Securities Commission of The Bahamas	
Regulatory Capital Calculation for Firms Managing Securities and Advising on Securities Policy	
Ref: PSr42-180309	

1. DEFINITIONS AND SPECIAL TERMS

1.1 "1999 Act" - Securities Industry Act, 1999

1.2 "2000 Regulations" - Securities Industry Regulations, 2000

1.3 "SIA" - Securities Industry Act, 2011

1.4 "SIR" - Securities Industry Regulations, 2012

2. APPLICABILITY & SCOPE

2.1 This document establishes the Securities Commission of The Bahamas' ("the Commission") policy regarding specific receivables that may be used in the calculation of net free regulatory capital by firms registered to carry on the business of managing securities or of advising on securities that are not also registered to carry on the business of dealing in securities.

3. COMMENCEMENT DATE

3.1 This policy commenced 3rd January 2018.

4. AUTHORITY

4.1 The Commission has authority to publish policies describing its views regarding the interpretation, application, or enforcement of securities laws in the discharge of its function (SIA s. 13(j)).

4.2 Amongst its statutory functions, the Commission is charged with maintaining surveillance over the capital markets, protecting their integrity, and creating and promoting conditions that facilitate their orderly development (SIA s. 12).

4.3 To this end, the Commission has authority to monitor the solvency of regulated persons and take measures to protect the interests of clients and others where the solvency of any such person is in doubt (SIA s. 13(d)).

4.4 Further, registered firms must maintain at all times adequate financial resources to meet their business commitments, withstand the risks to which the business is subject and meet prescribed capital requirements (SIR r. 42).

4.5 Pursuant to the SIA r. 149, until the Commission prescribes Rules for regulatory capital requirements for securities firms, securities firms are required to maintain the regulatory capital requirements set out in regulation 55 of the 2000 Regulations.

5. BACKGROUND

5.1 Securities firms must maintain sufficient liquid capital to weather financial shocks and losses without improperly utilising client deposits, going into default or being unable to honor client withdrawals.

5.2 The Commission aims to ensure that securities firms are properly capitalized for effective mitigation of the risks indicated in 5.1 above in a manner that does not unduly burden registrants or unduly impede the orderly development of the markets.

5.3 To this end, the Commission assesses the adequacy of registered firms' regulatory capital against the requirements set out in regulation 55 of the 2000 Regulations as a part of its ongoing surveillance of the securities markets.

5.4 To test the adequacy of registrant securities firms' regulatory capital, the Commission uses the information they provide in complying with their annual and interim reporting requirements in accordance with SIR r. 49 and r. 50. This includes the information set out in Form 13 of the Second Schedule of the SIR and supporting financial statements.

5.5 To comply with the above mentioned annual and interim reporting requirements, registrants use the document entitled "Financial and Operational Report - Form 13," provided by the Commission for this purpose and available for download from its website http://www.scb.gov.bs.

5.6 To determine whether or not a firm is maintaining sufficient regulatory capital, the firm's capital requirement is deducted from the firm's net free regulatory capital. If the amount is a deficit (negative) it is deemed that the firm is deficient; if the amount is zero or a surplus, the firm is considered to be maintaining the minimum capital requirement.

5.7 The net free regulatory capital for all registered firms is calculated by subtracting total deductions[1] from total qualifying assets[2] and subsequently adding loan capital and capital advances[3].

5.8 The document "Financial and Operational Report - Form 13," contains fields for the input of various information that the Commission considers in determining total qualifying assets for calculating net regulatory capital, as illustrated in the Table 1 below:

Table 1: Qualifying Assets		
+	Cash and cash equivalents	$ -
+	B$ or US$ money market funds held in The Bahamas	$ -
+	90% of the market value of securities issued (or guaranteed) by The Bahamas Government	$ -

[1] Total deductions are total liabilities of the Company and Aggregate deductible amounts provided for in the firm's insurance policies in respect of professional indemnity, employee fidelity and theft, or any other such appropriate policies of indemnity insurance.
[2] Qualifying assets are comprised of cash and cash equivalents, B$ or US$ money markets held in The Bahamas, 90% of the market value of securities issued (or guaranteed), 90% of the market value of securities issued by a Foreign government, 75% of the market value of marketable securities quoted on a recognized securities exchange and other assets as considered by the Commission.
[3] Loans from financial institutions and advances from affiliates provided they are subject to a formal subordination agreement.

+	90% of the market value of securities issued by a Foreign Government	$ -
+	75% of the market value of marketable securities quoted on a recognized securities exchange	$ -
+	Other assets as considered by the Commission	$ -
=	**Total Qualifying Assets** Σ	**$ -**

5.9 Only firms registered to deal in securities may hold client cash and other assets (SIR r. 41). Therefore, registration in this category carries an intrinsically higher risk of the firm so registered improperly utilising client deposits.

5.10 Prior to the commencement of this policy, the Commission has not allowed receivables to be used in the calculation of total qualifying assets and subsequently in the determination of the adequacy of regulatory capital for any securities firm registration categories.

5.11 This practice may create an unnecessary barrier to compliance with regulatory capital requirements for securities firms where, due to the nature of their operations, their primary assets are receivables and where those firms do not hold client cash or other assets.

6. POLICY POSITION FOR FIRMS MANAGING SECURITIES AND ADVISING ON SECURITIES

6.1 It is the Commission's position that, due to the reduced risk for firms registered to advise on securities or to manage securities who do not hold client cash or other assets, these registrants may apply certain receivables key to their operations in the calculation of net regulatory capital without increasing the firm's risk profile with regard to 5.1 above.

6.2 As of the commencement of this policy, the Commission will allow the use of the following receivables in the calculation of qualifying assets for securities firms registered to manage securities and/or advise on securities only:

(1) Retrocessions receivables,
(2) Fees receivables, and
(3) Commissions receivables.

6.3 For the purpose of calculation, the following discounting shall apply to aged receivables:

Less than or equal to 3 months	-	no discount
Greater than 3 month but less than or equal to 6 months	-	25% discount
Greater than 6 months but less than or equal to 9 months	-	50% discount
Greater than 9 months but less than or equal to 1 year	-	75% discount
More than 1 year	-	100% discount

6.4 The net of the discounted receivables for retrocessions, fees and commissions is to be recorded on the document "Financial and Operational Report, Form 13" under "Section 3, Regulatory Capital" in the space provided for "Other assets as considered by the Commission".