

17.06.2019

PRIVATE NOTICE QUESTION

To ask the Honourable Prime Minister, Minister of Home Affairs, External Communication and National Development Unit, Minister of Finance and Economic Development –

Whether, in regard to the proposal in the Budget Speech to utilize Rs 18 billion of the undistributed reserves of the Special Reserve Fund, he will, for the benefit of the House, obtain the Bank of Mauritius-

- (a) a breakdown of the Rs 13,473,623,493 of undistributed reserves standing to the credit thereof as at 30 June 2018, distinguishing between accumulated unrealized profits and accumulated realized profits; and**
- (b) information as to if amounts therefrom have previously been used for the purpose of repayment of the public sector debt and, if so, indicate when?**

REPLY

Madam Speaker,

The reply to this Question necessitates that I, first and foremost, give an overview of the role of the various reserve funds at the Central Bank.

There are in fact three reserves that are maintained at the Bank of Mauritius namely:

- i. The General Reserve Fund;
- ii. The Special Reserve Fund; and
- iii. The Official Foreign Reserves.

As per the Bank of Mauritius Act 2004, whenever the Bank makes a profit, 85 percent thereof is transferred to the Consolidated Fund of Government and the balance of 15 percent is transferred to the General Reserve Fund at the Bank of Mauritius. The balance in the General Reserve Fund must be at least equivalent to the paid-up capital of the Bank. The balance of the General Reserve Fund currently stands at Rs 2.7 billion while the paid-up capital of the Bank is Rs 2 billion.

As regards the Special Reserve Fund, Section 47 of the Bank of Mauritius Act 2004 provides for any net realised gains or losses in any financial year of the Bank arising from changes in the valuation of its assets or liabilities to be credited or debited to that Fund.

The valuation of foreign exchange reserves is made on the basis of fluctuations in market rates and therefore gains/losses arising thereon are considered as realised. This is in accordance with international accounting practice.

In fact, the balance in the Special Reserve Fund is considered realised for three main reasons:

- i. The first reason is that the foreign currency reserves are held in highly liquid assets. Official Exchange Reserves of Mauritius are by definition considered liquid as otherwise they will not count as Foreign Exchange Reserves. Indeed, more than 99.6 percent of the foreign exchange reserves at the Bank of Mauritius are held in cash and in highly marketable securities which satisfy the criteria of high convertibility and marketability.

In fact, the Institute of Chartered Accountants of England and Wales (ICAEW) Technical Release of 2017, at para 3.21, stipulates that and I quote

“Unless there are doubts as to the convertibility or marketability of the currency in question, foreign exchange profits arising on the retranslation of monetary items are usually realised, irrespective of the maturity date of the monetary item. This is generally accepted practice even though the exchange difference may not be ‘readily convertible to cash’ at the balance sheet date”. Unquote

As such, Madam Speaker, the current year profits include gains and losses arising from fair valuation

from financial assets. The current year profit and accumulated profit therefore include both realised and unrealised gains in accordance with International Financial Reporting Standards. But the distributions are subject to the provisions of the Bank of Mauritius Act.

- ii. The second reason is the fact that the Special Reserve Fund can be used to capitalise the Bank of Mauritius. To recall, when the Special Reserve Fund was created in 2004, an amount of Rs 13 billion which stood in the Foreign Exchange Fluctuation Reserve Fund and which was deemed as realised by virtue of Section 47 of the Bank of Mauritius Act was transferred to the Special Reserve Fund. This is an undeniable proof that the balance standing in the Fund is considered as realised gains.

- iii. The third reason is that the Special Reserve Fund has also been used for monetary policy purposes. In fact, the law was amended in May 2015 to provide for the use of Special Reserve Fund for

monetary policy purposes [Section 47(5)(b) of the Bank of Mauritius Act refers].

As at 30 June 2018, a total amount of Rs 1.4 billion has been used to meet part of the costs of conducting monetary policy operations.

Madam Speaker,

With regard to part (a) of the Question, in accordance with the explanations I have just given, the balance of Rs 13,473,623,493 standing in the Special Reserve Fund as at 30 June 2018 is accumulated realized profits in terms of the International Financial Reporting Standards (IFRS) and the Technical Release Guidance document issued by the Institute of Chartered Accountants of England and Wales in April 2017.

Madam Speaker,

With regard to part (b) of the Question, the Special Reserve Fund has not been used to repay public sector debt.

To conclude, Madam Speaker, it is clear that the funds in the Special Reserve Fund are actually realized as at today and therefore can be distributed.

P.K.J