

Stablecoin Regulation in Mauritius : A Complete FAQ Guide

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This guide examines Mauritius' stablecoin regulatory framework, specifically the **Virtual Asset and Initial Token Offering Services Act (VAITOS Act)**. Designed for legal professionals, compliance officers, and **Virtual Asset Service Providers (VASPs)**, it provides insights into compliance requirements, operational guidelines, and the regulatory ecosystem for stablecoin activities.



What are the Licensing & Authorization requirements?

Mandatory permits and approvals from the **Financial Services Commission (FSC)**.



What are the AML / CFT Compliance requirements?

Adherence to **Anti-Money Laundering (AML)** and **Counter-Terrorism Financing (CFT)** regulations, including:

- Client Due Diligence (KYC)
- Suspicious Transaction Reporting
- Record-keeping Obligations



What are the Governance & Risk Management requirements?

Establishment of comprehensive frameworks for operational integrity:

- Internal Controls
- Strong Risk Frameworks
- Corporate Governance Structures



How is Consumer & Investor Protection ensured?

Mechanisms for market integrity and user trust:

- Transparency & Disclosure
- Complaint Resolution
- Market Integrity Measures

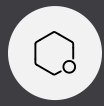


What are the Enforcement & Penalties for non-compliance?

Details on regulatory oversight and the consequences for non-compliance with the VAITOS Act.

What is a Stablecoin Under Mauritius Law?

Under Mauritius's regulatory framework, stablecoins are defined by characteristics that ensure their stability and place them within the Virtual Asset and Initial Token Offering Services Act (VAITOS Act).



Virtual Asset Classification

Categorized as a **virtual asset** under the [VAITOS Act](#), bringing them under a regulatory framework.



FSC Oversight

The **Financial Services Commission (FSC)** serves as the principal regulator, providing guidance on their issuance and operation.



Price Stability Goal

Engineered to minimize price volatility, distinguishing them from other volatile cryptocurrencies.



Reference Asset Peg

Achieve stability by pegging their value to assets like fiat currencies, commodities, or other financial instruments.

Defining a Virtual Asset

A virtual asset, in the context of Mauritian law, refers to any digital representation of value that can be digitally traded or transferred, and is capable of being used for payment or investment purposes. This definition excludes fiat currencies, which are legal tender, and traditional securities as defined by securities laws, ensuring a clear distinction for regulatory oversight.

1

Legal Classification

Stablecoins are designated as a distinct category of virtual asset under the VAITOS Act, subjecting them to a comprehensive regulatory framework.

2

Value Stability

Their fundamental characteristic is the design mechanism to maintain a consistent and predictable value, mitigating the price fluctuations common to other cryptocurrencies.

3

Reference Peg

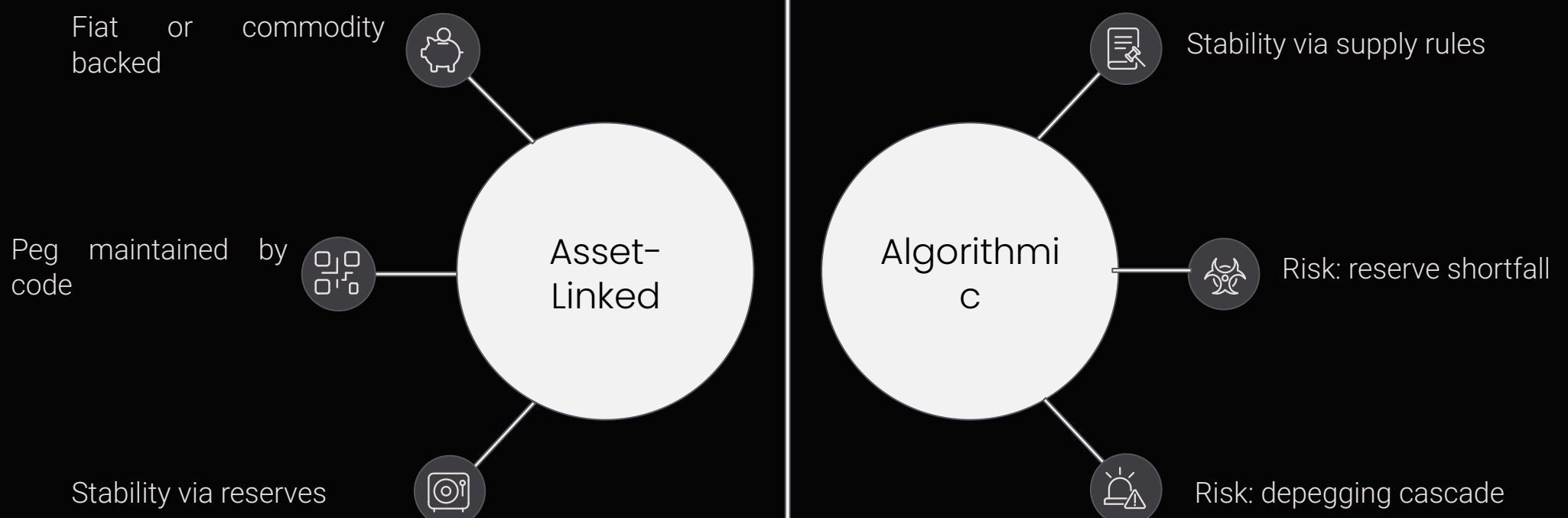
This stability is achieved by 'pegging' their value to external, more stable assets such as the US Dollar, Euros, gold, or a basket of currencies and commodities.

4

FSC Oversight

The FSC provides guidance and regulatory directives concerning their issuance, trading, and operational requirements within Mauritius.

How are stablecoins distinguished under Mauritius law?



What is the Regulatory Framework for Stablecoins in Mauritius?

The regulatory framework governing stablecoins in Mauritius involves several key authorities, each with distinct responsibilities to ensure compliance, stability, and integrity within the financial ecosystem. These entities collaborate to establish a strong and secure environment for virtual asset operations, encompassing aspects from licensing and supervision to anti-money laundering and data protection. The primary authorities include:

What is the Role of the Financial Services Commission (FSC)?

As the principal regulator under the VAITOS Act 2021, the FSC mandates licensing, supervision, and enforcement functions for Virtual Asset Service Providers (VASPs) and issuers of Initial Token Offerings (ITOs), which encompass stablecoin operations. The FSC sets prudential and conduct-of-business rules, aiming to protect investors, maintain market integrity, and prevent systemic risks. This involves assessment for license applications, compliance monitoring, and sanctions for regulatory breaches.

What is the Role of the Financial Intelligence Unit (FIU)?

The FIU is the central national agency responsible for receiving, analyzing, and disseminating suspicious transaction reports (STRs) to combat money laundering (AML) and terrorist financing (CFT) activities. For stablecoins, the FIU ensures VASPs comply with international standards set by the Financial Action Task Force (FATF), including the "Travel Rule," which mandates sharing originator and beneficiary information for transactions above a certain threshold. The FIU is critical in preventing illicit use of stablecoins and safeguarding the financial system.

What is the Role of the Bank of Mauritius (BoM)?

While not directly regulating stablecoins as the FSC, the BoM exerts indirect influence, particularly concerning financial stability and payment systems. The BoM oversees the national payment infrastructure, which stablecoins may interact with. It also plays a role in setting cybersecurity and operational resilience standards for financial infrastructure, extending to platforms facilitating stablecoin transactions. The BoM collaborates with the FSC on financial sector stability and innovative financial products.

What is the Role of the Data Protection Office (DPO)?

The DPO is responsible for enforcing the Data Protection Act 2017, ensuring lawful processing and secure transfer of personal data. For stablecoin issuers and VASPs, this implies adherence to data privacy principles when collecting, storing, and utilizing customer information, particularly during Know Your Customer (KYC) and AML processes. The DPO's oversight is critical in maintaining consumer trust and preventing data breaches within the digital asset ecosystem, ensuring compliance with global data protection practices.

Who Needs a License for Stablecoin Operations?

All stablecoin entities and Virtual Asset Service Providers (VASPs) in Mauritius must secure a license from the FSC.

This mandate ensures stringent regulatory oversight, fosters investor confidence, and maintains financial ecosystem integrity. Operating without the requisite FSC license is strictly prohibited and carries significant legal and financial penalties, including fines and imprisonment.

Which Entities Require Licensing?



Are Stablecoin Issuers and Operators Licensed?

Any entity that issues or operates stablecoins in Mauritius, regardless of the underlying technology or pegging mechanism, is required to obtain appropriate licensing from the FSC. This encompasses the lifecycle of stablecoin management, from creation to redemption.



Are Issuers of ITOs Licensed?

Entities intending to offer tokens to the public, including stablecoins, in exchange for fiat currency or other virtual assets, must register under Section 25(5) of the VAITOS Act 2021. This registration ensures transparency and investor protection in public token distributions.

Which VASP Activities Require Licensing?

To ensure a well-regulated and secure environment for virtual asset transactions, the following activities conducted by VASPs specifically necessitate obtaining an FSC license:



Do Exchange Services Require Licensing?

This includes services facilitating the exchange between fiat currencies and stablecoins, or between stablecoins and other virtual assets, providing a gateway for users to access and trade digital currencies.



Do Stablecoin Transfer Services Require Licensing?

Any service that performs the transfer of stablecoins on behalf of another natural or legal person, whether for payment, remittance, or other purposes, falls under this category, ensuring traceability and compliance.



Do Custody, Safekeeping, or Administration Services Require Licensing?

Services involving the secure holding, safekeeping, or administration of stablecoins or instruments enabling control over stablecoins on behalf of clients, requiring strong security protocols and fiduciary responsibilities.



Do Wallet Services Require Licensing?

Offering hosted wallet services where the VASP maintains control over a user's private keys or other means of access to stablecoins, necessitating stringent cybersecurity measures and data protection.



Do Marketplaces, Brokerages, or Advisory Services Require Licensing?

Activities related to the operation of trading platforms (marketplaces), brokerage services for stablecoin transactions, or providing financial advisory services pertaining to stablecoins, demand a high degree of transparency and fair trading practices.

Who Needs to Be Licensed?

In Mauritius, the Financial Services Commission (FSC) mandates licensing for any entity involved in stablecoin issuance or operation, as well as Virtual Asset Service Providers (VASPs) undertaking specific activities. This ensures strong oversight, fosters investor confidence, and maintains financial ecosystem integrity.

1

Are Stablecoin Issuers and Operators Licensed?

Any entity issuing or operating stablecoins in Mauritius, regardless of technology or pegging mechanism, requires FSC licensing. This covers the entire lifecycle, from creation to redemption.

2

Are Issuers of ITOs Licensed?

Entities offering tokens to the public (including stablecoins) in exchange for fiat or other virtual assets must register under Section 25(5) of the VAITOS Act 2021 for transparency and investor protection.

⊗ Operating any stablecoin or virtual asset service without the requisite FSC license is prohibited under Mauritian law and carries legal and financial penalties, including fines and imprisonment.

Which VASP Activities Require Licensing?

To ensure a secure environment for virtual asset transactions, the following VASP activities necessitate an FSC license:



Exchange Services

Facilitating exchange between fiat currencies and stablecoins, or stablecoins and other virtual assets.



Stablecoin Transfer Services

Performing transfers of stablecoins on behalf of others for payment, remittance, or other purposes.



Custody, Safekeeping, or Administration

Holding, safekeeping, or administering stablecoins or instruments controlling them for clients.



Provision of Wallet Services

Offering hosted wallet services where the VASP controls a user's private keys or means of access to stablecoins.



Marketplaces, Brokerages, or Advisory Services

Operating trading platforms, brokerage services, or providing financial advisory related to stablecoins.

What Types of Licenses are Available for Stablecoin Operations in Mauritius?

Mauritius offers license types tailored to stablecoin activities, each ensuring comprehensive oversight, investor protection, and market integrity. These licenses address distinct operational mandates and require adherence to stringent prudential and operational standards set by the FSC.



Issuer of Initial Token Offerings (ITO) License

- For entities issuing stablecoins to the public.
- Ensures transparency and AML/CFT compliance.
- Mandates asset management, auditing, disclosure, and governance.



Class M (Broker-Dealer) License

- For entities facilitating stablecoin buying/selling, intermediaries, or operating order books.
- Requires strict capital, risk management, and fair trading practices.



Class O (Wallet Services) License

- Mandatory for custodial/non-custodial wallet providers for stablecoins.
- Covers generation, storage, and transfer of stablecoins.
- Demands advanced cybersecurity and strong key management.



Class R (Custodian Services) License

- For entities safeguarding and administering stablecoin reserves.
- Ensures secure asset storage infrastructure and strict audit requirements.
- Requires transparency in reporting holdings for peg reliability.



Class I (Advisory Services) License

- For firms providing advice or recommendations on stablecoin investments.
- Ensures qualified professionals and adherence to ethical standards and disclosure.



Class S (Marketplace) License

- For operators of centralized/decentralized stablecoin trading platforms.
- Mandates effective operational controls, market surveillance, and fair price discovery.

This structured licensing approach by the FSC fosters innovation while mitigating risks associated with virtual assets, through specific prudential and operational requirements for each license type.

How do you Navigate the License Application Process in Mauritius?

The license application process for stablecoin operations in Mauritius is a multi-stage process, starting with company incorporation and ending with a comprehensive review by the Financial Services Commission (FSC). Thorough preparation of the application dossier is essential for timely regulatory approval.



What is the first step: Company Incorporation?

This step involves establishing a legal entity within Mauritius, such as a Global Business Company (GBC). This phase includes registering with the Registrar of Companies and fulfilling all statutory obligations.



How is Documentation Prepared?

Applicants must compile a dossier of documents, including a business plan, technical white paper, and strong compliance frameworks adhering to international standards for AML and CFT, data protection, and consumer safeguarding.



How do you Submit the FSC Application?

The complete application package, including all requisite documents and prescribed non-refundable fees, must be submitted to the FSC. Ensuring the integrity and completeness of this submission is critical to avoid delays.



What does the Review & Due Diligence involve?

The FSC undertakes a review, typically within 30 days, assessing compliance, conducting due diligence on beneficial owners and management, and evaluating operational soundness and technical infrastructure. The FSC may issue queries or request clarifications.



What about License Grant & Ongoing Compliance?

Successful completion results in the grant of the operational license. This marks the beginning of an ongoing commitment to regulatory compliance, including continuous reporting, adherence to prudential requirements, and regular audits.

📌 The application timeline, from initial incorporation to final licensing, can extend significantly. Depending on the complexity of the business model, completeness of submissions, and responsiveness of the applicant to FSC queries, the process may range from **three to nine months**, highlighting the importance of thorough preparation and proactive engagement.

Adhering to these requirements with precision will enhance the likelihood of a successful and timely license acquisition, positioning the stablecoin operation for compliant market entry.

What are Mauritius' Stablecoin Reserve Requirements and Custody Standards?

Mauritius' regulatory framework for stablecoins emphasizes stringent reserve requirements and custody standards. These mandates safeguard financial stability, protect consumers, and ensure market integrity by requiring stablecoins to be fully collateralized, transparent, and securely managed.



What are the 100% Full Reserve Backing Requirements?

The **FSC** mandates **100% reserve backing**. For every stablecoin issued, an equivalent value in liquid assets (fiat currency, cash equivalents, or short-term government securities) must be held. This ensures immediate liquidity and redeemability, eliminating fractional reserve practices and mitigating systemic risk.



What are the Prudential Minimum Capital Requirements?

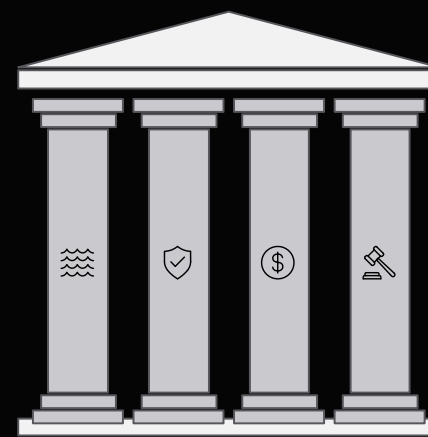
Issuers must maintain strong minimum operational capital: at least **MUR 5 million or 50% of projected annual operating expenses** (whichever is higher). This capital buffer absorbs operational losses, covers contingencies, and ensures solvency independent of reserve assets.

What are the Core Criteria for Eligible Reserve Assets?

Eligible reserve assets are selected for high **liquidity and minimal risk exposure**. They should be denominated in the same currency as the stablecoin's peg to minimize FX risk and ensure seamless redemption, ensuring consistent honor of redemption requests.

High Liquidity: Rapid convertibility to cash

Low Risk: Minimal credit & market exposure



Currency Matching: Align to peg currency

Regulatory Compliance: Meet legal & operational standards

These pillars collectively form the foundation for a resilient and trustworthy stablecoin, ensuring that its value remains consistently anchored to its designated fiat currency.

→ Is High Liquidity Required?

Convertible to fiat at stable prices.

→ Is Low Risk Required?

Minimal credit & market risk; immune to price fluctuations.

→ Is Currency Matching Required?

Reserve currency aligns with stablecoin's pegged currency.

→ Is Regulatory Compliance Required?

Adherence to legal & operational standards in jurisdictions.

What are the Transparent Reporting and Custody Standards?

Beyond reserve requirements, stablecoin issuers face stringent valuation, disclosure, and secure custody standards to ensure continuous transparency and protect reserve assets from loss, theft, or misuse.

What are the Reporting & Disclosure Protocols?

1

Is Independent Asset Valuation Required?

Annual valuation by third-party auditors ensures accurate pricing and adequate coverage of outstanding stablecoins, adhering to international accounting standards (e.g., IFRS/GAAP).

2

Are Daily Reserve Value Disclosures Required?

Public disclosure of total reserve value daily (e.g., on official websites) allows real-time verification of 1:1 backing, empowering market participants to monitor stability.

3

Is Weekly Reserve Composition Required?

Detailed breakdown published weekly includes asset types, custodians, and geographical locations. This fosters trust through insights into collateral quality and diversification.

What are the Secure Custody Standards?

1

Is Asset Segregation Required?

Reserve assets are segregated from the issuer's operational funds, insulating them from third-party claims during insolvency, as mandated by the *Custody of Client Assets Rules, 2022*.

2

Are Licensed Custodians Required?

Reserves must be held with reputable, licensed custodians or established financial institutions. Assets cannot be pledged or encumbered, guaranteeing availability for redemptions.

3

What are the Advanced Protection Mechanisms?

Strict obligations prevent commingling and misuse. Effective internal controls, regular audits, and transparent reporting ensure unimpeded reserve availability for token holders.

These prudential requirements collectively guarantee the solvency, stability, and integrity of the stablecoin ecosystem for all participants.

What are the Eligible Reserve Assets and Stringent Custody Standards for Stablecoins?

Ensuring the stability and reliability of stablecoins is paramount, necessitating stringent criteria for eligible reserve assets and meticulous custody standards. These measures safeguard investor funds, mitigate systemic risks, and foster market integrity. Below, we detail the comprehensive requirements governing both asset eligibility and the secure management of these reserves.

What are the Core Criteria for Eligible Reserve Assets?



What is High Liquidity?

Assets must be **readily convertible** into fiat currency at stable prices to facilitate immediate redemptions, even under stressed market conditions.

- Cash
- Short-term government securities



What is Low Risk?

Investments should carry **minimal credit and market risk**, largely immune to significant price fluctuations.

What are Advanced Protection Mechanisms?

Controls prevent commingling or misuse of assets. Internal controls, regular audits, and transparent reporting ensure reserves are always available for redemption.

This comprehensive framework ensures the selection of strong reserve assets and their secure, transparent management, safeguarding stablecoin holders and maintaining market stability.

How are Reserve Assets Safeguarded from Issuer Insolvency?

Reserve assets are safeguarded from issuer insolvency through a comprehensive protection framework, ensuring their availability for token holder redemptions. This multi-faceted approach integrates stringent legal, operational, and regulatory mechanisms.



Why is Asset Segregation Mandatory?

Reserve assets are legally and operationally separated from the issuer's proprietary balance sheet.

- Protects assets from issuer's insolvency
- Shields from general creditor claims
- Prevents commingling of funds



Is Rehypothecation & Encumbrance Prohibited?

Rules prevent custodians from misusing or encumbering reserve assets.

- Forbidden from lending or re-pledging
- Ensures assets remain unencumbered and liquid
- Directly accessible for token redemptions



What Does Regulatory Oversight Entail?

Supervision by financial regulators over issuers and custodians.

- Monitors compliance and conducts audits
- Enforces fiduciary duties
- Adds a layer of security and accountability

📄 Custodians entrusted with reserve assets are held to strict fiduciary duties. In instances of breach or negligence, they bear legal and financial liability, which incentivizes asset protection and adds another strong layer of security for token holders.

What are the Permitted and Prohibited Uses of Reserve Assets?

The regulatory framework for stablecoin issuers mandates stringent controls over reserve assets, ensuring their consistent availability for token holder redemptions. This multi-faceted approach integrates legal, operational, and regulatory mechanisms to uphold the stablecoin's peg, ensure liquidity, and protect token holders from financial risks. Understanding these explicit prohibitions and the single permitted use is important for understanding the integrity of a stablecoin's operational model.



How do these measures isolate operational risks?

Separates reserve assets from issuer's financial activities.

How do they prevent impairment?

Ensures reserves are not diminished by other ventures.

How do they safeguard stability?

Upholds stablecoin's value stability and token holder confidence.

What is the rationale for these stringent restrictions?

1

How do they maintain trust and stability?

Prevents deviations that introduce credit, market, or liquidity risks to the stablecoin's 1:1 peg.

2

How do they mitigate specific risks?

Avoids risks such as default (from lending) and market volatility (from investing).

3

How do they guarantee redemptions?

Ensures reserves are dedicated to fulfilling token redemptions.

⊗ What are the regulatory compliance and penalties for violations?

Violation of these explicit restrictions carries serious consequences. Regulatory bodies impose strict penalties, ranging from significant financial fines to the suspension or permanent revocation of an issuer's operating license. Such breaches can also lead to reputational damage, civil litigation from token holders, and even criminal charges against responsible parties. This stringent enforcement mechanism underscores the importance of adherence to reserve asset management protocols.

What are the Capital and Liquidity Requirements?

How do they mitigate systemic risk?

Prevent cascading failures across the stablecoin ecosystem.

How do they safeguard token holders?

Protect investor funds and ensure redemptions are always possible.

How do they foster market stability?

Build trust and confidence in digital assets and their underlying value.

Capital and liquidity requirements are fundamental pillars designed to ensure the strong operational resilience and financial soundness of entities operating within the stablecoin ecosystem. These stringent mandates are critical for achieving the objectives outlined above. The requirements are carefully calibrated to reflect the varying risk profiles, operational complexities, and scale of activities associated with each distinct license class.

What are the requirements for Stablecoin Issuers?



MUR 5 million or **50% of annual operating expenses**, whichever is higher.

This requirement ensures that issuers possess financial backing relative to their operational scale, providing a buffer against unforeseen expenditures and ensuring continuous service delivery.

What are the requirements for Class M (Broker-Dealers)?



MUR 2 million minimum capital requirement.

Broker-dealers facilitate transactions and manage client accounts. This capital ensures they have financial capacity to cover operational risks and meet their obligations, protecting market integrity and client assets.

What are the requirements for Class R (Custodians)?



MUR 5 million minimum capital requirement.

Custodians hold and secure digital assets on behalf of clients. The higher capital reflects the critical responsibility of asset safekeeping and the potential liabilities associated with breaches or operational failures, demanding strong financial security.

What are the requirements for Class S (Marketplace)?



MUR 6.5 million minimum capital requirement.

Marketplace operators often facilitate complex trading activities and may handle significant transaction volumes. This elevated capital floor addresses the broader range of market, operational, and counterparty risks inherent in their operations, ensuring a secure trading environment.

How do Capital and Liquidity ensure Financial Defense?



Capital Thresholds

Foundational minimums provide a strong buffer against operational and market shocks.



Sufficient Liquidity

Mandated coverage ensures prompt and reliable redemption even under stressed market conditions.

This combination creates a multi-layered financial defense mechanism, meticulously engineered to protect token holders and underpin the stability and trustworthiness of the stablecoin sector. Adherence to these requirements is continuously monitored by regulatory bodies.

These differentiated capital requirements underscore a risk-based regulatory approach, tailoring financial safeguards to the specific functions and inherent risks of each licensed operational model within the stablecoin ecosystem. Regular assessments ensure ongoing compliance and adaptiveness to evolving market dynamics.

What are Stablecoin Holder Redemption Rights?

Stablecoin redemption rights, as outlined in the token's white paper and legal documentation, mandate that issuers maintain sufficient, available reserves to promptly fulfill all redemption requests when contractually guaranteed. Key requirements include:



What are Clearly Defined Terms?

White paper must detail eligible assets, conversion rates, fees, and procedural steps to ensure clarity and commitment.



What are Comprehensive Disclosures?

Issuers must provide accessible, and understandable disclosures on the redemption process, limitations, and legal recourse.



What is Segregated Reserve Support?

Redemption rights are backed by segregated reserves, held separately and insulated from insolvency risk, with independent custodianship and regular attestations.



Are Arbitrary Restrictions Prohibited?

Arbitrary or unfairly applied restrictions on redemption are prohibited, ensuring equitable access and fair treatment for all token holders.

The Financial Services Commission (FSC) rigorously enforces the following critical aspects governing the redemption process:



What is Strict Timeframe Compliance?

Redemption requests must adhere to publicly disclosed and contractually agreed timeframes (e.g., T+1, T+3 settlement) to avoid regulatory penalties.



What is Mandatory Transparency?

All redemption policies and procedures must be transparent, legally enforceable, and backed by sufficient, audited reserves to prevent defaults and foster confidence.



What is Prompt Suspension Reporting?

In extraordinary circumstances, issuers must promptly report any temporary suspension of redemption services to the FSC, including justification and a resolution timeline.

What are the Disclosure and Transparency Requirements?

Stablecoin issuers face stringent disclosure and transparency mandates to protect investors, maintain market integrity, and ensure regulatory compliance in the digital asset space.

A critical element is the detailed **white paper**, signed by the governing body and supported by a legal opinion confirming compliance with statutory frameworks like the VAITOS Act. This document must cover:



What is the Token Structure & Mechanism?

Details on stabilization mechanism (e.g., algorithmic, fiat-backed), technical architecture, blockchain integration, and smart contract functions, explaining how price stability is maintained.



What is the Governance Framework?

Disclosure of internal governance, decision-making processes, key personnel responsibilities, and external oversight mechanisms for accountability.



What are the Risk Factors?

Disclosure of operational, market, liquidity, smart contract, and regulatory risks, along with mitigation strategies.



What is the AML/CFT Compliance Framework?

Outline of Anti-Money Laundering (**AML**) and Counter-Financing of Terrorism (**CFT**) policies, including KYC, transaction monitoring, and reporting protocols.

Beyond the initial white paper, continuous and periodic disclosure obligations are essential for ongoing transparency and market confidence, keeping stakeholders informed about the stablecoin's operational and financial health:

What are the Daily Disclosures?

Publication of aggregate reserve asset values, providing collateralization assurance and supporting market stability.

What are the Periodic Disclosures?

Submission of financial statements and annual audited reports by independent third-party auditors, validating reserve accuracy and issuer solvency.

What are the Weekly Disclosures?

Breakdown of reserve composition, including asset classes, proportions, and custodial arrangements, fostering understanding of reserve quality.

What are the Continuous Disclosures?

Ongoing client updates on fees, changes to redemption rights, and identified risks, empowering holders with informed decision-making.

What are the requirements for Reserve Attestation and Audits?

To uphold the integrity and foster trust in the stablecoin ecosystem, stringent reserve attestation and audit requirements are paramount. These regulations mandate rigorous, independent verification and continuous oversight of reserve assets, ensuring transparency, stability, and consumer protection within the digital asset market.

Reserve assets backing stablecoins must undergo a **mandatory independent annual valuation or audit**. This process is conducted by FSC-recognized auditors or experts who possess knowledge of both financial markets and blockchain technologies. The objective is to provide an unbiased assessment of the stablecoin's backing. The attestation must confirm the following key aspects:



Are Reserves Adequate?

Verification that the total value of reserve assets is equal to or exceeds the aggregate value of all outstanding stablecoins, ensuring full backing. This includes assessing the fair market value of each asset.



Are Reserves Properly Segregated?

Confirmation that reserve assets are legally and operationally segregated from the issuer's operational assets. This prevents commingling and protects reserve funds from issuer insolvency or other liabilities.



Is There Sufficient Liquidity?

Assessment of the reserve's ability to meet redemption requests promptly, even under stressed market conditions. This evaluates the ease and speed with which reserve assets can be converted to fiat currency.



Is Custody Compliant?

Verification that reserve assets are held with reputable and regulated custodians, adhering to custody requirements and best practices for asset security and availability.

These comprehensive audit requirements are further reinforced through a structured timeline of ongoing obligations, designed to maintain continuous oversight and adaptive regulatory response:

What are the Annual Independent Audit Requirements?

A mandatory, in-depth audit performed yearly by an **FSC**-approved external auditor. This review covers asset valuation, legal ownership, and operational controls to provide an overarching assurance of reserve integrity.

What are the Immediate Event Notification Requirements?

Mandatory and timely reporting of any material incidents or changes that could significantly impact the operational resilience, financial stability, or asset backing of the stablecoin. This includes security breaches, significant market fluctuations affecting reserves, or changes in custody arrangements.

What is the Enhanced Reporting Frequency?

Issuers deemed high-risk, or those with significant retail exposure, may face mandates for more frequent, potentially quarterly or monthly, reporting of reserve compositions and attestations to provide closer surveillance.

What is Continuous Compliance Monitoring?

Ongoing supervision by the FSC involves periodic data submissions, regulatory returns, and notifications to ensure sustained adherence to all regulatory requirements and operational standards. This proactive approach helps identify and address potential issues before they escalate.

⚠ Critical Compliance Alert: Failure to provide timely, accurate reports or to disclose material information regarding reserve assets or operational status will trigger severe supervisory actions. These may include substantial financial penalties, immediate operational sanctions, or the suspension/revocation of the issuer's operating license, underscoring the necessity of strict adherence to these regulations.

What AML/CFT Obligations Apply to Stablecoin Providers?

Stablecoin issuers and Virtual Asset Service Providers (VASPs) are categorized as **reporting persons** under the *Financial Intelligence and Anti-Money Laundering Act, 2002* (FIAMLA). This classification subjects them to comprehensive Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) obligations to maintain financial integrity and prevent illicit activities:



Comprehensive Internal Policies & Procedures

Establish, implement, and maintain comprehensive AML/CFT policies and procedures, including risk assessment frameworks, customer acceptance, and record-keeping protocols.



Thorough Customer Due Diligence (CDD)

Conduct rigorous CDD, including identity verification, understanding business relationships, and ongoing monitoring. Enhanced due diligence (EDD) is mandatory for higher-risk cases.



Continuous Transaction Monitoring & Reporting

Implement systems for real-time and retrospective transaction monitoring to detect unusual or suspicious activities. Suspicious Transaction Reports (STRs) or Suspicious Activity Reports (SARs) must be promptly filed with the FIU.



Mandatory Sanctions Screening

Continuously screen all customers, beneficial owners, and transaction counterparties against international sanctions lists to prevent dealings with sanctioned entities.

In addition to these AML/CFT obligations, stablecoin providers must also fulfill several other requirements to ensure a strong compliance framework:



Comprehensive Employee Training

Develop and implement ongoing AML/CFT training for all relevant employees, ensuring awareness of obligations, regulatory changes, and how to identify and report suspicious activities.



Designation of Compliance Officer

Appoint a qualified and independent Compliance Officer (MLRO) with sufficient authority and resources to oversee effective implementation and enforcement of AML/CFT policies and procedures.



Regular System Audits

Subject the entire AML/CFT system, including policies, procedures, and technology, to regular independent audits to assess effectiveness, identify vulnerabilities, and ensure continuous compliance.



Extended Record Keeping

Maintain all records related to customer identification, transactions, and suspicious activity reports for a minimum of seven years, or longer if required by specific regulatory directives.

⊗ Non-compliance with these stringent AML/CFT obligations carries severe consequences, potentially leading to criminal liability for individuals and corporate entities, significant regulatory sanctions (including hefty fines), and the revocation of operating licenses, severely damaging reputation and market trust.

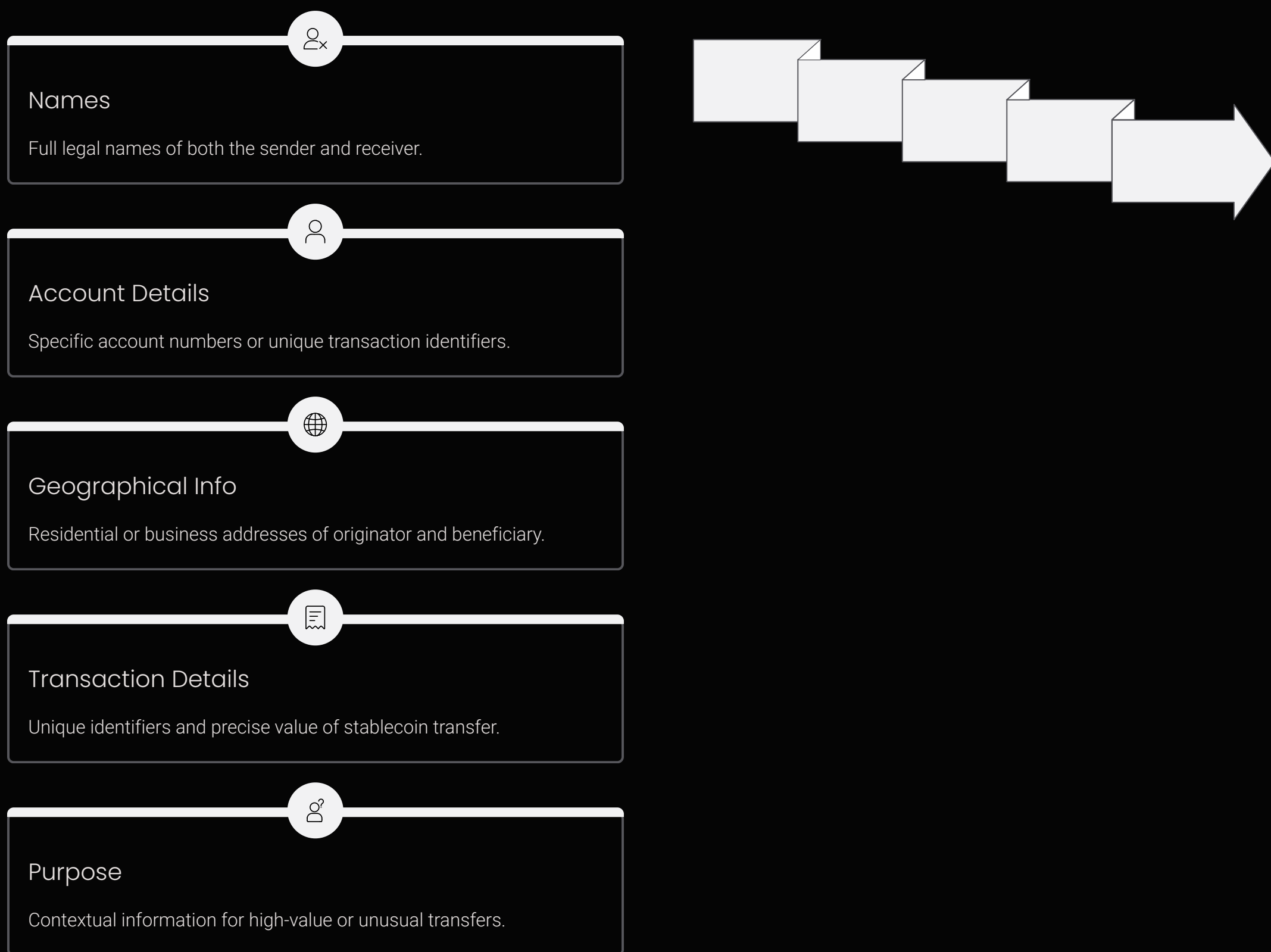
What are the Travel Rule and KYC/AML Standards for Stablecoin Providers?

Stablecoin providers operating within Mauritius must adhere to both the Financial Action Task Force (FATF) Travel Rule and stringent Know Your Customer (KYC) standards. This framework mandates data collection, thorough identity verification, continuous monitoring, and Enhanced Due Diligence (EDD) processes to safeguard the financial ecosystem.

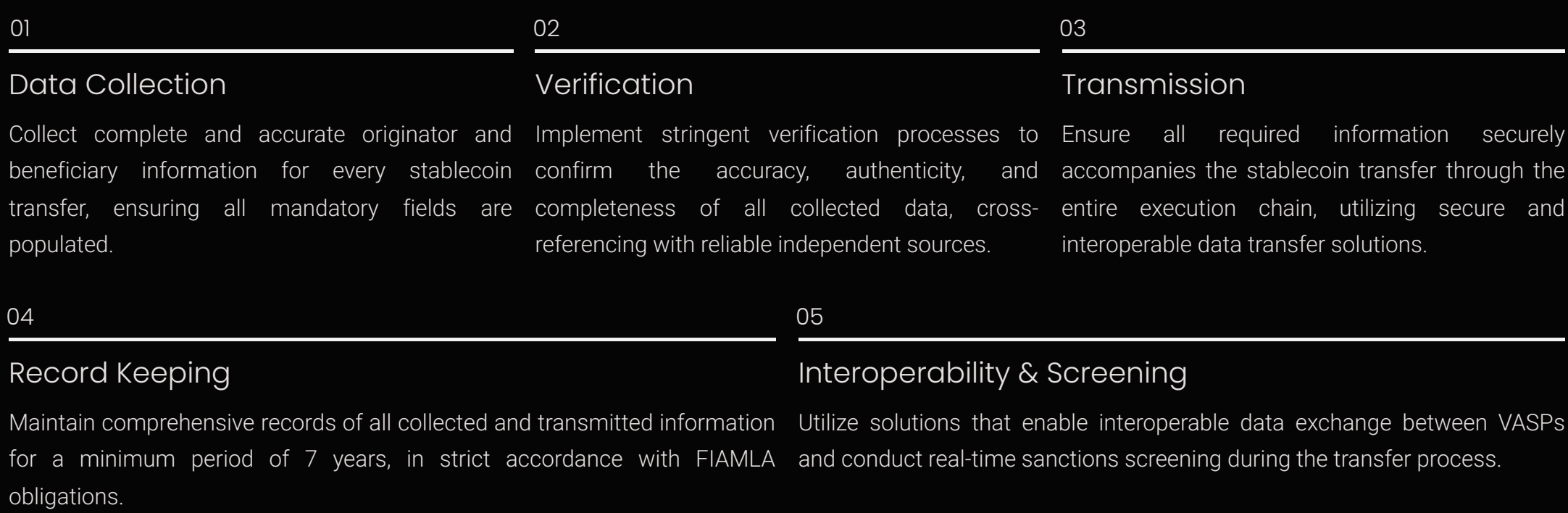
How is the FATF Travel Rule Implemented in Mauritius?

Mauritius has incorporated the **FATF Travel Rule** into its national regulatory framework, making it a cornerstone of its virtual asset compliance regime. This mandate requires Virtual Asset Service Providers (VASPs), including stablecoin platforms, to collect, verify, and transmit accurate originator and beneficiary information for **all stablecoin transfers, irrespective of any value thresholds**. This "no threshold" requirement is significant for stablecoins, emphasizing the need for end-to-end traceability of transactions to prevent and detect illicit financial activities like ML/TF.

What Information is Required for Travel Rule Compliance?

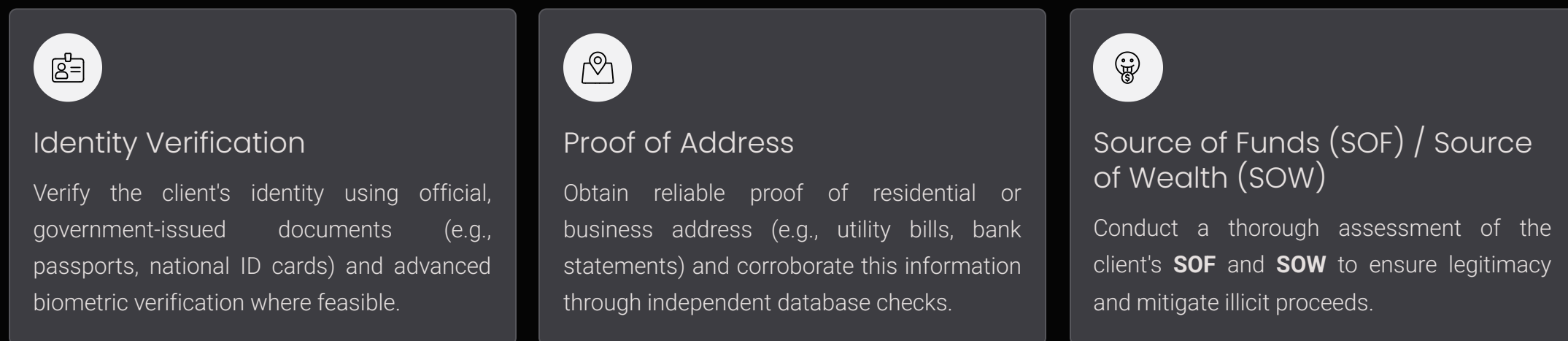


The effective implementation of the Travel Rule demands a systematic and strong process to ensure comprehensive data integrity and seamless traceability throughout the stablecoin transfer chain:

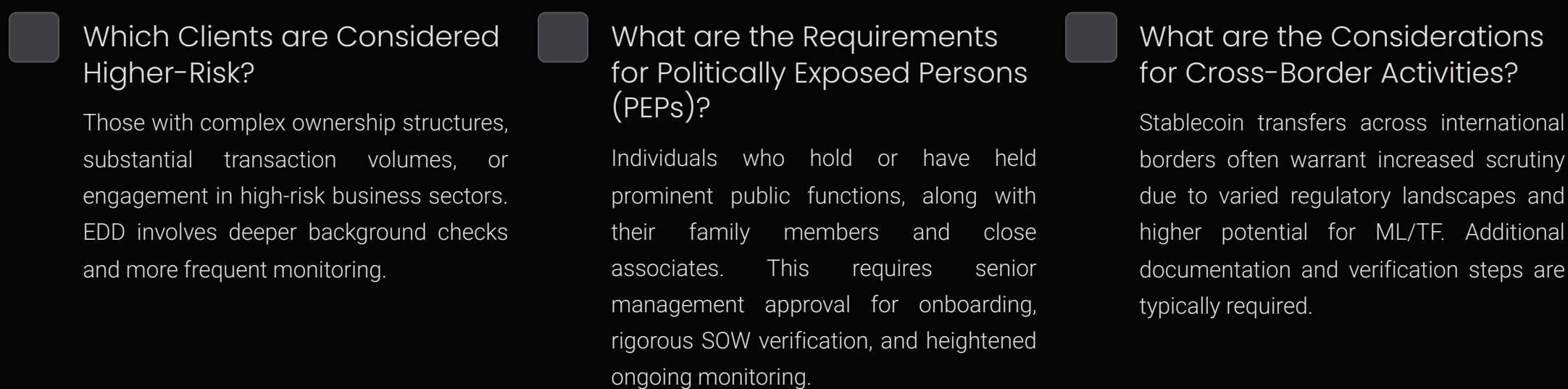


What are the Enhanced KYC Standards for Onboarding Stablecoin Clients?

Beyond the fundamental requirements of the Travel Rule, stablecoin providers are obligated to conduct exhaustive KYC checks during the client onboarding phase. This multifaceted process involves:



Furthermore, **Enhanced Due Diligence (EDD)** measures are mandatorily applied to clients identified as posing a higher risk profile, including:



These comprehensive KYC and EDD measures are crucial for stablecoin providers to identify, assess, and mitigate potential financial crime risks, thereby upholding the integrity of the financial system and ensuring full regulatory compliance.

What are the custody rules for stablecoins and client assets in Mauritius?

Custody of stablecoins and client assets in Mauritius is governed by the stringent *Custody of Client Assets Rules, 2022*, along with relevant provisions of the Virtual Assets and Initial Token Offerings Services (VAITOS) Act and Financial Services Commission (FSC) guidelines. These regulations are designed to ensure high security, integrity, and segregation of client assets, thereby protecting token holders from risks, including insolvency and operational failures of Virtual Asset Service Providers (VASPs).

The framework establishes a comprehensive set of requirements for VASPs and stablecoin issuers, aimed at preserving the value and accessibility of client assets. Key pillars of this regulatory regime include:

What is the Licensed Custodian Mandate?

Stablecoin issuers and VASPs must engage an FSC-licensed custodian, unless the VASP holds a Class R (Custodian) license. This ensures entities with strong financial standing, advanced technology, and asset management expertise are entrusted with client assets, subject to regulatory oversight.

What is Rigorous Asset Segregation?

Client assets must be separated from the issuer's or VASP's operational and proprietary funds. This requires distinct accounts, ledger entries, and clear ownership identification. Reconciliation prevents commingling and protects assets from insolvency claims.

What are Fiduciary Responsibilities & Oversight?

Licensed custodians have fiduciary duties for safeguarding client assets with due care. This includes strong internal controls, client reporting, and disclosure of key risks. Assets cannot be rehypothecated or misused.

What is Advanced Cybersecurity & Risk Management?

Custodians must implement advanced cybersecurity protocols and MFA to protect digital wallets and cryptographic keys. This includes risk assessments, disaster recovery, and business continuity plans, with third-party security audits.

Beyond these foundational rules, the regulations further clarify permissible activities and offer important safeguards:

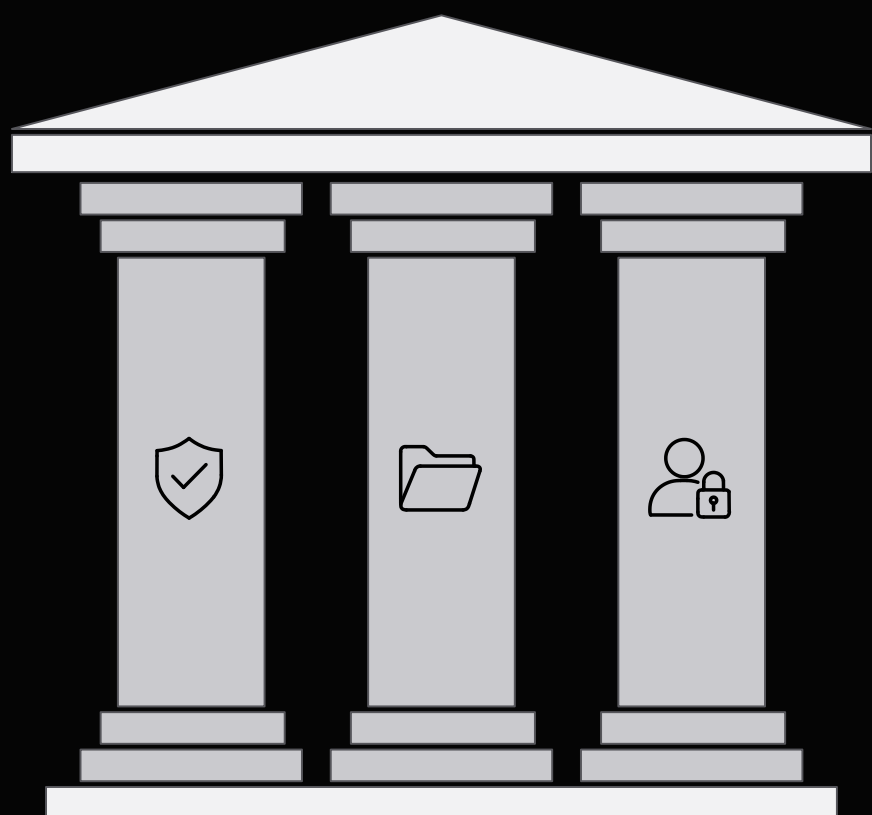
What are Prohibited Activities & Asset Utilization?

A core principle is restricting client asset use. Client stablecoins cannot be pledged, encumbered, or re-used by the issuer/custodian for their own benefit, nor deployed in lending, staking, or speculative investments. Exceptions are only for pre-approved actions to meet redemption obligations or maintain the stablecoin's peg, with explicit client consent and within regulatory limits.

What is Enhanced Insolvency Protection?

The strict segregation requirements offer important protection. In case of issuer/VASP insolvency, segregated client assets are legally ring-fenced, insulated from general creditors' claims. This ensures token holders can reclaim assets, significantly reducing counterparty risk and boosting confidence.

This strong regulatory framework underscores Mauritius's commitment to fostering a secure environment for stablecoin operations, prioritizing investor protection and market integrity.



- Licensed Custodians Regulated entities holding client assets
- Asset Segregation Separate accounts for client and firm assets
- Fiduciary Duties & Cybersecurity Duty of care plus strong cyber controls

What are the Technology & Cybersecurity Regulations in Mauritius?

The Financial Services Commission (FSC) emphasizes strong technology governance and cybersecurity within the financial sector, ensuring stability, consumer protection, and trust in digital financial services.



What is Technology Governance?

Ensuring IT readiness, operational frameworks, and strong risk management.



What are Cybersecurity Protocols?

Protecting against evolving cyber threats and safeguarding sensitive data.



How is Market Trust Maintained?

Maintaining confidence in digital financial services and preventing fraud.

What are the Key Cybersecurity Requirements?



How are Systems Secured & Access Controlled?

Implementing secure wallet systems and platforms with multi-layered access controls. This includes **MFA**, strict **RBAC**, and cryptographic protocols (e.g., **HSMs**) to prevent unauthorized access and data breaches.



Why are Vulnerability Testing & Assessments important?

Mandatory regular vulnerability testing, penetration testing, and security assessments, often by independent third parties. Aims to identify, evaluate, and mitigate weaknesses, ensuring continuous security improvement (e.g., **ISO 27001**).



What is Business Continuity & Disaster Recovery?

Developing, documenting, and regularly testing comprehensive **BCP** and **DRP**. These detail strategies for data backup, redundant infrastructure, failover, and critical system restoration to ensure uninterrupted service. Defines clear **RTO** and **RPO**.



What is Mandatory Cyber Incident Reporting?

Establishing clear protocols for timely and mandatory reporting of all material cyber incidents to the FSC. Includes detailed incident response plans, forensic capabilities, and communication strategies to foster transparency and coordinated oversight.

These stringent cybersecurity requirements are guided by the FSC's expectations and are closely aligned with the **Bank of Mauritius' Payment Systems Oversight framework**. Together, these regulatory instruments establish a comprehensive and rigorous set of standards designed to ensure a resilient, secure, and trustworthy financial infrastructure capable of withstanding contemporary cyber threats and maintaining public confidence.

⚠️ Non-compliance with these regulatory mandates, including the failure to implement effective and demonstrable security safeguards, carries significant consequences. Such breaches may lead to severe enforcement actions, including the suspension or revocation of operational licenses, substantial financial penalties, and reputational damage, underscoring the critical importance of adherence.

Can critical functions be outsourced? Navigating regulatory frameworks for external service providers.

Outsourcing critical functions within the financial services sector, particularly for entities regulated by the Financial Services Commission (FSC), is a common operational strategy. However, it is subject to stringent regulatory guidelines to ensure that risks are effectively managed and that the integrity of financial operations is maintained. The FSC's approach emphasizes a balance between facilitating operational efficiency and safeguarding consumer interests and systemic stability.

Under what strict conditions are critical functions permitted?



Outsourcing of critical functions, such as core technology infrastructure, **Know Your Customer (KYC)** and **Anti-Money Laundering (AML)** processes, or client asset custody, is permissible. These arrangements, however, are subject to rigorous evaluation and continuous monitoring by the FSC, requiring clear justification and demonstration of effective risk mitigation strategies. Firms must articulate how these functions, despite being externalized, remain within the scope of their direct oversight and control.

Does responsibility and accountability remain undiminished?



Crucially, the licensee (issuer or Virtual Asset Service Provider (VASP)) retains full responsibility for the performance and compliance of all outsourced activities. Delegation of a critical function to a third-party service provider does not absolve the licensee of its regulatory obligations. This necessitates comprehensive due diligence on potential service providers, continuous performance monitoring, and effective contingency plans for potential failures or breaches by the outsourced entity.

Does the FSC maintain active oversight and approval?



The FSC maintains an active role in overseeing outsourcing arrangements. It reserves the explicit right to scrutinize, examine, and, in many cases, provide prior approval for outsourcing contracts, particularly those involving critical functions. This includes reviewing terms and conditions, assessing the service provider's capabilities, and ensuring the arrangement does not pose undue risks to the financial system or clients. Non-compliance with FSC's directives can lead to the termination or restructuring of outsourcing agreements.

To ensure proper governance and compliance, specific documentation and standards must be met for any outsourced critical functions. These requirements are designed to safeguard operational resilience, data security, and regulatory adherence throughout the outsourcing lifecycle:



Are legally binding contracts required?

Comprehensive written agreements detailing scope of services, performance standards, data protection protocols, audit rights, termination clauses, and dispute resolution mechanisms.



Are data security standards met?

Service providers must adhere to the same, if not higher, standards of data security and privacy as the licensee, including international best practices and local data protection laws (e.g., encryption, access controls, incident response).



Is FSC approval necessary?

Submission of detailed outsourcing proposals to the FSC for review and formal approval prior to commencement of services, especially for critical functions.



Is AML/CFT compliance ensured?

For functions related to KYC/AML, the service provider must fully comply with all AML and CFT regulations, including employee training and suspicious activity reporting.



Are accountability frameworks in place?

Clearly defined roles, responsibilities, and accountability matrices for both the licensee and the service provider, including escalation procedures.



Do service providers demonstrate operational resilience?

Service providers must demonstrate strong operational resilience, including comprehensive business continuity plans (BCP) and disaster recovery plans (DRP) that align with the licensee's own standards and regulatory expectations.



Are Service Level Agreements (SLAs) required?

Stringent **Service Level Agreements (SLAs)** with measurable performance metrics, uptime guarantees, and clear penalties for non-compliance.



Are audit and assurance reports necessary?

Regular independent audits and assurance reports (e.g., SOC 2, ISO 27001) from the service provider are required to verify adherence to agreed-upon standards and regulatory mandates.



Is an exit strategy needed?

A well-articulated exit strategy to ensure seamless transition of services back in-house or to an alternative provider without disruption to operations or client services.



Are competency and resources adequate?

The service provider must possess adequate human resources, technical capabilities, and financial stability to reliably perform the outsourced function.

Does strategic outsourcing yield operational benefits?

Outsourcing can yield operational benefits, but requires meticulous planning and stringent oversight.

Is regulatory compliance unwavering?

Adherence to regulatory frameworks is paramount, ensuring trust and stability within the financial ecosystem.

Does the licensee retain ultimate responsibility?

The ultimate responsibility for regulatory adherence and client protection always rests with the licensee.

Key Consideration

Outsourcing arrangements for critical functions must be continuously reviewed and adapted to evolving regulatory landscapes and emerging risks. Diligence in this area is paramount to avoid potential regulatory sanctions, reputational damage, and operational disruptions.

What are the Cornerstones of Regulatory Compliance: Governance and Fit & Proper Standards?



How is Integrity & Competence Ensured?

Ensuring all licensed entities operate with high levels of honesty and professional capability.



How is Financial Soundness Maintained?

Maintaining strong financial health across all regulated operations to prevent systemic risks.



How is Investor Confidence Built?

Building and preserving trust among investors through transparent and reliable operations.



How is Market Stability Safeguarded?

Safeguarding the financial market against disruptions and ensuring its smooth functioning.



How are Illicit Activities Prevented?

Implementing measures to deter and detect unlawful financial conduct.

The FSC enforces stringent governance standards to achieve these goals. The board of directors, senior management, and significant shareholders are expected to embody these principles, forming the bedrock of a well-regulated financial ecosystem.



What are the Residency Requirements for Local Oversight?

A minimum of two resident directors in Mauritius is typically mandated. This ensures immediate local accountability, facilitates direct engagement with the FSC, and guarantees that key decision-makers are accessible for regulatory oversight and operational continuity within the jurisdiction.



What is the Fit and Proper Assessment?

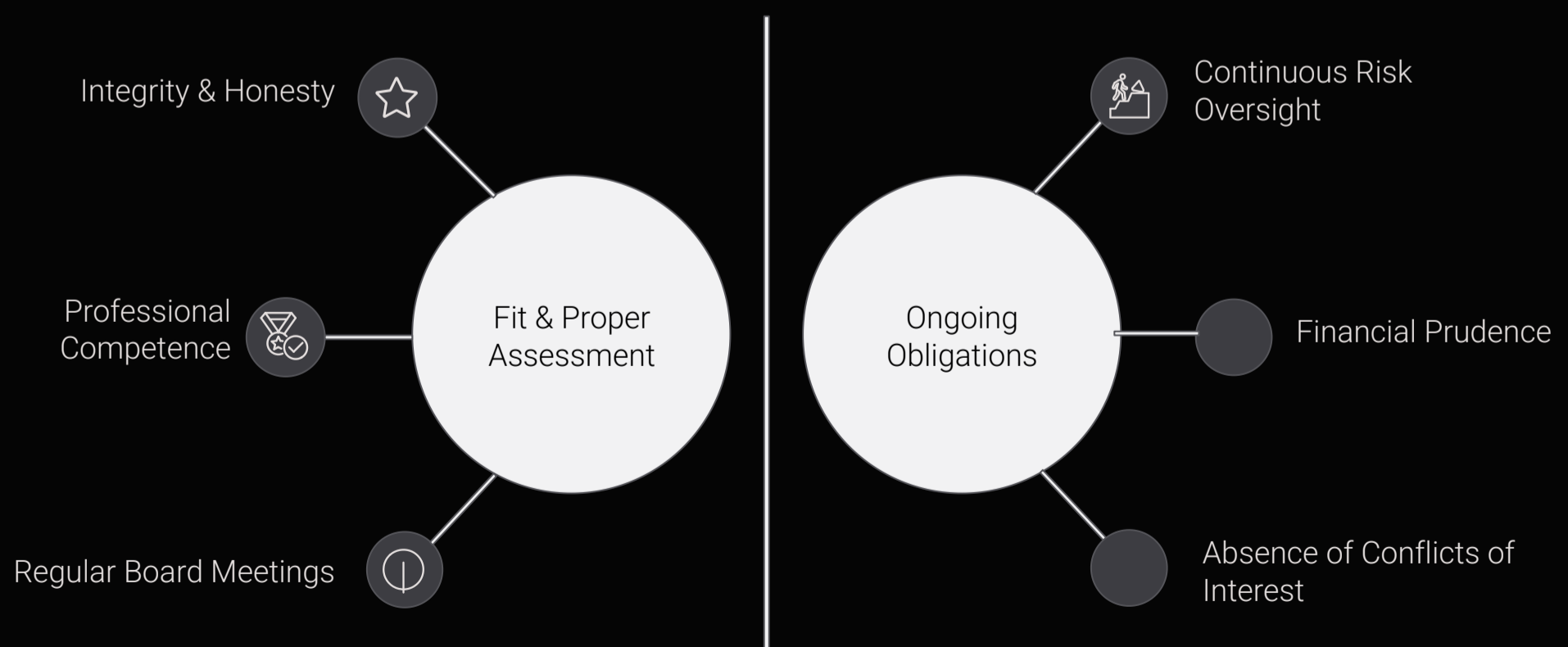
All individuals in director positions, senior officer roles, and with significant shareholding interests undergo rigorous evaluation. This assessment scrutinizes their integrity, professional competence, financial prudence, and suitability to manage or influence an FSC-regulated entity, thereby protecting against systemic risks.



How are Independent Functions Established?

Licensees must establish and maintain genuinely independent risk management and compliance functions. These functions are crucial for impartial oversight, ensuring adherence to regulatory frameworks, identifying and mitigating operational risks, and fostering a culture of internal control and ethical conduct.

The 'Fit and Proper Assessment' is a critical gateway for individuals aspiring to hold key positions within FSC-regulated entities, requiring a thorough demonstration of suitability. Beyond initial assessment, entities are also bound by continuous 'Ongoing Obligations' to ensure sustained adherence to governance principles throughout their operations.



⊗ Critical Warning: Any instance of non-compliance with these stringent governance or fitness requirements can trigger severe regulatory actions. This may include the immediate removal of implicated individuals, significant financial penalties, and the suspension or revocation of the entity's license, underscoring the imperative of strict adherence.

How Does the VAITOS Act Define Public Offers and its Regulatory Scope?

Under the **Variable Asset-backed Investment Tokens and Securities (VAITOS) Act**, a "public offer" refers to the offering of a stablecoin to the **general public** in exchange for either fiat currency or other virtual assets. This applies regardless of the marketing approach, ensuring comprehensive regulatory oversight and preventing regulatory arbitrage.



Does Targeting Mauritian Residents Constitute a Public Offer?

A public offer is triggered if stablecoins are made available, directly or indirectly, to residents of Mauritius, even if the offering originates outside the country.



What Offering Mechanisms Fall Under the VAITOS Act?

All direct or indirect methods used to offer stablecoins to the general public, including ICOs, STOs, and less formal distributions, fall under the **VAITOS Act's** purview.



Can Digital Marketing Campaigns Trigger a Public Offer Under VAITOS?

Online promotions or digital marketing campaigns accessible to Mauritian users can classify as a public offer. Geo-blocking and clear disclaimers are crucial for issuers not intending to target Mauritius.



Does Online Availability Indicate a Public Offer in Mauritius?

If stablecoins or related platforms are online and appear to target Mauritius (e.g., via language or currency), it is sufficient to establish regulatory jurisdiction under the **VAITOS Act**.

What is the Broad Regulatory Scope of the VAITOS Act?

The regulatory scope of the **VAITOS Act** is broad and encompassing, extending to various complex scenarios to ensure strong investor protection and market integrity within the Mauritian financial ecosystem.

1

What is the Territorial Reach of the VAITOS Act?

Once stablecoins become accessible to Mauritian residents, the full jurisdiction of the **FSC** is activated. Offshore issuers must implement stringent geo-blocking and clear jurisdictional disclaimers to avoid penalties.

2

Are There Exemptions for Private Placements Under VAITOS?

Exemptions for private placements are stringent. Offerings must be genuinely private, typically involving sophisticated investors and avoiding general advertising. Full and transparent disclosure to the **FSC** is required to prevent circumvention.

3

How Does VAITOS Cover Foreign Issuers?

The Act extends to foreign issuers targeting the Mauritian market. Any foreign entity without proper **FSC** authorization will be in breach. Strict compliance, including registration and licensing, safeguards Mauritian investors from unregulated cross-border offerings.

What is the Advertising and Marketing Regime for Stablecoins in Mauritius?

The Financial Services Commission (FSC) maintains stringent oversight over the advertising and marketing of stablecoins within Mauritius. This regime is designed to safeguard investor interests and maintain market integrity by preventing misleading, deceptive, or optimistic promotional activities that could lead to consumer harm or systemic instability. Given the complex nature and stability of stablecoins, transparent and accurate communication is essential.

What are the Standards for Fair, Clear, and Not Misleading Advertising?

All promotional and marketing materials must adhere to standards of fairness, clarity, and accuracy. This means using understandable language, avoiding jargon, and disclosing all material information, including risks, to potential investors.

How is Accurate and Comprehensive Representation Ensured?

Marketing communications must provide a precise and comprehensive representation of the stablecoin, describing its fundamental nature, stabilization mechanism (e.g., fiat-backed), redemption rights, and all inherent risks. Exaggerated claims or critical detail omissions are strictly prohibited.

Why is there Heightened Scrutiny for Retail Investor Protection?

Marketing efforts directed towards retail investors face elevated scrutiny, with an absolute prohibition on claims of guaranteed returns or absolute stability. Statements creating unrealistic expectations about performance or safety are not allowed, ensuring strong protection for vulnerable retail investors.

Are there Pre-Clearance Requirements?

- While a general mandatory pre-clearance isn't imposed for all stablecoin marketing materials, the FSC reserves the right to demand prior approval for products deemed novel, complex, or high-risk. This power helps mitigate harm. Issuers should consult the FSC if uncertain about their offering's novelty or risk profile.

What are the Regulatory Enforcement Actions?

Breaches of advertising and marketing obligations under the VAITOS Act can lead to a range of significant enforcement actions by the FSC. These measures penalize non-compliance, deter infractions, and ensure market integrity and investor confidence.

Financial Penalties

Public Warnings

License Suspension

Corrective Advertising

What is the Territorial Scope of the VAITOS Act for Cross-Border Activities?

The VAITOS Act establishes a **comprehensive territorial coverage**, extending its regulatory scope to all activities conducted **"in or from Mauritius"**. This broad jurisdictional reach ensures stringent oversight of stablecoin activities, regardless of the physical location of the operator, provided there is a nexus to Mauritius. This framework is crucial for safeguarding financial stability and preventing regulatory arbitrage in the evolving digital asset landscape.

Do Foreign Issuers Targeting Mauritius Require Licensing?



Foreign entities, including stablecoin issuers and Virtual Asset Service Providers (VASPs), that offer or market stablecoins to Mauritian residents, or operate platforms accessible within Mauritius, are required to obtain an FSC license. This applies even if their operations and infrastructure are located overseas, underscoring the Act's extra-territorial application based on the target market.

- **Licensing Imperative:** Mandates compliance with Mauritian regulatory standards.
- **Nexus to Mauritius:** Triggered by direct marketing, website accessibility, or contractual agreements with Mauritian residents.

How Does the VAITOS Act Apply to Mauritian-Licensed Entities Operating Abroad?



Entities licensed by the FSC in Mauritius remain under its stringent supervision for core regulatory standards, even when conducting stablecoin activities beyond Mauritian borders. This ensures that the global operations of Mauritian-based VASPs adhere to high standards, maintaining the integrity and reputation of Mauritius as a compliant jurisdiction.

- **Continuous Oversight:** Adherence to AML/CFT, consumer protection, and market conduct rules.
- **Global Compliance:** Promotes consistent regulatory practices for Mauritian-domiciled entities.

How Does the VAITOS Act Prevent Regulatory Arbitrage?



The extraterritorial application of the VAITOS Act is designed to prevent regulatory arbitrage, where entities might seek to exploit gaps or inconsistencies between national regulatory frameworks. By asserting broad jurisdiction, the Act ensures a consistent level of protection for Mauritian users and maintains a level playing field within the financial sector.

- **User Protection:** Guarantees same safeguards for Mauritian users regardless of issuer location.
- **Market Integrity:** Prevents unfair competitive advantages from less regulated jurisdictions.

What is the Scope of Captured Cross-Border Activities?



Issuance

Creation and distribution of stablecoins.



Exchange

Trading of stablecoins for other virtual assets, fiat currency, or goods/services.



Transfer

Moving stablecoins between addresses or accounts.



Custody

Safekeeping or control over stablecoins on behalf of clients.



Advisory Services

Providing recommendations or guidance related to stablecoins.

⚠ The extensive territorial reach of the VAITOS Act signifies that the geographical location of operational infrastructure does not exempt entities from Mauritian regulatory obligations when their services are directed towards or accessed by local users. Compliance is paramount for any entity with a nexus to Mauritius.

Does Mauritius Recognize a Reverse Solicitation Exemption for Stablecoin Services?

Mauritius maintains a stringent regulatory stance on stablecoin services, and does not formally recognize a reverse solicitation exemption. This means a Mauritian resident independently approaching a foreign stablecoin service provider does not automatically absolve that provider from the regulatory obligations mandated by the FSC under the VAITOS Act. This policy is designed to ensure comprehensive oversight and protect domestic consumers.



Does Client-Initiated Contact Grant Automatic Exemption?

Unlike other jurisdictions, client-initiated contact from a Mauritian resident with a foreign stablecoin provider does not automatically exempt the provider from the requirement to obtain an FSC license.



When Do Services Trigger Regulatory Scope?

Continuous provision of stablecoin-related services to Mauritian clients, even if initially client-solicited, is likely to trigger the VAITOS Act's regulatory scope, requiring adherence to Mauritian licensing standards.



Is This an Anti-Circumvention Measure?

This firm stance prevents foreign entities from circumventing stringent Mauritian regulatory requirements by claiming services were provided solely due to reverse solicitation, reinforcing the VAITOS Act's territorial reach.



What Are the Implications for Foreign Providers?

Foreign stablecoin service providers targeting, or even passively serving, Mauritian residents must proactively assess their activities against FSC regulations, as the "reverse solicitation" defense is unlikely to be upheld.

Why Does Mauritius Maintain This Firm Stance?

Effective Consumer Protection

Safeguards Mauritian users from unregulated stablecoin services.



Eliminates Regulatory Loopholes

Prevents entities from exploiting gaps in frameworks.

Ensures Consistent High Standards

All stablecoin activities impacting Mauritian consumers meet strict criteria.



Upholds Market Integrity

Ensures a level playing field within the financial sector.



FSC's Unwavering Position

The FSC emphasizes that the sophisticated licensing requirements under the VAITOS Act cannot be circumvented through claims of reverse solicitation, ensuring consistent regulatory application.



Critical Practical Guidance

Foreign stablecoin providers are advised to seek specific guidance from the FSC or legal counsel before engaging in any activities or communications with Mauritian clients, irrespective of initial contact.



Unyielding Consumer Protection Focus

This regulatory philosophy underscores Mauritius' commitment to consumer protection, safeguarding Mauritian users from unregulated stablecoin services, and fostering a secure digital asset ecosystem.

What are the Alternative Regulatory Classifications for Stablecoins?

While stablecoins are predominantly regulated as **virtual assets** under the Virtual Asset and Initial Token Offering Services (VAITOS) Act in Mauritius, their structure and economic functions necessitate a nuanced regulatory approach. The Financial Services Commission (FSC) employs a "functional test" methodology, scrutinizing the characteristics and purpose of each stablecoin rather than merely relying on its self-proclaimed label. This ensures that the appropriate regulatory regime is applied, safeguarding market integrity and investor protection.

What is the Default Classification of Stablecoins as Virtual Assets?

The primary classification under the VAITOS Act. Stablecoins are considered virtual assets when their principal utility lies in facilitating payments, transfers, or settlement processes, functioning as a medium of exchange or a store of value within the digital economy.

When Can Stablecoins Fall Under a Collective Investment Scheme (CIS)?

Stablecoins can fall under a CIS if they involve the pooling of funds from multiple investors, with participants sharing in profits or income from collective asset management, similar to a traditional investment fund.

When is a Stablecoin Classified as a Security?

A stablecoin may be reclassified as a security if its design and economic substance confer rights akin to traditional investment instruments, such as profit rights, dividend entitlements, or ownership stakes.

When Could Stablecoins be Categorized as Derivatives?

Stablecoins could be categorized as derivatives if they provide exposure to underlying assets or indices through algorithmic or contractual mechanisms, particularly if their value is linked to future performance or price movements of other assets.

How Does the Functional Test Approach Ensure Regulatory Precision?

The FSC's rigorous "functional test" approach is a cornerstone of its regulatory framework. This principle dictates that a stablecoin's regulatory treatment is determined by its actual function and economic characteristics, irrespective of how it is labeled by its issuer. This methodology is critical for:



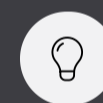
How Does It Prevent Regulatory Arbitrage?

Ensuring issuers cannot circumvent regulatory obligations by mislabeling offerings, maintaining a level playing field.



How Does It Protect Investors?

Applying appropriate investor protection based on the true nature of the financial product, safeguarding against risks.



How Does It Adapt to Innovation?

Providing a flexible framework for classifying novel digital assets without constant legislative updates, fostering growth responsibly.



What are Key Considerations for Issuers?

Issuers are advised to undertake a thorough legal and regulatory assessment of their stablecoin design to avoid:

- Unintended regulatory obligations
- Compliance costs
- Potential penalties
- Operational disruptions
- Reputational damage



Why is Early Engagement with FSC Important?

Engaging with the FSC early in the design phase can provide clarity and mitigate future regulatory challenges by ensuring alignment with compliance standards from the outset.

This approach involves a detailed analysis of the rights and obligations conferred upon stablecoin holders, the underlying asset backing (if any), the governance structure, and the intended use case.

How are Algorithmic Stablecoins Regulated in Mauritius?



What is their Virtual Asset Classification?

Algorithmic stablecoins are classified as **virtual assets** under the VAITOS Act.

What is the FSC's Cautionary Approach?

The FSC employs a cautious regulatory approach due to their inherent volatility and market instability.



Is there a Special Licensing Regime for them?

They do not qualify for a special licensing regime, facing regulatory scrutiny.

Is there a Bespoke Licensing Regime?

Mauritius does not offer a bespoke licensing regime for algorithmic or unbacked stablecoins. They are treated as virtual assets under the VAITOS Act, subject to an elevated level of regulatory caution due to their structural characteristics and potential for market disruption.

The FSC's position, articulated in its *Draft Guidance Notes on Stablecoins*, underscores concerns regarding the operational models of algorithmic stablecoins:



Why is the Absence of Intrinsic Backing a Concern?

Algorithmic stablecoins lack intrinsic reserve backing, diverging from fiat-backed or commodity-backed stablecoins. Their stability mechanisms rely on algorithmic protocols and smart contracts, attempting to maintain a peg through supply-and-demand adjustments rather than tangible assets.



How vulnerable are they to Market Stress?

These stablecoins are vulnerable to de-pegging and potential collapse during periods of market stress or price volatility. Algorithmic rebalancing mechanisms can fail under selling pressure, leading to a "death spiral" where the stablecoin loses its peg, causing investor panic and further price depreciation.



What are the Heightened Investor Risks?

Due to their unbacked nature and fragility, algorithmic stablecoins present heightened risks to investors. Holders face exposure to capital loss, and the recovery of funds can be challenging, given the absence of underlying assets or a central issuer responsible for redemption.



What are their Licensing Prospects?

Consequently, the operational models of algorithmic stablecoins face limited licensing prospects within Mauritius. The FSC prioritizes investor protection and financial stability, making it improbable for such risky instruments to meet regulatory requirements for widespread adoption.

To mitigate potential harms and safeguard market integrity, the FSC enforces regulatory measures that significantly impact the viability and operational scope of algorithmic stablecoins:

What are the Explicit Investor Warnings?

The FSC issues explicit warnings to investors, highlighting the speculative and high-risk nature of algorithmic stablecoins. Issuers are subjected to heightened disclosure obligations, requiring transparent communication of all associated risks, including potential for total capital loss and complexities of stabilization mechanisms.

What does Rigorous FSC Scrutiny entail?

Any proposal for the offering or operation of algorithmic stablecoins within Mauritius will undergo rigorous scrutiny by the FSC. This includes an in-depth analysis of their economic design, stress-testing of their algorithms, and an assessment of their systemic risks, alongside enhanced regulatory oversight designed to protect market stability and investor interests.

In summary, while falling under the broad definition of virtual assets within the VAITOS Act, algorithmic stablecoins encounter formidable regulatory headwinds in Mauritius. The FSC's stringent and risk-averse approach renders their commercial viability and operational scale severely limited, reflecting a clear policy preference for asset-backed stablecoin models that ensure greater financial stability and investor protection.

How is consumer protection and complaint handling managed for stablecoin users in Mauritius?

Consumer protection is a cornerstone of the Mauritian financial regulatory framework, designed to ensure strong safeguards for stablecoin users. This comprehensive approach is achieved through a multi-layered system that incorporates stringent disclosure requirements, standardized complaint resolution mechanisms, and independent dispute adjudication services.

1

What are the Client Disclosure Rules?

Under the Client Disclosure Rules, 2022, licensed Virtual Asset Service Providers (VASPs) are legally mandated to furnish prospective and existing clients with clear, fair, and non-misleading information. This includes details on:

- **Fee Structures:** All charges, commissions, and potential costs associated with stablecoin transactions and holdings.
- **Risk Disclosures:** A transparent explanation of inherent risks, including volatility, smart contract vulnerabilities, and regulatory changes.
- **Redemption Rights:** Clear articulation of the processes, conditions, and timelines for redeeming stablecoins for their underlying assets or fiat currency.
- **Legal Status:** The precise legal nature of the stablecoin and the VASP under Mauritian law.

These rules empower users to make informed decisions and understand their rights and obligations.

2

What are the mandatory complaint handling procedures?

The regulatory framework necessitates that all licensed VASPs establish and implement comprehensive internal complaint-handling procedures. These must be:

- **Accessible:** Easily locatable and understandable for all clients.
- **Prompt:** Designed to ensure client grievances are addressed and resolved within defined, reasonable timelines.
- **Impartial:** Handled objectively, without bias towards the VASP or the client.
- **Transparent:** Clients must be kept informed about the progress of their complaint, with clear channels for escalation.

VASPs are required to maintain detailed records of all complaints and their resolutions, contributing to ongoing regulatory oversight and accountability.

3

What independent ombudsperson services are available?

For disputes that cannot be resolved directly with the VASP, an independent and neutral forum is available through the Ombudsperson for Financial Services. This body serves as a mechanism for impartial dispute resolution, ensuring stablecoin users have recourse to an external authority. The Ombudsperson's powers include:

- **Independent Investigation:** Examining all aspects of a complaint to ascertain facts and responsibilities.
- **Binding Recommendations:** Issuing determinations that, under certain circumstances, can be legally binding on the VASP.
- **Mediation and Conciliation:** Facilitating amicable settlements between clients and licensed entities.
- **Accessible Resolution:** Providing a cost-effective and less formal alternative to judicial proceedings, making justice accessible to all users.

This ensures consumers are protected beyond initial disclosures, providing a mechanism for redress throughout their engagement with stablecoin services.

☐ These interlocking mechanisms collectively ensure that stablecoin investors in Mauritius are afforded comprehensive protection, not only at the point of initial engagement but throughout the lifecycle of their digital asset holdings. This holistic approach underpins confidence and integrity within the stablecoin ecosystem.

How Are Stablecoin Users Protected During Wind-Down and Insolvency?

Stablecoin users in Mauritius are protected through regulatory requirements for wind-down and insolvency, ensuring the continuity of redemption rights and minimizing market disruption. This comprehensive framework safeguards investor assets under even the most challenging circumstances.

The regulatory framework mandates stablecoin issuers to establish comprehensive and stringent orderly wind-down and exit strategies, ensuring these are effective and legally binding through key protective measures:



How Are Reserve Assets Segregated and Preserved?

Reserve assets backing the stablecoin must be held in segregated accounts, separate from the issuer's operational funds. This ensures that, in the event of the issuer's insolvency, these reserve assets are available for the redemption of stablecoins by token holders, protecting them from claims by the issuer's general creditors. This legal separation is a cornerstone of investor protection.



What is the Role of FSC Oversight and Proactive Planning?

During scenarios of issuer insolvency or wind-down, custodians are legally required to release assets to token holders under the direct oversight of the Financial Services Commission (FSC). Issuers must develop detailed, pre-defined plans for every conceivable exit scenario (voluntary cessation, regulatory intervention, financial distress). These plans articulate clear responsibilities, timelines, and communication protocols, with FSC's intervention guaranteeing an orderly and equitable distribution process.



What Protective Powers Does the FSC Have?


The FSC retains broad authority to impose protective measures to safeguard token holder interests. This includes suspending the issuance of new stablecoins, appointing independent administrators to manage the wind-down process, or initiating forced redemptions of stablecoins using segregated reserves. These powers allow the FSC to adapt its response, ensuring maximum protection for users.



How is Communication Managed During Wind-Down?

All exit strategies mandate a detailed communication plan. This plan must explicitly outline how the issuer will fulfill obligations, manage asset distribution, and maintain clear, timely, and accessible communication channels with users throughout the wind-down process. Transparency and consistent updates are paramount to managing expectations and mitigating potential user panic.

These effective mechanisms collectively ensure that token holders' redemption rights are preserved and that systemic disruptions to the financial ecosystem are minimized, even in the unforeseen event of platform failures or voluntary exits from the market.

 White paper disclosures for stablecoins are legally required to include comprehensive and detailed wind-down procedures. This mandate offers unparalleled transparency and certainty to token holders, empowering them with a clear understanding of the protective measures and their recourse during critical operational events.

What are the business activity restrictions for licensed stablecoin issuers?

Licensed stablecoin issuers in Mauritius operate under strict regulations to protect user interests and ensure financial stability. These regulations mandate specific restrictions on business activities to maintain regulatory integrity, prevent market manipulation, and avoid conflicts of interest. This ensures the prudential management of reserve assets and the overall stability of the stablecoin ecosystem.



What activities are prohibited?

Issuers are forbidden from commingling customer funds with operational capital or engaging in activities outside their licensed scope without explicit authorization from the **FSC**.

- **No Lending:** Reserve assets cannot be lent to third parties or affiliates.
- **No Staking Risks:** Avoid staking protocols that introduce volatility or illiquidity.
- **No Speculative Investments:** Prohibited from high-risk or speculative asset investments.

This ensures reserve assets remain fully liquid and dedicated to supporting stablecoin value and user redemptions.



What are the requirements for group structure transparency?

Comprehensive transparency is required for the issuer's group structure (parent companies, subsidiaries, affiliates), with rigorous scrutiny on all related-party transactions. This ensures:

- **No Flow Obfuscation:** Prevents hiding financial flows.
- **Conflict Mitigation:** Identifies and reduces potential conflicts of interest.
- **Client Asset Protection:** Safeguards client assets from misuse via internal dealings.

Regular reporting ensures compliance and accountability.



What are the requirements for governance independence?

Issuers must demonstrate strong independence in their governance, ensuring clear organizational boundaries and preventing compromises to regulatory supervision.

- **Independent Board:** Appointment of independent board members with expertise.
- **Segregated Duties:** Clear separation of operational and oversight functions.
- **Internal Controls:** Implementation of controls to prevent self-dealing.

This fosters decision-making that prioritizes token holders and market stability.

These activity restrictions are fundamental to the regulatory framework, primarily focusing on effective risk management to ensure several critical outcomes:



How are systemic risks mitigated?

Limiting risks that could destabilize the broader financial system.



How are users protected against unauthorized exposure?

Shielding token holders from unapproved market, credit, or operational risks.



How is reserve asset integrity assured?

Ensuring reserve assets are secure, segregated, and available for redemption.



How are conflicts of interest minimized?

Strict rules mitigate conflicts of interest that could disadvantage token holders.



How is regulatory scrutiny made effective?

Clear delineation of activities simplifies FSC oversight and prompt intervention.

⚠️ What are the consequences of non-compliance?

All licensed stablecoin issuers must adhere to these activity restrictions. Confirmed violations will trigger immediate and severe regulatory enforcement actions, including:



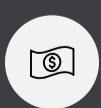
Immediate Suspension

Temporary halt of all operational licenses.



Permanent Revocation

Complete termination of the operating license, leading to mandatory wind-down.



Financial Penalties

Substantial fines against the issuer and its senior management.



Reputational Damage

Loss of trust and market confidence.

Such measures underscore the **FSC's** commitment to maintaining market integrity and protecting consumers.

What are the Periodic Reporting and FSC Notification Requirements?

Stablecoin issuers and Virtual Asset Service Providers (VASPs) operate within a regulated framework, necessitating rigorous and transparent reporting to the Financial Services Commission (FSC). These comprehensive reporting obligations are designed to enable continuous regulatory oversight, ensure market integrity, and monitor systemic risks within the digital asset ecosystem. This involves a structured schedule of periodic reports alongside immediate, event-driven notifications to maintain effective supervision.

What are the Daily Reports?

Issuers are mandated to provide near real-time publication of aggregate reserve asset values. This ensures market transparency, allowing stakeholders and the public to verify the backing of stablecoins daily. Key metrics include total reserves, total stablecoins in circulation, and the reserve ratio.

What are the Annual Statements?

At a minimum, annual submissions include audited financial statements conducted by an independent firm. Additionally, a separate, independent attestation of reserve assets is required, verifying their existence, valuation, and segregation. These provide a holistic financial health check and reinforce public trust.

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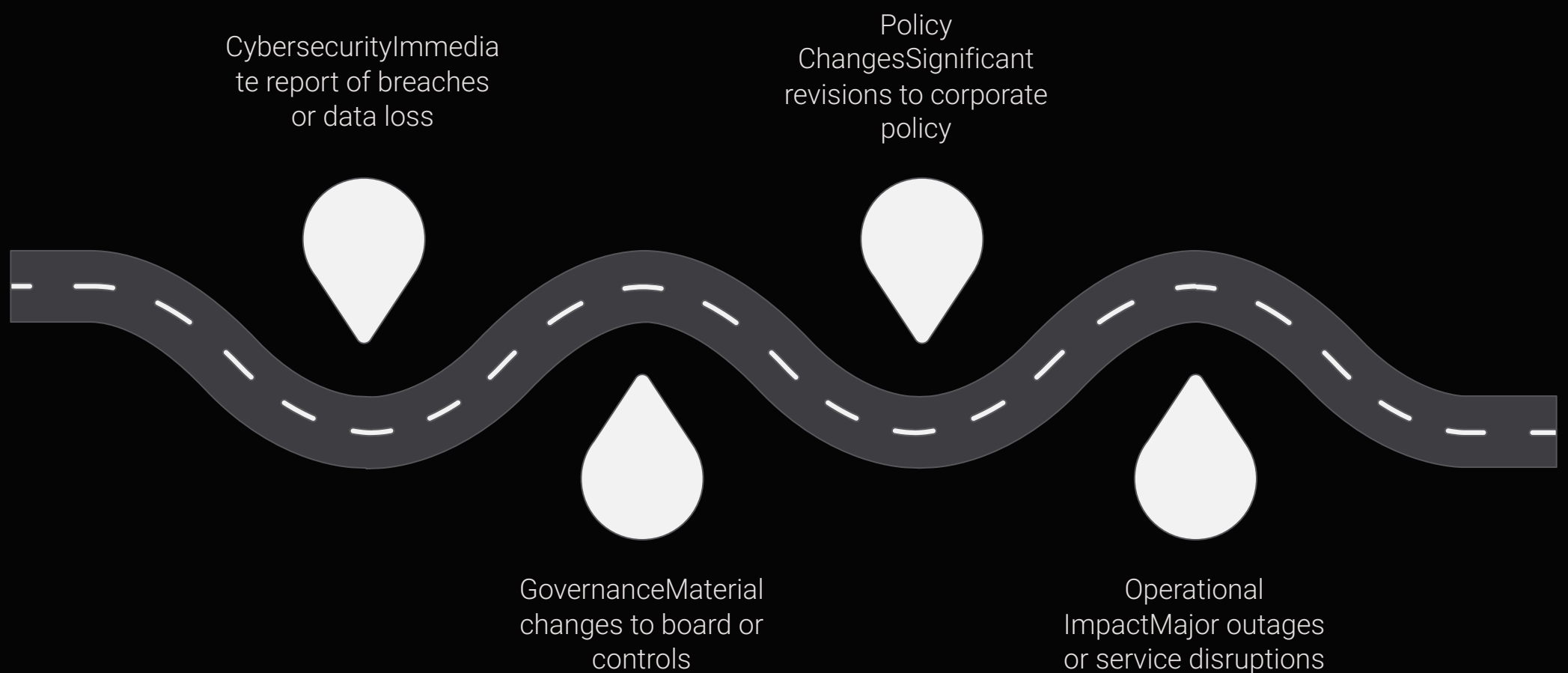
What are the Weekly Reports?

These detailed reports delve into the composition of reserves, including a breakdown by specific asset classes (e.g., cash, short-term government securities, commercial paper), their diversification, and the legal and operational arrangements of custodial partners. This granular data is critical for assessing the liquidity and safety of reserve assets.

What are the Event Notifications?

Immediate notifications are paramount for any material incidents, significant changes in governance structures, or critical modifications to policy frameworks. These 'early warning' signals enable the FSC to respond swiftly to potential risks, ensuring stability and protecting token holders' interests.

Beyond routine periodic reports, stablecoin issuers and VASPs must also adhere to event-driven reporting requirements, ensuring the FSC is immediately informed of critical developments that could impact regulatory compliance, financial stability, or consumer protection.



The FSC leverages this reporting framework to fulfill its mandate effectively, ensuring a strong and secure environment for stablecoins and virtual assets.

How does FSC Monitor Systemic Risk?

Reports allow the FSC to assess and mitigate risks that could impact the broader financial system, identifying interdependencies and potential contagion effects within the digital asset sector.

How does FSC Assess Financial Soundness?

Detailed financial and reserve reports enable the FSC to evaluate the health and stability of individual entities, ensuring they maintain sufficient capital and liquidity to meet their obligations.

How does FSC Ensure Investor Protection?

By scrutinizing operational practices, reserve management, and complaint handling, the FSC verifies that strong measures are in place to safeguard token holders' assets and interests.

How does FSC Identify Emerging Risks & Trends?

Regular and event-driven data helps the FSC detect new market trends, technological vulnerabilities, and evolving risks, allowing for proactive regulatory adjustments and policy enhancements.

⊗ Failure to adhere to these comprehensive reporting requirements can lead to severe regulatory consequences. Such non-compliance may result in substantial financial penalties, the immediate suspension of operational licenses, or even outright revocation, underscoring the critical importance of full and timely disclosure.

What are the Data Protection and Cross-Border Transfer Requirements?

The handling of personal and transactional data by stablecoin issuers and VASPs, particularly for Know Your Customer (KYC) and Anti-Money Laundering (AML) purposes, is rigorously governed by the **Data Protection Act, 2017**. This framework ensures comprehensive individual privacy protection and mandates stringent protocols for data management and international transfers to maintain operational legality and user trust.



What constitutes lawful processing?

All personal data must be processed lawfully, fairly, and transparently, typically requiring explicit consent or a clear legal basis such as contractual necessity or compliance with legal obligations (e.g., AML/CFT regulations).



How is data handled and stored securely?

Issuers and VASPs must implement effective technical and organizational measures to ensure data security, integrity, and confidentiality, including encryption, pseudonymization, access controls, and regular security audits.



How is information kept confidential?

Strict confidentiality for all client information is required, involving staff training on data protection, non-disclosure agreements, and a clear internal framework for sensitive data access.



How is data usage transparent?

Data subjects must be fully informed about data collection, usage, storage, and sharing through clear privacy notices and mechanisms to exercise their rights (access, rectification, erasure).

Regarding cross-border transfers, the following provisions apply to ensure high data protection standards are maintained even when data leaves the jurisdiction of Mauritius:



What are the cross-border safeguards?

Transfers are permitted only with adequate safeguards like Standard Contractual Clauses (SCCs) approved by the Data Protection Commissioner, Binding Corporate Rules (BCRs) for intra-group transfers, or adherence to certified codes of conduct.



Which jurisdictions are approved for data transfer?

Data can only be transferred to jurisdictions recognized by Mauritius as providing an adequate level of data protection. Transfers to non-adequate countries require specific safeguards or explicit, informed consent from the data subject.



What are data subject rights?

Clients must be informed about data handling, storage, and cross-border transfers. They retain full data protection rights internationally, including access, rectification, erasure, and objection, with clear channels for exercising these rights.

⊗ Breaches of these stringent data protection obligations can lead to severe consequences for stablecoin issuers and VASPs, including significant administrative penalties, civil liability claims, and enforcement actions by the Data Protection Office, potentially escalating to suspension or revocation of operational licenses. This underscores the critical importance of strong data governance frameworks, continuous compliance monitoring, and employee training. Strong data protection standards also enhance user trust and ensure compliance with international privacy expectations.

What are the Penalties and Enforcement for Non-Compliance with Stablecoin Regulations?

The Financial Services Commission (FSC) in Mauritius holds enforcement powers to address non-compliance within its stablecoin regulatory framework. These mechanisms protect investors, uphold market integrity, and safeguard the stability and reputation of the Mauritian financial system. The FSC adopts a graduated approach, applying penalties proportionate to the severity and impact of the breach, emphasizing deterrence and corrective action.



What are the Regulatory Remedies & Corrective Actions?

- **Directives:** Mandating specific operational changes or cessation of activities.
- **Compliance Plans:** Requiring detailed remediation roadmaps.
- **Restitution:** Compensating affected token holders or parties.

These measures prioritize restoring market integrity and ensuring future adherence to regulations.



What are the Financial Penalties & Disgorgement?

- **Administrative Fines:** Monetary penalties based on breach severity, duration, and impact.
- **Disgorgement:** Compelling the return of ill-gotten gains to prevent financial benefit from unlawful activities.

These financial sanctions serve as a deterrent against regulatory breaches.



What is License Suspension or Revocation?

- **Temporary Suspension:** Freezing assets or halting operations until compliance is re-established.
- **Permanent Revocation:** Ultimate sanction for unrectified non-compliance, necessitating an orderly wind-down under FSC oversight.

This protects client assets and maintains market confidence.



What are the Criminal Sanctions?

- **Legal Prosecution:** For severe violations like fraud, market manipulation, or AML breaches.
- **Imprisonment & Fines:** Terms for individuals and criminal fines for both individuals and entities.

These underscore criminal liability associated with serious breaches of stablecoin regulations.

The escalating nature of these enforcement actions demonstrates the FSC's commitment to oversight, strong regulatory enforcement, and deterring illicit activities within Mauritius's stablecoin ecosystem. This multi-tiered approach ensures that all participants operate within clear legal and ethical boundaries, fostering trust and stability in the digital asset sector.

- ⊗ The FSC's enforcement actions are proportionate to the risk posed to consumers and financial stability. Emphasis is placed on proactive supervision and preventative measures to encourage a culture of compliance and responsible innovation within the stablecoin market.

What are the future regulatory developments and international alignment for stablecoin regulation in Mauritius?

Mauritius is dedicated to evolving its stablecoin regulatory framework. This approach aims to foster local market stability and global interoperability, to position Mauritius as a leader in financial innovation with effective oversight.

What are the upcoming regulatory enhancements?

New guidelines focusing on:



- Consumer protection (disclosure, redemption rights)
- Operational resilience (cybersecurity, business continuity, risk management)
- Market surveillance (real-time monitoring, advanced analytics)

These measures aim to mitigate risks like market manipulation and illicit financing.

How does Mauritius align with international standards?

The FSC harmonizes its framework with global benchmarks:



- EU's Markets in Crypto-Assets (MiCA) regulation
- FATF's recommendations for AML/CFT compliance

This facilitates cross-border transactions and enhances Mauritius's reputation as a secure financial hub.

What are the regional cooperation initiatives?

Mauritius fosters collaboration with African financial regulators to:



- Standardize frameworks
- Reduce regulatory arbitrage
- Promote a secure, interconnected digital asset ecosystem

This involves joint working groups, information-sharing, and coordinated policy development for regional economic benefit.

What is the FSC's dynamic roadmap?


The FSC's strategic roadmap for stablecoin regulation is dynamic and responsive, incorporating:



- Continuous review
- Regulatory impact assessments
- Feedback from market participants

Stakeholder consultations ensure practicality, while agile adaptation to technological advancements keeps the regulatory environment relevant and effective.

These forward-looking initiatives reinforce Mauritius's position as a jurisdiction dedicated to integrating stablecoins responsibly into the global financial landscape. By fostering innovation within an effective regulatory environment, Mauritius aims to attract reputable enterprises and contribute to the stability and evolution of digital finance.

 Staying ahead in regulatory development is paramount for maintaining market confidence among investors and institutions, and for attracting legitimate innovation within the evolving digital asset sector.