

**HSBC Workshop on Currency Options and Structured Products –
30 October 2003**

Opening Remarks by Managing Director, Bank of Mauritius

Good Morning

HSBC is one of the foremost players on world financial markets and it is my pleasure to welcome this morning's initiative on its part to address a key aspect of the treasury function of corporates by organising this workshop.

The post Bretton Woods period is marked by extensive volatility on the markets. Exchange rates, interest rates, bond, equity and commodity prices move daily in significant ranges. The amplitudes of these movements have oftentimes taken surprising turns, much to the discomfort of the inexperienced market participant.

But techniques to deal with market uncertainty and the associated risks have been in existence even before the formal organisation of derivative trades. It is true that the form, content and quality of risk underwriting has evolved considerably since the days when the simple formulae were adopted by farmers to protect themselves against downturns in markets conditions. The path-breaking work in this respect by Messrs Merton and Scholes, Nobel Prize winners, has resulted in the development of increasingly sophisticated models for efficient risk management in financial markets. Proven hedging systems against complex risks based on their mathematical models are a daily feature on markets involving trillions of dollars of trades.

Since last year, some Mauritian players have adopted a positive attitude for mitigating exchange risks. There is scope now for moving on to the use of a wider range of derivative products specially by involving the bigger players on the financial market. The limited use of risk management techniques in Mauritius currently can partly be attributed to the lack of awareness of operators of the available hedging techniques associated with diverse financial transactions. Another factor explaining this situation could be the insufficient familiarisation with and marketing of the relevant products on the local market. A further reason for this state of affairs could be the relative passivity of local market players who are content to carry on much as before, under the mistaken belief that such products would be creating new risks when in fact they merely redistribute and mitigate the adverse impact of pre-existing risks.

As a financial centre of good standing, Mauritius is expected to progress towards developing a wider range of financial instruments and financing techniques. Derivative products should be seen in this context as part of the financial package on offer and market participants should be well versed in the application of the underlying concepts, mechanics, etc., so as to derive the expected advantages from engaging in the proposed activities. I need not emphasise that simple tools such as the use of currency options and structured finance comprise part only of the array of financial services delivered on significant international financial markets. We should therefore build up meaningful substance for this part of normal market activities for the benefit of the enterprises engaging in the trades.

I trust that banks such as HSBC, which have a global expertise in the matter, should be in a position to introduce the relevant financial products on the local market. Not only will potential risks be thereby mitigated but there will also arise opportunities for growing the underlying markets on which the derivative products are typically based. In other words, the financial market could see a persistent widening of its scope if the risks underlying existing financial assets are effectively underwritten by unbundling them through the supply of appropriate derivative products on the local market. I am convinced that the scope for this model of financial sector development can be marshalled by all operators acting together to construct a comprehensive marketplace in Mauritius.

I would finally like to add that these developments will successfully take place under appropriate legal protection for the counter-parties engaged in the trades. This legal framework exists. The appropriate documentation based on this framework can easily be produced. I am confident that sound financial and legal advisory services would constitute a significant plank of protection for investors going into more complex and sophisticated hedging instruments. The prospective transactions could also gain in scope if conducted in a tax friendly environment and with a constant eye on minimisation of transaction costs. Finally, I believe that it would be appropriate to carry out the relevant risk management transactions in the framework of well-established internationally accepted rules respecting contractual obligations.

Let me end here wishing you all a fruitful session in the hands of HSBC's presenters at this Workshop and thanking you for your attention.