

**FINANCIAL REPORTING
OF
INVESTMENT DEALERS
RULES**

TABLE OF CONTENTS

	Page Number
1.Short Title	2
2. Interpretation	2
3. Financial Reporting	2
 PART A : ANNUAL FINANCIAL STATEMENTS 	
4.Form and Contents of Annual Financial Statements	3
 PART B : CAPITAL ADEQUACY REQUIREMENTS 	
5. Objectives	3
6. Administrative Procedures	3
7. Detailed Method for calculating Capital Adequacy Requirements	4
8. Detailed Method for calculating Fixed Expenditure Base Requirement	4
9. Detailed Method for calculating Position Risk Requirement	6
10. Detailed Method for calculating Underwriting Position Risk Requirement	8
11. Detailed Method for calculating Counterparty Risk Requirement	9
12. Detailed Method for calculating Foreign Exchange Risk Requirement	11
13. Detailed Method for calculating Available Capital Requirement	13
14. General Obligations of Investment Dealers	14
15. Suspension of Defaulters	15
16. Financial Records	15

STOCK EXCHANGE (FINANCIAL REPORTING OF INVESTMENT DEALERS) RULES 2010

Rules made by the Stock Exchange of Mauritius Ltd under Section 13 of the Securities Act 2005

1. Short Title

These rules may be cited as the Stock Exchange (Financial Reporting of Investment Dealers) Rules 2010 made under the Securities Act 2005.

2. Interpretation

In these rules, unless the context otherwise requires-

“Returns” means the Capital Adequacy Requirements Returns;

“FSC” means the Financial Services Commission established under the Financial Services Act 2007;

“Investment dealer” has the same meaning as in the Securities Act 2005;

“SEM” means The Stock Exchange of Mauritius Ltd established under the repealed Stock Exchange Act 1988;

“Officer” has the same meaning as in the Securities Act 2005.

3. Financial Reporting

An Investment Dealer shall submit to the SEM the reporting statements set in Table A by the date specified therein and such other reporting statements or supplementary information as the SEM may require.

Table A

<i>Reporting Statements</i>	<i>Frequency</i>	<i>Due Date</i>
Annual Financial Statements	Annually	Within 3 months of the end of the financial year
Capital Adequacy Return	Quarterly	10 th business day after each quarterly period
Note: All dates or calendar months are from the date as at which the reporting statement is prepared.		

Part A - ANNUAL FINANCIAL STATEMENTS

4 Form and Contents of Annual Financial Statements

- 4.1 An Investment Dealer shall prepare its annual financial statements so as to fairly present its results for the period, its financial position and cash flows.
- 4.2 An Investment Dealer shall prepare its annual financial statements in a form which is appropriate to its business and in a manner which complies with the Companies Act 2001 where applicable, and the International Financial Reporting Standards effective at the relevant time.

Part B - CAPITAL ADEQUACY REQUIREMENTS

5. Objectives

- 5.1 Investment Dealers should be established as entities of substance so as to evidence to the investing public and other market participants their financial capacity to ensure continuity of service, delivery and market participation.
- 5.2 Additional levels of capital will be required of Investment Dealers to the extent that their business operations expose them to levels of risk in excess of that covered by their base level financial requirement. Such additional levels of capital will be determined by the SEM at amounts, which are designed to protect the investing public and other market participants from loss as a result of the failure of an Investment Dealer's business as a consequence of market conditions, which could be reasonably foreseen.
- 5.3 These capital adequacy requirements are not designed to afford protection against significant fraud or other risks, which are not reasonably foreseeable.

6. Administrative Procedures

- 6.1 All Investment Dealers shall submit returns to the SEM in the form set out in these rules by the tenth business day of each quarterly period in respect of the close of business for the previous 3 months, reflecting the Investment Dealer's risk positions and its financial resources.
- 6.2 The SEM shall be entitled to full access to the Investment Dealers' financial and other records at any time, in order to confirm an Investment Dealer's compliance with the Capital Adequacy Requirements.

7. Detailed Method for calculating the Capital Adequacy Requirements (CAR)

7.1 An Investment Dealer shall calculate its capital adequacy requirements in accordance with Table B below:

Table B

Capital Adequacy Requirements as at:.....

		Rs
Fixed Expenditure Base Requirement (9 months)	Table C	xxx
Position Risk Requirement	Table D	xxx
Counterparty Risk Requirement	Table F	xxx
Foreign Exchange Risk Requirement	Table G	<u>xxx</u>
Total Requirement		xxxx
Available Capital Resources	Table H	<u>xxxx</u>
Capital Surplus/(Shortfall)		<u>xxx/(xxx)</u>

8. Detailed Method of Calculating Fixed Expenditure Base Requirement (FEBR)

8.1. An Investment Dealer shall be required to hold at all times capital which is adequate to fund its fixed expenditure for a period of 9 months.

8.2. Not later than 3 months after the last day of its financial year end, an Investment Dealer shall submit to the SEM, together with its audited financial statements, a return of the expenses incurred by the Investment Dealer during that year. Such return shall be in the form prescribed in Table C.

Table C

Fixed Expenditure Base Requirement (FEBR)

Based on Audited Accounts for the year ended:

	Fixed Costs	Trading Costs & “non-cash” Expenses	Per P & L Account
Accounting and secretarial or other services/charges, etc...	X		X
Auditor’s remuneration	X		X
Depreciation		X	X
Insurance	X		X
Interest paid other than to Partners/Directors			
Bank overdraft	x		X
Other finance	x		X
SEM charges and fees	x		X
Motor vehicle expenses	x		X
Net loss on realisation of fixed assets	x		X
Office rental	x		X
Machine and other leasing charges/rental	x		X
Printing & Stationery	x		X
Salaries other than the Directors	x		X
Telephone, telex & postage	x		X
Other expenses	x	X	X
Payments to Directors			X
Salaries and/Directors’ fees	x	X	x
Interest	x	X	X
Fixed Expenditure Based Requirement	x	X	X
Provision for FEBR (9 months)	75 %		
FEBR for CAR computation			

- 8.3 In determining fixed costs amounts, the following principles should be applied:
- i. Depreciation and losses arising from disposal of assets should not be taken into consideration.
 - ii. SEM charges relating to active trading should be excluded. Fixed charges should be included.
 - iii. Non-contractual payments by way of profit shares or performance related bonuses should be excluded.
 - iv. Extraordinary items may be excluded, subject to approval of the SEM.
 - v. Payments to partners/directors should only be included to the extent that they are made irrespective of profitability. Such amounts should be agreed annually with the SEM, based upon market rates.
 - vi. Interest paid to counterparties, which is trade-related may be excluded.
 - vii. Loss arising on the translation of foreign currency balances may be excluded.
- 8.4 An Investment Dealer shall compute its FEBR for the year (following the audited financial year end) at 75 % (i.e. 9 months) of fixed costs (Table C). This calculation is done annually.
- 8.5 Should an Investment Dealer be of the opinion that the amount computed in terms of 8.4 is inappropriate, it may make an application to the SEM to increase or reduce its FEBR to such amount as deemed appropriate.
- 8.6 Where an Investment Dealer has just commenced trading or has traded for less than 1 year at its financial year end, the FEBR return shall be based on budgeted amounts.
- 8.7 The SEM may require an Investment Dealer to adjust its FEBR at any time if it considers the FEBR to be inappropriate.

9. Detailed Method of Calculating Position Risk Requirement (PRR)

- 9.1 An Investment Dealer shall calculate its risk exposures arising from different classes of securities in accordance with the method prescribed in Table D.

Table D

Position Risk Requirement (PRR) as at: ...

	Market Value	Risk Factor	PRR Rs
Equity Securities			
SEM Listed	x	35 %	x
Listed on a recognised Stock Exchange (as per the Listing Rules of the SEM)	x	40 %	x
Debt Securities			
Issued or Guaranteed by the Govt. of Mauritius or BOM:			
Less than 1 year to maturity	x	5 %	x
1 to 3 years to maturity	x	10 %	x
More than 3 years to maturity	x	20 %	x
Issued or accepted by the Bank			
Less than 90 days to maturity	x	2 %	x
Other Listed Debt Securities			
Less than 1 year to maturity	x	10 %	x
1 to 3 years to maturity	x	20 %	x
More than 3 years to maturity	x	30 %	x
Underwriting PRR (Table E)		Table E	x
Other Investments		9.4	x
			(to Table B)

9.2 An Investment Dealer shall mark to market its securities, bonds and financial instruments positions, for purposes of determining its PRR.

9.3 Where an Investment Dealer has a position in an instrument for which no PRR has been specified, the Investment Dealer shall immediately seek guidance from the SEM on the PRR to apply, pending a decision, the Investment Dealer shall apply a PRR of 100 % to its risk exposure.

9.4 Other Investments

Where an Investment Dealer holds investments other than equity or debt securities listed on a recognised Exchange, the following PRR's shall apply:

Units in a registered unit trust scheme	20 % of realisable value
With profit life policies	20 % of surrender value
Other investments	100 % of cost

9.5 The PRR for a convertible is calculated on the mark to market value of the equity underlying the convertible plus any loss which would arise on conversion or loss of any profit which would arise on conversion but limited to such amount as reduces the PRR of the position to zero.

10. Detailed Method of Calculating Underwriting PRR

- 10.1 Permission of the SEM must be obtained before any Investment Dealer enters into any underwriting or sub-underwriting commitment, which together with any other current underwriting or sub-underwriting commitment of the Investment Dealer exceeds Rs1 million.
- 10.2 An Investment Dealer involved in the underwriting of new issues of loan stock or securities shall use the procedure laid down in Table E in calculating its PRR in respect of such commitment.

For the purposes of this Rule 10, underwriting includes sub-underwriting including any commitment to accept an allotment.

- 10.3 An Investment Dealer shall compute a PRR in respect of its commitment under an underwriting agreement from the date that the commitment is entered into. Such date shall be the working day on which the Investment Dealer becomes committed to accepting a known maximum quantity of securities at an agreed price.
- 10.4 The Investment Dealer shall compute its net underwriting commitment by adjusting its gross commitment for:
- i. underwriting or sub-underwriting commitments obtained from others;
 - ii. purchases and sales of the securities; and
 - iii. allocations.
- 10.5 Thereafter it shall reduce the net position by the following reduction factors:

From initial commitment	Loan Stock	Equity Securities
Until Day 0	75 %	90 %
Day 1	75 %	90 %
Days 2 & 3	75 %	75 %
Day 4	50 %	50 %
Day 5	25 %	25 %

- 10.6 After settlement date, the Investment Dealer shall be required to compute its PRR on the net exposure, without reduction, in its normal manner for equity position.

Table E

Underwriting PRR as at: ...

	Commitment date	Quantity	Agreed Price	Gross Commitment
Issues being underwritten			
Underwriting or sub-underwriting commitments obtained from others				(.....)
Sales or purchases of securities				(.....)
Allocations				(.....)
Net Commitment				xxx
Less: reduction factor (table10.5)				(xx)
Amount on which PRR is computed				xxx
Applicable PRR risk factor from Table D				%
Total PRR for Underwriting				To Table D

11. Detailed Method of Calculating Counterparty Risk Requirement (CRR)

- 11.1 An Investment Dealer shall calculate its total CRR on counterparty exposures arising from its business as the sum of the CRR.
- 11.2 An Investment Dealer shall not include any CRR if it is a negative amount.
- 11.3 Where an Investment Dealer is in doubt as to the classification of an item for the purposes of CRR, it shall promptly seek advice from the SEM. Until the SEM determines the correct treatment in the CRR calculation, the Investment Dealer shall include in its CRR 100 % of the credit risk exposure on the item concerned.
- 11.4 An Investment Dealer may reduce the exposure on which its CRR is calculated to the extent that it makes provision for a specific counterparty balance or it holds security or enforceable guarantees of the performance of a counterparty. Client's money held in a separate trust account shall be regarded as security held by a member.
- 11.5 An Investment Dealer shall calculate a CRR for all counterparty exposures irrespective of any connection with any counterparty.
- 11.6 Amounts due to and for the same counterparty or connected counterparties, may not be off-set unless there is a legal right to do so.
- 11.7 The counterparty risk requirements in terms of Table F do not address the risks to an Investment Dealer arising from clients failing to meet their obligations in relation to purchase and sale transactions which have been executed on their behalf but which are not yet due for settlement.
- 11.8 Where, in the opinion of the SEM, an Investment Dealer is exposed to a potential material loss in relation to the unsettled transactions referred to in 11.7 above, the SEM may require an Investment Dealer to provide acceptable evidence of the client's commitment to meet its obligations on due date.
- 11.9 Acceptable evidence of a client's commitment to meet its obligations on due date may take the form of:
- i. confirmation of the transactions concerned; and
 - ii. acceptable evidence of financial standing; or
 - iii. the provision of adequate security; or
 - iv. the provision of acceptable guarantees.
- 11.10 In the absence of such acceptable evidence, the SEM may, inter alia, require an Investment Dealer to increase its CRR by an amount not exceeding its exposure to loss.

11.11 Such exposure to loss should be determined as the difference between the amount of the client's obligations and the amount of any assets available to meet such obligations.

Table F

Counterparty Risk Requirement (CRR) as at:

Nature of Transaction	Calculation of CRR	CRR Value
<i>Unsettled Securities Transactions executed on the SEM on behalf of unrelated parties</i>		
0 to 7 days after settlement date	50 % of Potential Loss	X
8 days after settlement date	100 % of Potential Loss	X
9 days or more after settlement date	100 % of Potential Loss + CRR	X
Unsettled Securities Transactions on behalf of owners, subsidiaries, fellow subsidiaries & associates companies & employees of a Participant	100 % of Potential Loss + CRR	X
<i>Sums due for payment or owned on closed out transactions</i>		
0 to 5 days from debt occurring thereafter	Nil	X
	100 % of amount unsecured	X
Loans to Counterparties		
Where the loan exceeds the value of securities and is not adequately secured	100 % of the amount by which the loan is not secured	X
<i>Unsettled bond transactions of clients and counterparties</i>		
1 day after settlement date	50 % of Potential Loss	X
More than 1 day after settlement date	100 % of Potential Loss + PRR	X
Other Receivable		
Commissions and fees earned	100 % } of the receivable to the	X
Repayment of marketable investments at maturity date or call	100 % } extent that the amount	X
Value of scrip issues and rights issues	100 % } due is outstanding for	X
Proceeds arising from take-overs and mergers	100 % }	X
Other receivable not covered elsewhere in this section	100 % } more than 30 days	X
	<i>Rs</i>	(to Table B)

12. Detailed Method of Calculating Foreign Exchange Risk Requirement (FER)

12.1 An Investment Dealer shall calculate a foreign exchange requirement to cover the foreign exchange risk resulting from:

- i. foreign exchange dealing;
- ii. holding assets and liabilities giving rise to risk exposures in currencies other than in Mauritian Rupees; and
- iii. holding any off-balance sheet contract which gives rise to an exposure in a currency other than in Mauritian Rupees.

12.2 An Investment Dealer shall calculate a net open position for all currencies, and shall translate them to Mauritian Rupees using the prevailing Mauritius Bankers' Association buying and selling T-T rates, whichever is applicable.

12.3 An Investment Dealer shall calculate the foreign exchange requirement as 10% of the higher of:

- i. the aggregate of the net open long positions in each currency; and
- ii. the aggregate of the net open short positions in each currency.

12.4 A long position occurs when the net exposure in a foreign currency is positive.

A short position occurs when the net exposure in a foreign currency is negative.

Table G

Foreign Exchange Risk Requirement (FER) as at:

	USD	GBP	Etc
Assets in foreign currency	X	X	X
Liabilities in foreign currency	X	X	X
Currency features at nominal value	X	X	X
Guarantees certain to be called over (specify)	X	X	X
Net exposure in foreign currency	X	X	X
Spot rate in Rs	X	X	X
Net exposure in Rs	X	X	X
Total long position in Rs (A)			X
Total short position in Rs (B)			X
Foreign exchange requirements (10 % of greater of A or B)			Rs (to Table B)

13. Detailed Method of Calculating Available Capital Requirements (AVR)

13.1 An Investment Dealer shall calculate its AVR in accordance with Table H below:

Statement of Available Capital Requirements as at:

	Rules	Rs	Rs
Ordinary share capital			x
Preference share capital	13.2		x
Share premium			x
Partners capital	13.3		x
Reserves			x
Audited retained earnings/(losses)	13.4		x
Unaudited retained earnings/(losses)	13.5		x
Owners equity			x
Subordinated loans	13.6		x
Total capital resources			x
Less: Impaired Capital	13.7		
Intangible Assets	13.8	x	
Guarantee Provided	13.9	x	
			x
Available capital resources		Rs	(to Table B)

13.2 Preference share capital shall constitute available capital if:

- A. it is not redeemable or
- B. if it is redeemable,
 - i. the initial period to redemption was at least five years; and
 - ii. the remaining period to redemption is greater than eighteen months.

13.3 Partners capital may be included in the calculation of total capital resources provided that it is legally subordinated in the manner prescribed by SEM. The following conditions for subordination apply:

- i. the capital must be subordinated for an initial period of at least five years;
- ii. subordinated capital accounts may only be repaid with the prior written approval of the SEM on eighteen months written notice.

13.4 Audited retained earnings shall be included in the total capital resources subject to the following:

- i. it shall be subject to an independent auditor's unqualified report; and
- ii. it shall be determined after any charges, such as taxation and any proposed distribution to owners.

13.5 Unaudited retained earnings and losses shall be included net of tax.

SEM may limit the extent to which unaudited retained earnings are included if it is of the opinion that the Investment Dealer's financial reporting and management systems are not accurate.

13.6 Subordinated loans, which includes partners and shareholders loan accounts, shall be included in the total capital resources provided:

- i. it shall be subordinated in the manner prescribed by SEM; and
- ii. it can only be repaid subject to the prior written approval of the SEM.

13.7 Impaired capital shall be deducted from the total capital resources in determining available capital resources. Impaired capital consists of two components – intangible assets and guarantees provided.

13.8 Intangible assets includes goodwill, capitalised development costs, licences, trademarks, brands and similar rights.

13.9 Guarantees provided include the maximum current exposure of the Investment Dealer arising from any guarantee given, or asset pledged to secure the obligations of a third party.

14 General Obligations of Investment Dealers

14.1 The Returns or any reporting statement submitted by an Investment Dealer shall be signed by at least two directors of the Investment Dealer or such persons as authorised by the Board of Directors of the Investment Dealer who shall be the authorised signatories of the company.

14.2 No Investment Dealer shall permit a shortfall in its capital as set forth in the Schedule, other than pursuant to a specific temporary exception granted by the SEM due to unusual circumstances.

14.3 An Investment Dealer shall notify the SEM immediately in writing if it has any indication that it may not meet the Capital Adequacy Requirements as set forth in these rules or that any calculation reflects a deficiency.

14.4 The SEM may require any Investment Dealer and any specific director, officer, employee or auditor of that Investment Dealer to appear personally and produce its books and records and answer questions, including questions pertaining to any actual or possible violation of these Rules.

14.5 The SEM or an external auditor designated by the SEM shall conduct on-site inspections of Investment Dealers when business conduct irregularities and/or capital shortfalls are detected or suspected.

14.6 In the event such irregularities and/or capital shortfalls, as the case may be, are confirmed by the inspection, the Investment Dealer shall bear all costs associated with the above inspection.

14.7 The books shall be maintained up to date and be open at all times for on-site inspection by the SEM.

14.8 The SEM has full discretion as to the necessity and sufficiency of special adjustments in any particular case, taking into consideration all factors pertaining to the market with regard to the financial resources or future contracts and the affairs as a whole of the Investment Dealer involved.

15 Suspension of Defaulters

15.1 Where an Investment Dealer fails to comply with these rules, the SEM may declare the Investment Dealer to be defaulter.

15.2 The SEM shall have the power to reprimand, sanction and/or suspend any Investment Dealer declared to be defaulter.

15.3 The suspension of an Investment Dealer shall automatically suspend all rights and privileges of the Investment Dealer without relieving it of its liabilities under the Rules or in any other respect.

16 Financial Records

16.1 An Investment Dealer shall maintain accounting records on a continual basis so that at all times records are up-to-date or able to be brought up-to-date within a reasonable time.

16.2 All financial and scrip transactions shall be recorded in the Investment Dealer's books at the date on which the Investment Dealer enters into an irrevocable commitment to carry out the transaction.

- 16.3 An Investment Dealer's accounting records should be sufficient to show and explain the Investment Dealer's transactions and commitments, whether effected on its own behalf or on behalf of others, so that these records disclose with substantial accuracy the financial position of the Investment Dealer at the close of business on any day.
- 16.4 An Investment Dealer may keep a record in a form other than a document or a copy of a document provided that the record can be reproduced in hard printed form.
- 16.5 An Investment Dealer shall maintain adequate procedures for the maintenance, security, privacy and preservation of records, working papers and documents of title belonging to the Investment Dealer or others so that they are reasonably safeguarded against loss, unauthorised access, alteration or destruction.

Made by the SEM on 27th January 2010 and approved by the FSC on 18th March 2010