



# GUIDELINE ON THE ISSUE OF COMMERCIAL PAPERS

Bank of Mauritius

18 June 2018

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## **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 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.

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

This 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 14E and 100 of the Banking Act.

### **Interpretation**

In this guideline,

- a) “annual programme of issuance” means a 12 month programme submitted by an eligible company intending to issue commercial papers, at the time of an application for an issuer of commercial paper licence, showing the date and details of the commercial papers it intends to issue over that period.
- b) ‘Bank’ means the Bank of Mauritius established under section 3 of the Bank of Mauritius Act;
- c) ‘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;
- d) ‘Commercial Paper (CP)’ means a promissory note with maturity of less than 364 days;
- e) ‘company’ means a company incorporated or registered under the Companies Act;
- f) ‘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;
- g) ‘External Credit Assessment Institution (ECAI)’ means an entity that issues external credit assessments and which is recognized by the Bank;
- h) ‘financial institution’ means a bank or non-bank deposit-taking institution licensed by the Bank under the Banking Act;

- 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 represents 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 interest payments 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.

### **Effective Date**

This Guideline shall come into effect on 18 June 2018.

## **1. ELIGIBLE ISSUER**

- 1.1 A company, other than a financial institution or a cash dealer, incorporated or registered under the Companies Act in Mauritius meeting, *inter alia*, the criteria mentioned below shall, subject to the approval of the Bank, 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 been in existence for at least 5 years, with positive net profits after tax over the last 3 years.
  - (iii) The credit exposure of the company or its holding company has not been classified as impaired by a financial institution under the Bank's Guideline on Credit Impairment Measurement and Income Recognition.
  - (iv) The company does not have a history of recurrent default/ late payments, based on its MCIB report.
  - (v) The company has an established working capital limit sanctioned by a bank.
  - (vi) The company has an 'Investment Grade' credit rating from an External Credit Assessment Institution (ECAI) recognized by the Bank.

## **2. GRANTING OF LICENCE**

- 2.1 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.
- 2.2 The licence shall be valid for one year in accordance with the annual programme of issuance subject to the issuance limit specified by the ECAI and the CP credit rating not declining.

## **3. ELIGIBLE INVESTORS**

- 3.1 CPs may be issued to and held by corporates whether foreign or local, resident as well as non-resident individuals.
- 3.2 Investment by financial institutions will qualify under credit, as defined under the Banking Act, and will be subject to compliance with relevant guidelines.

#### **4. PROCEDURES FOR CP ISSUANCE**

- 4.1 The issuer shall -
  - 5.1.1 obtain the approval of its Board of Directors with regard to the size and tenor of CP to be issued.
  - 5.1.2 seek a credit rating for the CP from a recognized ECAI. The rating letter from the ECAI should be not more than 2 months old.
  - 5.1.3 appoint an IPA and a custodian for the issue of CP.
  - 5.1.4 apply for an Issuer of Commercial Paper Licence from the Bank for the annual programme of issuance under section 14E of the Banking Act and Regulations made in that respect, duly accompanied by the documents specified in Annex 1.
  - 5.1.5 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 the documentation provided by the issuer, as required for the issue of CP, are as set out in Annex 2.
  - 4.2.2 open the CP issue for subscription upon the issuer being granted a licence by the Bank.
  - 4.2.3 credit, on behalf of the issuer, the CP to the account of the investor with the custodian against proof of payment.
  - 4.2.4 close the offer for subscription of the issue of CP within a period not exceeding one month from the date of opening of the issue for subscription.
  
- 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 CPs may be issued –
  - 4.4.1 in accordance with the preset annual programme of issuance submitted to the Bank; or
  - 4.4.2 on a discretionary basis, through any one or more of the issues mentioned in the programme, during the validity period of the licence from the Bank, with due notification and reporting to the Bank.
  
- 4.5 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 through a custodian.

## **6. TENOR OF CP**

- 6.1 CPs shall be issued in maturities of less than 364 days.
- 6.2 The maturity date of any CP shall not exceed the validity period of the issuer's credit rating assessment made by the ECAI and of the Issuer of Commercial Paper licence granted by the Bank.

## **7. MODE OF ISSUE**

- 7.1 The minimum size of issue of the CP shall be 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 Government of Mauritius Treasury Bills/Bank of Mauritius Bills yields or any other relevant market rate 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 Government of Mauritius Treasury Bills/Bank of Mauritius Bills yields or any other relevant market rate and risk premium in accordance with the CP credit rating, and may be fixed or floating.
- 7.4 The following market conventions shall be applicable -
- 7.4.1 Yields on the CP shall be rounded to 2 d.p. and prices shall be rounded to 3 d.p.
  - 7.4.2 The day count convention shall be Actual/365.

## **8. LIMIT ON THE AMOUNT OF ISSUE**

- 8.1 The aggregate amount of CP raised by an eligible company shall at all times be within the limit approved by its Board of Directors and in line with the quantum indicated by the ECAI for the issue.

## **9. TRANSACTIONS IN CP**

### **9.1 Trading**

- (i) CPs may be traded over the counter (OTC) on the secondary market.
- (ii) 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 as may be determined by the Bank.
- (iii) Settlement for OTC trades in CP shall be T+2.
- (iv) 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) Buyback of a CP shall take place through the IPA.
- (iii) The buyback offer shall be extended to all investors in the CP issue.
- (iv) 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 receive payment from the issuer and shall effect payment to the holder of the CP through direct transfer into a bank account or as agreed with the investor.



- 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) provide to the ECAI, for the purpose of obtaining a credit rating for the CP issuance, such documents as may be required by the ECAI.
- (ii) deliver to the IPA and ECAI a duly adopted resolution from its Board of Directors authorizing the issuance of CP duly signed by the Chairperson and the Company Secretary of the Board.
- (iii) make the disclosure as specified in Annex 3 in the offer document, as a minimum.
- (iv) ensure that the proceeds from CP issues are used to finance current assets, operating expenses or inventories, or meeting short-term liabilities. The end-use of funds must be explicitly disclosed in the offer document.
- (v) route all subscriptions/redemptions/payments through the IPA.
- (vi) arrange for crediting, against proof of payment, the CP to the investors' accounts with the custodian through the IPA.
- (vii) submit, within a period of 7 days from the issue date, 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.

### **11.2 The IPA shall:**

- (i) enter into a written agreement with the issuer to act as IPA for the issue of the CP.
- (ii) verify and hold certified copies of original documents provided by the issuer in its custody.
- (iii) verify all information disclosed in the offer document before issuance.
- (iv) arrange for the allocation of an ISIN code to each CP issue.
- (v) conduct KYC 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.

- (vi) conduct a customer suitability assessment to ensure that individual investors understand the risks linked to investment in CP, and that such investment matches their objectives and risk appetite and obtain a declaration from those individual investors that they so understand.
- (vii) disclose company information or any other related information likely to assist the investor to invest or not in the CP.
- (viii) 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.
- (ix) inform initial investors that in case of insolvency of the issuer, they would receive the same treatment as unsecured creditors in terms of priority of claims as laid down in the Insolvency Act.
- (x) in case of default of the issuer, promptly notify the investors, ECAI and the Bank about such default within a maximum of three working days of occurrence of such default.
- (xi) at maturity, receive funds from the issuer and effect all payments to the investors upon receipt of the CP.
- (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) report on a monthly basis to the Bank the outstanding amount of CP issued and other relevant information in the format prescribed by the Bank.
- (xiv) inform all the investors that the CP will be held in dematerialized form. The application form should contain a clause to that effect.

### 11.3 The ECAI shall -

- (i) obtain an undertaking from the issuer to the effect that it shall communicate all information affecting and likely to affect its financial health in future prior to, during, and after the CP issue.
- (ii) act responsibly in rating CP issuances and continuously monitor the rating assigned to an issue and undertake revisions, as necessary, to the rating.
- (iii) disseminate ratings to the public through publications, website, and any other means as the ECAI deems fit.
- (iv) advise the concerned IPA about the ratings of the CP and any subsequent change in the rating on the date of change in rating.
- (v) ensure that the impact of the funding being raised through the CP on the financial health of the issuer is taken into consideration for the rating.
- (vi) indicate clearly the circumstances in which the rating shall be due for review.

## **12. COMPLIANCE WITH THIS GUIDELINE**

- 12.1 Issuers, IPAs and ECAs shall comply with the requirements, follow the procedures and carry out their duties and obligations, as prescribed in this guideline.

## **13. REVIEW**

- 13.1 The above guideline will be subject to review as and when required by changing market conditions and changes in the legislation.

**Bank of Mauritius**

**18 June 2018**

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

- (i) Company profile, including shareholders and Ultimate Beneficial Owners holding more than 10% interest 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 rationale 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 next two years, including Total Gearing, External Gearing, DSCR, Interest Cover, Current Ratio;
- (x) Source of repayment;
- (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, if any, for the past three years;
- (xiii) All outstanding credit facilities from banks and non-bank financial institutions, facility-wise, and their asset classification;
- (xiv) Copy of the offer document;
- (xv) Authorisation to the Bank to access the credit profile of the issuer on the Mauritius Credit Information Bureau;
- (xvi) Any other additional information or document as the Bank may require.

**IPA CERTIFICATE**

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

2. We have verified the documents, that is, Board resolution and Credit Rating Rationale 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 and address of Issuing and Paying Agent)

Place :

Date :

**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 insolvency, the investor will receive the same treatment as unsecured creditors in terms of priority of claims as laid down in the Insolvency Act;
- (ix) Inform investors that the CP will be maintained in dematerialized form through a custodian.

**Procedures for the Issue of CP**