



4AX - Consortium including ITL to apply for a new stock exchange licence with the FSB

A consortium of multinational companies is in the process of making an application to the Financial Services Board (FSB) to register as a licensed stock exchange. If a licence is granted to 4 Africa Exchange (4AX), it will be the second licensed exchange in South Africa, next to the JSE.



The consortium, led by Bravura, is in the process of applying for a licence to become an exchange for trading in shares of companies that are currently trading over-the-counter (OTC), shares in BBBEE schemes as well as limited participation share entities. The other stakeholders in the consortium include Trifecta Capital™, Intercontinental Trust, Capital Markets Brokers, NWK and Global Environmental Markets (GEM), a developer of electronic exchange trading platforms, whose owner has been involved in developing more than 30 exchanges in 22 countries.

Stephan van der Walt, spokesperson for 4AX says the aim of 4AX is to provide an infrastructure and service that will meet the needs of issuers with specific requirements about ownership as well as the needs of investors, while adhering to the regulatory oversight provided by the FSB and meeting the requirements and the principles of the Financial Market Act 2012.

The application to register a securities exchange follows a directive issued by the FSB in July 2014 which stated that companies must either licence their OTC platforms as a regulated exchange, cease the illegal unlicensed exchange activities, or obtain the appropriate exemption to continue with such activities.

“This caught many companies off guard and most of those companies applied for exemption from the requirements. In most instances, exemptions were granted for a limited period to provide companies to consider alternatives,” says van der Walt.

In effect, the directive means that the companies who want to continue trading their shares as they have been traded in the past, must apply to become a licensed stock exchange, or list their shares on a licensed exchange, such as what 4AX is in the process of establishing.

The directive has concerned market participants where the removal of historic trading platforms would lead to lower liquidity and impede price discovery for shareholders. Van der Walt says by obtaining a licence, 4AX will provide issuers and shareholders with the following benefits: ease of investment and trading, increased liquidity, more market exposure, a lower cost alternative to the JSE as well as enable asset managers who may only invest in listed shares to also enter this market.



Van der Walt believes that the unique 4AX technology and business model will also address the issues facing 'Restricted Shares' – the restrictions on share trading embedded into the founding documents of some companies. For instance, BEE schemes may only allow a black individual or BEE certified corporate to buy and hold their shares and certain agriculture entities only allow qualified farmers to buy and hold its shares or limit the number of shares which a person may hold.

“This will give the companies and share issuers comfort over the fact that their shares are being traded by appropriate investors but at the same time, award such companies the ability to unlock value for their shareholders and give them a liquid market on which they can trade their shares in a cost effective manner,” he says.

4AX will have its own listing requirements and exchange rules to protect investors, which will provide security to shareholders and investors in companies listed on the 4AX.

The listing requirements and exchange rules have been drafted based on developing market exchanges of a similar size, providing companies as issuers with a less onerous regulatory environment, whilst concurrently giving investors comfort that there is sufficient regulation and surveillance in place to protect their investments.

Transactions on the 4AX-platform will be executed via a matching engine algorithm that will match bids and orders submitted to the exchange in a fair and orderly manner. To reduce the cost of trading the 4AX partners have designed an innovative clearing and settlement arrangement which will streamline the financial and physical clearing and settlement of transactions.

Market information such as volumes and values traded, end of day pricing, company information and market announcements will be published on a news service and be available to the interested public. Trading will be made possible via approved brokers that may facilitate online trading, smart phone apps, call centres and walk-in broker help desks, where shareholders can experience face-to-face service.

Van der Walt says one of the major benefits is that there will be significantly more investors trading in the shares than there was under the stand alone systems these companies used to trade under in the past, due to cross holding of shares being made accessible to shareholders as well as a strategic effort to simplify the FICA process. With 4AX, shareholders will also have the ability to place their shares as collateral. This adds significant value to issuers who provide funding to their shareholders based off the back of encumbered issuer shares.

All companies that list on the 4AX will be subject to the provisions of the listing requirements and exchange rules, which provides rules based corporate governance and investor protection to minority shareholders.

Van der Walt says the consortium sees a lot of value in developing an exchange which would not only provide security to investors but enable, develop and deepen capital markets in South Africa in a fair, efficient and transparent manner.

“We believe that the market is ready for an exchange alternative to the JSE,” concludes van der Walt.



4AX Stakeholders:

Bravura

Founded in 1999, Bravura is a niche independent investment banking and advisory firm with a specific focus on corporate finance, advisory services and financial structuring. Bravura offers astute and sound financial solutions underpinned by an independent and flexible approach, as well as rigorous risk management practices. It is these qualities which ensure Bravura is able to deliver value to its clients.

Trifecta Capital™

Trifecta Capital™ is a market leader for providing international business process outsourcing, specialising in Asset Return, Stakeholder Communications, Registrar and Transfer Secretary Services, Credit Control and Collections for private and public sector clients around the globe. Trifecta Capital's™ Registrar and Transfer Secretarial Services cater for the broad range of functions required for registry administration with the management of shareholders, investors, BEE participants and other stakeholders.

GEM

GEM provides market operators with electronic exchange trading platforms that facilitate fair, orderly and transparent marketplaces delivering participants the confidence to trade. GEM has a proven track record of designing, developing and operating web based exchange systems that suit any markets needs - from listing new products and disseminating market knowledge and information to facilitating trading and providing world class real time clearing and settlement.

Intercontinental Trust Limited

ITL is a leading independent fiduciary and corporate services provider based in Mauritius. Its valued clients include multinationals in the Fortune 100, globally recognised mining and mining related companies; top 10 investment banks and high net worth individuals. Today, the value of clients' assets under ITL's administration has reached approximately USD 60 Billion. With offices in Mauritius, Seychelles, Singapore, South Africa and Kenya, ITL provides a one stop shop solution with a comprehensive range of services. Its expertise led the firm to pioneer numerous structuring solutions as well as raising industry standards. ITL is the first management company to complete SAS70/ISAE3402 Type II audit and to go live with the eFront software for its Private Equity fund administration in Mauritius. ITL was also involved in setting up of the first Foundation in Mauritius; the first dual listing of a GBC on both the Official Market of the SEM and on the Johannesburg Stock Exchange Limited in South Africa; the first listing and trading of shares of a company in Pounds Sterling on the Official Market of the SEM. This company is also listed as a secondary listing on the JSE in South Africa; the first listing and trading of shares of a Global Fund on the Official Market of the SEM.

Explanatory notes:

OTC

Over-the-counter trading refers to a manner of buying and selling securities in a less regulated manner, where a buyer and seller are matched without any supervision of an exchange. OTC equity markets typically have less liquidity in comparison to an exchange traded market.



BEE Schemes

BEE schemes are typically special purpose investment holding entities which hold shares in companies as part of a BEE ownership transaction. Black people or black owned entities will hold the shares in these investment vehicles. To ensure continued compliance with the BEE Codes or Mining Charter, these shares typically contain restrictive conditions on the sale of such shares and that such shares may only be sold to other qualifying black shareholders. The market value of BBEE schemes is estimated at more than R15 bn.

Limited participation share trading

Limited participation share trading refers to the restrictions placed on the transferability and ownership over certain securities like shares in BEE Schemes. Certain companies have a restriction embedded in their founding documents which places restriction on what type of individual/ corporate may own their shares – e.g. BEE schemes may only allow a black individual/ corporate to buy and hold their shares, likewise certain agriculture entities may only allow qualified farmers to buy and hold its shares or limit the number of shares which a person may hold.

Visit of the Indian Prime Minister in Mauritius: Modi reassures the Mauritius financial services sector.

India today offered USD 500 million concessional line of credit to Mauritius for key infrastructure projects even as the two countries agreed to continue negotiations on hammering out a revised double tax treaty to prevent its “abuse”.



The two countries also signed five agreements, including one on developing ocean economy, after talks between Prime Minister Narendra Modi and his Mauritian counterpart Anerood Jugnauth on the first day of his two-day visit to this strategic Indian Ocean island nation.

“I was pleased to offer a concessional line of credit of USD 500 million for civil infrastructure projects for Mauritius. We intend to quickly build the petroleum storage and bunkering facility in Mauritius,” Prime Minister Modi said at the signing of the pacts.

Addressing a joint news conference with Modi, Jugnauth said he had raised with the Indian Prime Minister issues related to the Mauritius-India Double Taxation Avoidance Agreement (DTAA).

“We appreciate that already India postponed the consideration of the GAAR until 2017. However, we have stressed on the initiatives taken by Mauritius to build substance within our offshore jurisdiction. I have requested PM Modi to give his full support on the DTAA as it is of prime importance for our global business sector,” he said.

Modi in his response said the two sides agreed to continue negotiations on the revised treaty based on shared objectives to prevent the “abuse” of the convention.

He assured Mauritius that India will do nothing to harm its interests.

Modi also said that Mauritius offered India cooperation on information exchange on taxation.



“I also conveyed our deep appreciation for the support and cooperation offered by Mauritius on information exchange on taxation,” Modi said.

The India-Mauritius Double Taxation Avoidance Agreement (DTAA) is being revised amid concerns that Mauritius is being used for round-tripping of funds into India even though that country has always maintained that there have been no concrete evidence of any such misuse.

Mauritius has been one of the biggest sources of Foreign Direct Investment (FDI) into India.

“I consider our security cooperation to be a cornerstone of our strategic partnership. Our agreement on cooperation in Ocean Economy is an important step in deepening our scientific and economic partnership,” Modi said.

The five pacts signed included an MoU between the two countries in the field of ‘Ocean Economy’ which will provide an extensive framework for cooperation, a novel and critical area of sustainable development in the Indian Ocean Region.

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The other agreements signed were an MoU for the improvement in sea and air transportation facilities at Agalega Island of Mauritius, MoU on cooperation in the field of traditional system of medicine and homoeopathy, programme for cultural cooperation between 2015-18 and a pact on import of fresh mango from India.

“Over the past few years, we have discussed revision of Double Taxation Avoidance Convention. This is based on our shared objective of preventing abuse of the Convention, while enabling Mauritius to benefit fully from this arrangement. We have agreed to continue this discussion,” Modi said.

“However, I have assured Prime Minister that we will do nothing to harm this critical sector of one of our strongest strategic partners in the world,” he said.

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A Joint Working Group (JWG) has been set up by the two countries to find a mutually acceptable solution.

Mauritius is one of the top sources of Foreign Direct Investment into India.

During the last Financial year, India attracted USD 4.8 billion from Mauritius. Between April-September this fiscal, there has been an inflow of USD 4.9 billion into India.

Finance Minister Arun Jaitley recently said Mauritius is yet to agree to certain proposals for revising the treaty.

“India has made certain proposals for revision of the DTAA to end roundtripping and other aspects. Mauritius is yet to agree to such revision,” he told Rajya Sabha.

Jaitley said 10 meetings of the Joint Working Group on this issue has taken place so far, the last being in November 2013.

At his press conference here, Modi said, “I consider our security cooperation to be a cornerstone of our strategic partnership. Our agreement on cooperation in Ocean Economy is an important step in deepening our scientific and economic partnership.”

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India also offered to establish a second cyber city in Mauritius after it helped the island set up the first one a decade ago.

Modi also welcomed Mauritius’ decision to make India its preferential partner in developing its security capabilities.

Earlier, Modi yesterday called on Mauritius President Rajkeswur Purryag.

India also agreed to technically waiving off the visa fee for Mauritius nationals in respect of the new visa on arrival system.

Mauritius and Austria sign Tax Information Exchange Agreement (TIEA)

The Government of Mauritius and the Federal Government of Austria signed a Tax Information Exchange Agreement (TIEA) on 10 March 2015 which lays the groundwork for both countries to embark on new avenues of economic cooperation.



The agreement with Austria is the 10th TIEA that Mauritius is signing with a view to help the country best capture the benefits of what globalisation can offer to an upper-mid-income economy like Mauritius. Government is currently exploring new strategic alliances with partner countries and in this context, Mauritius is looking at new possibilities to develop economic and business ties with Austria.

The agreement will help establish new air links between the two countries. Austrian Airlines will start a weekly service to Mauritius as from the month of October 2015 which will help unlock new openings for tourism and business travel, given that there are currently no direct flights between the two countries.

The coming into operation of the TIEA will also help expand the space for business ventures between Austria and Mauritius. It will facilitate investments and trade within a framework of exchange of information between the respective Tax Authorities, raising the level of compliance and disclosure in business transactions that take place along the bilateral route.

In his address, Minister Lutchmeenaraidoo, underlined that the TIEA with Austria testifies Government's commitment and readiness to collaborate with countries in the area of exchange of information. He emphasised the importance that Mauritius attaches to the good reputation of its International Financial Centre. The country has been consistently taking measures to improve the level of disclosure, compliance and substance of entities that use our jurisdiction to conduct international, he added.

Minister Lutchmeenaraidoo also renewed the assurance that Mauritius is one of the world's most transparent International Financial Centre and that the perception that the country is a fiscal paradise is not correct. He further said that the Government is committed to ensuring transparency at all levels.

For her part, the Ambassador of Austria, Mrs. Brigitte Oppinger-Walchshofer, pointed out that the new air links as established under the TIEA will bring new opportunities for the tourism industry in Mauritius as they will also help capture new markets in neighbouring countries such as Hungary and Slovakia. According to her, the TIEA will also help in investments prospects between the two countries. On this score, she added that some Austrian groups have already expressed interests to do business in Mauritius.

Mauritius International Arbitration Centre: Mauritius to sign United Nations convention on transparency.

Mauritius will sign and ratify the United Nations Convention on Transparency in Treaty-based Investor-State Arbitration. The signature ceremony for the Convention, to be known as the 'Mauritius Convention on Transparency', is scheduled to be held later this month in Mauritius.



The Convention is an instrument by which Parties to investment treaties express their consent to apply the Rules on Transparency in Treaty-based Investor-State Arbitration of the United Nations Commission on International Trade Law (UNCITRAL) to their existing investment promotion and protection agreements concluded before 1 April 2014.

The signing and ratifying of this Convention translates the determination of Government to introduce openness and accountability in the field of investor-State arbitration and promote Mauritius as a regional and international arbitration hub. It also demonstrates Government's commitment to uphold democratic participation, good governance and the rule of law in the region.

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