



Financial Services Commission
Mauritius



Annual Report 2010

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Financial Services Commission
Mauritius

ANNUAL REPORT
for the period 01 July 2009 to 31 December 2010¹



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.

¹ With the coming into force on 01 July 2009 of the amendments made to the Statutory Bodies (Accounts and Audit) Act 1972, the financial year for Statutory Bodies was redefined as the period of 12 months ending on 31 December. This Annual Report exceptionally covers the period 01 July 2009 to 31 December 2010.



Board of Directors



Said Laloo
Chairman

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



Mary Anne Philips
Vice-Chairperson

Mary Anne Philips is a practising Attorney since 1995. She holds a Maîtrise en droit and previously worked in the banking sector as in-house lawyer for the BNPI Group and in the insurance sector. She specialises in company law, commercial law, bankruptcy law, insurance, financial services and banking as well as civil law. She is currently Chairperson of the American Chamber of Commerce - Mauritius.

Board of Directors



Y. W. Manoj Appado

A practising Attorney for the last 21 years, [Manoj Appado](#) has been the legal advisor of two local government authorities and of the Tourism Authority, another regulatory body. Manoj Appado's main field of practice is civil and commercial law. He has also previously been the Vice-President of the Association of Mauritian Jurists, an organisation defending human rights issues.



Radhakrishna Chellapermal

[Radhakrishna Chellapermal](#) is a member of the Association of Chartered Certified Accountants since 1980. He is presently Director, Economic and Finance at the Ministry of Finance and Economic Development. After working in the private sector for 6 years, he joined the Ministry of Finance in 1983, where he has been involved in various projects relating to the financial services sector including the setting up of the Stock Exchange. He also assisted in the review of company legislation and the regulatory framework governing international business. Radhakrishna Chellapermal has also served on various committees, including the Company Law Advisory Committee and the Mauritius Accounting and Auditing Standards Committee.



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.

Board of Directors



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 Harel Mallac Outsourcing. 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.



Raj Makoond

Raj Makoond is the Executive Director of the Joint Economic Council. He is a Board Member of the European Centre for Development Policy Management and member of the Mauritius Negotiating Team on WTO matters as well as ACP-EU relations. Raj Makoond has served as the Deputy-Secretary General of the Mauritius Chamber of Commerce and Industry from 1990 to 1993. From 1976 to 1990, he was economist and senior economist at the Ministry of Economic Planning and Development and was seconded to the Ministry of Commerce and Deputy Prime Minister's Office and Ministry of Tourism. Raj Makoond holds a BA (Hons) in Economics and an MSc in Tourism Planning.

Officer in Charge



Prakash Seewoosunkur

Prakash Seewoosunkur is the Officer in Charge of the FSC since January 2011.

Prior to joining the Mauritius Offshore Business Activities Authority in 2000, he was working for an Atlanta - based US Company. He is holder of bachelor and masters degrees in the field of software engineering and an MBA in Financial Management. He was awarded a UK Commonwealth Scholarship in 1997. He has also specialised in the field of project management from Project Management Institute (PMI), USA. As part of the management team, he has contributed to the setting up of the operational infrastructure when the FSC was created in 2001. During his career at the FSC, he managed and participated in many cross-sector project teams that resulted in improved organisational effectiveness and in fulfilling the FSC's statutory objectives. In 2005, Prakash Seewoosunkur also worked in collaboration with an Australian regulator to conduct a benchmarking exercise comparing the information, regulatory and legal framework of a regulator operating in a developed financial market.

He thereafter attended a training programme designed and directed by Said Business School, University of Oxford. He has been representing the FSC in many National Committees. He currently holds an Executive position and is one of the main architects of the Risk Based Supervision Framework at the FSC.

Chairman's Statement

The recent and unprecedented financial crisis is a useful 'aide memoire' and has demonstrated the critical responsibility of regulators worldwide to restore stability across financial markets and confidence among industry players.

With this, I am pleased to present the Annual Report of the FSC for the year ending December 2010.

International Financial Markets and Regulatory Environment

Recovery from the crisis-induced slowdown is well under way, with growth in most countries of sub-Saharan Africa (including Mauritius) now back fairly close to the high levels of the mid-2000s. In many emerging market economies, demand is robust nowadays, and countries have resumed fast and sustainable growth.

The recovery of capital inflows in Mauritius likewise mirrors trends as in other emerging markets. The financial jurisdiction of Mauritius has in fact built up a reputation of being an attractive platform for investors bound for Asia and sub-Saharan Africa. With a strong regulatory framework in line with international norms and a resilient economy, Mauritius has benefited from favourable investor sentiment, despite lower domestic interest rates.

Economic recovery is thus gaining strength and financial conditions continue to progress globally.

The performance of financial markets has been improving internationally, since the start of 2011. Equity markets in both developed and emerging countries, in fact, have experienced growth since the last quarter of 2010. The prices of all major commodities such as oil, food and metals have also been ascending rapidly.

Given the improvement in financial markets, buoyant activity in many emerging and developing economies and growing confidence in advanced economies, economic prospects for 2011 are good, according to international bodies such as the IMF.

Nonetheless, regulatory reforms are still needed in order to ensure that the financial industry performs soundly worldwide. New organisational structures such as the European Systemic Risk Board and the Financial Stability Oversight Council have, for instance, been established to fundamentally improve systemic oversight both in Europe and in the United States of America.

Economic Developments and Financial Trends in Mauritius

The World Bank's *Doing Business 2010* ranked Mauritius as an ideal jurisdiction for doing business in Africa. Overall, Mauritius was ranked 17th out of 183 countries comprised in the 2010 survey, up from 24th in 2009. Mauritius is among the top-performing developing countries for starting a business, protecting investors and paying taxes as highlighted by this World Bank survey. The Mo Ibrahim Index of African Governance has also ranked Mauritius 1st in governance for two consecutive years in 2009 and 2010.

The domestic economy of Mauritius has registered a superior performance than expected with a GDP growth increasing by 4.2 % in 2010 compared to 3.1% in 2009. Financial Intermediation (excluding banks) contributed to 4.3% of the country's GDP in 2010. This sector has, in particular, not undergone major direct and adverse spill-over effects from the global crisis. Financial soundness indicators have continued to demonstrate high capital adequacy ratios and sound liquidity positions.

Chairman's Statement

The remarkable and resilient performance of Mauritius occurred as a result of the timely and comprehensive measures implemented by the various competent financial authorities in Mauritius in response to the recent global crisis and also, to a great extent, due to the sound and consolidated regulatory framework governing the domestic financial industry.

With the anticipated upturn in the global economy and the beneficial and medium-type impacts of the successive measures taken, the economic growth of Mauritius is as such expected to oscillate around more than 4 per cent in 2011.

An International Financial Centre of Substance

Amidst the fast pace of developments and increased competition witnessed in the global financial markets, the FSC has spared no efforts and worked relentlessly towards the consolidation of Mauritius, as a reputable financial jurisdiction and an International Financial Centre (IFC) of substance.

In fact, as a sound and credible regulator operating in an IFC, the FSC always emphasises on the importance of maintaining a financially stable market environment. In that pursuit, it has been enhancing its efforts and measures to address issues related to financial stability, so as to be in line with international principles and best practices.

The FSC is also extremely attentive to the fact that challenges faced by regulators can be resolved smoothly through better cooperation; thus making international

relations of greater salience to the work of regulators. The FSC has, in this endeavour, played an active role both on the regional and international frontiers, during the year.

There are definitely tremendous benefits and value-added in sharing and addressing cross-border regulatory and business development issues, with other regulators and other stakeholders, based in the African region or elsewhere worldwide.

The FSC has effectively been promoting exchange of information and strategic relationships during the year, through the signature of Bilateral and Multilateral Memorandum of Understandings (MOUs) with foreign regulatory bodies. These MOUs are set to provide the right framework and mechanism for encouraging better corporate governance and to reduce AML/CFT risks amongst others, during the course of regulatory and supervisory work by the FSC.

The FSC has also taken full advantage of the wide array of benefits and opportunities, through its memberships of international and regional supervisory groups such as the IOSCO, IAIS, IOPS and CISNA.

As a testimony to demonstrate its on-going commitment to foster international cooperation and best regulatory efforts, the FSC has hosted, during the year, a few major forums and events thereby bringing regulators and market participants from different jurisdictions to Mauritius. The 26th Africa and Middle-East Regional Committee (AMERC) meeting of the IOSCO was, as such, recently organised in Mauritius at the beginning of 2011.

Chairman's Statement

Note of Thanks

I seize this opportunity to thank all the staff of the FSC for their continued and dedicated support to the achievements that have taken place during the year.

As Chairman of the FSC, I have also a special note of thanks to express to the Vice-Chairperson and other Board members for their active participation and contribution at meetings of the Board and Sub-committees of the Board, to ensure that the strategic objectives and targets set for the FSC, are most efficiently achieved.

Finally, I wish to state my deep personal appreciation to Dr. Milan Meetarbhan who has served as Chief Executive of the FSC

from 2005 to 2010, and who is now occupying another equally challenging post as our Mauritius Ambassador to the United Nations in New York.

Dr. Milan Meetarbhan has played a significant part towards assisting the FSC, in its mission, to achieve the consolidation of Mauritius as an IFC of substance and sound repute.



Said Laloo
Chairman

Officer in Charge's Statement

The eighteen-month period ending December 2010 has been very eventful for the regulator in Mauritius. The FSC has taken several proactive measures to consolidate the reputation of Mauritius as an International Financial Centre (IFC) of substance. These measures were essentially targeted at financial stability, strengthening our sound and effective regulatory framework, infrastructural developments to consolidate Mauritius as a world-class financial business centre and its reputation as a transparent, clean and safe place for conducting financial services activities.

The Annual Report 2009/2010 reflects the areas of priority and highlights the efforts put in by the FSC to meet its statutory objectives. The key actions and strategic achievements of the FSC which have marked the period under review are:

Consolidation of Regulatory and Legal Frameworks

As in recent years, the FSC has not spared any efforts to consolidate the existing legal framework and emphasised on the orderly conduct of business by our key service providers and intermediaries. Several key amendments were made to the legal framework to improve exchange of information with stakeholders and also to strengthen the efforts of the Commission to protect the interests of consumers of financial services. In addition, innovative rules were introduced to facilitate the authorization of foreign investment dealers and to deal effectively with takeovers, amongst others.

The legal framework for global business was also revamped to allow GBC 1's to carry out activities in the economy of Mauritius. This fundamental shift in regulatory approach is set to uplift the global business sector and the domestic economy as a whole. The disclosure-based norms and transparency standards for GBC 2's have equally been sharpened to cope more effectively with the needs of international stakeholders, including public sector agencies.

Enhanced Risk-Based Supervisory Framework

The implementation of FSC's 'Risk-Based Supervision' (RBS) system was further fine-tuned to improve its risk rating mechanism. The supervisory activities have been gradually integrated in the RBS framework which will in turn serve as a vital and highly reliable tool for examination of the compliance status of licensees and prioritising on-site inspections.

The RBS, in fact enables the FSC to have a deeper understanding of both internal and external factors that may adversely affect licensees' conduct of business, and to better align the regulator's risk assessment process to the licensees' organisation and management of risks.

Modernisation of Market Infrastructure

The Stock Exchange of Mauritius Ltd. (SEM) was granted approval by the FSC for the creation of a Derivatives segment in Mauritius. In addition, the Global Board of Trade Ltd. (GBOT), a state of the art Multi-Class Asset Exchange, was launched during the last quarter of 2010, after obtaining appropriate approvals from the FSC. This new Multi-Class Asset Exchange has indeed enabled investors to diversify their portfolios of investment products.

The FSC has also played a prominent role in allowing for the listing of global funds by the SEM in Mauritius. The listing of this new category of funds is in line with the FSC's objective to encourage more substantive businesses operating in the global business and capital markets sectors. Having more international funds listed on the securities exchanges and platforms in Mauritius will definitely promote the jurisdiction's image as a platform for the listing of global funds.

Officer in Charge's Statement

Promotion and Growth of Financial Services

Promoting development and growth of the financial services sector is one of the statutory objectives of the FSC. The ongoing consultative approach between the FSC and the industry wrapped up into positive responses, enriching contribution and numerous proposals by the industry and served as a springboard to further leverage the competitiveness of the Mauritius IFC.

Islamic Finance

The FSC has, among its other financial innovation objectives, set itself a target to position the jurisdiction of Mauritius as a competitive and reliable place, from where investors and other stakeholders can organise and conduct their business transactions effectively according to Islamic principles and ethics.

The Commission has furthermore, during the period under review, shown its deep commitment to foster capacity building in the area of Islamic Finance. A structured series of training programmes have been organised by the FSC to familiarise staff with the intricacies of Islamic Finance compared to the regulatory treatment which conventional or traditional financial products normally demand.

Development of Human Capital

A key challenge for the non-bank financial services sector in a knowledge-based era, is to be equipped with sufficiently qualified and trained resources. It will be critically important that the right mix of qualified and trained people and context-based skills are injected into our fast-evolving financial institutions, in order to empower them to effectively cope with their operational and technological needs.

The FSC has also been organising training sessions - conducted by both local and external professionals - for the benefit of its staff, and also granted opportunities to

the staff to attend international seminars/trainings and to take advantages in terms of their professional development in the regulatory and supervisory fields.

Implementation of International Standards and Best Practices

The FSC has, over the past decade, been a driving pillar towards the maintenance of the reputation of the Mauritius International Financial Centre (IFC) as a jurisdiction of sound repute. The Commission is deeply committed to implementing international standards and best practices, while maintaining the competitiveness of the Mauritius IFC.

As an internationally responsible and transparent regulator, the FSC has always strived to demonstrate responsiveness to requests for international cooperation and exchange of information, from overseas regulatory counterparts and other international bodies.

Having mentioned the above developments and achievements, I seize this opportunity to express my warmest thanks to the Chairman, the Vice-Chairperson and members of the Board for their support and guidance during these challenging times.

I also wish to thank all staff of the Commission for their unstinting efforts and constant contributions towards meeting the strategic goals of the FSC.

Finally, the challenges ahead for the FSC will be to attract and retain high quality personnel, focus on strategic use of technology and stay abreast of the rapidly changing financial landscape, all in the context of reinforced collaboration with our stakeholders in order to position Mauritius as the financial Hub for Africa.



Prakash Seewoosunkur
Officer in Charge



Corporate Overview



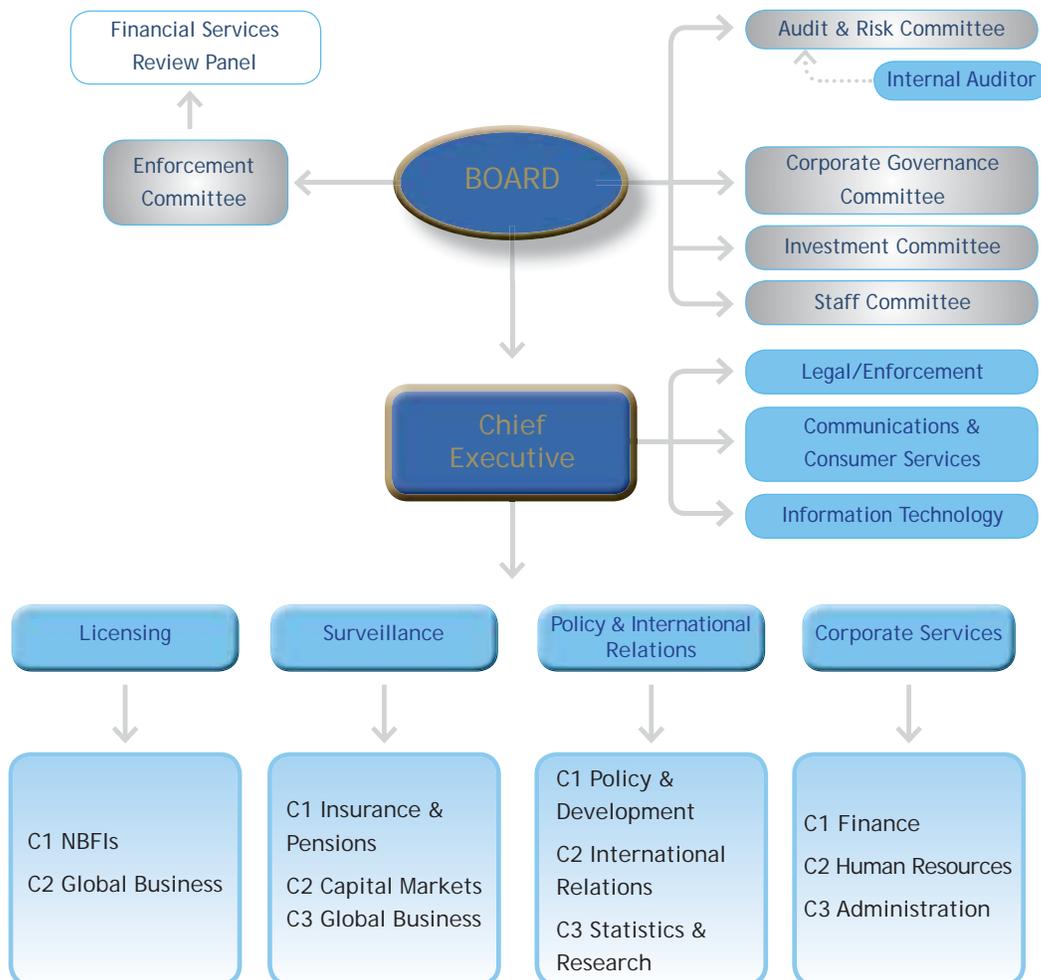
1. Corporate Overview

1.1 About FSC

The Financial Services Commission ('FSC') is the integrated regulator for the financial services sector other than banking, and global business. The FSC was established in 2001 and operates under the Financial Services Act, the Securities Act and the Insurance Act to license, regulate, monitor and supervise the conduct of business activities in these sectors.

The main objectives of the FSC are to foster a sound environment conducive to the development of the non-banking financial services sector, and to preserve and maintain the good repute of Mauritius as a jurisdiction of substance.

Chart 1 - Organisational Chart



1.2 Building on Human Capital and Enhancing the Institutional Framework

Reinforcing our capacity to regulate

Following the global financial crisis, the fundamentals of the regulatory and supervisory models have been extensively challenged and the ability of regulators to effectively monitor and supervise highly sophisticated products questioned.

The FSC is mindful that its capacity to regulate depends on the quality of its people. Attracting and retaining high calibre talent continues to rank high on its agenda. During the period under review, the FSC focused its strategy on recruiting officers reckoning industry experience to ensure the right mix of expertise in the Insurance & Pensions, Global Business and Capital Markets sectors.

In order to enhance its capacity building strategy, the FSC adopted a structured approach for the elaboration of its Learning and Development Plan by conducting sectoral competency needs analysis.

In line with its policy of Continuous Professional Development, the FSC regularly conducted weekly in-house training sessions. Talks were organised and staff attended webinars by industry experts and eminent speakers to keep abreast of the latest developments and challenges in the financial services sector. Staff benefited from local and international training. In addition, the FSC enlisted the services of an internationally recognised firm to provide training on insurance matters.

The FSC has, since 2008, pursued its Young Graduate Development Programme ('YGD') to ensure that a competent pool of talent is readily available to meet its own needs and cater for the long term expansion of the sector.

Enhancing the Institutional Framework

With a view to improving effectiveness and efficiency of its internal processes and operations, the FSC has invested in new technology during the period under review.

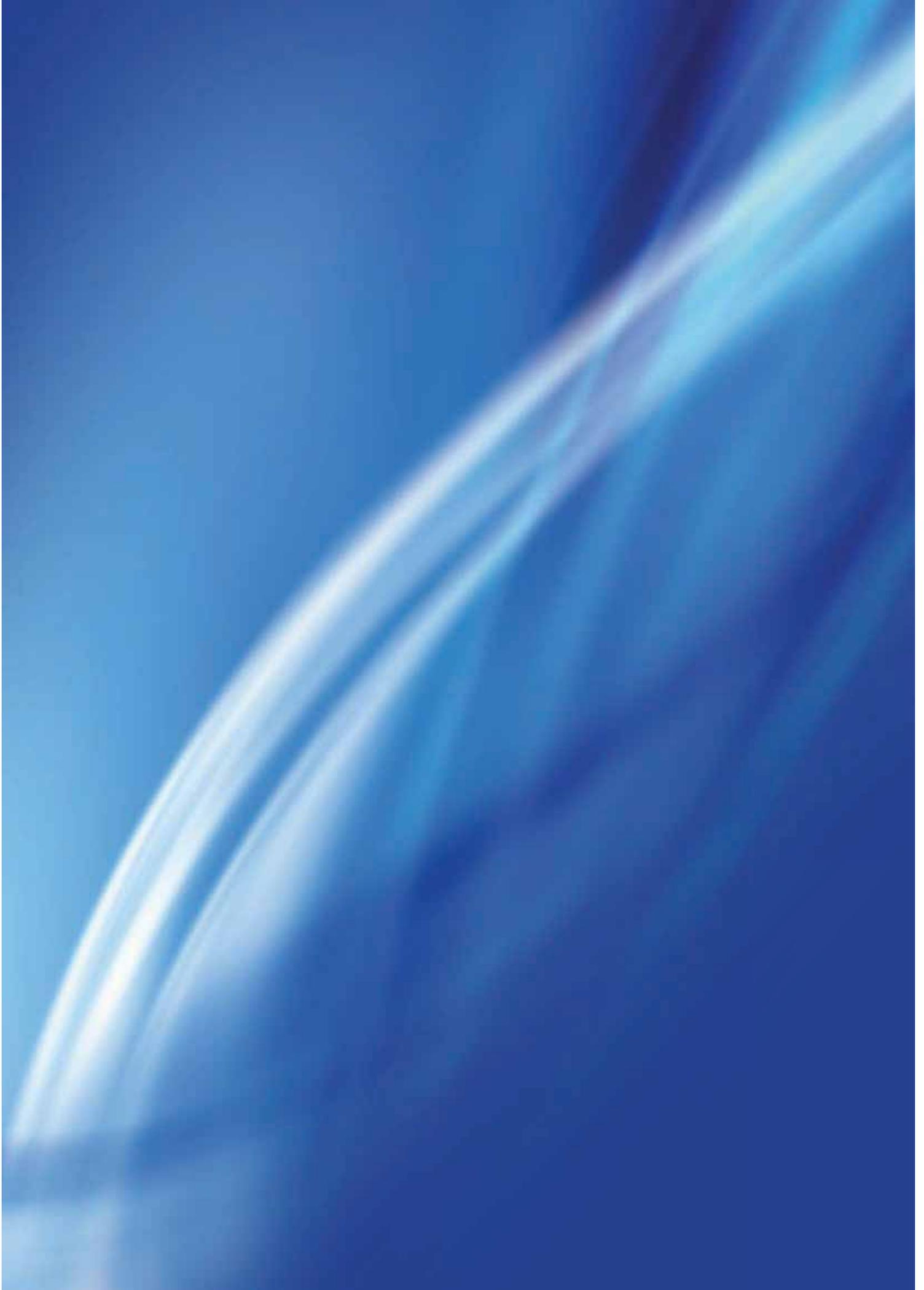
The FSC implemented the Enterprise Resource Planning software ('ERP'), which provides an integrated approach to conducting business. It also enables staff of various clusters to have access to timely and accurate management reports and accounts from a central database.

This new system would ensure efficient collection and management of fees, adoption of best accounting practices and better reporting through inter-operability and seamless integration across software applications.

The FSC has also embarked on the Electronic Documentation Management System ('EDMS') project which aims, inter alia, at:

- i. creating an electronic repository of all documents at the FSC;
- ii. providing a platform for managing documents in a secure way; and
- iii. implementing a universal mechanism for proper information search.

The EDMS project reinforces the business continuity process of the FSC whilst improving operational efficiency and enhancing the security of documents.



Consolidating our Regulatory and Supervisory Frameworks



2. Consolidating our Regulatory and Supervisory Frameworks

2.1 Legal Framework²

2.1.1 Publication of New FSC Rules

- The Securities (Authorization of Foreign Investment Dealers) Rules 2010

During the period under review, the FSC issued the Securities (Authorization of Foreign Investment Dealers) Rules 2010 (the 'FID Rules') which came into force on 18 September 2010. The FID Rules set out the procedure for granting authorization to foreign investment dealers whose activities are restricted to trading on the securities exchange in Mauritius.

For an authorization to be granted, the FSC must be satisfied that the applicant is exercising the functions of an investment dealer in a jurisdiction where there is a regulatory or supervisory framework consistent with international best practices. In addition, an authorized foreign investment dealer must at all times maintain a foreign investment dealer agent in Mauritius.

- The Securities (Takeover) Rules 2010

The Securities (Acquisition of Shares of Dissenting Shareholders during Takeovers) (Revocation) Regulations provide inter alia that the rights and obligations of persons in connection with takeovers shall be governed by the Securities (Takeover) Rules 2010 (the 'Takeover Rules') made under Section 93 of the FSA and Section 155 of the Securities Act ('SA'). The date of coming into force of the Takeover Rules is 01 May 2011.

The Takeover Rules were drafted to fill in a legal vacuum with regard to takeovers and provide general legal parameters to ensure the proper conduct of takeover offers.

The Takeover Rules :

- are in line with best international standards and practices whilst taking into consideration the specificities of the Mauritian Legislation and context;
- establish the general principles which provide equality of treatment to all shareholders;
- introduce additional obligations on directors with a view to safeguarding shareholders' interests; and
- provide for the protection of minority and dissenting shareholders and set out the thresholds which trigger a mandatory offer.

2.1.2 Amendments to the Legal Framework

Several amendments have been made to the legal framework, some of which are highlighted below.

- Amendments related to the Financial Services Act

During the period under review, the following amendments were made to the Financial Services Act ('FSA') :

- Section 7(1)(b) of the FSA was amended to enable the FSC to give directions to any person in order to ensure compliance with a relevant Act or guideline;
- Section 23(5) of the FSA now provides that, when the FSC refuses an approval for the issue or transfer of shares or any legal or beneficial interest in a licensee, the FSC shall notify the licensee in writing giving reasons for the refusal;

² The electronic version of the relevant legislation is available on the FSC's website at www.fscmauritus.org

Consolidating our Regulatory and Supervisory Frameworks

- Section 30 of the FSA was amended such that Category 2 Global Business Companies ('GBC 2's') now have to file, once in every year, a financial summary with the FSC;
 - Section 72(1) of the FSA now provides that a legal consultant or law firm may also certify that an application for a Global Business Licence complies with the laws of Mauritius;
 - Section 71(6) of the FSA was amended to allow Category 1 Global Business Companies ('GBC1's') to conduct business both inside and outside Mauritius. The aim of this amendment is to strengthen the global business sector and domestic economy and to reinforce the position of Mauritius as a jurisdiction of choice and substance. Moreover, this framework will encourage Regional Headquarters' incorporation and activities in Mauritius;
 - Section 83 of the FSA was amended such that the FSC may, pursuant to an agreement or arrangement for the exchange of information and under condition of confidentiality, exchange information with a public sector agency in relation to a Global Business Company or in relation to a financial institution carrying out any services or business activities under any of the relevant Acts;
 - Section 87(1) of the FSA was amended such that notwithstanding Section 83 of the FSA, the FSC may now exchange information with any public sector agency for the purpose of discharging the functions of that body;
 - Section 87(3) of the FSA was also amended to allow the FSC to enter into any agreement or arrangement for the exchange of information with a public sector agency where the FSC is satisfied that the agency has the capacity to protect the confidentiality of the information imparted, in case such a condition of confidentiality is imposed by the FSC;
- Section 87A of the FSA now provides that records shall be kept for a period of at least 7 years after the completion of the transaction to which it relates.

Financial Services (Consolidated Licensing and Fees) Rules 2008

- Part 1 of the First Schedule to the Financial Services (Consolidated Licensing and Fees) Rules 2008 (the 'Consolidated Rules') was amended in 2009 and 2010 with the insertion of two new categories of licences namely, Investment Dealer (Commodity Derivatives Segment) and Investment Dealer (Currency Derivatives Segment) and two categories of authorizations, namely Foreign Investment Dealer (Commodity Derivatives Segment) and Foreign Investment Dealer (Currency Derivatives Segment).
- Rule 12 of the Consolidated Rules was also amended to enhance transparency with respect to GBC 2's. The disclosure requirements for the global business sector have been reinforced to enhance conformity with international norms. As a result, GBC 2's are now required to submit, together with the application for a licence, a business outline setting out the proposed activities.
- **Amendments related to the Securities Act**
- Section 122(1) of the SA was amended to enhance the ability of the FSC to exchange information with any

securities exchange, clearing and settlement facility, public sector agency, international organisation, foreign supervisory institution or law enforcement agency where required under an agreement or arrangement for the exchange of information.

Securities (Licensing) Rules 2007

- The Securities (Licensing) Rules 2007 (the 'Rules') were amended in October 2009, to include two new categories of Investment Dealers namely Investment Dealer (Commodity Derivatives Segment) and Investment Dealer (Currency Derivatives Segment). The Rules also set out the minimum capital requirement of Rs 1 million or an equivalent amount in another currency for these categories.
- Amendment related to the Insurance Act

Insurance (General Insurance Business Solvency) Rules 2007

- Rule 5 of the Insurance (General Insurance Business Solvency) Rules 2007 was amended such that, subject to the prior approval of the FSC, the capital available to an insurer may now include subordinated loans. Subordinated loans shall not, in the event of the winding up of the insurer, be repaid until the claims of policyholders and other creditors have been fully satisfied.

2.2 Supervisory Framework

The global financial crisis has highlighted the challenges faced by regulators in addressing the gaps and weaknesses of the regulatory framework. In response to these international calls, the FSC has reviewed its supervisory framework with the aim of ensuring more

effective enforcement, promoting robust regulation of its licensees, safeguarding public interest and reinforcing investors' confidence.

The implementation of the Risk-Based Supervision ('RBS') framework has enabled the FSC to:

- identify supervisory actions required in relation to the assessed risk profile of the entity;
- concentrate on entities whose potential failure could precipitate systemic crisis; and
- prioritise the use of its resources for on-site inspections.

During the period under review, the RBS framework was reviewed to adapt to changes in the financial landscape, thereby covering inter alia corporate governance, market conduct, Anti-Money Laundering and Combating the Financing of Terrorism ('AML/CFT'), accounting and internal controls, risk management and disaster recovery safeguards.

Two cycles of RBS framework self-assessment questionnaires were conducted. The questionnaires were reviewed during the second cycle to obtain a better oversight of the operating and compliance environment of the licensees. Responses were assessed and rated in relation to the level of risk inherent to licensees and according to the parameters of the RBS framework. This exercise allowed the FSC to identify licensees with higher risk profile and contributed to the scheduling of the next round of on-site inspections.

The over-arching objectives of the FSC's supervisory framework are inter alia to:

- ensure that licensees are compliant with the legislative framework;
- foster public and investor confidence in the financial system; and
- maintain the good repute of Mauritius as an International Financial Centre ('IFC').

Consolidating our Regulatory and Supervisory Frameworks

2.2.1 On-site and off-site Supervision

On-site and off-site supervision are fundamental in monitoring the conduct of business activities of licensees. During the period under review, the FSC has, through the assessment of financial performance, market conduct, statutory documents and AML/CFT measures, supervised the conduct of its licensees to ensure compliance with the legal framework and prudential requirements.

On-site and off-site supervision are carried out to ensure that licensees are in compliance with the existing regulatory and legal framework. The inspections allow identification of potential areas of concern, which in turn, trigger appropriate regulatory and prudential measures by the FSC.

Off-site supervision is fundamental in monitoring the conduct of business activities of licensees. It encompasses the review and analysis of audited financial statements, statutory returns and any other reports submitted by licensees.

As part of its on-site supervision exercise, the key objectives of the FSC include:

- ascertaining adherence of licensees to AML/CFT legislation;
- assessing corporate governance structures;
- ensuring that licensees have proper record keeping process in place;
- evaluating risk management processes; and
- appraising the internal control procedures of its licensees.

2.3 Anti-Money Laundering and Combating the Financing of Terrorism

Prevention and detection of money laundering and terrorist financing is essential to ensure the sound repute of the Mauritius IFC. During the period under review, the FSC has reviewed its RBS Framework to ensure compliance of licensees with AML/CFT legislation.

The FSC also participated in meetings held by the National Committee on AML/CFT, which is a platform regrouping all relevant authorities involved in the combat against money laundering and the financing of terrorism. The National Committee is under the Chairmanship of the Financial Secretary of the Ministry of Finance and Economic Development and comprises representatives of regulatory authorities and other law enforcement agencies.

The FSC attended the Strategic Implementation Planning ('SIP') Framework Workshop of Eastern and Southern Africa Anti-Money Laundering Group ('ESAAMLG') organised in collaboration with the World Bank in May 2010 in Zambia. Member Countries' were requested to prepare a SIP to ensure adherence to the Financial Action Task Force 40+9 Recommendations on AML/CFT.

The workshop also laid emphasis on the legal, supervisory and law enforcement areas of the member countries' Mutual Evaluation Reports ('MERs'). Member countries elaborated their Country Implementation Plans, setting out measures taken or to be taken to address the deficiencies identified in their MERs. The FSC is looking into the implementation of the recommendations of the Mutual Evaluation Report.

As part of its supervisory framework to combat money laundering and financing of terrorism, the FSC regularly communicates to its licensees the List of Persons/Entities suspected of Terrorism issued by the United Nations Security Council ('UNSC').

Licensees are required to verify whether they maintain any accounts or otherwise hold any funds, other financial assets, economic benefits and economic resources for individuals or entities as reported by the UNSC. Licensees are thus required to take necessary actions and report to the FSC any link found with the reported persons/entities in accordance with the UNSC Resolution.

2.4 Consumer Protection and Education

2.4.1 Broadening Access to Financial Services

In line with its developmental role, the FSC launched, in January 2010, a workshop on *'Broadening Access to Financial Services'*. The aim of the workshop was to reflect on ways to democratise access to high quality and cost-effective financial products and services, customised to the needs of the population and Small and Medium Enterprises.

The FSC's strategy in respect of broadening access to financial services lays particular emphasis on:

- i. promotion of financial literacy;
- ii. consultation and interaction with the industry to ensure consumer protection; and
- iii. ensuring the appropriate regulatory framework for distribution channels of financial products and services.

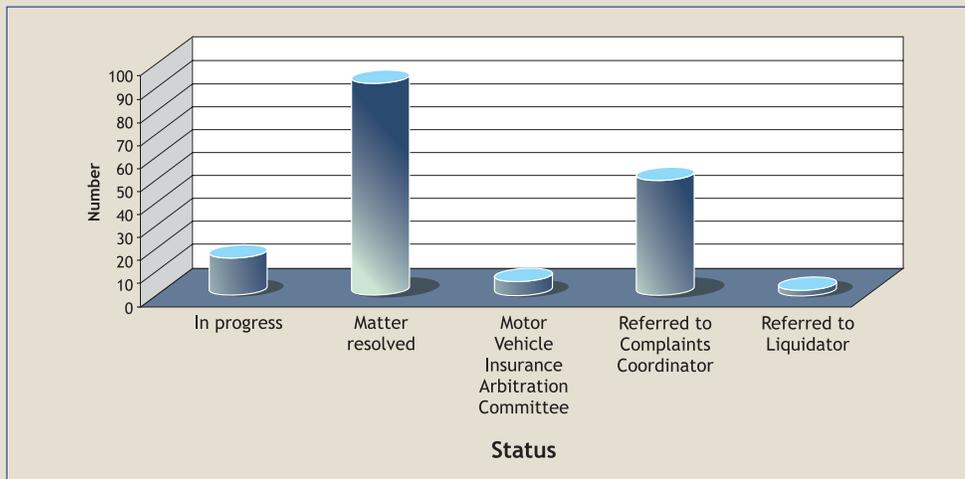
2.4.2 Complaints Handling

During the period under review, the FSC received 168 complaints, out of which 142 related to general insurance business whereas the remaining were long-term insurance business complaints.

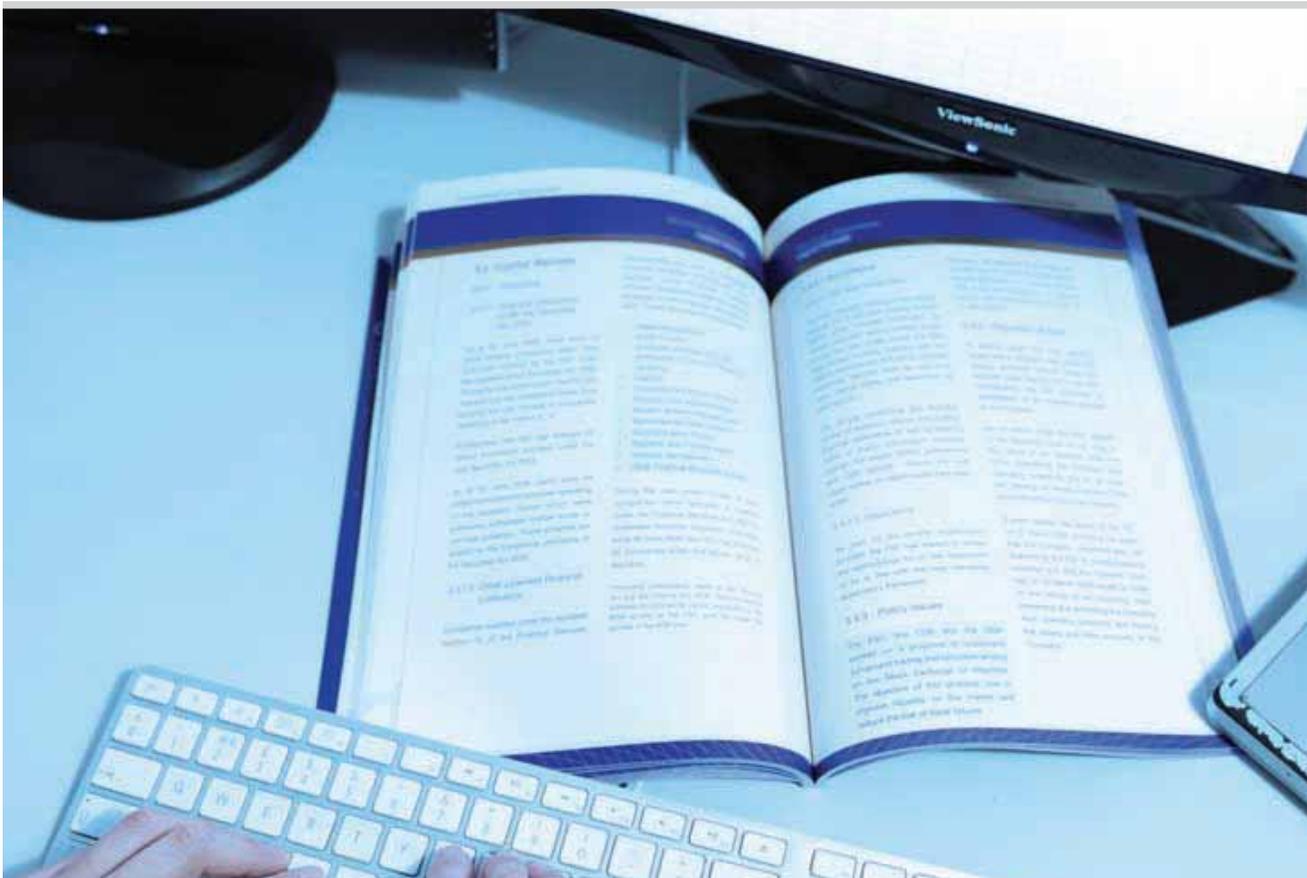
Out of the 168 complaints, 50 were referred to the complaints coordinator of the respective insurers, in accordance with the procedures laid down in the guidelines issued by the FSC on complaints handling; 2 were referred to the provisional liquidators of insurance companies under liquidation; 7 were referred to the Motor Vehicle Insurance Arbitration Committee ('MVIAC') for the settlement of disputes on quantum and liability; 92 were resolved; and 17 were still in progress.

Complaints relating to general insurance business comprised 97% for motor insurance and 3% for Non-Motor insurance business.

Chart 2: Complaints Handling for period 01 July 2009 to 31 December 2010



Market Overview Insurance & Pensions



3.1 Insurance

3.1.1 Split of Composite Insurance Business

In line with the International Association of Insurance Supervisors ('IAIS') standards and so as to provide better protection to policyholders, the Insurance Act ('IA') restricts an insurer, other than a professional reinsurer, from carrying on both long-term insurance business and general insurance business. The IA provided for a transitional period for existing composite insurers to comply with the IA, which ended on 31 December 2010.

Composite insurers restructured their operations by:

- i. setting up a separate entity and transferring one category of their insurance business to the newly incorporated entity; or
- ii. transferring one category of their business to another insurance company.

The FSC may authorise composite insurance business where:

- i. either the long-term insurance business or the general insurance business is restricted exclusively to reinsurance, or
- ii. one class of insurance business is or will be incidental, in terms of premium income, to the principal insurance business of the insurer.

3.1.2 Licensing

With the expiry of the transitional period on 31 December 2010, insurers registered under the repealed Insurance Act 1987 applied for a licence under the IA. During the period under review, 8 long-term insurers were licensed, whilst 13 companies were licensed to conduct general insurance business in Mauritius.

The following table indicates the number of insurance intermediaries, namely insurance brokers, insurance agents, and insurance salespersons licensed and registered by the FSC:

Table 1a: Insurance intermediaries licensed for period 01 July 2009 to 31 December 2010

Code	Type of insurance intermediaries	No. of intermediaries licensed Total
INS-2.2 A	Insurance Agent (Company)	10
INS-2.2 B	Insurance Agent (Individual)	4
INS-2.3	Insurance Brokers	2
INS-2.4	Insurance Salespersons	523
	TOTAL	539

Table 1b: Overview of licensed Insurance intermediaries (2007 - 2010)

Code	Type of insurance intermediaries	31 Dec 2007	31 Dec 2008	31 Dec 2009	31 Dec 2010
INS-2.2 A	Insurance Agent (Company)	140	151	153	157
INS-2.2 B	Insurance Agent (Individual)	-	17	18	23
INS-2.3	Insurance Brokers	20	23	24	24
INS-2.4	Insurance Salespersons	1,767	805	925	1,257
TOTAL		1,927	996	1,120	1,461

3.1.3 Market Trends

Total assets and gross premium of insurance companies continued to follow an increasing trend over the past years. Total assets showed a growth of 15% to reach Rs 88.54 bn in 2010 as compared to Rs 76.79 bn in 2009. Gross premiums rose by 19% from Rs 14.75 bn in 2009 to Rs 17.54 bn in 2010.

Chart 3a: Total Assets of Insurers (2006-2010)

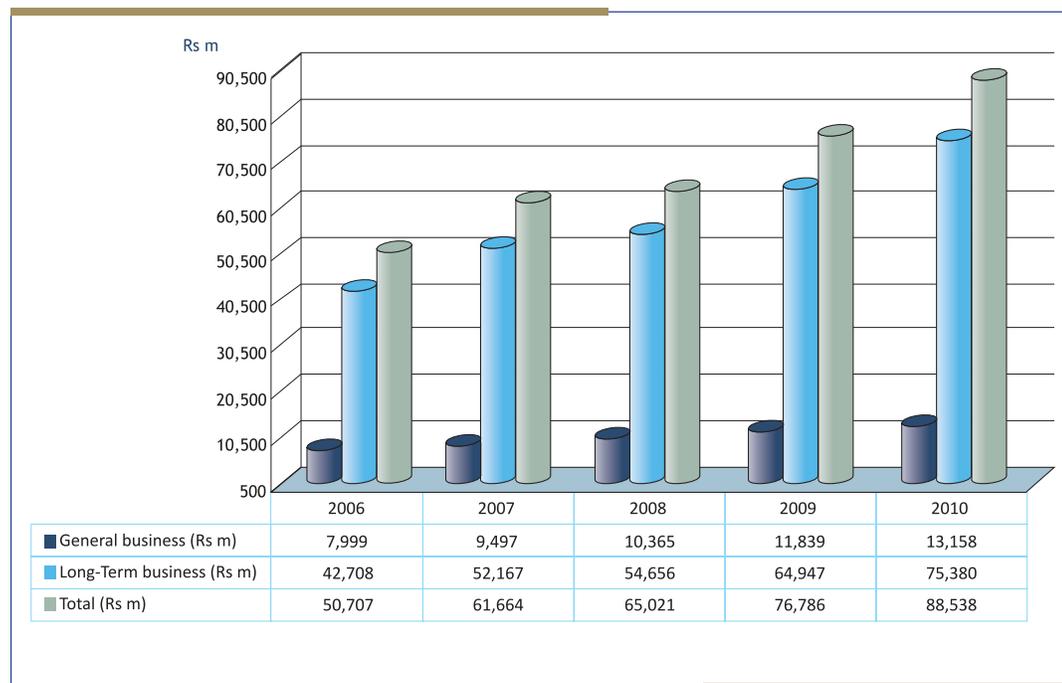
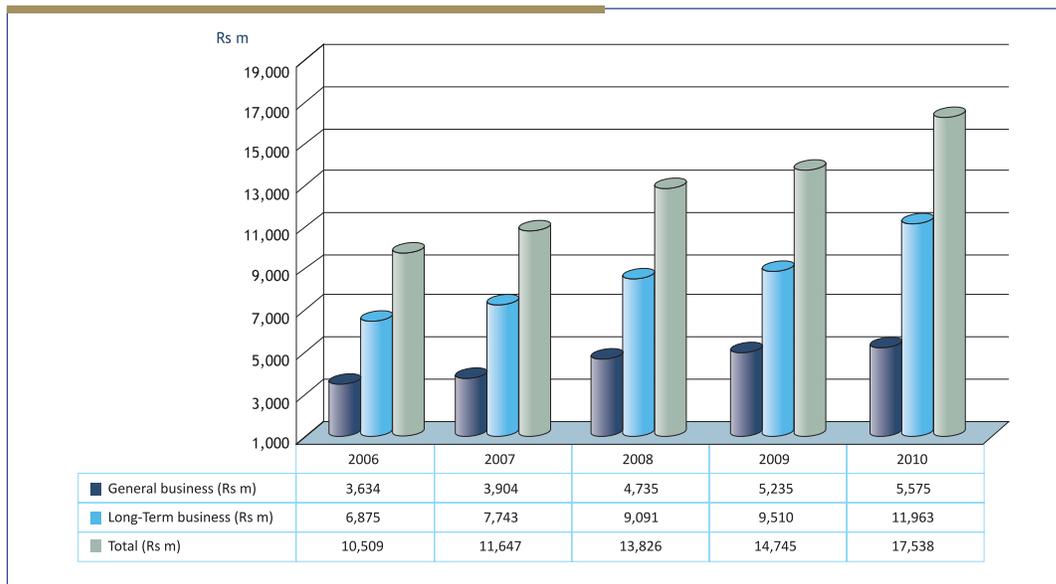


Chart 3b: Gross Premium of Insurers (2006-2010)



Long-Term Insurance Business

The long-term insurance industry generated a total gross premium of Rs 11.96 bn in 2010 as compared to Rs 9.51 bn in 2009, representing an increase of 26%. Total assets of long-term insurers increased by 16% to reach Rs 75.38 bn in 2010 as compared to Rs 64.95 bn in the previous year.

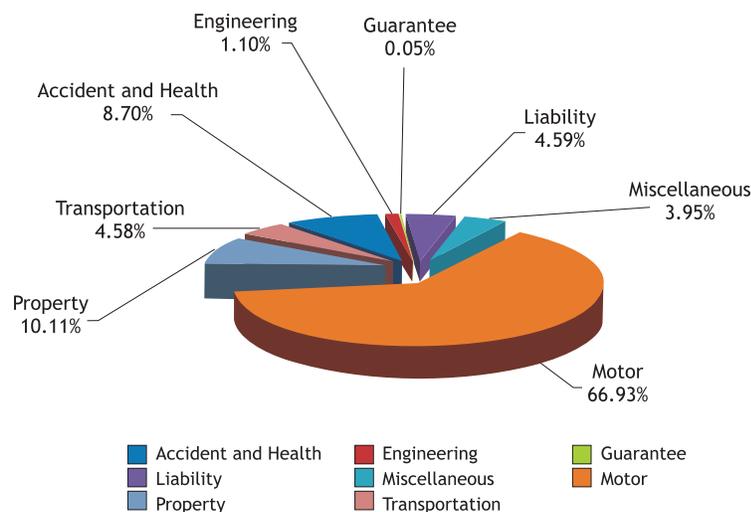
General Insurance Business

The total assets of insurers underwriting general insurance business increased over

the years to reach Rs 13.16 bn in 2010, representing 11% growth compared to 2009. Likewise, the gross premium in respect of general insurance business for the year 2010 amounted to Rs 5.58 bn as compared to Rs 5.24 bn in 2009, representing an increase of 6%.

The number of policies in force for general insurance business increased from 440,139 in 2009 to 446,272 in 2010. The breakdown of policies by classes of general insurance policies is illustrated in the chart below.

Chart 4: Breakdown of general insurance policies by class



3.2 Pensions

3.2.1 Domestic Overview

During the period under review, the FSC drafted rules relating to the Private Occupational Pension Schemes Bill. The proposed rules aim at providing a well-structured legal framework in respect of:

- i. the requirements, valuation and funding of a pension scheme;
- ii. the duties and functions of governing bodies;
- iii. the duties and functions of auditors and actuaries of pension schemes;
- iv. the duties and functions of pension scheme managers; and
- v. the protection of and disclosure to pension scheme members and beneficiaries.

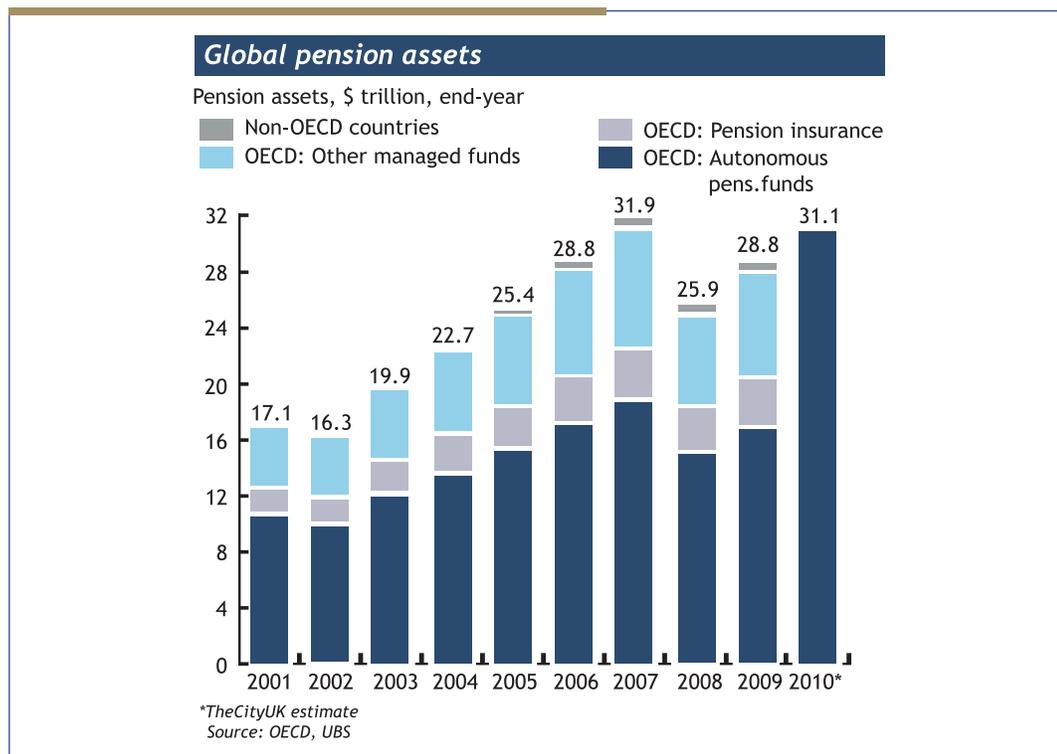
3.2.2 International Overview

Global pension assets have increased by 8% from USD 28.8 trillion at end 2009 to USD 31.1 trillion in the year ending 2010 (Chart 5).

The United States, with 63% of pension assets, dominated the pensions sector worldwide in 2010. A further five countries - UK, Canada, Japan, Netherlands and Australia - accounted for a third of global pension assets. Although global pension assets recovered in value in 2009 and 2010, pension liabilities increased due to rising life expectancy in major countries of the world.

Global pension funds yielded positive returns in 2009 (Chart 6) since equity markets recovered from a low point, hedge funds experienced a rebound and bond returns remained steady. However in 2008, pension fund returns in most countries had turned negative as most asset types fell in value.

Chart 5: Global Pension Assets (2001-2010)



Source: TheCityUK Publication, "Pension Markets", February 2011

Chart 6: Pension funds nominal rate of return
(2008 and 2009)



Source: TheCityUk Publication, "Pension Markets", February 2011

The pension system in many countries was reviewed in accordance with demographic trends and accounting standards thereby improving the transparency of pension liabilities. The dependency ratios of many developed countries, particularly Europe and Japan, are expected to rise over the next half century as a result of increased longevity, falling birth rates and early retirement.

Occupational defined benefit pension schemes in a number of countries faced long-term deficits caused by a gap between assets and liabilities. Deficits were due to the convergence of international accounting standards.

Market Overview

Global Business



3.3 Global Business

3.3.1 Licensing

■ Management Companies

The FSC issued 22 Management Companies ('MCs') during the period under review compared to 18 for the financial year 2008-2009. There were 149 MCs as at 31 December 2010.

■ Global Business Licences

During the period under review, 1,698 Category 1 Global Business Licences and 1,716 Category 2 Global Business Licences were issued by the FSC.

Table 2a: Licences issued during period
01 July 2009 to 31 December 2010³

Code	Type of Licences	Number of Licences
FS-3.1A	Management Companies	19
FS-3.1B	Management Companies (Corporate Trustees only)	3
FS-4.1	GBC 1's (including CIS)	1,698 101
FS-4.2	GBC 2's	1,716

Table 2b: Number of new licences issued (2006-2010)

Type of Licences	2006/2007*	2007/2008*	2008/2009*	2009/2010 ³
Management Companies	7	11	16	19
Management Companies (Corporate Trustees only)	1	1	2	3
GBC 1's	1,367	1,872	1,277	1,698
(of which CIS)	87	156	112	101
GBC 2's	2,410	2,071	1,550	1,716

³ With the coming into force on 01 July 2009 of the amendments made to the Statutory Bodies (Accounts and Audit) Act 1972, the financial year for Statutory Bodies was redefined as the period of 12 months ending on 31 December. This Annual Report exceptionally covers the period 01 July 2009 to 31 December 2010.

* Figures refer to period 01 July to 30 June.

3.3.2 Tax Residence Certificate ('TRC')

Upon the recommendation of the FSC, TRCs are issued to GBC 1's by the Mauritius Revenue Authority ('MRA'). During the period under review, the FSC recommended 8,470 TRC applications, out of which 1,589 related to new TRC applications and 6,881 were renewals of existing TRCs.

3.3.3 Market Trends

The MCs have shown sustained growth during the financial crisis. Based on audited financial statements filed with the FSC for 2009 and 2010, the turnover amounted to USD 226,344,000 whilst the PBT stood at USD 75,132,000.

Table 3: Summary of financial results of Management Companies (inclusive of Corporate Trustees) (2007-2009)⁴

	2007 [†]	2008 [†]	2009
Turnover (thousand US\$)	93,285	129,379	146,524
PBT (thousand US\$)	39,189	79,519	59,210

⁴ Figures refer to period 01 January to 31 December

[†] Revised Figures



Market Overview

Capital Markets



3.4 Capital Markets

3.4.1 Licensing

- Financial Institutions licensed under Securities Act

The following table shows the number of licences issued to financial institutions under the SA during the period under review.

Table 4: Number of licences issued for period
01 July 2009 to 31 December 2010

	Investment Dealers	Investment Advisers	CIS and Closed-end funds	CIS Managers
Total	33	57	165	65
Of which Global Business Licences	20	43	162	57

- Financial Institutions licensed under the Financial Services Act

As at 31 December 2010, the FSC issued licences for financial business activities under Section 14 of the FSA, as indicated in the table below.

Table 5: Licences of Financial Business Activities issued
as at 31 December 2010 under the FSA (Section 14)

Code	Financial Service Providers/Activities	Number of licences issued
FS-1.1	Asset Management	2
FS-1.2	Distribution of Financial Products	11
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)	5
Code	Specialised Financial Services/Institutions	Number of licences issued
FS-2.1	Retirement Benefit Scheme	1
FS-2.2	Superannuation funds	2
FS-2.3	Credit Finance	7
FS-2.4	Factoring	3
FS-2.5	Leasing	13
FS-2.7	Actuarial Services	4
FS-2.9	Payment Intermediary Services	3
FS-2.10	Representative Office (for Financial Services provided by a person established in a foreign jurisdiction)	2
FS-2.11	Other Financial Business Activity	1

■ Registration of Reporting Issuers

Since the concept of reporting issuers was introduced under the SA, 109 issuers were registered with the FSC as at 31 December 2010. During the period under review, some 20 applications were received. Following their withdrawal from the Stock Exchange of Mauritius (the 'SEM') or as a result of mergers, some of these issuers no longer qualified as reporting issuers.

As part of its supervisory function, the FSC ensures that reporting issuers comply with the relevant disclosure requirements as prescribed under the SA and the applicable set of rules.

3.4.2 Market Trends

■ Stock Exchange of Mauritius Ltd.

The SEM experienced a similar trend to that of major international markets. Fluctuations in the market indices were noted in May 2010 due to factors influencing the international economy. The domestic market reached new peaks during the last quarter of 2010.

The charts⁵ below provide a snapshot of the trends for the 5 local indices namely the SEMDEX, SEM-7, SEMTRI (both in Rs and US\$), DEMEX and DEMTRI (both in Rs and US\$).

Chart 9a: Evolution of SEMDEX and SEM-7 for period 01 July 2009 to 31 December 2010

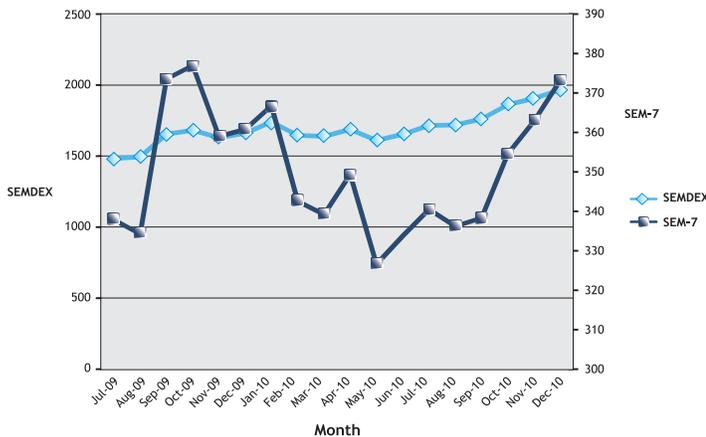
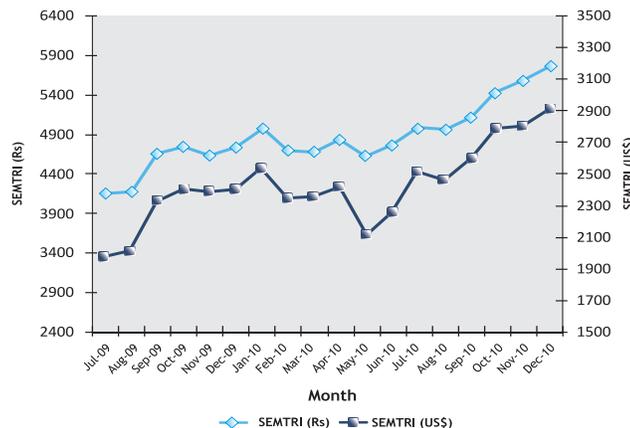
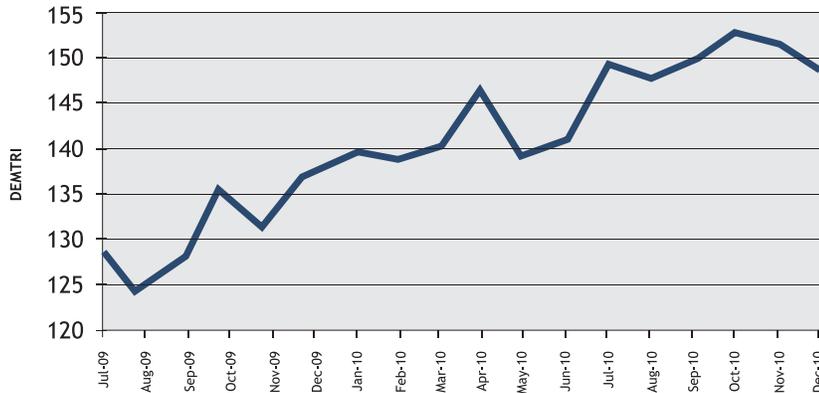


Chart 9b: Evolution of SEMTRI (Rs) and (US\$) for period 01 July 2009 to 31 December 2010



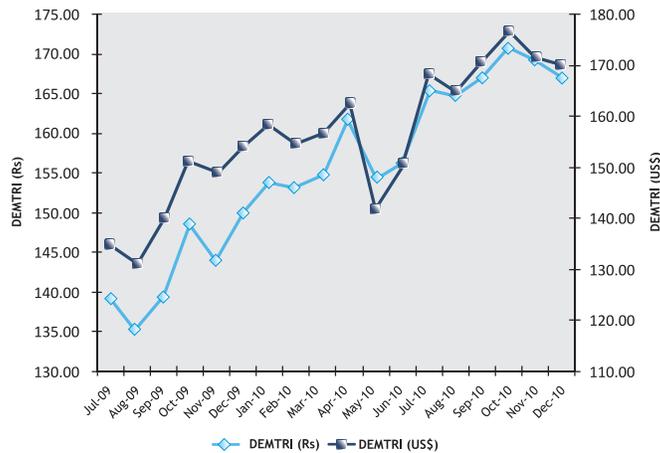
⁵ Source: SEM Ltd.

Chart 9c: Evolution of DEMEX for period
01 July 2009 to 31 December 2010



Source: SEM Ltd.

Chart 9d: Evolution of DEMTRI (Rs) and (US\$) for period
01 July 2009 to 31 December 2010



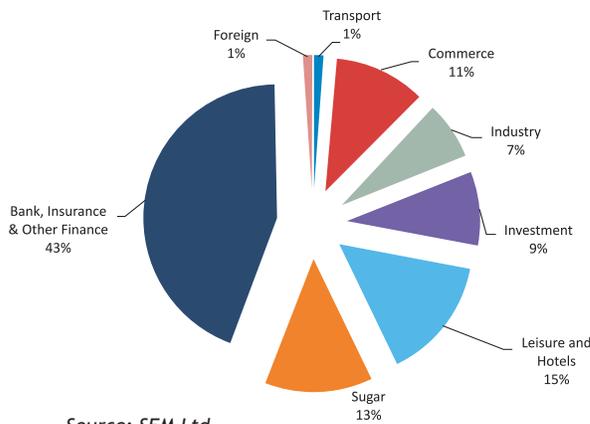
Source: SEM Ltd.

Official Market

During the period under review, new funds operating in the global business sector were listed on the Official Market of the SEM. The total volume traded during the period under review was 465,967,128 shares amounting to Rs 17.07 bn. An increase was observed in

both volume and value of shares as compared to the last reporting period. The market capitalisation as at 31 December 2010 stood at Rs 178 bn (US\$ 5.68 bn) representing an increase of 18% compared to Rs 151.21 bn (US\$ 4.82 bn) in 2009. This is reflected in market capitalisation to GDP of 61% in 2010 compared to 55% in 2009.

Chart 10: Market Capitalisation as at 31 December 2010 for the Official Market



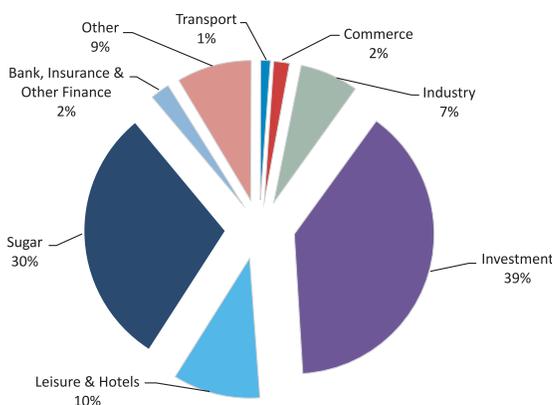
Source: SEM Ltd.

Development and Enterprise Market

As at 31 December 2010, 50 companies operating in different sectors were listed on the Development and Enterprise Market (the 'DEM'). A total volume of 501,450,670 shares representing an amount of Rs 3.64 bn was traded during the period under review. An increase was noted both in terms of value and volume traded. As at 31 December 2010, market capitalisation reached Rs 55.7 bn (US\$ 1.79 bn) representing an increase of 15% compared to Rs 48.5 bn (US\$ 1.55 bn) in 2009.

The chart⁶ below shows the market capitalisation for different sectors.

Chart 11: Market Capitalisation as at 31 December 2010 for the Development and Enterprise Market



⁶ Source: SEM Ltd.

Foreign Investment

During the period under review, a total net inflow of Rs 1.71 bn was registered in respect of both the Official Market and the DEM. This was mainly due to the growing interest of foreign investors in Mauritian companies.

SEM Derivatives Segment- Trading in Futures

The FSC granted its approval to the SEM in August 2009 to operate a derivatives segment in futures. The Trading Rules and Procedures as well as amendments to the Central Depository & Settlement ('CDS') Rules for the clearing and settlement of transactions in futures contracts were also approved. In addition, the FSC granted its approval for investment dealers to conduct trading on the Derivatives Segment.

Amendments to SEM Rules

In its endeavour to position Mauritius as an international platform for investments in global funds, the FSC granted its approval for the SEM to amend Chapter 16 of the Official Market Listing Rules (the 'SEM Rules'). The SEM Rules cater for listing potentials of these funds and the Appendix 7 thereof provides for competitive listing fees.

In order to harmonise and enhance flexibility of the market, the FSC further approved various amendments to the Official Market and DEM Listing Rules, the SEM Automated Trading System Schedule of Procedures and the Stock Exchange (Conduct of Trading Operations) Rules.

The Global Board of Trade Ltd.

The Global Board of Trade Ltd. ('GBOT') is the first exchange to offer derivative products in Mauritius. It has a state-of-the-art trading platform with clearing and settlement systems, providing access to several of the world's fastest growing economies.

This exchange promotes Mauritius as a financial hub as it helps the investment community to hedge price risk movements in international markets and provides an opportunity for investors to capitalise on arbitrage opportunities.

The FSC approved the amendments to the GBOT Operational Rules and for the respective contracts to be offered. As at 31 December 2010, the FSC granted 11 licences to investment dealers on the currency derivatives segment, 6 licences in the commodity derivatives segment and authorised 2 foreign investment dealers.

Launching of the Global Board of Trade Ltd.

The GBOT was launched in October 2010 in the presence of the Prime Minister, Dr. Navinchandra Ramgoolam, GCSK, FRCP. The Prime Minister stated that the licensing of a multi-class asset exchange by the FSC is a major milestone in the development of the capital markets industry in Mauritius.

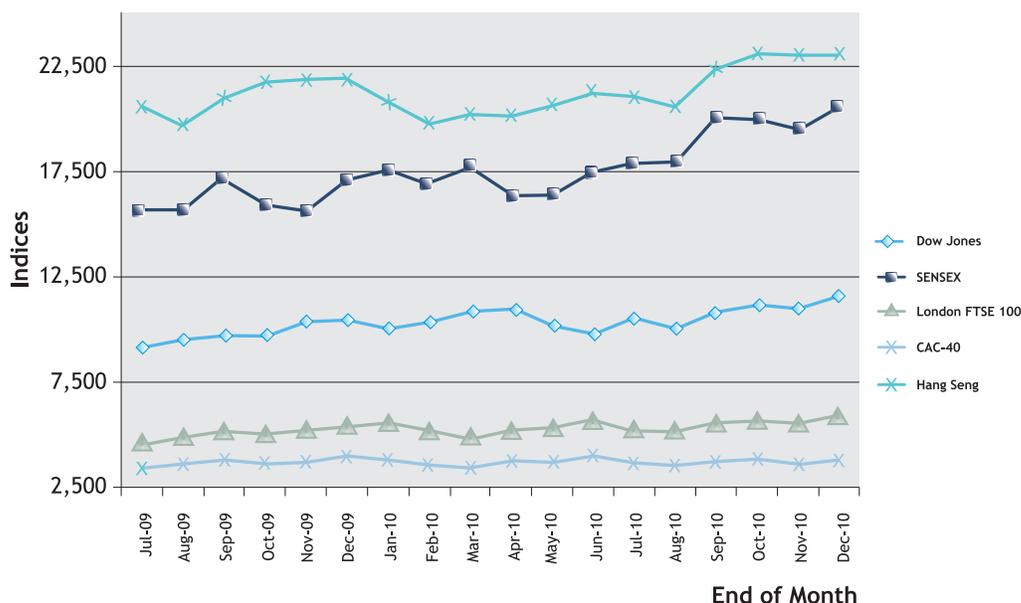
The Chief Executive of the FSC highlighted that the coming into operation of the GBOT, targeting primarily the African market, will consolidate the position of Mauritius as an IFC of substance in the region. He also outlined the different measures adopted by the FSC to promote and facilitate the GBOT's operations.

■ International Overview

Capital markets worldwide witnessed significant structural changes following the financial crisis. Regulators came up with a series of legislations and rules aimed at increasing transparency, market competition, price efficiency and minimising market risks.

The chart below shows evolution of International Indices - US Dow Jones Industry Average, SENSEX, London FTSE 100 Index, CAC- 40 and the Hang Seng Index.

Chart 12: Evolution of International Indices for period 31 July 2009 to 31 December 2010



3.5 Regulatory and Enforcement Actions

3.5.1 Enforcement Actions

Pursuant to its statutory objectives to preserve and maintain the good repute of Mauritius in the financial services sector, the FSC took several enforcement actions.

In accordance with Section 74 of the FSA, the FSC initiated, in May 2010, proceedings to revoke the licences of 6 global business companies. After examination of the representations made by these licensees, the FSC revoked 5 of these Global Business Licences in August 2010.

3.5.2 Enforcement Committee

The Enforcement Committee ('EC') is an internal committee set up by the Board under Section 52 of the FSA. It exercises the disciplinary powers of the FSC and may impose administrative sanctions on a licensee.

During the period under review, some cases were referred by the Chief Executive to the EC. The EC revoked the licence of an insurance agent pursuant to Section 52(3) and Section 7(1)(c)(vi) of the FSA for breach of the relevant Acts. The EC also disqualified the director of the insurance agent from holding office in any licensee of the FSC for a period of two years. The EC also examined a referral made by the Chief Executive following the suspension with immediate effect of the licence of a Management Company.

3.6 Promoting Partnership with Stakeholders

FSC - Industry Partnership

In December 2010, the FSC hosted an event to commemorate 5 years of fruitful collaboration with all its stakeholders. The event was an opportunity to review the milestones achieved in the development of the financial services sector over the past five years and include inter alia:



- the strengthening of the regulatory framework to ensure effective supervision of its licensees. The new set of laws which came into force in 2007 introduced new provisions in line with international best practices on fit and proper requirements, appointment of controllers, officers and beneficial owners;
- the contribution of the FSC to the development of the financial services sector through a number of initiatives. The FSC also worked on a number of legislations including the Pensions Bill, the Limited Partnership Bill and the Takeover Rules. Several measures were also adopted by the FSC to enhance market efficiency such as the streamlining of procedures, codification of licences, fees management, new licensing conditions and the implementation of the RBS framework;
- reinforced industry partnership - regular industry meetings were conducted to discuss several issues encompassing competitiveness and future strategies of the sector;
- heavy investment in training to build internal capabilities and infrastructural facilities to improve FSC's operational efficiency; and
- effective cooperation and information exchange as well as robust working relationships between regulators to preserve financial stability. The FSC signed several MOUs with its counterparts as a commitment for more disclosure of information.

The Chief Executive also highlighted that in spite of the financial crisis, the financial services sector witnessed sustained growth and developments. The Chief Executive stressed out that Mauritius, as an established IFC in Africa, needs to further optimise its competitive advantage and position itself as a hub for investment into Africa.

Joint Coordination Committee - the FSC and the Bank of Mauritius ('BoM')

During the period under review, the Joint Coordination Committee between the FSC and the BoM met on several occasions to discuss matters of concern to both institutions. Key issues raised during the committee meetings included amongst others:

- i. financial stability;
- ii. supervision of licensees which fall under the purview of both regulators;
- iii. adherence to international norms and standards; and
- iv. International Monetary Fund ('IMF') surveys.

Workshop on "Challenges facing the Mauritius International Financial Centre"

The FSC in collaboration with the Ministry of Foreign Affairs, Regional Integration and International Trade held a workshop on "*Challenges facing the Mauritius International Financial Centre*" in November 2010. The workshop, launched by Hon. Dr. A. Boolell, Minister of Foreign Affairs, Regional Integration and International Trade, provided a platform for stakeholders to reflect on:

- i challenges for international financial centres post financial crisis;
- ii maintaining the competitive edge of the Mauritius IFC, and
- iii the importance of diplomacy in promoting the Mauritius jurisdiction and safeguarding its good repute.





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



4. Maintaining and Strengthening the good repute of the Mauritius International Financial Centre

4.1 Meeting International Norms and Standards

International Organisation of Securities Commission

- IOSCO Annual Conference 2010

The FSC attended the 35th Annual IOSCO Conference held in June 2010 in Montreal, Canada. During the Conference, the International Organisation of Securities Commission ('IOSCO') reformulated its strategic mission and goals for 2011- 2015 to take into account its increasing role in the supervision of capital markets. As a consequence of the financial crisis, the IOSCO issued eight new principles and revised the existing ones. The new principles addressed concerns in respect of systemic risk in markets, credit rating agencies, hedge funds, auditor oversight and independence and other market practices.

- IOSCO Emerging Market Committee Meeting

As a member of the EMC, the FSC attended a meeting in October 2010, in Istanbul, Turkey. The Emerging Market Committee's ('EMC') mandate is to promote and improve the development of emerging securities and futures markets. The EMC focuses on the implementation of IOSCO principles, training programmes for member countries, exchange

of information and provides assistance in terms of technology and expertise.

International Association of Insurance Supervisors

- IAIS Annual Conferences and Meetings

The FSC participated in the IAIS 2009 Annual Conference and Meeting in Rio, Brazil in October 2009. The theme of the conference was "*Insurance as a means of socioeconomic development - financial crisis and the future of insurance market*".

The FSC also attended the 17th Annual Conference and General Meeting of the IAIS in Dubai, United Arab Emirates in October 2010. The theme of the conference was "*The Gateway to Trust in the Insurance Industry*". The IAIS meetings provided an opportunity for worldwide supervisors and insurance professionals to discuss prevailing market conditions, emerging trends and regulatory developments in the current and challenging environment.

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

FSC conferred “Most Innovative Capital Markets Regulator” award by Africa Investor

The Financial Services Commission, Mauritius was awarded the “*Most Innovative Capital Market Regulator*” award by *Africa Investor* on 17 September 2010 at a summit organised in collaboration with *New York Stock Exchange Euronext*. The award was presented to the Chief Executive of the FSC, Dr. Milan Meetarbhan during a ceremony at the New York Stock Exchange.

The FSC was conferred this award as recognition for the measures taken to promote development of the financial services sector, thereby reinforcing our reputation as an IFC.

The award was given on the basis of FSC’s commitment to increasing transparency and efficiency, support for innovative technologies, employment of best regulatory practices, openness to foreign investors and investor protection, participation in industry associations such as IOSCO and finally, efforts to create an enabling environment for the capital markets industry.



Dr. Milan Meetarbhan receiving the award from Africa Investor and NYSE representatives on behalf of the Financial Services Commission

4.2 Regional Cooperation

4.2.1 Southern African Development Community – Committee for Insurance, Securities and Non-Bank Financial Authorities

The FSC, following its two-year appointment to Vice Chairmanship of the Committee for Insurance, Securities and Non-Bank Financial Authorities ('CISNA'), participated actively in meetings held to promote implementation of international best practices and regional cooperation.

Three CISNA bi-annual meetings were held during the period under review, namely in September 2009 (Malawi), May 2010 (Mozambique) and December 2010 (Lesotho).

■ CISNA Strategic Plan 2011-2015: Enhanced Cooperation Action Plan

Further to the decision of CISNA to review its priorities and to develop a new Strategic Plan for the period 2011 - 2015, a Strategic Planning Task Team was constituted at the Malawi meeting in 2009, and comprised Mauritius, Botswana, Malawi, Namibia, South Africa, Tanzania and Zimbabwe.

The objective of the team was to develop a comprehensive 'roadmap' setting out the future direction of CISNA for the next five years and its strategies to face the challenges in the aftermath of the financial crisis.

The FSC submitted a CISNA Enhanced Cooperation Action Plan which aims at reinforcing CISNA's cooperative approach to effective regulation of financial services in the SADC region.

The main objectives of the CISNA Enhanced Cooperation Action Plan are to:

- i. create a pool of resources so as to benefit from the strengths of each country in order to complement each other in effectively regulating financial services;
- ii. even out different levels of development of regulatory bodies;
- iii. implement macro-prudential and financial stability policies for the region;
- iv. promote integrity in financial markets;
- v. assess vulnerabilities affecting the region's financial system;
- vi. implement risk-based supervision and joint inspections;
- vii. adopt common legislative reform programs, training initiatives;
- viii. develop sector specialist centres within the region; and
- ix. assist each other in developing common strategies/consumer awareness as well as competition issues.

The meeting held in Maputo, Mozambique (2010) witnessed the adoption of another of FSC's proposals for the setting up of the CISNA Executive Committee. The Executive Committee is mandated to:

- ascertain better coordination and ensure more effective decision making process;
- ensure liaison with the Southern African Development Community ('SADC') Secretariat and other organs of SADC; and
- conduct appropriate monitoring and oversight of the CISNA Strategic Plan 2011 - 2015.

Maintaining and Strengthening the good reputé of the Mauritius International Financial Centre

4.2.2 International Organisation of Securities Commission Africa Middle East Regional Committee

The FSC participated in the 24th IOSCO Africa Middle East Regional Committee ('AMERC') meeting and conference in Accra, Ghana in February 2010.

The main objectives of AMERC⁷ are to:

- i. exchange information on issues affecting development amongst members and measures taken by member countries to improve their market especially in a growing and dynamic global environment;
- ii. identify and discuss specific issues of interest common to member countries which can be in form of sub-committee reports, usually discussed at meetings of the committee;

- iii. improve communication among members;
- iv. harmonise issues with a view to presenting a common front at the executive level of IOSCO; and
- v. encourage countries within the region to develop their capital markets and seek IOSCO membership.

The conference held on "*Information and Capital Market Development in Emerging Countries*" provided a platform for discussion by members on:

- i. the importance of quality and timeliness of corporate information disclosure;
- ii. protection of the integrity of capital and credit markets; and
- iii. enhancing and sustaining investor's confidence.

At the 25th AMERC meeting held in Montreal in June 2010, FSC's proposal to host the following AMERC meeting in Mauritius in February 2011 was approved.

Attachment Programme

A delegation from the Capital Markets Authority of Kenya visited the FSC in November 2010. The delegation comprised representatives from the Office of the Deputy Prime Minister and Minister of Finance, Ministry of Trade, Ministry of Finance, State Law Office, Capital Markets Authority, and the Ministry of Environment and Mineral Resources. The main areas discussed during their visits covered the Commodity Futures market model, governance issues and challenges faced by the Capital Markets sector.

In December 2009, officers from the Non Bank Financial Institutions Regulatory Authority ('NBFIRA'), Botswana also visited the FSC to share their areas of expertise in the field of commodity futures market, corporate governance, impact of financial crisis and challenges for regulators.

⁷ Source: IOSCO website, www.iosco.org

4.3 Effective Cross Border Supervision through Exchange of Information

4.3.1 FSC's commitment to transparency and exchange of information

The financial crisis has shown that effective cooperation and information exchange as well as robust working relationships between regulators are key to preserving financial stability.

The FSC is committed to adhering to international best practices on transparency and disclosure of information. The FSC has signed 19 Memoranda of Understanding ('MOUs') with local and foreign regulatory authorities as at 31 December 2010.

4.3.2 Signature of Memorandum of Understanding

During the period under review, MOUs were signed with:

- i. Guernsey Financial Services Commission in November 2009;
- ii. Labuan Financial Services Authority in April 2010; and
- iii. Mauritius Revenue Authority in June 2010.

The MOUs formalised the framework for mutual assistance and exchange of information between the FSC and the regulatory authorities. The main objectives are to:

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

Memoranda of Understanding signed between the FSC and its Counterparts

Local Authorities

1. Bank of Mauritius
2. Financial Intelligence Unit
3. Mauritius Revenue Authority

International Authorities

4. Committee of Insurance, Securities and Non-bank Financial Authorities
5. Capital Markets Authority of Uganda
6. Central Bank of Lesotho
7. Financial Services Board, Republic of South Africa
8. Insurance Supervisory Department of Tanzania
9. Namibia Financial Institutions Supervisory Authority
10. Pensions and Insurance Authority of Zambia
11. Reserve Bank of Malawi
12. Securities and Exchange Commission of Zambia
13. Guernsey Financial Services Commission
14. Isle of Man Financial Supervision Commission
15. Jersey Financial Services Commission
16. Labuan Financial Services Authority
17. Malta Financial Services Authority
18. Securities and Exchange Board of India
19. South Asian Securities Regulators Forum

The cover features a light blue background with a large, curved, abstract shape in a darker shade of blue on the right side. A grey triangle is in the top right corner. Two horizontal bars, one light blue and one brown, are positioned below the title.

Corporate Governance Committee Report

5. Report of the Corporate Governance Committee to the Board of the Financial Services Commission

Composition of the Corporate Governance Committee

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

Role of Corporate Governance Committee

The objective of the Committee is to ensure that the Commission complies, as far as is applicable, to the Code of Corporate Governance. The Committee also ensures that necessary disclosures regarding conflicts of interest are made.

The Commission appointed a new Compliance Officer in July 2010. During the period the Committee met on 3 occasions. The Compliance Officer attended all the Corporate Governance meetings.

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

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

Senior Management

In accordance with requirements of the Financial Services Act, the Board approved that in the absence of a substantive Chief Executive, its powers be delegated to the Chairperson and the Vice-Chairperson to sign on behalf of the Commission. The Board further agreed that the Chairperson or Vice Chairperson may delegate their respective powers to such officer/s as may be required from time to time. In that respect an Officer in Charge was appointed.

Disclosures

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



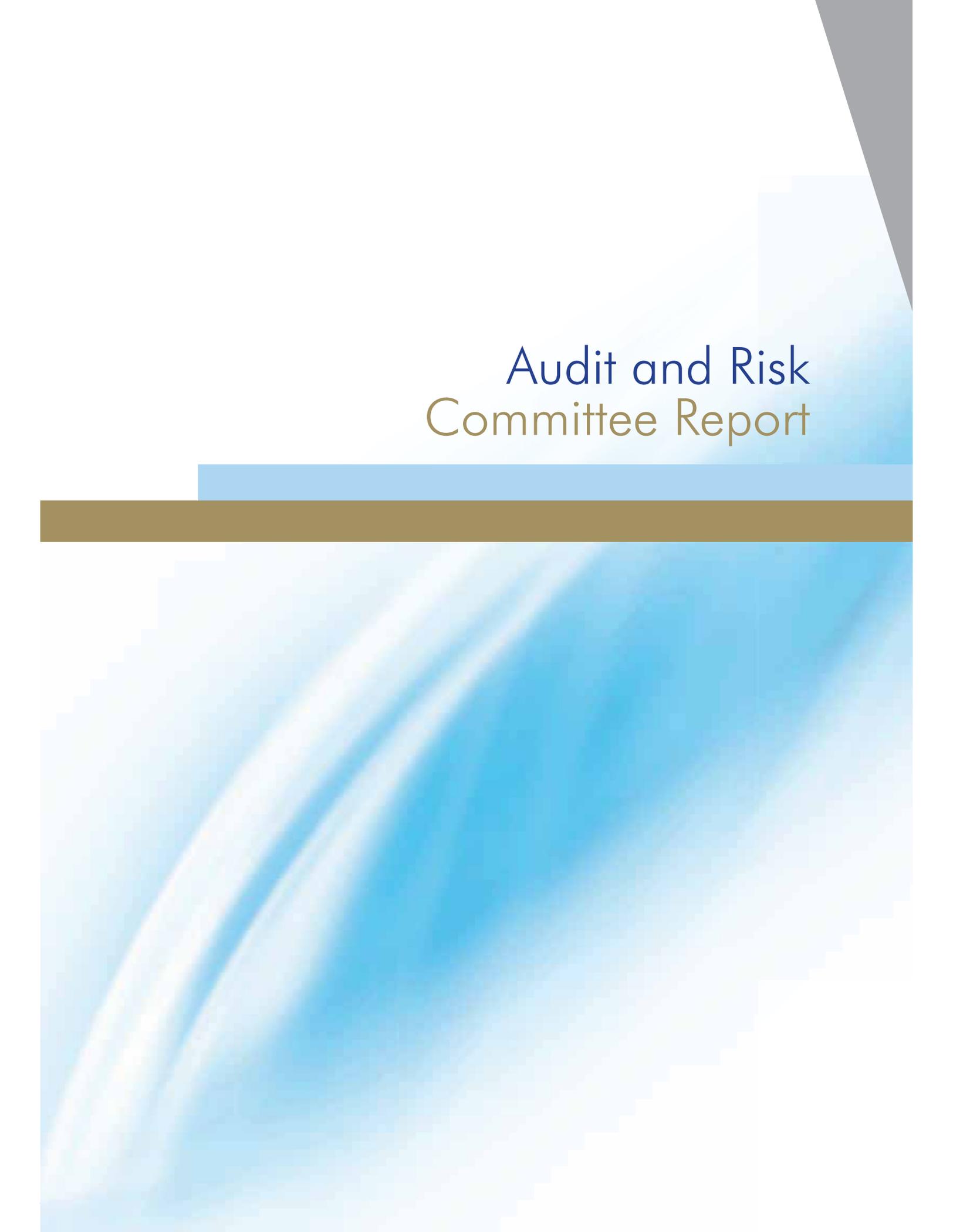
Raj Makoond



Mary Anne Philips



Oliver Lew Kew Lin



Audit and Risk Committee Report

6. Report of the Audit and Risk Committee to the Board of the Financial Services Commission

Composition of the Audit and Risk Committee

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

The Audit and Risk Committee met 4 times during the period ended 31 December 2010. The internal auditor attended all the Audit and Risk Committee meetings.

The Audit and Risk Committee was appointed by the Board and is responsible to assist the FSC in financial reporting matters, internal control, and risk management of the organisation.

The Key Roles of the Audit and Risk Committee

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

Items reviewed during the Year

Financial Reporting

The Committee reviewed the draft annual reports and discussed the accounting policies, estimates and judgments applied in preparing these reports with the Finance Officer.

The Committee received reports from the external auditor on their review of the financial statements for the period ended 31 December 2010 and took note of the proposed recommendations.

Internal Control and Risk Management

The Committee has an ongoing process for reviewing the effectiveness of the system of internal controls and of the internal audit function. The internal audit charter and the audit plan were approved at the beginning of the year.

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

External Audit

Following a tender exercise Messrs Chokshi & Chokshi, Chartered Accountants, from the Republic of India was appointed as External Auditor.

Other Issues

The Audit and Risk Committee has taken note of the changes made to the Statutory Bodies (Accounts and Audit) Act as amended regarding preparation of financial statements in compliance with the International Public Sector Accounting Standards (IPSAS) issued by IFAC for the next financial year.



Oliver Lew Kew Lin



Radhakrishna Chellapermal



Sanjay Gopaul



Financial Statements

The Board of the Financial Services Commission presents its report and the audited financial statements of the Commission for the period ended 31 December 2010.

Scope 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 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, designing, implementing and maintaining effective internal controls for the prevention and detection of fraud and other irregularities.

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

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

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

The Board confirms that they have complied with the above requirements and the relevant statutes, more specifically the provisions of the Financial Services Act 2007 in respect of transfers to the General Reserve Fund and the Financial Services Fund of the Commission and to the Consolidated Fund of the Government of Mauritius, in so far as they relate to the preparation of the financial statements.

The Board further confirms that the Commission has been applying its resources and carrying out its operations fairly and economically and that no expenditure of an extravagant or wasteful nature judged by normal commercial practice and prudence has been incurred.

Approved by the Board of the Commission on 08 April 2011.



S. Lalloo



M.A. Philips



P. Seewoosunkur

Independent Auditor's Report

TO THE CHAIRMAN OF THE BOARD OF FINANCIAL SERVICES COMMISSION, MAURITIUS

1. We have audited the accompanying Statements of Financial Position of the Financial Services Commission (the Commission) as at 31 December 2010, and also the Statements of Comprehensive Income, Statement of Changes in Funds and Cash Flow Statement for the period 01 July 2009 to 31 December 2010, and a summary of significant accounting policies and other explanatory information.
2. These financial statements have been prepared in accordance with the relevant International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS). 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.

3. Responsibilities of the Board of the Commission

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

4. Responsibilities of the Auditors

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

5. Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. We planned and performed our audit so as to obtain the relevant information, explanations and undertake examinations on test basis, 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. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including assessment of the risk of material misstatement of the financial statements, whether due

to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Commission as well as evaluating the overall presentation of the financial statements.

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

6. Opinion

Without qualifying our opinion we invite attention to the Statement of Changes in Funds to the Financial Statements on page 62 which presents the allocations to the General Reserve Fund, Financial Services Fund and the Consolidated Fund of the Government of Mauritius.

In our opinion the financial statements on pages 60 to 80 read with our observations in paragraph 2 above regarding IAS-24 'Related Party Disclosures' present fairly in all material respects the financial position of the Commission as at 31 December 2010, the financial performance and cash flows of the Commission for the period of eighteen months ended 31 December 2010.

7. Report on the other legal and regulatory requirements.

7.1. The Financial Services Act 2007

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

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

7.2. The Statutory Bodies (Accounts & Audit) Act 1972

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

In our opinion, to the best of our information and according to the explanations given to us, the financial statements, give a true and fair view of the financial performance of the Commission for the period under audit and of its financial position as at 31 December 2010;

In our opinion, the provisions of The Statutory Bodies (Accounts and Audit) Act 1972 in so far as they relate to the accounts have been complied with;

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

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

7.3. The Financial Reporting Act 2004

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

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

7.4. The Public Procurement Act, 2006

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

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

For Chokshi & Chokshi
Chartered Accountants
Kemps Corner,
Mumbai
India
FRN 101872W



Mitil Chokshi
Partner
M No. 47745
Date: 08 April 2011

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	NOTE	31-Dec-10 Rs	30-Jun-09 Rs
ASSETS			
Non Current Assets			
Property, plant and equipment	6(a)	226,989,239	237,615,006
Intangible assets	6(b)	2,876,153	3,237,571
Defined benefit asset	7	7,484,809	3,640,476
Receivables	8	15,135,990	13,449,729
		<u>252,486,191</u>	<u>257,942,782</u>
Current assets			
Debtors and prepayments	9	30,682,181	17,612,980
Treasury Bills		-	177,995,596
Cash and bank balances	10	249,771,829	872,492,105
Bank deposits		1,718,597,030	347,603,461
		<u>1,999,051,040</u>	<u>1,415,704,142</u>
TOTAL ASSETS		<u>2,251,537,231</u>	<u>1,673,646,924</u>
LIABILITIES			
Current liabilities			
Creditors and payables	11	341,508,979	356,361,177
Contribution to Consolidated Fund		950,173,506	-
TOTAL LIABILITIES		<u>1,291,682,485</u>	<u>356,361,177</u>
NET ASSETS		<u>959,854,746</u>	<u>1,317,285,747</u>
REPRESENTED BY:			
General Fund		-	1,317,285,747
General Reserve Fund		944,076,716	-
Financial Services Fund		15,778,030	-
		<u>959,854,746</u>	<u>1,317,285,747</u>

Approved by the Board of the Commission on 8 April 2011
Signed on their behalf



S. Lalloo
Chairperson



M.A. Philips
Vice Chairperson



P. Seewoosunkur
Officer In Charge

The accounting policies on pages 64 to 71 and the notes on pages 72 to 80 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 DECEMBER 2010

	NOTE	18 months ended 31 Dec 2010 Rs	12 months ended 30 Jun 2009 Rs
INCOME			
Fees		970,529,934	563,356,460
Interest	12	52,562,270	36,910,491
Other comprehensive income		1,119,267	550,000
		1,024,211,471	600,816,951
OPERATING EXPENSES			
Salaries and allowances	13	133,023,923	81,219,393
Training and seminars	14	12,403,548	4,599,217
Legal and professional fees		5,565,776	3,758,872
Office and administrative	15	27,244,065	16,664,863
Depreciation and amortisation	6(a), 6(b)	29,503,289	19,696,335
		207,740,601	125,938,680
SURPLUS OF INCOME OVER EXPENDITURE		816,470,870	474,878,270
Exchange fluctuation (loss)/gain		(7,569,365)	114,895,515
SURPLUS FOR THE PERIOD/YEAR		808,901,505	589,773,785

*Approved by the Board of the Commission on 8 April 2011
Signed on their behalf*


S. Lalloo
Chairperson


M.A. Philips
Vice Chairperson


P. Seewoosunkur
Officer In Charge

The accounting policies on pages 64 to 71 and the notes on pages 72 to 80 form an integral part of these financial statements.

STATEMENT OF CHANGES IN FUNDS
FOR THE PERIOD ENDED 31 DECEMBER 2010

	General Fund Rs	General Reserve Fund Rs	Financial Services Fund Rs
<u>18 months ended 31 Dec 2010</u>			
At 01 July 2009	1,317,285,747	-	-
Surplus for the period	808,901,505	-	-
Contribution to Consolidated Fund	(216,159,000)	-	-
At 31 December 2010 before transfers and contribution	1,910,028,252	-	-
Transfer to General Reserve Fund	(944,076,716)	944,076,716	-
Transfer to Financial Services Fund	(15,778,030)	-	15,778,030
Proposed contribution to Consolidated Fund	(950,173,506)	-	-
At 31 December 2010	-	944,076,716	15,778,030
<u>Year ended 30 June 2009</u>			
At 01 July 2008	867,511,962	-	-
Surplus for the year	589,773,785	-	-
Contribution to Consolidated Fund	(140,000,000)	-	-
At 30 June 2009	1,317,285,747	-	-

Approved by the Board of the Commission on 8 April 2011

Signed on their behalf



S. Lalloo
Chairperson



M.A. Philips
Vice Chairperson



P. Seewoosunkur
Officer in Charge

The accounting policies on pages 64 to 71 and the notes on pages 72 to 80 form an integral part of these financial statements.

CASH FLOW STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2010

	NOTE	18 months ended 31 Dec 2010 Rs	12 months ended 30 Jun 2009 Rs
Cash Flow from operating activities	16	813,689,632	792,604,871
Cash Flow from investing activities			
Acquisition of property, plant and equipment		(15,401,041)	(15,985,355)
Acquisition of intangible assets		(3,115,063)	(4,796,673)
Proceeds from disposal of property, plant and equipment		1,119,267	550,000
Net Cash used in investing activities		(17,396,837)	(20,232,028)
Cash flow from financing activities			
Contribution paid against retirement benefit obligation		(3,844,333)	(2,343,345)
Contribution to Consolidated Fund		(216,159,000)	(140,000,000)
Net Cash used in financing activities		(220,003,333)	(142,343,345)
Net increase in cash and cash equivalents		576,289,462	630,029,498
Cash and Cash Equivalents at start of period/year		1,398,091,162	764,929,000
Cash and Cash Equivalents at end of period/year		1,974,380,624	1,394,958,498

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

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

Cash and bank balances	249,771,829	872,492,105
Bank deposits	1,718,597,030	347,603,461
Treasury Bills	-	177,995,596
	1,968,368,859	1,398,091,162
Effect of exchange loss/(gain)	6,011,765	(3,132,664)
	1,974,380,624	1,394,958,498

Approved by the Board of the Commission on 8 April 2011

Signed on their behalf



S. Lalloo
Chairperson



M.A. Philips
Vice Chairperson



P. Seewoosunkur
Officer in Charge

The accounting policies on pages 64 to 71 and the notes on pages 72 to 80 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2010

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 and the global business sector.

1.3 Contribution to the Consolidated Fund of the Government of Mauritius

The Commission, being an independent regulatory authority, in terms of amendments to the Financial Services Act 2007, is required to maintain its General Reserve Fund to attain its objectives.

Under Section 82 of the Financial Services Act 2007, the Commission has created a General Fund into which all money received by the Commission has been accumulated, and out of which all payments required to be made including future charges and commitments, have been adjusted.

Under Section 82A(1) of the Financial Services Act 2007, the Board has determined the net excess of income over expenditure after meeting all expenditure for that period and after making such provisions as it thinks fit for bad and doubtful debts, depreciation in assets, contribution to staff funds and superannuation funds and other contingencies.

Under Section 82(6) of the Financial Services Act 2007, the Commission allocates 2% of the excess of income over expenditure and contingencies, from the General Fund to the Financial Services Fund at the end of every financial period.

Under Section 82A(2) of the Financial Services Act 2007, the Commission allocates 15% of the excess of income over expenditure and contingencies, from the General Fund to the General Reserve Fund at the end of every financial period.

Under Section 82A(4)&(5) of the Financial Services Act 2007, the Commission has created a General Reserve Fund of not less than Rs 500 million as determined by the Minister of Finance and Economic Development by a one-time transfer from the General Fund.

Under Section 82(7) of the Financial Services Act 2007, the Commission has, after the allocations to the Financial Services Fund and the General Reserve Fund, provided for transfer of the remaining balance in the General Fund to the Consolidated Fund of the Government of Mauritius.

During the financial period the Commission has contributed Rs216,159,000 towards the Consolidated Fund, and has made a further provision for the transfer of Rs950,173,506 to the Consolidated Fund of Government of Mauritius.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2010

2. PRESENTATION AND IFRS

The Commission has prepared its financial statements in accordance with International Financial Reporting Standards (IFRS). These statements have been prepared on the historical cost basis, except for financial assets and liabilities. These financial statements are presented in Mauritian Rupee being the reporting currency and rounded off wherever appropriate. The accounting policies adopted for the current period are consistent with those of the previous financial year except that the Commission has adopted new/revised standards and interpretations mandatory for financial years beginning on or after July 1, 2009.

2.1 Adoption of New and Revised International Financial Reporting Standards

The Commission has adopted the following standards, revisions and interpretations as of July 1, 2009 to the extent applicable:

- IFRS 7 Financial Instruments: The Commission has applied enhanced disclosures about liquidity risk in respect of financial instruments. The liquidity risk disclosures are presented in Note 17.
- IFRS 8 Operating Segments: The operating segments of the Commission are aggregated into a single reporting segment as they have similar economic characteristics and the segments are similar in the nature of the regulatory function and services.
- IAS 1 Presentation of Financial Statements: The comparative information has been represented to conform to the revisions therein.

2.2 Amendments to IFRS

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2010

2.3 Improvements to IFRSs

In April 2009, the IASB issued improvements to its standards. These did not have any material impact on the financial position or performance of the Commission.

- IFRS 2 Share-based Payment
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 8 Operating Segment Information
- IAS 1 Presentation of Financial Statements
- IAS 7 Statement of Cash Flows
- IAS 17 Leases
- IAS 18 Revenue
- IAS 36 Impairment of Assets
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation

2.4 Future Applicability

The Commission has not applied the following IFRS/IFRIC not having any material impact on the financial position or not yet effective. It is considered that, with the exception of IFRS 9 Financial Instruments and IAS 24 (Revised 2009) Related Party Disclosures, which affect disclosure and not the financial information or accounting policies, these do not apply to the Commission.

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

The Commission plans to apply standards and interpretations not yet effective for annual periods beginning on or after their effective dates. The Commission expects that the adoption of the pronouncements listed above will have no material/significant impact on the Commission's results of operations and financial position in the period of initial application.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2010

2.5 The International Public Sector Accounting Standards issued by IFAC (Post Balance Sheet Date)

The Commission considers it to be statutorily covered so as to prepare its financial statements in compliance with the International Public Sector Accounting Standards issued by IFAC in the future periods. Hence, the application of amendments/ improvements/ pronouncements hereinabove may be partly/not be required in future.

3. ACCOUNTING POLICIES

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

3.1 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 amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Pursuant to the amendments in the Statutory Bodies (Accounts and Audit) Act 1972, the Commission changed its financial year from July-June, to January-December. As a transitional measure, the current Financial Statements cover the 18-month period ended 31 December 2010, in comparison with the previous reporting period of 12 months running from July 2008 to June 2009. Hence, the amounts of the current period are to that extent not comparable to the previous year.

3.2 Revenue

Revenues arising from processing, annual licence, registration and brokerage, 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 deposits and treasury bills have been accounted for, on an accrual basis.

3.3 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2010

3.4 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).

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 Statement of Comprehensive Income so as to spread the regular cost over the service lives of employees in accordance with advice of the actuaries who carry out a full valuation of the plans. 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.

3.5 Foreign Currency Translation

Foreign currency transactions during the year 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 Statement of Comprehensive Income.

3.6 Property, Plant and Equipment

All property, plant and equipment of the Commission are 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. Impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the asset's net realisable value or its value in use. Gains and losses on disposal are determined by comparing proceeds with carrying amounts and are included in operating surplus or deficit. Repairs and maintenance are charged to Statement of Comprehensive Income during the financial period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2010

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

3.7 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 effective from 11 February 2008 for an initial period of 30 years with an option for its renewal for a further period of 30 years over land on which the office building of the Commission is constructed.

3.8 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.

3.9 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 receivables. All financial instruments are recognised in the Statement of Financial Position 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2010

3.10 Taxation

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

3.11 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.

3.12 Comparatives

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

4. CONTINGENT LIABILITIES/ COMMITMENTS

4.1 Contingent Liabilities

There are pending lawsuits against the Commission with claims estimated at Rs 20 million, excluding interests and costs (previous year- Rs 18 million). The Commission is of the view that the liabilities, if any, that may arise in future shall be appropriately dealt with in the year of settlement of the claims.

4.2 Financial Commitments

The Commission has approved, in principle, plans aimed at enhancing the tangible and intangible infrastructure commensurate with the scale of operations. The total amounts committed internally and externally till the 31st December 2010 are Rs 13,740,648, which includes amounts committed but not provided for and due within one year of Rs 10,469,151.

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

Statutory security deposit certificates of insurance companies, amounting to Rs 326,570,381 (previous year Rs 316,518,116) are in the physical custody of the Commission in accordance with the Insurance Act 2005 and not included in the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2010

5. RISK MANAGEMENT POLICIES

5.1 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 fees in foreign currency.

5.2 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 PERIOD ENDED 31 DECEMBER 2010

6 NON CURRENT ASSETS

6 (a) Property, plant and equipment

	MOTOR VEHICLE Rs	FURNITURE Rs	COMPUTER EQUIPMENT Rs	OFFICE EQUIPMENT Rs	BUILDING AND LEASEHOLD LAND Rs	FIXTURES & FITTINGS Rs	TOTAL Rs
COST							
At 1 July 2009	8,799,384	12,850,159	12,051,315	4,578,744	-	71,979,633	110,259,235
Building	-	-	-	-	167,775,311	-	167,775,311
Leasehold land	-	-	-	-	5,500,000	-	5,500,000
Purchases	6,758,250	2,367,294	2,028,600	249,637	-	3,997,260	15,401,041
Disposals	(6,021,220)	-	-	-	-	-	(6,021,220)
At 31 December 2010	9,536,414	15,217,453	14,079,915	4,828,381	173,275,311	75,976,893	292,914,367
DEPRECIATION							
At 1 July 2009	7,879,335	11,697,451	10,660,542	2,708,405	5,775,844	7,197,963	45,919,540
Charge for the period	2,271,697	926,914	2,003,671	835,178	8,663,766	11,325,582	26,026,808
Disposal adjustments	(6,021,220)	-	-	-	-	-	(6,021,220)
At 31 December 2010	4,129,812	12,624,365	12,664,213	3,543,583	14,439,610	18,523,545	65,925,128
NET BOOK VALUE							
At 31 December 2010	5,406,602	2,593,088	1,415,702	1,284,798	158,835,701	57,453,348	226,989,239
At 30 June 2009	920,049	1,152,708	1,390,773	1,870,339	167,499,467	64,781,670	237,615,006

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2010

6(b) Intangible assets

	31-Dec-10 Rs	30-Jun-09 Rs
COST		
At 1 July	23,045,279	18,248,606
Purchases	3,115,063	4,796,673
At 31 December / 30 June	26,160,342	23,045,279
AMORTISATION		
At 1 July	19,807,708	16,377,412
Charge for the period/year	3,476,481	3,430,296
At 31 December / 30 June	23,284,189	19,807,708
NET BOOK VALUE		
At 31 December / 30 June	2,876,153	3,237,571

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2010

7 DEFINED BENEFIT ASSET

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

	18 months ended 31 Dec 2010 Rs	12 months ended 30 Jun 2009 Rs
The amounts recognized in the Statement of Comprehensive Income are as follows:		
Current service cost	1,155,403	2,190,456
Interest cost	7,661,859	4,735,587
Expected return on plan assets	(7,324,774)	(5,134,195)
Actuarial Gain Recognised	-	-
Total included in staff cost	1,492,488	1,791,848
Actual return on plan assets	1,492,488	1,791,848
Movement in liability recognized in the Statement of Financial Position as determined by the actuarial valuation		
Opening Balance	(3,640,476)	(1,297,130)
Expense for the period/year	1,492,488	1,791,848
Actuarial reserves transferred in	(194,576)	(178,263)
Contributions paid	(5,142,245)	(3,956,931)
As at the close of the period/year	(7,484,809)	(3,640,476)
Movements in the present value of the plan assets in the current period were as follows:		
At start of period/year	46,398,638	46,310,176
Expected return on plan assets	7,357,803	5,134,195
Actuarial gains/(loss)	99,977	(5,864,855)
Actuarial reserves transferred in	194,576	178,263
Contributions from the employer	5,142,245	3,956,931
Contributions from the employees	3,417,076	522,225
Contributions from the government	-	-
Benefits paid	(8,118,752)	(3,926,076)
Schemes expenses	-	87,779
At close of period/year	54,491,563	46,398,638

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2010

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

	18 months ended 31 Dec 2010 %	12 months ended 30 Jun 2009 %
Government Securities and Cash	52.20	56.35
Loans	7.80	8.06
Local Equities	25.20	20.97
Overseas bonds and equities	14.00	13.65
Property	0.80	0.97
Debenture Stocks	0.00	0.00
	100.00	100.00
<i>Rates used for accounting purposes were</i>		
	%	%
Discount Rate	10.50	10.50
<i>Expected return on plan assets</i>	10.50	11.00
<i>Future Salary increase</i>	7.50	7.50
<i>Future Pension increase</i>	4.00	4.00

8 RECEIVABLES

Staff loans, restated at fair value	15,135,990	13,449,729
	15,135,990	13,449,729

9 DEBTORS AND PREPAYMENTS

Debtors (unsecured and considered good)	10,467,656	4,514,049
Staff loans, receivable within one year, restated at fair value	5,209,842	4,702,763
Other receivables	1,877,150	1,877,150
Prepayments	5,014,535	1,830,905
Accrued interest	8,112,998	4,688,113
	30,682,181	17,612,980
<i>Total staff loans at face value</i>	28,039,145	22,504,162
<i>Less adjustment for fair value</i>	(6,884,682)	(5,468,861)
<i>Interest adjustment, calculated on fair value</i>	(808,631)	1,117,191
<i>Balance at fair value</i>	20,345,832	18,152,492
<i>Loans receivable within one year</i>	5,209,842	4,702,763
<i>Loans receivable beyond one year</i>	15,135,990	13,449,729
	20,345,832	18,152,492

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED
31 DECEMBER 2010

10 CASH AND BANK BALANCES

	18 months ended 31 Dec 2010 Rs	12 months ended 30 Jun 2009 Rs
Cash in hand	21,000	21,000
Bank balances	249,750,829	872,471,105
	<u>249,771,829</u>	<u>872,492,105</u>

11 CREDITORS & PAYABLES

Accruals	10,071,320	10,847,334
Other Creditors and provisions	5,933,857	9,225,971
Deposits from Management Companies	16,009,604	100,100,941
Prepaid Licence Fee	309,494,198	236,186,931
	<u>341,508,979</u>	<u>356,361,177</u>

12 INTEREST

Treasury Bills	2,356,617	6,506,560
Bank Deposits	48,321,945	27,960,471
Staff Loans	1,883,708	2,443,460
	<u>52,562,270</u>	<u>36,910,491</u>

13 SALARIES AND ALLOWANCES

Staff Salaries and Allowances	102,104,189	64,718,846
Adjustment to staff cost due to restatement of staff loans at fair value	2,533,009	1,805,413
Pension Contribution	4,716,248	1,613,585
Family Protection Scheme	2,095,277	660,307
National Savings Fund	453,573	311,418
Passage Benefits	3,608,500	2,006,523
Board and Committee Fees	3,150,000	2,100,000
Travelling	10,680,289	6,126,748
Staff Welfare	3,682,838	1,876,553
	<u>133,023,923</u>	<u>81,219,393</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2010

		18 months ended 31 Dec 2010 Rs	12 months ended 30 Jun 2009 Rs
Board fees, salaries and allowances			
Mr S. Lalloo, Chairperson	Board Fees	720,000	480,000
Mr S. Boolell, Vice Chairperson	Board Fees	-	200,000
Ms M. Philips, Vice Chairperson	Board Fees	450,000	260,000
Mr R. Chellapermal	Board Fees	360,000	240,000
Mr R. Makoond	Board Fees	360,000	240,000
Mr S. Gopaul	Board Fees	360,000	240,000
Mr O. Lew Kew Lin	Board Fees	360,000	240,000
Mr Y. W. Appado	Board Fees	360,000	80,000
Chief Executive	Salaries and allowances	12,594,194	4,567,403
Director - Licensing	Salaries and allowances	-	2,793,749
Director - Corporate affairs	Salaries and allowances	-	866,667

14 TRAINING AND SEMINARS

Overseas conferences and seminars	10,408,508	4,184,212
Local events	1,237,701	136,349
Staff training	757,339	278,656
	<u>12,403,548</u>	<u>4,599,217</u>

15 OFFICE AND ADMINISTRATIVE EXPENSES

Rental & maintenance of office premises	373,217	348,158
Land lease	218,000	400,000
Insurance of Office Premises	927,602	487,594
Relocation to FSC House	-	700,845
Post, telephone, internet and fax charges	4,384,287	2,752,811
Electricity and water	3,874,261	2,328,940
Stationery	2,191,691	1,588,158
Subscription**	6,580,811	3,879,618
General office expenses	5,506,796	2,280,827
Vehicle expenses	1,686,119	1,447,754
Advertising and publication	1,501,281	450,158
	<u>27,244,065</u>	<u>16,664,863</u>

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2010

16 CASH FLOW FROM OPERATING ACTIVITIES

	18 months ended 31 Dec 2010 Rs	12 months ended 30 Jun 2009 Rs
Surplus for the period/year	808,901,505	589,773,785
Adjustments for:		
Staff loans restated to fair value	6,884,682	5,468,861
Interest on staff loans restated to fair value	808,631	(1,117,191)
Gain on disposal of property, plant and equipment	(1,119,267)	(550,000)
Unrealised exchange loss/(gain)	6,011,765	(3,132,664)
Depreciation and amortisation	29,503,289	19,696,335
Cash flow from operating activities, before working capital changes	850,990,605	610,139,126
(Increase)/decrease in debtors	(5,953,607)	1,625,118
Increase in staff loans	(9,886,653)	(2,191,350)
(Increase)/decrease in interest receivable	(3,424,885)	2,766,018
Decrease in other receivables	-	(1,061,250)
(Increase)/decrease in prepayments	(3,183,630)	2,906,110
(Decrease)/increase in accrued expenses and other payables	(14,852,198)	178,421,099
Net cash flow from operating activities	813,689,632	792,604,871

17 LIQUIDITY RISK

The liquidity risk with regard to outflows is limited to contribution to the Consolidated Fund and operative expenses. The outflows to the Consolidated Fund are matched with the corresponding bank deposits of maturities around the expected time of outflows. The outflows to operative expenses are matched with the corresponding licence fee income based on budget estimates. The surplus, based on decisions of the Investment Committee, are invested with maturity profiles as at 31 December 2010.

Maturity profiles are as under:-

	Maturity 0 - 1 Year	> 1 year
Cash and bank balances	249,771,829	nil
Bank deposits	1,718,597,030	nil

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2010

18 CREDIT RISK

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:-

- i. 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;
- ii. for staff loans, the Commission maintains control procedures and requests security when loan is granted to staff; and
- iii. for transactions with banking institutions, it holds bank balances and short term deposits with the Bank of Mauritius, the State Bank of Mauritius Ltd, Mauritius Post and Cooperative Bank Ltd and SBI (Mauritius) Ltd.

19 CURRENCY AND EXCHANGE RISKS

The Commission receives license fees in US Dollars (USD). Consequently, the Commission is exposed to the risk that the exchange rate of the USD relative to the Mauritian Rupees (MUR) may change in a manner which has a material effect on the reported values of the Commission's 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 7,569,365 has occurred mainly due to translation of the foreign currencies. During the 18 month period, the rupee has appreciated against USD by 5.3% and depreciated against the NZD by 9.7% . The exchange fluctuation for the period is as follows:

			18 months ended 31 Dec 2010 Rs	12 months ended 30 Jun 2009 Rs
Exchange fluctuation (loss)/gain			(7,569,365)	114,895,515
Currency profile is as under:-	31-Dec-10 Rs	30-Jun-09 Rs	31-Dec-10 %	30-Jun-09 %
New Zealand Dollars	399,836,105	352,305,667	20	27
US Dollars	1,237,854,916	713,982,350	63	55
Indian Rupees	(1,540,000)	-	-	-
Mauritian Rupees	339,327,006	233,334,029	17	18
	1,975,478,027	1,299,622,046	100	100

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2010

20 EXPENDITURE AND DEPLOYMENT OF RESOURCES

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

21 RELATED PARTY TRANSACTIONS DISCLOSURE

One of the members of the Audit Committee of the Commission is also the Board Director of SICOM Financial Services Ltd which is a subsidiary of State Insurance Company of Mauritius Ltd (SICOM). Post-employment benefit plans for the employees of the FSC are managed by SICOM.

These transactions have been undertaken at market quotations and are at arms length price.

22 REPORTING CURRENCY

The Financial Statements have been presented in Mauritian rupees.

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- 2 Circular Letter (CL 16042010): Submission of audited accounts (16 April 2010)
- 3 Circular Letter (CL 11102010): Insurers and Reinsurers Holding a Category 1 Global Business Licence issued before the coming into operation of the Insurance Act 2005

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

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Abbreviations and Acronyms

AMERC	Africa and Middle-East Regional Committee
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
CTs	Corporate Trustees
DEM	Development and Enterprise Market
EMC	Emerging Markets Committee
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FSA	Financial Services Act
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
IFC	International Financial Centre
IMF	International Monetary Fund
IOPS	International Organisation of Pension Supervisors
IOSCO	International Organisation of Securities Commissions
MCs	Management Companies
MOU	Memorandum of Understanding
MMOU	Multilateral Memorandum of Understanding
MVIAC	Motor Vehicle Insurance Arbitration Committee
OECD	Organisation for Economic Co-operation and Development
RBS	Risk Based Supervision
SA	Securities Act
SADC	Southern African Development Community
SEM	Stock Exchange of Mauritius Ltd.
TRC	Tax Residence Certificate

Financial Services Commission

FSC House, 54 Cybercity, Ebene

Republic of Mauritius

Tel: (230) 403 7000

Fax: (230) 467 7172

Email: fscmauritiu@intnet.mu

Website: <http://www.fscmauritiu.org>