



CAPITAL MARKET DEVELOPMENT AUTHORITY



CMDA

Capital Market Development Authority

DRAFT STRATEGIC PLAN 2010-2014

CHAPTER FOUR: STRATEGIC DIRECTIONS

4.1 Vision to Soar

The Manifesto upon which the present Government fought the 2008 presidential election was a result of intense consultation with the people and it provided a vision of where the country should be – the Other Maldives. The Strategic Action Plan 2009-2013 produced by GoM identified three key themes:

- Good Governance,
- Social Justice, and
- Economic Development

In support of Government's strategy for economic development, the CMDA has identified its strategic directions and has set out below its mandate, vision, mission, functions, values, objectives and corresponding strategies.

4.2 Mandate of CMA

A mandate prescribes what must or should be done under the organisation's charter and policies, as well as under various laws, codes, and regulations.

The CMDA was established in 2006 through the Maldives Securities Act (Act no: 02/2006). The overall mandate of the CMDA is to regulate and facilitate development of all aspects of capital markets. The principal objectives of CMDA as set out in the Act are:

- (a) to develop a market in which securities can be issued and traded in a fair and orderly manner;
- (b) to protect and promote the interests of investors and potential investors in securities;
- (c) to regulate and supervise the securities market; and
- (d) to take measures to prevent unconscionable conduct in relation to dealings in securities and loss of confidence in the securities market.

4.3 Vision

The vision is: To have a thriving capital market in the Maldives, which finances business investment and development and promotes the expansion of the Maldivian economy.

4.4 Mission

The CMDA's Mission Statement is: To facilitate the fair and orderly development of the capital market so that businesses have access to capital and at the same time investors are provided with investment opportunities.

4.5 Statutory Functions

The CMDA's statutory functions in relation to the securities market govern:

1. The issue of securities to the public
2. Surveillance over the securities market to ensure orderly, open, fair and equitable dealings in securities
3. Taking such measures as are necessary to suppress improper practices or deal with contravention of the Law
4. The regulation of licensed persons
5. Monitoring the solvency of licensed persons
6. Giving direction to the MSE on the operation of the securities market
7. Making and implementing regulations
8. Promotion of the securities market
9. In relation to the securities market, make such inquiry as the Authority thinks fit or as directed by the Minister.

In addition, in relation to the Pension Bill, the CMDA has, through the Pension Supervision Department, taken on the following functions:

1. Supervise the investment and investment performance of pension assets
2. Specify procedures for reporting and publication of reports concerning the Maldives Retirement Scheme
3. Monitor appointment of Board members and reports they are required to file under the Pension Law
4. Take all necessary action to enforce the Pension Law.

The CMDA issued a Code of Corporate Governance (Code) in 2007. Listed companies have been required to comply with the Code, or explain their areas of non-compliance, since January 2008. The Code focuses primarily on the board but also contains important provisions on internal and external audit, other elements of disclosure, and shareholder rights. At the request of the CMDA, the World Bank has undertaken a ROSC (Reports on the Observance of Standard Codes) assessment in Maldives on Corporate Governance. The recommendations arising from that report have been included in this Strategic Plan. GoM has indicated its desire that all SOEs should comply with the Code. This is also a recommendation of the ROSC Report which stressed the need for improvement in SOE governance.

4.6 Core Values

To fulfil its mandate, pursue the vision and accomplish its mission the CMDA will be guided by its core values of:

- **Integrity** - Ethics, fairness, honesty and integrity are the cornerstones of the way in which we regulate the capital markets
- **Professionalism** – We exercise high levels of professionalism in our work

- **Accountability** – We are accountable to Government, the Board and stakeholders for our powers, resources, decisions and actions
- **Independence** – We shall be operationally independent from external political or commercial interference in the exercise of our functions and powers.
- **Initiative** – We value initiative and innovation in the development of the capital markets

The corporate code of ethics requires that in the performance of his/her duties, a director/employee should observe the following:

- Have a clear understanding of the aims and objectives of the CMDA as provided in the Securities Act.
- At all times comply with all applicable laws, regulations, and rules.
- Set high standards and strive to exceed them, within the tenets of moral responsibility, efficiency, and administrative effectiveness.
- At all times exercise the utmost good faith and act both responsibly and honestly with reasonable care and due diligence in the exercise of his/her powers.
- Should be free from conflicting interests and influences of such nature and importance as will make it difficult to give the CMDA their best efforts and undivided loyalty.
- Should take all reasonable steps to maintain the confidentiality and privacy of information acquired in the course of the work.
- Work together collectively towards a common goal, learn from each other, and share skills and resources for the benefit of stakeholders.
- Enhance competitiveness, skills and knowledge with emphasis on the pursuit of continuous learning to promote creativity, quality and innovativeness.

4.7 Critical Issues, Objectives and Strategies

The CMDA has set ten strategic objectives, the attainment of which will contribute to the achievement of financial sector goals. These objectives are:

Critical Issue 1: Legal and Regulatory Framework

A robust, facilitative legal and regulatory environment is critical for the maintenance of investor confidence and investor protection. Regulatory framework that lags behind development in the financial markets hinders economic growth and presents opportunities for market players to commit financial crimes. The legal and regulatory framework needs to be reviewed to make it comprehensive, consistent and user friendly. The framework also needs to be brought into compliance with international best practices including the IOSCO principles of securities regulation.

The CMDA will implement far-reaching reform measures to strengthen the legal and regulatory framework, which is critical to underpin further development of the capital markets. For emerging markets like Maldives to adapt to changing financial environment and to promote financial stability, the legal and policy framework must be properly harmonised.

Objective 1: To establish a robust, facilitative, legal and regulatory framework that conforms to international best practice.

The strategies for achieving this objective are:

- *Strengthen the legal and regulatory framework*
- *Introduce new laws and regulations*
- *Create new types of licenses to facilitate the introduction of new business activities*

4.7.1.1 Strengthen the legal and regulatory framework

In undertaking the work to prepare this Strategic Plan and in other reports from World Bank and IMF, deficiencies and weaknesses have been identified in the securities and other legislation surrounding the capital markets arena. These have reported upon earlier in this Plan. In order to ensure that we provide the highest level of investor protection, in line with IOSCO and international best practice, and create an environment that is conducive to domestic and international investors, CMDA will undertake a review of existing securities legislation that will also encompass an assessment of the structure and operation of market regulation. The objective will be to strengthen the legal and regulatory framework of the CMDA through a phased process. The first phase will focus on assessing the appropriateness of legal and regulatory framework for the Maldives capital market given its size and complexity by identifying gaps and weaknesses. The work to be undertaken will include:

- (a) Review of the legal and regulatory framework to determine its adequacy and in particular the structure and content of the Securities Act and related subsidiary legislation to determine its comprehensiveness and enforceability;
- (b) Review the governance structure of the Authority to determine its autonomy and operational independence in exercising its mandate;
- (c) Review the adequacy of licensing requirements, including minimum standards and prudential requirements, for market intermediaries and issuers of securities;
- (d) Review the conduct of the secondary market in securities with specific reference to listing, trading and settlement, including market malpractices and penal and other sanctions;
- (e) Review the measures in place to protect investors and in particular minority investors;
- (f) Review of the adequacy and appropriateness of the inspection, investigation, surveillance and enforcement mechanisms.

The second phase will develop draft revised legislation and regulations that meet international best practices.

4.7.1.2 Introduce new laws and regulations

As a consequence of the work outlined above in para 4.7.1.1, some of the proposed legislative changes may have to await the conclusion and recommendations emanating from the first phase of the above initiative. However, this should not

prevent the CMDA from pushing ahead with the introduction of other much needed regulatory changes and new legislation.

The new legislation that will be unaffected by the above will be the Trusts Bill and the Central Securities Depositories Bill. Both will proceed to Parliament as and when the parliamentary timetable permits.

As mentioned earlier, the Authority has no power under the Securities Act to issue a regulation on CIS. Therefore, because of the urgency for legislation governing CIS¹ the CMDA will revise the present draft of the Collective Investment Schemes Bill with the objective of pursuing its passage through Parliament, as a regulation, under the Law on Regulation. Coterminous with this, CMDA will, through para 4.7.1.1 above, seek to include CIS within a new or amended Securities Law including giving power to the Authority to issue regulations.

The Authority will issue other regulations governing:

- Compensation Fund;
- Anti-money Laundering
- Take-overs and Mergers, and
- Discipline and Appeal.

As stated in 3.2.9, there is no provision within the Companies Act, nor in the Securities Act, for the continuing disclosure of information relating to public companies. What continuing disclosure obligations there are, are contained in the listing rules of the MSE and therefore apply only to listed companies. It will therefore be necessary to include within a new Securities Act, provision for not only prospectus offerings but the continuing disclosure obligations of both listed and unlisted public companies. This will include their obligations under the Corporate Governance Code. From a functional standpoint, the MSE would therefore monitor for compliance by listed companies whilst CMDA would monitor for compliance by all other public companies.

Pending a new Securities Act and a change to Companies Act to transfer responsibility from the Registrar of Companies to CMDA of the prospectus requirements in relation to issue of securities to the public (public offerings), the CMDA will undertake a review of the prospectus requirements for public offerings and, through the Registrar, issue an amended regulation on the content of prospectuses.

4.7.1.3 Create new types of licenses to facilitate the introduction of new business activities

As stated in 4.7.1.1 above, CMDA will undertake a review of the adequacy of licensing and registration requirements, including minimum standards and prudential requirements, for market intermediaries. Presently, the only licenses issued are to MSE, MSD, Dealer and Dealer's representatives. Within the timeframe of this Plan, CMDA intends to issue Regulations and licenses governing the following activities:

¹ Principally to protect the public from the emergence of pyramid schemes

- Investment Advisor
- Investment Advisor Representative
- Fund Manager
- Asset Manager
- Custodian
- Underwriter
- Credit Rating Agency, and
- Venture Capital Company.

The review referred to above will include determination of the relationships between different types of license holders e.g. fund manager cannot also act as custodian etc.

Critical Issue 2: Development of Financial Products and Services

CMDA is the regulator of the capital market in Maldives but it also has as a principle objective under Section 4 (a) of the Securities Act responsibility “to develop a market in which securities can be issued and traded in a fair and orderly manner”. The CMDA therefore has to balance this objective with the other objectives of protecting and promoting the interests of investors; regulating and supervising the market; and preventing conduct that is unacceptable. The CMDA’s market development role is concerned with three key issues: the development of new products and services; the promotion of the market both domestically and internationally; and the education of all stakeholders. This critical issue deals with the first of these key issues – development of financial products and services.

The Maldives capital market is characterised by few financial products and low liquidity, which inhibits savings mobilisation for long-term investments. Development of a vibrant, efficient and effective capital market requires the existence of a broad spectrum of financial instruments. The strength of securities markets as a pillar of economic growth lies in the ability to mobilise long-term resources for financing of long-term development.

A key component of achieving these objectives will be the research that is undertaken to evaluate how other markets have overcome similar issues. In each case research reports will be produced that will assist CMDA in its decision making process.

Objective 2: To facilitate the development of capital market products and services

The objective will be achieved through the following strategies:

- *Attraction of more companies to list on the MSE*
- *Broaden the range of products and services*
- *Increase the level of saving and investment*
- *Facilitate the introduction of domestic institutional and foreign investors*
- *Advise Government on policies that impact capital markets*

4.7.2.1 Attraction of more companies to list on the MSE

In order to create the appropriate environment to attract domestic and foreign issuers to list on the MSE, CMDA will, together with MSE, undertake a strategic assessment of the modality of attracting local and foreign issuers to list on the MSE. That assessment will consider and make recommendations on such issues as incentives to companies to go public (fiscal or otherwise), the removal or easing of barriers to listing, and the establishment of a market for SME companies to raise capital in line with GoM's objective of supporting SME development.

The assessment will include a review of the MSE's listing rules including the criteria for listing on the First, Second and SME Boards of the exchange. CMDA will, in so doing, build upon the extensive work it has already done in this area.

4.7.2.2 Broaden the range of products and services

Throughout the life of this Plan, CMDA expects to attract fourteen new companies to list on the MSE. Three are expected to come via the GoM privatisation programme, whilst eleven will be public offerings of domestic companies seeking to raise equity finance.

CMDA will encourage MMA to list Treasury Bills and Treasury Bonds on the MSE. Such instruments seldom trade on an exchange but their listing improves transparency in the Government debt market. Traditionally, exchanges do not charge a listing fee to Governments for listing Government bonds.

CMDA intends to promote the development of a corporate, municipal and infrastructure bond market and to encourage foreign companies with an interest in Maldives to secondary list on the MSE.

Together with MSE, CMDA will prepare new rules governing the initial listing and ongoing disclosure obligations of issuers of corporate, municipal and infrastructure bonds.

Foreign companies that are listed on an overseas exchange in a jurisdiction that is acceptable to the CMDA and that have interests in Maldives will be encouraged to seek a secondary listing for their companies on the MSE. CMDA, together with MSE and MSD, will prepare and issue rules governing secondary listing, trading and settlement of transactions in the securities of foreign companies.

4.7.2.3 Increase the level of saving and investment

In support of Government's economic reform programme CMDA has, as one of its strategic objectives, to increase the level of savings and investment.

We will achieve this through a number of initiatives including the establishment of CIS and increasing the number and range of securities in which to invest. We will also do this through increased public awareness programmes and by providing for easier access to the capital market particularly to enable investors in the islands to

participate more easily in IPOs and in trading on the MSE. Details on this latter initiative are set out in para 4.7.6.1.

4.7.2.4 Facilitate the introduction of domestic institutional and foreign investors

One listed company has provisions in its Articles of Association which exclude corporate entities and foreign investors from owning shares in the company. This has the effect of precluding domestic institutional shareholders such as pension and insurance companies from acquiring shares in the company. It also means that no foreign investor can acquire shares. CMDA will discuss with the company suitable amendment to its Articles that will allow institutional and foreign investors but prevent them (and persons acting in concert) from acquiring greater than a specified percentage of the company without shareholder approval. CMDA will also encourage GoM as a substantial shareholder in the company to vote in favour of a resolution to amend the companies Articles when put to a general meeting of shareholders.

Other listed companies are reluctant to allow foreign investors because by so doing they would become foreign investment companies and therefore subject to the royalty payment. CMDA's understanding is that this will disappear on the introduction of corporation tax. Whereupon, CMDA will discuss with listed companies, the removal of any provisions in their Articles or in their procedures inhibiting foreign investors. CMDA will also raise the issue with GoM, as a major shareholder in those companies, to bring pressure on the Boards to facilitate foreign investors.

The lack of foreign portfolio investors however is not due solely to restrictions in companies' Articles. The market in Maldives is dominated by retail investors. In fact there are no domestic institutional shareholders other than those that have a strategic stake. Foreign portfolio investors are therefore extremely wary of investing in securities where there is no easy exit route. Some may view this as a positive matter because it limits the opportunities for flight of capital. However, without foreign investment no company will be assured of a successful IPO as there is insufficient money within the country to support privatisation and the demands of issuers for capital to develop and expand their businesses.

The need to create an environment for foreign investors was a recommendation in the ROSC Report which highlighted the need for changes in legislation to facilitate foreign investment.

In addition to facilitating ease of access for foreign portfolio investors, CMDA will through new regulations on CIS and venture capital companies pave the way for new institutional investors to be established in Maldives. CIS (mutual funds) are often seen as a less expensive and more attractive medium for small retail investors to invest in capital markets rather than through direct investment in shares. It enables unit holders (the shareholders of CIS) to use the CIS as a means of saving. It also provides for diversification of risk because the investments of the CIS are invested (in accordance with the fund's rules) in a broad range of securities and not in any one particular security. Having one or more mutual funds as portfolio investors also eases the burden on companies because, if small retail shareholders invest through a mutual fund instead of investing directly, they have fewer individual shareholders to support and therefore dividends to distribute.

The introduction of rules for venture capital companies will assist GoM in its strategy for the development of SME's.

4.7.2.4 Advise Government on policies that impact capital markets

One of the mandated objectives of CMDA is development of the market (Securities Act Section 4(a)). This is not a task that CMDA can undertake by itself and requires the support of all stakeholders and in particular Government. For example, legislation needs to be passed and Government support is therefore essential; voting for resolutions that free up restrictions on institutional and/or foreign investors; ensuring that SOE's comply with the Corporate Governance Code. Support for other incentives that may be proposed e.g. income accruing from all listed bonds used to raise funds for infrastructure and social services be tax exempt.

CMDA will therefore undertake impact assessments and formulate policy recommendations for capital market development where Government intervention is necessary.

Regular dialogue with Government is essential and CMDA will establish a process whereby Government can be regularly advised on progress in the development of the capital markets and consulted on wider policy issues in relation to strengthening the economic and social environment in Maldives.

Critical Issue 3: Public Awareness and Corporate Education

The general public is a major stakeholder in capital markets and investor education is key to the development of these markets. The CMDA will develop and implement public awareness programmes and thereby ensure that public and corporate understanding of the capital markets is enhanced through effective communication programmes. The CMDA will also provide much needed awareness programmes to investors on shareholder rights.

“If a country does not have a reputation for strong corporate governance practices, capital will flow elsewhere. If investors are not confident with the level of disclosure, capital will flow elsewhere. If a country opts for lax accounting and reporting standards, capital will flow elsewhere. All enterprises in that country – regardless of how steadfast a particular company's practices may be – suffer the consequences. Markets must now honour what they perhaps, too often, have failed to recognise. **Markets exist by the grace of investors.** And it is today's more empowered investors that will determine which companies and which markets will stand the test of time and endure the weight of greater competition. **It serves us well to remember that no market has a divine right to investors' capital.**”²

In support of stronger corporate governance, CMDA will further develop the CMCGI as a professional standard setting organisation that will, inter alia, provide training to the institute of company directors and secretaries.

The integrity of businesses and markets is central to the vitality and stability of our economy. Therefore, good corporate governance, the rules and practices that govern the relationship

² Arthur Levitt, Former Chairman of the United States Securities and Exchange Commission.

between the managers and shareholders of corporations, as well as stakeholders such as employees and creditors, contributes to growth and financial stability by underpinning market confidence, financial market integrity and economic efficiency.

The capital market in Maldives comprises four companies brought by way of privatisation. Only one public company has sought voluntarily to come to the market in 2007 for a listing in the MSE's Second Board. It was delisted shortly afterwards because it could not raise the necessary project finance. Coupled with the need to provide the environment that will attract companies to list on the MSE is the need to educate their management and directors on the benefits and advantages of such a listing.

Maldives, more than many other countries, is likely to feel the early effects of rising sea levels due to global warming. Protecting the environment is therefore one of the key pledges of President Nasheed and his Cabinet. To this end the Government has set itself the ambitious goal of going carbon neutral in ten years. By way of support for this initiative, CMDA will undertake a study on the introduction of G3 Sustainability Reporting Guidelines. The goal of sustainable development is to “meet the needs of the present without compromising the ability of future generations to meet their own needs”.³ G3 is the third generation of the Global Reporting Initiative (GRI) which provides a framework for corporations and other organisations to report on their social, environmental, and economic performance. One of the key challenges of sustainable development is that it demands new and innovative choices and ways of thinking. Developments in knowledge and technology, whilst contributing to economic development, also have the potential to help resolve the risks and threats to the sustainability of our environment. New knowledge and innovations in technology, management, and public policy are challenging organisations to make new choices in the way their operations, products, services, and activities impact the earth, people, and economies. Sustainability Reporting provides transparency about the sustainability of organisational activities and is of interest and benefit to a wide range of stakeholders.

Objective 3: To promote public awareness and corporate education

The strategies for achieving this objective are:

- *Empower investors and issuers to make informed decisions.*
- *Enhance public understanding of capital markets.*
- *Promote advantages of good corporate governance standards.*
- *Undertake a study on the introduction of Sustainability Reporting Guidelines*
- *Educate company management and directors.*

4.7.3.1 Empower investors and issuers to make informed decisions

CMDA supports and will encourage GoM to implement the recommendations contained in the ROSC Report for change to the Companies Act to support the strengthening of shareholder rights.

³ World Commission on Environment and Development. Our Common Future. Oxford: Oxford University Press, 1987

CMDA will ensure that the recommendations in the ROSC report are, where appropriate, incorporated into the Code and the continuing disclosure obligations of public companies.

CMDA will monitor and enforce company compliance with the Code and with the continuing disclosure obligations and, if necessary, bring to the attention of shareholders breaches where these impact on shareholder rights.

In accordance with the ROSC Report recommendation on enhancing auditor oversight, CMDA will continue discussions with the audit profession on issues such as auditor independence and the need to develop and formalise the accounting profession in the Maldives to ensure maintenance of ethical and professional standards. CMDA will also issue “Guidelines on Selecting External Auditors of Listed Companies.”

4.7.3.2 Enhance public understanding of capital markets

CMDA will undertake public seminars including island visits promoting savings and investment in securities.

Existing brochures will be revamped and new brochures and leaflets will be prepared.

CMDA will work with companies especially at the time of an IPO to promote savings and investment in securities. In working with companies, CMDA will be careful not to give the impression that it is recommending the company or the IPO. Its role will be purely to give investors an understanding of investment and the rights of shareholders.

CMDA will undertake school visits and work with the education authorities to bring money management, savings and investments into the school curriculum. The CMDA will also run the annual essay/quiz for schools.

The CMDA website will be enhanced and re-promoted.

The CMDA will undertake an investment literacy and market sentiment survey. A questionnaire will be issued to assess the investment knowledge and understanding of Maldivian active and early-stage investors. The questionnaire results will be used to create an investor literacy index, and provide a demographic analysis and results on which improved market awareness campaigns and investor education programs can be constructed. The results will allow an assessment of the differing needs of society in relation to investor literacy. The survey results will enable CMDA to establish benchmarks for various groups in society, allowing market awareness campaigns tailored to the individual needs of those groups. For example, these will focus on the needs of different age groups and investor locations. The plan is to repeat the survey in the future, and to assess any improvement or deterioration in the results.

CMDA will also work with the judiciary to improve awareness of the capital markets and capital market legislation and regulation

4.7.3.3 Promote advantages of good corporate governance standards

In many instances, companies focus only on the obligations of the Code and pay little or no attention to, or in some instances cannot see, the advantages that come with the introduction of good standards of corporate governance. CMDA will produce a brochure stressing the advantages and benefits to companies of introducing good corporate governance standards.

CMDA will also run a series of seminars to the public on ensuring companies' comply with good corporate governance standards.

4.7.3.4 Undertake a study on the introduction of Sustainability Reporting Guidelines

In support of Government's objective of improving the environment in which we live and of achieving becoming carbon neutral within ten years, CMDA will undertake an impact assessment of requiring companies to report on their social, environmental, and economic performance.

4.7.3.5 Educate company management and directors

CMDA will hold one-to-one meetings with directors and management of companies with the objective of educating them on the importance of standards of good corporate governance, shareholder rights and social, economic and environmental reporting.

These meetings will also focus on how to apply for a listing and assist companies to appreciate the importance of the capital market as an alternative to short term bank finance.

For companies that are concerned about Shariah compliance, CMDA will provide guidance in the form of a brochure on what investors, both domestic and international, are looking for when wishing to invest in "Islamic Securities".

Critical Issue 4: Market Infrastructure and Institutional Arrangement

A robust market infrastructure is key to maintaining a well functioning capital market. It enhances efficiency, reduces systemic risk, lowers cost of doing business, and promotes investor confidence that is the bedrock of market growth. Poor infrastructure is one of the major impediments to market growth in the emerging markets. As a result, modernisation of the capital market's infrastructure is a priority to the CMDA. As part of these measures the MSE and MSD were established as private companies and licensed under the Securities Act with the status of self regulatory organisations (SRO). The next immediate priorities of the CMDA with regard to the strengthening of the infrastructure are the passage of the Central Securities Depository Bill, the review of the listing and membership rules of the MSE, and the strengthening of the supervision of the market.

In the majority of securities markets, the exchange is the front line regulator and responsible for member compliance and discipline over its rules and for quality of markets. In the interests of market efficiency, exchanges are generally responsible for front line market

surveillance and where a breach of law or regulation is suspected, the matter is passed to the apex regulator for investigation and where appropriate enforcement.

Objective 4: To enhance capital market infrastructure and institutional arrangement

The strategies for achieving this objective are:

- *Enhance the market structure*
- *Strengthen the enforcement capabilities of CMDA*
- *Facilitate MSE & MSD to become effective self regulatory organisations*

4.7.4.1 Enhance the market structure

As part of the assessment referred to in para 4.7.1.1, CMDA will undertake a review of the licensing requirements of all licensed entities, including the MSE and MSD. Where appropriate, the CMDA will make amendment to the Stock Exchange Company Licensing Regulation and to the Regulation on Licensing and Conduct of Central Depository.

MSD is the central depository for the equity and corporate bond market. However, the MMA intends to set up its own depository for Government securities. Quite apart from the acquisition of systems to run both depositories, there is the ongoing cost of maintaining and operating two depositories – a cost that will be borne by the securities industry. CMDA will use its endeavours to bring about a single depository for all banking and non-banking securities.

4.7.4.2 Strengthen the enforcement capabilities of CMDA

The assessment carried out under para 4.7.1.1 will report on the adequacy and appropriateness of the inspection, investigation, surveillance and enforcement mechanisms. In light of this, CMDA will determine what new systems and processes need to be put into place including the implementation of appropriate surveillance tools. Currently, surveillance is done manually and there are no integrated alert monitoring or analysis tools available to staff. In addition, staff will require capacity building in surveillance and in on-site inspections and off-site monitoring.

Enforcement capabilities will also be strengthened by the implementation of systems for on-line filing of announcements and reports by issuers and licensed persons.

4.7.4.3 Facilitate MSE & MSD to become effective self regulatory organisations

The CMDA will work with the MSE to identify clearly defined roles and responsibilities between the MSE as an SRO and the CMDA as the apex regulator. Thereby ensuring that there are no gaps in the regulatory framework or indeed that there is no duplication of effort.

Critical Issue 5: Institutional Capacity of Market Institutions and Intermediaries

Capital market institutions, particularly market intermediaries create a stable and reliable framework for mobilisation of savings. Without effective intermediaries, markets cannot

grow. The CMDA will encourage and support the strengthening of institutions in range, numbers and professional capacity. The more sophisticated the market, the greater the degree of specialisation and the wider the range of intermediaries needed.

Objective 5: To strengthen capacity of capital market institutions and intermediaries.

This objective will be accomplished by pursuing the following strategies:

- *Attract new licensed entities.*
- *Enhance corporate governance practices of licensed entities.*
- *Improve professional and managerial capacity of market intermediaries.*
- *Enhance risk management systems among intermediaries.*

4.7.5.1 Attract new licensed entities

In order for the capital market to develop on Maldives, it is necessary to create the appropriate regulatory environment. CIS require legislation, regulations and rules governing the licensing and ongoing obligations of maintaining a licence. However, in addition to creating the regulatory environment CMDA needs to attract companies to operate in that environment. CMDA will therefore promote both locally and internationally the entry of new licensees in the areas of:

- Dealers,
- Custodians,
- Fund Managers,
- Asset Managers,
- Credit Rating Agencies, and
- Venture Capital companies in support of SME development in particular.

4.7.5.2 Enhance corporate governance practices of licensed entities

In addition to corporate governance standards for listed companies, good corporate governance is even more important for market intermediaries and other licensees. These should be mandatory requirements included in Regulation. The Regulation should cover the role and function of the board of the licensee, the requirement for a risk assessment, policies to mitigate risk, procedures to implement board policies, management information to monitor compliance, and regular reviews of effectiveness. The CMDA will therefore introduce a regulation regarding corporate governance standards for licensed entities.

4.7.5.3 Improve professional and managerial capacity of market intermediaries

A high premium is placed on persons having a qualification to work in the securities industry; first because securities regulators insist that only those people who have a license can offer, for example, investment advice. IOSCO Principle 21 states that **“Regulation should provide for minimum entry standards for market intermediaries”**. The authorisation, licensing or registration of market intermediaries should set minimum standards of entry that make clear the basis for authorisation and standards that should be met on an ongoing basis. In particular, IOSCO requires that **“investment advisers that deal on behalf of customers or that are permitted to**

have custody of client assets should be licensed”. Second, investors take tremendous confidence from the fact that those who are looking after their finances are qualified to do so. A market that requires the people working in it to be qualified is much more highly regarded than a market that operates with minimal qualification requirements.

CMDA will operate a Continuous Professional Development programme (CPD) for both existing licence holders and for new licensees. The principle is that all licensed persons and those in senior positions within a licensed entity will require to have a qualification appropriate to their position in the organisation.

4.7.5.4 Enhance risk management systems among intermediaries

All licensed entities should have in place adequate systems, procedures and controls for the management of market, operational and systemic risk.

The CMDA will require the boards of intermediaries and other licensed entities to undertake and document a risk assessment of the risks facing their business. The risk assessment should include the risks arising from the services provided, the customers targeted, the financial resources maintained, the market, credit, operational and other risks incurred, internal fraud, the maintenance of adequate skills and IT. The boards should adopt policies and procedures designed to mitigate the risks of the business including back up and contingency plans for dealing with specified eventualities, including catastrophic IT failure, the loss of records and the loss of access to their building. Review of the risk assessment and testing of contingency plans should be carried out annually.

Critical Issue 6: Information Technology

There is little by way of automation in the Maldivian capital markets. Orders passed to the dealing companies are traded manually on the MSE by dealing companies forwarding those orders to the MSE for input into the exchange’s systems where they are displayed or “matched” against each other where there is a corresponding matching order on the other side. No order routing system exists, there is no automated mechanism for transacting trades, no automated trade confirmation system and no automated mechanism for linking broker front, middle and back office systems to the MSE and MSD.

MSD has a system for undertaking clearing, settlement and depository functions. However, the MMA is seeking the introduction of its own separate depository and systems for T-Bills and Treasury Bonds.

Clearing of securities transaction is by cheque with special arrangements made with the settlement bank, MBL, for immediate value. Shareholders are either paid their dividends by cheque which they must collect in Malé or money is credited to their bank accounts. MMA is planning to introduce an RTGS system and there is an ongoing MMA project looking at telephone banking.

Surveillance and market supervision systems need to be linked (and in some cases developed) with the MSE, MSD and CMDA systems to ensure effective monitoring of the market and market intermediaries.

Objective 6: To enhance the utilisation of Information Technology

The strategy for achieving this objective is:

- *Develop and implement an IT strategy for the capital markets.*

4.7.6.1 Develop and implement an IT strategy for the capital markets.

The CMDA will undertake a study and publish an IT strategy for the development of the capital markets in Maldives. That study will encompass all aspects of pre-trade, trade, and post-trade activities (straight through processing) and the submission and publication of data and market information, together with the management information systems of CMDA, MSE and MSD. The study will consider GoM's e-government project, and the MMA's RTGS, central depository and MIPS projects. It will encompass all licensees and include market surveillance and monitoring. Particular emphasis will be placed on improving accessibility to the capital market to enable investors in the islands to participate more easily in the primary and secondary markets.

Critical Issue 7: Strategic Alliances

International co-operation has become a matter of great priority in critical sectors such as the financial markets. If Maldives is to achieve its ambition of having a thriving capital market which finances business investment and development and promotes the expansion of the Maldivian economy it needs to tap onto the experience, knowledge and expertise of other jurisdictions.

Globalisation is leading to closer cross-country linkages among the capital markets. It is becoming necessary to coordinate and harmonise regulatory standards with other countries to obviate the scope for cross-country risks, particularly with the ongoing cross-border listing initiatives. Our ability to engage strategically at the international level is necessary. This requires greater engagement at regional and international level through bodies such as South Asian Association for Regional Cooperation (SAARC), South Asian Securities Regulators Forum (SASRF) and IOSCO, of which CMDA will become a member in June 2010. Working closely with SAARC and others on cooperation and harmonisation presents possible opportunities for future expansion of the market and the possibility of introducing new financial products and market development initiatives.

Objective 7: To build strategic alliances.

This objective will be accomplished by pursuing the following strategies:

- *Pursue discussions with SAARC on harmonisation and cooperation initiatives.*
- *Promote cooperation with other securities organisations and markets.*

4.7.7.1 Pursue discussions with SAARC on harmonisation and cooperation initiatives

Whilst wishing to retain the independence and identity of the Maldivian capital market, CMDA will continue to attend meetings and hold discussions with SAARC on harmonisation and cooperation initiatives.

4.7.7.2 Promote cooperation with other securities organisations and markets

CMDA will sign the IOSCO MMoU for the sharing of information and become an ordinary member of IOSCO in June 2010.

In addition to providing information to IOSCO and attending meetings, CMDA will be able to draw down on the experience of IOSCO for advice and assistance.

CMDA will continue its associations with the SASRF, the Institute of Company Secretaries in India, and the Investor Education Association.

CMDA will, where possible, utilise the International Organisation of Pension Supervisors (IPOS) as a potential training resource for the PSD.

CMDA will develop and maintain MoUs and relationships with securities regulators in countries including Sri Lanka, India, Malaysia and Mauritius for information sharing, internship and other training programmes.

CMDA will prepare and implement MoUs with the MMA and the Registrar of Companies.

Critical Issue 8: Pension Supervision Department

The CMDA is charged under the Maldives Pension Law with *inter alia* overseeing the administration of the Maldives Retirement Pension Scheme and the Old Age Basic Pension and the operations of the Maldives Pension Administration Office.

Objective 8: To develop an effective mechanism for the regulation of the pensions industry

This objective will be accomplished by pursuing the following strategies:

- *Establish a Pension Supervision Department within CMDA*
- *Supervise the investment and investment performance of pension assets*
- *Specify procedures for reporting and publication of reports*
- *Monitor the appointment of Pension Board members and reports filed by the Board*

4.7.8.1 Establish a Pension Supervision Department within CMDA

CMDA will establish a fully functioning Pensions Supervision Department (PSD) within CMDA including recruitment and training of staff. PSD and MRSE will work

closely together in areas of licensing and monitoring for compliance with licensing regulations.

CMDA will develop and implement a public education campaign emphasising its role as the regulator for the pensions industry.

CMDA will support global networking by arranging for PSD participation in conferences/fora on pension regulation and arranging study tours to meet with regulators in countries with similar pension systems.

4.7.8.2 Supervise the investment and investment performance of pension assets

CMDA via PSD will provide legal support for the broader financial sector by drafting amendments to the Investment Advisor's Licence to ensure asset managers are catered for; draft regulations governing custodians; draft amendment to CIS regulations regarding pooled investments, draft appropriate amendment to the Trusts Bill, implement rules for the approval and monitoring of foreign asset managers, custodians and pooled investment vehicles.

CMDA via PSD will provide legal support for Third Pillar Pensions (Private and Employer-sponsored Pensions) by developing policy and a regulatory framework and by drafting appropriate regulations.

4.7.8.3 Specify procedures for reporting and publication of reports

CMDA/PSD will document pension related rules, regulations and forms together with investment related rules and procedures.

4.7.8.4 Monitor the appointment of Pension Board members and reports filed by the Board

On-site mentoring will be provided for PSD staff in areas of review of statements, reports, inspections/audit, monitoring of pension assets, administrative fees, future Pension Board Member selection, review of confidential Pension Board Member disclosure statements, monitoring of ongoing eligibility of Pension Board Members, implementation of financial sector licensing and regulatory structures, and the development of organisational structure, staff terms of reference and hiring plans.

Critical Issue 9: Institutional Capacity and Image

To perform efficiently and effectively, the CMDA must have systems that ensure the best possible use of resources, facilitate the exploitation of synergies and manage risk. Such systems must cover all key areas of the CMDA's mandate including governance, resource management, rule making, approval of issues, licensing, enforcement, risk management, accounting and finance, among others.

The CMDA must ensure that it responds efficiently and effectively to industry needs. To do this it will re-examine and speed up the time taken to respond to questions and documentary review etc.

To strengthen the financial base and to make the CMDA less reliant on GoM subvention, the CMDA will review its fee structure, explore new sources of revenue and from time to time solicit grants and technical support from development partners.

Objective 9: To strengthen the institutional capacity and corporate image of the CMDA.

This objective will be accomplished by implementing the following strategies:

- *Build and strengthen the image of the CMDA*
- *Enhance internal systems, policies, structures and procedures*
- *Strengthen the financial base*

4.7.9.1 Build and strengthen the image of the CMDA

CMDA will promote its Vision and Mission Statements.

A review will be undertaken of the governance structure of the CMDA.

A code of conduct will be introduced for CMDA Board Members.

CMDA will develop an induction and training programme for new Board Members and arrange for study tours to other securities regulators.

4.7.9.2 Enhance internal systems, policies, structures and procedures

A review will be undertaken of CMDA's internal systems, policies, structures and procedures.

4.7.9.3 Strengthen the financial base

CMDA will develop a plan to make CMCGI independent of GoM support in line with the recommendation contained in the ROSC Report.

CMDA will review the licence and other fees with the objective of making CMDA less dependent upon GoM subvention.

CMDA will explore new sources of revenue.

CMDA will seek assistance from donor agencies for development support, systems and capacity building.

Critical Issue 10: Human Resource and Corporate Culture

The key input in the business of regulation and development is intellectual capital. The quality and motivation of the human resource at all levels from the Board down to the auxiliary staff has a significant impact on the output of the CMDA. It is imperative therefore that the CMDA proactively seeks to attract, retain and motivate the highest quality of human resources at all levels.

The expansion of the duties of the CMDA by the establishment of the Pension Supervisory Department has created new opportunities for staff. Whilst specialisation is important in certain areas, in order to maintain levels of staffing at appropriately low levels, it will be necessary to adopt a flexible approach to resource management in the interests of operational efficiency.

To promote a positive organisational culture, the CMDA will greatly improve human communication within the organisation, undertake regular capacity and team building programmes, revisit the definitions of core values and the code of ethics.

Objective 10: To develop high performing human capital and promote positive corporate culture.

This objective will be accomplished by pursuing the following strategies:

- *Adopt an integrated approach to human resource management.*
- *Promote positive corporate culture.*

4.7.10.1 Adopt an integrated approach to human resource management

In order for the CMSA to fulfil its regulatory function, it must have in place qualified and trained professionals experienced in the regulation of securities markets. It must also keep abreast of changes in how markets are regulated and supervised. This can only be achieved by a continual process of education and capacity building. Ensuring that markets are adequately supervised raises investor confidence and adds to market use and therefore liquidity.

CMDA will implement a new organisational structure to support the needs of this Plan and the regulation of the capital market.

CMDA will implement a skills development programme aimed at flexibility in the working environment.

CMDA will introduce succession planning.

4.7.10.2 Promote positive corporate culture

In its Report on observance with standards and codes (ROSC Report) World Bank commented that “The CMDA should use its resources more effectively, and make human resource development a priority. Experienced staff with legal and accounting experience are key. This may require the CMDA to offer more competitive pay, closer to the MMA. At the same time, the CMDA should consider reducing the number of junior staff”.

CMDA will recruit and retain competent and motivated staff.

A needs assessment will be undertaken and CMDA will develop and implement a capacity building programme.

CMDA will carry out a work environment and satisfaction survey and identify and implement measures to improve the working environment.

In order to attract the necessary calibre of staff, CMDA will revise its salary scale and terms and conditions of service.

CMDA will apply performance management and appraisal monitoring and evaluation tools.
