



**Speech of Mr Dhanesswurnath Thakoor,
Chief Executive of the FSC in the context of the Awareness
Session on the Regulatory Framework
for Security Token Offerings
29 October 2020**

The Honourable Mahen Kumar SEERUTTUN, Minister of Financial Services and Good Governance

Mr Mardayah KONA YERUKUNONDU, First Deputy Governor of the Bank of Mauritius and Chairperson of the Financial Services Commission

Mr Sarwansingh PURMESSUR, Permanent Secretary of the Ministry of Financial Services and Good Governance and Board member of the Financial Services Commission

Board members of the Financial Services Commission

Dr Satyabhooshun Gupt DOMAH, Chairman of the Financial Reporting Council

Mr Sunil BENIMADHU, Chief Executive of the Stock Exchange of Mauritius

Mrs Packiry CHINIEN, The Registrar, Corporate and Business Registration Department

Ms Luxmi APPADOO, Chairperson of Financial Services Fund Managing Committee

Members of the Financial Services Fund Managing Committee

Panel members

Representatives of the Industry Associations

Members of the Press;

Distinguished Guests,

Ladies and Gentlemen,

All protocols observed

A very good morning.

On behalf of the Financial Services Commission, I wish to extend a warm welcome to all the distinguished guests for your presence today, at this awareness session on the Regulatory Framework for Security Token Offerings, (in short ‘STO’).

Token, or tokenisation, has become a buzz word, these days. While a token is not a new concept in the IT world, the advancement of technology has made it possible to represent a number of things in a digital format in a secured way. The main characteristic of a digital token is the ability to transfer it to another party, without keeping a copy of the token in the originating computer. This contrast with, for instance, a file transfer, where we are actually, transferring a copy of the file. This characteristic makes tokens very suitable for a number of use cases.

Security tokens are securities in digital format and are governed by the Securities Act. STOs represent an alternative way for firms to raise external capital in exchange for the ownership of digital assets.

One of my aims upon my appointment as Chief Executive, is to pursue the development of Fintech initiatives of the Commission. Last month, the Financial Services Commission launched the Peer-to-Peer Lending framework. The new framework for STO now comes into this continuum and is set to become another important component of the Fintech sector.

The purpose of this new framework is to position the Mauritius IFC as a Fintech hub, in line with the priorities of the Financial Services Commission.

To achieve this objective, the Financial Services Commission undertook the following initiatives:

- First, on 08 April 2019, the Commission issued a first series of Guidance Notes on STOs to define and clarify its regulatory stance. This was necessary following queries from industry stakeholders regarding the statutory requirements applicable to STOs.
- Next, in June 2020, the Commission issued a further series of Guidance Notes to provide for the implementation of a common set of standards for STO and the licensing of Trading Securities Systems (in short ‘TSS’) for the trading of security tokens.
- This led to the issue of a set of 3 FSC Rules to allow the TSS to directly solicit investors without the need of an intermediary and to provide for the fees for a TSS licence.

A video clip will be projected shortly. It will provide further explanation on the steps for STO.

Distinguished Guests,

In fact, developments in the digital arena are creating a lot of opportunities for the Fintech industry which is, in turn, changing the landscape of the financial services sector by making space for new product and service offerings.

The use of Fintech to raise funds is already a reality. Traditional market players are showing signs to adapt to this reality. According to a report issued by the PWC in 2020 in collaboration with the Crypto Valley of Switzerland, major players such as Daimler, Bank of China, BBVA and even the Government of Austria have raised funds through STOs.

The table projected on the screen shows a list of established global institutions which have recently conducted STOs.

The PWC report also highlights a number of jurisdictions which have taken advantage of STO opportunities.

For instance:

- The USA, Singapore, Hong Kong and UK are ranked as leading token offering hubs worldwide.
- Other countries with relatively small-sized domestic financial markets, such as British Virgin Islands, Cayman Islands, Estonia and Lithuania, also continue to be attractive locations.

Further, in a growing number of IFCs, investment fund structures rely on STO to raise capital, whereby a token will represent an interest in the Funds.

Distinguished Guests,

According to the OECD Report - *The Tokenisation of Assets and Potential Implications for Financial Markets*, issued in January 2020, tokenisation of securities, whether equity or debt, is seen by the market as the sector with the most potential for growth.

According to another report of Deloitte issued in 2019, it is expected that with the spread of securities tokenisation across jurisdictions, there will be new actors, new roles and new services. Traditional players will effectively have the opportunity to meet the new demands of a token-based economy, be it in terms of provision of platforms for storing tokens or acting as service providers.

We therefore, as a forward-looking regulator and jurisdiction as a whole, cannot afford not to be part of this evolutionary wave of change towards a digital financial world.

Ladies and Gentlemen,

Let me now come back to the key elements of the STO Guidance Notes.

The Guidance Notes provide for the regulatory requirements regarding the offering of Security Tokens including –

- The types of security tokens in digital format. These may constitute shares, debentures, securities-based derivatives contracts or units in a Collective Investment Scheme (CIS).
- The entities allowed to issue Security Tokens. These include reporting issuers, Expert Funds and Professional CIS;
- The requirements to issue prospectus under the Securities Act, where applicable.
- Any platform offering the facility of trading security tokens will need to hold a TSS licence issued under section 11 of the Securities Act.
- The custody of security tokens shall be held either with a custodian licensed under the Financial Services (Custodian services (digital assets)) Rules 2019 or a foreign custodian of digital assets, regulated in jurisdictions which are signatories of the IOSCO MMOU.

Raising capital through STOs indeed offers many advantages to the industry and stakeholders namely –

1. Digitalisation

With the advent of digitalisation, investors can trade remotely through new technologies. This allows for 24/7 markets, which eliminates the huge inefficiencies of daily market closures and mitigate the impact of ‘force majeure’ such as Covid-19 on the securities trading operations.

2. Disintermediation

Investors in security tokens can access the TSS directly and execute their trade without the requirement for a third-party to place the orders on their behalf.

To this end, the Commission has amended the Securities (Licensing) Rules and issued the Securities (Solicitation) Rules in order to allow the TSS to directly solicit investors without the need for an intermediary.

3. Liquidity

It is a well-known fact that traditional securities exchanges still take a long time to settle. The STO platform aims at removing these inefficiencies as trades can settle faster.

Distinguished Guests,

The new framework for STOs aims at creating the proper environment to attract issuers but also to safeguard the interests of investors and reputation of the jurisdiction, in line with international standards.

All market players involved in the offering and trading of security tokens are required to maintain good market conduct and safeguard market integrity which is another essential prerequisite for an efficient, transparent and integrated financial market. The TSS will have the obligation to comply with the requirements of AML/CFT and data protection.

The TSS will have to comply with the FIAMLA and its enabling regulations which are in accordance with the Financial Action Task Force (FATF) recommendations.

Moreover, as a prudential regulator, we are deeply conscious that our licensees should establish a robust data security system. The TSS must develop and apply proper safeguards to make sure that its I.T and operational systems are fully protected against possible cybersecurity threats.

The TSS should therefore appoint a Chief Technology Officer (CTO) who will be responsible for establishing, maintaining and overseeing the internal cybersecurity architecture.

Last but not least, the TSS is required to appoint an external independent third party to undertake IT audits of its system.

Ladies and Gentlemen,

Let me now address a few words to our valued industry partners and financial service providers, namely Management Companies, CIS managers and Investment Advisers. As gatekeepers, you have traditionally played an important role in promoting new financial products and services in Mauritius.

We have around a thousand of investment funds which operate in the global business sector and there are around 65 global business corporations which are reporting issuers. Therefore, there are good prospects for investment funds and reporting issuers to use Mauritius as a platform for raising capital through STO.

I seize this opportunity to make a request to you to promote the new STO framework among your local and international portfolio of clients.

Distinguished Guests,

The Commission is fully aware of the new developments in the financial services sector and we need to innovate by proposing an appropriate framework to make Mauritius a competitive jurisdiction as well as safeguarding the interests of investors.

On a concluding note, I am indeed pleased to also announce that the Commission is issuing three separate Consultation Papers, regarding the introduction of new regulatory frameworks for additional Fintech-related activities:

These consultation papers are:

- i. Robotic and Artificial Intelligence Enabled Advisory Services,
- ii. Fintech Service Provider, and
- iii. Crowdfunding

I thank you for your attention, ladies and gentlemen, and wish our panellists a fruitful deliberation.

Dhanesswurnath Thakoor

29 October 2020