DRAFT GUIDELINES ON THE ISSUE OF COMMERCIAL PAPERS

Bank of Mauritius

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1. INTRODUCTION

Commercial Paper (CP) refers to a short-term money market instrument issued by a company in the form of a promissory note. CP can be used either as a funding tool or as a cash management tool. Its proceeds are typically used for financing current assets or inventories, or meeting short-term liabilities. CP is seldom used as a funding vehicle for longer-term obligations because other alternatives are better suited for that purpose.

The introduction of CP in Mauritius is expected to support the development of the domestic money market. CP will allow issuers to diversify the sources of short-term borrowing while investors will benefit from a viable additional short-term financial instrument, with market-determined rates of return.

The guideline governs the issuance of CP in Mauritius. It outlines the minimum requirements that issuers and investors should meet, the procedures to be followed for CP issuance as well as the duties and obligations of all parties involved in the process.

Authority

This guideline is issued under the Authority of Section 50 of the Bank of Mauritius Act and Sections 14F and 100 of the Banking Act.

Interpretation

In this guideline,

a) 'cash dealer' means a body corporate licensed by the Bank to carry on the business of foreign exchange dealer or money-changer under the Banking Act 2004.

b) 'Commercial Paper (CP)' means a promissory note with maturity of less than 364 days.

c) 'company' means a company incorporated or registered under the Companies Act.

d) 'custodian' means a financial institution that provides custodial services for securities held by the investor, including holding investor positions and managing transactions in terms of the investor's instructions.

e) 'External Credit Assessment Institution (ECAI)' means an entity that issues external credit assessments and which is recognized by the Bank of Mauritius.

f) 'financial Institution' means a bank or non-bank deposit-taking institution licensed by the Bank of Mauritius under the Banking Act.

g) 'financial guarantee' means a guarantee issued by a financial institution to guarantee repayment of the CP by the issuer.

h) 'funding line' means a committed credit line, including working capital limit, sanctioned by one or more financial institutions to a company to provide it with funding and liquidity.

i) ‘investor’ means the initial investor or subsequent buyer of CP in the secondary market.

j) ‘issuer’ means an eligible company, other than a financial institution and cash dealer, that raises short-term financing through the issue of CP and is the legal obligor on the issued CPs.

k) ‘Issuing and Paying Agent (IPA)’ means a financial institution that acts on behalf of the issuer to facilitate CP issuance and effect principal and income payments, including repayments at maturity, to CP holders.

l) ‘net assets’ means total assets less total liabilities.

m) ‘related party’ has the same meaning as in the Banking Act.

n) ‘tangible net worth’ means total assets less total liabilities less revaluation reserve less intangible assets.

Effective Date

This guideline shall come into effect on ***

2. ELIGIBLE ISSUERS

2.1 Companies, other than financial institutions and cash dealers, incorporated or registered under the Companies Act in Mauritius, meeting, *inter alia*, the criteria mentioned below shall, subject to the approval of the Bank of Mauritius, be eligible to become issuers of CPs:

(i) The company has, at any point in time, not earlier than 12 months prior to the proposed issue of CP, net assets of a total value exceeding Rs300 million, as certified by its auditors and reflected in its audited financial statements.

(ii) The company has a tangible net worth of at least Rs250 million.

(iii) The company has been in existence for at least 10 years, with positive net profit after tax over the last 5 years.

(iv) The credit exposure of the company or its holding company has not been classified as impaired by a financial institution under the Bank of Mauritius Guideline on Credit Impairment Measurement and Income Recognition.

(v) The company does not have any arrears with any financial institution and/or a history of recurrent default/ late payments, based on latest available MCIB report.

(vi) The company has an established unutilized funding line or financial guarantee from one or more financial institutions to cover the aggregate amount of the issuance.

(vii) The company has an 'Investment Grade' credit rating for the CP issuance from an External Credit Assessment Institution (ECAI).

2.2 The Bank may grant an issuer of Commercial Paper Licence to a company meeting the above and such other criteria and subject to such terms and conditions as the Bank may deem fit.

3. ELIGIBLE INVESTORS

3.1 CPs may be issued to and held by individuals, financial institutions, other companies registered or incorporated in Mauritius, non-resident individuals and Foreign Institutional Investors.

3.2 Investment by financial institutions will qualify under credit, as defined under the Banking Act 2004, and will be subject to compliance with relevant guidelines.

4. PROCEDURES FOR CP ISSUANCE

4.1 The issuer shall -

4.1.1 obtain the approval of its Board of Directors with regard to the size and tenor of CP issuance.

4.1.2 apply for a credit rating for the issuance of CP from a recognized ECAI. The rating letter from the ECAI should not be more than 2 months old.

4.1.3 appoint an IPA and a custodian for the issue of CP.

4.1.4 apply for an issuer of CP Licence from the Bank for each CP issue under section 14F of the Banking Act, duly accompanied by documents specified in Annex 1.

4.1.5 bear the expenses of the issue, including licence fees, fees payable to the IPA and ECAI, and any other charges connected with the issue.

4.2 The IPA shall –

4.2.1 certify that all documentation provided by the issuer, as required for the issue of CP, including a copy of the Board's resolution, credit rating assessment report of ECAI, are in order as shown in Annex 2.

4.2.2 open the CP issue for subscription upon the issuer being granted a licence by the Bank. The minimum disclosure provided by the issuer in the offer document shall be as shown in Annex 3.

4.2.3 credit the CP to the account of the investor with the custodian against proof of payment.

4.2.4 close the offer for subscription to the issue of CP within a period of up to one month from the date of opening of the issue for subscription.

4.2.5 submit, within three working days from the date of closing the offer for subscription to the issue of CP, a report to the Bank on the amount actually issued and the investors in the issue.

4.3 Investors shall pay the discounted value or face value of the CP, as the case may be, to the account of the issuer through the IPA.

4.4 Issuers and IPAs shall follow procedures and carry out their duties and obligations, as prescribed in this guideline.

4.5 Each issue of a CP shall be treated as a fresh issue and the same procedures as outlined above shall be followed.

4.6 Issuers may submit a plan for the issue of CP at specific intervals during a pre-determined period. Subject to the issuer's credit rating remaining unchanged during this period and subject to 2.2 above, the Bank may grant a licence upfront for each CP issue mentioned under this plan.

4.7 The procedures for CP issuance are summarized in the schema at Annex 4.

5. FORM OF CP

5.1 CPs shall be issued in the form of a promissory note and held in dematerialized form with a custodian.

5.2 CPs shall be issued either –

5.2.1 within a committed and unutilized funding line, including working capital limit, equal to the projected amount of issue; or

5.2.2 against a financial guarantee.

6. TENOR OF CP

6.1 CPs shall be issued in maturities of less than 364 days.

6.2 The maturity date of the CP shall not exceed the validity period of the issuer's credit rating assessment made by the ECAI.

7. MODE OF ISSUE

7.1 The minimum size of issue of the CP shall not be less than Rs100 million.

7.2 The CP shall be issued in minimum denominations of Rs100,000.

7.3 The CP shall be issued -

7.3.1 at a discount to face value, whereby the discount to face value shall be determined by the issuer based on prevailing Treasury Bills/BoM Bills yields and risk premium in accordance with the CP credit rating; or

7.3.2 as an interest-bearing note whereby the investor pays the face value and, at maturity, receives the face value and accrued interest. Interest shall be determined by the issuer based on prevailing Treasury Bills/BoM Bills yields and risk premium in accordance with the CP credit rating, and may be fixed or floating.

8. LIMIT ON THE AMOUNT OF ISSUE

8.1 The aggregate amount of CP raised by an eligible company shall be within the limit approved by its Board of Directors and in line with the quantum indicated by the ECAI for the issuance specified rating.

9. TRANSACTIONS IN CP

9.1 Trading

(i) CPs may be traded over the counter (OTC) on the secondary market.

(ii) Primary Dealer banks transacting in CPs shall comply with the Bank's Guideline on the Operational Framework for Primary Dealers.

(iii) All OTC trades in CP shall be reported to the Bank within 3 hours of the trade either through Bloomberg, Reuters or any other format prescribed by the Bank.

(iv) Settlement for OTC trades in CP shall be within T+2.

(v) Clearing of OTC trades in CP shall be through the Mauritius Automated Clearing and Settlement System.

9.2 Buyback

(i) An issuer may buy back CPs from current holders before maturity, subject to the approval of its Board of Directors.

(ii) The buyback offer may not be made before 60 days from the date of issue.

(iii) Buyback of a CP shall take place through the IPA.

(iv) The buyback offer shall be extended to all investors in the CP issue.

(v) CPs bought back shall stand extinguished.

9.3 Transfer

(i) The CP shall be transferable, subject to the transfer being registered through the custodian.

(ii) The issuer shall recognize the investor whose name is last registered at the custodian as the owner of the CP.

10. REDEMPTION

10.1 On maturity, the IPA shall effect payment to the holder of the CP through direct transfer into a bank account upon receipt of funds from the Issuer.

10.2 Where the maturity date falls on a Saturday or public holiday, payment shall be made on the immediate preceding working day.

11. DUTIES AND OBLIGATIONS OF PARTIES INVOLVED

The duties and obligations of the issuer, IPA, and ECAI are set out below.

11.1 The issuer shall:

(i) comply with all relevant requirements prescribed in this guideline.

(ii) provide to the ECAI, for the purpose of obtaining a credit rating for the CP issuance, such documents as required by the ECAI.

(iii) deliver to the IPA and ECAI a duly adopted resolution from its Board of Directors authorizing the issuance of CP.

(iv) make minimum disclosure in the offer document as specified in Annex 3.

(v) ensure that the proceeds from CP issues are used to finance only current assets and operating expenses. The end-use of funds must be explicitly disclosed in the offer document.

(vi) ensure that it has an established unutilized funding line or financial guarantee from one or more financial institutions equal to the outstanding and/or projected amount of CP during the tenor of the issue.

(vii) route all subscriptions/redemptions/payments through the IPA.

(viii) submit, within a period of 7 days from the issue date of the CP, a certificate to the concerned IPA to the effect that the CP proceeds will be used for the disclosed purposes, and certifying adherence to other conditions of the offer document.

(ix) submit to the IPA, for onward submission to the Bank and ECAI, a monthly report on its funding line utilization.

11.2 The Issuing and Paying Agent (IPA) shall:

(i) enter into an agreement in writing with the issuer to act as IPA for the issue of the CP.

(ii) ensure that the issuer meets all requirements prescribed in this guideline before the issuance of CP.

(iii) certify that all documentation provided by the issuer are in order.

(iv) verify and hold certified copies of original documents provided by the issuer in its custody.

(v) verify that all information disclosed in the offer document are in order before issuance.

(vi) arrange for the allocation of an ISIN code to each CP issue.

(vii) make clear in the offering document that the investment is subject to credit and other risks and that payment will be made only if the issuer has made the funds available to the IPA.

(viii) conduct KYC and due diligence on the investors and investor funds in compliance with the Guidance Notes on Anti-Money Laundering and Combating the Financing of Terrorism for Financial Institutions.

(ix) conduct a customer suitability assessment to ensure that investors understand the risks linked to investment in CP and that such investment matches their objectives and risk appetite.

(x) inform initial investors that in case of default by the issuer, it will not be in a position to seek recovery from or initiate any action against the issuer either on its own or on behalf of the investors.

(xi) credit CP to the investors' accounts at the custodian against proof of payment.

(xii) report the details of issuance of CP to the Bank within 3 working days of the day of issuance in the format prescribed by the Bank.

(xiii) at maturity, receive funds from issuer and effect repayment to the investors upon receipt of the CP.

(xiv) in case of default by the issuer at maturity, promptly notify the investors, ECAI and the Bank about such default within three working days of occurrence of such default.

(xv) ensure that the issuer has, during the tenor of issue, an established unutilized funding line or financial guarantee from one or more financial institutions to cover the amount of CPs issued/ to be issued.

(xvi) report on a monthly basis to the Bank the outstanding amount of CP issued together with the available amount of funding line in the format prescribed by the Bank.

11.3 The External Credit Assessment Institution (ECAI) shall -

(i) act responsibly in rating CP issuances and continuously monitor the rating assigned to an issue and undertake revisions, as necessary, to the rating.

(ii) disseminate ratings to the public through their publications and website.

(iii) advise the concerned IPA about the ratings of the CP and any subsequent change in the ratings, on the date of rating or change in rating.

(iv) ensure that the impact of the funding being raised through the CP is taken into consideration for the rating.

(v) indicate clearly the circumstances in which the rating shall be due for review including rollover of the CP at maturity, fresh issue of CP or other debt instruments, or any other activity that would impact on the minimum current ratio, debt to equity ratio or the debt servicing coverage ratio of the issuer.

12. The above guideline will be subject to review as and when required by changing market conditions.

Bank of Mauritius

7 September 2017

ANNEX 1

Documents Supporting the Application to the Bank of Mauritius for an issuer of Commercial Paper Licence

(i) Company profile, including main shareholders and senior management;

(ii) Details of outstanding CPs as on date of new issuance including date of issuance, credit rating, name of ECAI and name of IPA;

(iii) Details of proposed CP issue including amount, current credit rating, name of ECAI, its validity period, and details of IPA and custodian;

(iv) End-use of funds;

(v) Copy of IPA certificate;

(vi) Copy of Credit Rating assessment report from the ECAI;

(vii) Summary of audited financial statements for the last three years;

(viii) Projected P&L, balance sheet and cash flows for the next two years;

(ix) Key financial ratios for the last three years and projections for the next two years, including Total Gearing, External Gearing, DSCR, Interest Cover, Current Ratio;

(x) Working Capital Cycle;

(xi) Statement from concerned financial institutions or external auditor confirming that any credit exposure of the company has not been classified as impaired;

(xii) Details of default including technical default, if any, along with description of the issue, IPA, amount, dates of issue and maturity date for past three years;

(xiii) All outstanding credit facilities from banks and non-bank financial institutions, facility-wise, and their asset classification;

(xiv) Statement from the concerned financial institution that it has established an unutilized funding line or provided a financial guarantee equal to the outstanding and projected amount of CP during the tenor of the issue;

(xv) Copy of the offer document;

(xvi) Any other additional information or document as the Bank may require.

ANNEX 2

IPA CERTIFICATE

We have a valid IPA agreement with the *(Name of Issuing Company).*

2. We have verified all the documents, including Board resolution and Credit Rating assessment report issued by the External Credit Assessment Institution, submitted by *[Name of the Issuing Company]* and certify that the documents are in order. Certified copies of original documents are held in our custody.

(Authorised Signatory/Signatories)

(Name, address and seal of Issuing and Paying Agent)

Place :

Date :

ANNEX 3

Minimum Disclosure in the Offer Document

(i) Short description of the issuer.

(ii) Description of the CP, including form, tenor, mode of issue and credit rating.

(iii) Copy of IPA certificate.

(iv) Summary of audited financial statements for the last three years.

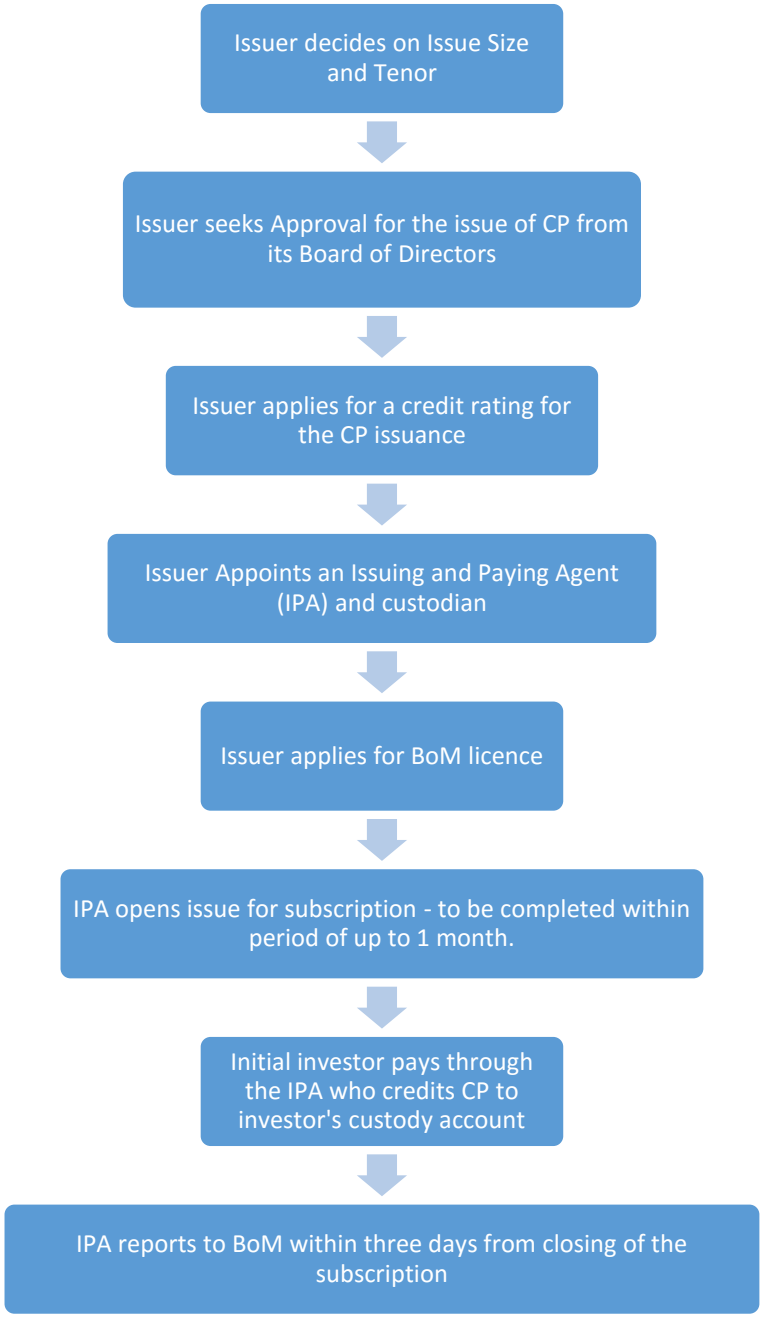
(v) End-use of funds.

(vi) Tax treatment of payments under the CP.

(vii) Inform investors that the investment is subject to credit and other risks and that payment will be made only if the issuer has made the funds available to the IPA.

(viii) Inform investors that in case of default, the investor will not be position to seek recovery from or initiate any action against the issuer or the IPA.

(ix) Inform investors that the CP will be maintained in dematerialized form with a custodian.

ANNEX 4

Procedures for the Issue of CP