**THE SECURITIES INVESTMENT BUSINESS LAW, 2003**

**(FINANCIAL REQUIREMENTS AND STANDARDS) REGULATIONS 2003**

**GUIDANCE NOTES FOR COMPLETION OF *SECURITIES INVESTMENT FORM***

## Introduction

These guidance notes are designed to assist you in the correct completion of the Securities Investment Business form (Form SIB) and should be read carefully prior to completing the schedule.

SCHEDULE 1: FINANCIAL RESOURCES CALCULATION

1. TOTAL ASSETS (“A”)

Report here all resources controlled by the organisation, and in which they have ownership rights. Examples include: cash, stock, debtors, vehicles, buildings and patents.

1. LIQUIDITY ADJUSTMENTS (“B”)

Report here the Liquidity adjustments, which is the sum of amounts specified as liquidity adjustments below.

### Intangible Assets

The liquidity adjustments for intangible assets is the balance sheet value of such items.

### Tangible Fixed Assets

The liquidity adjustment for tangible fixed assets is the total net book values of such assets, with the exception of land and building used as security for non recourse loans or other loans which a license holder must treat under (4) and (5) of the guidelines.

### Land or Buildings (non recourse loan)

The liquidity adjustment for land or buildings used as security for a non recourse loan is the difference between the net book value of the land or building and the loan principle outstanding, except where the loan principal outstanding is higher than the net book value in which case there is no liquidity adjustment.

*Land or Buildings (other)*

The liquidity adjustment for land or buildings used as security for loans other than non recourse loans is the difference between the net book value of the land or building and the lower of:

1. 85% of a professional valuation of the land and buildings (which must have been carried out in the last two years); or
2. the principle outstanding, except where both (a) and (b) are higher than the net book value in which case there is no liquidity adjustment.

*Physical Stocks*

The liquidity adjustment for physical stocks is the balance sheet value of such stocks, except for stock positions associated with the license holder’s investment business which are:

1. physical commodities for which the full contract price has been paid;
2. work in progress and finished goods which result from the processing of physical commodities; or
3. raw materials which will be combined with physical commodities to produce a finished processed commodity, in which case there is no liquidity adjustment.

### Investment in a connected company

The liquidity adjustment for an investment in a connected company is the balance sheet value of the investment, except where the investment is a marketable investment which is not in a subsidiary, in which case there is no liquidity adjustment but such investment must be subjected to the PRR Codes.

### Other Investments

Other investments have no liquidity adjustment but instead are subject to the PRR Codes.

### Prepayment

The liquidity adjustment for a prepayment is the balance sheet value of that prepayment, except that there is no liquidity adjustment to the extent that it relates to goods and services to be received or performed in the next three months.

Debtors arising from investment business or dealing activities have no liquidity adjustment but instead are subject to these guidelines.

### Debtors

The liquidity adjustment for debtors other than debtors arising from investment business or dealing activities is the balance sheet value of the debtor, except that there is no liquidity adjustment in the following circumstances:

1. amounts due from connected companies which are adequately secured and are repayable within 90 days;
2. unsecured amounts due at the request of the license holder from a connected company which is a regulated banking institution within 90 days;
3. unsecured amounts due at the request of the license holder from a connected company which is a regulated financial institution within seven days;
4. amounts receivable in respect of cash dividends declared which have been outstanding for 30 days or less from the date the dividends were due to be paid;
5. amounts accrued or receivable in respect of interest on marketable investments which have been outstanding for 30 days or less from the date the interest was due to be paid; and

### Cash deposit

### The liquidity adjustment for a cash deposit is the balance sheet value of the deposit, except for qualifying deposits.

### Charged Assets

### The liquidity adjustment for charged assets as the aggregate balance sheet value of each asset of the license holder over which a third party has the right of sale or retention on default by the license holder except:

### to the extent of any liability of the license holder plus a reasonable margin in respect of the charged asset;

### where the asset is collateral for a transaction which is subject to these guidelines; or

### (c) where the Authority otherwise permits.

*Other Assets (not specified above)*

The liquidity adjustment for assets other than those specifically stated above is the balance sheet value of the asset concerned.

1. ADJUSTED TOTAL ASSETS (‘C”)

The adjusted total asset is total assets less liquidity adjustment. (C = A – B)

1. REDEEMABLES SHARES (“D”)

Report here the value of shares that may be redeemed at the option of the issuer and/ or the shareholder.

1. TOTAL LIABILITIES (“E”)
2. CONTINGENT LIABILITIES (“F”)

A firm must deduct each of its contingent liabilities from its adjusted total assets unless the Authority confirms in writing that this is not required.

1. DEFICIENCIES IN SUBSIDIARIES (“G”)

A firm must deduct each of its deficiencies in subsidiaries as an amount equal to any deficiency in shareholders' funds at any time of a subsidiary of the firm from its adjusted total assets except to the extent that:

(a) provision has already been made by the firm; or

(b) the firm has already calculated a liquidity adjustment or CRR because the deficiency arises or partially arises out of a liability of the subsidiary to the firm.

1. ELIGIBLE CAPITAL SUBSTITUTES (“H”)

### Report here the firm’s eligible capital substitutes which is calculated as the sum of:

### subordinated loans

### approved bank bonds

### approved undertakings

The license holder may treat a subordinated loan, approved bank bond or approved undertaking as an eligible capital substitute only if it is:

(a) drawn up in accordance with the standard forms obtained from the Authority except to the extent that the Authority otherwise permits; and

(b) signed by authorised signatories of all the parties.

The license holder may treat a subordinated loan as an eligible capital substitute only if the lender is:

1. the license holder's controller;
2. a regulated banking institution;
3. a regulated financial institution; or

(d) another person approved by the Authority.

The license holder must provide the Authority with five business days written notice of any repayment, prepayment or termination of a subordinated loan, approved bank bond or approved undertaking, except:

1. when the license holder's financial resources after payment of interest or principal etc would be less than or equal to 120% of its financial resources requirement, in which case a license holder must obtain the prior written approval of the Authority before repayment etc of a subordinated loan etc; or

(b) when the Authority otherwise permits, and must not repay, prepay or terminate any subordinated loan, approved bank bond or approved undertaking if the Authority objects.

The license holder may treat any amount of a subordinated loan which is repayable within three months as an eligible capital substitute only with the prior written approval of the Authority.

The total amount of eligible capital substitutes which a license holder may take into account in its financial resources must not exceed four times adjusted total assets.

The total of approved bank bonds and approved undertakings which a license holder may treat as an eligible capital substitute must not exceed 30% of the base requirement.

The license holder may treat an undertaking as an eligible capital substitute only if the provider of the undertaking is:

(a) a regulated banking institution;

(b) a regulated financial institution; or

(c) another person approved by the Authority.

1. FINANCIAL RESOURCES (C-D-E-F-G+H)

Financial Resources is the Adjusted Total Asset less Redeemable Shares, Total Liabilities, Contingent Liabilities and Deficiencies in Subsidiaries add Eligible Capital Substitutes.

1. BASE REQUIREMENT (“I”)

The licensee’s base requirement in Schedule 1 shall be the greater of one quarter of relevant annual expenditure, and –

1. in the case of broker-dealers, market makers and securities managers, a minimum of $100,000; and
2. in the case of all other licensees, a minimum of $15,000.
3. COUNTERPARTY RISK REQUIREMENT (CRR) (“J”)

Counterparty Risk is the risk facing license holders that their clients or counterparties may not meet their contractual obligations or complete their side of the transaction. In addition, license holders face further risk where an exposure is concentrated on one client or counterparty.

The Counterparty Risk Requirement is the aggregate of the subtotal of tables 15 to 20.

1. POSITION RISK REQUIREMENT (PRR) (“K”)

Position Risk Requirement is the exposure of licence holder’s positions in investments (either long or short) that the price of such investment may move against them in the future. License holders are required to calculate a position risk requirement (“PRR”) as a percentage of the market value (or realisable value) of the investment.

The Position Risk Requirement is the aggregate of the subtotals of tables 21 to 25.

1. FINANCIAL RESOURCE REQUIREMENT (I+J+K)

Financial Resources Requirement is the sum of Base Requirement, and Counterparty Risk Requirement and Position Risk Requirement.

SCHEDULE 2: Relevant Annual Expenditure Calculation

14.1-14.13

Relevant Annual Expenditure is a calculation to reveal direct business expenses, i.e. the calculation eliminates profit appropriations and financing and includes expenses directly related to running the business. The Annual Expenditure calculation feeds into the calculation of Base Requirement. If one quarter of the Annual Expenditure is higher than what is required as Base Requirement (see regulation 9(2) of the Financial Requirements and Standards Regulations), this figure must be used as the Base. Note that for Broker dealers, money makers and securities managers the minimum is $100,000.

COUNTERPARTY RISK REQUIREMENT

Counterparty Risk is the risk facing license holders that their clients or counter-parties may not meet their contractual obligations or complete their side of the transaction. In addition, license holders face further risk where an exposure is concentrated on one client or counterparty.

The overall CRR is the aggregate of the sub totals.

1. Cash against document transactions

Where a holder has unsettled bargains in any securities it must calculate the risk (price difference) to which it is exposed as follows:

Report here the excess of the contract value over the market value of unsettled bargains in any securities;

1. Where a firm has neither delivered securities nor received payment when purchasing securities for, or selling securities to, a counterparty, the risk is the excess of the contract value over the market value of the securities.
2. Where a firm has neither received securities nor made payment when selling securities for, or purchasing securities from, a counterparty, the risk is the excess of the market value over the contract value of the securities.

1. Free Deliveries

When a firm makes delivery to a counterparty of physical commodities or securities without receiving payment or pays for securities without receiving the certificate of good title, the firm must calculate the free delivery value for each transaction.

The free delivery value is the amount to which the license holder is exposed should the counterparty not pay or deliver certificates of good title.

1. Options purchased for a counterparty

Report here where an option has been purchased on behalf of counterparty, and the counterparty has not paid the price 3 days after trade date. The CRR to be reported is the amount by which the contract price exceeds the current realisable value of the option at market price.

1. Loans to counterparties

Report here 100% of the total amount of any loan to a counterparty which is not secured by acceptable collateral or offset against an amount owed by the firm to the counterparty within three months where there is an agreement in writing which the firm believes to be legally enforceable, allowing the firm to set off amounts owed by it against debt due to it.

1. Other receivable and Accrued Income

A firm must calculate a 100% CRR in respect of the following receivables due to the firm if they have been outstanding for more than 30 days from the date on which they were first recorded on the firm’s balance sheet

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* 1. commissions and fees earned in connection with the firm’s investment business;
  2. commissions and fees earned which are due and payable from client bank accounts;
  3. repayments of marketable investments at maturity or call;
  4. the value of scrip issues and rights issues;
  5. proceeds arising from takeovers and mergers;
  6. domestic underwriting or stabilisation fees; and
  7. accrued income and work in progress.
  8. other receivables arising from investment business and investment dealing activities not covered elsewhere in these guidelines.

1. Concentrated risk to one party

Report here any exposure from a single counterparty (treat several counterparties grouped together by the firm for margin or credit treatment, as one counterparty), which is 25% or more of the licensee’s financial resources.

POSITION RISK REQUIREMENT

Position Risk Requirement is the exposure of licence holder’s positions in investments (either long or short) that the price of such investment may move against them in the future. License holders are required to calculate a position risk requirement (“PRR”) as a percentage of the market value (or realisable value) of the investment.

1. Debt

Report the market value as per the category of the debt and then listed by maturity.

1. Equities

Report here the market value of all equities issued according to where traded on or under the rules of an approved exchange (not including AIM stocks in the UK and Bulletin Board in the US).

1. Derivatives
   1. Exchange traded futures and written options

Report the initial margin requirement on all exchange traded futures and written options.

* 1. OTC futures and written options

Apply the appropriate percentage for debt and equity as above to the mark to marketvalue of the underlying position.

* 1. Purchased options and Warrants

Apply the appropriate percentage for debt and equity as above to the mark to market value of the underlying position except that the result may be limited to the premium of the Option or the Warrant.

* 1. Contracts for difference

Report here all mark to market value of the contract.

1. Foreign Exchange

* 1. Foreign exchange exposure

Report here all net open positions on foreign exchange.

1. Other Investment
   1. Linked bonds and Mutual Funds

Report here the realisable value of all single premium unit linked bonds and units in a

Mutual Fund.

* 1. Any other investments

Report here the mark to market value of investment or underlying instrument of any other investments not included.