Newsletter

June 2020

Vision

Our Vision is to make Mauritius a clean and transparent jurisdiction of substance and repute offering high standard financial services at the national, regional and international level.

Mission

To transform Mauritius into a Financial Centre of Excellence anchored on principles of good governance, global best practices and high ethical standards.

IN THIS ISSUE

Hon. Minister Mahen Seeruttun: "We are determined to exit the FATF List and EU List at the earliest"

The Minister of Financial Services and Good Governance, Hon. Mahen Seeruttun, enumerated the measures being taken to adddress the deficiencies of the AML/CFT framework of Mauritius in the National Assembly on 13 May 2020.

It was following a Private Notice Question pertaining to the inclusion of Mauritius in the list of High Risk Third Countries issued by the European Commission on 07 May 2020. "However, if approved by the EU, the Regulation listing Mauritius will require EU Member States to apply enhanced due diligence measures on all dealings with Mauritius. Although Mauritius is on the Financial Action Task Force (FATF) list of Jurisdictions under Increased Monitoring, there has been no call for the application of enhanced due diligence on jurisdictions on the FATF list." argued Minister Seeruttun. Moreover, he added that this matter has been given highest priority at the level of Government and engagement with the European Commission has been initiated to open a dialogue. "Given our understanding that the EU listing is a direct consequence of the

> "Number of measures taken to expedite the implementation of the FATF Action Plan"

FATF listing, a number of measures are being taken to expedite the implementation of the FATF Action Plan and exit the list at the earliest" stated the Minister.

Such measures include a High Level Multi-Stakeholders Committee to oversee the implementation process, technical assistance under EU funded programmes which also includes distance learning for Police and MRA officers, amongst others. Hon. Minister Seeruttun laid emphasis on the fact that Mauritius was initially rated largely compliant or compliant with only 14 out of the 40 FATF Recommendations in the 2018 Mutual Evaluation Report.

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Promoting Good Governance in Private Pensions

Minister Seeruttun surrounded by delegates of the International Conference held at Hilton Hotel, Flic-en-Flac.

An international conference was held on 27 February 2020 on private pension schemes, hosted by the Financial Services Commission (FSC) at Hilton Hotel, Flic-en-Flac. Delegates from the International Organisation of Pension Supervisors (IOPS) shared their experiences from varying perspectives. More than 100 high-level officials from regulatory and supervisory authorities, industry stakeholders, IOPS observers, experts from the pension funds industry and research institutes from both the Organisation for Economic Cooperation and Development (OECD), and IOPS member countries were present. The main goal of the IOPS is to enhance the quality and effectiveness of the supervision of pension plans.

The Conference was inaugurated by Minister Seeruttun, where he delivered the keynote address. He highlighted that Mauritius has made considerable progress in implementing a regulatory regime which promotes good governance, fairness and transparency in the private pensions sector. The country remains committed to maintaining a fair, safe, stable and efficient private pension industry promoting confidence and stability in the financial sector which, in turn goes a long way to maintain the good repute as an International Financial Centre. He added that the Private Pension Schemes Act 2012 provides a comprehensive legal framework that aligns itself with international standards, including the IOPS Principles. He commented that, in order to ensure the sustainable growth of the pensions industry and to overcome the challenges of an evolving market environment, it is important that pension funds are properly administered and managed.

He highlighted the recent changes in the pension system with the introduction of the Portable Retirement Gratuity Fund established by the Workers' Rights Act 2019. The retirement gratuity is based on the full length of service with the current employer at 1 January 2020, as well as with any other future employer after that date. It is unlike the previous regime where the retirement gratuity of an employee was computed on his length of service with his final employer. He added that the new generations are bound to see a significant decrease in their standard of living at retirement age because of less savings and in the coming era, private pension plans would become increasingly scarce. It is therefore the duty of regulators to raise awareness of people, to educate and safeguard lifelong savings of people who may not be conversant with financial services and ensure that pension schemes are well regulated and supervised.

Supervisory tools will have to be created to ensure long-term financial sustainability of pension schemes and policies that will help in preserving financial security of beneficiaries at retirement. He commented that the pensions systems are under tremendous pressure having low interest rates and low returns on investment which are weakening long-term solvency and exacerbating underfunding.

With a greying population, rising life expectancy, dwindling fertility rates and an unchanged retirement age, governments around the world are considering how to engineer pension systems that are sustainable for current and future generations of pensioners by promoting measures such as longer working lives and later retirement. The event was also marked by the signing of a Memorandum of Understanding between the FSC and the Australian Prudential Regulation Authority which sets out a framework for cooperation between both authorities for the effective and efficient performance of the respective financial regulation functions.

Minister Seeruttun cautions on 'rogue' accountants

Minister Seeruttun addressing the audience during a workshop organised by the MIPA

Hon. Minister Seeruttun delivered the keynote address in a Workshop, organised by the Mauritius Institute Of Professional Accountants (MIPA), at the Caudan Art Centre. Entitled 'Red Card to Rogue Accountants', the Workshop took place in February 2020 and saw the participation of more than 200 accountants. "MIPA has, since inception, not only played a critical role in promoting the accountancy profession but has also become central to the Mauritian economy. The success of MIPA as a professional body of accountants is a matter of great pride for the country." affirmed the Minister. Hon Mahen Seeruttun also shared his perspectives on the importance of good professional conduct and its direct relevance on the country's positioning in the international marketplace. "Financial innovation has led to opportunities for more efficient and effective accounting. Thus, accountants now have to demonstrate higher levels of trust and ethical standards" stated the Hon. Minister.

The financial crisis has left in its wake a lingering feeling of doubt and mistrust in the manner in which professionals service their clients. "It takes time and consistency to re-build trust and this can only be achieved if accounts are prepared with quality information and reflect the principles of good governance. Investors need transparency and visibility in predicting future performance and to ultimately contribute towards successful business decisions. So, it is not surprising that the accounting profession is being constantly challenged to meet the demands for quality information" added the Minister.

Hon. Mahen Seeruttun also pointed out the importance of ethical behaviour among accountants and said that one should remain loyal to this calling, serve and guide with highest standards of integrity bearing in mind that all on accountants' advice have a larger impact on the economy as a whole. He urged accountants to continue their task with utmost integrity in line with good governance standards. The Minister explained that the reason for such a Workshop was to protect the image of 'accountant' for those with professional qualifications and who were duly licensed to practice as such. The issue was that smaller businesses are often victims of improper advice and poor service from the so-called 'rogue' accountants and non-accountants. The challenge is that these rogue accountants frequently disappear when their failings are exposed and the aggrieved companies have no recourse to legal action.

The Hon. Minister pursued that government is fully committed to reducing 'red tape' and simplifying accounting and tax returns for the SME population, which at the same time created business opportunities for "rogue" accountants. Thus, according to the Hon. Minister, the role of MIPA was undoubtedly to "police" members. "We cannot blame the whole community for the dishonesty of few members" cautioned the Minister.

The Minister conveyed his support to MIPA in such initiatives. "Alongside structured training programmes, we should not underestimate the value of mentoring which is a powerful tool for learning from those with broader experience. I believe that there is no substitute learning from those who have become wise after going through challenges and pitfalls and come out stronger and more resilient" stated the Minister. As technology is concerned, it can be both a gift and also a serious threat. "It is important to learn and understand the opportunities and challenges and also to increase adaptability capabilities to various shifts in relevant competencies" said the Minister.

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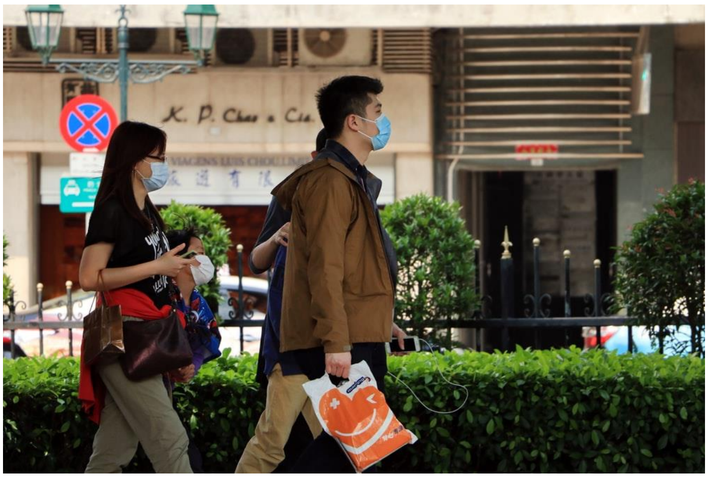
COVID-19 pandemic; Full impact yet to be determined



Mauritius moved into a sanitary lockdown from 23 March 2020 and Government extended the nationwide curfew to 1st June 2020. As from 15 May, a strategic phased resumption of economic activities has started. The economy has been severely affected by the crisis, with tourism coming to a complete halt and slowing of activities in other productive sectors. According to UN estimates, the Covid-19 pandemic is projected to almost halve economic growth in Africa in 2020, generating a loss of some $29 billion.Countries are responding in innovative and unfamiliar ways. All countries will need to respond aggressively to the crisis, in a manner that is both bold and commensurate to its scale.

Fiscal Measures

Government has announced plans to increase general public health spending by Rs208 million (0.04 percent of GDP), with more than half already disbursed. A range of other fiscal support measures including an additional Rs4 billion (0.8 percent GDP) in spending and financing are also being implemented. The State Investment Corporation will raise Rs2.7 billion (0.5 percent of GDP) to make equity investments in troubled firms. The Development Bank of Mauritius allocated Rs200 million credit for firms short on cash. Affected firms will receive extra tax deductions.

A Wage Support Scheme (WAS) and Self-Employed Assistance Scheme (SEAS) to limit the socio-economic impact of COVID-19 were introduced to provide financial support to employees who would become unemployed on a temporary basis, as well as those employed in informal sectors or self-employed. On 17 April, Government extended the two social assistance schemes until the end April 2020 by allocating an additional Rs 4.5 million in spending.

A Covid-19 Solidarity Fund has also been established for the funding of COVID-19 related projects (financial support to Mauritian residents and the financing of projects related to the COVID-19 virus and other related health issues), with around Rs162 million raised by the public and private enterprises by end May 2020.

Monetary Measures

The Bank of Mauritius (BoM) reduced the Key Repo Rate from 3.35 percent to 2.85 percent on 10 March 2020, followed by a further reduction to 1.85 percent on 16 April 2020. On 13 March, the BOM also adopted a set of measures focused on economic operators which are being directly impacted by COVID-19, including: (i) reduction of cash reserve ratio from 9 to 8 percent, with the amount released through the cut earmarked for any commercial banks' facility to be granted to the affecting economic operators; (ii) special relief amount of Rs5 billion (1 percent of GDP) - special credit line for affected firms to be administered via the commercial banks to meet affected operators' cash flow and working capital requirements; (iii) moratorium on capital repayment for loans - commercial banks will provide a moratorium of six months on capital repayment for existing loans of affected economic operators; (iv) easing of banking guidelines - the BoM also eased supervisory guidelines on handling credit impairments and (v) savings bonds - Rs5 billion (1 percent of GDP) of 2.5 percent two-year BoM bonds which will be made available to retail investors.

On March 23, the Bank of Mauritius announced additional support measures: (i) support to households - six-month moratorium on household loans at commercial banks, while BoM will bear interest payments for households with the lowest income; (ii) Special Foreign Currency (USD) Line of Credit ($300 million) - targeting operators having foreign currency earnings, including SMEs; (iii) Swap arrangement to support import-oriented businesses (initial amount $100 million); and (iv) Shared ATM Services waving ATM fees during national confinement period. The central bank has maintained the flexible exchange rate regime and has been intervening modestly in the foreign exchange market to reduce volatility and provide foreign exchange liquidity to the economy. On 22 May 2020, the Bank of Mauritius set up the Mauritius Investment Corporation Ltd (MIC) as a Special Purpose Vehicle under Section 6(1) of the Bank of Mauritius Act.

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Incubator for Board Readiness

The composition of Boards is one of the first criterion investors look at when considering to invest in a company. A balanced Board has a crucial role to play in maintaining corporate governance standards. Nothing is more important to the health and sustainability of an organisation than getting highly qualified and enthusiastic people to serve on its Board. But many organisations struggle to identify the right leaders, who have the right set of skills, attitude and perspectives that align with the organisation's strategies, goals and needs.

When engaging with other stakeholders of the industry, it was also brought to our attention that it is very challenging to find Women to sit on Boards. The proportion of women in the most senior positions in government services (Senior Chief Executive, Permanent Secretary, Deputy Permanent Secretary, Director, Manager, Judge and Magistrate) has remained around 37% in 2017 and 2018. We have a percentage of 8.7% of women on Boards in Mauritius.

With a view to address these issues, the Ministry of Financial Services and Good Governance is proposing to set up an Incubator for Board Readiness. The Incubator will train existing and potential directors both for the state owned entities and the private sector, including startups, and will also act as a pool of new directors to connect board-ready candidates with Board-service roles.

Unlike a mentoring or coaching program, the Incubator will design actions on behalf of Incubees to enable recognition for their expertise and leadership. The Incubator will prepare directors to take their leadership to the next level and for Board readiness. The incubator will also strengthen the leadership pipeline of women. The rationale for setting up an Incubator is to have effective Boards. It will be beneficial mostly for the Public Sector as there will be a wider pool of candidates that will be ready for Boards and thus limit having same persons on different Boards.

Goals of the Incubator:

- ensure progress and upskilling of Directors;
- evaluate and assess the participant's ability to apply essentials of project management, creative problem solving and decision-making and their ability to "sell" their solutions to others;
- set up a proper structure for a mix of learning modules, on-the-job coaching and action learning through group working on real life scenarios.

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FSC Communique – Mauritius Funds now eligible for Category I FPI with SEBI

As regards Mauritius-based funds eligible for registration as Category I Foreign Portfolio Investor (FPI) with the Securities and Exchange Board of India (SEBI),following an amendment brought to the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations 2019 on 7 April 2020, Category I FPI shall henceforth include entities from any country specified by the Central Government of India by an Order or by way of an agreement or treaty with other sovereign governments.

The Financial Services Commission (FSC) issued a communique informing that the Ministry of Finance of India has issued an order on 13 April 2020, in which the Central Government of India specifies Mauritius as an eligible country for the purposes of the Regulation 5 (a)(iv) of the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations 2019.

The Order allows funds established in Mauritius to be eligible for registration as Category I FPI and is of paramount importance in the current context. The FSC is confident that this positive development will tighten up further the excellent relationship between Mauritius and India. In line with its commitment as a Financial Sector Regulator embracing international best practices, the FSC continues to strengthen the position of Mauritius as a sound and competitive jurisdiction for foreign investors.

Communique published on 13 April 2020 can be consulted by clicking here.

Global Economy in turmoil; Is a recovery in the making?

The World Health Organization (WHO) defines Coronavirus disease (COVID-19) as an infectious disease caused by a new virus. Initially, China was the sole country who was affected by COVID-19, but later the WHO declared it as a global pandemic. The outbreak of the Coronavirus is a human tragedy unfolding across the world. As at 20 May 2020, according to the WHO, there are 4,801,202 confirmed cases, 318,935 deaths, and 216 countries, areas or territories with COVID-19 cases. All the sectors are profoundly stricken by the COVID-19 and now the global economy is in turmoil.

China, the world's second-largest economy has experienced major downfalls. For example, industrial production and retail sales suffered historic drops. The percentage change in industrial production in real terms has fallen by 13.5 %. Similarly, before the US travel ban was declared on March 5th 2020, the International Air Transport Association (IATA) predicted that the virus could cost $ 113 bn in lost airline revenue as less people are travelling. China is of firm opinion that global cooperation to synchronize monetary policy must be high on the agenda.

Stock markets in major economies, such as the United States, the Euro area, and Japan, fell sharply and witnessed a surge in implied volatility as skittish investors tried to factor in the latest risks posed by the new virus. The Dow Jones and S&P 500 have both been seeing drops due to uncertainty around the global coronavirus pandemic. Two of the largest single day drops in the Dow Jones Industrial Average have been from 20 March 2020 to 23 March 2020, but it is now steadily rising, in light of the discovery of a potential COVID-19 vaccine.

On the other hand, investors are now considering less risky investments. During period of unpredictability, Gold is commonly viewed as sanctuary. From January to May 2020, the price of gold per ounce increased by 10%. The average monthly price of gold increased from $1560 in January 2020 to $1715 in May 2020. It was further observed that the price of oil as at 19th March 2020 is US $ 26.22 per barrel. In 2008, price of oil was approximately US $ 140 per barrel, which indeed shows a sharp decline. The price of oil is in fact, at its nethermost since June 2001. Although the prices of commodities, oil and stocks are slowing gaining in value, it appears to be too soon to be talking of a recovery.

Incubator for Board Readiness **(Cont'd from pg 5)**

The incubator training programmes will be conducted in collaboration with the Financial Services Institute. The Incubator phase will be up to 2 weeks' maximum. Board training programmes through the incubator will impart the knowledge and understanding needed by Board Members in order to effectively carry out their roles as members of the organisation's Board of Directors.

Mauritius on the FATF Grey List (Cont'd from pg 1)

With respect to effectiveness assessment, Mauritius was found to have either a low or moderate level of effectiveness against all the 11 Immediate Outcomes. "On the strength of the measures taken since adoption of the MER, Mauritius submitted two applications for technical compliance re-rating to the ESAAMLG in October 2018 and February 2019 with the result that Mauritius is now compliant or largely compliant with 35 out of the 40 FATF Recommendations. A new economic and financial order is being engineered and it is sadly at the detriment of small countries like ours. But we are determined at the highest level of Government to complete the implementation of the FATF Action Plan so as to be removed from the FATF list and EU list of High Risk Third Countries at the earliest in order to protect the economy." concluded Hon. Minister Seeruttun.

Under the FATF Action Plan, Mauritius has to demonstrate an increase in the level of effectiveness of its AML/CFT systems in the areas specified in the FATF public statement.

In this respect, four factors are important -

(i) political commitment;

(ii) national coordination;

(iii) additional human and other resources, and

(iv) technical assistance, in areas where local expertise and skill sets are not available.

<u>All these four factors are being addressed.</u>

COVID-19 pandemic; Full impact yet to be determined (Cont'd from pg 4)

The Bank provided Government with a one-off exceptional contribution of Rs60 billion (12 percent of GDP), solely for the purpose of assisting Government in its fiscal measures to stabilise the economy of Mauritius The magnitude of the adverse economic and social impacts cannot be assessed at this stage as we are not fully aware of the duration of the coronavirus pandemic and the extent of its impact to the various sectors of Mauritian economy. According to preliminary estimates of the IMF, real GDP growth rate of Mauritius is estimated to hover around -6.8 per cent for the year 2020 and headline inflation is projected at 1.5 per cent.

COVID-19 has struck the world economies with stunning ferocity. While we do not know how long the crisis will last, we know that the economic impact will be severe. In major economies, nonessential services closed by government decree account for about one-third of output. In fact, for every month that these sectors remain closed, a significant drop in annual GDP is experienced, and before other disruptions and spillovers to the rest of the economy are taken into account.

Minister Seeruttun cautions on 'rogue' accountants (Cont'd from pg 3)

Hon Minister Seeruttun expressed his appreciation to MIPA for the committed efforts in its mission of advancing the development of the accounting sector, in fostering economic growth and protecting public interest through the implementation of high-quality standards. "The reputation of our jurisdiction as a trusted international financial centre is undoubtedly built on the foundation of a robust financial reporting framework and internationally recognised accounting and auditing standards. We have been diligently promoting this reputation over the years and today, Mauritius ranks favourably in international league tables.

According to World Bank Ease of Doing Business 2020 report, Mauritius maintains pole position in the African continent, ranking 1st for the region" he added.Accounting profession is playing a key role to help Mauritius maintain as well as improve international rankings which go a long way to instil trust and confidence in the International Financial Services sector. "You can rest assured of my support to ensure MIPA has the structure and resources to continue to deliver on its mandate" the Minister concluded.

Hon Minister Seeruttun: "Mauritius has taken the firm commitment to address all areas of concern"

During his intervention on the budget speech in Parliament on Friday 12 June 2020, the Minister of Financial Services and Good Governance, Hon. Mahen Seeruttun focussed on the concerns expressed by members of the Opposition with regard to the inclusion of Mauritius in the High Risk Third countries issued by the European Commission on 07 May 2020. He stated that Mauritius has never been on the EU list of anti-money laundering and terrorism financing in 2005 for the simple reason that it is the first time that this list is going forward with its publication. However Mauritius was on the grey list of the OECD Uncooperative Tax Jurisdiction in 2000. In 2009, all countries which were on the list were removed once they have provided the commitment to share information on tax matters.

Despite the fact that Mauritius held the ESAAMLG Presidency between September 2011 and September 2012 and in that capacity had a leadership role in the ESAAMLG region, it failed to address its AML/CFT deficiencies from the 2008 MER and realign its legal framework with the revised Recommendations. It was only when the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) Mutual Evaluation process started in October 2016 and the preliminary findings of the desk review of our AML/CFT legal framework were shared with us that we took cognizance of the full extent of the deficiencies.

The strong political will and commitment of this Government to strengthen the country's AML/CFT framework, both in terms of technical compliance and effectiveness of the system must be underscored. On the strength of the measures taken since the adoption of the MER Mauritius submitted two applications for technical compliance re-rating to the ESAAMLG in October 2018 and February 2019 with the result that Mauritius is now compliant or largely compliant with 35 out of the 40 FATF Recommendations. It should be pointed out here that Mauritius is compliant with the FATF Big 6 recommendations.

On 06 May 2020 itself, the Minister of Financial Services and Good Governance discussed with the EU Ambassador who advised that Mauritius is in the EU list as a direct consequence of being in the FATF increased monitoring list. On 06 May 2020 itself, the Minister of Financial Services and Good Governance discussed with the EU Ambassador who advised that Mauritius is in the EU list as a direct consequence of being in the FATF increased monitoring list. On 06 May 2020, the Prime Minister wrote to the President of the European Commission and all Head of States of the EU member countries to inform them of the difficult situation of Mauritius has been through during the Covid 19 pandemic and the progress we have made in completing the FATF Action plan.

After the announcement of the EU Grey list, Mauritius issued a communique on 09 May 2020 to reassure the industry players. The Ministry also initiated discussions with the private sector in Mauritius to assess the impact of being included on the EU list. So far, a committee comprising of the representatives of the public and private sector has been set up to initiate discussions with the relevant parties.

During the week 18-22 May 2020, The Ministry of Foreign Affairs initiated discussions with the EU Commission and other foreign dignitaries and also sought support for the (i) the FATF to meet the soonest possible to consider the Mauritius Action Plan; (ii) Mauritius be given a moratorium of a few months by the EU to be fully compliant with the FATF and EU requirements; and (iii) Mauritius be removed from the EU list.

On 01 June 2020, the Ministry of Foreign Affairs has sent a note verbale to the Head of States of the EU member countries as well as our Embassies to inform them of our request to be removed from the list. Notwithstanding the discussions with the EU, Mauritius continued its process of completing the FATF Action Plan and obtained a commitment from the stakeholders within the Core Group that the implementation of the Action plan will be largely completed by August-September 2020.

Accordingly, on 04 June 2020, as part of the Budget Speech, the Hon. Minister of Finance announced that Mauritius has taken the firm commitment to address all areas of concern raised by the FATF by September 2020. The Minister informed the House that on **19 June 2020**, the European Union has officially published its list of high risk third countries including Mauritius in the Official Journal of the European Union which also provides that the list will become effective on 01 October 2020.

On 11 June 2020, the Hon. Minister of Foreign Affairs, Regional Integration and International Trade, intervened at the 9th Meeting of the OACPS Ministerial Central Negotiating Group. He seized this opportunity to denounce the unilateral manner in which the EU has placed several OACPS States on the EU list of High Risk Third Countries, especially at a challenging time when many Developing States are struggling to recover from the severe impact of the COVID 19.

With a view to ensure that the colossal work being accomplished by Mauritius stands its chances to fulfill the expectations of FATF, my Ministry is also exploring the possibility of hiring an independent assessor to ascertain that we have adopted the right approach and increase our chances of being removed from the FATF list of "Jurisdictions under Increased Monitoring".