

**Schedule**

**of**

**Financial Resource Requirements**

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## **1 Introduction**

- 1.1 This document sets out the returns required as per section 2.1.3.2(b) of CDS rules relating to financial resource requirements.
- 1.2 Sections 2 to 7 of this document are applicable to Investment Dealers while section 8 is applicable to Custodian Banks. (*Amended 11/4/08*)

## **2 Financial resource requirements (FRR)**

- 2.1 This return calculates the difference between the adjusted liquid capital and the sum of the fixed expenditure base requirements and the risks as set forth in paragraphs 3 to 7.
- 2.2 Two of the Participant's senior officers (known as the authorised signatories, as required under Rule 3.1.1) must certify that the returns have been prepared carefully and are in agreement with the company's books and records and fairly presents the Participant's financial position.
- 2.3 The Participant must give full details, including amounts involved, relating to any contingent liabilities in existence at the date of the return.
- 2.4 A template for the calculation of the FRR is set out in annexure A.1.
- 2.5 The FRR for the month must be submitted within 10 business days of the following month
- 2.6 Any Capital Surplus as per the FRR will be added to the Participant's Settlement Limit until corrected.

## **3 Fixed expenditure base requirement (FEBR)**

- 3.1 A Participant is required to hold at all times adjusted liquid capital which is adequate to fund its fixed expenditure base requirement for a predetermined period of 13 weeks.
- 3.2 This return is prepared annually and must be submitted together with the audited annual financial statements, not later than 90 days after the end of the financial year.
- 3.3 The calculation of the FEBR as set out in annexure A.2 is based on the most recent audited accounts. The same FEBR requirement will be used for subsequent financial resource requirement returns until a new FEBR is submitted.
- 3.4 Should a Participant be of the opinion that the amount computed as per annexure A.2 is inappropriate, it may increase its FEBR as it considers necessary; or make application to the Business Conduct Committee to apply a lower amount.
- 3.5 The Business Conduct Committee may require a Participant to adjust its FEBR at any time if it considers the FEBR to be inappropriate.
- 3.6 Where a Participant has traded on the Exchange for less than one year at its financial year-end, the FEBR return shall be based on budgeted amounts.

#### **4 Position risk requirement (PRR)**

- 4.1 Where a participant has a proprietary position in an instrument, the participant shall calculate its risk exposure arising from different classes of securities.
- 4.2 A template for the calculation of the PRR is set out in annexure A.3.
- 4.3 The PRR for the month must be submitted within 10 business days of the following month.

#### **5 Counterparty risk requirement (CRR)**

- 5.1 A Participant shall calculate its total CRR on counterparty exposures arising from its business as the sum of the CRR amounts.
- 5.2 A template for the calculation of the CRR is set out in annexure A.4.
- 5.3 The CRR for the month must be submitted within 10 business days of the following month.

#### **6 Foreign exchange risk requirement (FER)**

- 6.1 The FER calculation is to cover the risk resulting from foreign exchange dealing, holding assets and liabilities giving risk to exposure in currencies other than in Mauritian Rupees, and holding any off-balance sheet contract which gives rise to an exposure in a currency other than in Mauritian Rupees (MRU).
- 6.2 The calculation is based on the net open position for all currencies and translates them to MRU at the prevailing telegraphic transfer rates quoted by the Mauritius Bankers Association.
- 6.3 A template for calculating the FER return is set out in annexure A.5.
- 6.4 The FER for the month must be submitted within 10 business days of the following month

#### **7 Adjusted liquid capital (ALC)**

- 7.1 The adjusted liquid capital is to account for the level of liquid capital available to the Participant to meet any default.
- 7.2 A template for the calculation of ALC is set out in annexure A.6.
- 7.3 The ALC for the month must be submitted within 10 business days of the following month

#### **8 Financial Resource Requirements for Custodian Banks**

- 8.1 The minimum qualifying net asset value for Custodian Banks and Investment Dealers (Government of Mauritius and Bank of Mauritius Securities Segment) as per rule 2.1.3.2(a) shall be Rs 200 million as per the audited accounts. (*Amended 10/06/2013*)
- 8.2 The minimum qualifying net asset value for Custodian Banks will be reviewed annually by the Board of Directors of the CDS.
- 8.3 A Custodian Bank having less than the minimum qualifying net asset value shall lodge a letter of undertaking to make good any obligations to CDS. The letter of undertaking shall be issued by another bank having the minimum qualifying net asset value for Custodian Bank Participants.

Investment Dealer \_\_\_\_\_

**Financial Resource Requirements**

as at : \_\_\_\_\_

	From	Rs
<b>Fixed Expenditure Base Requirement</b>	A.2	x
<b>Position Risk Requirement</b>	A.3	x
<b>Counterparty Risk Requirement</b>	A.4	x
<b>Foreign Exchange Risk Requirement</b>	A.5	x
<b>Total Requirement</b>		<u>x</u>
<b>Adjusted Liquid Capital</b>	A.6	(x)
<b>Capital (Surplus)/Shortfall</b>		<u><u>x</u></u>

We the undersigned confirm that:

The attached statements have been carefully prepared and are in agreement with the company's books and records, which are maintained on a daily basis and fairly present the company's financial position.

Adequate provision has been made for all known liabilities and losses.

Full details, including the amounts involved, relating to any contingent liabilities in exercise at the date of this return are attached.

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Position: \_\_\_\_\_

**Notes on Financial Resource Requirements (FRR)**

- 1.a This return is the lead schedule for all the requirements.
  
- 1.b The Participant's responsible officer and one director must certify that the returns have been prepared carefully and are in agreement with the firm's books and records and fairly represents the Participant's financial position.
  
- 1.c The Participant must give full details, including amounts involved, relating to any contingent liabilities in existence at the date of the return.

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**Fixed Expenditure Base Requirement (FEBR)**

Based on Audited Accounts for the year ended : \_\_\_\_\_

	Fixed Costs (2.d)	Trading costs & non-cash'' exp's (2.d)	Per P & L A/c
Accounting and secretarial or other services/charges, etc...	x		x
Auditor's remuneration	x		x
Depreciation		x (2.f.a)	x
Insurance	x		x
Interest Paid other than to Partners/Directors			
Bank Overdraft	x	x (2.f.f)	x
Other Finance	x	x (2.f.f)	x
SEM Charges and Fees	x	x (2.f.b)	x
Motor Vehicle Expenses	x		x
Net Loss on Realisation of Fixed Assets		x (2.f.a)	x
Office Rental	x		x
Machine and Other Leasing Charges/Rental	x		x
Printing & Stationary	x		x
Salaries other than to Directors	x	x (2.f.c)	x
Telephone, telex and postage	x		x
Other Expenses	x	x (2.f.g)	x
Payments to Directors			x
Salaries and Directors' fees	x	x (2.f.e)	x
Interest	x	x (2.f.e)	x
<b>Fixed Expenditure Base Requirement</b>	<b>x (A)</b>	<b>x(B)</b>	<b>x</b>
Provision for FEBR (13 weeks)	25%		
<b>FEBR for FRR computation</b>	<b>Rs (to A.1)</b>		

**Notes on Fixed expenditure base requirement (FEBR)**

- 2.a This return shall be prepared annually and must be submitted together with the audited annual financial statements not later than 3 months after the last day of the financial year end.
- 2.b This return does not have to be submitted together with the monthly financial resource requirements return. The 13 week FEBR determined will simply be used in the financial resource requirement return (annexure A.1) submitted each month.
- 2.c A Participant is required to hold at all times adjusted liquid capital which is adequate to fund its fixed expenditure for a period of thirteen weeks.
- 2.d Set out above is the return which separately identifies and categorises expenses which in the income statement are:
- incurred as a result of trading activity (B); and
- those which would continue to be incurred, in the short term in the absence of trading activity (A).
- 2.e In determining fixed cost amounts (A), the following principles should be applied:
- 2.f.a Depreciation and profits or losses on sales of fixed assets are non-cash items and hence should not be taken into account.
- 2.f.b SEM charges relating to active trading should be excluded. Fixed charges should be included.
- 2.f.c Non-contractual payments by way of profit shares or performance related bonuses should be excluded
- 2.f.d Exceptional or extraordinary items may be excluded, subject to approval of the CDS.
- 2.f.e Payments to partners/directors should only be included to the extent that they are made irrespective of profitability. Such amounts should be agreed annually with the CDS, based upon market rates.
- 2.f.f Interest paid to counterparties which is trade related may be excluded
- 2.f.g Loss arising on the translation of foreign currency balances may be excluded.
- 2.g A Participant shall compute its FEBR for the year (following the audited financial year end) at 25% (ie.13/52 weeks)of A (annexure A.2). This calculation is done annually.
- 2.h Where a Participant has traded for less than one year at its financial year end, the FEBR return shall be based on budgeted amounts.



Investment Dealer \_\_\_\_\_

**Position Risk Requirement (PRR)**

as at : \_\_\_\_\_

	<b>Market Value</b>	<b>Risk Factor</b>	<b>PRR Rs</b>
<b>Equity Securities and Futures Contracts</b>			
SEM listed	x	35%	x
Listed on a recognised Foreign Exchange	x	40%	x
<b>Debt Securities</b>			
Issues of or Guaranteed by Govt. of Mtius or BOM			
Less than 1 year to maturity	x	5%	x
1 to 3 years to maturity	x	10%	x
More than 3 years to maturity	x	20%	x
Issued or accepted by a bank			
Less than 90 days to maturity	x	2%	x
Other Listed Debt Securities			
Less than 1 year to maturity	x	10%	x
1 to 3 years to maturity	x	20%	x
More than 3 years to maturity	x	30%	x
<b>Underwriting PRR (annexure A.3.1)</b>		A.3.1	x
<b>Other Investments</b>		3.c.	x
		<b>Rs</b>	<b>(to A.1)</b>

### Annexure A.3

#### Notes on Position risk requirement (PRR)

- 3.a A Participant shall mark to market its securities, bonds and financial instruments proprietary positions, for the purposes of determining its PRR.
- 3.b Where a Participant has a position in an instrument for which no PRR has been specified, the Participant shall immediately seek guidance from the compliance officer on the PRR to apply. Pending a decision, the Participant shall apply a PRR of 100% to its risk exposure.

#### 3.c Other Investments

Where a Participant holds investments other than equity or debt securities or futures contracts listed on a recognised exchange, the following PRR's shall apply:

units in a registered unit trust scheme                      20% of realisable value

with profit life policies    20% of surrender value

*other investments*    *100% of cost*

*If the Participant does not agree with the risk factor of 100% for " other investments " he will inform the compliance officer who will refer the matter to the Business Conduct Committee. The Business Conduct Committee will determine the risk factor upon recommendation from the compliance officer.*

Investment Dealer \_\_\_\_\_

**Underwriting PRR****as at :** \_\_\_\_\_

	Commitment date	Quantity	Agreed price	Gross Commitment
Issues being underwritten				.....
Underwriting or sub-underwriting obtained from others				(.....)
Sales or purchases of securities				(.....)
Allocation granted or received				(.....)
<b>Net commitment</b>				<b>xxx</b>
Less: Reduction factor (annexure 3.1.c)				<b>(xx)</b>
Amount on which PRR is computed				<b>xxx</b>
Applicable PRR risk factor from annexure A.3				<b>%</b>
<b>Total PRR for Underwriting</b>				<b>(to A.3)</b>

**Notes Underwriting on Position risk requirement (PRR)**

- 3.1.a A Participant must inform the compliance officer when entering into any underwriting or sub-underwriting commitment which, together with any other underwriting commitment of the Participant, exceeds Rs 1,000,000.
- 3.1.b A PRR should be calculated in respect of an underwriting agreement from the date the commitment is entered into.
- 3.1.c A Participant shall reduce the net underwriting commitment by the following reduction factors:

<i>From initial commitment</i>	<i>Loan stock</i>	<i>Equity securities</i>
Until Day 0-	75%	90%
Day 1-	75%	90%
Day 2 & 3	75%	75%
Day 4-	50%	50%
Day 5-	25%	25%

After day 5, the Participant shall be required to compute its PRR on the net exposure, without reduction, in its normal manner for equity position

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**Counterparty Risk Requirement (CRR)****as at :** \_\_\_\_\_

<b>Nature of Transaction</b>	<b>Calculation of CRR</b>	<b>CRR Value</b>
<b>Unsettled Securities Transactions executed on the SEM on behalf of unrelated parties</b> 0 to 7 days after settlement date 8 days after settlement date 9 days or more after settlement date	50% of Potential Loss 100% of Potential Loss 100% of Potential Loss + PRR	<b>x</b> <b>x</b> <b>x</b>
<b>Unsettled Securities Transactions on behalf of owners, subsidiaries, fellow subsidiaries &amp; associates companies, &amp; employees of a Participant</b>	100% of Potential Loss + PRR	<b>x</b>
<b>Sums due for payment or owned on closed out transactions</b> 0 to 5 days from debt occurring thereafter	Nil 100% of amount unsecured	<b>x</b> <b>x</b>
<b>Loans to Counterparties</b> where the loan exceeds the value of securities and is not adequately secured	100% of the amount by which the loan is not secured	<b>x</b>
<b>Unsettled bond transactions of clients and counterparties</b> 1 day after settlement date more than 1 day after settlement date	50% of Potential Loss 100% of Potential Loss + PRR	<b>x</b> <b>x</b>
<b>Other Receivable</b> Commissions and Fees earned Repayments of marketable investments at maturity or call Value of scrip issues and rights issues Proceeds arising from take-overs and mergers Other receivable not covered elsewhere in this section	100% } of the receivable to the 100% } extent that the amount 100% } due is outstanding for 100% } more than 30 days 100% }	<b>x</b> <b>x</b> <b>x</b> <b>x</b> <b>x</b>
<b>Rs</b>		<b>(toA.1)</b>

**Counterparty risk requirement (CRR)**

- 4.a A Participant shall calculate its total CRR on counterparty exposures arising from its business as the sum of the CRR.
  
- 4.b The potential loss on unsettled securities transactions, executed on the SEM is the difference between the transaction value and the market value of the securities.

Investment Dealer \_\_\_\_\_

**Foreign Exchange Risk Requirement (FER)****as at :** \_\_\_\_\_

	US\$	GBP	etc...
Assets in Foreign Currency	x	x	x
Liabilities in Foreign Currency	x	x	x
Currency Futures at Nominal Value	x	x	x
Guarantees certain to be called over (specify)	x	x	x
Net Exposure in Foreign Currency	<hr/> x	<hr/> x	<hr/> x
Spot rate in Rs (B.5)	x	x	x
Net exposure in RS	<hr/> x	<hr/> x	<hr/> x
Total Long position in Rs (A)			<hr/> <hr/> x
Total Short position in Rs (B)			<hr/> <hr/> x
Foreign Exchange Requirements (10% of Greater of A or B)			Rs <hr/> <hr/> (to A1)

**Foreign exchange risk requirement (FER)**

- 5.a The FER calculation is to cover the risk resulting from foreign exchange dealing, holding assets and liabilities giving risk to exposure in currencies other than in Mauritian Rupees, and holding any off-balance sheet contract which gives rise to an exposure in a currency other than Rupees
- 5.b The calculation should be based on the net open position for all currencies and should translate them to Rs using the prevailing Mauritius Bankers Association buying or selling T.T rates, whichever is applicable..
- 5.c The FER is calculated based on 10% of the higher of :
- the aggregate of the net open long positions in each currency (A); and
  - the aggregate of the net open short positions in each currency (B).
- 5.d A Long Position occurs when the net exposure in a foreign currency is positive.  
A Short Position occurs when the net exposure in a foreign currency is negative.



Investment Dealer \_\_\_\_\_

**Adjusted Liquid Capital (ALC)****as at : \_\_\_\_\_**

		<b>Rs</b>	<b>Rs</b>
	Notes		
<b>Ordinary Share Capital</b>			<b>x</b>
<b>Preference Share Capital</b>	6.a		<b>x</b>
<b>Share Premium</b>			<b>x</b>
<b>Partners Capital</b>	6.b		<b>x</b>
<b>Reserves</b>			<b>x</b>
<b>Audited Retained Earnings / (Losses)</b>	6.c		<b>x</b>
<b>Unaudited Retained Earnings / (Losses)</b>	6.d		<b>x</b>
<b>Owners Equity</b>			<hr/> <b>x</b>
<b>Subordinated Loans</b>	6.e		<b>x</b>
<b>Guarantees Received</b>	6.f		<b>x</b>
<b>Total Capital Resources</b>			<hr/> <b>x</b>
<b>Less: Impaired Capital</b>	6.g		
Intangible Assets	6.h	<b>x</b>	
Guarantees Provided	6.i	<b>x</b>	
		<hr/>	<b>x</b>
<b>Available Capital Resources</b>			<hr/> <b>x</b>
<b>Less: Illiquid Assets</b>			
Fixed Assets net of Secured Loans	6.j		<b>x</b>
<b>Adjusted Liquid Capital</b>		<b>Rs</b>	<hr/> <b>(to A.1)</b> <hr/>

**Notes to returns for Adjusted liquid capital (ALC)**

6.a Preference share capital

Preference share capital shall constitute liquid capital if

- a: it is not redeemable or
- b: if it is redeemable,  
the initial period to redemption was at least two years; and  
the remaining period to redemption is greater than three months.

6.b Partners capital

Partners capital may be included in the calculation of total capital resources provided that it is legally subordinated in the manner prescribed by CDS. The following conditions for subordination apply:

the capital must be subordinated for an initial period of at least two years;

subordinated capital accounts may only be repaid with the prior written approval of the compliance officer on three months written notice.

6.c Audited retained earnings (losses)

Audited retained earnings shall be included in the total capital resources subject to the following:

It shall be subject to an independent auditor's unqualified report; and

it shall be determined after any charges, such as taxation and any proposed distribution to owners.

6.d Unaudited retained earnings (losses)

Unaudited profits and losses shall be included net of tax.

The compliance officer may limit the extent to which unaudited profits are included if he is of the opinion that the Participant's financial reporting and management systems are not accurate.

6.e Subordinated loans

Subordinated loans, which includes partners and shareholders loan accounts, shall be included in the total capital resources provided:

it shall be subordinated in the manner prescribed by the compliance officer; and

it can only be repaid subject to the prior written approval of the compliance officer.

6.f Guarantees received (letters of credit)

Letters of credit received shall constitute liquid capital if:

the compliance officer considers the issuer to be of sufficient substance to assure performance;

the letter of credit is irrevocable for at least a further period of three months; and

the letter of credit is capable of being drawn upon on presentation.

6.g Impaired capital

Impaired capital shall be deducted from the total capital resources in determining available capital resources. Impaired capital consists of two components – intangible assets and guarantees provided:

6.h Intangible assets

Includes goodwill, capitalised development costs, licences, trademarks, brands and similar rights.

6.i Guarantees provided

The maximum current exposure of the Participant arising from any guarantee given, or asset pledged, to secure the obligations of a third party.

6.j Illiquid assets

The following illiquid assets shall be deducted from the available capital resources:

Fixed assets, net of secured loans

The net book value of its tangible fixed assets. Where such fixed assets are used as security for loans, the amount may be reduced to the extent of the secured loan outstanding.