



For Public Consultation:

### **Securities Industry (Amendment) Regulations, 2021**

The Securities Commission of The Bahamas (the Commission), in its capacity as the regulator of investment funds, securities, financial and corporate service providers and the capital markets has issued the following for public consultation:

1. Securities Industry (Amendment)) Regulations 2021;
2. Draft Securities Industry (Financial Resources) Regulatory Rules, 2021; and
3. Draft First Schedule to Securities Industry (Financial Resources) Regulatory Rules, 2021 – Form FRR.

The consultation documents may be found on the Commission's website at <https://www.scb.gov.bs/legislative-framework/consultation-documents/>

### **Consultation Period**

The consultation period commences **Friday 12 March 2021** and ends on **Friday 7 May 2021**, during which time the Commission invites the public to share comments with regard to the Rules and Regulations. Comments received within this period will be taken into account.

### **Comments**

Comments may be submitted via email to [siaconsultation@scb.gov.bs](mailto:siaconsultation@scb.gov.bs). Alternatively, comments may be submitted to:

The Executive Director  
Securities Commission of The Bahamas  
Poinciana House  
North Building, 2<sup>nd</sup> Floor  
31A East Bay Street  
P.O. Box N-8347  
Nassau, The Bahamas  
Tel: (242) 397-4100  
Fax: (242) 356-7300

**SECURITIES INDUSTRY ACT**  
**(NO. 10 OF 2011)**  
**SECURITIES INDUSTRY (AMENDMENT) REGULATIONS,**  
**2021**

The Minister, in exercise of the powers conferred by section 148 of the Securities Industry Act, 2011, and after consultation with the Commission, makes the following regulations –

**1. Citation**

These regulations, which amend the Securities Industry Regulations<sup>1</sup>, may be cited as the Securities Industry (Amendment) Regulations, 2021.

**2. Amendment of Regulation 42 of the principal Regulations**

Paragraph (2) of Regulation 42 of the principal Regulations is amended by deleting the words “capital formula” in the second line immediately after the words “in accordance with the” and substituting “financial resources requirements”.

**3. Replacement of Form 13 of the principal Regulations.**

Form 13 of the principal Regulations is deleted and replaced with the Form attached as the First Schedule.

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<sup>1</sup> (S.I. No. 1 of 2012).

**First Schedule**  
**Form 13**  
**Financial and Operational Report**  
(Regulations 49, 50 & 91)  
**As of and for the Period ending:** \_\_\_\_\_  
(Specify - Annual or Quarterly Report)

***WARNING: Intentional misstatement or failure to disclose information may constitute an offence.***

**TRADING STATISTICS**

**Publicly Traded Securities:**

**Total number of  
trades executed:**

**Listed**

**Unlisted**

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**Number of Securities  
traded for period:**

**Bought**

--	--

**Sold**

--	--

**Value of Securities  
traded for period**

**Bought**

--	--

**Sold**

--	--

**Exempt transactions executed for the period**

Security	Securities/Par Value @ Price	Total Value

**Certification regarding reconciliation and segregation of client assets**

The Registered Firm is in compliance with the reconciliation and segregation requirements of Division 2 of Part VII of the Regulations.

Yes ☐

No ☐

(if no, attach full details, including the actions that are being taken to rectify the problems.)

Include the signature of the Chief Executive Officer, Treasurer or other senior officer certifying the following statement:

“I, the undersigned, hereby affirm that to the best of my information, knowledge and belief that

- a. The Applicant is currently in compliance with all the applicable provisions of the Act and these Regulations; and
- b. The contents of this form and any attachments provided with this form are true, correct and not misleading."

**A fee is required to be submitted with this form. The appropriate fee can be found in the Fee Rule.**

**SECURITIES INDUSTRY ACT, 2011**

**(No. 10 of 2011)**

**SECURITIES INDUSTRY (FINANCIAL RESOURCES) RULES, [2021]**

The Securities Commission, in exercise of the powers conferred by section 149 of the Securities Industry Act, 2011 (No. 10 of 2011), makes the following Rules

Part I - Preliminary	
1.	Citation
	These Rules may be cited as the Securities Industry (Financial Resources) Rules, [2020].
2.	Interpretation
	<p>In these Rules, unless the context otherwise requires –</p> <p>“Act” means the Securities Industry Act, 2011;</p> <p>“Adjusted Net Liquid Assets” or “ANLA” means a registered firm’s net liquid assets in accordance with these Rules, Form FRR and any relevant guidance issued by the Commission;</p> <p>“Approved Bank” means –</p> <p class="list-item-l1">(a) a bank licensed by the Central Bank of The Bahamas to carry on banking business or banking and trust business; or</p> <p class="list-item-l1">(b) a bank licensed to carry on banking business in a prescribed jurisdiction;</p> <p>“contract value” means the value of the transaction contract on the date the purchase or sale of the securities or other instrument was entered into;</p> <p>“counterparty risk” means the risk exposure of a registered firm whose clients or other counterparties do not meet their contractual obligations to the registered firm or complete their side of a transaction;</p> <p>“Counterparty Risk Requirement” or “CRR” means the amount necessary to accommodate a given level of the registered firms’ counterparty risk, calculated in accordance with these Rules, Form FRR and any relevant guidance issued by the Commission;</p> <p>“exchange traded future” means a future that is traded on a recognized exchange;</p> <p>“Expenditure Based Minimum” means the amount calculated in accordance with these Rules, Form FRR and any relevant guidance issued by the Commission;</p>

	<p>“Financial Resources Requirement” or “FRR” means the financial resources a registered firm is required to hold, calculated in accordance with these Rules, Form FRR and any relevant guidance issued by the Commission</p> <p>“Fixed Floor Amount” means the amount specified for the registered firm in rule 5;</p> <p>“Form FRR” means the form set out in the First Schedule and any relevant guidance issued by the Commission;</p> <p>“future” means a financial contract to buy or sell a particular commodity, security or other asset at a predetermined price at a specified time in the future</p> <p>“generally accepted accounting principles” has the meaning given in the Act;</p> <p>“OTC” means over-the-counter, whereby in relation to any security, the trading in that security is not subject to the rules of any securities exchange;</p> <p>“position risk” means the risk that a registered firm is exposed to from changes in the prices of positions in securities, whether long or short positions, held by the registered firm as principal;</p> <p>“Position Risk Requirement” or “PRR” means the amount necessary to accommodate the registered firm’s position risk, calculated in accordance with these Rules, Form FRR and any relevant guidance issued by the Commission;</p> <p>“recognized exchange” means:</p> <ul style="list-style-type: none"> <li>(a) the Bahamas International Stock Exchange;</li> <li>(b) a foreign securities exchange that the Commission has recognized under the Act; and</li> <li>(c) any other securities exchange recognized by order of the Commission;</li> </ul> <p>“registered firm” has the meaning given in the Act;</p> <p>“settlement date” means the normal date for delivery of the securities by the seller and cash by the buyer to settle a transaction in the particular securities in the principal market on which it trades.</p>
3.	Application
	<p>(1) The requirements in these Rules apply to registered firms in the following categories:</p> <ul style="list-style-type: none"> <li>(a) Dealing in securities as principal;</li> <li>(b) Dealing in securities as agent;</li> <li>(c) Arranging deals in securities;</li> <li>(d) Managing securities;</li> <li>(e) Advising in securities.</li> </ul>

	(2) Notwithstanding paragraph (1), a registered firm that is also licensed by the Central Bank of The Bahamas to conduct banking business, or banking and trust business, is not subject to these Rules.												
4.	Financial Resources Requirement												
	<p>(1) A registered firm at all times shall maintain adequate financial resources sufficient to –</p> <ul style="list-style-type: none"> <li>(a) meet its business commitments;</li> <li>(b) withstand the risks to which its business is subject; and</li> <li>(c) meet or exceed the ANLA and Financial Resources Requirement set out under these Rules.</li> </ul> <p>(2) A registered firm's Financial Resources Requirement is equal to the sum of:</p> <ul style="list-style-type: none"> <li>(a) its Counterparty Risk Requirement;</li> <li>(b) its Position Risk Requirement; and</li> <li>(c) The greater of its: <ul style="list-style-type: none"> <li>i. Fixed Floor Requirement specified in rule 5; or</li> <li>ii. Expenditure Based Minimum.</li> </ul> </li> </ul> <p>(3) Where a registered firm is also registered or licensed with the Commission under another statute that requires the firm to complete ANLA and FRR calculations, the firm shall complete those calculations in respect of the financial position of the company as a whole.</p>												
5.	Fixed Floor Amount												
	<p>(1) For the purposes of calculating the registered firm's Financial Resources Requirement, the firm shall be required to use the Fixed Floor Amount indicated opposite its category of registration as set out below:</p> <table> <tr> <th>Category of registration</th><th>Fixed Floor Amount</th></tr> <tr> <td>Dealing in securities as principal</td><td>\$325,000</td></tr> <tr> <td>Dealing in securities as agent</td><td>\$175,000</td></tr> <tr> <td>Arranging Deals in Securities</td><td>\$50,000</td></tr> <tr> <td>Managing securities</td><td>\$50,000</td></tr> <tr> <td>Advising in securities</td><td>\$25,000</td></tr> </table>	Category of registration	Fixed Floor Amount	Dealing in securities as principal	\$325,000	Dealing in securities as agent	\$175,000	Arranging Deals in Securities	\$50,000	Managing securities	\$50,000	Advising in securities	\$25,000
Category of registration	Fixed Floor Amount												
Dealing in securities as principal	\$325,000												
Dealing in securities as agent	\$175,000												
Arranging Deals in Securities	\$50,000												
Managing securities	\$50,000												
Advising in securities	\$25,000												

	<p>(2) Where a firm is registered in more than one category under the Act, the highest relevant Fixed Floor Amount shall apply.</p> <p>(3) Where paragraph (3) of rule 4 applies, the firm shall use the highest Fixed Floor Amount specified in these Rules or such other rules made under the other statutes pursuant to which the firm is licensed or registered with the Commission.</p>
6.	Calculation Requirements
	<p>(1) A registered firm shall calculate its Financial Resources Requirement and its ANLA in accordance with these Rules, Form FRR and any relevant guidance issued by the Commission.</p> <p>(2) A registered firm shall calculate its Counterparty Risk Requirement, its Position Risk Requirement, and its Financial Resources Requirement at least once each business day.</p> <p>(3) A registered firm shall carry out the ANLA calculation as often as is appropriate given the nature of the registered firm's business and the risks that it faces to ensure the requirements in these Rules are met, but in no event shall the calculation be carried out less frequently than at the end of each quarter of its financial year.</p>
7.	Adjusted Net Liquid Assets
	<p>(1) A registered firm shall ensure that its ANLA is no less than 120 percent of its Financial Resources Requirement at all times.</p> <p>(2) Notwithstanding paragraph (3) of rule 6, the Commission, by notice in writing, may require the registered firm to calculate ANLA more frequently where:</p> <ul style="list-style-type: none"> <li>(a) The ANLA of the registered firm has dropped below 120 percent of its Financial Resources Requirement; or</li> <li>(b) An event out of the ordinary course of business occurs that has a material adverse effect on the registered firm's financial position.</li> </ul>
8.	Expenditure Based Minimum
	<p>(1) For the purposes of calculating the registered firm's Expenditure Based Minimum, the annual actual expenditure shall be taken from the registered firm's most recent audited financial statements.</p> <p>(2) If the registered firm has not completed its first fiscal year of business, the actual expenditures used in the calculation shall be based on the forecast expenditures as set out in the budget for its first year of business operations, as submitted with its application for registration.</p> <p>(3) Notwithstanding paragraph (1), provided that a registered firm gives notice to the Commission in accordance with paragraph (4) and the Commission does not object, the firm may calculate its annual actual expenditure and Expenditure</p>



	<p>Based Minimum using reasonable figures other than those set out in its annual audited statements if:</p> <ul style="list-style-type: none"> <li>(a) the registered firm has a material proportion of its expenditure incurred on its behalf by third parties and such expenditure is not fully recharged to the registered firm; or</li> <li>(b) the registered firm's business has significantly changed since the audited financial statements were filed with the Commission.</li> </ul> <p>(4) Where a registered firm proposes to calculate its annual actual expenditure and Expenditure Based Minimum in accordance with paragraph (3), it must submit details of its proposed calculation to the Commission no less than 7 days prior to the date the registered firm is required to make that calculation for the purposes of these Rules.</p> <p>(5) The Commission may object to the proposed method of calculation and require the registered firm to revise its Expenditure Based Minimum as the Commission deems appropriate.</p> <p>(6) If the registered firm is winding down or in the process of surrendering its license, and the latest annual audited expenditure are not an accurate reflection of the expenses in the present year, the registered firm must provide the Commission with forecasts for the year's expenditures that the registered firm deems more appropriate and these forecasts must include costs of liquidation or dissolution where relevant.</p>
9.	Regular Reporting to Commission
	<p>(1) A registered firm shall deliver to the Commission no later than the 30<sup>th</sup> day after the end of the first, second, third and fourth quarter of its financial year its Form FRR for that quarter.</p> <p>(2) The Commission, by notice in writing, may require the registered firm to prepare and file a Form FRR more frequently where:</p> <ul style="list-style-type: none"> <li>(a) The ANLA of the registered firm has dropped below 120 percent of its Financial Resources Requirement; or</li> <li>(b) An event out of the ordinary course of business occurs that has a material adverse effect on the registered firm's financial position.</li> </ul> <p>(3) Form FRR must be certified by the registered firm by the signatures of two authorized officers or directors of the registered firm, one of which must be the individual registered with the Commission as the Chief Executive Officer, attesting to the following statement:</p> <p><i>"We, the undersigned, hereby affirm that to the best of our information, knowledge and belief that:</i></p>

	<p><i>A. The registered firm is currently in compliance with all the applicable provisions of the Act, regulations and these Rules; and</i></p> <p><i>B. The contents of this Form and any attachments provided with this Form are true, correct and not misleading.”</i></p>
10.	Reporting Currency
	A registered firm’s reporting currency under these Rules shall be the Bahamian dollar and a registered firm shall not use any other reporting currency without the prior approval of the Commission.
11.	Notices to the Commission
	<p>(1) A registered firm is required to give the Commission immediate written notice if:</p> <ul style="list-style-type: none"> <li>(a) Its ANLA falls below 120% of its Financial Resources Requirement;</li> <li>(b) Its ANLA falls below 110% of its Financial Resources Requirement;</li> <li>(c) It no longer complies with the requirements of rule 4;</li> <li>(d) An event out of the ordinary course of business has occurred that has had or may have a material adverse effect on the registered firm’s financial position; or</li> <li>(e) Any instrument, transaction or situation appears not to be addressed in Form FRR, or the guidance to that form, or where the application of the requirements set out in Form FRR might give a misleading impression of the adequacy of the firm’s financial resources.</li> </ul> <p>(2) Any registered firm filing a notice under subparagraphs (a), (b) or (c) of paragraph (1) shall provide the Commission with a documented plan for restoring its financial resources.</p> <p>(3) The restoration plan required under paragraph (2) shall be delivered to the Commission within 30 days of the date the registered firm filed notice with the Commission under paragraph (1) or at such other time as the Commission may require.</p> <p>(4) Where it deems it appropriate, the Commission may impose conditions on a registered firm that has filed a notice under this rule.</p>
12.	Valuation
	<p>(1) The assets and liabilities of the registered firm shall be valued in accordance with generally accepted accounting principles and any relevant guidance provided by the Commission, applied consistently.</p> <p>(2) The registered firm shall have in place written policies and procedures on valuation of its assets and liabilities that are appropriate to the nature, scale,</p>

	<p>and complexity of its business to ensure reliable valuations take place on a timely basis.</p> <p>(3) The policies and procedures established to comply with subsection (2) shall identify the methodologies that will be used for valuing each type of asset and liability held and shall include, without limitation:</p> <ul style="list-style-type: none"> <li>(a) Price sources, including which securities exchange price is to be used where the instrument trades on more than one securities exchange;</li> <li>(b) Use of indicative bids;</li> <li>(c) The process for handling exceptional events and price overrides; and</li> <li>(d) Appropriate documentation and recordkeeping with respect to price determinations.</li> </ul> <p>(4) Assets and liabilities denominated in a currency other than the Bahamian dollar are to be converted at the spot price of that currency on the day of calculation.</p>
13.	Policies and Procedures
	<p>The registered firm shall have in place written policies and procedures in place that are appropriate to the nature, scale, and complexity of its business to:</p> <ul style="list-style-type: none"> <li>(a) ensure the requirements of these Rules are met on a continuing basis;</li> <li>(b) define acceptable collateral and the provisions that must be in place before the value of any collateral held may be set off against debts owed by a counterparty to the registered firm; and</li> <li>(c) determine what persons should be considered to be related persons for the purposes of calculating aggregate exposure to a counterparty or group of counterparties.</li> </ul>
14.	Powers of the Commission
	<p>Without limiting the powers granted to the Commission under the Act, the Commission may:</p> <ul style="list-style-type: none"> <li>(a) impose enhanced financial resources requirements on a registered firm, based on the Commission's assessment of the nature of the registered firm's business and the risks to which it is exposed;</li> <li>(b) issue additional guidance on any matter covered by these Rules or Form FRR;</li> <li>(c) grant variations or exemptions from the requirements of these Rules or Form FRR if, in the opinion of the Commission, such different treatment is justified by the particular circumstances of the registered firm;</li> <li>(d) require the registered firm to furnish the Commission with more details of any information provided by the registered firm on Form FRR or on any other relevant matter;</li> </ul>

	<p>(e) require the registered firm to make changes to its calculations made pursuant to these Rules; and</p> <p>(f) require changes to a registered firm's relevant policies and procedures, including without limitation, its policies and procedures on valuation, aggregation of exposures, and appropriate collateral.</p>
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## First Schedule

### Form FRR

Form FRR consists of Tables 1 to 5. All applicable information must be entered on the relevant tables.

**Table 1: Financial Resources Requirement and ANLA Ratio Calculation**

		\$
	<b>Financial Resources Requirement</b>	
1	Fixed Floor Requirement (from rule 5)	
2	Expenditure Based Minimum (from Table 3)	
3	Higher of: Fixed Floor Requirement (line 1); and Expenditure Based Requirement (line 2)	
4	Counterparty Risk Requirement (from Table 4)	
5	Position Risk Requirement (from Table 5)	
6	Financial Resources Requirement (sum of lines 3, 4 and 5)	
7	ANLA (from Table 2)	
8	Ratio of ANLA to Financial Resources Requirement expressed as a percentage  $\frac{\text{Line 7}}{\text{Line 6}} \times 100$	

Form FRR must be certified by the registered firm. The Form must include the signatures of two authorized signatories of the registered firm, one of which must be the individual registered with the Commission as the Chief Executive Officer, certifying the following statement:

*“We, the undersigned, hereby affirm that to the best of our information, knowledge and belief that:*

- A. The registered firm is currently in compliance with all the applicable provisions of the Act, regulations and these Rules; and*
- B. The contents of this Form and any attachments provided with this form are true, correct and not misleading.”*

Table 2: Adjusted Net Liquid Assets Calculation

		\$	Note Reference
<b>Assets</b>			1
<b>Current Assets</b>			
1	Accounts receivable		2
2	Prepayments of expenses		
3	Amounts due from related parties		
4	Cash at bank and in hand		
5	Marketable Investments		3
6	Tax payments refundable		
7	Other current assets		4
8	<b>Total Current Assets</b> (sum of lines 1-7)		
<b>Non-Current and Fixed Assets</b>			5
9	Intangible assets		
10	Property, plant and equipment		
11	Investments in subsidiaries and affiliates, non-marketable securities and other non- current and fixed assets		6
12	Total non-current and fixed assets (sum of lines 9-11)		
13	<b>Total Assets</b> (line 8 plus line 12)		
<b>Illiquid Asset Adjustments:</b>			
14	Total non-current and fixed assets (from line 12)		
15	Accounts receivable outstanding for more than 90 days		7
16	Prepayments for expenses due in more than 90 days		8
17	Amounts due from related parties		9
18	Virtual currencies		10
19	Any other illiquid assets		11
20	<b>Total Illiquid Asset Adjustments</b> (sum of lines 14-19)		
21	<b>Adjusted Total Assets</b> (line 13 minus line 20)		

		\$	Note reference
<b>Liabilities</b>			12
<b>Current Liabilities</b>			
22	Trade creditors and accruals		
23	Cash balances in client accounts		13
24	Bank overdraft		
25	Bank loans due in 1 year or less		
26	Lease obligations due in 1 year or less		
27	Taxation obligations due 1 year or less		
28	Subordinated debt obligations due in 1 year or less		
29	Deferred Income		
30	Amounts due to related parties in 1 year or less		14
31	Other liabilities due in 1 year or less		15
32	<b>Total Current Liabilities</b> (sum of lines 22-31)		
<b>Long Term Liabilities</b>			
33	Bank Loans due in greater than 1 year		
34	Lease Obligations due in greater than 1 year		
35	Taxation Obligations due in greater than 1 year		
36	Amounts due to related parties due in greater than 1 year		14
37	Subordinated debt obligations in greater than 1 year		
38	Other liabilities due in greater than 1 year		15
39	<b>Total Long Term Liabilities</b> (sum of lines 33 to 38)		
40	<b>Total Liabilities</b> (line 32 plus line 39)		
<b>Adjustments to Total Liabilities</b>			
41	Add: Guarantees and other charges		16
Deduct:			
42	Non-refundable deferred income	( )	17
43	Allowable subordinated debt obligations greater than 1 year	( )	18
44	Bank Loans greater than 1 year	( )	

45	Lease obligations greater than 1 year	( )	
46	Taxation obligations greater than 1 year	( )	
47	Any other relevant items	( )	19
48	<b>Total Adjustments to Liabilities</b> (sum of lines 41 to 47)		
49	<b>Adjusted Total Liabilities</b> (line 40 minus line 48)		
50	<b>Adjusted Net Liquid Assets</b> (line 21 minus line 49) (Take to Table 1)		

## Notes and Instructions

### Assets

1. A registered firm must include the asset values as reported and agreed by the board of directors in the most recent financial statements (quarterly or audited annual as the case may be).
2. Provide details of accounts receivable in an appendix to this Table.
3. Marketable securities/investments in inventory are to be valued at current market value determined in accordance with generally accepted accounting principles and the firm's valuation policies and procedures.
4. Provide details on Other current assets in an appendix to this Table.
5. Fixed assets such as land, buildings or intangibles (goodwill, intellectual property etc.) must be treated as illiquid.
6. Provide details on Other non-current and fixed assets in an appendix to this Table.
7. Any account receivable where the balance has been outstanding for 90 calendar days or more must be treated as illiquid.
8. Only that value of prepayments which relates to goods or services to be received or performed within 90 calendar days of the date of the ANLA calculation should be included as a liquid asset. Any prepayment relating to a period after 90 calendar days shall be treated as an illiquid asset.
9. All amounts due from related parties (including shareholders, directors and affiliated or associated companies) are considered illiquid.
10. 100% of the market value of all virtual currencies held are treated as illiquid.
11. Please provide details of any Other illiquid assets in an appendix to this Table. Investments in subsidiaries and associated companies must be treated as illiquid. All holdings of non-tradable instruments also must be treated as illiquid.

### Liabilities

12. A registered firm must include the liability as reported and agreed by the board of directors in the most financial statements (quarterly or audited annual as the case may be).



13. All cash balances held for clients should be included as current liabilities. Securities held for clients are to be disclosed in the notes to the registered firm's financial statements.
14. All amounts due to related parties must be included within the total liabilities as either a current or long-term liability. *See note 18 below regarding the ability to deduct an element of this liability if there is appropriate subordination.*
15. Please provide details of Other liabilities in an appendix to this Table.
16. If there is a charge or mortgage on any asset within Adjusted Total Assets, or the registered firm has entered into a guarantee arrangement, then one or more appropriate adjustments must be made to increase Total Liabilities thus reducing the firm's ANLA. For example, the full amount of any guarantee given by the registered firm must be added to its Total Liabilities, thereby reducing its ANLA by an equivalent amount.
17. If a registered firm bills fixed fees in advance, the Total Liabilities figure will include deferred income, which will be released to profit and loss over the period to which the bill relates.  
  
If the registered firm's contracts with its client(s) clearly provide that the fee is non-refundable, deferred income may be deducted from the Total Liabilities figure thereby increasing the overall ANLA figure. However, if the contract is silent on this matter, or permit a repayment of fees collected in advance, then the deferred income amount may not be deducted.  
  
At the point of billing (especially if an element of billing is undertaken annually), the deferred income adjustment may produce the registered firm's most favourable ANLA position of the year. It is therefore important that a registered firm considers the impact of deferred income on their ANLA position and on their ability to meet the financial resource requirements throughout the year.
18. If the registered firm has filed with the Commission a signed subordination agreement in a form satisfactory to the Commission, the registered firm may adjust its total liabilities to deduct that portion of the amount drawn on the subordinated loan that is repayable in more than a year. Any portion of the subordinated loan that is repayable in less than a year is not deductible.
19. Provide details on matters included in this line in an appendix to this Table.

**Table 3: Expenditure Based Minimum**

			<b>Note Reference</b>
<b>Expenditure Based Minimum Calculation</b>			<b>1</b>
<b>Expenditures</b>		<b>\$</b>	
1	Operating expenses		2
2	Depreciation		3
3	Finance costs		4
4	Tax Expense		5
5	Other expenses		6
6	<b>Total Actual Expenditure</b> (sum of lines 1-5)		
<b>Adjustments to Total Actual Expenditures:</b>			7
7	Discretionary bonuses/ profit sharing		8
8	Bad debt expense		9
9	Exceptional and extraordinary costs		10
10	<b>Total adjustments to total actual expenditures</b> (sum of lines 7 to 9)		
11	<b>Adjusted Total Expenditure</b> (line 6 minus line 10)		
12	<b>Budget expenditure for the current year (net of forecast discretionary bonuses and bad debt expense)</b>		11
13	<b>Higher of Adjusted Total Expenditure</b> (line 11) <b>and Budget expenditure for the current year</b> (line 12)		
14	<b>Expenditure Based Minimum</b> (25% of line 13) <b>Take to Table 1</b>		

**Notes and Instructions for Table 3**

1. For the purposes of the computation of Expenditure Based Minimum, the registered firm's actual expenditure should be taken from the most recent audited financial statements unless one of the other circumstances set out in rule 8 applies.

2. All expenses should be included in operating expenses except where:
- Commissions are paid to third parties but only where this is based on a percentage of earned commission or other income by the registered firm and included in turnover. In these circumstances, the commissions or other income paid/payable must be treated as a “cost of sale” rather than an operating expense within the Profit and Loss or the Income and Expenditure Accounts; or
  - Another regulated company (in the same group) provides client related services to the registered firm under a formal agreement and the fees paid/payable to that group company are reasonable and directly attributable to the fees earned by the registered firm. In such instances the fees paid/payable may be treated as a “cost of sale” rather than an overhead expense within the Profit and Loss or the Income and Expenditure Accounts.

The Commission expects the registered firm to break down operating expenses appropriately for the activities being undertaken and provide the details in an appendix to this Table. The Commission may request further details of the firm’s expenses.

3. The amount for depreciation reported should be that set out on the latest audited annual financial statements.
4. Netting of interest for the purposes of this calculation is not permitted under any circumstances. For example, interest expense must not be netted off against interest income.
5. Tax expenses reported should be that set out on the latest audited annual financial statements. Tax refunds must not be included.
6. Details of other expenses included should be provided in an appendix to this Table.
7. Registered firms must exercise care to ensure that any items deducted in this Table as Adjustments to actual expenditures (lines 7-9) were originally included in either the Total Actual Expenditure (line 6) or Budgeted expenditure (line 12).
8. Any form of non-contractual and wholly discretionary profit-related bonuses paid or payable to employees and directors may be deducted from operating expenses for the purposes of this calculation.
9. Include debts written off and amounts for which provisions have been made in the audited financial statements of the registered firm.
10. Exceptional items and extraordinary items may only be included with the prior approval of the Commission. If there are subsequent changes to extraordinary and exceptional costs that were previously approved by the Commission, the registered firm is required to notify the Commission of such changes and the Commission will determine whether these costs can be included.

The types of extraordinary and exceptional costs that may be acceptable include the following:

- asset write-downs;
- restructuring costs;
- profit or loss on disposal of assets;
- discontinuing operations; and

- reversals of provisions.

Litigation settlements would not be acceptable as deductions unless the litigation concluded during the relevant financial year and there are no ongoing costs.

The types and amounts of extraordinary and exceptional costs must be provided in an appendix to this Table.

11. The Budget expenditure to be included in line 12 is to be based on the registered firm's business plan budget for the year in question. During the year, the figure should be adjusted appropriately if it becomes apparent that the actual expenditure will be materially different from the forecast amount.

**Table 4 - Calculation of Counterparty Risk Requirements**

<b>Counterparty Risk Requirements</b>		<b>\$</b>	<b>Note reference</b>
1	Cash against document transactions		9
2	Free deliveries		10
3	Options purchased for a counterparty		11
4	Debts owed by counterparties		12
5	Concentration exposure		13
6	Other receivables and accrued income		14
7	<b>Total CRR</b> (sum of lines 1 to 6) (take to Table 1)		

The Counterparty Risk Requirement (CRR) aims to mitigate the risk to the regulated firm that one or more of its counterparties will not live up to their financial obligations to the firm.

The Counterparty Risk Requirement is the sum of the exposure of the registered firm with respect to:

- (i) Cash Against Document Transactions;
- (ii) Free Deliveries;
- (iii) Options Purchased by a Counterparty;
- (iv) Concentration Risk from a Counterparty or Related Counterparties;
- (v) Loans to Counterparties; and
- (vi) Other Receivables and Accrued income.

#### **Notes and Instructions**

##### **General**

1. Frequency of calculation - A registered firm must calculate its CRR at least once each business day.
2. Instruments for which no CRR has been specified - Where a licensee is in doubt as to the classification of an item for the purposes of the CRR, it must promptly seek advice from the Commission. The registered firm shall add the whole of that exposure to the CRR until the Commission determines the correct treatment of the item in the CRR calculation.
3. Negative amounts. Where any element of the CRR calculation is a negative amount, it shall not be included in the overall calculation.
4. Provisions - A registered firm may reduce the exposure on which its CRR is calculated to the extent that it makes provision in its accounts for a specific counterparty balance.
5. Associates and affiliates - A registered firm must calculate the applicable CRR(s) in relation to exposures to or from all counterparties, including its associates and affiliates as those terms are defined in the SIA or such other definitions that the Commission may prescribe.
6. Basis of valuation - For the purposes of valuing instruments at market value in the calculation of CRR, a registered firm must use generally accepted accounting principles, be consistent in the basis it chooses and may use either mid-market value or bid and offer

prices (as appropriate).

7. **Acceptable collateral** - A licensee or registrant may reduce the exposure to a counterparty on which its CRR is calculated to the extent that it holds acceptable collateral from that counterparty. What qualifies as acceptable collateral will depend on the nature of the particular exposure and is to be determined by written policies and procedures established by the registered firm and any guidance provided by the Commission. See also Note 13 below.
8. **Nil weighted counterparty exposures** - A registered firm may disregard any counterparty exposure if:
  - a. the counterparty is, or the contract is guaranteed by or is subject to the full faith and credit of, a sovereign government or province or state thereof as specified by the Commission by rule or order; and
  - b. the government, province, state or corporation has not defaulted, or entered into any rescheduling or similar arrangement, or announced the intention of so doing, in respect of itself or its agency's debt within the last five years.
9. Assets and liabilities denominated in a currency other than the Bahamian dollar are to be converted at the spot price of that currency on the day of calculation.
10. **Cash Against Document Transactions** - Where a registered firm has unsettled transactions in securities, it must calculate its counterparty risk for each transaction that is still unsettled 16 or more business days after that transaction's normal settlement date.

The counterparty risk for the transaction equals the difference between the contract value and the market value on the date of the calculation multiplied by the appropriate percentages in the table below.

	1	2	3
<b>Number of business days that have elapsed after Settlement date.</b>	<b>Percentage</b>	<b>Price Difference</b>	<b>Exposure</b> (column 1 times column 2)
0-15	0		
16-30	25		
31-45	50		
46-60	75		
Over 60	100		

The price difference to be used for column 2 is:

- (i) Where a registered firm has purchased securities for or sold securities to a counterparty, and the registered firm has neither

been paid nor delivered the securities to the counterparty, the price difference is the excess of the contract value over the current market value.

- (ii) Where a registered firm sold securities for or purchased securities from a counterparty, and has neither received securities nor made payment, the price difference is the excess of the current market value over the contract value of the securities.

Negative differences are not to be reported.

The aggregate of all exposures for unsettled trades is to be taken to Table 4 in line 1.

## 11. Free Deliveries

Where a registered firm:

- a. makes delivery to a counterparty of evidence of good title to securities (e.g., certificate, electronic confirmation of transfer of securities, etc.) without receiving payment; or
- b. pays for securities without receiving the appropriate evidence of good title to those securities (e.g., certificate, electronic confirmation of transfer of securities, etc.),

the licensee must calculate its free delivery exposure of each such transaction.

The free delivery exposure is the amount to which the licensee or registrant is exposed should the counterparty not pay for the securities or deliver evidence of good title, as the case may be.

The exposure is calculated by multiplying the market value of the securities by the relevant percentages in the table below:

	1	2	3
Number of business days that have elapsed from free delivery	Percentage	Market Value of Relevant Instrument	Exposure (column 1 times column 2)
0-3	0		
4-15	30		
Greater than 15	100		

The aggregate of all exposures for free deliveries is to be taken to Table 4 in line 2.

## 12. Options

- a. Where a licensee purchased an option for its own account, or on behalf

of a counterparty that has not yet paid the licensee, and the licensee has paid the option premium to the writer of the option, the CRR on that option is equal to the option premium.

- b. Where a licensee purchased an option on behalf of a counterparty and the conditions below exist, the CRR is the amount by which the purchase price exceeds the current realizable value of the option.

This treatment applies where all three of the following conditions are met:

- i. there is no actual or contingent margin requirement imposed on the counterparty for the option;
- ii. the counterparty is required only to pay the initial purchase price of the option (and no other payments); and
- iii. the counterparty has not paid the initial purchase price by three business days after the trade date.

The aggregate of all exposures for options purchased is to be taken to Table 4 in line 3.

### **13. Loans and other Debt Exposures to Counterparties**

Amounts to be included under this heading includes any form of debt owed by the counterparty to the registered firm, including tradable debt instruments issued by the counterparty, cash deposits by the registered firm with the counterparty, direct loans from the firm to the counterparty, accounts receivable, etc.

**Margin accounts.** Where the registered firm provides margin financing to clients, each such client account must contain at all times assets equal to 150% of the amount of the margin loaned to that client. If the value of the assets in the margin account declines to less than 150%, the amount of the shortfall must be included by the registered firm in its calculation of counterparty risk exposure.

**Offsets.** For all other debt exposures, registered firms must include 100% of the total amount of any debt owed by a counterparty to the registered firm unless that debt is secured by acceptable collateral held by the registered firm or there is an acceptable offsetting debt.

The value of the acceptable collateral that may be used to reduce the exposure must be adjusted in accordance with the requirements set out in Table 5 with respect to Position Risk Requirements. For example, if the collateral is AAA rated government debt with a position risk requirement equal to 2%, then the value of the collateral for the purposes of the exposure reduction in this Table would be 98% of its current market value [value of



collateral times  $(1 - 0.02)$ ].

Where the registered firm has received a loan from the counterparty under an agreement in writing, the registered firm may offset (reduce) the exposure reported for that counterparty by the payments owed to the counterparty by the registered firm in the next 90 days.

The aggregate of all debt exposures is to be taken to Table 4 in line 4.

#### **14. Concentration Risk from Counterparties**

Where the total amount due to a registered firm for all exposures attracting a CRR from a single counterparty or group of related counterparties exceeds 25% of the licensee's ANLA, it must calculate additional CRR by applying the appropriate percentage as follows:

<b>Total Exposure to Counterparty as Percentage of ANLA</b>	<b>Additional CRR</b>
Up to 25%	Nil
25%-50%	15% of the total exposure (or the entire excess exposure if less)
Over 50%	40% of the total exposure (or the entire excess exposure if less)

For the purposes of this calculation, the registered firm shall treat several counterparties grouped together by the firm for margin or credit treatment as one counterparty. The firm shall have prudent policies and procedures in place regarding what entities are grouped together for these purposes.

The Commission has the authority to require a different aggregation of counterparties and to issue guidance on who must be aggregated.

The concentration risk, if any, calculated as set out above is to be taken to Table 4 in line 5.

#### **15. Other Receivables and Accrued Income**

Any other receivables or accrued income owed to the registered firm not otherwise addressed above must be included in CRR at 100% of their value from the time that they become due and payable.

The aggregate of these other exposures is to be taken to Table 4 in line 6.

**Table 5: Calculation of Position Risk Requirement**

	Type of Instrument	PRR Amount	Note reference
	<b>Debt Instruments</b>		7
1	Government debt - AAA rated		
2	Debt issued by the Government of The Bahamas		
3	Debt Issued by an Approved Bank		
4	Other marketable debt		
5	Floating rate notes		
6	<b>Total Debt PRR</b>		
	<b>Equities</b>		8
7	Listed or traded on a recognized exchange		
8	Unlisted/OTC equities		
9	<b>Total Equity PRR</b>		
	<b>Derivatives</b>		9
10	Exchange traded futures		
11	OTC futures and written options		
12	Purchased options		
13	Contracts for Differences		
14	Other derivatives		
15	<b>Total derivatives</b>		
	<b>Foreign exchange</b>		10
16	Net cash positions in foreign currency		
	<b>Other investments</b>		11
17	Units or shares in an investment fund		
18	Any other securities or tradeable assets		
19	<b>Total other investments</b>		
20	<b>Net short positions</b>		12
	<b>Total Position Risk Requirement</b> (sum of lines 6, 9, 15,16, 19, and 20) Take to table 1		

Registered firms that maintain principal positions in investments (either long or short) are exposed to the risk that the price of such investments may move against them in the future. A registered person must calculate each of its position risk requirements (PRR) in accordance with this table, and take the total position risk requirement, which is the sum of the requirements for each category, for entry in Table 1.

The requirements aim to mitigate the associated risks, which can be broadly summarised as:

- position risk – the risk arising from adverse changes in general market conditions or with respect to a particular issuer;
- foreign currency risk – risk arising from changes in currency rates.

The Position Risk Requirement is the sum of a registered firm's exposure to:

- (i) debt;
- (ii) equities;
- (iii) derivatives;
- (iv) foreign currency; and
- (v) other securities,

calculated as set out below.

## Notes and Instructions

### General

1. Frequency of calculation - A licensee/registrant must calculate its PRR at least once each business day; for the purposes of relevant calculations, the licensee or registrant may use prices of investments and physical commodities as at the close of the previous business day.
2. Include only investments/securities that are available to be sold and for which a ready market is available. Instruments that may not be freely sold to third parties must not be included.
3. Basis of valuation - For the purposes of valuing instruments and physical commodities at market value in the calculation of PRR, a registered firm must use generally accepted accounting principles, be consistent in the basis it chooses, and may use either mid-market value or bid and offer prices (as appropriate).
4. Long and short positions in the same instrument may be netted against each other. In the case of debt instruments, long and short positions in instruments issued by the same issuer may be netted against each other if the instruments are subject to the same position risk requirement percentage. For example, a long position in a US Government bond due in 18 months may be netted against a short position in a US Government bond due in two years.
5. Instruments for which no PRR has been specified - Where a licensee is in doubt as to the classification of an item for the purposes of the PRR, or no PRR appears to have been specified, the firm must promptly seek advice from the Commission. The licensee/registrant shall add the 100% of that exposure to the PRR for a long position and until the Commission determines the correct treatment of the item in the PRR calculation.
6. Instruments denominated in foreign currency. Assets and liabilities denominated in a currency other than the Bahamian dollar are to be converted at the spot price of that currency on the day of calculation.
7. **Debt**

The position risk exposure is calculated by multiplying the market value of the securities by the percentages in the table below:

Debt Instruments	Term to Maturity	Percentage of Market Value
------------------	------------------	----------------------------

		<b>to be included</b>
Government Debt AAA rated	Less than 90 days	2
	90 days to 1 year	2
	1 to 5 years	5
	Greater than 5 years	10
Debt issued by the Government of The Bahamas	Any	10
Debt Issued by an Approved Bank	Less than 90 days	2
	90 days to 1 year	5
	1 to 5 years	10
	Greater than 5 years	15
Other marketable debt	Less than 90 days	10
	90 days to 1 year	10
	1 to 5 years	20
	Greater than 5 years	30
Floating rate notes		50% of the equivalent value for fixed rate instruments issued by the same borrower

All debt instruments issued by the Government of the Bahamas is subject to a position risk requirement equal to 10%, regardless of the instrument's term to maturity.

Floating rate instruments. Where a debt instrument pays interest based on a floating rate, the position risk requirement for that security is 50% of the equivalent rate for a similar fixed rate instrument issued by that same issuer. For example, 5% of the market value of a floating rate note issued by a AAA rated government with a term to maturity of 6 years would be included as a position risk, versus 10% for a fixed rate instrument issued by the same government with the same term to maturity.

The aggregates of all exposures for each category of debt securities are to be taken to table 5 and entered in lines 1-5.

## **8. Equities**

The position risk exposure for equities is calculated by multiplying the market value of the equity securities by the percentages in the table below:

<b>Equities</b>	<b>Percentage of Market Value to be Included</b>
Equities traded or listed on a recognized exchange	25%
Equities not listed or traded on recognized exchange	100%

Recognized exchange means a securities exchange registered under the Act or a foreign exchange recognized by the Commission under section 164 of the Act. See the current list of recognized exchanges as set out in the Fourth Schedule to the SIR.

The aggregate of all exposures for each category of equity securities is to be taken to Table 5 and entered in lines 7 and 8.

## 9. Derivatives

The position risk exposure for each derivative position held is calculated as set out in the table below:

<b>Instrument</b>	<b>Value to be included</b>
Exchange traded futures	4 times initial margin requirement
OTC futures (forwards) and written options	100% of market value
Purchased options	20% of market value
Contracts for differences	20% of market value of contract
Other derivatives	100% of the higher of the market value of the derivative and the value of the underlying

Provide details of the nature of other derivative positions in an appendix to this Table.

The aggregate of all exposures for each category of derivatives is to be taken to Table 4 and entered in lines 1 to 14.

## 10. Foreign exchange

For each currency (other than that in which the registered firm's books of accounts are kept) in which the registered firm has cash assets or liabilities, the firm must calculate its net open position – netting assets and liabilities in that currency. The net position may be long or short.

The net open position for each currency shall be converted into the reporting currency at the daily spot rate.

The net open foreign currency position is the sum of all the net open positions in foreign currency converted into the reporting currency.

The foreign exchange exposure is calculated as 10% of this sum of net open foreign currency

positions. The exposure is to be taken to Table 5 in line 16.

#### 11. Other Securities

The position risk exposure for investment funds and other securities and tradeable instruments not otherwise addressed is calculated as set out in the table below:

Instrument	Value to be included
Units or shares in an investment fund	50% of net asset value per security
Any other securities or other tradeable instruments	100% of the market value of the instrument

Any other securities or other tradeable instruments includes instruments subject to position risk that are not covered in parts A-D of the PRR Table. Examples of items to be included are:

- Cryptocurrencies
- Other digital assets
- Other financial instruments not listed elsewhere.

Provide details of the nature of the other securities or tradeable instruments positions in an appendix to this Table.

The aggregate of all exposures for each category is to be taken to Table 4 and entered in lines 17 and 18

#### 12. Net short positions

Net short positions are subject to a PRR equal to 100% of market value plus the percentage of market value attached to a long position in the equivalent securities. For example, a net short position in an exchange traded equity would be subject to a PRR of 125% (100% + 25%)

The aggregate of all short exposures is to be taken to Table 5 in line 20.