	100,100,941	20,112,140
Prepaid Licence Fee	236,186,931	115,371,439
	<u>356,361,177</u>	<u>177,940,078</u>

11 INTEREST

Treasury Bills	6,506,560	5,120,386
Bank Deposits	27,960,471	46,050,609
Staff Loans	2,443,460	2,047,998
	<u>36,910,491</u>	<u>53,218,993</u>

Notes to the Financial Statements for the year ended 30 June 2009

12 SALARIES AND ALLOWANCES

			2009 Rs	2008 Rs
Staff Salaries and Allowances			64,718,846	54,717,593
Adjustment to staff cost due to restatement of staff loan at fair value			1,805,413	3,900,111
Pension Contribution			1,613,585	3,056,542
Family Protection Scheme			660,307	552,949
National Savings Fund			311,418	305,569
Passage Benefits			2,006,523	1,702,362
Board and Committee Fees			2,100,000	2,100,000
Travelling			6,126,748	6,519,591
Staff Welfare			1,876,553	2,185,056
			81,219,393	75,039,773
Board fees, salaries and allowances				
S. Lalloo, Chairman		Board Fees	480,000	480,000
S. Boolell, Vice-Chairperson	up to Feb 2009	Board Fees	200,000	300,000
M. Philips, Vice-Chairperson	w.e.f. March 2009	Board Fees	260,000	240,000
R. Chellapermal		Board Fees	240,000	240,000
R. Makoond		Board Fees	240,000	240,000
S. Gopaul		Board Fees	240,000	240,000
O. Lew Kew Lin		Board Fees	240,000	240,000
Y. W. Appado	w.e.f. March 2009	Board Fees	80,000	-
Chief Executive		Salaries and allowances	4,567,403	4,641,184
Director - Licensing	up to Feb 2009	Salaries and allowances	2,793,749	4,232,233
Director - Corporate affairs	Jan-June 2009	Salaries and allowances	866,667	-

13 TRAINING AND SEMINARS

			2009 Rs	2008 Rs
Overseas conferences and seminars			4,184,212	5,687,084
Local events			136,349	883,049
Staff training			278,656	613,286
			4,599,217	7,183,419

Notes to the Financial Statements for the year ended 30 June 2009

14 OFFICE AND ADMINISTRATIVE EXPENSES

	2009 Rs	2008 Rs
Rental & maintenance of office premises	348,158	20,339,859
Land lease	400,000	-
Insurance of Office Premises	487,594	-
Relocation to FSC House	700,845	-
Post, telephone, internet and fax charges	2,752,811	2,126,943
Electricity and water	2,328,940	1,557,890
Stationery	1,588,158	1,629,200
Subscription	3,879,618	2,846,650
General office expenses	2,280,827	2,832,469
Vehicle expenses	1,447,754	768,190
Advertising and publication	450,158	464,615
	16,664,863	32,565,816

15 CASH FLOW FROM OPERATING ACTIVITIES

	2009 Rs	2008 Rs
Surplus for the year	589,773,785	222,090,286
Adjustments for:		
Staff loan restated to fair value	5,468,861	3,900,111
Interest on staff loan restated to fair value	(1,117,191)	(808,066)
Gain on disposal of property, plant and equipment	(550,000)	-
Unrealised exchange gains	(3,132,664)	(14,911,270)
Depreciation and amortisation	19,696,335	7,776,523
Cash flow from operating activities, before working capital changes	610,139,126	218,047,584
Decrease (increase) in debtors	1,625,118	(3,568,582)
(Increase)/decrease in staff loan	(2,191,350)	1,028,090
Decrease in interest receivable	2,766,018	6,155,342
Decrease in other receivables	(1,061,250)	6,750
Decrease in prepayments	2,906,110	1,314,879
(Increase)/decrease in accrued expenses and other payables	178,421,099	19,850,349
Net cash flow from operating activities	792,604,871	242,834,412

Notes to the Financial Statements for the year ended 30 June 2009

16 LIQUIDITY RISK

The liquidity risk with regard to outflows is limited to contribution to capital budget and operative expenses. The outflows to capital budget 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 30 June 2009.

Maturity profiles are as under:-

	Maturity	
	0 - 1 Year	> 1 year
Cash and bank balances	872,492,105	nil
Bank deposits and treasury bills	525,599,057	nil
The Committee monitors the adequacy of cash inflows in terms of the budget estimates at all times		

17 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; and
- (c) for transactions with banking institutions, it holds bank balances and short term deposits with the Bank of Mauritius and the State Bank of Mauritius Ltd

18 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 (MRU) may change in a manner which has a material effect on the reported values of the Commission's license 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 114,895,515 has occurred due to translation of the foreign currencies. During the financial year, the rupee has appreciated against USD and NZD, by 19% and 2% respectively. The exchange fluctuation for the year is as follows:

Notes to the Financial Statements for the year ended 30 June 2009

			2009 Rs	2008 Rs
Exchange fluctuation gain/(loss)			114,895,515	(112,059,077)
Currency profile is as under:-				
	2009 Rs	2008 Rs	2009 %	2008 %
New Zealand Dollars	352,305,667	334,365,262	27	45
US Dollars	713,982,350	404,033,047	55	54
Mauritian rupees	233,334,029	6,704,363	18	1
	<u>1,299,622,046</u>	<u>745,102,672</u>	<u>100</u>	<u>100</u>

The assessment of currency fluctuation are being reviewed by the Investment Committee from time to time

19 FUNCTIONAL CURRENCY

The Financial Statements have been presented in Mauritian rupees.

20 RESTATED FIGURES

* Denotes that the figures for the year 2008 have been restated.

Appendices

Appendices

I. List of Charts

Chart 1	FSC Organisational Structure
Chart 2	Status of complaints for the period 1 July 2008 - 30 June 2009
Chart 3	Breakdown of general insurance policies by class
Chart 4	Asset distribution for long-term insurers
Chart 5a	Equities % share of pension fund assets
Chart 5b	Bonds % share of pension fund assets
Chart 5c	Other investments % share of pension fund assets
Chart 6a	Evolution of SEMDEX and SEM-7 between July 2008 and June 2009
Chart 6b	Evolution of SEMTRI (Rs) and SEMTRI (US\$) between July 2008 and June 2009
Chart 6c	Evolution of DEMEX between July 2008 and June 2009
Chart 6d	Evolution of DEMTRI (Rs) and DEMTRI (US\$) between July 2008 and June 2009
Chart 7	Sectorwise breakdown of Official Market capitalisation as at 30 June 2009
Chart 8	Sectorwise breakdown of DEM market capitalisation as at 30 June 2009
Chart 9	Evolution of international indices between July 2008 and June 2009

II. List of Tables

Table 1	Total assets and gross premiums of Insurers (2006 - 2008)
Table 2	Number of licences issued - Global Business Sector (2004 - 2009)
Table 3	Summary of financial results of MCs (2004-2008)
Table 4	Number of new licences issued from 1 July 2008 to 30 June 2009, under the Securities (Licensing) Rules 2007
Table 5	Financial Business Activities

III. Rules

1. The Financial Services (Other financial business activity) Rules
2. The Financial Services (Consolidated licensing and fees) (Amendment) Rules

Appendices

IV. Circular Letters

1. Circular Letter (CL 140708): Nominee Companies
2. Circular Letter (CL 091008): Licensing Fees
3. Circular Letter (CL 011208): Information on Policies
4. Circular Letter (CL 240209): Information on Products Sold
5. Circular Letter (CL 060309): Risk-Based Supervision (RBS) Framework
6. Circular Letter (CL 280409): Health Insurance Product
7. Circular Letter (CL 120609): Risk-Based Supervision (RBS) Framework
8. Circular Letter (CL 230609): Collection of Processing and Annual Licence

Please consult our website: www.fscmauritius.org for further information

Abbreviations and Acronyms

AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
BoM	Bank of Mauritius
CDS	Central Depository and Settlement Co. Ltd.
CIS	Collective Investment Schemes
CISNA	Committee for Insurance, Securities and Non-Bank Financial Authorities
DEM	Development and Enterprise Market
FSA	Financial Services Act
FSAP	Financial Sector Assessment Program
FSC	Financial Services Commission
GBC 1's	Category 1 Global Business Companies
GBC 2's	Category 2 Global Business Companies
GBOT	Global Board of Trade Ltd.
IA	Insurance Act
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standard Board
IFC	International Financial Centre
IFSB	Islamic Financial Services Board
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commission
IOPS	International Organisation of Pension Supervisors
MCs	Management Companies
MDS	CISNA's Market Development Sub-Committee
MoU	Memorandum of Understanding
MMoU	Multilateral Memorandum of Understanding
MVIAC	Motor Vehicle Insurance Arbitration Committee
OECD	Organisation for Economic Co-operation and Development
RBSF	Risk-Based Supervision Framework
SA	Securities Act
SADC	Southern African Development Community
SDDS	Special Data Dissemination Standard
SEM	Stock Exchange of Mauritius
TRC	Tax Residence Certificate

FSC House, 54 Cybercity, Ebene
Republic of Mauritius
Tel: (230) 403-7000
Fax: (230) 467-7172
Email: fscmauritius@intnet.mu
Website: <http://www.fscmauritius.org>