



BANK OF MAURITIUS

GUIDELINE ON THE OPERATIONAL FRAMEWORK FOR FOREIGN EXCHANGE MARKET-MAKERS

1 March 2017

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1. INTRODUCTION

1.1 Purpose

The Guideline sets out the operational framework for Foreign Exchange Market Makers.

1.2 Authority

This guideline is issued under the authority of Section 50 of the Bank of Mauritius Act 2004 and Section 100 of the Banking Act 2004.

1.3 Scope of application

This Guideline will apply to all Foreign Exchange Market Makers appointed by the Bank.

1.4 Effective Date

This guideline shall be effective as from **01 March 2017**.

1.5 Interpretation

In this guideline -

“bank” has the same meaning as in the Banking Act 2004;

“Bank” means the Bank of Mauritius established under the Bank of Mauritius Act 2004;

“foreign exchange dealer” has the same meaning as in the Banking Act 2004;

“Foreign Exchange Market Maker” means a bank appointed by the Bank of Mauritius that stands ready to buy and sell foreign currencies in the domestic interbank foreign exchange market.

2. APPLICATION

2.1 Any bank may apply to become a Foreign Exchange Market maker. Banks may submit an application in writing to the Bank, duly supported by to the following:

- (i) documentary evidence with respect to the selection criteria set out under Section 4.0 below;

- (ii) a business plan; and
- (iii) any such information or document as may be specified by the Bank.

2.2 Where the Bank approves or rejects an application from a bank to become a Foreign Exchange Market Maker, it shall notify the applicant of its decision within a period of 1 month from the date the complete application is submitted.

3. SELECTION CRITERIA

The selection of Foreign Exchange Market Makers will be based on the following criteria:

- a. a minimum Tier 1 capital of Rs4 Billion (As on 30 June 2016); and
- b. Forex market turnover, representing a daily minimum average of USD3 million or equivalent over the last quarter (July-September 2016).

4. APPOINTMENT

- 4.1 Foreign Exchange Market Makers will be appointed for a period of one year, renewable annually.
- 4.2 The Bank will appoint Foreign Exchange Market Makers on such terms as the Bank deems necessary.
- 4.3 The number of Foreign Exchange Market Makers will be restricted to a maximum of 5 or such other number as the Bank may determine.

5. OBLIGATIONS OF FOREIGN EXCHANGE MARKET MAKERS

- 5.1 Foreign Exchange Market Makers will be required to fulfill the following obligations:
 - 5.1.1 Meet, at all times, the minimum capital requirements as specified by the Bank.

In this respect, banks engaged as Foreign Exchange Market Makers will be required to maintain the minimum risk weighted capital adequacy ratio as specified under Section 20(2) of the Banking Act 2004.

- 5.1.2 Have a strong management team with competent trading personnel and an efficient back-office.
- 5.1.3 Maintain a high sense of professionalism and contribute to the sophistication of the domestic foreign exchange market.

Staff, who is directly involved in market activity, must comprise at least two dealers duly registered with the Bank, one with three or more years relevant dealing experience and the other with a minimum of one year of relevant dealing experience. Either the Treasurer or one of the two dealers should hold the Association Cambiste Internationale (ACI) Dealing Certificate, or any treasury related qualification. Foreign Exchange Market Makers should encourage their dealers to acquire the ACI Dealing Certificate or any treasury related qualification within the next three years.

- 5.1.4 Have Disaster Recovery sites with well documented contingency plans to cater for cases of system failure.

Following interruption in their trading, they must be able to resume activities, at most, within 4 hours from the time the break occurs. In the event that operations did not resume within the 4 hours, the Foreign Exchange Market Maker must immediately provide a written explanation to the Bank, informing the Bank about the reason for the delay and the expected time of resumption. The bank will apply good value for any outstanding transactions.

- 5.1.5 Submit to the Bank details on dealings in a prescribed electronic format at intervals to be determined by the Bank.

- 5.2 Two-Way Quotes and visibility:** All Foreign Exchange Market Makers will make effective two-way prices to their customers, at all times:
 - a. In the three major currencies (namely, US dollar, Pound sterling and Euro) for all dealt transactions.
 - b. The two-way quote shall be clearly visible. Foreign Exchange Market Makers will have to publish two-way quotes on Bloomberg/Reuters.

- 5.3 **Spread in two-way quote:**
- a. No Foreign Exchange Market Maker shall strike a deal outside the range of the given two-way quote. All deals have to be within the spread of bid and ask rates.
 - b. The spread in the two-way quote must be reasonable.
- 5.4 **Credit Line:** A Foreign Exchange Market Maker must, at all times, have a credit line with other banks and foreign exchange dealers.

6. MONITORING BY THE BANK

- 6.1 The Bank will not maintain any trading relationship with a Foreign Exchange Market Maker that is unable to restore or sustain its capital position to the stipulated minimum level within three months.
- 6.2 The Bank will monitor the transactions of Foreign Exchange Market Makers on a real time or near real time basis. Hence, all foreign exchange market makers will have to report foreign exchange transactions on an hourly basis to the Bank through email.
- 6.3 **Contact.** Both the Bank and Foreign Exchange Market Maker shall exchange and, subsequently, maintain an up-to-date list of contacts of staff in their respective institutions (front and back offices) to attend to queries or issues that may arise. Any change thereon shall be immediately communicated in writing to the other party.

7. BENEFITS

Foreign Exchange Market Makers will enjoy the exclusive benefit of foreign exchange intervention carried out by the Bank.

8. CODE OF CONDUCT

All transactions conducted between Foreign Exchange Market Makers, customers and the Bank should be in line with the **Mauritius Code of Conduct for Foreign Exchange and Money Markets.**

9. TERMINATION

9.1 The termination of/approval as a Foreign Exchange Market Maker may be effected by the Bank;

(a) after the annual review or earlier, and following consultation with the relevant party;

(b) immediately following the revocation of the banking licence; or

(c) immediately, in circumstances as the Bank may deem necessary in the interest of the public.

9.2 Thirty days' notice shall be given where appropriate, in writing, by either party in respect of a termination under (9.1) above.

10. REVIEW CLAUSE

The Guideline will be subject to periodic review in the light of market developments.

Bank of Mauritius

1 March 2017