



CENTRAL DEPOSITORY  
& SETTLEMENT Co. Ltd.



ANNUAL REPORT **2018**



# Central Depository & Settlement Co. Ltd

## Annual Report 2018

The board of directors of the Central Depository & Settlement Co. Ltd (CDS) is pleased to present the Annual Report of the Company for the year ended 30<sup>th</sup> June 2018. The report was approved by the board of directors of CDS on 27<sup>th</sup> August 2018

The board of directors wishes to thank all the stakeholders of the Company (including Ministry of Financial Services and Good Governance; Financial Services Commission; Stock Exchange of Mauritius Ltd; Bank of Mauritius; Investment Dealers; Custodian Banks; Listed Companies; and Registries) for their continued support and collaboration.

The board of directors expresses its appreciation to the management and staff for their contribution to the good performance of the Company.



Nitish Benimadhu  
Chairperson



Vipin Y. S. Mahabirsingh  
Managing Director



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# CORPORATE INFORMATION

## Company Profile

The core business of the CDS is to provide centralised depository, clearing and settlement services to securities markets. The objective of the Company is to provide its services in line with the Principles for Financial Market Infrastructures (PFMIs) issued by the Committee on Payment and Market Infrastructure (CPMI) of the Bank for International Settlements (BIS) and the International Organization of Securities Commissions (IOSCO), with particular emphasis on safety, efficiency and financial stability. The disclosure regarding the compliance of the CDS with the CPMI-IOSCO PFMI is published on the website of the Company. The Securities (Central Depository, Clearing and Settlement) Act 1996, the Securities Act 2005 and the Financial Services Act 2007 provide the legal framework for the operations of the CDS. The CDS is licensed by the Financial Services Commission and is guided in its day-to-day activities by its Rules and Procedures. The CDS also provides consultancy services to African exchanges and depositories as well as IT outsourcing services and registry software as a service, and allocates International Securities Identification Numbers to financial instruments issued by issuers that are registered in Mauritius.

## Board of Directors

Mr Nitish Benimadhu	Chairperson
Ms Aruna Radhakeesoon	Vice-Chairperson
Mrs Reedhee Bhuttoo	
Mr André Chung Shui	
Mr Steve Leung Sock Ping	
Dr Ashwin Kumar Madhou	
Mr Vipin Y.S. Mahabirsingh	Managing Director
Mr Rishianandsingh Moorut	
Mr Kevin Rangasami	
Mr Jaiyansing Soobah	

## Company Secretary

Mr Chaitanand Jheengun (FCIS)

## Management Team

Mr Vipin Y.S. Mahabirsingh	Managing Director
Mr Manoven Sadayen	Systems Manager
Mr Joseph How Tien Fat	Finance & Administration Manager

## Registered Office

4<sup>th</sup> Floor, One Cathedral Square Building  
16 Jules Koenig Street  
Port Louis  
Mauritius

**Website:** [www.stockexchangeofmauritius.com/cds](http://www.stockexchangeofmauritius.com/cds)

**Legal Adviser**

Sir Hamid Moollan Q.C  
PCL Building  
Sir William Newton Street  
Port Louis

**Bankers**

The Mauritius Commercial Bank Limited  
Sir William Newton Street  
Port Louis

SBM Bank (Mauritius) Limited  
SBM Tower  
1, Queen Elizabeth II Avenue  
Port Louis

ABC Banking Corporation Ltd  
7, Duke of Edinburgh Avenue  
Place D'Armes  
Port Louis

Banque des Mascareignes Limitée  
9<sup>th</sup> Floor, Maeva Tower  
Cnr Bank Street / Silicon Avenue  
Ebene

Afrasia Bank Limited  
Bowen Square  
10, Dr Ferrière Street  
Port Louis

Bank One Limited  
16, Sir William Newton Street  
Port Louis

**Independent Auditors**

PKF (Mauritius)  
5 Duke of Edinburgh Avenue  
Port Louis

## CHAIRPERSON'S AND MANAGING DIRECTOR'S REPORT

The CDS has achieved a Profit after Tax of Rs 46.184 M in 2018-2019 which represents an increase of 40.3% compared to last year and which is the second all-time high in terms of profitability achieved by the Company since its inception. The main factors that have contributed to this excellent performance are as follows:

- Substantial increase in market turnover compared to last year mainly due to the relatively high number of takeovers on the market (around 19% of the total turnover came from transactions relating to takeovers)
- Income from international projects
- Significant increase in the number of International Securities Identification Numbers generated (CDS is the National Numbering Agency for Mauritius and a member of the Association of National Numbering Agencies)
- New listings on the exchange
- Good employee productivity
- Costs kept under control

It is important to note that the Company earned an amount of Rs 17.275 M which represents around 20.4% of total revenue, from sources other than the depository, clearing and settlement services which is its core business. These other sources of income include investment income, fees from international projects, IT outsourcing services, fees on issue of International Securities Identification Numbers and provision of registry software service. The revenue from other sources has increased by 23.1% compared to last year.

A major achievement during 2017-2018 was on the international front with the successful completion of a major project at an African stock exchange which went live in December 2017. We provided consultancy services to this African exchange for the replacement of its Central Securities Depository (CSD) system and its Automated Trading System (ATS) in order to meet new market requirements, keep pace with functional and technological developments in the securities industry and comply with international standards. The services provided by CDS in this project include the following:

- Prepare, finalise and issue Request For Proposal (RFP)
- Evaluate proposals to RFP, demo from vendors of ATS and CSD System and select vendor
- Project management - prepare project plan and monitor implementation
- Assist LuSE to organise workshops and awareness campaign for market players
- Assist in User Acceptance Testing of complete system
- Assist in training to LuSE, brokers, custodian banks, regulator, registrar and LuSE IT Administrators
- Assist in Going live
- Post-live assistance



Our contribution has been a critical success factor in this project and this has been duly acknowledged at all levels.

Another important activity at international level was the participation of the Managing Director on two panel discussion on market infrastructure and liquidity challenges in African markets at the Network Forum Africa meeting that was held in Cape Town in March 2018. This event was attended by more than 130 capital market leaders from an asset management and servicing, investment banking and custody background, and it was a good opportunity to show case the various initiatives taken by SEM and CDS to internationalize the Mauritian capital market. The CDS is closely following developments regarding the use of blockchain technology in the securities industry and in this context, the Managing Director has been chosen to moderate a panel on this topic at the biennial conference of the World Forum of CSDs (WFC) that will be held in Morocco in April 2019.

With the collaboration of a software development company (Infini Tech) and the SEM, we developed a mobile app (mySEM) that connects to the trading system of the SEM and allows investors to follow the market and place orders to take advantage of trading opportunities in real-time using their smartphone. Investors have access to the order book of the trading system to view market data (Five Best Bid and Ask Orders, Last Traded Price, High Price, Low Price, Total Volume, List of Trades, and Indices) in real-time on their mobile devices. mySEM also allows investors to have online access to their CDS accounts to monitor their account activity. A new fully responsive web application with the same functionalities has also been developed. This new web application runs on all browsers and form factors whereas the previous Internet trading platform could be accessed only with Internet Explorer and did not run on mobile services.

Following requests received from some foreign institutional investors for the extension of the trading hours on the SEM to allow them to better follow the evolution of the daily trading sessions and improve their trading opportunities, the SEM and CDS decided to extend the trading hours by one hour on both the Official Market and DEM with the agreement of all Participants and the approval of the Financial Services Commission. We made changes to the automated trading system of SEM and amended some sections of the CDS Procedures regarding the time at which Contract Notes and Transaction Reports are made available to Participants, and the deadline for making amendments to brokerage rate and client ID, in order to implement the extension of trading hours.

In line with our objective to diversify the range of products that are traded on our market, we collaborated with the SEM and the Bank of Mauritius (BoM), to allow the 3-Year Golden Jubilee Bonds issued by the BoM to be traded on the SEM and settled through CDS. This required changes to the trading and CDS systems especially to automate the restrictions set by BoM. We also collaborated with the SEM and made changes to our systems to implement the SEM Bond Index (SEM-BI) that tracks the performance of rupee and foreign-currency denominated debt instruments that are listed and traded on both the Official Market and the Development & Enterprise Market (DEM).

In September 2017, the SEM won for the fourth time in seven years the “Most Innovative African Stock Exchange of the year Award” at the Ai Institutional Investment Summit and Capital Markets Index Series Awards 2017 organised by Africa investor (Ai), a leading international research and communication group. The Ai Institutional Investment Summit and Capital Markets Index Series Awards is now firmly established as a calendar event and platform to profile African Capital Markets opportunities and success stories to the international investment community. The Ai Index Series Awards aims at rewarding different categories of players within the capital markets space, including stock exchanges, listed companies, investment banks, regulators, stockbroking companies, research teams and fund managers. The Award in the “Most Innovative African Stock Exchange” category was given on the basis of a number of criteria, including, amongst others, initiatives implemented by the Exchange to embrace new areas of development, programmes in place to enhance the services it provides to its key stakeholders and compliance of the Exchange’s regulatory and operational set-up with international standards. The CDS has contributed significantly to this achievement as it manages the Automated Trading System (ATS) which is the backbone of SEM’s trading operations, and has also assisted the SEM to successfully implement a number of new initiatives (dual-currency trading and settlement, new indices etc.) by making the relevant changes to the ATS, the CDS system and the interface between the two systems. It should also be noted that both the ATS and CDS system operate in accordance with international standards and did not experience any downtime during the period under the review.

On the operational front 72,541 trades with a total value of Rs 20.58 Billion were cleared and settled by CDS without any single failure. Neither the CDS system nor the trading system that is managed by the CDS experienced any downtime or security violations. During the year, we have completed the implementation of all the recommendations made by the IT security auditors in May 2017 to further enhance the cyber resilience posture of SEM and CDS. We have implemented an adaptive cyber resilience framework that evolves with the dynamic nature of cyber risks and strategies to mitigate those risks.

On the legal and regulatory front, we have provided our services smoothly in accordance with the Securities (Central Depository, Clearing and Settlement) Act 1996, the Securities Act 2005 and the Financial Services Act 2007, under the regulatory oversight of the Financial Services Commission and without any complaint from our stakeholders. We have also ensured compliance with the Principles for Financial Market Infrastructures issued by the Committee on Payments and Market Infrastructures (CPMI) of the Bank for International Settlements (BIS) and International Organization of Securities Commissions (IOSCO). The disclosure regarding our compliance with the PFMI is published on our website.

On the Corporate Governance front, a Joint SEM/CDS Committee was set up under the leadership of the Chairperson of the Corporate Governance Committee of CDS to assess the compliance of CDS and SEM with new Code of Corporate Governance for Mauritius (2016) and to facilitate the implementation of the principles of the Code at CDS and SEM. The compliance of CDS with the new Code is set out in the Corporate Governance Report and all the relevant documents have been uploaded on our website.

The Mauritian economy grew by 3.8% in 2017 compared to 3.7% in 2016. It is expected that growth will continue to be supported by strong performance in the tourism sector, continued growth in financial services, and further expansion of Information and Communication Technology (ICT). The forecasted GDP growth rate for 2018 is around 3.9%. In March 2018, Moody's Investors Service affirmed the Government of Mauritius's Baa1 long-term issuer and senior unsecured ratings and maintained the stable outlook. The affirmation of the Baa1 ratings was supported by the following factors:

- (1) Strong growth and macroeconomic resiliency to shocks, despite its small size;
- (2) Expectations for government debt to stabilize, albeit at an elevated level.

The stable outlook reflects Moody's expectation that economic policies will gradually address ongoing challenges to Mauritius's economic model, including global efforts against tax avoidance, and that government debt will stabilize at around 55% of GDP.

The Board of CDS has played a key role in the above achievements by providing guidance, support and strategic direction. We wish to thank all directors for the insights that they have offered at Board meetings and for their contribution to the development of the Company. We also wish to thank our employees for delivering a high quality of service to our stakeholders and for maintaining an excellent team spirit.



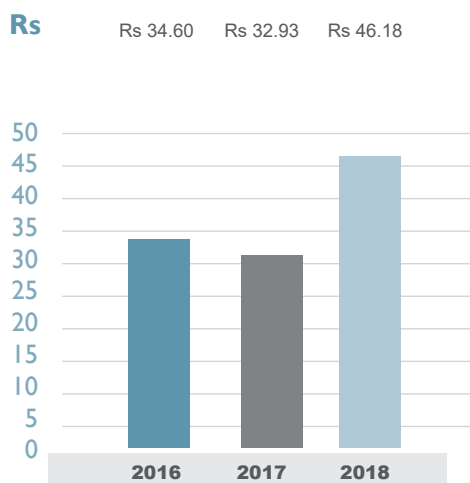
Nitish Benimadhu  
Chairperson



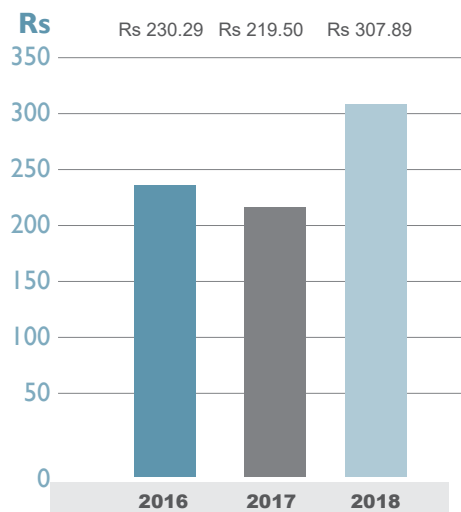
Vipin Y. S. Mahabirsingh  
Managing Director

# FINANCIAL HIGHLIGHTS

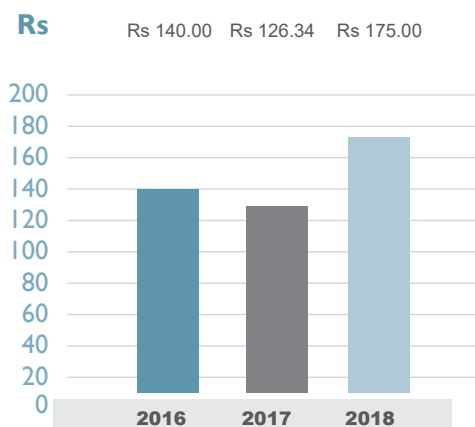
## PROFIT AFTER TAX (in Million)



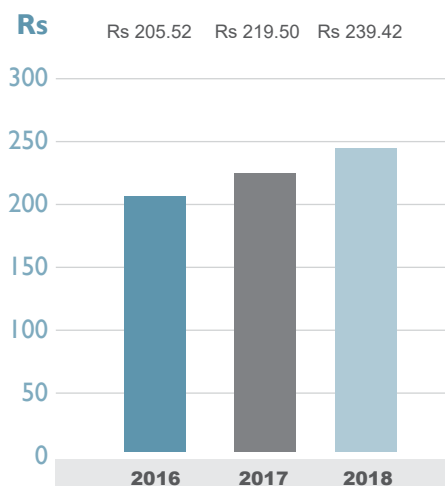
## EARNINGS PER SHARE



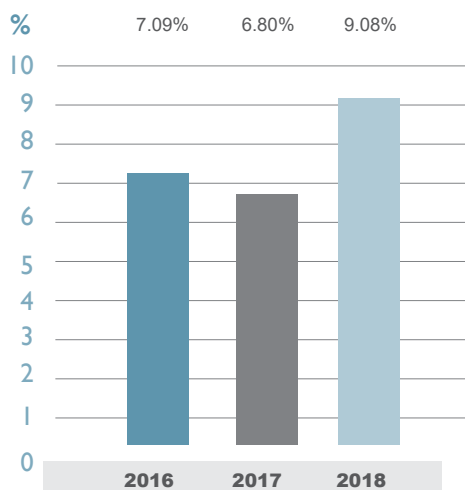
## DIVIDENDS PER SHARE



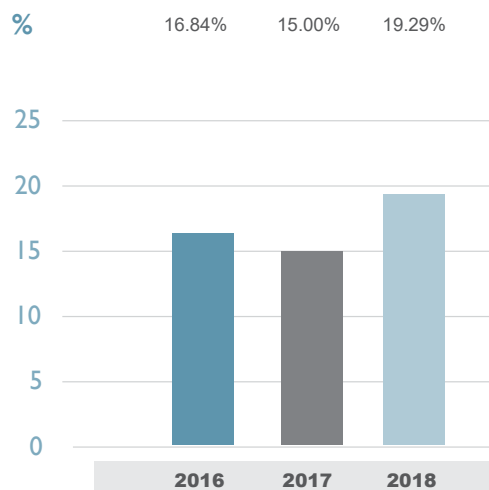
## NET ASSET VALUE (in Million)



## GROWTH IN NET ASSET VALUE



## RETURN ON EQUITY

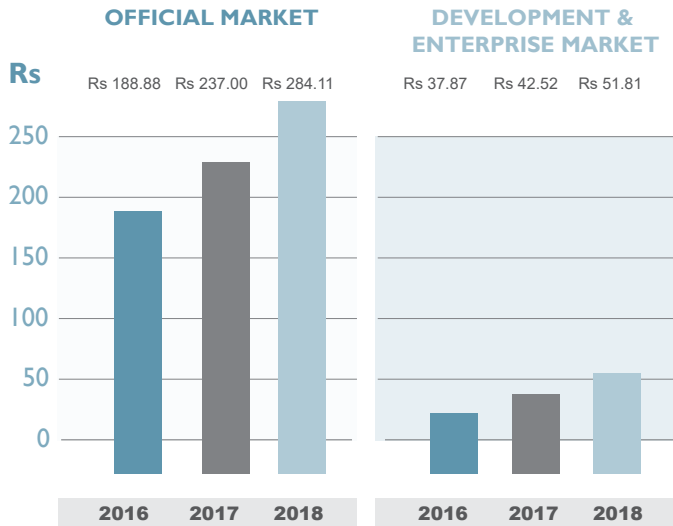


## VALUE ADDED STATEMENT

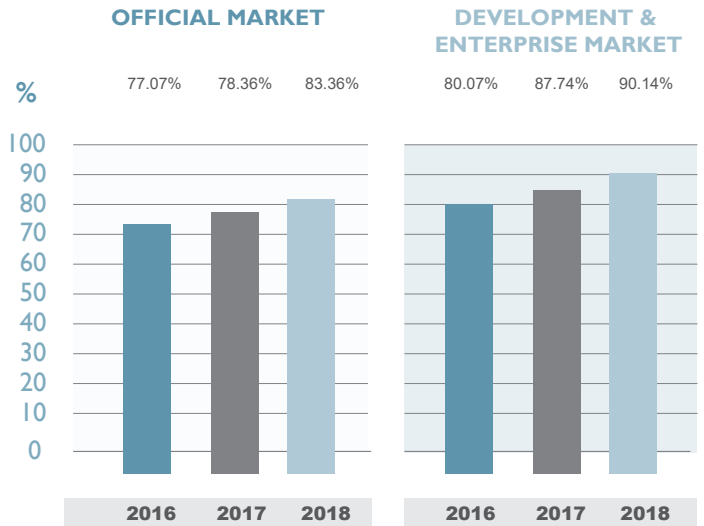
	As at 30 <sup>th</sup> June 2018		As at 30 <sup>th</sup> June 2017	
	Rs ' 000	%	Rs ' 000	%
<b>Turnover</b>	67,363		54,690	
Other Income	17,275		14,032	
Administrative Expenses	(7,927)		(7,975)	
<b>Total Wealth Created</b>	<b>76,711</b>	<b>100</b>	<b>60,747</b>	<b>100</b>
<b>Distributed as follows</b>				
Members of Staff	19,081	24	18,369	31
Salaries and other Benefits				
CDS Guarantee Fund	302	1	210	1
Contributions made by the Company				
Providers of Capital				
Dividends to Ordinary Shareholders	26,250	34	18,951	31
	45,633	59	37,530	63
Government - Taxation	8,377	11	6,505	10
Corporate Social Responsibility	821	1	843	1
Wealth reinvested in the Company				
Profit Retained	19,934	26	13,974	23
Depreciation	1,946	3	1,895	3
	21,880	29	15,869	26
<b>Total Wealth Distributed and Retained</b>	<b>76,711</b>	<b>100</b>	<b>60,747</b>	<b>100</b>

# STATISTICS ON OPERATIONS

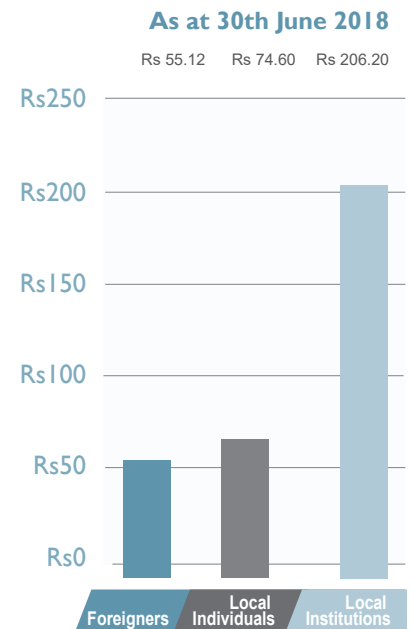
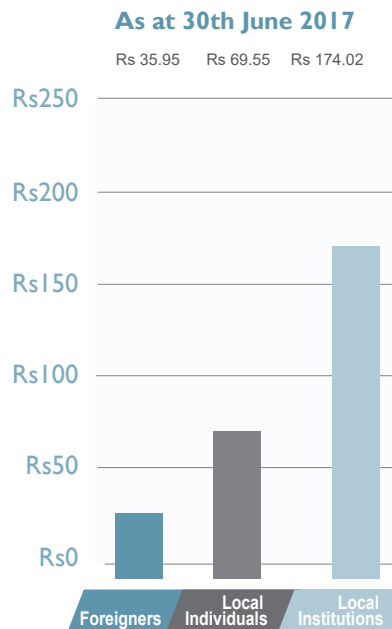
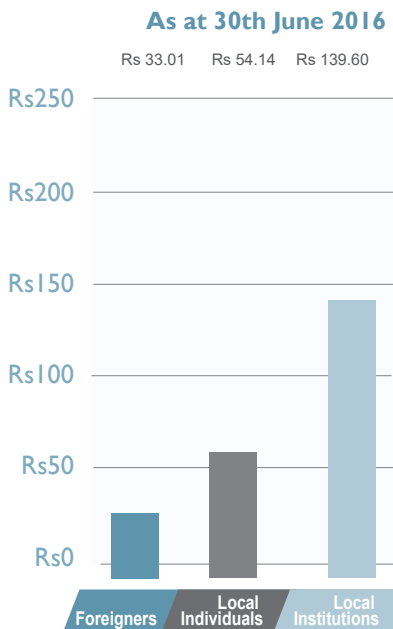
## AGGREGATE VALUE OF SECURITIES HELD IN CDS (in Billion)



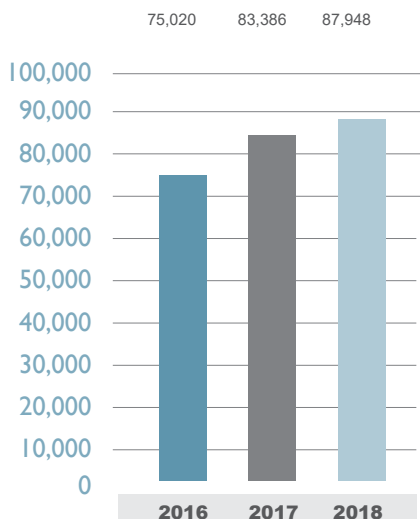
## PERCENTAGE OF TOTAL NUMBER OF SECURITIES HELD IN CDS



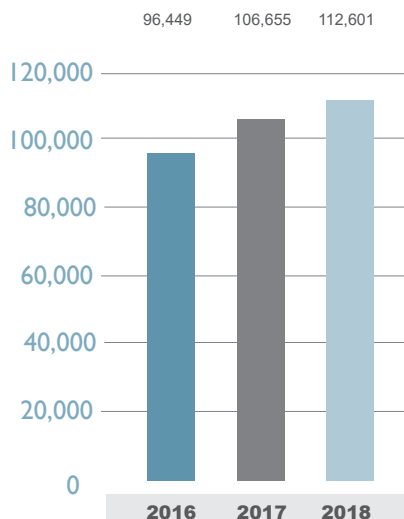
## BREAKDOWN OF AGGREGATE VALUE HELD IN CDS (in Billion)



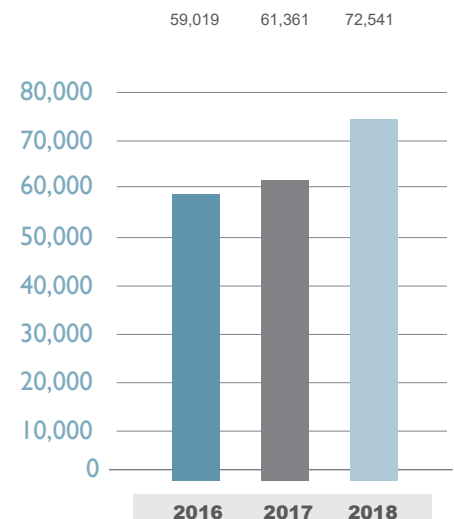
## NUMBER OF INVESTORS REGISTERED WITH CDS



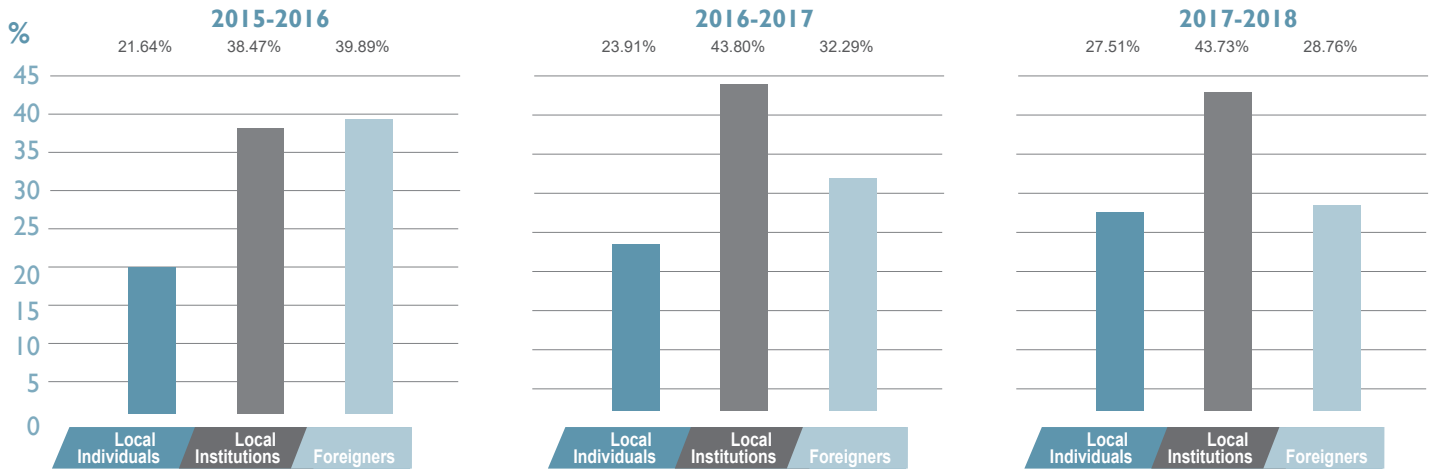
## NUMBER OF CLIENT ACCOUNTS IN CDS



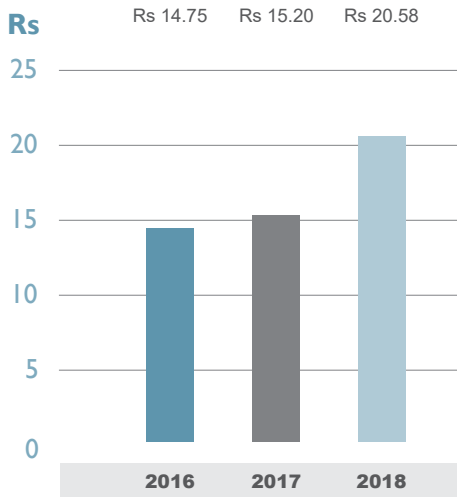
## NUMBER OF TRADES CLEARED AND SETTLED



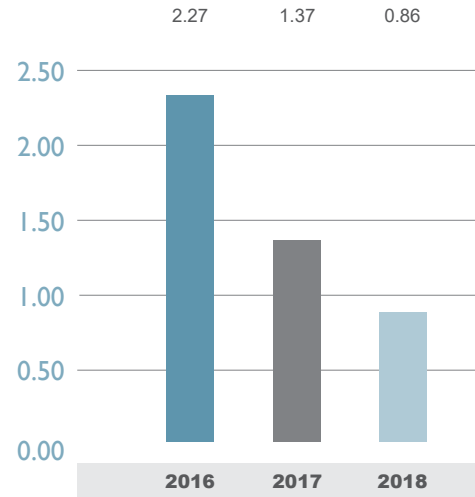
**BREAKDOWN OF VALUE OF TRADES CLEARED AND SETTLED**



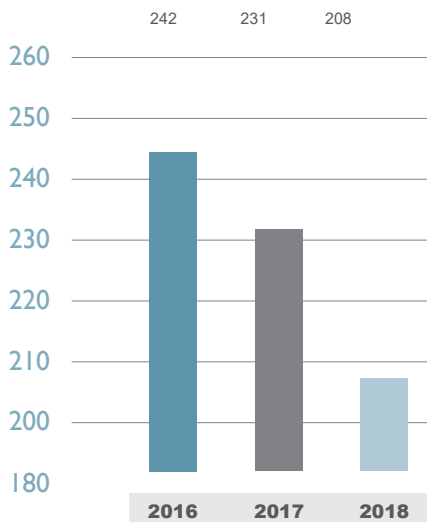
**VALUE OF TRADES CLEARED AND SETTLED (in Billion)**



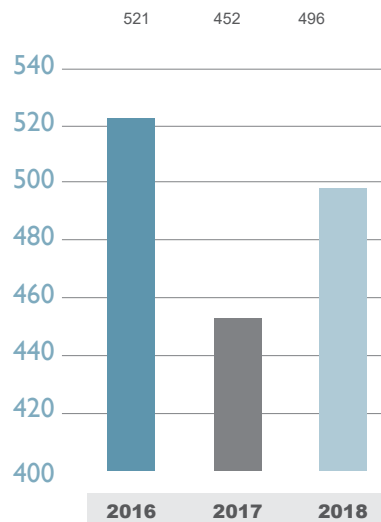
**VOLUME OF SECURITIES CLEARED AND SETTLED (in Billion)**



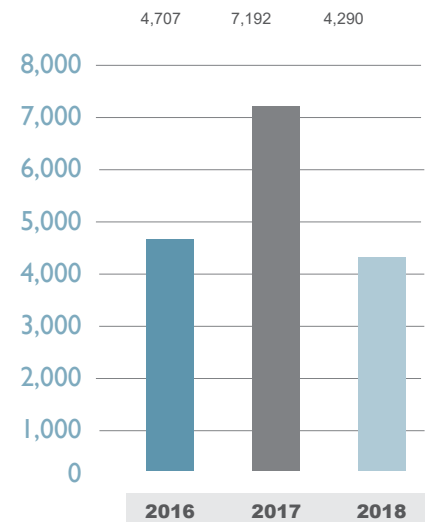
**NUMBER OF WITHDRAWALS PROCESSED**



**NUMBER OF PLEDGES PROCESSED**



**NUMBER OF DEPOSITS PROCESSED**



# CORPORATE GOVERNANCE REPORT

## 1.0 STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR MAURITIUS (2016)

This report describes the governance measures that have been implemented by the Central Depository & Settlement Co. Ltd (CDS) during the financial year 2017-2018 and complies with the requirements of Section 20(1)(a) of the Securities Act 2005. Throughout the year ended 30th June 2018, to the best of the Board's knowledge the Company has complied with the Code of Corporate Governance for Mauritius (2016) in the manner set out in this report. The Company has applied all of the principles set out in the Code and explained how these principles have been applied. Matters relating to risk management, internal control and audit are covered in the Risk Management Report and the Directors' Report.

## 2.0 GOVERNANCE STRUCTURE

The Board of the CDS assumes responsibility for leading and controlling the Company and meeting all legal and regulatory requirements. The Board Charter, Code of Corporate Behaviour, Position Statements of Chairperson and Company Secretary, Job Description of Management Team, and Organisational Chart have been approved by the Board. These documents and the constitution of the company are available on the website of the CDS.

The Managing Director performs the following main duties:

- a) Lead the management team;
- b) Make recommendations to the Board regarding strategic issues;
- c) Oversee management activities and human resources;
- d) Responsible for overall operations, cost control, risk management and development of the company;
- e) Manage legal and regulatory issues;
- f) Responsible for the implementation of Board decisions and policies;
- g) Interact with government and relevant institutions in the financial sector;
- h) Promote the Company on the international scene;
- i) Provide consultancy services to African stock exchanges and depositories.

## 3.0 THE STRUCTURE OF THE BOARD AND ITS COMMITTEES

### 3.1 SIZE AND COMPOSITION OF THE BOARD

The Company has a unitary Board composed of 10 directors as follows:

- 5 directors appointed by the SEM;
- 1 director appointed by the Minister to whom the responsibility of Financial Services is attributed;
- 1 director appointed by the Bank of Mauritius;
- 2 directors appointed by ordinary resolution at the annual meeting of shareholders (and where the SEM is not entitled to vote on any resolution appointing such 2 directors);
- 1 Managing Director.



The title, function and role of the Chairperson is separate from that of the Managing Director. The status of directors and their attendance at Board meetings during the year under review are provided in the Table below.

Name	Status	No. of meetings attended
Mr Nitish Benimadhu	Chairperson, Non-Executive (appointed by SEM)	7/7
Ms Aruna Radhakeesoon	Vice-Chairperson, Non-Executive (appointed at annual meeting)	5/7
Mrs Reedhee Bhuttoo	Non-Executive (appointed by SEM)	2/7
Mr André Chung Shui	Non-Executive (appointed by SEM)	7/7
Mr Steve Leung Sock Ping	Non-Executive (appointed at annual meeting)	7/7
Dr Ashwin Kumar Madhou	Independent (appointed by Bank of Mauritius)	6/6 (as from 28/09/2017)
Mr Vipin Y.S Mahabirsingh	Executive	7/7
Mr Rishianandsingh Moorut	Independent (appointed by Minister of Financial Services and Good Governance)	5/6 (as from 24/08/2017)
Mr Kevin Rangasami	Non-Executive (appointed by SEM)	6/7
Mr Sameer Sharma	Independent (appointed by Bank of Mauritius)	1/1 (up to 27/09/2017)
Mr Jaiyansing Soobah	Non-Executive (appointed by SEM)	4/6 (as from 20/10/2017)

The Company has only one executive director. The Board is of the view that due to the relative small size of the Company, there is no need to appoint a second executive director. Moreover, directors may have access to departmental managers.

The Corporate Governance Committee of CDS has in the past reviewed the blend of skills and experience needed by the CDS so that the Board can discharge its responsibilities effectively and has assessed the availability of these skills with respect to the composition of the Board. The blend of knowledge, skills and experience identified include the following: IT; Company Secretary; Investment Dealer; Legal; Risk Management; Banking; Finance/Investment; Accountancy; and Economics. The members of the Board and of the Board Committees do have the appropriate balance of skills, experience and knowledge of the organization to enable them to discharge their respective duties and responsibilities effectively.

There is diversity, including gender, on the Board and Board committees of CDS. In line with section 9 of the Equal Opportunity Act 2008 and the Guidelines issued by the Equal Opportunities Commission pursuant to Section 27(3)(f) of the Act, CDS has adopted an Equal Opportunity Policy with a view to minimizing the risks of discrimination and to promoting recruitment, training, selection and employment on the basis of merit.

The number of directors of CDS were previously reduced from 15 to 10 after an assessment of sufficiency. Based on the size of the organisation, turnover and the activities carried out by CDS, a Board comprising 10 members is sufficient to meet the requirements of the business.

The secretary of the Company is Mr Chaitanand Jheengun (F.C.I.S). The Position Statement for the Company Secretary has been approved by the Board.

### 3.2 BOARD COMMITTEES

The Board of CDS is ultimately responsible and accountable for the performance and affairs of the organization. Board committees have been established to assist the Board to discharge its duties effectively and there are transparent procedures for committees to report to the Board. The Board has constituted the following committees to facilitate efficient decision making and to assist it in the execution of its duties and responsibilities: Audit Committee; Corporate Governance Committee; Remuneration Committee and Investment Committee. The terms of reference of these Committees have been determined and approved by the Board and are posted on the website of the Company. The Corporate Governance Committee also has the responsibilities of a Nomination Committee. A separate Risk Committee has not been set up since the Business Conduct Committee, which was set-up at the inception of CDS in accordance with its Rules, already covers the functions of the Risk Committee. The work done by the Business Conduct Committee is covered in the Risk Management Report.

### AUDIT COMMITTEE

The composition of the Audit Committee as at 30<sup>th</sup> June 2018 was as follows:

Chairperson: Mr André Chung Shui  
Members: Mrs Reedhee Bhuttoo  
Mr Kevin Rangasami  
Secretary: Mr Chaitanand Jheengun

The main responsibility of the Audit Committee is to assist the Board in discharging its duties relating to the safeguarding of assets, the operation of adequate systems, control processes and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards.

The attendance of members at the meetings of the Audit Committee for the year under review is given in Table 2 below.

## **CORPORATE GOVERNANCE COMMITTEE**

The composition of the Corporate Governance Committee as at 30<sup>th</sup> June 2018 was as follows:

Chairperson: Ms Aruna Radhakeesoon  
Members: Mr Steve Leung Sock Ping  
              Mr Kevin Rangasami  
Secretary: Mr Chaitanand Jheengun

The Corporate Governance Committee makes recommendations to the Board on all corporate governance measures to be adopted so that the Board remains effective and complies with prevailing corporate governance principles. It also oversees the CSR activities of the Company. The Committee ensures that the reporting requirements with regard to corporate governance, whether in the annual report or on an ongoing basis, are in accordance with the principles of the Code of Corporate Governance. During the year under review, a Joint SEM/CDS Committee was set up under the leadership of the Chairperson of the Corporate Governance Committee of CDS to assess the compliance of CDS and SEM with new Code of Corporate Governance for Mauritius (2016) and to facilitate the implementation of the principles of the Code at CDS and SEM.

The attendance of members at the meeting of the Corporate Governance Committee for the year under review is given in Table 2 below.

## **REMUNERATION COMMITTEE**

The composition of the Remuneration Committee as at 30<sup>th</sup> June 2018 was as follows:

Chairperson: Mr Nitish Benimadhu  
Members: Ms Aruna Radhakeesoon  
              Mr Steve Leung Sock Ping

The Remuneration Committee determines the annual salary increases and the performance bonus of employees of the Company. The Committee makes recommendations to the Board regarding the remuneration of the Managing Director and Non-Executive Directors.

The attendance of members at the meeting of the Remuneration Committee for the year under review is given in Table 2 below.

## INVESTMENT COMMITTEE

The composition of the Investment Committee as at 30<sup>th</sup> June 2018 was as follows:

Chairperson: Mr Nitish Benimadhu  
 Members: Mr André Chung Shui  
 Mr Vipin Mahabirsingh

The Investment Committee sets investment guidelines within which funds generated by the Company are invested. Investment decisions are then made by management based on the guidelines. The decisions of management do not need to be approved by the Investment Committee as long as they are within the parameters of the investment guidelines. Any proposed deviation from the Investment Guidelines must be approved by the Committee. The Investment Committee is kept informed of the investment decisions taken via electronic mail.

**Table 2: Attendance at Meetings of Board Committees**

Name	Audit Committee	Corporate Governance Committee	Remuneration Committee	Investment Committee
Mr Nitish Benimadhu			1/1	1/1
Ms Aruna Radhakeesoon		5/6	1/1	
Mrs Reedhee Bhuttoo	2/3			
Mr André Chung Shui	3/3			1/1
Mr Steve Leung Sock Ping		6/6	1/1	
Mr Kevin Rangasami	2/3	5/6		
Mr Vipin Y.S Mahabirsingh				1/1

## 4.0 DIRECTOR APPOINTMENT PROCEDURES

The Board assumes responsibility for succession planning and for the appointment and induction of new directors to the Board. With the exception of the Managing Director, all directors have a term of office of one year. The non-executive directors are elected/ re-elected/ appointed/ re-appointed every year at the Annual Meeting, pursuant to the provisions of the Constitution of the Company. Before the Annual Meeting a letter is addressed to all shareholders, other than SEM, requesting them to nominate a candidate as prospective director for the election of directors at the next Annual Meeting. A resolution for the election of directors is forwarded to all shareholders with the notice of the Annual Meeting, together with a brief of prospective directors. The Annual Report contains details of each director. The election of non-executive directors, if the need arises, is carried out by ballot pursuant to the provisions of the Constitution. The SEM does not vote for the election of directors. Other non-executive directors, nominated by SEM, Bank of Mauritius and the Ministry of Financial Services as per the Constitution of the company, are re-appointed/ appointed at the Annual Meeting following a review of their short biography by the Corporate Governance Committee.

An induction pack including an overview of CDS and the latest annual report is provided to new directors.

Succession planning for senior management positions is discussed annually at the level of the Remuneration Committee.

A short profile of each director is provided in the table below.

DIRECTORS	KEY POSITION AND MAIN DIRECTORSHIP
<b>Nitish Benimadhu</b> BSc (Hons.) Economics MA Economics	Chief Investment Officer, SWAN Group Director, The Stock Exchange of Mauritius Ltd Director of a number of companies in various sectors of the economy
<b>Aruna Radhakeesoon (Ms)</b> Attorney-at-law, Mauritius Solicitor, England & Wales (NP) BA (Hons) Jurisprudence, Oxon F.MIoD	Executive Director & Chief Legal and Compliance Executive, Rogers and Company Limited Director: Mauritius Development Investment Trust Company Limited Chairman: National Committee on Corporate Governance Member: MIoD Forum The Law Society of England & Wales The Mauritius Law Society
<b>Reedhee Bhuttoo (Mrs)</b> BA (Hons.) Economics Associate member of Chartered Institute of Securities and Investment	Head of SBM Capital Markets Ltd Director, The Stock Exchange of Mauritius Ltd
<b>André Chung Shui</b> BSc ( Economics) Fellow of the Institute of Chartered Accountants in England & Wales F.MIoD	Director, The Stock Exchange of Mauritius Ltd Chief Finance Officer, Loinette Company Leasing Ltd
<b>Steve Leung Sock Ping</b> Fellow of the Institute of Chartered Secretaries & Administrators (FCIS) F.MIoD	Head of Quality Assurance, Mauritius Commercial Bank Ltd

DIRECTORS	KEY POSITION AND MAIN DIRECTORSHIP
<b>Aswhin Madhou</b> Ph.D Economics and Finance MSc Accounting MSc Finance BA Economics	Chief, Research and Economic Analysis Division, Bank of Mauritius
<b>Vipin Y.S. Mahabirsingh</b> B.Tech (First Class, Hons) Electronic Engineering M.Phil Microelectronic Eng. MBA (with distinction) FMIoD	Managing Director, CDS
<b>Rishianandsingh Moorut</b> MBA (Finance) BA (Hons) in Banking with Economics and Law	Senior Administrator, Alexander Management Services Ltd Director, SICOM Ltd
<b>Kevin S. Rangasami</b> Fellow of the Association of Chartered Certified Accountants	Managing Director, MCB Stockbrokers Ltd Director, The Stock Exchange of Mauritius Ltd
<b>Jaiyansing S. Soobah</b> Fellow of the Association of Chartered Certified Accountants MBA	Group Company Secretary, Swan Group Director: The Stock Exchange of Mauritius Ltd Director of a number of companies of Swan Group

## 5.0 DIRECTOR DUTIES, REMUNERATION AND PERFORMANCE

Directors of the CDS are aware of their legal duties. A Code of Corporate Behaviour that sets out the standards of behaviour that all directors and employees of CDS are expected to uphold in conducting the company's business, is in place at CDS. As per its Terms of Reference, the Corporate Governance Committee is responsible for reviewing any statements on ethical standards or requirements for the company and assisting in developing such standards and requirements and for the identification of any violations of ethical conduct. The Code of Corporate Behaviour contains procedures for reporting breaches of the Code and complaints regarding behaviour of directors or employees to the Corporate Governance Committee. The Board also monitors and evaluates compliance with the Code of Corporate Behaviour and no breach was observed during the year under review.

The conflicts of interest policy of the company is incorporated in the Board Charter, Code of Corporate Behaviour and Terms of Reference of the Corporate Governance and Audit Committees. As per its Terms of Reference, the Corporate Governance Committee can give recommendations on any potential conflict of interest and the Audit Committee has the responsibility of directing and supervising investigations into matters relating to conflict of interest. The letter of appointment for non-executive directors also contains a specific clause to draw the attention of new directors on the disclosure of conflicts of interest. The Company Secretary maintains an interests register that is available for consultation to shareholders.

An Information Security Policy approved by the Board, has been implemented at CDS. This document defines the responsibilities relating to the management of the Information Technology (IT) systems of the CDS and the procedures to be followed by employees as well as by remote users (investment dealers, custodian banks, Financial Services Commission, Bank of Mauritius and registries) when using the IT systems of the company. The IT Security Policy is based on the ISO 27001:2013 standard and the document was last reviewed in March 2017. The documents relating to the IT systems of the CDS (including the Disaster Recovery Plan) that should be maintained by the company are set out in the IT Security Policy.

All significant expenditures on information technology are provided for in the annual budget that has to be approved by the Board before the start of the financial year.

Board meetings are generally held every two months and are convened by formal notice. A detailed agenda together with a comprehensive board pack are circulated to directors at least a week before board meetings. Management accounts are circulated to directors by email on a monthly basis and directors can request information regarding the affairs of the company, from the management at any time.

As per section 3(7) of the Securities (Central Depository, Clearing and Settlement) Act 1996, all the directors and employees of the CDS have taken an oath of confidentiality.

A directors' and officers' liability insurance policy has been subscribed to by the Company. This policy provides cover for the risks arising out of acts or omissions of the directors and officers of the Company but excludes claims for any deliberately fraudulent act or omission or any wilful violation of any statute or regulation.

### Related Party Transaction

CDS has a contract with its holding company (SEM) for the technical management of the Automated Trading System and for other IT services. The fees for the IT outsourcing services provided to the SEM for the year ended 30th June 2018 amount to Rs 1,341,000 plus VAT.

### Performance

During the financial year ended 30th June 2013, a survey was conducted among directors to evaluate the effectiveness of the board governance processes and procedures. A Board Self-Evaluation questionnaire that covered the following main areas was circulated among directors:

- Board Meetings
- Board Structure and Composition
- Leadership of the Board
- Board Functions
- Board Committees
- Planning and Objectives
- Risk Assessment
- Human Resources and Succession Planning
- Financial and Operational Reporting
- Compliance and Ethical Framework

## CORPORATE GOVERNANCE REPORT (CONT'D)

8 out of 9 directors responded to the questionnaire. The results of the survey were analysed by the Corporate Governance Committee. The majority response to all 25 questions was either “meets objectives” or “exceeds objectives”.

The next Board Self-Evaluation exercise will be conducted in 2018-2019 and thereafter once every two years.

### Remuneration

The Remuneration Committee makes recommendations to the Board regarding the remuneration of the Managing Director and Non-Executive Directors. A fixed monthly fee as well as an attendance fee is paid to directors of the Company. An additional fee is paid to directors who are members of Board Committees for each meeting of the respective Board committee that they attend. The Managing Director is not remunerated for attending Board and Committee meetings. The remuneration received by each director during the year under review are provided in the table below

Name	Remuneration Received (Rs)
Mr Nitish Benimadhu	240,000
Ms Aruna Radhakeesoon	198,000
Mrs Reedhee Bhuttoo	116,500
Mr André Chung Shui	150,000
Mr Steve Leung Sock ping	144,500
Dr Ashwin Kumar Madhou	87,000
Mr Vipin Y.S Mahabirsingh	5,942,000*
Mr Rishianandsingh Moorut	92,500
Mr Kevin Rangasami	139,500
Mr Sameer Sharma	26,500
Mr Jaiyansing Soobah	82,000

\* For the Managing Director, the total remuneration consists of Short Term Benefits of Rs 5,357,000 and Post Employment Benefits of Rs 585,000.

### Dealing in Shares by the Directors

There was no dealing in the shares of the Company by the directors for the year under review.



## Common directors and their percentage shareholding

The table below gives the names of the common Directors of CDS and its holding Company (SEM), together with the shareholding percentages of the shareholders they represent:

Name of Directors	Shareholders' Names	% Holding in CDS	% Holding in SEM
Mr Nitish Benimadhu	Swan Life Ltd	-	15.0%
Mr Jayansing Soobah	Swan General Ltd	3.33%	7.5%
Mrs Reedhee Bhuttoo	SBM Securities Ltd	3.33%	4.83%
Mr André Chung Shui	Newton Securities Ltd	-	5.76%
Mr Kevin Rangasami	MCB Stockbrokers Ltd	-	5.44%

## 6.0 RISK GOVERNANCE AND INTERNAL CONTROL

The Board is responsible for the governance of risk and for determining the nature and extent of the principal risks it is willing to take in achieving its objectives. Given the specific nature of the activities of the CDS and the requirements of Section 20(4) of the Securities Act 2005, the risk management and internal control framework of the company is set out in the Risk Management Report that forms part of the Annual Report.

## 7.0 REPORTING WITH INTEGRITY

Company law requires directors to prepare financial statements for each financial year which present fairly the financial position, financial performance, changes in equity and cash flows of the Company. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2001. They are also responsible for safeguarding the assets of the Company and hence for the implementation and operations of accounting and internal control systems that are designed to prevent and detect fraud and errors, as well as an effective risk management system.

The five latest annual reports of the CDS are published on the website of the Company.

### 7.1 CORPORATE SOCIAL RESPONSIBILITY

In line with the policy that adopted by the Company during the past few years and as decided by the Corporate Governance Committee, CDS continued to support the Association of Disability Service Providers (ADSP) under its CSR programme for 2017-2018. CDS is currently the main sponsor of ADSP and thanks to our support, ADSP has continued to improve the services it offers to its students (food program for students; medical check-up and paramedical services; recruitment of new staff; purchase of furniture and equipment etc.). ADSP is aligning its curriculum with the nine year schooling programme and in 2017, the school provided opportunities to children with special education needs (SENs) to sit for the Primary School Achievement Certificate (PSAC).

The amendment brought to Section 50L of the Income Tax Act by the Finance Act 2016 whereby at least 50% of the CSR Fund shall be remitted to the Director-General of the MRA, is applicable to the CSR Fund of CDS as from this year. The CSR Fund of CDS for the financial year 2017-2018 amounted to Rs 821,114 and 50% of this Fund was donated to ADSP to partially support the implementation of the following projects: Early Intervention; Psychologist; Food Programme; Printing of Report Books and Adapted Curriculum; and Website.

The management team of CDS participates in the activities of ADSP (e.g Independence Day Celebrations etc.) on a regular basis.

### 7.2 PROTECTION OF THE ENVIRONMENT

The Company has implemented the following actions to contribute to the protection of the environment by minimizing the use of paper:

- i. Sending statements of accounts by electronic mail rather than by post to account holders who choose this option (around 14,600 statements were sent by e-mail for the month of June 2018);
- ii. Sending Board and Committee papers by electronic mail to directors who choose this option;
- iii. Making efficient use of paper by printing on both sides; and
- iv. Sensitising employees to use consumables efficiently and print mails and documents only when necessary.

### 7.3 POLITICAL DONATIONS

No political donation was made by the Company for the year under review.

### 7.4 HR ISSUES

Labour cost represented about 60% of the Company's total operating expenses for 2017 -2018. The Company recognizes the importance of its human capital in sustaining its smooth operations and growth. The Company's remuneration philosophy is to pitch its pay policy at the market average. The Company has a stable workforce with very low turnover.

Amendments to the Rules of the Pension Scheme of the Company to change the Normal Retirement Age from 60 to 65 have been approved by the Board with the consent of all employees and by the Financial Services Commission.

The Company has also implemented a number of measures to promote the welfare of its staff. These include car grant scheme, car loan scheme and soft loans to cater for specific needs. Training courses are provided to employees on a regular basis to enhance their skills. Financial assistance is also given to staff taking professional or tertiary courses. Managers and executives are given the opportunity to attend international conferences and training programmes.

The Company complies with the provisions of the Occupational Safety and Health Act 2005 regarding the safety and health of its employees. There was no complaint on this matter for the year under review.

## 7.5 EQUAL OPPORTUNITY POLICY

In line with section 9 of the Equal Opportunity Act 2008 and the Guidelines issued by the Equal Opportunities Commission pursuant to Section 27(3)(f) of the Act, CDS has adopted an Equal Opportunity Policy with a view to minimizing the risks of discrimination and to promoting recruitment, training, selection and employment on the basis of merit. There was no complaint on these matters for the year under review.

## 8.0 AUDIT

Matters relating to internal and external audit are dealt with in the Risk Management Report and the Directors' Report that form part of the Annual Report.

## 9.0 RELATIONS WITH SHAREHOLDERS AND OTHER KEY STAKEHOLDERS

The shareholders of CDS are listed in the table below.

Shareholder	Number of shares	Percentage holding
The Stock Exchange of Mauritius Ltd	76,500	51.00%
The Mauritius Commercial Bank Ltd	25,000	16.67%
Rogers and Company Ltd	20,000	13.33%
Promotion & Development Limited	10,000	6.67%
SBM Securities Ltd	5,000	3.33%
Swan General Ltd	5,000	3.33%
United Docks Ltd	2,500	1.67%
Harel Mallac & Co. Ltd	2,500	1.67%
State Investment Corporation Ltd	2,000	1.33%
Automatic Systems Ltd	1,000	0.67%
Mauritius Computing Services Ltd	500	0.33%
	150,000	100%

Any change in the ownership of shares of the Company is subject to restrictions and limitations set out in the Constitution of the Company.

## CORPORATE GOVERNANCE REPORT (CONT'D)

Annual meetings are held within 3 months from the end of the financial year and the notice of the annual meeting is sent to shareholders at least 14 days before the meeting in accordance with the Companies Act 2001.

The key stakeholders of the Company are as follows: Ministry of Financial Services, Good Governance and Institutional Reforms; Financial Services Commission; Stock Exchange of Mauritius Ltd; Bank of Mauritius; Investment Dealers; Custodian Banks; and Company Registries. Regular meetings are held with stakeholders to discuss matters of common interest. Investment Dealers, Custodian Banks, Company Registries and SEM are consulted prior to amendments to Rules and Procedures. Such consultations take place by email as well as discussions at the level of the Consultative and Informative Committee and the Clearing and Settlement Advisory Committee. Regular meetings are also held with the Financial Services Commission to discuss market development initiatives.

### 10.0 DIVIDEND

The CDS has adopted a dividend policy whereby 60% of the Profit after Tax is distributed as dividend. The objective of the Company is to provide an acceptable return to its shareholders whilst at the same time continuing to build up its reserves to ensure business continuity and provide a shock absorber to cover the ultimate risk of default in the event that the resources of the Guarantee Fund are exhausted.

The Board maintained the above dividend policy and declared a dividend equal to Rs 26,250 M (Rs 175 per share) for the year ended 30<sup>th</sup> June 2018.



Chaitanand Jheengun (FCIS)  
Company Secretary

# RISK MANAGEMENT REPORT

## RISK MANAGEMENT FRAMEWORK

The ability to identify, monitor, measure and manage risks on an ongoing basis is crucial for a central depository, clearing and settlement organisation. Over the years, the Central Depository & Settlement Co. Ltd (CDS) has developed a comprehensive risk management framework to manage the different types of risks that arise in or are borne by a central depository, clearing and settlement organisation, namely: legal risk; credit (counterparty) risk; liquidity risk; systemic risk; general business risk; investment risk; and operational risk. The Board of the CDS is responsible for the governance of risk and for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. This report describes the risk management and internal control policies, procedures and systems that are in place at the CDS and their application during 2017-2018, and complies with the requirements of Section 20(4) of the Securities Act 2005.

The main pillars of the risk management framework implemented by the CDS are as follows:

- Clear, transparent and enforceable rules and procedures that are consistent with the Securities (Central Depository, Clearing and Settlement) Act 1996, the Securities Act 2005 and the Financial Services Act 2007
- The Business Conduct Committee
- Capital Adequacy Requirements for Participants
- Settlement on a strict delivery versus payment basis
- Prevention of Settlement Failures and Guarantee Fund Mechanism
- Securities Lending and Borrowing
- System of Internal Controls
- External Audit of the System of Internal Controls
- Internal Audit of Operations and Systems Departments
- Disaster Recovery Plan
- IT Security Audit
- Financial Controls
- Investment Committee
- Strong and liquid balance sheet

## ELIGIBLE SECURITIES DEPOSITORY UNDER US INVESTMENT COMPANY ACT

The CDS qualifies as an Eligible Securities Depository under the US Investment Company Act Rule 17f-7. This rule requires US registered investment companies to hold their securities only in Eligible Securities Depositories to reduce risks associated with offshore investments. Rule 17f-7 of the US Investment Company Act sets forth the following six criteria for the determination that a depository is “eligible” to hold assets of a U.S. or Canadian domiciled investment company:

- I. Acts as or operates a system for the central handling of securities or equivalent book-entries in the country where it is incorporated, or a transnational system for the central handling of securities or equivalent book-entries;

## RISK MANAGEMENT REPORT (CONT'D)

2. Is regulated by a foreign financial regulatory authority;
3. Holds assets for the custodian that participates in the system on behalf of the fund under safekeeping conditions no less favourable than the conditions that apply to other participants;
4. Maintains records that identify the assets of each participant, and segregate the system's own assets from the assets of participants;
5. Provides periodic reports to its participants with respect to its safekeeping of assets, including notices of transfers to or from any participant's account; and
6. An eligible securities depository must undergo periodic examination by regulatory authorities or independent accountants.

The CDS meets the above six criteria.

## THE BUSINESS CONDUCT COMMITTEE

Since its inception in 1997 and in accordance with section 1.4 of the CDS Rules, the CDS has set up a Business Conduct Committee (BCC) with the following mandate:

1. Recommend the adoption of a risk management policy to the Board of Directors
2. Monitor the operations relating to risk management issues
  - 2.1 Ensure enforcement of the risk management policy being adopted.
  - 2.2 Ensure compliance with the requirements of Rule 3.8.7 with regard to the review of internal control
3. Monitor the operations relating to the Guarantee Fund
4. Hear complaints from aggrieved Participants who claim to be adversely affected by any decision of CDS with respect to CDS operations in accordance with Rule 2.4
5. Make recommendations to the Board of Directors of CDS with respect to Participation Applications in accordance with Rule 2.2.4 and to Termination in accordance with Rule 2.3.3.

As per section 1.4.2 of the CDS Rules, the Business Conduct Committee is composed of a majority of members who are not members of the Board of CDS, nor Participants or related to Participants, and not employed by a Participant. The quorum for meetings of the Business Conduct Committee is three with at least two independent members. The composition of the Business Conduct Committee for the financial year 2017 – 2018 was as follows:

Chairperson: Mr Pierre Dinan

Members: Ms Feerdaus Bundhun  
Mr Tega Appavou  
Mr Ashish Jagarnath  
Mr Vikash Tulsidas

The Finance & Administration Manager of CDS is the Secretary of the Business Conduct Committee which meets on a monthly basis to review and discuss the following issues:

- Financial Resource Requirements returns submitted by Participants
- Statement of assets and liabilities of the Guarantee Fund
- Settlement Limits of Participants
- Internal audit report
- Audited and unaudited accounts of Participants
- Statistics on operations

The attendance of members at the meetings of the BCC held during the year under review was as follows:

Name	No. of meetings attended
Mr Pierre Dinan	11/11
Ms Feerdaus Bundhun	10/11
Mr Tega Appavou	10/11
Mr Ashish Jagarnath	9/11
Mr Vikash Tulsidas	11/11

## CAPITAL ADEQUACY REQUIREMENTS FOR PARTICIPANTS

The CDS has set up capital adequacy requirements for its Participants as a first line of defence against risk. An assessment of the stability and financial health of Participants in the clearing and settlement services provides an important indication of potential trouble. The CDS has implemented a set of rules on conditions for participation called Financial Resource Requirements. These rules require each investment dealer to have sufficient adjusted liquid capital to cover its fixed expenditure base requirements and risk (position, counter party and foreign exchange) requirements. Investment dealers are required to submit monthly returns so that CDS can monitor compliance with the Financial Resource Requirements (FRR). These returns are analysed by the BCC at its monthly meetings. Copies of the FRR returns are also filed with the Financial Services Commission.

***All the FRR returns submitted by investment dealers during the year 2017 – 2018 showed Capital Surpluses.***

### DELIVERY VERSUS PAYMENT

The CDS has eliminated principal risk with respect to transactions effected on the Stock Exchange of Mauritius, by performing the settlement of transactions on a strict delivery versus payment basis. There is no risk that a CDS Participant delivers securities but does not receive payment or vice-versa. Trades executed on the Automated Trading System (SEMATS) are automatically fed into the CDS system and the relevant securities accounts are updated on a real-time basis. On trade day, the seller's securities account shows a Sale-in-Suspense and the traded securities are blocked in this account. The buyer's securities account shows a Purchase-in-Suspense but the securities are not transferred to this account. On settlement date, funds transfer between the seller's and buyer's Participants takes place at a cut-off time on a net basis through the Participants' settlement banks and the Bank of Mauritius. When funds settlement is completed by final and irrevocable transfer in the books of the Bank of Mauritius, the latter sends a confirmation message to CDS which then immediately transfers the securities by debiting the seller's securities account and crediting the buyer's securities account. The securities are delivered to the buyer if and only if the CDS receives confirmation of settlement of the cash leg from the central bank. Conversely, if the buyer makes payment, the delivery of the securities is guaranteed since the securities have already been blocked in the securities account of the seller.

### GUARANTEE FUND

In accordance with Section 3(8)(a) of the Securities (Central Depository, Clearing and Settlement) Act 1996, the CDS has set up a Guarantee Fund for the purpose of providing an indemnity against any default in respect of payments for or delivery of securities and of obligations of Participants towards CDS. The Guarantee Fund is used to guarantee the settlement of transactions in the event of a default by a Participant. In such a situation, the Guarantee Fund steps into the net settlement mechanism and makes good the obligation of the defaulting Participant. The Guarantee Fund will seize the unpaid securities and sell these back on the market in order to replenish itself. The Guarantee Fund acts as a shock absorber in the event of a settlement failure and thus prevents the market from collapsing through systemic effect. The Guarantee Fund contributes to maintain confidence in the stock market

***It is important to note that to date there has never been any failed trade in the CDS.***

The Fund is constituted of cash contributions by investment dealers and CDS, as well as Letters of Credit/Deposits provided by investment dealers. The CDS contributed an amount of Rs 301,557 to the Fund in 2017–2018 (Rs 210,125 in 2016-2017). The assets of the Fund are segregated from those of the CDS (separate bank accounts) and are available only for the purpose of the Fund as required by law. The Fund is independently managed by the Business Conduct Committee. The assets of the Fund are only invested in low-risk liquid instruments. The size of the Fund as at 30<sup>th</sup> June 2018 was as follows:

Cash contributions: Rs 33,877,088 (Rs 34,020,472 as at 30<sup>th</sup> June 2017).

Letters of Credit/Deposits submitted by investment dealers: Rs 28,061,000 (Rs 28,119,000 as at 30<sup>th</sup> June 2017)

The Fund can also have recourse to a standby line of credit of Rs 50 M from its banker.

It should be noted that during the year under review two investment dealers ceased to be participants of CDS after giving thirty days' notice as per section 2.3.5 of the CDS Rules. Their contribution to the Guarantee Fund (a total of Rs 1,388,447) were returned to them in accordance with section 6.2.3.1 of the CDS Rules.



## RISK CONTROLS TO ADDRESS FUNDS SETTLEMENT FAILURES

Each investment dealer has a settlement limit that is based on the amount of collateral (cash and letters of credit) submitted to CDS. The minimum amount of the collateral required for an investment dealer is based on the moving average of its cumulative liability over the past 12 months. CDS monitors the settlement obligation of each investment dealer on a daily basis. If at the close of trading, the net cumulative liability (total amount of unsettled obligations over a period of three days) of an investment dealer exceeds its settlement limit, the investment dealer is required to submit additional collateral before being allowed to buy more securities during the next trading session.

During the year 2017–2018, there were 14 cases where the settlement limits of investment dealers were exceeded (22 cases in 2016-2017). In each case, the relevant investment dealer submitted the required collateral on the next business day after the limit was exceeded.

If an investment dealer fails to meet its settlement obligations, the CDS will have recourse to its Letter of Credit and to the Guarantee Fund to meet the investment dealer's obligations and complete the settlement of transactions. The Stock Exchange of Mauritius (SEM) and the Financial Services Commission will be immediately notified of the funds settlement failure.

*There was no funds settlement failure during the year under review.*

## RISK CONTROLS TO ADDRESS SECURITIES DELIVERY FAILURES

When an investment dealer places a sell order for a client on the automated trading system (ATS), the system verifies that the client has previously deposited or purchased the securities that it wishes to sell, before accepting the sell order in the order book. However, the ATS allows an investment dealer to place a bulk order without indicating the clients' accounts. After the execution of the bulk order, the investment dealer will then allocate the trades to its clients. The CDS system automatically checks the securities balance each time a trade is allocated to a client's account. In case of insufficient balance in the client's account, the system will not allow the investment dealer to allocate the sale to that client. In such a situation, the trade is automatically posted to the account of the investment dealer that must now deliver the securities. If the investment dealer does not hold the securities, its proprietary account will show a negative balance.

When an investment dealer buys or sells securities for the client of a custodian bank, the transaction is subject to the confirmation of the latter. A situation that may lead to a negative balance in an investment dealer's account is when a custodian bank does not accept a sale that has been allocated to its client's account by the investment dealer. In such a case, the sale is allocated to the proprietary account of the investment dealer and this account will show a negative balance if the investment dealer does not hold the securities that must be delivered.

CDS monitors whether there are any negative balances in the proprietary accounts of investment dealers on a daily basis. Any negative balance in the securities account of an investment dealer must be rectified before 9:00 a.m on T+3 by re-allocating the trade to another client or by borrowing the securities through the securities loan service of CDS.

If the investment dealer still does not have securities in the account at 9:00 a.m on T+3, the trade is temporarily suspended and a buy-in procedure is initiated. The SEM and FSC are immediately notified. The investment dealer is required to make a cash deposit of 50% to CDS and pay a daily fine of 0.20% of the value of the securities (marked to market daily) until the buy-in is completed or the situation is corrected. CDS may abort the buy-in procedure in the following circumstances:

1. The Custodian Bank confirms the trade after T+3, 9:00 a.m and such confirmation is submitted to CDS before T+5, 9:00 a.m.
2. The defaulting investment dealer reports to CDS a loan transaction to settle the trade and the duly completed CDS Loan Forms reach CDS by T+5, 9:00 a.m.

When buy-in is aborted, the original failed trade together with all turnaround trades (see next section) linked to it will be reinstated and will be settled on the next Business Day. In such a situation, CDS will return the cash deposit to the defaulting investment dealer.

When buy-in is completed, notwithstanding whether it is successful or not, the CDS will use the cash deposit to compensate all the buyers involved in each turnaround trade linked to the failed trade, except the buyers involved in the last transaction in each chain of turnaround trades, by paying them an amount equal to 50% of the difference between the price at which they bought the securities and the price at which they subsequently sold the securities.

If after 5 trading sessions the buy-in is unsuccessful, CDS will use the cash deposit to also compensate the buyers in the last transaction in each chain of turnaround trades linked to the failed trade, by paying them an amount equal to 15% of the value of the securities that remain undelivered after the buy-in and CDS will request the SEM to cancel the failed trade together with all turnaround trades linked to it.

***There was no securities delivery failure during the year under review.***

## TURNAROUND TRADING

Following the coming into force of the Securities (Brokerage Fees for Turnaround Trades) Rules 2013, a schedule of reduced transaction fees for turnaround trades was implemented on 12<sup>th</sup> December 2013. Turnaround trading involves the selling of securities that have been purchased earlier during a trading session or during previous trading sessions before the settlement date of the initial purchase (i.e. between T and T+2 inclusive, where T is the date of the first trade), to take advantage of an upward movement in prices. Similarly an investor may purchase securities that have been sold earlier during a trading session or during previous trading sessions before the settlement date of the initial sale, to take advantage of a downward movement in price, provided that the investor had the securities in its account prior to the initial sale. 1,790 turnaround trades for a total amount of Rs 230.5 M were cleared and settled in 2017-2018 compared to 1,447 trades for a total amount of Rs 143 M in 2016-2017.

## SECURITIES LENDING

The securities loan service implemented by CDS allows an investment dealer that faces a potential securities delivery failure consequential to the refusal of a sale by a custodian bank, to borrow the securities from a lender (which can be another Participant or its client) and deliver the securities to the buyer/s. The failure of the trade together with any turnaround trades linked to it would thus be avoided with the execution of the loan transaction.

Even with the implementation of the securities loan service, a securities delivery failure may occur if the investment dealer that faces the failure cannot find a willing lender for the securities. In such situations, the CDS Procedures regarding buy-in and compensation described above are applied.

*It should again be noted that there was no securities delivery failure during the year under review.*

## INTERNAL CONTROL AND INTERNAL AUDIT

The CDS has implemented a system of internal controls pertaining to:

1. The recording of transactions in securities accounts;
2. The processing of transactions, including clearing and settlement, in accordance with CDS Rules and Procedures; and
3. The integrity and reliability of its data processing facilities.

The system of internal controls is implemented in the Rules and Procedures that govern the day-to-day activities of the CDS and is also integrated in the design of the computer system of CDS. Additional measures have been implemented to ensure the integrity of data and the effectiveness of the internal control system. These measures include the following:

- a) Before any entry is made in the system, strict verifications are carried out against source documents and instructions.
- b) The list of the authorised personnel of registries and CDS participants together with their specimen signatures and the respective powers conferred to them by their company, are kept up-to-date and are referred to when processing transactions relating to the registries and participants.
- c) After posting into the system, verifications are carried out to ensure that balances are correctly updated by new validations or transactions posted. The balances of securities recorded in the system of CDS are reconciled with the figures (balances of securities held in the name of CDS) provided by registries, after the processing of each deposit and withdrawal.
- d) All operations like deposits, withdrawals, transfers, pledges and trade amendments involve at least two CDS staff for control purposes. One person executes the function while the other verifies whether the function has been correctly executed.
- e) A full concurrent audit is carried out to ensure that all transactions are backed up by relevant instructions and source documents.
- f) A series of automated tests are performed by the Systems Department to verify the integrity of the database on a daily basis.

### EXTERNAL AUDIT OF THE SYSTEM OF INTERNAL CONTROLS

The suitability and effectiveness of the system of internal controls are verified by external independent auditors on an annual basis. The external auditors also conduct a full operational audit at the same time. For the year ended 30<sup>th</sup> June 2018, the auditors, on the basis of the audit tests carried out, concluded that the system of internal controls of the CDS operated effectively and responded properly to the current environment. No exceptions were found by the auditors. The certificate of the auditors is included in the Annual Report.

### INTERNAL AUDIT OF OPERATIONS AND SYSTEMS DEPARTMENTS

The Secretary of the Business Conduct Committee performs monthly internal audits of the functions performed by the Operations and Systems Departments of the CDS. The objective of these internal audits is to verify whether adequate control procedures are in place and also whether the CDS Rules and Procedures are complied with when performing the different functions. The results of these internal audits are reviewed by the Business Conduct Committee. No material exceptions were found by the internal auditor during the year under review.

### IT SECURITY POLICY

The CDS ensures that its IT systems are secure (that is, has access controls; is equipped with adequate safeguards to prevent external intrusion; and provides audit trails), reliable and have sufficient capacity to handle expected volume growth. The CDS has implemented an IT Security Policy that defines the responsibilities relating to the management of the IT systems of the CDS and the procedures to be followed by employees of the company as well as by remote users (investment dealers, custodian banks, Financial Services Commission, Bank of Mauritius and registries) when using the IT systems of the company. The IT Security Policy is regularly updated to keep pace with latest developments regarding information security.

The CDS system has industry-standard security features like:

- User and Role Based Access Control (users have accessed to the different functions available in the system based on their respective roles)
- Password controls
- Auditing features at application, operating system and database levels

At the application level, the system maintains the history of all transactions carried out. Every event that changes a balance in a securities account is recorded as a ledger entry. These ledger entries are visible in the client balance inquiry screen giving a complete transaction history. In addition any changes made to investor, security and participant details are logged and are viewable in the form of an audit trail.

The system maintains log files that contain an audit trail of all activities and functions performed on the system as well as transactions processed. These log files are verified on a daily basis.

The Stock Exchange of Mauritius Ltd (SEM) has outsourced its IT function to CDS since January 2001. This includes the technical management of the Automated Trading System (ATS). SEM and CDS have renewed the IT Outsourcing Agreement where the service provided by CDS is clearly defined. The objective of the outsourcing is to achieve costs savings and synergies for both companies.

Investment Dealers, Custodian Banks, the Financial Services Commission and the Bank of Mauritius use the same network and telecommunications lines to access the ATS and CDS systems. Both systems use the same database servers. However, the engine of the Automated Trading System (ATS) runs on three separate servers on the same network.

Software enhancements, modifications and additions are thoroughly tested before implementation in the live environment. A formal Change Management Procedure is in place at CDS.

***No breach of the IT Security Policy was observed during the year under review and the Change Management Procedure was followed for all changes that were made to the systems during 2017-2018.***

## IT SECURITY AUDIT

Independent external auditors with specific expertise in IT security perform a security audit of the IT systems of the CDS and SEM, once every two years. The scope of the security audit is as follows:

- Performing a review of the security policy of SEM and CDS;
- Reviewing the existing network architecture to confirm that it is capable of supporting required security controls;
- Performing a security audit of the network components like routers, firewall, switches etc;
- Performing security audit of the Solaris servers and databases;
- Conducting internal vulnerability assessment;
- Verifying the VPN and wireless connections;
- Performing non-intrusive external penetration testing;
- Reviewing of Disaster Recovery Planning and
- Verifying workstations on the network of SEM and CDS.

The last IT security audit was conducted in April-May 2017 by PricewaterhouseCoopers Ltd (PwC). In their report, the auditors stated that they found that the IT infrastructure of SEM and CDS have been well designed to protect against both internal and external threats. They performed external attacks such as password cracking, denial of service, buffer overflow, user enumeration among others on the web facing application, but were not able to penetrate inside the network or retrieve any information. Their vulnerability assessment and penetration testing did not reveal weaknesses which may lead to the direct compromise of the SEM/CDS IT infrastructure. As part of their review, they also validated that our servers, databases and network equipment are appropriately configured in line with good practices and proven methods. The report also concluded that the IT security policy and IT contingency plan are well designed and structured to mitigate known security risks, and that the disaster recovery procedures are tested regularly to ensure a timely resumption of services following a major incident or disaster. The auditors also identified a few improvement opportunities which can be incorporated in the current IT environment. The recommendations made by the auditors have been implemented during 2017-2018.

### DISASTER RECOVERY PLAN

The CDS has in place a Disaster Recovery Plan (DRP) to cater for various scenarios. The DRP covers both preventive and corrective measures that will enable CDS to deal with various types of disasters that can disrupt normal systems operation. The physical environment includes UPS, backup generator, automatic fire extinguishing system and access control to the computer room. A back up server maintains a mirror image of the database on the main server. In the event of a problem with the main server, the back up server takes over within 10 minutes, without physical intervention at Participants' sites. In the event of a major disaster that causes the CDS site to be unavailable, systems and business operations will be restored at a DR site within 2 hours. Prevention of loss of data is achieved through the implementation of redundant and cyclical backup tapes that are stored both on-site and off-site. Backup to tapes is performed four times a day.

During 2017–2018, three simulations of the DRP were successfully performed on the following respective dates: 19<sup>th</sup> September 2017; 21<sup>st</sup> December 2017; and 3<sup>rd</sup> May 2018. The simulation performed on 19<sup>th</sup> September 2017 involved the participation of investment dealers, custodian banks as well as SEM and CDS personnel. During the last simulation, it took 1 hour and 40 minutes to restore the ATS and CDS systems at the DR site.

***There was no systems downtime during 2017 – 2018.***

## FINANCIAL CONTROLS

The system of internal controls of the Finance and Administration department is made up of a series of regular reports to the Board as well as authorization controls. They are as follows:

- The management presents a detailed capital and expenditure budget as well as revenue estimates for review and approval by the Audit Committee and the Board of Directors prior to the start of the financial year;
- The management presents monthly management accounts with detailed explanations on variances to budgeted figures to the Board;
- Authorised signatories for payments and bank transactions consist of two mandatory signatures (one from each of the following two groups: Managing Director/Finance Manager; and Directors).

The Board controls financial matters by receiving and reviewing detailed management accounts at regular and short intervals (monthly). Payments, banking and other financial transactions for amounts higher than Rs 50,000 cannot be made without the authorization of one non-executive director.

## INVESTMENT COMMITTEE

Investments decisions are made within guidelines determined by the Investment Committee. The Company's funds are invested in low-risk fixed income instruments (fixed deposits at banks and other deposit taking institutions; and government securities). The main risks to which such investments are exposed are credit risk (the possibility that the deposit taking institution will default by failing to pay principal and interest in a timely manner) and interest rate risk. The investment guidelines seek to minimize credit risk by limiting the percentage of total funds that can be invested at a specific institution. The investment guidelines provide for investment in other instruments subject to the approval of the Investment Committee.

## REVIEW OF FINANCIAL CONTROLS

Given the financial control measures that have been implemented and considering the small size of the Company, the Board decided in the past that it is not necessary to implement an internal financial audit function at the CDS. At the request of the Audit Committee, as from 2013 the external auditors carry out a review of the financial controls of the company and submit a report on their findings. In their report for the year under review, the auditors have stated that they are of the opinion that the financial control processes of the company that were reviewed are adequate and that they have not observed any issues of concern.

## DIRECTORS' REPORT

### FINANCIAL STATEMENTS, INTERNAL CONTROL AND RISK MANAGEMENT

Company law requires directors to prepare financial statements for each financial year which present fairly the financial position, financial performance, changes in equity and cash flows of the Company. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2001. They are also responsible for safeguarding the assets of the Company and hence for the implementation and operations of accounting and internal control systems that are designed to prevent and detect fraud and errors, as well as an effective risk management system.

The Audit Committee has discussed the accounting principles with the auditors in June 2018.

### AUDITORS' REMUNERATION

The fees (exclusive of VAT) payable to PKF (Mauritius) for the year ended 30<sup>th</sup> June 2018 are as follows:

Financial audit	126,000
Operations audit	52,000
Audit of Risk Management Report	28,000
Annual Income Tax	19,000
Financial control review	39,000
<b>Total</b>	<b>Rs 264,000</b>



## APPOINTMENT OF AUDITORS

The auditors, PKF (Mauritius), have expressed their willingness to continue in office. In accordance with Section 195 of the Companies Act 2001, a resolution for their re-appointment as auditors of the Company will be proposed at the annual meeting. There was a rotation of audit partner last year.

## APPROVAL OF AUDITED FINANCIAL STATEMENTS

The audited financial statements of CDS which are set out from pages 42 to 64 of the Annual Report were approved by the board of directors on 27<sup>th</sup> August 2018.



Nitish Benimadhu  
Chairperson



Vipin Y. S. Mahabirsingh  
Managing Director

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS

This report is made solely to the members of the Company as a body in accordance with Section 205 of the Mauritius Companies Act 2001. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinion we have formed.

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements set out on pages 42 to 64 which comprise the statement of financial position as at 30 June 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of, in all material respects, the financial position of the Company as at 30 June 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and comply with the requirements of the Mauritius Companies Act 2001.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Mauritius, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information

The directors are responsible for the other information. The other information comprises the Corporate information, Chairperson's & Managing Director's report, Financial highlights, Statistics on operation, Certificate from the Secretary, Directors' report and Risk management report. Other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this Auditor's Report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statement**

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in compliance with the requirements of the Mauritius Companies Act 2001. They are also responsible for such internal control as they determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### Auditor's Responsibilities for the Audit of the Financial Statements (cont'd)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## Report on Other Legal and Regulatory Requirements

In accordance with requirements of the Mauritius Companies Act 2001, we report as follows:

- we have no relationship with, or any interests in, the Company other than in our capacity as auditors and tax advisors;
- we have obtained all the information and explanations we have required; and
- in our opinion, proper accounting records have been kept by the Company as far as it appears from our examination of those records.

### *Securities Act 2005*

In accordance with Section 20(4) of the Securities Act 2005, we have reviewed the Risk Management Report of the Company and in our opinion, it gives a true and fair view of the risk management procedures and their application for the year ended 30<sup>th</sup> June 2018.

### *Financial Reporting Act 2004*

The directors are responsible for preparing the corporate governance report. Our responsibility is to report on the extent of compliance with the Code of Corporate Governance as disclosed in the annual report and on whether the disclosure is consistent with the requirements of the Code.

In our opinion, the disclosure in the annual report is consistent with the requirements of the Code.



**PKF (MAURITIUS)**  
PUBLIC ACCOUNTANTS

Port Louis  
MAURITIUS

Date: 27/08/2018



**CHRISTINE SEK SUM, CPA**  
(Licensed by FRC)

# STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2018

	Notes	2018 Rs'000	2017 Rs'000
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	(5)	17,068	18,572
Investments	(6)	172,207	146,400
Intangible assets	(7)	192	60
Trade & other receivables	(8)	16,242	23,867
Deferred tax asset	(11)	-	102
Retirement benefit asset	(10)	836	-
		<b>206,545</b>	<b>189,001</b>
<b>CURRENT ASSETS</b>			
Inventories		373	282
Trade and other receivables	(8)	17,845	9,289
Deposits and cash balances		54,401	55,878
		<b>72,619</b>	<b>65,449</b>
<b>TOTAL ASSETS</b>		<b>279,164</b>	<b>254,450</b>
<b>EQUITY AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Stated capital	(9)	15,000	15,000
Retained earnings		224,423	204,489
Total equity		<b>239,423</b>	<b>219,489</b>
<b>NON-CURRENT LIABILITIES</b>			
Retirement benefit obligations	(10)	-	6,280
Deferred tax liability	(11)	1,089	-
		<b>1,089</b>	<b>6,280</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	(12)	11,703	8,313
Taxation	(11)	699	1,417
Dividend payable	(15)	26,250	18,951
		<b>38,652</b>	<b>28,681</b>
<b>TOTAL LIABILITIES</b>		<b>39,741</b>	<b>34,961</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>279,164</b>	<b>254,450</b>

These financial statements were approved by the Board of Directors & authorised for issue on 27<sup>th</sup> August 2018 and signed on its behalf by:



NITISH BENIMADHU  
Chairperson



VIPINY S. MAHABIRSINGH  
Managing Director

The notes on pages 46 to 64 form an integral part of these financial statements. Auditors' Report on pages 38 to 41.

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 Rs'000	2017 Rs'000
Revenue	(3(b))	67,363	54,690
Other income	(13(a))	17,275	14,032
		84,638	68,722
Administrative expenses		(29,502)	(27,216)
Operating profit		55,136	41,506
Contribution to guarantee fund		(302)	(210)
Finance costs	(14)	(40)	(40)
<b>PROFIT BEFORE TAXATION</b>		54,794	41,256
Taxation	(11)	(8,377)	(6,505)
Corporate social responsibility		(821)	(843)
<b>PROFIT FOR THE YEAR</b>		45,596	33,908
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Actuarial gain/(loss) on defined benefit pension plan	(10)	708	(2,248)
Deferred tax on Actuarial (gain)/loss	(11)	(120)	1,265
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		46,184	32,925
Dividend	(15)	(26,250)	(18,951)
<b>RETAINED COMPREHENSIVE INCOME FOR THE YEAR</b>		19,934	13,974
<b>EARNINGS PER SHARE</b>	(16)	307.89	219.50

The notes on pages 46 to 64 form an integral part of these financial statements. Auditors' Report on pages 38 to 41.

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2018

	STATED CAPITAL	RETAINED EARNINGS	TOTAL EQUITY
	Rs'000	Rs'000	Rs'000
BALANCE AT 1 <sup>st</sup> JULY 2016	15,000	190,515	205,515
Total comprehensive income for the year	-	32,925	32,925
Dividends	-	(18,951)	(18,951)
<b>BALANCE AT 30<sup>th</sup> JUNE 2017</b>	<b>15,000</b>	<b>204,489</b>	<b>219,489</b>
BALANCE AT 1 <sup>st</sup> JULY 2017	15,000	204,489	219,489
Total comprehensive income for the year	-	46,184	46,184
Dividends	-	(26,250)	(26,250)
<b>BALANCE AT 30<sup>th</sup> JUNE 2018</b>	<b>15,000</b>	<b>224,423</b>	<b>239,423</b>

The notes on pages 46 to 64 form an integral part of these financial statements. Auditors' Report on pages 38 to 41.



# STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 Rs'000	2017 Rs'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before taxation		54,794	41,256
<b>Adjustments for:</b>			
Corporate social responsibility		(821)	(843)
Actuarial gain/(loss) on defined benefit pension plan		708	(2,248)
Depreciation	(5)	1,883	1,859
Amortisation	(7)	61	36
Interest income		(10,066)	(10,172)
Retirement benefit obligations		(7,116)	2,054
<b>OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES</b>		<b>39,443</b>	<b>31,942</b>
(Increase)/Decrease in inventories		(91)	27
Decrease/(Increase) in trade and other receivables		111	(1,146)
Increase/(Decrease) in trade and other payables		3,390	(172)
<b>CASH GENERATED FROM OPERATING ACTIVITIES</b>		<b>42,853</b>	<b>30,651</b>
Tax Paid		(8,024)	(5,654)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>		<b>34,829</b>	<b>24,997</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment in non-current deposit		(71,907)	(28,000)
Purchase of property, plant and equipment	(5)	(379)	(419)
Purchase of intangible asset	(7)	(193)	-
Proceeds from fixed deposit		46,100	36,000
Interest received		9,024	4,703
<b>NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES</b>		<b>(17,355)</b>	<b>12,284</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividend paid		(18,951)	(21,000)
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(1,477)</b>	<b>16,281</b>
Cash and Cash Equivalents @ beginning of year		55,878	39,597
Cash and Cash Equivalents @ end of year		<b>54,401</b>	<b>55,878</b>
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS:</b>			
Deposits and cash balances		<b>54,401</b>	<b>55,878</b>

The notes on pages 46 to 64 form an integral part of these financial statements. Auditors' Report on pages 38 to 41.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

## 1. GENERAL INFORMATION

Central Depository & Settlement Co. Ltd is a private company incorporated in Mauritius. Its registered office is situated at 4<sup>th</sup> floor, One Cathedral Square building, 16 Jules Koenig Street, Port Louis.

The main activities of the company are to provide depository, clearing and settlement services in order to facilitate dealings in securities.

## 2. ADOPTION OF NEW AND REVISED STANDARDS

### (i) New and amended standards and interpretations adopted during the year

The accounting policies adopted are consistent with those of the previous financial year except that the Company has adopted the following Standards (amendments) as of 01 July 2017:

- IAS 12 - Income Taxes
- IAS 7 - Statements of Cash flows
- IFRS 12 - Disclosures of Interests in other entities

The effect of these standards (amendments) has been described below:

#### Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

Amends IAS 12 'Income Taxes' to clarify the following aspects:

- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

#### Disclosure Initiative (Amendments to IAS 7)

Amends IAS 7 'Statement of Cash Flows' to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

#### IFRS 12 Disclosure of Interests in Other Entities

Annual Improvements 2014-2016 Cycle: Clarification of the scope of IFRS 12 with respect to interests in entities classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

**2. ADOPTION OF NEW AND REVISED STANDARDS ( CONT'D)**

**(ii) New standards, amendments and interpretations issued but not yet effective**

Standards and interpretations issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date.

IFRS 9 – Financial Instruments and associated amendments to various other standards.

IFRS 9 replaces the multiple classification and measurement models in IAS 39, Financial Instruments: Recognition and measurement with a single model that has initially only two classification categories: amortised cost and fair value.

IFRS 15 – Revenue from contracts with customers and associated amendments to various standards.

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

IFRS 16 – Leases

IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The income structure will also be affected because the total expenditure is higher in the earlier years of a lease and lower in the later years. Additionally, operating expenses will be replaced with interest and depreciation, so key metrics such as EBITDA will change. Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified with financing activities. Only the part of the payment that reflects interest can continue to be presented as operating cash flows.

The directors anticipate that these IFRSs will be applied on their effective dates in the future periods. The directors have not yet assessed the potential impact of the adoption of these amendments.

### 3. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements have been consistently applied to all years presented, unless otherwise stated and are set out below:

#### (a) Basis of preparation

The financial statements comply with the Companies Act 2001 and have been prepared in accordance with International Financial Reporting Standards (IFRS). Where necessary, comparative figures have been amended to conform with change in presentation and disclosure in the current year. The financial statements are prepared under the historical cost convention except that held-to-maturity investments and trade and other receivables are carried at amortised cost, less any impairment loss.

#### (b) Revenue Recognition

Revenues are recognised upon performance of services, net of Value Added Tax.

Other income earned by the company is recognised on the following basis:

- (i) Interest Income - using the effective interest method.
- (ii) Project and Consultancy fees - as it accrues.
- (iii) Fees on issue of ISIN Numbers - as it accrues.
- (iv) IT Facilities Management fees - as it accrues.

#### (c) Property, Plant and Equipment

Property, Plant and Equipment is stated at historical cost less accumulated depreciation.

Depreciation is calculated so as to write off the cost of assets by equal instalments to their residual values over their estimated useful lives as follows:

Office Premises	50 years
Office furniture & Equipment	5 years
Computer Equipment	5 to 11 years
Motor Vehicles	5 years

The assets' estimated residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

When the carrying amount of an asset is greater than that its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of Property, Plant and Equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

#### (d) Intangible Assets

##### *Computer software*

Intangible assets (Application Software) are capitalised on the basis of costs incurred to acquire and bring to use the specific software and are amortised at the rate of 7.41% per annum for a period of 13 years.

### 3. ACCOUNTING POLICIES ( CONT'D)

#### *Development Costs*

Costs associated with developing or maintaining computer software are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software controlled by the Company and that will generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs.

The Computer software development costs recognised as assets are amortised over their estimated useful lives (5 years).

#### (e) Investments

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity. They are measured at amortised cost, less any impairment loss. The interest accrued is recorded as interest income in the statement of profit or loss and other comprehensive income.

#### (f) Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

Inventories represent stationery and CDS Forms, and are stated at cost. Cost is determined on the first-in first-out (FIFO) method.

#### (g) Deferred Tax

Deferred tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

#### (h) Employee Benefits

##### (a) *Defined benefit pension plan*

The company contributes to a pension scheme which is a 'Defined Benefit' plan.

The present value of funded obligations is recognised in the statement of financial position as a non-current liability after adjusting for the fair value of plan assets, any recognised actuarial gains and losses and any unrecognised past service cost. The valuation of these obligations is carried out annually by a firm of consulting actuaries.

A portion of the actuarial gains and losses will be recognised as income or expense if the net cumulative unrecognised actuarial gains and losses at the end of the previous accounting period exceeded the greater of:

- 10% of the present value of the defined benefit obligation at that date; and
- 10% of the fair value of plan assets at that date.

The current service cost and any recognised past service cost are included as an expense together with the associated interest cost, net of expected return on plan assets.

##### (b) *State pension plan*

Contributions to the National Pension Scheme are expensed to the statement of profit or loss and other comprehensive income in the period in which they fall due.

### 3. ACCOUNTING POLICIES ( CONT'D)

#### (i) Provisions

Provisions are recognised when the company has a present or constructive obligation as a result of past events and it is probable that it will result in an outflow of economic benefits that can be reasonably estimated to settle the obligation.

#### (j) Financial Instruments

Financial assets and financial liabilities are recognised on the company's statement of financial position when the company has become a party to the contractual provisions of the instrument.

The company's accounting policies in respect of the main financial instruments are set out below:

##### (i) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. The amount of loss is recognised in the statement of profit or loss and other comprehensive income.

##### (ii) Cash and cash equivalents

Cash includes balances with banks. Cash equivalents are short-term, highly liquid assets which are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value.

##### (iii) Trade payables

Trade payables are stated at fair value and subsequently measured at amortised cost using the effective interest rate method.

#### (k) Foreign Currencies

##### (i) Functional and presentation currency

Items included in the financial statements are measured using Mauritian rupees, the currency of the primary economic environment in which the entity operates ("functional currency").

The financial statements are presented in Mauritian rupees, which is the company's functional and presentation currency.

##### (ii) Transactions and balances

Transactions denominated in foreign currencies are translated in Mauritian rupees at the rates ruling at the transactions dates. Monetary assets and liabilities which are expressed in foreign currencies are translated into Mauritian rupees at the rates ruling at reporting date. Resulting gains or losses are transferred to the statement of profit or loss and other comprehensive income.

### 3. ACCOUNTING POLICIES ( CONT'D)

#### (l) Impairment

At each reporting date, the company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any, and the carrying amount of the asset is reduced to its recoverable amount.

#### (m) Related Parties

For the purpose of these financial statements, parties are considered to be related to the company if they have the ability, directly or indirectly, to control the company or exercise significant influence over the company in making financial and operating decisions, or vice versa, or where the company is subject to common control or common significant influence. Related parties may be individuals or other entities.

### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in accordance with IFRSs requires the directors and management to exercise judgement in the process of applying the accounting policies. It also requires the use of accounting estimates and assumptions that may affect the reported amounts and disclosures in the financial statements. Judgements and estimates are continuously evaluated and are based on historical experience and other factors, including expectations and assumptions concerning future events that are believed to be reasonable under the circumstances. The actual results could, by definition therefore, often differ from the related accounting estimates.

Where applicable, the notes to the financial statements set out areas where management has applied a higher degree of judgement that have a significant effect on the amounts recognised in the financial statements, or estimations and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### Property, plant and equipment

The cost of the property, plant and equipment is depreciated over the estimated useful life of the asset. The estimated useful life is based on expected usage of the asset and expected physical wear and tear, which depends on operational factors. Management has not considered any residual value as it is deemed immaterial.

#### Retirement benefit obligation

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using various assumptions that may differ from actual developments in future. The assumptions used include the discount rate, future salary increases, mortality rates and future pension increases. Changes in these assumptions will impact the carrying amount of the pension obligation.

The company determines the appropriate discount rate at each reporting date after discussions with the actuaries. In determining the appropriate discount rate, management considers the interest rates of long term government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the expected term of the related pension obligation.

**5. PROPERTY, PLANT AND EQUIPMENT**

	OFFICE PREMISES	OFFICE FURNITURE & EQUIPMENT	COMPUTER EQUIPMENT	MOTOR VEHICLES	TOTAL
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
<b>COST</b>					
At 1st July 2016	16,409	5,200	13,781	3,616	39,006
Additions	-	25	394	-	419
Disposal	-	(9)	-	-	(9)
At 30th June 2017	16,409	5,216	14,175	3,616	39,416
Additions	-	277	102	-	379
Disposal	-	(15)	-	-	(15)
<b>AT 30th June 2018</b>	<b>16,409</b>	<b>5,478</b>	<b>14,277</b>	<b>3,616</b>	<b>39,780</b>
<b>DEPRECIATION</b>					
At 1st July 2016	1,955	4,448	11,407	1,184	18,994
Charge for the year	328	247	561	723	1,859
Disposal	-	(9)	-	-	(9)
At 30th June 2017	2,283	4,686	11,968	1,907	20,844
Charge for the year	328	279	553	723	1,883
Disposal	-	(15)	-	-	(15)
<b>AT 30th June 2018</b>	<b>2,611</b>	<b>4,950</b>	<b>12,521</b>	<b>2,630</b>	<b>22,712</b>
<b>NET BOOK VALUES</b>					
<b>AT 30th June 2018</b>	<b>13,798</b>	<b>528</b>	<b>1,756</b>	<b>986</b>	<b>17,068</b>
<b>AT 30th June 2017</b>	<b>14,126</b>	<b>530</b>	<b>2,207</b>	<b>1,709</b>	<b>18,572</b>

**6. INVESTMENTS**

## Held-to-maturity

	2018 Rs'000	2017 Rs'000
Maturity falling:		
- Between two to five years	162,650	146,400
- After five years	9,557	-
	<b>172,207</b>	<b>146,400</b>

The investments bear interest at rates ranging from 3.35% to 5.34% p.a. (2017: 4.03% to 5.45% p.a.)

These investments will mature in the financial years 2020 to 2028.



**7. INTANGIBLE ASSETS**

	APPLICATION SOFTWARE	DEVELOPMENT COSTS	TOTAL
	Rs'000	Rs'000	Rs'000
<b>COST</b>			
At 1st July 2016	6,775	250	7,025
Additions	-	-	-
At 30th June 2017	6,775	250	7,025
Additions	193	-	193
<b>At 30th June 2018</b>	<b>6,968</b>	<b>250</b>	<b>7,218</b>
<b>AMORTISATION</b>			
At 1st July 2016	6,679	250	6,929
Charge for the year	36	-	36
At 30th June 2017	6,715	250	6,965
Charge for the year	61	-	61
<b>At 30th June 2018</b>	<b>6,776</b>	<b>250</b>	<b>7,026</b>
<b>NET BOOK VALUES</b>			
<b>AT 30th June 2018</b>	<b>192</b>	<b>-</b>	<b>192</b>
<b>AT 30th June 2017</b>	<b>60</b>	<b>-</b>	<b>60</b>

**8. TRADE AND OTHER RECEIVABLES**

	CURRENT		NON-CURRENT	
	2018	2017	2018	2017
	Rs'000	Rs'000	Rs'000	Rs'000
Trade receivables	4,023	4,070	-	-
Prepayments	1,151	1,147	-	-
Amount due from holding company	271	288	-	-
Interest receivable	11,242	2,579	14,092	21,713
Other receivables	1,158	1,205	2,150	2,154
	<b>17,845</b>	<b>9,289</b>	<b>16,242</b>	<b>23,867</b>

The average credit period on sales of services is 1 month. No interest was charged on the trade receivables. The company does not hold any collateral as security.

Before accepting any new customer, the Company assesses the potential customer's credit quality. The directors believe that no provision for impairment is required as at 30<sup>th</sup> June 2018

	2018	2017
	Rs'000	Rs'000
<b>Ageing of past due but not impaired</b>		
Less than 1 month	3,859	3,764
More than 1 month	164	306
	<b>4,023</b>	<b>4,070</b>

**9. STATED CAPITAL**

150,000 Ordinary Shares of Rs 100 each

ISSUED & FULLY PAID	
2018	2017
Rs'000	Rs'000
15,000	15,000

The holder of an ordinary share in the company shall confer on the holder:

- the right to vote at meetings of shareholders and on a poll to cast one vote for each share held;
- the right to an equal share in dividends and other distributions made by the company; and
- the right to an equal share in the distribution of the surplus assets of the company on its liquidation.

**10. RETIREMENT BENEFIT OBLIGATIONS**

The amounts recognised in the statement of financial position are determined as follows:

	2018	2017
	Rs'000	Rs'000
Present value of funded obligations	30,301	28,996
Fair value of plan assets	(31,137)	(22,716)
(Asset)/Liability in the statement of financial position	(836)	6,280

The amounts recognised in the Statement of profit or loss and other comprehensive income are as follows:

	2018	2017
	Rs'000	Rs'000
Current service cost	943	1,539
Interest cost	1,879	1,623
Expected return on plan assets	(1,717)	(1,394)
Fund expenses and life insurance	193	244
Net actuarial (gain)/loss recognised during the year	(708)	2,248
Total included in staff costs (Note 13(b))	590	4,260

Movements in the liability recognised in the Statement of financial position:-

	2018	2017
	Rs'000	Rs'000
At 1st July	6,280	4,226
Total expenses as shown above	590	4,260
Contributions	(7,706)	(2,206)
<b>At 30th June</b>	<b>(836)</b>	<b>6,280</b>

The principal actuarial assumptions used were as follows:

	2018	2017
Discount rate	6.20%	6.50%
Future salary increases	4.20%	4.50%
Future pension increases	1.20%	1.50%

**10. RETIREMENT BENEFIT OBLIGATIONS (CONT'D)**

## Sensitivity

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the period, while holding all other assumptions constant.

	2018	2017
	Rs'000	Rs'000
Effect on present value of funded obligations		
1% increase in discount rate	5,885	24,472
1% decrease in discount rate	7,716	34,766
1% increase in salary increase rate	3,287	32,360
1% decrease in salary increase rate	3,941	26,068
Effect of changing longevity - rate up	978	28,509
Effect of changing longevity - rate down	1,019	29,472

**Reconciliation of the present value of defined benefit obligation**

	2018	2017
	Rs'000	Rs'000
Present value of obligation at start of year	28,996	23,182
Current service cost	1,136	1,783
Interest cost	1,879	1,623
Fund expenses and life insurance	(193)	(244)
Liability (gain)/loss	(1,517)	2,652
Present value of obligation at end of year	<u>30,301</u>	<u>28,996</u>

**Reconciliation of fair value of plan assets**

Fair value of plan assets at start of year	22,716	18,956
Expected return on plan assets	1,717	1,394
Employer contributions	7,706	2,206
Fund expenses and life insurance	(193)	(244)
Asset (loss)/gain	(809)	404
Fair value of plan assets at end of year	<u>31,137</u>	<u>22,716</u>
Actual return on plan assets	<u>908</u>	<u>1,798</u>

**Distribution of plan assets at end of year**

The assets of the scheme are invested in a Deposit Administration Fund with Metropolitan life (Mauritius) Ltd.

## 10. RETIREMENT BENEFIT OBLIGATIONS (CONT'D)

### History of obligations, assets and experience adjustments

	2018	2017
	Rs'000	Rs'000
Fair value of plan assets	31,137	22,716
Present value of defined benefit obligation	(30,301)	(28,996)
Asset/(Deficit)	<u>836</u>	<u>(6,280)</u>
Asset experience (loss)/gain during the year	(809)	404
Liability experience gain/(loss) during the year	1,517	(2,652)
	2019	2018
	Rs'000	Rs'000
Expected employer contributions to post-employment benefit plans	1,580	(2,305)

Pension amounts and disclosures have been based on the report submitted by Aon Hewitt Ltd (previous year prepared by Feber Associates Limited, Actuaries and Consultants).

## 11. TAXATION

### (a) Tax liability

	2018	2017
	Rs'000	Rs'000
At 1st July	1,417	913
Taxation paid	(8,024)	(5,654)
Provision for the year	7,306	6,158
<b>At 30th June</b>	<u>699</u>	<u>1,417</u>

### (b) Income tax

	2018	2017
	Rs'000	Rs'000
Current tax on the adjusted profit for the year at 15%	7,306	6,158
Deferred taxation	1,071	347
<b>Tax charge</b>	<u>8,377</u>	<u>6,505</u>

The tax on the company's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the company as follows:

	2018	2017
	Rs'000	Rs'000
<b>Profit before tax as adjusted</b>	<u>54,681</u>	<u>38,165</u>
Tax calculated at a tax rate of 15%	8,202	5,725
Non-deductible expenses for tax purposes	(622)	753
Deferred taxation	1,071	347
Capital allowances effects	(274)	(320)
<b>Tax charge</b>	<u>8,377</u>	<u>6,505</u>

**II. TAXATION (CONT'D)**
**(c) Deferred Tax Liabilities/(Asset)**

	2018	2017
	Rs'000	Rs'000
At 1st July	(102)	816
Charge for the year	1,071	347
Charge/(Credited) to other comprehensive income	120	(1,265)
<b>At 30th June</b>	<b>1,089</b>	<b>(102)</b>

	CAPITAL TAX ALLOWANCES	RETIREMENT BENEFIT (ASSET)/ OBLIGATION	TOTAL
	Rs'000	Rs'000	Rs'000
At 01 July 2016	816	-	816
Charge for the year	150	197	347
Credited to other comprehensive income	-	(1,265)	(1,265)
At 30 June 2017	966	(1,068)	(102)
Charge for the year	(19)	1,090	1,071
Credited to other comprehensive income	-	120	120
<b>At 30 June 2018</b>	<b>947</b>	<b>142</b>	<b>1,089</b>

**12. TRADE AND OTHER PAYABLES**

	2018	2017
	Rs'000	Rs'000
Service Fees received in advance	6,638	6,089
Other payables	5,065	2,224
	<b>11,703</b>	<b>8,313</b>

**13. OPERATING PROFIT**

	2018	2017
	Rs'000	Rs'000
<b>(a) Operating profit is arrived at after :</b>		
<b>Crediting :</b>		
<b>Other income</b>		
Interest receivable	10,066	10,172
Fees on issue of ISIN Numbers	2,415	1,421
Sundry Income	349	275
IT Facilities Management Fees	1,430	1,430
Project fees	2,478	210
Registry software fees	537	524
	<b>17,275</b>	<b>14,032</b>

**13. OPERATING PROFIT (CONT'D)**
**and Charging :**

Fees paid to auditors -	audit services	190	181
	operational audit services	60	53
	taxation services	22	20
	review of risk management report	32	30
Non-Executive Directors' Emoluments		1,277	1,174
Depreciation		1,883	1,859
Amortisation		61	36
Staff costs (Note 13(b))		18,699	19,634

**(b) Staff costs**

	2018	2017
	Rs'000	Rs'000
Salaries	18,109	15,374
Pension costs (Note 10)	590	4,260
	18,699	19,634

**(c) Number of employees**

Administration	12	12
----------------	----	----

**14. FINANCE COSTS**

	2018	2017
	Rs'000	Rs'000
Bank Charges	40	40

**15. DIVIDENDS**

	2018	2017
Declared and not yet paid :		
Dividend of Rs 175 per Ordinary Share (2017: Rs 126.34)	26,250	18,951

**16. EARNINGS PER SHARE**

	2018	2017
Profit attributable to shareholders	Rs'000 46,184	32,925
Number of Ordinary Shares in issue	150,000	150,000
Earnings per share	Rs 307.89	219.50

## 17. RELATED PARTY TRANSACTIONS

	2018 Rs'000	2017 Rs'000
(i) <i>Sales of Services to :</i> The Stock Exchange of Mauritius Ltd	1,430	1,430
(ii) <i>Outstanding Balance arising from the sales of services :</i> The Stock Exchange of Mauritius Ltd	271	288
The above transactions were carried out on commercial terms and conditions and the repayment is over a month upon receipt of invoice.		
(iii) <i>Compensation of key management personnel</i>		
Short term benefits	5,072	4,049
Post employment benefits	585	1,557
	<u>5,657</u>	<u>5,606</u>
(iv) <i>Remuneration of directors</i>		
- Non executive directors	1,277	1,174
- Executive	5,657	5,606
(v) <i>Dividend payable</i>	<u>26,250</u>	<u>18,951</u>

## 18. FINANCIAL RISK MANAGEMENT

### Overview

The Company has exposure to the following risks from its use of financial instruments:

- |                        |                   |
|------------------------|-------------------|
| (a) Liquidity risk     | (d) Currency risk |
| (b) Market risk        | (e) Credit risk   |
| (c) Interest rate risk |                   |

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

The Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. Investment decisions are made within guidelines determined by the Investment Committee.

## 18. FINANCIAL RISK MANAGEMENT (CONT'D)

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to finance its operations and to mitigate the effects of fluctuation in cash flows.

The maturity profile of the financial instruments is summarised as follows:

	2018			Total Rs'000
	Less than 1 year Rs'000	1-5 years Rs'000	More than 5 years Rs'000	
<b>Financial assets</b>				
Held-to-maturity investment	-	162,650	9,557	172,207
Deposits and cash balances	54,401	-	-	54,401
Trade and other receivables	17,845	16,242	-	34,087
	<b>72,246</b>	<b>178,892</b>	<b>9,557</b>	<b>260,695</b>
<b>Financial liabilities</b>				
Trade and other payables	11,703	-	-	11,703
Proposed dividends	26,250	-	-	26,250
	<b>37,953</b>	<b>-</b>	<b>-</b>	<b>37,953</b>

	2017			Total Rs'000
	Less than 1 year Rs'000	1-5 years Rs'000	More than 5 years Rs'000	
<b>Financial assets</b>				
Held-to-maturity investment	-	146,400	-	146,400
Deposits and cash balances	55,878	-	-	55,878
Trade and other receivables	9,289	23,867	-	33,156
	<b>65,167</b>	<b>170,267</b>	<b>-</b>	<b>235,434</b>
<b>Financial liabilities</b>				
Trade and other payables	8,313	-	-	8,313
Proposed dividends	18,951	-	-	18,951
	<b>27,264</b>	<b>-</b>	<b>-</b>	<b>27,264</b>

### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of its financial instruments. The objective of the market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.



## 18. FINANCIAL RISK MANAGEMENT (CONT'D)

### Interest rate risk

The company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The interest rate profile of the company's financial assets as at 30 June is as follows:

	2018	2017
	%	%
Bank balances	0.30-1.80	0.30-2.30
Deposits	3.35-5.34	4.03-5.45

Deposits which have fixed interest rates and will not be affected by fluctuations in the level of interest rates. The following table details the sensitivity of the company's bank balances and fixed deposits if interest rate had been 50 basis points higher. For a lower interest rate by 50 basis points, there would be an equal and opposite impact on the profit and their equity.

	2018	2017
	Rs'000	Rs'000
Increase in profit	914	790
Increase in equity	777	672

### Currency risk

Except for a USD bank account with a balance of Rs 67,469 (USD 1,961.32), a GBP bank account with a balance of Rs 13,141.33 (GBP 292.68), a AUD bank account with a balance of Rs 2,764.45 (AUD 109.31), a ZAR bank account with a balance of Rs 286.32 (ZAR 115.92) and a Euro bank account with a balance of Rs 83,155.66 (Euro 2,085.67), there are no other financial assets and liabilities denominated in foreign currencies.

The Company is exposed to currency risk of MUR relative to AUD, USD, EURO and GBP.

The following table details the company's sensitivity to a 5% decrease in the exchange rate of the AUD, GBP, ZAR, EUR and USD against the Mauritian Rupee. A positive number below indicates an increase in profit and other equity where United States dollars weaken 5% against Mauritian Rupee. For a 5% strengthening of Australian dollars and United States dollars against the relevant currency, there would be an equal and opposite impact on the profit and their equity.

	2018	2017
	Rs'000	Rs'000
Increase in profit	8	1
Increase in equity	7	1

**18. FINANCIAL RISK MANAGEMENT (CONT'D)***Credit risk*

The company's credit risk is primarily attributable to its trade receivables and deposits with banks and other financial institutions. At year end, the company has no significant concentration of credit risk which has not been adequately provided for. Cash and deposits are held in banks and other financial institutions with high credit ratings.

*Capital risk management*

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide returns and value for its shareholders.

The capital structure of the company consists of cash and cash equivalents and equity attributable to equity holders of the company, comprising issued share capital and retained earnings.

The Company's overall strategy remains unchanged from 2017.

**Categories of financial instruments**

	2018 Rs'000	2017 Rs'000
<b>Financial assets</b>		
<i>Held-to-maturity</i>		
Held-to-maturity investment	215,307	182,400
<b>Loan &amp; receivables</b>		
Trade and other receivables	31,831	30,262
Cash and bank balances	8,301	19,878
	<b>255,439</b>	<b>232,540</b>
<b>Financial liabilities</b>		
Trade and other payables	11,703	8,313
Proposed dividends	26,250	18,951
	<b>37,953</b>	<b>27,264</b>

**19. CONTINGENT LIABILITY**

A contingent liability will arise if, in the event of a default by a participant, the amount due by the participant exceeds the total amount of financial resources available to the Guarantee Fund.

**20. HOLDING COMPANY**

The directors consider The Stock Exchange of Mauritius Ltd, incorporated in the Republic of Mauritius, as the holding company.

## 21. FIVE YEAR FINANCIAL SUMMARY

### STATEMENT OF PROFIT, CAPITAL & RESERVES

	2018	2017	2016	2015	2014
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
<b>STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME</b>					
TURNOVER	67,363	54,690	53,426	71,668	58,995
PROFIT BEFORE TAXATION	54,794	41,256	42,740	62,081	49,183
TAXATION	(8,377)	(6,505)	(6,435)	(9,351)	(7,419)
CORPORATE SOCIAL RESPONSIBILITY	(821)	(843)	(1,214)	(986)	(775)
PROFIT AFTER TAXATION	45,596	33,908	35,091	51,744	40,989
OTHER COMPREHENSIVE (LOSS)/ INCOME	588	(983)	(487)	628	(837)
DIVIDENDS	(26,250)	(18,951)	(21,000)	(31,422)	(24,091)
<b>CAPITAL &amp; RESERVES</b>					
ISSUED & PAID UP STATED CAPITAL	15,000	15,000	15,000	15,000	15,000
REVENUE RESERVES	224,423	204,489	190,515	176,911	155,961

## 22. GUARANTEE FUND

Section 3(8) of the Securities (Central Depository, Clearing and Settlement) Act 1996 requires the Central Depository & Settlement Co. Ltd (CDS) to establish and maintain a Guarantee Fund for the purpose of providing an indemnity against any default in respect of payments for or delivery of securities by any participant and of obligations of participants towards CDS.

The Fund is independently managed by the Business Conduct Committee (BCC) and not by the Board of Directors of the CDS. The BCC consists of a majority of independent members who are not directors of the CDS. The accounts of the Fund are separately audited.

The assets of the Guarantee Fund consist of all money accruing lawfully to that fund and of such contributions as may be specified in the CDS rules. The assets of the Guarantee Fund are as follows:-

	<b>2018</b> <b>Rs'000</b>	<b>2017</b> <b>Rs'000</b>
<b>Guarantee Fund Assets</b>		
MCB Deposit A/c	29,300	29,200
MCB Savings A/c	2,218	3,720
MCB Current A/c	3	2
Contributions due on value of transactions	28	27
Cash deposit from investment dealers	(127)	(410)
Interest receivable	2,495	1,511
Income tax payable	(40)	(30)
	<b>33,877</b>	<b>34,020</b>

### Contributions made to the Guarantee Fund

BALANCE AT 1ST JULY	34,020	32,772
Contributions	302	210
Refund to participant	(1,388)	-
Interest	1,109	1,221
Income tax charge	(166)	(183)
<b>BALANCE AT 30TH JUNE</b>	<b>33,877</b>	<b>34,020</b>

# AUDITORS' REPORT ON THE SYSTEM OF INTERNAL CONTROLS TO THE BOARD OF DIRECTORS OF THE CENTRAL DEPOSITORY & SETTLEMENT CO. LTD

We have conducted a review of the system of internal controls of the Central Depository & Settlement Co. Ltd (CDS) in accordance with Section 3.8.7 of CDS Rules and have performed tests of the effectiveness of the system of internal controls during the period 1<sup>st</sup> July 2017 to 30<sup>th</sup> June 2018.

The review covered the suitability of the system of internal controls of the Central Depository & Settlement Co. Ltd pertaining to:-

- (a) The recording of transactions in Securities Accounts
- (b) The processing of transactions, including Clearing and Settlement, in accordance with CDS Rules and Procedures
- (c) The integrity and reliability of the data processing facilities of CDS.

Our review also covered the suitability of the system of internal controls of CDS pertaining to the Automated Trading System that is managed by CDS in accordance with the IT Outsourcing Agreement that has been signed between CDS and the Stock Exchange of Mauritius Ltd.

Our examination was made in accordance with generally accepted auditing standards, and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

In our opinion the control procedures were suitably designed to provide reasonable assurance that the system of internal controls of the CDS operated effectively.



**PKF (Mauritius)**  
**Public Accountants**

Date: 16/07/2018



**Christine Sek Sum, CPA**  
**(Licensed by FRC)**

## COMPANY SECRETARY'S CERTIFICATE

This is to certify that, in accordance with Section 166 (d) of the Companies Act 2001, all such returns as are required of the Company under the Companies Act 2001 have been filed with the Registrar of Companies during the financial year ended 30<sup>th</sup> June 2018.



Chaitanand Jheengun (FCIS)  
Company Secretary

## Profile of Management Team

### MANAGING DIRECTOR

#### Vipin Y. S. Mahabirsingh

Vipin Y.S Mahabirsingh holds a B.Tech (First Class, Hons.) degree in Electronic Engineering from the University of Mauritius, an M.Phil in Microelectronic Engineering and Semiconductor Physics from the University of Cambridge and an MBA (with distinction) from Edinburgh Business School, Heriot Watt University. He joined the Central Depository & Settlement Co. Ltd at its inception in 1996 as Systems Manager and was appointed General Manager in July 1997. He was then appointed as Managing Director in November 2005. In his capacity as Managing Director of CDS, he also provides consultancy services to African stock exchanges and central depositories. He was the systems vendor's Project Director in the implementation of trading and depository systems at the Nairobi Stock Exchange (2004/2006), Bank of Ghana (2004), Dar es Salaam Stock Exchange (2006), Botswana Stock Exchange (2008/2012), Lusaka Stock Exchange (2008) and Bolsa de Valores de Mocambique (2013). He supervised the implementation of an automated trading system at the Zimbabwe Stock Exchange in 2015 and has spearheaded the replacement of the trading and depository systems at the Lusaka Stock Exchange which went live in December 2017. He is a member of the Market and Product Development Committee of the Committee of SADC Stock Exchanges (CoSSE) which has been set up to drive the interconnectivity and clearing and settlement agenda of CoSSE. He is also a member of the Ratings Committee of CARE Ratings (Africa).

### SYSTEMS MANAGER

#### Manoven Sadayen

Manoven Sadayen holds a B.Tech (Hons) degree in Computer Science and Engineering from the University of Mauritius. He joined the CDS in December 1998 as IT Officer and was promoted to Assistant Systems Manager in October 2000. He was appointed as Systems Manager in July 2001. He is responsible for the management of the CDS system as well as the automated trading system of the SEM. He also assists the Managing Director in overseeing the Operations department and in providing consultancy services to African stock exchanges and depositories. He participated in the implementation of the automated trading system at the Zimbabwe Stock Exchange in 2015 and the replacement of the trading and depository systems at the Lusaka Stock Exchange in 2017.

### FINANCE AND ADMINISTRATION MANAGER

#### Joseph How Tien Fat

Joseph How Tien Fat holds a Diploma in Accountancy from the City of Birmingham Polytechnic (UK) and is a Qualified Stockbroker. He joined the CDS at its inception in 1996 as Accountant and was appointed Finance and Administration Manager in July 2001. He is responsible for the Finance and Administration functions at CDS and plays a key role in managing the funds of the Company. He is also the Secretary of the Business Conduct Committee which is responsible for risk management.

**CENTRAL DEPOSITORY & SETTLEMENT CO. LTD.**

4<sup>th</sup> Floor, One Cathedral Square Building

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Rep. of Mauritius

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