

This guideline is no longer in force. It has been superseded by the *Guideline on Scope of Application of Basel III and Eligible Capital* with effect from 1 July 2014.



BANK OF MAURITIUS

Guideline on Scope of Application of Basel II

May 2008

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INTRODUCTION

The Basel II framework recognises that different entities may exist within a banking group and that risks in these entities may impact on the overall risk profile of the whole group. So as to capture risk of the whole banking group, Basel II states that capital adequacy requirements should be applied at parent holding (top level) of a banking group. Under Scope of Application, Basel II clarifies the level at which capital requirements should be applied within a banking group.

Purpose

The *Guideline on Scope of Application of Basel II* outlines how the framework applies to banking groups and to different types of entities within such groups.

Authority

This guideline draws its authority from section 50 of the Bank of Mauritius Act 2004 and section 100 of the Banking Act 2004.

Application

This guideline applies to all banks licensed under the Banking Act 2004.

Effective date

This guideline takes effect as from 31 March 2008.

Application Of Basel II

Banking group structure

The following rules shall apply regarding the scope of application of Basel II in Mauritius:

1. A home banking group, defined as a group predominantly engaged in banking business¹ whose centre of economic interest is in Mauritius, shall be subject to capital adequacy requirements, on a consolidated basis for the group and on a stand-alone basis for each individual member which is predominantly engaged in banking business, using an approach as approved by the Bank.
2. A banking entity incorporated and operating in the Mauritian jurisdiction and forming part of a banking group having a foreign regulator as its home regulator, shall be subject to capital adequacy requirements on a sub-consolidated basis for its group operation in Mauritius.
3. A banking entity operating through a branch in the Mauritian jurisdiction and forming part of a banking group having a foreign regulator as its home

¹ As defined in Section 2 of the Banking Act 2004.

regulator, shall be subject to capital adequacy requirements, on a stand-alone basis in respect of its segment A banking operations only, using an approach approved by the Bank.

Financial entities

4. The following rules apply for consolidation and sub-consolidation:
- (a) all financial entities (defined as entities predominantly involved in financial leasing, issuing credit cards, portfolio management, investment advisory, custodial and safekeeping services and other similar activities that are ancillary to the business of banking) which are majority-owned; or majority-controlled; or legally/de-facto expected to be supported solely by the banking group shall be fully consolidated; and
 - (b) all financial entities which are not majority-owned or majority-controlled, but legally/de-facto expected to be supported by the banking group on a proportionate basis and the other significant shareholders have the means and willingness to proportionately support it shall be consolidated on pro-rata basis.

Exception to consolidation and sub-consolidation

5. Consolidation and sub-consolidation rules shall not apply in respect of:
- (a) **investments that are not significant investments** and do not otherwise qualify for consolidation under 4(a) and 4(b);
 - (b) **significant** investment in entities that are held on a temporary basis or non-consolidation is required by statute; or
 - (c) **significant** investments in entities that are engaged in insurance activities; or
 - (d) **significant** investments in entities that are engaged in commercial activities, subject to the materiality level as set out below.

The materiality level for significant investments in entities engaged in commercial activities shall be 15% of the bank's capital for individual investments and 60% of the bank's net regulatory capital for the aggregate of such investments.

Significant investments means investments giving more than or equal to 20 per cent participation in the equity capital of an entity.

Goodwill and minority interests

6. Goodwill, arising from using the consolidation or sub-consolidation approach, shall be deducted from Tier 1 capital.
7. Minority interests arising from the consolidation or sub-consolidation of an entity can be included in Tier 1 capital where the Bank is satisfied, among others, that there are no hindrance on the availability of minority interest capital to other group members.

Treatment of significant investments

8. Treatment of investments described at 5 shall be as follows:

Types of investment		Treatment
a.	Investments that are not significant investments and do not otherwise qualify for consolidation under 4(a) and 4(b).	Carry a risk weight of not less than 100%.
b.	Significant investment in entities that are held on a temporary basis or non-consolidation are required by statute.	Carry a risk weight of not less than 100 per cent.
c.	Significant investments in entities that are engaged in insurance activities.	Deduct from capital base.
d.	Significant investments in entities that are engaged in commercial activities that do not exceed the materiality level.	Carry a risk weight of not less than 100 per cent.
e.	Significant investments in entities that are engaged in commercial activities that exceed the materiality level.	Deduct excess, as specified under paragraph 5(d) from the capital base.

Deduction of investments

9. Where investment is deducted from the capital base, the deduction shall be applied as follows:

- (a) 100 per cent of any goodwill element, being the difference between the value of the investment and the fair value of the assets acquired at the time the investment was made, from Tier 1 capital;
- (b) 50 per cent of the remaining investments from Tier 1 capital; and
- (c) the remaining 50 per cent from Tier 2 capital.

Home/host supervisor cooperation

10. In respect of banking branches or subsidiaries of home banking groups operating outside the Mauritian jurisdiction, the Bank will rely on the capital adequacy requirements of the host regulator for assessing the capital adequacy of the branch or subsidiary on a stand-alone basis. However the Bank has to be satisfied with the regulatory framework present in that jurisdiction before placing such reliance.
11. In respect of banking entities operating in the Mauritian jurisdiction and forming part of a banking group having a foreign regulator as its home regulator, the bank shall forward a copy of the consolidated capital adequacy return of each banking group as submitted to its home regulator at the end of its financial year.

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