

FINANCE InFocus

A monthly publication of the
Ministry of Financial Services and Good Governance

Vision

Our vision is to transform Mauritius into a Centre of Excellence and promote wealth and good governance. We are driven by ethical behaviour, efficiency, honesty, trust, integrity and responsiveness in our quest for excellence within our operational and staff functions.

Mauritius IFC - Forward Looking Conference Bracing Challenges, Building Resilience



In line with Government's Vision 2030 and the Blueprint on "Innovating and transforming the Mauritius IFC 2030" to double the size of the financial service sector, the FSC organized a high level two-day conference at the InterContinental Mauritius Resort, Balaclava, on 19 and 20 September 2018. (Picture from L to R: Harvesh Seegolam CEO of FSC, Renganaden Padayachy Chairman of FSC, Hon. Pravind Kumar Jugnauth and Hon. Dharmendar Sesungkur)

Prime Minister assures IFC is substance driven

Prime Minister Pravind Kumar Jugnauth assures all stakeholders that Mauritius IFC is substance driven and fully supports the application of best practices set up globally by recognized institution. In his keynote address at the two-day FSC conference, he reiterated that "the policies set up by my Government are shifting Mauritius from a treaty centric jurisdiction to a substance driven one," and that Mauritius is "a fully collaborative International Financial Centre (IFC) of substance." He added that "The Government has already brought key changes - addressing any ring-fencing issues by harmonizing fiscal regime for domestic and global business to comply with the OECD concerns with respect to harmful tax practices."



Minister says Blueprint will reinforce competitiveness



The Minister of Financial Services and Good Governance, Dharmendar Sesungkur, is convinced that the Blueprint, announced in the 2016-2017 Budget, will mark a new phase in the development of the financial services sector. "The Blueprint outlines the framework and measures to develop the financial services sector to enable the fulfilment of Vision 2030 and help drive the Mauritian economy forward in the special league of high-income countries capable of offering high-quality living to our citizens. However, the main driver of the financial sector in the years ahead will be technology. Advances in areas of finance-related technology, such as blockchain, mobile payments and Artificial Intelligence (AI) are opening up new possibilities for how financial service firms operate their business models. It is the commitment of our Government to transform Mauritius into the most innovative and technologically-enabled country in Africa," he adds.

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Paving the way for Mauritius International Financial Centre

Four different sessions were chaired by a number of eminent personalities. Each session was followed by an open dialogue with panelists from both the public and private sectors. The main themes of the conference were: Innovating the Mauritius International Financial Centre; Reforms of the Global Business Sector, Establishing Framework for Financial Technologies in line with the measures announced in the Budget 2018/2019 and New Framework for Compliance and Anti-money laundering.

Innovation is the answer to soar higher

The first session of the FSC two-day conference, Innovating the Mauritius International Financial Centre, focused on paving the way forward for Mauritius as an International Financial Centre. The Chief Executive of the Financial Services Commission gave an overview of the Mauritius IFC Blueprint that focusses on 3 broad pillars: Cross Border Investment, Corporate Banking, and Private Banking and Wealth Management. Development in these areas hinges on appropriate technological infrastructure, development of human capital and the structures in place to foster growth.

Getting to Grips with Global Companies

The second session, Synopsis on the New Global Business Sector, laid emphasis on the reforms of the Global Business Sector notably the conversion of GBC1 to GBL companies, abolition of the GBC2 regime and introduction of Authorised Companies. Currently, the Global Business Sector consists of 12,039 GBL1 firms and 10,400 GBL2 firms. The GBC2 licenses will be abolished with effect from 1st January 2019. There are concerns that GBC2 companies will move to other jurisdictions. According to the FSC, about 60% of these companies are expected to stay in Mauritius in spite of the recent changes introduced in the last Budget. The Deemed Foreign Tax Credit (“DFTC”) regime available to GBC1s

Panel Identifies Key Enablers for Growth and Stability

The third session, Enabling Framework for Financial Technologies in Mauritius, started with a synopsis of the key recommendations of the Regulatory Committee on Fintech & Innovation Driven Financial Services, a committee initiated by the Prime Minister early 2018. The recommendations looked at the regulatory framework and structures for the Regulatory Sandbox Licence process, Initial Coin Offering (ICO), Payment tokens, Access tokens, Equity tokens, cryptocurrencies, Custody of Digital Assets and Digital Asset Marketplace. The necessity to strike a balance between resilience and flexibility in terms of regulation was identified as a key condition for the early stages of development of Fintech. Fintech firms require the necessary space to develop innovative



Session 1

Emphasis was laid upon Mauritius as a gateway for investment into Africa. Building expertise in this respect would require collaboration at corporate, governmental and regional levels. Efforts also need to be undertaken to gear up the image of Mauritius as a centre of substance and of excellence. The visibility of Mauritius as an IFC was also discussed and the public relations campaign in this respect is being worked upon by the relevant authorities. A branding of Mauritius will be executed to raise awareness on the various financial products that the country has to offer to investors.

Session 2

will be abolished with effect from 1st January 2019. GBL companies will thereafter be taxed at the rate of 15%. The partial exemption which has been introduced to replace the DFTC regime will only apply to very limited categories of foreign-sourced income. The reason for not extending the partial exemption to all types of foreign-source income is because it may lead to an erosion of tax revenue for certain types of business. The Place of Effective Management (POEM) will apply not only to Authorised Companies but to all Mauritian companies. As a result, GBCs, typically organized and managed from Mauritius, may not be able to meet the POEM test.

Session 3

financial products while being subject to certain regulatory requirements. Furthermore, Mauritius needs to look globally when adopting regulatory framework, especially when looking at financial stability. The panel members identified key enablers that would nurture a thriving Fintech ecosystem in Mauritius such as the need to attract global talent, the need to ensure demand, the necessity to develop the capital market, the urgency to have modern infrastructure and build relationships with other Fintech hubs. Mauritius also needs to strategically identify Fintech services that would work on the island. In the same line, Mauritius should educate the population on basic Fintech concepts such as E-signature, digital KYC and Smart Contract.

All out efforts to face changing landscape

The fourth session, Regulatory Challenges in the New Financial Services Landscape (AML/CFT), started by emphasizing on the preponderance of regtech to complement regulations and technology. The advent of cryptocurrency and blockchain technologies bring along unique challenges in terms of risk assessment. The FSC has released its guidance notes pertaining to digital assets and determined that they are high risks and volatile in nature. Because cryptocurrency as a sub-category of digital assets remains unregulated, the Bank of Mauritius has expressed an interest on the matter for the sake of preserving financial stability in the country. It was also put forward that the FATF sets the standard for AML/CFT by issuing the necessary guidelines and recommendations. The shift to a risk-based assessment system underpins the concept of mitigation whereby risk is factored in as a ubiquitous element of financial transactions. To mitigate those risks, the Bank of Mauritius is working on a centralised 'Know Your Client' registry to ease financial life without undermining the customer due diligence

No Time to Bask in Self-praise

The Mauritius financial services sector, now eight per cent of GDP, is bracing itself to touch 12 % in the next ten years. In real terms, it expects to move from its USD 976 million level, in 2016, to near USD 2 billion by 2030 and predicts employment to increase from the current 12,000 to reach 18,000.

Some may say it's a lot on our plate and it's hard to achieve in the global financial sector beset with cut-throat competition. Admittedly, the order may look tall and very ambitious. Not for us anymore after what the sector has been able to achieve so far.

However, we are conscious of the challenges ahead. We know, to be an important pillar of the national economy and a major contributor to the GDP, it's no complacency time or to bask in self-praise. This point was repeatedly underscored and driven home to all stakeholders at a two-day conference (19th and 20th September, 2018) of the Financial Services Commission (FSC) on "Mauritius IFC- Forward Looking" held at the Intercontinental Mauritius Resort, Balaclava. Within the Ministry of Financial Services and Good Governance and among all its partners, in particular, the FSC, and other stakeholders, we are aware business cannot be as usual if we want to succeed,

and we indeed want to succeed. We realise, like John Maynard Keynes, "that we need to adapt. We need to realise that status quo is no more an option. We need to realise the difficulty lies not so much in developing new ideas but in escaping from old ones."

Needless to remind all our partners that we have to work hand in hand to maintain the reputation of Mauritius as an ethical centre of excellence in global business.

"Our efforts should be geared towards developing our human capital base, train our people, create our talent and, wherever required, resort to foreign talent and expertise."

We should guard against all those who try to violate our laws and trust. We will have to apply a zero tolerance against defaulters, whoever and wherever they are. Alongside with this, our efforts should be geared towards developing our human capital base, train our people, create our talent and, wherever required, resort to foreign talent and expertise.

It is equally important to put in place such framework that attracts trustworthy



process. This is inextricably linked with the National Risk Assessment (NRA) exercise under which the NRA Working Group is mandated to identify vulnerable sectors and products and develop consequently an action plan to address these concerns. The session ended on the note that, 'one size does not fit all' and as such, regulations should be tailored accordingly.



international brands to boost the image of the sector. Foreign players will give depth and breadth to the sector and bring in new knowledge and expertise - two essential stimulants to local players. Their presence will usher in a new business environment that will necessitate changes in the way we operate, changes in our laws to provide for greater ease to investors in starting their operations, and above all, push us to develop our infrastructure. Hence, there's no time to waste. Let us all put our minds and hands together for the growth of our International Financial Centre.

I have no doubt, together we can make it.

Dhanunjaye Gaoneadry
Permanent Secretary

Q&A

New Regime for Global Business (Part 2)

Following the two-day conference organised by the FSC on 19 and 20 September 2018, clarifications were provided on the new regime. The crux of the reform is the automatic conversion of GBC1 to GBL Companies and the abolition of GBC2.

What are the criteria for the new GBL?

- Majority of shares or beneficial interest in a resident corporation held by a non-citizen
- Conduct of Business principally outside Mauritius
- Management Company as Secretary

What are the conditions of substance for GBL Companies to qualify for 80% exemption on specified income?

As per the amended Financial Services Act (FSA),

- Core income generating activities should be in or from Mauritius
- Employ directly or indirectly a reasonable number of qualified persons to carry out the core activities
- Minimum level of expenditure proportionate to its level of activities
- Be managed and controlled from Mauritius
- Be administered by a Management Company

What is the process for GBC2 who wish to cease their business in Mauritius?

GBC2 Companies which were licenced after 16 October 2017 and who wish to migrate to other jurisdictions have to notify the FSC by latest 31 December 2018, an extension period will be provided by the FSC for administrative purposes.

GBL2 Companies licenced after 16 October 2017 and which do not apply for a new licence nor notify the FSC of their intention to migrate by 31 December 2018 will be requested to wind up.

What is the process for GBC2 to apply for an Authorised Company licence?

FSC has implemented a simplified process to ease the application process and it has also waived the application fee for the first 3 months (Oct 18 – Dec 18).

What are the applicable fees for an Authorised Company Licence?

Fees	USD
Processing Fee	150
Annual Fee	350



What are the restricted activities for Authorised Company?

- Any activity specified in the Fourth Schedule of the Financial Services Act
- Any activity that the FSC may determine as detrimental for the reputation of Mauritius as a centre of financial services or contrary to public interest

Business Activities Under Fourth Schedule (Section 71(3))

Banking

Financial services

Carrying out the business of holding or managing or otherwise dealing with a collective investment fund or scheme as a professional functionary

Providing of registered office facilities, nominee services, directorship services, secretarial services or other services for corporations

Providing trusteeship services by way of business

The FSC is exploring the possibility of updating the Schedule IV.

The FSC has issued a Communiqué on the application forms for Authorised Companies and will start accepting applications as from Monday 8 October 2018. <https://www.fscmauritius.org/media/67411/communique%20A9011018.pdf>

New regulations to meet FATF standards

Following amendments brought to the Financial Intelligence and Anti-Money Laundering Act (FIAMLA) in the Finance (Miscellaneous Provisions) Act 2018, new regulations under the FIAMLA are being drafted to meet the FATF standards, especially with respect to Recommendation 10 of the FATF which deals with Customer Due Diligence (CDD). The ESAAMLG Mutual Evaluation Report (MER) of Mauritius, which is now public, highlights the extent to which Mauritius is compliant with FATF standards, aimed at countering money laundering and terrorism financing, at the time of the onsite visit by ESAAMLG assessors in June 2017.

Since then, Mauritius has made significant progress to address the deficiencies in its Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework. As acknowledged by the President of the ESAAMLG Council of Ministers in a press release dated 24 September 2018, “the Council was pleased to learn that Mauritius had already started addressing some of the deficiencies identified in the MER. On behalf of the Council, I would like to encourage Mauritius to continue with the positive work it has started.”

Mauritius will submit its application for the re-rating of Recommendation 10 and other related Recommendations to the ESAAMLG Secretariat by 07 October 2018 to be considered at the next ESAAMLG Task Force Meeting to be held in April 2019. As highlighted by the President of the ESAAMLG Council of Ministers, “... we are confident that Mauritius will have made the desired progress to enable it to comply with the FATF Standards in the shortest time possible.”

The IMF has acceded to the request of Mauritius to provide technical assistance for the development of a national AML/CFT strategy and action plan for the effective implementation of the recommendations contained in the MER. Two representatives of the IMF will be in Mauritius in December 2018 for a scoping mission.

Mauritius to host training on AML/CFT

Mauritius is collaborating with the United Nations Office of Counter Terrorism (UNOCT) on a capacity-building project aimed at countering the financing of terrorism through effective national and regional actions. In this respect, a 3-day awareness training for public and private sector officials will be held from 29th to 31st October 2018. The training will focus on the implementation of the United Nations Security Council Resolutions (UNSCR) 1373 of 2001 and the role of the regulated financial sector in this regard. Subsequent training sessions by the UNOCT will follow in order to assist Mauritius to comply with Recommendation 6 of the FATF relating to targeted financial sanctions. The FATF Training and Research Institute (FATF TREIN), in collaboration with ESAAMLG, will also be conducting a training on FATF Standards in Mauritius. The capacity-building training, which will be attended by representatives of all ESAAMLG member countries, will enable Mauritius to further ensure compliance with FATF standards.

Global Business: Tackling delays in bank account opening

Banking issues arrested the attention of the Minister of Financial Services and Good Governance, Hon. Dharmendar Sesungkur, at a meeting with representatives of the banking industry and global business operators in September 2018. Emphasis was laid on the bank account opening process, especially concerning delays in obtaining a response and the Know Your Customer (KYC) requirements for the application. It was generally agreed that the time frame for providing a response was unreasonable, but the representative of the banking industry stated that the issue is a complex one.

Certain KYC documents take time to be submitted and additional information requested cause delays in the application process, according to the representative of the banking sector. Hon. Dharmendar Sesungkur added that the delays in providing approval reflect on the ease of doing business for investors in Mauritius, and that issues in this context must be tackled in order to cater for the expansion of the sector. He reiterated the fact that Mauritius cannot be marketed as an International Financial Centre (IFC) if investors take months to open Bank

Accounts. There is therefore the necessity to better train compliance officers so that they are not always extremely suspicious, can better manage risks but not at the detriment of basic services.

Moreover, the global sector representative indicated that Eligible Introducer Certificates (EICs) are being requested, in addition to KYC documents from Management Companies to open bank accounts for their clients. The Minister of Financial Services and Good Governance suggested that banks should make use of Key Performance Indices (KPIs) to review the efficiency and quality of service of banks to ensure timely delivery of services. This was taken on board by the representative of banks who emphasized on the Centralised KYC system to be implemented by the Bank of Mauritius. Hon. Dharmendar Sesungkur concluded by stating that compliance and KYC procedures are a must for obvious reasons, especially with respect to international standards, and the contribution of all stakeholders can help facilitate and accelerate the process.

Risk Governance in Banking Sector: Mind the Gap

The Mauritius financial sector is paving its way to double its contribution to GDP. The major initiatives which have been embedded in the Blueprint report clearly places the banking sector at the heart of this economic miracle. There is no turning back, the success of our financial sector requires an eco-system which is conducive to the sustainable growth of our financial institutions. Risk Governance is not only a concern for the Board or the Regulators but it is high on the Government’s agenda to ensure that we are working towards sustainable growth. This can be achieved through a strong risk framework which is the backbone of the financial sector and has the capacity to anticipate challenges and adapt accordingly.

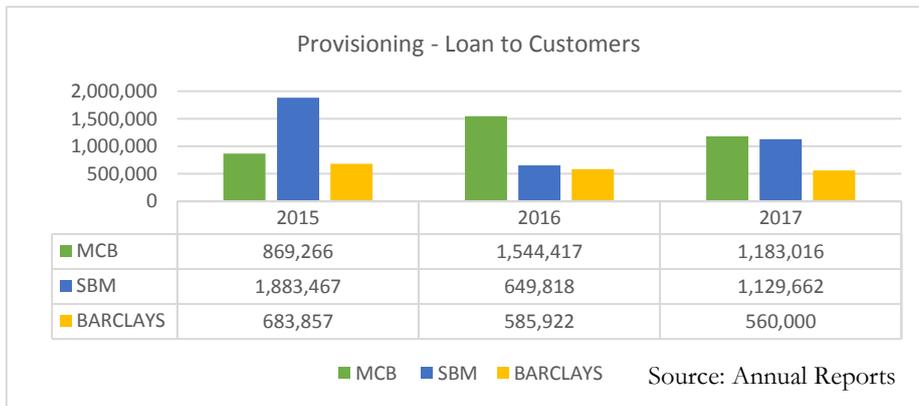
Re-engineering the Risk Culture

Growth is good — but can also be dangerous. Over the years, we have observed that commercial banks for the sake of rapid growth are granting risky loans both locally and to international clients. The chart below illustrates the pattern of loan provisioning for each of these Systemically Important Banks over past 3 years which is explained by cross border loans turned bad.

principles of accountability, participation and transparency in establishing policies and structures to make and implement risk-related decisions.

In December 2010, the Basel Committee on Banking Supervision (BCBS) issued a comprehensive reform package entitled ‘*Basel III: A global regulatory framework for more resilient banks and banking systems*’. The objective is to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, improve risk management and governance and strengthen banks' transparency and disclosures. However, to be able to weigh the risk, the banks should first be able to determine the risk.

It is surprising to note that commercial banks which have suffered major risk issues have been allocated satisfactory or fair ratings as per the *CAMELS rating* methodology. The Bank of Mauritius advised that as part of the CAMELS methodology it has adopted a risk based approach towards the supervision of the banking institutions, still there is a need to strengthen the framework to detect and



Banks are rushing after international corporate banking, yet it is important to ensure that these institutions have established a risk policy for such product and do not analyse them in the same manner as a domestic corporate banking.

Risk Governance: Mind the Gap

The Principle 5 of the National Code of Corporate Governance 2016 clearly highlights the need for Risk governance and Internal Control. It refers to the principles of good governance applied to the identification, management and communication of risk. It incorporates the

monitor the risk components.

Risk governance, culture and control are now priorities for regulators; they are also the industry’s central concerns in light of unprecedented regulatory fines. Meanwhile, stakeholder expectations of robust governance balanced with improved profitability are increasing. The Regulators will have to rethink their strategy while embarking on this transformative journey in order to ensure that we have strong institutions and a strong framework to handle the new challenges which will be brought about by the Blueprint.

Finance for Future 2018 award Mauritian firm among finalists

Mauritius is positioning itself as a driver of sustainable economy. In fact, the winner of the 2017 PwC Corporate Integrated Reporting Awards in the non-listed category, Anglo African Group, has been shortlisted as finalist for the Finance for Future 2018 awards for “Embedding an Integrated Reporting Approach” alongside Heritage Services, Bath and North East Sommerset Council (UK), HSBC (UK), Salesforce (US) and Yorkshire Water (UK). The winner will be announced at the awards ceremony in London on 16, October 2018.

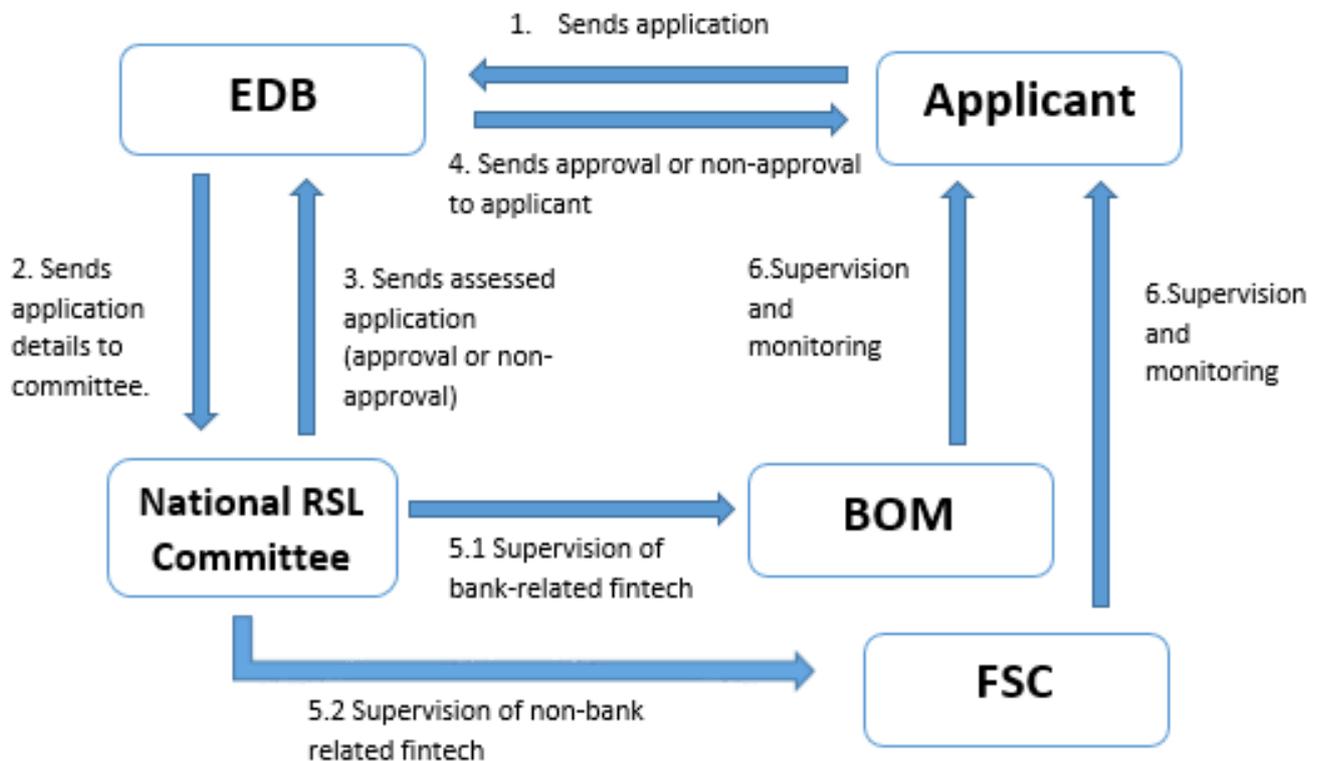
Mauritius host OECD Meeting on Corporate Governance

The Continental Secretariat of the African Peer Review Mechanism (APRM) will be holding the meeting of the OECD Network on Corporate Governance of state-owned entities in Southern Africa in collaboration with the Government of Mauritius, at Le Meridien Hotel on the 8th and 9th November 2018. A delegation from the APRM Secretariat was in Mauritius early September 2018 and it was agreed that the main theme of the November meeting will be: “*Priorities of good governance: positioning Africa State Owned Entities to deliver on the developmental mandate*” and other critical themes such as transparency, ethics and the current reform initiatives in Africa will also be discussed. Mauritius is expecting around 80 delegates from different parts of the African continent.

First National RSL Committee Meeting on Fintech

Assessing licence applications of Fintech firms is the key objective of the Regulatory Sandbox Licence (RSL) Committee. Chaired by Lord Meghnad Desai, the first meeting was held on 21 September 2018. The committee comprises of representatives from entities such as the Ministry of Financial Services and Good Governance, the Bank of Mauritius and the Financial Services Commission.

Regulatory and Licensing Framework



Source: Ministry of Financial Services and Good Governance

(Continued from page 6)

The absence of a risk guideline for International Corporate Banking.

In banking, change is a permanent condition and today we have moved to a deregulated banking. At a time when Mauritius is exploring international financing, the Regulator has remained silent on risk assessment of international corporate banking which was left to the discretion of banking institutions to lay out their own risk policies for international banking products. With the advent of new schemes and products, the bank regulators must still monitor bank safety to prevent risk to the banking system as a whole.

Catching up with Fintech...

Today, with Fintech, data is the new oil of banking and payment systems. Thomas Enger, the Secretary General of the European Banking Association.

When talking about the industry trends surrounding instant payments, PSD2 and open banking he said “you will see that business models and value models will need to be redesigned” as banks move towards the digital economy. Today when Mauritius is positioning itself as a financial hub, yet the banking sector does not cater for the required risk governance framework to enable operators to disrupt the traditional way of banking hence our banking services is still lagging behind.

Changing our directions and anticipating the challenges of the Blueprint

Significant effort lies ahead and the success of our financial sector depends on creating the right eco-system and ensure the robustness of our banking system which can adapt easily to the new challenges of this sector. In order

to implement the appropriate risk framework to sustain the challenges of the Blueprint, they will have to adopt the following steps: managing risk holistically, balancing regulators and stakeholders’ expectations, applying practical approaches and designing a fit-for-purpose model and managing the scale and pace of change

Conclusion

In order for our financial sector to reach the v-speed, it requires a close collaboration of the regulators and major players of the sector so as to ensure that we are embarking on a journey where our common destination is sustainable growth.

International Highlights

Brexit: worse comes to worst?

For the UK to leave the EU it had to invoke Article 50 of the Lisbon Treaty which gives 2 splits and 2 years to agree the terms of the split. EU law still stands in the UK until it ceases being a member. But as things stand, there will not be a final break on that day as the two sides have agreed to a 21-month transition period that is after 29 March, 2019, to 31 December, 2020, to allow a smooth implementation of whatever Brexit deal is negotiated and minimise disruption to businesses and holidaymakers. (BBC)



Trade war - US-China trade: US imposes biggest round of tariffs yet

The US started imposing tariffs on \$200bn (\$152bn) worth of Chinese products, in response to what it says are unfair trading practices by China. President Donald Trump says he wants to stop the "unfair transfers of American technology and intellectual property to China" and protect jobs (BBC).

Argentina asks IMF to release \$50bn loan as crisis worsens

Argentina's government has unexpectedly asked for the early release of a \$50bn (£37.2bn) loan from the IMF amid a growing economic crisis. Investors are concerned Argentina may not be able repay its heavy government borrowing and could default. (BBC)

US and South Korea Sign Revised Free-Trade Agreement (KORUS)

The United States and South Korea have signed a revised free-trade deal, which President Donald Trump says includes significant improvements that will reduce the U.S. trade deficit with South Korea and widen opportunities for American exporters. (NDV)

Danske Bank: Money laundering scandal

An independent investigation into the money-laundering scandal at Danske Bank found that as much as \$30bn of Russian and ex-Soviet money flowed through its Estonian branch in a single year (Financial Times).

Theresa May and Donald Trump talk 'big, ambitious' post-Brexit trade deal as May attacks Russia at UN

Theresa May, the Prime Minister of UK has declared that the Brexit vote does not mean the UK is rejecting global cooperation as she discussed a desire for a "big and ambitious" post-EU trade deal with Donald Trump (The

'High uncertainty' hurting global growth, OECD says

According to the OECD's latest Interim Economic Outlook on 20 September 2018, the global economic expansion appears to have peaked, with diverging growth prospects worldwide and intensifying risks (OECD).

Italy to narrow asylum rights in clampdown on immigration

Italy's populist government escalated its clampdown on irregular immigration with a decree aimed at slashing the number of people awarded asylum and doubling the time irregular migrants can be detained (Reuters).

Brazil Election Coverage

Following the worst recession on record and a massive corruption scandal, Brazilians will hold general elections on 7 October 2018 to elect the President, Vice President and the National Congress. (Bloomberg)

OPEC, non-OPEC countries study new oil output boost as Iranian supply falls

The current discussions are not finalised yet, but it would mean that oil producers would need to lower compliance to below 100 per cent, the source said. OPEC and its non-OPEC allies will gather in Algeria over the weekend to review compliance with existing production cuts (Times of India).

Maldives election 2018

Presidential elections were held in the Maldives on 23 September 2018. Candidate Ibrahim Mohamed Solih (Maldivian Democratic Party) has won the Maldives' presidential election in a surprise defeat of President Abdulla Yameen (Progressive Party of Maldives).

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