

# 1. Overview of Supervisory Developments

## INTRODUCTION

A stable financial system provides an environment that facilitates an efficient resource allocation, thereby promoting growth in the economy. With a view to maintaining the stability and soundness of the financial system, the Bank of Mauritius (the Bank) continued to strengthen its supervisory and prudential policies during the year 2005/2006.

In the wake of recent changes in legislation, regulations and international accounting standards for financial institutions, the Bank has embarked on the revision of its guidelines and instructions issued to the industry and has achieved much progress in various areas of prudential supervision

## DOMESTIC DEVELOPMENTS

The Banking Sector continued to clock a decent growth in the balance sheet size. The Total Deposits of the banks increased from Rs260,692 million to Rs344,441 million i.e. a growth of 32.1% . Advances also registered a growth of 31.9% from Rs178,149 million to Rs234,958 million during the period. The net profit increased from Rs6,312 million to Rs7,854 million. A detailed review of the performance of the banks is made in chapter 3.

### Implementation of Basel II

The implementation of Basel II has gathered momentum. The Bank conducted a survey to ascertain the approaches which banks intend to adopt for risk management and measurements. The findings of the survey are captured in the chapter on policy review. Eight working groups have been constituted to deal with different issues concerning the implementation of the Framework.

### Financial Sector Assessment programme

The Financial Sector Assessment Programme (FSAP), a joint International Monetary Fund/World Bank initiative to promote the soundness of the financial sector in member countries, performed an in-depth assessment of the local financial sector in

2002. The findings of the joint IMF/World Bank mission (the Mission) were communicated to the relevant authorities, including the Bank, in 2003. The Mission reported favourably on the standard of banking supervision and the increased capacity of the Bank to enforce prudential guidelines. Recommendations made by the FSAP in certain supervisory areas are being addressed by the Bank. In February 2007, the Mission was again in Mauritius to follow up on those recommendations.

## Developments in Financial Institutions

### 1. *Grand Bay Helipad Co. Ltd*

Grand Bay Helipad Co. Ltd was no longer authorized to carry on the business of money-changer as from 10 September 2005.

### 2. *Cim Leasing Ltd*

General Leasing Co. Ltd. changed its name to Cim Leasing Ltd on 24 October 2005 with the approval of the Bank.

### 3. *Banque des Mascareignes Ltée and Mascareignes International Bank Ltd*

Mascareignes International Bank Ltd merged with Banque des Mascareignes Ltée with effect from 28 November 2005. Consequently, it surrendered its banking licence and ceased to operate as from that date.

### 4. *British American Exchange Co. Ltd*

British American Mortgage Finance House Co. Ltd changed its name to British American Exchange Co. Ltd on 28 November 2005 with the approval of the Bank.

### 5. *Gowtam Jootun Lotus Ltd*

With effect from 26 January 2006, the Bank suspended the licence granted to Gowtam Jootun Lotus Ltd to carry on the business of money-changer following regulatory investigations into

alleged irregular transactions.

### 6. RMB (Mauritius) Limited

RMB (Mauritius) Limited ceased to conduct banking business with effect from 1 June 2006. The Bank has under section 11(7) of the Banking Act 2004 acceded to its application for the surrender of its banking licence with effect from 17 July 2006.

### 7. HSBC Bank (Mauritius) Limited

On 8 June 2006, a banking licence was granted to HSBC Bank (Mauritius) Limited, a subsidiary of the Hongkong and Shanghai Banking Corporation. It started operations on 1 August 2006.

### 8. CLL Leasing Co Ltd, MUA Leasing Company Limited and Capital Leasing Ltd

Groupe Mon Loisir acquired the shareholding of MUA Leasing Company Ltd. The latter changed its name to Capital Leasing Ltd on 15 June 2006, with the approval of the Bank.

Capital Leasing Ltd merged with CLL Leasing Ltd and is now operating under the name of Capital Leasing Ltd, with the approval of the Bank.

- the need for greater emphasis on the monitoring of ongoing business relationships rather than the initial identification and verification procedures;
- the proposed participation of international organisations in the publication of a world wide list of Politically Exposed Persons (PEPs); and
- the issue and maintenance by international organisations of a list of jurisdictions that are "equivalent" in the application of international standards.

### *Initiatives by Basel-based Committees and the Financial Stability Forum*

In June 2006, the Basel Committee for Banking Supervisors (the Committee), jointly with the Core Principles Liaison Group, issued a paper which sets forth general principles for sharing of information between home country and host country supervisors for effective Basel II implementation.

In October 2006, the Committee reorganised its work under the purview of four main sub-committees, namely the Accord Implementation Group (AIG), the Policy Development Group (PDG), the Accounting Task Force (ATF) and the International Liaison Group (ILG).

The AIG was established for the sharing of information, thereby promoting consistency in the implementation of Basel II. It provides a forum for discussion on the approaches of its members towards implementing Basel II without making uniformity of application of the Basel II framework mandatory.

The PDG replaces the Committee's former Capital Task Force. It has the primary objective of supporting the Committee by identifying and reviewing emerging supervisory issues and, where appropriate, proposing and developing policies that promote a sound banking system and high supervisory standards.

The ATF works towards ensuring that financial institutions adopt international accounting and auditing standards and practices that promote sound risk management in those financial institutions, support market discipline through transparency and reinforce the safety and soundness of the banking system.

## International Developments

### *Anti-Money Laundering and Combating the Financing of Terrorism*

A meeting of the Offshore Group of Bank Supervisors (OGBS) was held in parallel with the Financial Action Task Force (FATF) consultations with the banking and securities sectors in Brussels in December 2005. The main decisions taken at the consultation meeting were:

- the adoption of a more risk-based approach duly supported by appropriate commentary and guidance to ensure consistency of interpretation, implementation and evaluation;
- the need for more assistance/guidance from regulators on the requirements for effective compliance with international standards;
- the need to exercise caution when funds used to open an account or a relationship are sourced from a bank account in another inadequately regulated entity;

The newly established ILG replaces the former Core Principles Liaison Group and allows for broad supervisory dialogue on a range of issues. It also provides a platform for non-member countries to contribute to new Committee initiatives.

#### *Revision of the Core Principles for Effective Banking Supervision*

The Basel Core Principles (BCPs), developed by the Basel Committee on Banking Supervision (BCBS) in 1997 as a benchmark to assess quality of banking supervision, were reviewed in June 2004 in the light of significant changes in supervisory approaches and methods, innovations and developments in banking and broader financial markets.

The revised BCPs were approved in October 2006 at the International Conference of Banking Supervisors in Mexico. They place more emphasis on sound risk management, corporate governance practices, and on the importance of the independence, accountability and transparency of bank supervisory authorities.

The structural changes made to the BCPs relate to risk management, including liquidity risk, operational risk and interest rate risk in the banking book.

#### *Financial Action Task Force*

The FATF held its third plenary meeting under the chairmanship of South Africa on 20-23 June 2006 in Paris. The key outcomes of the meeting were:

- the decision to add anti-corruption elements to the methodology used in assessing implementation of the FATF standards;
- the removal of Nigeria from the list of Non Co-operative Countries and Territories (NCCT);
- the nomination of Asia/Pacific Group on Money Laundering (APG), The Financial Task Force of South America (GAFISUD) and the Sub-committee of the European Committee on Crime Problems of the Council of Europe (MONEYVAL) as Associate Members of FATF; and
- the completion of three more mutual evaluations - assessment of level and effectiveness of implementation of the revised FATF recommendations on combating money-laundering and terrorist financing.

The status of typology studies undertaken to examine money laundering and terrorist financing methods and trends on a global scale was also covered during the meeting.