



Financial Services Commission
Mauritius

Opening Ceremony of FSC-US SEC Regional Training Programme **05th August 2013**

Speech of Ms. Clairette Ah-Hen, Chief Executive, Financial Services Commission

Her Excellency Ms. Shari Villarosa, Ambassador of the United States of America in Mauritius

His Excellency Mr. Nick Leake, British High Commissioner

Members of Diplomatic Corps

Mr Marc Hein, Chairperson of the FSC

Board Members of the FSC

Our Guest Speakers from the US Securities and Exchange Commission

Representatives of Local Authorities and Industry

All protocols observed.

Ladies and Gentlemen,

I wish you all a very Good Morning!

Allow me, first of all, to extend a warm welcome to our guests, and to all participants of the training programme on the Effective oversight of Capital Markets. The Financial Services Commission ('FSC') has the privilege to host this training event in collaboration with the United States Securities and Exchange Commission ('US SEC') and has as objective familiarising participants with the latest developments in the Capital Market regulatory oversight.

I would like to thank the US Securities and Exchange Commission for agreeing to share their knowledge and expertise with regulators of African and neighbouring countries. We hope that this event marks the beginning of a long collaboration between the FSC and the US SEC.

The financial services sector is today an important contributor to the Mauritian economy, not only in terms of GDP and employment, but also for its linkages to other sectors in terms of investment facilitation. For the sustainable growth and development of the economy, funds must be effectively mobilised and allocated in the most effective and efficient manner. Entrepreneurs and businesses need funding to harness their human and material resources, for financing expansion, modernisation and new projects. On the other hand, there are many pensioners, savers, members of the public and financial institutions on the look-out for products with a better return to invest in.

The securities markets, when efficient, play an important role in facilitating the transfer of funds from savers to businesses – an essential service - for the functioning of a strong economy and stimulating economic activity. The securities markets provide the right platform for capital formation and allocation. If capital resources are not provided to those economic areas where demand is growing and which are capable of increasing production and productivity, the whole economy suffers.

However, in parallel with the development of the financial services, there are predators of ill-intent, who prey on investors looking for something that yields a decent return or seeking for ways to benefit from the growth in financial services. This predisposition make the investors want to believe that all products are safe (I am being polite and avoiding to say naive and gullible) and thus become easy targets of unscrupulous promoters.

Investment frauds can plague financial markets regardless of the level of development of the markets. Such fraud encompasses all types of actions aimed at obtaining financial gain from investors based on deception. The flavours of financial crime have increased in both types and complexities and they are getting more and more difficult to detect. They may include cross-border frauds, romance schemes, job scams, advanced fee scams, charities fraud, debt elimination, investment frauds, but pyramid and ponzi schemes top the chart. It is, sadly, an all-too-familiar tale - investors/depositors trust the high profile promoter with their cash in the hope that their wealth will be managed well, only to find that the money has evaporated at the end of the agreed term.

Bernie Madoff defrauded investors of \$65 billion over the course of nearly two decades through "one big lie" the asset management arm of his firm. He didn't just con fat-cats, but also humbler individual investors, banks and even charities lost money in the scheme. One reason why Madoff was so successful was that he was a highly respected, well-established and esteemed financial expert. In addition, unlike other Ponzi schemers, he didn't tempt investors with unbelievable returns. He reported moderate (albeit, suspiciously consistent) returns to his investors.

Like Madoff's scheme, Stanford managed to accumulate \$8 billion over a decade from the sale of fraudulent certificates of deposit (CDs) in his bank in Antigua. Unlike Madoff, however, Stanford attracted investors through interest rates that were too good to be true. The Stanford scandal also saw the falsification of the Stanford International Bank's records to hide the "massive Ponzi scheme".

In Mauritius, unfortunately it is no different from the rest of the world but fortunately the ponzi schemes were detected at a relatively early stage. Their perpetrators wanted to enjoy wealth without hard work and with malicious intent of defrauding people, they spent time misleading people instead of doing genuine productive work. Ponzi has also become one of those catch words. For every fraud and embezzlement, romance and false promises of marriage, job overseas and cruise ships jobs or tertiary education scams, people outright give them the 'Ponzi' label (and of course make a call to the FSC demanding that this be sorted). With the meaning of Ponzi lost in translation, the scams have become more emotional and difficult to unravel and the task of regulators more complex and requiring psychological and social awareness and skills.

Ponzi Schemes inevitably bring financial damage on most of their investors and divert savings from productive investment. If left unchecked, they can bring economic, social and political upheaval

resulting in lack of confidence in the markets. In the wake of all these Ponzi schemes, we need to step up investment regulation and fraud detection measures. It's unlikely that we will be able to rid the world of Ponzi schemes entirely. So if Ponzi schemes still abound, we should know what to look for.

Ladies and Gentleman,

Given the various developments in the capital markets sector, it is of increasing importance for an effective capital markets regulator to understand the market comprehensively, identify trends in the markets, re-construct market movements and spot malpractices. Training programmes are important to keep personnel abreast of how to detect malpractices and how to conduct a thorough investigation.

A strong legal enforcement framework is necessary but not sufficient to ensure adequate handling of Ponzi schemes and protection of investors. Keeping the public informed also serves as a tool for combating fraudulent acts. It is therefore crucial that regulators keep the public informed about how to protect themselves and the actions that are being taken by regulators to stop particular schemes. The FSC embarked on a consumer protection and awareness campaign in 2011 and will continue to do so in the best interest of consumers of financial products and services.

The FSC has adopted a prevention model. Before the FSC grants a licence, the application undergoes a rigorous process which involves assessing the proposed activity, the fitness and propriety of the individual, Customer Due Diligence of any other related company/entity, sources of funds and sources of wealth (as per the FSC Code for the Prevention of Money Laundering and Terrorist Financing) as well as the promoter(s)' knowledge of relevant laws and professional competency. The FSC brought changes to its the Risk-Based Supervision framework to consolidate the anti-money laundering policies as well as instil a compliance culture amongst service providers. If the FSC has reasonable grounds that a licensee has engaged in any fraudulent activity, the FSC initiates enforcement actions as per the law.

In cases where a person/company ought to be licensed under any relevant Acts, the FSC has the power to request for information; carry out investigation or refer the matter to the Director of Public Prosecution/ Police. Furthermore, when on receipt of a complaint or information of an illegal financial activity, the FSC conducts enquiries and collects evidence of the criminal activity before referring the matter to the police and/or other regulatory agencies.

In order to have proper regulatory oversight, it is of paramount importance to effectively gather intelligence from the market, leverage on cooperation with other local agencies and foreign counterparts and adopt a proactive regulatory approach. The regulators play a key role in maintaining confidence on the capital markets. The FSC has signed 51 MOUs (Memoranda of understanding) and is a signatory to the IOSCO MMoU since May 2012. This was a major achievement for the FSC as it enables the Commission to better consult, cooperate and exchange information for securities regulatory enforcement purposes.

At the regional level, as part of the CISNA - Committee of Insurance Securities and Non-banking Financial Authorities, we are working to harmonise and enhance the effectiveness of the regional financial regulatory framework and to facilitate a co-ordinated regional approach to combating

financial crime. Harmonisation of our laws, the fight against money laundering, the need for capacity building, consumer education, the adoption of sound corporate governance and risk management frameworks by our institutions, in line with best international practices, are indeed some of the compelling scorecards that demand our urgent attention and form the very essence of CISNA's Strategic Plan. With the regional economic development at heart, the FSC actively participates in the work of all committees of CISNA.

The collaboration with the US SEC today marks an important step for the FSC to enhance cooperation with our regulatory counterpart. This training programme today reaffirms the FSC's strategy of enhancing cooperation to combat malpractices and to develop higher standards to reinforce its supervisory approaches.

This Effective oversight of Capital Markets training event will be a forum for the exchange of best practices in the development and regulation of securities markets presented through a series of discussions and case studies. The experts from US SEC will share practical solutions to common market problems and abuses, including how to address financial frauds such as Ponzi schemes. There will be discussions on successful investigation and prosecution cases.

I wish you a successful training session and an enjoyable stay in Mauritius to our speakers and to all regional participants.

I thank you all for your attention and for being here with us.