



FREQUENTLY ASKED QUESTIONS ('FAQs')

UNREGULATED ON-LINE PLATFORM

1. What is a Trading Securities System?

A Trading Securities System is a platform which provides for the facility to bring together buyers and sellers to conclude purchases and sales of securities in accordance with the rules of Securities Exchanges. A Trading Securities System may be physically, electronically or otherwise. Electronic Platforms may consist of Regulated or Unregulated ones.

2. What is the difference between a Regulated Platform and an Unregulated Platform?

A Regulated Platform is commonly known as an "organized Platform". It is a system whereby buy and sell orders is entered into a central electronic order book to conclude securities transactions. Regulated Platforms are either registered or licensed by a Competent Regulatory Authority. An example of such platform is the Stock Exchange of Mauritius Ltd Automated Trading System – the SEMATS.

An Unregulated Platform consists of trading investments through software provided to Internet users. The users will log on the web interface to use the trading platform for execution of securities transactions but the system/platform is not registered/licensed by a Competent Regulatory Authority.

3. What are the characteristics of Regulated Platforms?

The International Organization of Securities Commission ('IOSCO'), in January 2012, published a Report entitled "Follow-On Analysis to the Report on Trading of OTC Derivatives" which identifies seven characteristics of Regulated or organized platforms which are as follows:

- Registration of the platform with a competent regulatory authority, including requirements relating to financial resources and operational capability;

- Access for participants based on objective and fair criteria that are applied in an impartial, non-discriminatory manner;
- Pre- and post-trade transparency arrangements which are appropriate to the nature and liquidity of the product and the functionalities offered by the platform;
- Operational efficiency and resilience including appropriate linkages to post-trade infrastructure and measures to handle potential disruption to the platform;
- Active market surveillance capabilities, including audit trail capability;
- Transparent rules governing the operation of the platform; and
- Rules that do not permit a platform operator to discriminate between comparable platform participants in relation to the interaction of buying and selling interests within the system, whether fully electronic or hybrid.

4. Does the FSC entertain applications involving trading of securities through unregulated platform?

Applicant for licences, in general, should demonstrate to the Commission that the proposed activity is in line with the relevant laws and follows the established prudential principles usually applied by the FSC.

Where a financial intermediary licensed or applying for a licence under the Securities Act, is or proposing to be involved in the trading of securities through an unregulated platform, the applicant, in addition to the other licensing criteria, needs to demonstrate that it has in place the necessary structures in terms of internal controls, governance and risk management. In addition, when assessing whether an applicant may offer/promote the services of such unregulated platforms, the FSC will verify whether the unregulated platforms ensure sufficient investor safeguard mechanisms. [Note: The definition of securities (S2 Securities Act) does not include forex trading]

5. Are these unregulated platforms recognized by international Standard Setters?

The international norm is to follow the recommendations made in response to the G-20 Leaders' commitments and the Financial Stability Board that is to consider trading securities platforms registered/licensed with competent regulatory authorities.

IOSCO has stressed on the importance for Regulators to follow same. One of the IOSCO's published papers on *"cybercrime, system risk and global securities market"* has warned investors that *"underestimation of the severity of the emerging risk may lay open securities markets to a black swan event"*.

6. Can investors trade on unregulated platforms?

FSC has no mandate to prevent investors from trading on unregulated platforms. Investors are free to decide where they invest or trade. In many cases, these unregulated platforms have not been declared illegal. However, FSC advises investors and the general public to exercise

extreme caution when dealing in securities on such unregulated platforms.

Before making any decision, investors have to consider the risks and returns. Unregulated platforms are considered riskier and may not provide adequate consumer protection. They are potentially subject to greater risks of market malpractices like manipulation of prices.

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