The Need for Revising the 2016 National Code of Corporate Governance in Mauritius

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BACKGROUND OF NCCG

[1]The National Committee on Corporate Governance ('NCCG') was established under Section 63 of the Financial Reporting Act 2004 (the 'FRA') and falls under the aegis of the Ministry of Financial Services and Good Governance. It is the national coordinating body responsible for all matters about corporate governance. The NCCG took over all the activities of the "Committee on Corporate Governance" as of January 2005 under the chairmanship of Mr. Tim Taylor. The establishment of the NCCG as a 'body corporate' was gazetted on 07 August 2020 as per Section 20 of The Finance (Miscellaneous Provisions) Act 2020.

Under the purview of the NCCG, the 2003 Code was revised, and the Code of Corporate Governance for Mauritius (2016) was officially launched on 13 February 2017, which applied to Public Interest Entities, Public Sector Organisations and other companies. The Code became applicable from the reporting year (financial period) ending 30th June 2018 (i.e., companies were expected to apply the principles of the Code from July 2017 onward).

The National Code of Corporate Governance (NCCG) was established with the primary objective of enhancing corporate governance standards in Mauritius. It aims to establish fundamental principles and best practices that promote transparency, accountability, and ethical leadership across organizations. By advocating for the highest standards of corporate governance, the NCCG ensures that businesses and institutions operate with integrity and in alignment with global best practices. Additionally, it plays a key role in raising public awareness about corporate governance principles, educating stakeholders on the importance of ethical decision-making and responsible business conduct. As the national coordinating body for all corporate governance-related matters, the NCCG provides guidance, oversight, and strategic direction to ensure the continuous improvement of governance frameworks across both the public and private sectors. Through these efforts, the NCCG fosters a robust and sustainable corporate governance culture in Mauritius.

The NCCG plays a crucial role in strengthening corporate governance across both the public and private sectors. One of its key functions is to assess governance needs, ensuring that organizations operate transparently and ethically while meeting evolving regulatory and business challenges. To support this, the Code facilitates the organization of workshops, seminars, and training programs, equipping directors, executives, and stakeholders with the necessary knowledge and skills to implement effective governance frameworks. Additionally, it is responsible for issuing corporate governance guidelines and establishing a mechanism for their periodic reassessment, ensuring that governance standards remain relevant and aligned with best practices. To further promote good governance, the Code provides assistance and guidance to organizations, helping them navigate governance complexities and integrate ethical practices into their operations. Recognizing the importance of global collaboration, it also seeks to establish links with regional and international institutions, fostering the exchange of ideas and best practices. Moreover, the Code ensures cooperation with the Council and other relevant institutions to achieve its objectives, particularly in the governance of state-owned enterprises (SOEs), where transparency and accountability are critical. A key milestone in governance development has

[1] Small Island Working Group Document on the implementation of a new corporate governance code.

been the establishment of the Mauritius Institute of Directors (MIoD), which enhances board effectiveness and leadership capacity. Finally, the Code serves as an advisory body to the Minister on corporate governance matters, ensuring that policymaking is informed by sound governance principles. Through these initiatives, the National Code of Corporate Governance plays a pivotal role in fostering a culture of transparency, accountability, and sustainable corporate leadership in Mauritius.

THE NEED FOR A NEW CODE

Given the inescapable importance of ESG dimensions in business and finance, the NCCG has undertaken to review the 2016 Code. Once the new Code is finalised, each regulator will then develop its own sets of regulations to meet the specificities of its Sector and licensees in alignment with the new Code.

The project entails the revision of the 2016 Code in alignment with the nationally determined ESG priorities and the UN Sustainable Development Goals. Concerning climate action, for example, Mauritius has set its Nationally Determined Contributions to reduce its carbon footprint and adapt to climate impacts. The new Code will incorporate such parameters.

In a bid to tap into opportunities beyond our borders, the new Code will lay the foundation for positioning Mauritius as an ESG investment hub for channelling funds towards green projects in Africa. The new Code will also aim to tackle the various socio-economic challenges of Mauritius with the principle of 'Leaving No One Behind' while taking into account the resource pressures faced by society.

To make Mauritius a jurisdiction of choice for ESG investment and action, the new code will have to take into account the changing landscape of business and investment.
Investors and broader stakeholders are increasingly demanding more accountability about long-term value creation and companies' wider impact on society. They are also requiring greater transparency around sustainability, as evidenced by demands for ESG or non-financial information to be reported in a way that is globally consistent, comparable and trusted. Companies' purpose in society is changing, and so are the demands on their reporting.

SUSTAINABILITY REPORTING DATA AND INTERNAL CONROLS

Improved data on sustainability is critical for ensuring that organizations in Mauritius can effectively manage and report their environmental, social, and governance (ESG) impacts. Accurate and comprehensive sustainability data enables businesses, investors, and regulators to assess performance, identify risks and opportunities, and make informed decisions. However, the current challenge is that sustainability data in Mauritius is often fragmented, inconsistent, or insufficiently detailed, making it difficult to measure progress toward sustainability goals such as those outlined in the United Nations Sustainable Development Goals (SDGs) as well as the Mauritius's national sustainability targets.

The need for improved sustainability data in Mauritius stems from the growing importance of transparency, accountability, and effective decision-making. As global markets increasingly demand more rigorous ESG reporting, organizations that fail to adopt robust sustainability measurement practices risk losing investor confidence, public trust, and competitive advantage. Furthermore, without accurate data, it becomes challenging to monitor the impacts of sustainability initiatives, identify areas for improvement, or benchmark against international standards.

To address this gap, internal controls on sustainability data should be integrated into the new National Code of Corporate Governance (NCCG). The governance code can play a pivotal role in ensuring that organizations have the proper structures, processes, and controls in place to collect, verify, and report sustainability data consistently and reliably.

One way to do this is by introducing specific governance structures that require the board of directors to oversee sustainability performance and ensure that appropriate internal controls are established for data management. The board should be responsible for ensuring that the data collection processes are accurate, timely, and aligned with international standards. These processes should be clearly defined, with specific metrics and key performance indicators (KPIs) to measure and report on sustainability initiatives, covering areas such as environmental impact, social responsibility, and governance practices.

Additionally, the governance code can require organizations to implement audit mechanisms specifically designed to assess the accuracy and reliability of sustainability data. Independent audits of sustainability data, much like financial audits, would help ensure that the information disclosed in annual reports or sustainability reports is truthful, transparent, and aligned with the organization's governance framework. These audits would provide external verification of sustainability claims, offering greater assurance to stakeholders, including investors, regulators, and the public.

The NCCG can also encourage organizations to embed risk management frameworks that include sustainability risks. This would involve assessing the potential environmental and social risks associated with their operations and incorporating these into the organization's overall risk management system. By doing so, organizations can ensure that their sustainability data reflects not just their performance but also their efforts to mitigate risks related to climate change, resource depletion, social inequality, and other sustainability challenges.

Finally, the disclosure requirements within the NCCG should be updated to ensure that organizations provide detailed and transparent reports on their sustainability data. This would include mandatory reporting on key ESG factors supported by verifiable data that demonstrates the organization's progress toward its sustainability objectives. Organizations should also be required to outline the internal controls they have in place for sustainability data management, ensuring that these practices are publicly disclosed in their annual reports.

By embedding these elements into the governance framework, the NCCG can enhance the quality of sustainability data in Mauritius, helping businesses align with global sustainability standards while also meeting the demands of local stakeholders. Strong internal controls, combined with clear governance guidelines, will not only improve the accuracy and reliability of sustainability data but also strengthen the overall governance culture in the country, leading to more responsible and sustainable business practices.

THE NCCG STOCK EXCHANGE

The Mauritian Stock Exchange (SEM) currently lacks a comprehensive framework for promoting sustainability within its listed companies. Notably, it does not require an annual sustainability report, meaning companies are not obligated to disclose their environmental, social, and governance (ESG) performance regularly. This absence of mandatory ESG reporting is compounded by the fact that ESG reporting is not required as part of the listing rules, leaving companies to choose whether or not to report on their sustainability efforts. Additionally, there is no written guidance provided by the exchange to help companies navigate ESG reporting, making it challenging for businesses to adhere to best practices or international standards. The lack of ESG-related training further exacerbates this issue, as stakeholders, from board members to executives, may not have the necessary skills or knowledge to implement and report on effective ESG strategies. Furthermore, the SEM currently lacks a sustainability bond listing segment, hindering the development of green finance options for companies seeking to raise funds for sustainable projects. To further illustrate the exchange's gap in promoting gender diversity, there is also no mandatory minimum rule requiring women on boards, which limits efforts to achieve more inclusive and diverse corporate governance. Collectively, these gaps highlight the need for the Mauritian Stock Exchange to establish more robust ESG frameworks, guidelines, and training programs in line with global sustainability trends to encourage transparency, accountability, and long-term sustainable growth within the country's capital markets.

The current state of the Stock Exchange of Mauritius (SEM) reveals significant gaps in its approach to sustainability and ESG (Environmental, Social, and Governance) factors. The absence of an annual sustainability report, the lack of mandatory ESG reporting as a listing rule, the absence of written guidance and training on ESG, the non-existence of a sustainability bond listing segment, and the absence of mandatory minimum rules for women on boards collectively indicate a need for substantial reform. The importance of data on sustainability and internal control cannot be overstated. Robust data provides the foundation for informed decision-making, allowing investors and stakeholders to assess a company's performance beyond traditional financial metrics. Sustainability data illuminates a company's environmental impact, social responsibility, and governance practices, while internal control data ensures the integrity and reliability of financial and operational processes. These data points are crucial for building trust, attracting responsible investment, and fostering a sustainable market.

The new National Code of Corporate Governance in Mauritius holds the potential to address these shortcomings. By incorporating specific provisions related to ESG reporting, the code can mandate listed companies to disclose their sustainability performance in a standardized and transparent manner. This would involve requiring companies to publish annual sustainability reports aligned with recognized frameworks, such as the Global Reporting Initiative (GRI) or the Sustainability Accounting Standards Board (SASB). Furthermore, the code should mandate ESG reporting as a listing rule, ensuring that sustainability becomes an integral part of a company's disclosure obligations. This would create a level playing field and encourage all listed companies to prioritize ESG considerations.