

Terms of Reference Development of 2nd Tier Market in Mauritius

1. Project goal and purpose

The GOAL of this project is to develop a more robust capital market in Mauritius.

The PURPOSE of this project is to restructure the current OTC Market and to consider the establishment of a second tier listing facility.

2. Key project outputs

The key outputs for this project are:

- Report on the market survey conducted
- Recommendations on establishing a second tier market
- Report on and recommendations for improving the OTC Market structure
- Revised rules and procedures for the OTC Market and phase out plan, if appropriate
- Business and marketing plan for second tier market
- Listing and trading rules for a second tier market
- Promotional material for second tier market
- Incentive schemes and fee schedules for both second tier and OTC markets

3. Project benefits

The main benefits of this project will be the development of a new market structure at the SEM, improvement in the operational and regulatory set up of the OTC Market and greater liquidity, transparency and market efficiency.

4. Project risks

The main project risks include:

- *Unable to generate sufficient demand for second tier listing.* The revised Securities Bill requires all public companies to disclose specific information. This new requirement will make the additional cost of listing of the second tier market less expensive than under the current practice. Also, the marginal costs are relatively low.
- *Non-adoption of consultant's recommendations for regulations.* This risk will be mitigated through the consultants adopting a consultative and consensus building approach.

5. Terms of Reference for the consultants

This project requires strong expertise and knowledge of emerging markets and the development of second tier and OTC markets. The consultants should also have a strong legal background with concrete experience in the drafting of Stock Exchange rules and regulations.

In carrying out their work, the consultants will consult with all key stakeholders, including the SEM, the Financial Services Commission, the Financial Services Promotion Agency, industry participants such as stock brokers, companies listed on OTC, etc. to ensure that their advice is consistent with on-the-ground needs in Mauritius. The Consultant will work closely with the SEM secondee at all stages of the project.

The project is broken into the following phases:

Phase 1: Initial discussions and market survey.

The Consultant will have thorough discussions with SEM to:

- Determine the criteria and method for the admission of companies on the proposed Second Tier Market
- Broadly define the disclosure requirements/post-listing requirements expected from companies that would be listed on the second tier market.
- Identify advantages of a listing on the second tier market
- Determine differentiating characteristics between the Official Market and Second Tier Market.
- Define time frame for the launch of the Second Tier Market (if deemed appropriate)

Based on these discussions, the Consultant will draft a paper to be used as the basis for discussion during meetings with companies and other key stakeholders. This paper will define in generic terms the main requirements and features of a Second Tier Market. The paper will then be circulated to a selection of companies. The consultant and a representative from SEM will meet with these companies to:

- Discuss the proposed listing conditions, admission criteria and post listing requirements for the Second Tier Market
- Determine the interest of the companies interviewed to graduate to this market
- Identify the number of companies that would be prepared to list on the Second Tier Market;
- Identify the constraints/ hurdles that have prevented the companies to graduate to the Official Market;
- Identify incentives that would entice companies to seek a listing on the Second Tier Market.

The Consultant will also meet with key stakeholders including market professionals (brokers, analysts, investors) and regulators to discuss the proposed second tier market and determine the demand for such a market within the investment community.

The consultant will provide recommendations as to whether a second tier market should be created. As part of this the Consultant will:

- Conduct a cost/benefit analysis of establishing a second tier market
- Conduct a thorough analysis of second tier markets structures in different jurisdictions.

Phase 2: Restructuring of OTC Market

The SEM has committed to the Ministry of Financial Services to strengthen the current OTC Market. To address this issue the Consultant will:

- conduct an analysis of existing OTC Rules and market activity;
- consider the weaknesses of the OTC market as a loosely regulated market;
- examine the appropriate level of disclosure for the OTC Market in order to conform with the requirements of the forthcoming Securities Act and Code of Corporate Governance.
- Analyse OTC market structures in at least 3 other countries, including a well-established OTC Market in an emerging market country

Based on the analysis above the Consultant will produce a report which will:

- make recommendations on the appropriate structure and framework for the OTC Market, including new/revised listing criteria and measures to revamp the OTC Market.
- recommend amendments to the current OTC rules and procedures and draft revised rules and procedures in order to make quoted companies more accountable to their shareholders

- Provide guidance to the SEM on fees to be charged to OTC companies;
- Recommend incentives to entice companies currently quoted on the OTC Market to graduate to a second tier market, should this structure be created
- If a second tier market is to be established, a phase-out plan for the OTC Market.

Phase 3: Strategy and Action Plan for establishment of Second Tier Market

If a second tier market is to be created, we would expect the consultant to:

- Advise on formulating strategy on how to establish, motivate and attract companies to second tier market
- Advise on an appropriate business, regulatory and operational structure for the Second Tier Market, including appropriate criteria for listing
- Propose incentives for companies on the Second Tier Market to graduate to the Official Market
- Advise on fees and charges to be imposed by the SEM
- Prepare draft listing and trading rules for the second tier market
- Assist in developing a marketing plan, including guidance on promotional materials and selection of name for the second tier market

Mentoring support

Consultant(s) will be available off-site over a period of six months to answer *ad hoc* queries

6. Reporting

The consultant will be expected to provide an inception report no later than two weeks after his/her initial meeting. Thereafter, monthly reports should be submitted providing a summary of activities accomplished to date as well as expected activities to be completed within forthcoming months. The consultant will follow the FIRST reporting format and will also assist in the preparation of the Project Completion Report.