



Industry Consultation: Securities Industry (Financial Resources) Rules

**Virtual/Via Zoom
Tuesday 27 April 2021
10:00 a.m.**

**Ms. Christina Rolle
Executive Director
Securities Commission of The Bahamas**

Regulatory Principle

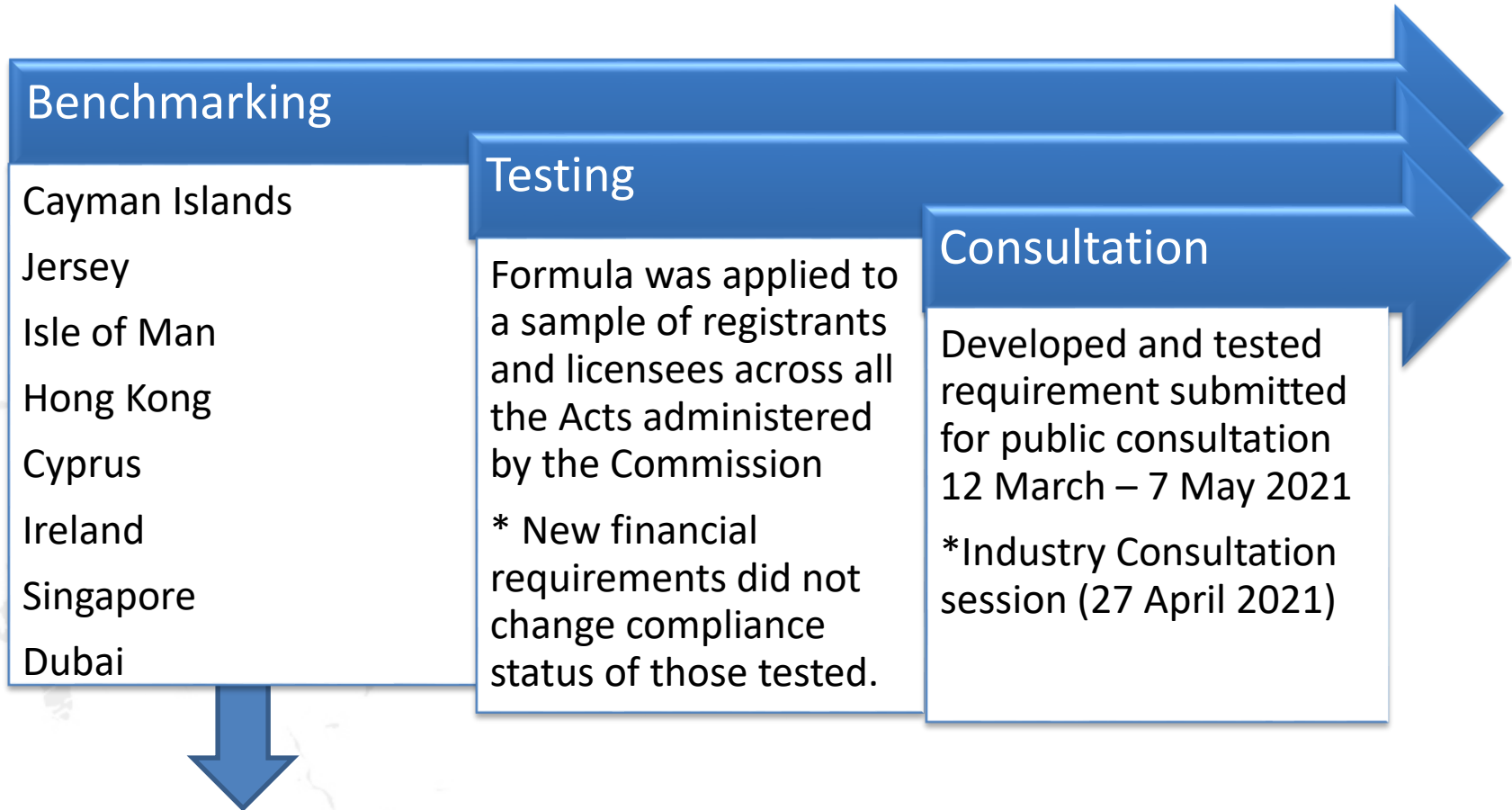
“There should be initial and ongoing capital and other prudential requirements for market intermediaries to reflect the risks that they undertake.” [IOSCO Principle 30]

Authority

SCB is empowered to monitor the solvency of regulated persons and to take measures to protect the interests of clients and others where solvency is in doubt. [SIA, 2011 Section 13(d)]

Background: SIA, 1999 Procedure (in practice) Outdated

- Market has grown in size and complexity
- Financial requirements currently not aligned with risk (firm insolvency impacts investor confidence and market stability)
- All liabilities currently considered, but total assets are not (potentially undue capital costs to registrants/licensees)

**Approaches:**

- (1) Financial Resources Requirements
- (2) Capital Requirements Directive

A hybrid of the Financial Resources Requirements and Capital Requirements Directive developed.

Purpose/Goal:

To ensure registrants and licensees hold sufficient capital to:

- protect clients and counterparties;
- facilitate a wind-down over a short period with no loss to clients.

$$\frac{\text{Adjusted Net Liquid Assets}}{\text{Financial Resources Requirement}} \times 100 > 110\%$$

Trigger Ratio: 120%

Joint Licensees

- Registrants under SIA, 2011 who are also licensees under the Bank and Trust Companies Regulation Act must submit to the Central Bank of The Bahamas capital/financial resources requirements.

Next steps

- Finalization and passage of Rules and related Amendments
- Implementation (development and roll-out of forms, finalization of internal processes, training)
- Application to Investment Funds Act, 2019 and Financial and Corporate Service Providers Act, 2020 licensees.



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Deputy Manager
Risk Analytics and Examinations
Securities Commission of The Bahamas**

Adjusted Net Liquid Assets	Financial Resources Requirement
Assets (subject to adjustments for illiquid assets)	Higher of the Minimum Floor Requirement and Expenditure Based Minimum
Liabilities (subject to adjustments for liabilities greater than 1 year)	Position Risk Requirement
	Counterparty Risk Requirement
Adjusted Net Liquid Assets/ Financial Resources Requirement > 110%	
Trigger Ratio of 120%	

- ANLA must not be less than 120% of the Financial Resources Requirement at all times.
- A Registered Firm must calculate the ANLA as often as appropriate, however, the Commission reserves the right to request a more frequent calculation where:
 - The ANLA of the registered firm has dropped below 120% of its Financial Resources Requirement
 - An event out of the ordinary course of business occurs that has a material adverse effect on the firm's financial position.

ASSETS

- Assets will include all current and fixed assets, however an adjustment will be made for illiquid assets as follows:
 - Non-Current and Fixed Assets
 - Accounts receivable outstanding for more than 90 days
 - Prepayments for expenses due in more than 90 days
 - Amounts due from related parties
 - Virtual Currencies
 - Any other illiquid assets

LIABILITIES

- Liabilities will include all current and long-term liabilities, however, adjustments will be made as follows:
 - Addition of Guarantees and Other Charges
 - Deduction of Non-Refundable Deferred Income
 - Deduction of Allowable Subordinated Debt, Bank Loans, Lease Obligations and Taxation Obligations greater than 1 year

- A Registered Firm's Financial Resources Requirement is equal to the sum of:
 - A. Counterparty Risk Requirement
 - B. Position Risk Requirement
 - C. Greater of its:
 - Fixed Floor Requirement or
 - Expenditure Based Requirement

Fixed Floor Amounts

Category	Current Fixed Floor Amount	Proposed Fixed Floor Amount
Dealing in Securities as Principal and Agent	\$300,00	\$325,00
Dealing in Securities as Agent only	\$120,000	\$175,000
Arranging Deals	\$25,000	\$50,000
Managing Securities	\$25,000	\$50,000
Advising on Securities	\$25,000	\$25,000

Expenditure Based Requirement

- Based on the registered firms most recent annual audited financial statements.
- Total sum of all expenditure
 - An adjustment is made for discretionary bonuses, bad debt expense, exceptional and extraordinary costs
- Take the higher of adjusted actual expenditure and budget expenditure for the current year (net of forecasted discretionary bonuses and bad debt expense) and multiply by $\frac{1}{4}$ to determine the expenditure based requirement.

Counterparty Risk Requirement

- CRR is the amount necessary to accommodate a given level of the registered firms' counterparty risk.
- The requirement is the sum of the exposure of the firm to:
 - Cash Against Document Transactions
 - Free Deliveries
 - Options Purchased by the Counterparty
 - Concentration Risk from a Counterparty or Related Counterparties
 - Loans to Counterparties; and
 - Other Receivables and Accrued Income
- A registered firm must calculate its CRR at least once each business day.

Position Risk Requirement

- PRR is the amount necessary to accommodate the registered firm's position risk
- The requirement is the sum of a registered firm's exposure to:
 - Debt
 - Equities
 - Derivatives
 - Foreign Currencies
 - Other Securities
- A registered firm must calculate the PRR at least once every business day.

- Registrants are required to calculate Financial Resources Requirement and ANLA in accordance with the Rules, Form FFRR and any relevant guidance by SCB.
- A registrant should calculate the ANLA calculation as often as necessary.
- The Counterparty Risk Requirement, Position Risk Requirement and Financial Resources Requirement must be calculated at least once each business day.

- Interim Financial Statements and Form FRR to be filed within 30 days of the end of the first, second, third and fourth quarter of its financial year.
- Form FRR must be certified by two authorized officers or directors of the registered firm, one of which must be registered with the Commission as the Chief Executive Officer.
- The Commission may require ANLA to be calculated more frequently if it has dropped below 120% of its Financial Resources Requirement.
- The Reporting Currency must be Bahamian dollar. Prior approval is required for the use of another currency.

Company ABC (Dealing as Agent)

	\$
Financial Resources Requirement	
• Fixed Floor Requirement	175,000
• Expenditure Based Minimum	284,815
Higher of: Fixed Floor Requirement and Expenditure Based Minimum	284,815
Counterparty Risk Requirement	130,000
Position Risk Requirement	105,000
Financial Resources Requirement	519,815
ANLA	1,247,557
Ratio of ANLA to FRR	240% (Compliant)

Company ABC (Dealing as Agent)

	\$	Note Reference
Current Assets		
Accounts receivables	135,961	
Prepayments of expenses		
Amounts due from related parties		
Cash at bank and in hand	233,863	
Marketable investments		
Tax Payments refundable		
Other current assets	1,259,850	
Total Current Assets	1,629,674	

Company ABC (Dealing as Agent)

	\$	Note Reference
Non-Current and Fixed Assets		
Intangible Assets	20,000	
Property, Plant & Equipment	97,287	
Investments in subsidiaries and affiliates		
Total Non-Current and Fixed Assets	117,287	
Total Assets		
Illiquid Asset Adjustments:		
• Total Non-Current and Fixed Assets	117,287	
• Accounts receivable outstanding for more than 90 days		

Company ABC (Dealing as Agent)

	\$	Note Reference
• Prepayments in expenses due for more than 90 days		
• Amounts due from related parties		
• Virtual Currencies		
• Any Other Illiquid Assets		
Total Illiquid Asset Adjustments		
Adjusted Total Assets	1,629,674	

Company ABC (Dealing as Agent)

	\$	Note Reference
Current Liabilities		
Trade Creditors and Accruals	253,600	
Bank Overdraft	128,517	
Bank Loans due in 1 year or less		
Lease Obligations due in 1 year or less		
Taxation Obligations due in 1 year or less		
Subordinated debt obligations in 1 year or less		

Company ABC (Dealing as Agent)

	\$	Note Reference
Current Liabilities	382,117	
Deferred Income		
Amounts due to related parties in 1 year		
Other liabilities due in 1 year or less		
Total Current Liabilities		
Long Term Liabilities		
Bank due in greater than 1 year		
Lease obligations due in greater than 1 year		

Company ABC (Dealing as Agent)

	\$	Note Reference
Long Term Liabilities		
Taxation Obligations due in greater than 1 year		
Amounts due to related parties greater than 1 year		
Subordinated debt obligations greater than 1 year		
Other liabilities greater than 1 year		
Total Long Term Liabilities		
Total Liabilities		

Company ABC (Dealing as Agent)

	\$	Note Reference
Adjustments to Total Liabilities		
Add: Guarantees and other charges		
Deduct:		
Non-refundable deferred income		
Allowable subordinated debt obligations greater than 1 year		
Bank Loans greater than 1 year		
Lease obligations greater than 1 year		
Taxation obligations greater than 1 year		
Any other relevant items		

Company ABC (Dealing as Agent)

	\$	Note Reference
Total Adjustments to Liabilities		
Adjusted Total Liabilities	382,117	
Adjusted Net Liquid Assets	1,247,557	

Company ABC (Dealing as Agent)

Expenditures	\$	Note Reference
• Operating Expenses	1,113,148	
• Depreciation	26,110	
• Finance Costs	-	
• Tax Expense	-	
• Other expenses	-	
Total Actual Expenditure	1,139,258	
Adjustments to Total Actual Expenditure		
Discretionary bonuses/ profit sharing	-	
Bad Debt Expense	-	
Exceptional and extraordinary costs	-	
Total adjustments to total actual expenditures	-	

Company ABC (Dealing as Agent)

	\$	Note Reference
Budget expenditure for the current year (net of forecast discretionary bonuses and bad debt expense)	1,139,258	
Higher of Adjusted Total Expenditure and Budget Expenditure for the current year		
Expenditure Based Minimum (25%)	284,814.50	

Company ABC (Dealing as Agent)

COUNTERPARTY RISK REQUIREMENTS	\$	NOTE REFERENCE
Cash against Document Transactions		
Free Deliveries		
Options Purchased for a Counterparty		
Debts owed by counterparties		
Concentration Exposure		
Other receivables and accrued income	130,000	
Total CRR	130,000	

Company ABC (Dealing as Agent)

TYPE OF INSTRUMENT	\$	NOTE REFERENCE
Debt Instrument		
Government Debt- AAA rated		
Debt issued by Government of Bahamas	50,000	
Debt Issued by An Approved Bank		
Other Marketable Debt		
Floating Rate Notes		
Total Debt PRR	50,000	

Company ABC (Dealing as Agent)

TYPE OF INSTRUMENT	\$	NOTE REFERENCE
Equities		
Listed or Traded on a recognized exchange		
Unlisted/ OTC equities	50,000	
Total Equity PRR	50,000	
Derivatives		
Exchange Traded Futures		
OTC futures and written options		
Purchases options		
Contract for Differences		
Other Derivatives		
Total Derivatives		

Company ABC (Dealing as Agent)

TYPE OF INSTRUMENT	\$	NOTE REFERENCE
Foreign Exchange Position		
Net Cash positions in foreign currency		
Other investments		
Units or shares in investment fund		
Any other securities or tradeable assets		
Total Other Investments		
Net Short Positions		
Total Position Risk Requirement	105,000	



Thank you!