



FREQUENTLY ASKED QUESTIONS (FAQs) SECURITIES EXCHANGE

1. What is a Securities Exchange?

In simple terms, the Securities Exchange is defined as an organised market place whereby buyers and sellers agree on the terms, as per the rules of Securities Exchange, to trade securities transactions, i.e. the purchase and sales of securities. *[Note: The definitions of Securities Exchange and 'securities' under S2 Securities Act 2005].*

2. Who are the stakeholders?

A Securities Exchange is not a standalone body but it depends on various players from the financial community for its functioning. It consists of a chain of stakeholders as follows:

- The policymakers including the Government to determine whether the general conditions of the economy warrant the needs for the establishment of a securities exchange and this will be of national interest;
- Issuers to offer and issue securities with the objective of raising money;
- The Market Infrastructure comprising of the Exchange, the trading system, the Clearing & Settlement facility to provide the structure to facilitate the trading and settlement of transactions;
- Investors/shareholders/general public who are the consumers of the exchange;
- The Regulator who determines whether the Exchanges are complying with the requirements as per the laws and have the necessary safeguards to protect consumers against mal-practices;
- Intermediaries (investment dealers/investment advisers) who act between the exchange and investors to execute orders or provide advice on securities;
- The Industry who include rule-makers or act as a think tank for the development of the capital markets sector.

3. What are the roles of Securities Exchange in a jurisdiction?

A Securities Exchange is of national importance for the economy of a jurisdiction. Securities Exchanges play a major role by contributing to the investments of a country. Since it provides an investment avenue to local and foreign investors, it represents a landmark for the jurisdiction. The indices which are indicators of general economic trends act as a barometer of the economy and regulate the stock price mechanism.

One of the main functions of a Securities Exchange is to channel savings from resources mainly from savers to the ultimate users. The savers include the general public, institutions and body corporates whereas the users consist of issuers of securities, that is, government, corporations and companies (including small and medium enterprises).

4. What are the criteria to grant a Securities Exchange as per legislations?

Section 9 of the Securities Act 2005 provides that no person shall establish, maintain or operate a securities exchange in Mauritius, whether physically or electronically or otherwise without seeking a licence from the Financial Services Commission, Mauritius (FSC).

Only corporate body incorporated or registered in Mauritius as a public company can hold such licence.

Section 12(2) of the Securities Act stipulates that the FSC shall grant a licence if it is satisfied that -

- 1) There is a need for such a structure, having regard to the general condition, the needs and interests of the capital market and the community.
- 2) the applicant has operating rules and adequate procedures to ensure that the market will operate fairly, transparently and in an orderly way;
- 3) the applicant has adequate rules or systems for: handling conflicts interests, monitoring the conduct of participants and enforcing compliance with the operating rules of the market;
- 4) the applicant has access to clearing and settlement arrangements for transactions effected on the Securities Exchange;
- 5) the applicant and its officers are fit and proper persons.

Section 13 of the Securities Act further provides that *“the Securities exchange rules may make rules. Not inconsistent with this Act, any regulations made under this Act or any FSC Rules, for or with respect to the operation of the securities exchange”*. All Rules of the Securities Exchanges have to be approved by the FSC Mauritius.

The requirements to submit an application for a securities exchange licence are laid out under Part II of the Securities (Licensing) Rules 2007.

Apart from the above, the FSC will consider the capital adequacy requirements, members and other information. It will look into other criteria such as provision for the risk management procedures and other details as it may require.

5. How many Securities Exchanges are licensed by the FSC Mauritius?

There are currently two securities exchanges which are licensed and they are: the Stock Exchange of Mauritius Ltd ('SEM') and the Bourse Africa Ltd ('BAL') which was formerly known as the Global Board of Trade Ltd ('GBOT').

The SEM operates two 'Markets' in the equity segment namely the Official Market (OM) for larger companies and the Development & Enterprise Market (DEM) meant for Medium and Smaller companies. The SEM offers shares, debentures, bonds, convertible instruments, depositary receipts, exchange traded funds among others. It facilitates international capital raising through multi-currency listing, trading & settlement platform in USD, EURO and GBP. Please refer to SEM's website: <http://www.stockexchangeofmauritius.com>

BAL operates 2 derivatives segments – the Commodity and Currency Derivatives segments and an Equity Segment. It offers contracts in Commodity in gold, silver & crude oil WTI and 5 currency pairs – EUR/USD, GBP/USD, JPY/USD, USD/MUR and ZAR/USD. For further details, please refer to BAL's website on <http://www.bourseafrica.com>

6. Are there any particular report or recommendations made by International Standard Setters such as the International Organization of Securities Commission ('IOSCO') in respect of new developments in the capital market space?

IOSCO developed "recommendations to promote markets' integrity and efficiency to mitigate the risks posed to the financial system by the latest technological developments" in response to the G20 request. In October 2011, the IOSCO Board published a report entitled *Regulatory Issues Raised by the Impact of Technological Changes on Market Integrity and Efficiency*² that sets out recommendations to assist regulators of securities markets in addressing these issues.

In December 2013, IOSCO published its final report on 'Regulatory Issues Raised by Changes in Market Structure' reference FR13/13. This report establishes four recommendations that are set out fully, below:-

Recommendation 1.1: *"Regulators should regularly monitor the impact of fragmentation on market integrity and efficiency across different trading spaces and seek to ensure that the applicable regulatory requirements are still appropriate to protect investors and ensure market integrity and efficiency, including with regard to price formation, bearing in mind the different functions that each trading space performs."*

Recommendation 1.2: *"Regulators should regularly evaluate the regulatory requirements imposed on different trading spaces and seek to ensure that they are consistent (but not necessarily identical) across spaces that offer similar services for similar instruments."*

Recommendation 2: *"In an environment where trading is fragmented across multiple trading spaces, regulators should seek to ensure that proper arrangements are in place in order to facilitate the consolidation and dissemination of information as close to real time as it is technically possible and reasonable."*

Recommendation 3: *"Where markets are fragmented, regulators should consider the potential impact of fragmentation on the ability of intermediaries to comply with applicable order handling rules, including, where relevant, best execution obligations, and take the necessary steps."*

Recommendation 4: *“Regulators should regularly monitor the impact of fragmentation on liquidity across trading spaces. Regulators should seek to ensure that applicable regulatory requirements provide for fair and reasonable access to significant sources of market liquidity on the exchange and non-exchange trading market systems.”*

Source: <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD431.pdf>

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