

**Guidance to Emerging Market Regulators
Regarding Capital Adequacy Requirements
for
Financial Intermediaries**



OICU-IOSCO

**Report of the Emerging Markets Committee
of the
International Organization of Securities Commissions**

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PART I

OBJECTIVES OF REPORT:

This report was approved by the IOSCO Emerging Markets Committee during its September 2006 meeting and publicly released in December 2006. It was prepared as a result of a mandate given to the EMC Working Group on the Regulation of market Intermediaries (WG3), which was to provide guidance to emerging market regulators regarding capital adequacy requirements for financial intermediaries. The report presents a survey of capital adequacy requirements in twenty four jurisdictions of EMC members and a corresponding analysis that with related recommendations designed to assist EMC members wanting to review and strengthen their existing capital adequacy regulatory framework. IOSCO Principle¹ 22 has been used as the broad fundamental guideline for the preparation of this report.

The report has been divided into two separate parts. The first consists of a comparative analysis and identifies trends, highlights noteworthy items and offers its findings and recommendations. The second contains the detailed responses from all surveyed jurisdictions.

INTRODUCTION:

Principle 22 of the IOSCO Objectives and Principles of Securities Regulations states that:

“There should be initial and ongoing capital and other prudential requirements for market intermediaries that reflect the risks that the intermediaries undertake.”

This regulatory principle accurately identifies the purpose of capital adequacy, that as a general guideline, capital must be sufficient to protect a financial organization’s customers and counterparties from various risks, like; market risk, settlement/counterparty risk, credit risk, operational risk, liquidity risks etc. Additionally, an efficient capital adequacy structure can also send timely warning signals to intermediaries to re-focus on their risk management, as a decline in the capital base can expose the intermediary to significantly higher levels of risks.

Moreover, in order to ensure efficient functioning of stock markets it is imperative for all participants to have confidence in each other’s stability and the ability to effectively manage risk. The inability of any one intermediary to honor his commitment may call into question the financial solvency of other market intermediaries, leading to serious market disruption and decline in investor confidence. Therefore, there is a dire need to establish adequate capital adequacy

¹ *IOSCO Objectives and Principles of Securities Regulation* endorsed in September 1998 by the IOSCO Presidents Committee

standards, safeguards and procedures to ensure an intermediary's financial resources are sufficient to withstand the risk to which its business is subject and reduce potential hazards.

General practices with respect to capital adequacy in other jurisdictions:

“Capital adequacy” can be described as the minimum capital that financial intermediaries are required to maintain at all times, (in certain jurisdictions this term is also referred to as Regulatory Capital). However, before we proceed to the comparative analysis of various jurisdictions it is important to recognize that practices pertaining to capital adequacy differ worldwide, with jurisdictions having their own specific requirements for addressing capital adequacy.

It is interesting to note that the European Union Capital Adequacy Directive, (which is essentially equivalent to the Basel Accord) applies to both the banks and investment firms, while outside the European Union a certain number of jurisdictions like the U.S and Canada practice a capital adequacy regime which is based on the liquidity or net capital requirement. This is an approach which requires that securities firms maintain minimum levels of highly liquid assets to adequately satisfy all their obligations and provide a cushion against potential losses arising from general risks. For example, within the U.S, there are structured and specific guidelines for determining the net capital amount which inter-alia include, the valuing of securities at market prices, deducting unsecured receivables, adding certain subordinated liabilities and application of haircuts to arrive at the net capital figure. The resulting amount is then compared with the minimum net capital requirement, where the firm's required capital is the greater of the two amounts. The minimum required net capital varies according to the type of business the securities firm engages in. Moreover, certain thresholds have been prescribed which require an “early warning” notice if the net capital falls below that level.

SEBI in India determines the capital adequacy requirement according to prescribed net worth requirements of various market intermediaries, which vary according to the risk profile and nature of activities. They utilize a risk based methodology to measure and address the specific risks within the securities industry, (for e.g., market risk, credit risk, liquidity risk, etc) and arrive at representative capital adequacy requirements. This is achieved through a risk management framework in which the liquid assets deposited by the members with the Exchanges cover: (i) Mark to market losses on the outstanding settlement obligations of the member (ii) Value at Risk (VaR) margins calculated to cover potential losses for 99% of the days, (iii) Extreme loss margins to cover the expected loss in situations which lie outside the coverage of the VaR margins (iv) Base minimum capital for all risks other than market risk and (v) special margins collected as a surveillance measure. Any change in the level of risk faced by an intermediary is reflected in the capital adequacy requirement as it correlates to the capital and VaR based margining requirement.

Malaysia and the Philippines have also adopted risk based capital adequacy approaches. The Philippines' requirements are closely patterned after the approach adopted in Malaysia, with their capital adequacy being defined as “the minimum level of capital that has to be maintained by firms which are licensed, or securing a broker dealer license, taking into consideration the firm size, complexity and business risk. Such risks that are considered in determining the capital requirement include among others, operational, position, counterparty, large exposure, underwriting and margin financing risks.” In Malaysia these risks are effectively catered for through the computation of the

capital adequacy ratio, i.e. the liquid capital divided by the total risk requirement (TRR), where TRR comprises of the various risks detailed above.

Minimum capital requirements are crucial in protecting the securities community, reduction of systemic risk and addressing the risks faced by securities firms. The following analysis summarizes the capital adequacy practices in twenty four emerging markets jurisdictions with an objective of assisting the EMC member regulators that want to review and strengthen their existing capital adequacy regulatory framework.

SCOPE AND COMPILATION OF REPORT:

The WG3 mandate to develop guidance to the emerging markets regulators regarding capital adequacy requirement for financial intermediaries was approved by the IOSCO Emerging Markets Committee (EMC) during its 4 April 2005 meeting which took place in Colombo, Sri Lanka.

WG3 created a sub-group to specifically focus on this new mandate. The members of this sub-group were the securities regulators of the following jurisdictions: Pakistan, Columbia, India, Malaysia, Turkey and Sri Lanka. The work done by the sub-group was subsequently discussed by the full WG3 membership and ultimately endorsed by the EMC in the form of the present report, which aims to identify prevalent trends and practices in surveyed jurisdictions and make recommendations with respect to capital adequacy for financial intermediaries in the emerging markets. A comprehensive survey (Annex1) was circulated to the EMC membership and the responses provided were subsequently collated for the purpose of this report.

The EMC members from the following jurisdictions provided an input to the present survey report:

- | | |
|---|----------------|
| 1. Bulgaria | 13. Mongolia |
| 2. El Salvador | 14. Ghana |
| 3. Indonesia | 15. Costa Rica |
| 4. China | 16. Panama |
| 5. South Africa | 17. Slovakia |
| 6. Malaysia | 18. Uzbekistan |
| 7. Morocco | 19. Romania |
| 8. Turkey | 20. Israel |
| 9. Former Yugoslav
Republic of Macedonia | 21. Lithuania |
| 10. Peru | 22. Pakistan |
| 11. Uganda | 23. India |
| 12. Oman | 24. Nigeria |

It must be noted that some jurisdictions did not respond to a few questions and in certain cases, were unable to, as they are in the process of developing related guidelines. Moreover, responses from South Africa were two fold, in that although the capital adequacy requirements of the Bond Exchange of South Africa (BESA) and JSE Limited (JSE) are based on substantially similar principles, where there is a different practical implementation of these principles, South Africa has disclosed the approaches adopted by both exchanges.

SUMMARY OF SURVEY RESPONSES:

Outlined below is a summary of the survey responses received. The detailed compilation has been included in Part II of this report.

SECTION I: COMPONENTS OF CAPITAL ADEQUACY:

1) Number of market/ financial intermediaries currently operating in jurisdictions

Survey results indicate that the number of market/financial intermediaries vary substantially across different jurisdictions. The numbers are as low as 11 financial intermediaries in Uganda, or as high as 30,889 in India. It can also be noted that the variations in the numbers of market/financial intermediaries operating in different jurisdictions encompass a cross section of intermediaries, like in China, which has 115 securities firms, 53 fund management companies, and 183 futures brokerage houses.

2) Distinguishing of financial intermediaries and classification by the type of membership

A majority of the surveyed jurisdictions distinguish intermediaries by different types. It is also interesting to note that in the survey a significant number of jurisdictions have chosen “other” as their category of classification and provided their own cataloging. Bulgaria Uganda, Uzbekistan, and Slovakia do not classify intermediaries into different types.

Some related survey information:

Type of membership:	Jurisdiction:
a) Securities Exchange Member	El-Salvador, Malaysia, Mongolia, Romania, Lithuania, Israel and Morocco
i. Individual – trading only	Pakistan, Morocco and India
ii. Corporate – trading only	Macedonia, Oman, Ghana, Pakistan, Morocco, Costa Rica and India
iii. Corporate – Providing margin financing	
b) Commodity Exchange Member	Malaysia and Pakistan
i. Corporate – clearing member	Morocco and Pakistan
c) Margin financing provider only	

d) Clearing House member	China, Malaysia, Morocco, Mongolia, Romania, Pakistan and Costa Rica
e) Other	Indonesia, South Africa, Malaysia, Turkey, Ghana, Panama, Peru, Pakistan, Israel and Oman

3) Definitions of “Capital adequacy”

Results indicate that although all the surveyed jurisdictions define “Capital adequacy”, no standardized definition or practice can be deduced. Various jurisdictions define capital adequacy differently, e.g. in Indonesia “Capital adequacy is defined as the capital required for market intermediaries in engaging activities in capital market sector. Capital required consists of ‘paid-up capital’ and ‘net adjusted working capital (NAWC)’ as the capital requirement for daily operational. The NAWC is current assets (cash, cash equivalent, securities portfolio, and other assets) minus total liabilities, and adjusted by deducting risks that are possibly faced.”

In Pakistan Rule 2 (d) of the Securities and Exchange Rules, 1971 sets out a definition of “Net Capital” for a Member of the exchange, This “Net Capital” requirement is utilized by the exchanges to determine the maximum exposure permissible, under the Stock Exchange’s Member Exposure Regulations. Currently brokers have their trading volume for the T+3 trades determined as a multiple of their ‘Net Capital Balance’ (NCB). This is currently set at 25 times NCB.

In Malaysia, “essentially, the capital adequacy ratio for the stockbroking companies is calculated as Liquid Capital divided by Total Risk Requirement (“TRR”), in which TRR comprises of Operational Risk, Position Risk, Counterparty Risk, Large Exposure Risk and Underwriting Risk Requirements. A stockbroking company needs to maintain a capital adequacy ratio of at least 1.20 times. In the case of futures brokers (TPs), they need to comply with the Adjusted Net Capital requirement (“ANC”). ANC is calculated based on Permitted Assets less Total Liabilities less Additional Deductions and a futures broker needs to maintain an ANC of RM500000 or 10% of aggregate margin required, whichever is the higher.”

4) Existence of Capital Adequacy requirements/guidelines for market intermediaries in jurisdiction

All jurisdictions have Capital Adequacy requirements/guidelines in place for market intermediaries, except for El-Salvador.

5) Who defines Capital adequacy, the Regulator or the SRO?

The general practice is that the Regulator defines Capital Adequacy. Only in a few jurisdictions is this practice different: in South Africa and Malaysia the SRO develops the requirements in consultation with the regulator, in Morocco it is the Ministry of Finance, and in Mongolia it is defined in Securities Market Law.

6) Amendments to the Capital Adequacy Requirement

Survey results indicate, that except for five respondents, in all other jurisdictions, the power to amend the Capital Adequacy requirements lies with the regulator. In Morocco the power lies with the Ministry of Finance, in South Africa, Pakistan, Israel and India, an SRO (in consultation with the regulator) may make amendments, and in Peru, a law through Congress would make the amendments.

7) Frequency of Change in Capital Adequacy Requirement

Except for El-Salvador, where Capital Adequacy requirements are reviewed every two years, all other jurisdictions have no specified time period for changing the Capital Adequacy requirements, and are amended on an “as and when required” basis.

8) Type of Capital Adequacy Approach Adopted

- a) **Net Capital Approach**
- b) **Risk based Approach**
- c) **Risk adjusted approach (VAR approach)**
- d) **Any other (for e.g. Capital Adequacy Directive / Basel Approach)**

Survey results indicated that the majority of jurisdictions are using the Net Capital Approach. However, there are also certain jurisdictions which are using both or a mixture of Net Capital approach and Risk based approaches.

Approach:	Jurisdiction:
a) Net Capital Approach,	Bulgaria, El-Salvador, Indonesia, China, Morocco, Peru, Uganda, Oman, Mongolia, Ghana, Costa Rica, Uzbekistan, Israel (funds’ managers) and Pakistan.
b) Risk based Approach	Bulgaria, Indonesia, Costa Rica, Israel (exchange members) and Malaysia
c) Risk adjusted approach (VaR approach)	South Africa (BESA) and India
d) Any other (for e.g. Capital Adequacy Directive / Basel Approach)	Malaysia, Turkey, Slovakia, Israel (banks), Lithuania, South Africa (JSE), Romania and Nigeria

9) Separation of “Net Capital” and “Paid-up Capital” Requirements

Most jurisdictions have separate “net capital” and “paid-up capital” requirements, whereas South Africa (BESA), Oman, Mongolia, Ghana, Panama, Romania, Israel, Nigeria and India have no such requirement. However, jurisdictions have different statuses of membership for intermediaries (for e.g. individual, corporate, etc). One interesting feature is that in some jurisdictions there is no “paid-up capital” requirement for individual membership, whereas capital requirements are specified for members which are corporate entities.

10) Components of “Liquid Asset”

Survey results indicate that each jurisdiction has its own components for “liquid assets”. However there were overlaps in these components, between most jurisdiction like; Bulgaria, El Salvador, Indonesia, China, South Africa, Malaysia, Morocco, Turkey, Peru, Mongolia, Costa Rica, Panama, Israel, Lithuania, Pakistan, India and Nigeria, which all outline that liquid assets can include cash and short term investments.

11) Are Regulatory / Capital Adequacy Requirements Needed in any or all of the below:

- a) **Cash**
- b) **Fixed Deposit Receipts (FDR’s)**
- c) **Bank Guarantee**
- d) **Approved Securities**
- e) **Any other, Please specify**

It is interesting to note that most of the surveyed jurisdictions require that the assets be in one of the specified forms; in fact, Indonesia, Malaysia, Turkey, Romania, Lithuania, Uganda and India accept all of the identified forms, as does China (at a certain hair-cut rate which is determined on the risks related to the asset). However, certain jurisdictions like Morocco, Oman, Uzbekistan and Ghana have no specific requirement.

Assets:	Jurisdictions:
a) Cash	Bulgaria, El-Salvador, Indonesia, China, South Africa, Malaysia, Turkey, Peru, Costa Rica, Panama, Romania, Mongolia, Pakistan, Israel, Lithuania, Uganda and India
b) Fixed Deposit Receipts (FDR’s)	Indonesia, China, Malaysia, Turkey, Peru, Costa Rica, Romania, Lithuania, Israel, Uganda and India
c) Bank Guarantee	El Salvador, Indonesia, China, Malaysia, Turkey, Romania, Lithuania, Mongolia, Uganda and India
d) Approved Securities	Bulgaria, Indonesia, China, Malaysia, Turkey, Peru, Costa Rica, Romania, Lithuania, Mongolia, Pakistan, Uganda, Israel and India
e) Any other, Please specify	South Africa, Slovakia, Israel and Lithuania

12) Are the Following Forms of Capital Accepted for Capital Adequacy Purposes?

- a) **Core Capital (Tier 1)**
 - i) **Shareholders equity**
 - ii) **Retained earnings/ disclosed reserves**

- b) Supplementary Capital (Tier 2)**
 - i) Long term subordinated debt (75 years)**
 - ii) Some loan loss reserves**
 - iii) Undisclosed and revaluation reserves**

Most of the jurisdictions surveyed accept core capital (Tier 1) for capital adequacy purposes where as fewer jurisdictions accept supplementary capital or both.

Assets:	Jurisdictions:
a) Core Capital (Tier 1)	Bulgaria, El-Salvador, Malaysia, Morocco, Turkey, Peru, Panama, Uganda, Slovakia, Uzbekistan, Romania, Lithuania, Oman, Mongolia, Costa Rica Israel, India and Nigeria.
i) Shareholders equity	Bulgaria , Malaysia, Ghana, Oman, Mongolia, Peru, Costa Rica, Slovakia, Uzbekistan, Lithuania, South Africa, Uganda, Panama, India, Israel, Turkey and Nigeria
ii) Retained earnings/ disclosed reserves	Bulgaria, Malaysia, Ghana, Oman, Mongolia, Peru, Costa Rica, Slovakia, Uzbekistan, Lithuania, South Africa, Israel, Uganda, Panama, India, Turkey and Nigeria.
b) Supplementary Capital (Tier 2)	Bulgaria, Peru, Malaysia, Uganda, Slovakia, Israel, Lithuania and Romania
i) Long term subordinated debt (75 years)	Bulgaria, Malaysia, Oman, Slovakia and South Africa (BESA), Peru, Uganda, Panama, Israel and Lithuania.
ii) Some loan loss reserves	Bulgaria, Ghana, Peru, Uganda, Panama, Israel and Lithuania
iii) Undisclosed and revaluation reserves	Bulgaria, Malaysia, Peru, Uganda, Israel, Lithuania and Ghana

13) Are off balance sheet items (both assets and liabilities) taken into account for the purpose of determining capital?

Responses indicate that 8 jurisdictions take off balance sheet items for the purpose of determining capital, and 14 do not.

14) Assessment of

a) Core liquid capital

Survey results indicate that twelve of the twenty four jurisdictions surveyed require core liquid capital assessment for measuring capital adequacy, while eleven do not.

b) Variable liquid Capital

Survey results indicate that ten countries assess variable capital for calculation of capital adequacy.

15) Assessment of Liquid Asset to Outstanding Liabilities

The majority of the surveyed jurisdictions, i.e. thirteen, do not assess ratio of their liquid assets to liabilities. The only EMC's which do conduct an assessment are: Lithuania, Mongolia, Oman, Peru, Turkey, Malaysia, Romania, Ghana, Indonesia and Bulgaria.

16) Application of hair cut rates to market value of securities for capital adequacy reporting.

i) Government Bonds

China applies a haircut of 5%, whereas Indonesia and India both apply a haircut of 10% on Government bonds. In Malaysia a haircut of 2.5% to 5% is applied, keeping in view the year to maturity of a bond. Pakistan marks the bonds to market and deducts 5% from the bond's value. In Peru a hair cut of 4 % or 12 % is applied, based on the bond's rating. Israel accounts for Government bonds in accordance with GAAP. Other countries like Morocco, Uganda, Costa Rica, Panama, Slovakia, Lithuania, Romania, Ghana, Oman, Turkey, Mongolia, Nigeria and Uzbekistan do not apply any sort of haircut on the market value of any security.

ii) Corporate Bonds

Corporate bonds are currently applied a haircut of 20% by China and Indonesia. In Oman it is 5% and 25% in Ghana. Interestingly, Malaysia applies a hair cut of 100%, Peru according to the rating of the corporate bond, Israel in accordance with GAAP, Lithuania on day to maturity basis and Pakistan mark to market less 10% discount. JSE, (South Africa) applies a haircut to corporate bonds which ranges from 0.25% to 14.1%, whereas unlisted bonds are applied a haircut of 100%. In Romania a weight of 20% to 50% is applied on corporate bonds. Morocco, Uganda, Mongolia, Costa Rica, India, Panama, Turkey, Slovakia, Nigeria and Uzbekistan do not apply any hair cut to their corporate bonds.

iii) Illiquid Bonds

In Indonesia, Malaysia, Lithuania and Oman the haircut is 100%, in Ghana it is 25%, and the rate applied in Peru is related to the rating of the bond. Uganda, Macedonia, Slovakia, Pakistan, Morocco, Mongolia, Panama, Turkey, Slovakia, India, Costa Rica, Nigeria and Uzbekistan do not apply any hair cut on illiquid bonds. Israel applies a hair cut in accordance with GAAP.

iv) Local Equities

Survey results indicate that the breakdown of haircuts applied on securities is as follows: Indonesia 10% (listed on Indonesian Stock Exchange), China, currently 10%, (to be revised later this year with diversification for equities of different risk which ranges from 1% to 80%) Malaysia 5% index Stock, 5 % index future, and other stock 21%. Oman and Peru 15% to 100% based on concentration, Ghana 15%, JSE (South Africa) 15% to 40%, Romania 20% to 100%,

Lithuania 4% specific risk + 8% general risk ratio, Pakistan marked to market less 15% discount, and Israel in accordance with GAAP.

A variable haircut is applied on Local equities by most of the jurisdictions, except countries like Morocco, Turkey, Mongolia, Uganda, Costa Rica, Panama, Slovakia, India, Nigeria and Uzbekistan.

v) Foreign Equities

In Indonesia the hair cut is 90%, Malaysia has a variable hair cut rate which is 8% for market indices, 12% for single stock of recognized markets, 16% for other single international stock of recognized stock exchanges, Peru 16% to 90% on the basis of concentration, Oman 100%, Ghana 25%, South Africa 10% of the market value translated into Rands, plus the normal risk factors applicable to local equities, China currently 10% (to be revised later this year, which may range from 1% to 80%) Romania does not have any foreign equity on its exchange, Lithuania 4% specific risk + 8% general risk ratio + 8% foreign exchange risk, and Israel in accordance with GAAP. Costa Rica, Panama, India, Pakistan, Turkey, Romania, Uzbekistan, Mongolia, Uganda, Morocco, Nigeria and Slovakia do not apply any haircut.

vi) Illiquid Equities

The following hair cuts are applied on illiquid equities: El Salvador uses the cost method, Indonesia, Malaysia and Oman apply 100%, China, currently 10%, (to be revised to 15% later this year), Ghana 25%, and in Israel it is in accordance with GAAP. No haircut is applied by Morocco, Mongolia, Peru, Uganda, Costa Rica, Panama, Turkey, Slovakia, Pakistan, Nigeria, India and Uzbekistan. Romania does not have any foreign equities on its capital markets.

vii) Other Assets

In Indonesia it is 30% Mutual Fund and 100% Unregistered, China currently has 20%, (to be revised to 10% later this year,) Malaysia and Oman 100%, Ghana 25%, Lithuania 8%, and Israel in accordance with GAAP and in Pakistan and Lithuania other assets are treated at market value.

17) Discounting of assets for the purpose of calculating capital adequacy

Majority of the surveyed jurisdictions (12) do not discount assets for calculation of Capital Adequacy. While in Turkey all the assets are marked to market on the date of calculation of capital adequacy and Romania applies different risk weightage for different categories of assets.

18) Assets and liabilities specifically categorized for calculation of Capital Adequacy

Assets and liabilities are specifically categorized for calculation of capital adequacy in ten jurisdictions. The majority however, (thirteen) do not specifically categorize in such a manner.

19) Subordinated debt included in the calculation of Capital Adequacy

Twelve of the surveyed jurisdictions i.e .Bulgaria, Indonesia, China, South Africa, Malaysia, Oman, Ghana, Slovakia, Romania, Israel, Nigeria and Lithuania include, and eleven exclude, allowances for subordinated loans.

20) Ranking of liabilities according to time and maturity

Of the twenty four jurisdictions surveyed only nine rank their liabilities according to time and maturity, i.e. Bulgaria, Indonesia, South Africa (BESA), Oman, Panama, Romania, Lithuania, Pakistan and Nigeria.

21) Different capital adequacy requirements for different businesses of the intermediary

Results indicated that fifteen jurisdictions follow a practice where capital adequacy requirements vary according to the type of business of the intermediary.

i) Type of Business

Many jurisdictions (thirteen) have not responded to this specific question. However, the jurisdictions which did respond have their own requirements. For e.g. in Bulgaria, investment intermediaries performing transactions for someone else's account hold initial capital not less than BGN 200,000 and investment intermediaries performing fiduciary management of individual securities portfolio must have an initial capital of not less than BGN 250,000. Currently in China, the net capital for a brokerage firm should be not lower than RMB 20 million, and for a comprehensive type securities firm, (i.e. all-license securities firm) not lower than RMB 200 million. (However, this figure will change as soon as the Securities Firm Risk Control Indicators Supervision Rule takes effect in China, later this year, and more detailed requirements of minimum net capital on certain businesses becomes applicable.) In Malaysia the requirement depends on the risk assumed by the intermediaries concerned, and the only difference is that the operational risk requirement for a universal broker is RM 10 million, or 25% of annual expenditure, (which ever is higher.)

ii) Type of Market

Majority of the surveyed jurisdictions did not respond to this question.

iii) Risk Factor

Majority of the surveyed jurisdictions did not respond to this question, however, in India, intermediaries who deal in high risk securities are subject to more stringent capital requirements.

iv) Other Factors

None of the jurisdictions identified a response to this question.

22) Initial and ongoing minimum capital requirement for different market intermediaries

Compiled results indicate that there is no consensus in initial and minimum capital requirements across jurisdictions. According to the survey results the amounts vary in different countries and in accordance with their respective currencies:

In El Salvador the minimum capital for a broker-intermediary is US \$ 148,100 and broker-management collective fund is US\$ 471,000, while in Indonesia it is IDR 25 billion for an underwriter, IDR 200 million for an Investment Manager and IDR 25 billion for investor administering account. In Bulgaria the amount of available own resources of the investment intermediary cannot be less than 25% of the minimum required amount of initial capital. In Malaysia, for Universal brokers, the minimum paid up capital and minimum shareholder funds are unimpaired losses of RM 100 million, non Universal Broker RM 20 million, Future broker RM 5 million, and Fund Managers RM 2 million. In Pakistan brokers are allowed exposure of 25 times of Net Capital Balance, and Corporate Members minimum is Rs.20 million. In BESA (South Africa) it is an amount determined by the controlling body of BESA as being adequate to meet the operating costs of the Authorised User for a period of 13 weeks or either; R 200,000 in the case of an Authorised User that does not have access to the assets or securities of any client without referral to the client or the client's agent, or R 400 000 in all other cases. At JSE (South Africa) a base capital requirement for equities and derivatives Authorised Users is the higher of R 400,000 and 13 weeks fixed operating expenses. Clearing members' capital requirements are significantly different to that of trading members, where the requirement for clearing members' amounts to a base requirement of R 200,000 million adjusted liquid capital. Except for Ghana and Uzbekistan, all other countries have a minimum initial capital requirement for different market intermediaries.

23) Capital adequacy requirements in excess of minimum capital requirement.

A majority of the jurisdictions surveyed including Bulgaria, South Africa, Malaysia, Morocco, Oman, Ghana, Slovakia, Uzbekistan, Romania, Turkey, Lithuania, Pakistan, Israel and India have a capital adequacy requirement in excess of minimum capital, however it must be noted that for some jurisdictions like El Salvador, Peru and Panama, there is no capital adequacy requirement but a minimum capital requirement only.

24) Capital adequacy requirement for foreign market intermediaries being the same as local intermediaries

A majority of the jurisdictions have the same capital requirements for foreign and local intermediaries, while only two jurisdictions, namely; El Salvador and Slovakia have different capital requirements for foreign intermediaries.

25) Range of risk factors considered for capital adequacy structure

1) Market Risk

Twelve emerging market jurisdictions including Bulgaria, Indonesia, Malaysia, China, South Africa, Oman, Lithuania, Turkey, Israel, India, Nigeria and Costa Rica consider market risk while structuring their capital adequacy requirements. Other countries do not take into account market risk while calculating capital adequacy requirements.

2) Settlement/Counterparty Risk

Out of twenty four surveyed jurisdictions, only seven EMC's, namely Bulgaria, Indonesia, South Africa (JSE), Romania, Lithuania, Malaysia and Oman assess settlement risk in Capital adequacy requirements. In China and India the security depository and clearing house are exposed to settlement risk, while in Panama, Ghana, Mongolia, Uganda, Peru, Morocco, Turkey, El Salvador, Costa Rica and Uzbekistan there is no assessment of Settlement/Counterparty risk.

3) Credit Risk

Only China, South Africa (JSE), Oman, Turkey, Israel, Romania, Lithuania, Malaysia and Costa Rica account for Credit Risk in calculation of Capital adequacy requirements. Majority of the jurisdictions do not calibrate credit risk in Capital adequacy requirements. For e.g. in China the hair cut rate for Government bonds is lower than that for corporate bonds, while Costa Rica applies haircuts according to the quality and maturity of credit. Slovakia and Panama do not assess credit risk and Pakistan arrives at Net Capital requirement for an intermediary through adjustment of current assets with current liabilities, without taking into consideration any of the aforesaid risks. All together, only nine countries assess credit risk.

4) Unsecured Claims and Free Deliveries

Survey results indicate this as an area that may need to be further explored and strengthened in many of the surveyed jurisdictions, since only five emerging markets, assess risk on unsecured claims and free deliveries.

5) Operational Risk

Operational risk is an integral factor in the assessment of capital adequacy. Operational risk is not being assessed by most of the EMC's, although a few like Indonesia, China, Malaysia and India do analyze operational risk.

6) Liquidity Risk

Only a few EMC's account for this risk. For e.g. in China the hair cut rate for listed securities is lower than for unlisted securities, while in South Africa the liquidity risk is determined, while computing position and counterparty risk. It can be seen that the majority of the EMC's do not implicitly assess this risk factor.

7) Other Risks

Other risk factors identified by EMC's are: large exposure risk, interest-rate and inflationary mismatches, underwriting risk, concentration risk, foreign exchange rate risk, and commodity risk.

19) Level of risk effects the capital adequacy requirements

Eleven surveyed jurisdictions do not reflect a change in the capital adequacy levels to correspond with a fluctuation in the level of risk, while twelve jurisdictions have mechanisms in place to reflect a change in the level of risks.

23) Capital adequacy requirement designed to allow market intermediaries to absorb some losses or wind down their business, with minimum losses to their customers or other market intermediaries.

Majority of the surveyed countries do have a system in place to allow for absorption of losses. Only seven, namely El Salvador, China, Oman, Ghana, Panama, Pakistan and Slovakia do not have such a requirement.

24) Ranking of liabilities and the corresponding percentages

The jurisdictions which answered affirmatively to the ranking of liabilities consisted of Lithuania, Romania, South Africa, Oman, Israel and Costa Rica and the details are as follows:

Ranked Liabilities:	Yes:
Gearing adjustment in respect of securities margin financing	- South Africa: Unpaid margin has a risk factor of 200% of the margin amount. - Romania
Concentration of margin clients	- Romania - Lithuania
Short selling of securities on behalf of clients	- South Africa, however the risk is calculated on the securities loan because all short sales have to be settled on settlement date and this is facilitated through securities loans. - Romania - Lithuania - Israel
Increase in amounts in respect	- South Africa, a market risk factor is applied to the market value of

of short positions for own account	all proprietary short positions. - Romania - Lithuania
Concentrated proprietary positions	- South Africa, large exposure risk is calculated on concentrated positions and ranges from 10% to 40% of the market value of the position, which is in addition to the normal market risk factor on that position. - Oman - Romania - Lithuania
Securities borrowing and lending	- South Africa, the risk equals the market value of the securities borrowed plus a market risk factor less the value of collateral held. - Romania - Lithuania - Israel
Net underwriting commitments	- South Africa, the normal market risk factors are applied to underwriting commitments, applying a reduction factor on a sliding scale basis from the date of the commitment (90% reduction) to 5 days hence (25% reduction), with no reduction applicable after 5 days. - Oman - Romania - Lithuania
Off-exchange traded derivative contracts and interest rate swap agreements	- South Africa, normal market risk factors are applied to the equivalent underlying position if the underlying product is listed. An interest rate swap is treated as a long or short position in a debt instrument with matching maturities to the swap using the maturity based approach applied to debt instruments. - Romania - Lithuania - Israel
Guarantees and other financial commitments	- South Africa, guarantees and other financial commitments are effectively deducted in full in computing adjusted liquid capital. - Romania - Lithuania - Israel
Foreign exchange agreements and foreign currency positions	- South Africa, foreign currency exposures are translated into Rands and a risk factor of 10% is applied to the Rand value. - Costa Rica, net position 10% - Romania - Lithuania - Israel
Repos	- South Africa, counterparty risk is computed as a percentage of the difference between the current market value of the asset received and the security provided, or vice versa. During the period of the agreement, the risk factor is zero for regulated financial institutions and 25% for other counterparties. Subsequent to settlement date the risk factor is 100%.

	- Costa Rica, a percentage of all open positions (client's or own) - Romania - Lithuania
Miscellaneous ranking liabilities	- Romania - Lithuania

25) Hedged and offset position considered while calculating capital adequacy

Survey responses indicate that only eight countries consider, while fourteen do not, hedged and offset positions for the calculation of capital adequacy.

SECTION II. RECORD KEEPING AND REPORTING REQUIREMENTS:

1) Financial statements based on GAAP or IAS

Majority of the surveyed jurisdictions require financial statements to be prepared in accordance with IAS, (for the purposes of determining capital.) Malaysia, Indonesia, Israel, Nigeria and India have local accounting bodies which determine the standards that are to be followed, while Panama and South Africa have allowed both GAAP and IAS.

2) Capital adequacy reporting requirements by financial intermediaries

It is quite evident that the capital adequacy reporting requirements vary in each of the surveyed jurisdictions. For example, in Malaysia the minimum Capital Adequacy Ratio is 1.20 times and the intermediaries are to calculate on a daily basis (marked to market) and the reporting requirement is tiered as follows:

- More than or equal to 4.0 times, reporting frequency is monthly.
- Less than 4.0 but more than or equal to 2.0, reporting frequency is fortnightly.
- Less than 2.0, reporting frequency is daily.

China has a requirement to submit the monthly net capital Report and audited Annual financial reports for the reporting of capital adequacy and Costa Rica requires a daily calculation of capital adequacy, with reports being sent monthly to the supervising authority. El Salvador asks for a range of documents like the Balance Sheet, Profit and Loss Statement, Cash flow, Shareholder's Equity statement, Securities Trading Statement and Management of Collective Fund Statement. Survey results show that all jurisdictions have their own specific requirements for the reporting of capital adequacy.

3) Continuous or Periodic reporting

The general trend in the emerging markets is towards periodic reporting. Malaysia has adopted a combination of both periodic and continuous reporting, which depends on the Capital Adequacy ratio. This approach correlates the frequency of reporting to the element of risk, as the exposure to risk increases so does the frequency of reporting. In South Africa, in the equities market, although reporting is periodic, the exchange is able to compute the capital adequacy on a daily basis as the exchange has direct access to the Authorized Users' financial records.

4) Frequency of reporting

Survey results indicated that although some jurisdictions require weekly, quarterly, semi-annual and annual reporting, the majority of jurisdictions require that monthly reporting be ensured.

5) Trade or Settlement date as cut off date for preparation of capital adequacy report

A majority of the surveyed jurisdictions have adopted the trade date as the cut-off date for the preparation of capital adequacy reports. Although certain jurisdictions like Indonesia, Turkey, Costa Rica, Israel, Nigeria and BESA in South Africa use the Settlement date as the cut off date.

6) Accompaniment of capital adequacy reports by Auditors reports and management confirmation about the accuracy of the report.

Nearly half of the jurisdictions surveyed confirmed the accompaniment of capital adequacy reports with Auditors reports. However, it is interesting to note that all jurisdictions, except for El Salvador, Morocco, Peru, Romania, India and Lithuania require some form of management confirmation about the accuracy of the report.

7) Existence of an early warning reporting system to indicate minimum capital adequacy levels.

Of all the jurisdictions surveyed, only five, i.e. China, South Africa, Malaysia, India and Lithuania have an early warning system in place to indicate that the minimum capital adequacy levels are being approached.

8) Actions taken by regulators when capital adequacy levels fall below the minimum requirement

Although each jurisdiction has its own methods and policies regarding the actions it takes in the effect of a fall in the minimum capital requirement, license revocation is the most commonly taken action by many jurisdictions, followed by business restrictions, penalties and fines, additional capital charge and other measures. The survey showed that Malaysia, South Africa (JSE) and Nigeria were the only jurisdictions which used a combination of all these actions when required. The survey also identified

certain jurisdictions like, Macedonia, Uganda, Slovakia, where the sole form of action identified is license revocation, while in Mongolia it consists of only penalties and fines:

Actions:	Jurisdiction:
License Revocation	Bulgaria, Indonesia, China, South Africa, Malaysia, Turkey, Macedonia, Peru, Uganda, Oman, Ghana, Slovakia, Uzbekistan, Israel, Lithuania, Nigeria Costa Rica and India.
Business restriction	El Salvador, Indonesia, China, South Africa (JSE), Malaysia, Morocco, Turkey, Oman, Ghana, Lithuania, Israel, Nigeria and India.
Penalties and fines	El Salvador, South Africa, Malaysia, Turkey, Peru, Mongolia, Ghana, Lithuania, Israel, Costa Rica, Nigeria and India.
Additional capital charge	El Salvador, Indonesia, South Africa (JSE), Malaysia, Israel, Nigeria and Peru, Turkey.
Other	South Africa (JSE), Malaysia, Morocco (administrative sanctions), Turkey, Peru, (license suspension), Panama (intervention process by Commission, which may result in forced liquidation of the business or cancellation of the license), Uzbekistan (warning letter), Lithuania (setting the term for their shortcomings elimination), Pakistan, (suspension of membership) and India (license cancellation) and Nigeria (refusal to renew registration / license until injection of adequate capital and suspension from trade.)

9) Maintenance of certain records by intermediaries at all times

Indonesia, Malaysia and Turkey are three jurisdictions which require all the identified documents to be maintained on an on-going basis. Majority of the surveyed EMC members require that the Balance Sheet and Liquid asset records be maintained at all times, as well as the Profit and loss account:

Records:	Jurisdiction:
Balance Sheet and Liquid assets	Bulgaria, El Salvador, Indonesia, China, South Africa, Malaysia, Morocco, Turkey, Peru, Ghana, Costa Rica, Slovakia, Uzbekistan, Romania, Nigeria, Israel and Pakistan.
Liquid capital computation	Bulgaria, El Salvador, Indonesia, South Africa (JSE), Malaysia, Turkey, Peru, Oman, Ghana, Costa Rica and Lithuania.
Credit facility summary	Indonesia, Malaysia, Turkey, Ghana and India
Margin client analysis	Indonesia, South Africa (JSE), Malaysia, Turkey, Slovakia and Pakistan.
Analysis of client assets	El Salvador, Indonesia, China, South Africa, Malaysia, Ghana, Morocco, Turkey, Nigeria and Slovakia.
Profit and loss account	Bulgaria, El Salvador, Indonesia, China, South Africa, Malaysia, Morocco, Turkey, Peru, Ghana, Costa Rica, Slovakia, Uzbekistan, Romania, Nigeria, Israel and Pakistan.
Other	El Salvador, Indonesia, China, South Africa (JSE), India and Uzbekistan.

10) Indication of a change / deterioration in capital adequacy positions

The survey results indicated that this was an area that needed to be further explored and strengthened in many of the surveyed jurisdictions. Certain emerging markets did not respond to this question, while other jurisdictions shared that although they have ways of indicating a change in the capital adequacy position, it is through mostly general requirements that consist of the broader reporting requirements or through information contained in the periodic/monthly reports.

SECTION III. COMPLIANCE AND REGULATORY ISSUES:

1) Penalties for falling below the minimum capital adequacy level

Generally, the overall trend within the surveyed EMC's regulatory framework revealed a combination of fines and revocation/suspension of applicable licenses as the main penalties for violation of the capital adequacy requirements.

2) Additional system of checks and balances to ensure that financial intermediaries are in continual compliance with the minimal level

El Salvador, Indonesia, South Africa, Malaysia, Morocco, Uganda, Oman, Ghana, Uzbekistan, Pakistan, Lithuania, Nigeria, Israel and India, all have a system of checks and balances to ensure that financial intermediaries are in continual compliance with the minimal capital adequacy levels. In certain jurisdictions like El Salvador, Indonesia, Morocco, Uganda, Oman, Ghana, Uzbekistan and Lithuania the system of checks and balances includes inspections, which can be annual, mid-term or ad hoc.

3) Identical foreign and local laws

Questionnaire results indicated that all jurisdictions surveyed used the same laws for both local and foreign market intermediaries.

4) Arrangement for sharing of information with jurisdictions whose financial intermediaries are operating in your jurisdiction.

In order to engage in the effective sharing of information and mutual cooperation, it is important to enter into a Memorandum of Understanding (MoU) with other jurisdictions. Survey results show that

although almost all jurisdictions maintain MoU's with other jurisdictions, there is variation amongst countries about the number of jurisdictions they have agreements with.

Some of the jurisdictions and their counterparties are as follows:

Jurisdiction:	Mou's with other jurisdictions include:
Bulgaria	Hungary, Albania, Macedonia, Romania, Turkey, Greece, and Croatia
Indonesia	United States, Malaysia, Australia, Hong Kong, Sri Lanka, Philippines, Thailand, China and New Zealand.
China	To date China has signed 29 MOUs with securities regulators of 26 countries/regions, such as United States, Hong Kong, United Kingdom etc.
South Africa	IOSCO Multilateral MOU signed by the Regulator (South Africa) and bi-lateral MOUs with 44 other regulatory authorities.
Malaysia	The Commission has entered into 23 MOUs with its foreign regulatory counterparts as of June 2006.
Turkey	United Kingdom, France, Portugal, Sweden, Italy, Greece, Germany, United States, Malta, Australia, Albania, Romania, Bulgaria, Croatia, Macedonia, Netherlands, Bosnia and Herzegovina, Dubai, Montenegro, Israel Chinese Taipei and the IOSCO MMOU.
Uganda	South Africa, Mauritius, Zambia, Nigeria, Kenya and Tanzania.
Ghana	Nigeria and Canada
Slovakia	Portugal, Greece, Italy, Luxembourg, Germany, Czech Republic, Cyprus, IOSCO, and CESR
Pakistan	India, Maldives, Sri Lanka, Bhutan, Nepal, Bangladesh, and Australia.
Nigeria	China, Ghana, South Africa, Tanzania and Uganda.

5) Procedures to ensure implementation if capital adequacy requirements change

A significant number of surveyed respondents stated that their legislation or relevant rules would need to be updated or amended accordingly. It is noteworthy that there is a commonality in the procedures to ensure implementation, within the following jurisdictions, which involves a consultation with market participants and the granting of a transition period for implementation of the new capital adequacy requirements.

Indonesia: The changing of NAWC requirement will need a rule making process. Before it is declared effective, the change must first incorporate the market players, (including the intermediaries,) comments. After it is passed, Bapepam will conduct socialization to the players and usually the change will not take in effect immediately, there will be a grace period.

South Africa: Following consultation with the market and the Regulator, amendments are effected by the exchange, and any rule amendments will be submitted to the Regulator for approval prior to coming into effect.

Malaysia: If there are changes to the capital adequacy requirements, the Rules of Bursa Malaysia Securities or Bursa Malaysia Derivative Rules will change. If it involves changes to the requirements

for stockbroking companies, the capital adequacy system (ARMADA) will also be updated accordingly.

Turkey: All capital market institutions are obliged to comply with the rules and regulations published by the Board. However the Board posts draft regulations on its website at <http://www.spk.gov.tr> to collect comments from the industry and other related parties. These comments are taken into account in drawing up regulations. In case of a change in the capital adequacy requirements, the Board would supply a transition period and/or guidance and training that may be needed by the industry.

Peru: If Capital Adequacy requirements changed, CONASEV would establish a transitory period of time in order for market intermediaries to adapt to the new requirements. Likewise, CONASEV would monitor and oversee the transitory period with the purpose to ensure the change's implementation.

Costa Rica: Requirements can change through the establishment of new regulation; it usually includes an accommodation period in order to give time to increase capital or for develop internal systems or procedures. The Regulator could personally check compliance, after that.

Panama: Through a mandatory public consultation process for a new regulation, by the Commission.

Romania: If the Capital Adequacy requirements are changed the adoption procedures will be the following:

- a new regulation will be issued, approved by the president of the R.N.S.C by order.
- before approving, the regulation draft will be subject to consultations with the capital market participants for remarks and proposals.
- after approval, the regulation and the order will be published in the Official Gazette, RNSC's Bulletin & website.

Israel: After market consultation, the changes are approved by the regulator

Lithuania: The new Capital Adequacy calculation rules would be prepared and all Financial Intermediaries would be informed, there would be set a term for Financial Intermediaries to implement new requirements.

6) Ancillary requirements

It is noteworthy that with the exception of Morocco and Romania, all survey respondents have a requirement in place for the segregation of client accounts. Eleven jurisdictions have a method of notification if the required capital falls to 120% of minimum capital requirement or falls by 50% since the last return. The majority of surveyed jurisdictions account for the recognition of subordinated debt, while El Salvador, Morocco, Turkey, Costa Rica, Macedonia, Panama, Uzbekistan, Pakistan and India do not. Moreover, Bulgaria, Malaysia, Morocco, Turkey, Oman, Cost Rica, Slovakia, Romania, Israel and Lithuania all provide for reports that pertain to additional capital for counterparty risk and position requirements. It is interesting to note that only two jurisdictions; Indonesia and Romania have modified treatments where the broker is a subsidiary of a bank or non-bank finance holding company. All other surveyed jurisdictions have no such modified treatments.

GENERAL FINDINGS

From the analysis of surveyed jurisdictions, the major findings are briefly summarized as under:

- Most surveyed jurisdictions follow capital adequacy approaches that are simple in nature and assign insufficient or no weight up to risks, to which an intermediary is exposed or the volatility of the markets in which that intermediary participates. Most jurisdictions apply simple mechanical rules to arrive at the Net Capital Balance, rather than applications of sophisticated risk based models
- Results indicated that most of the surveyed jurisdictions lacked structured systems to ensure timely warning of falling capital adequacy levels
- A majority of the surveyed jurisdictions have a system in place to allow for absorption of losses and winding down of their business, with minimum loss to their customers or other market intermediaries.
- For the purpose of recordkeeping and reporting requirements, it is observed that most of the surveyed jurisdictions require monthly reporting.
- A majority of the surveyed jurisdictions identify eligible assets to be maintained at certain specified levels for regulatory capital adequacy requirements, for example, cash, Fixed Deposit Receipts (FDR's), bank guarantee, approved Securities, or other forms, however, a certain number of jurisdictions are not following this procedure.
- Most of the surveyed jurisdictions apply certain haircuts in order to determine the liquidity of assets, however, the basis and methodology used vary from jurisdiction to jurisdiction

RECOMMENDATIONS:

Keeping in view IOSCO Principle 22 and looking at international best practices, it is evident that capital adequacy standards must foster confidence in the financial markets. This is achieved in part through securing an environment in which securities firms and other market intermediaries can absorb losses and wind down their businesses during circumstances of financial distress, thereby enabling them to fulfill their financial obligations without adversely affecting the investor or other market intermediaries.

Although no regime can fully protect investors, adequate capital adequacy levels contribute significantly towards providing a necessary level of protection for investors. One important element of capital adequacy is the practice of developing a risk profile of intermediaries, by identifying the activities it undertakes and the risks to which these activities expose the firm. In the securities industry there are a range of risks, like, market risk, credit risk, liquidity risk etc, which should be accounted for while determining the capital adequacy requirement of an intermediary. It is recommended that jurisdictions review the potential risks that intermediaries are exposed to, and account for these risks through reevaluating their capital adequacy requirements. This will result in different minimum capital requirements for intermediaries, based on the type of business the firm conducts, and the risks it is exposed to.

One approach that accurately reflects changes in the risk profile of an intermediary is the Risk Based Approach, which provides intermediaries with a capital requirement which is proportionate to the element of risk. Thus, the capital requirements are neither too severe, (which would increase costs for the firms and affect their efficiency), nor too slack. In order to strengthen and further develop EMC's capital markets, it is recommended that EMC's graduate towards using risk based models as they are more forward looking approaches, in-line with international best practices and most developed economies. One must recognize however, that sophisticated risk based models may be too complicated and advanced for some jurisdictions to adopt, and may initially require considerable investment in the development of infrastructure, personnel and strengthening of existing risk management frameworks.

It is an important precautionary measure to have some form of early warning system in place to draw attention to any falling capital adequacy levels, based on which the SRO or Regulator can take timely action to prevent a default.

It is important to ensure that the records maintained by financial intermediaries contain standardized categories of information in a readily accessible format. Moreover, some financial statements/documents may need to be filed on a more frequent basis as a superior practice is to link the frequency and details of reports to the type of business the firm conducts. The regulator may also design standardized forms and returns for submission of information by intermediaries, which will enable the supervisory authorities to ensure that firms are conducting their activities within the specified rules and regulations.

One significant component of arriving at a representative capital adequacy level is the implementation of adequate haircuts, based on the liquidity of the assets. This is a highly encouraged practice that should be explored by jurisdictions which do not currently have this requirement in place.

It is suggested that all jurisdictions clearly identify the eligible assets that can be used towards capital adequacy requirements, as this will help streamline the requirements for intermediaries.

It is also a recommended practice to include off balance sheet and contingent liabilities, as well as recognize subordinated debts, when calculating the capital adequacy levels.

As indicated from the survey results, most jurisdictions recognize the importance of capital adequacy and are actively developing policies and procedures to strengthening their capital adequacy regimes. The above mentioned recommendations have been made as a general way forward for EMC members seeking to stream-line or reinforce their existing practices.

PART II

COMPILATION OF SURVEY RESPONDENTS



Section I: Components of Capital Adequacy:

1) How many market/ financial intermediaries are currently operating in your jurisdiction?

1. Bulgaria

As of end - December 2005, there is 88 companies, 31 of them being banks, performing activity as investment intermediary on the capital market in Bulgaria.

2. El-Salvador

Fourteen (14)

3. Indonesia

Total Market intermediaries = 164 companies

4. China

By the end of 2005, there were altogether 115 securities firms, 53 fund management companies and 183 futures brokerage houses operating in China.

5. South Africa

BESA	:	57
JSE	:	Approximately 170
Discretionary Financial Service Providers (Investment managers)	:	389

It should be noted that the above figures should not be summated otherwise there may be risk of double-counting since some of the intermediaries may operate on different exchanges and in different capacities.

6. Malaysia

There are 2 exchanges, Bursa Malaysia Securities Berhad (Main Board, Second Board and MESDAQ Market) and Bursa Malaysia Derivatives Berhad (equity, financial and commodity derivatives).

As at 31 December 2005, there are:

- 77 licensed Fund Managers
- 14 licensed Futures Fund Managers
- 15 licensed Futures Brokers
- 39 licensed Dealers (including 2 issuing houses)
- 48 licensed Investment Advisers (Corporation)
- 1 licensed Investment Advisers (Individual)
- 22 licensed Investment Advisers (Financial Planner) (Corporation)
- 33 licensed Investment Advisers (Financial Planner) (Individual)

7. Morocco

1 market, 13 intermediaries

8. Turkey

106 Brokerage Houses

19 Portfolio Management Companies

41 Banks

9. Macedonia

On the Macedonian capital market, 16 (sixteen) market/ financial intermediaries are currently operating, of which 10 are brokerage houses and 6 are banks.

10. Peru

There are 20 market intermediaries currently operating in Peru.

11. Uganda

Eleven; Seven broker/dealers, three fund managers, and one Unit Trust Manager.

12. Oman

20

13. Mongolia

30 market intermediaries operating in Commission's jurisdiction, Including :

1 Stock Exchange, one Central Depository and Clearing House, 2 Underwriters and 26 broker, dealers company

14. Ghana

25 (TWENTY FIVE)

15. Costa Rica

19 Broker Dealers

19 Fund managers

16. Panama

Broker-dealers: 34

Investment managers: 13 *

Investment advisors: 7

* Most of these are also licensed as broker-dealers (same entity with both licenses). Only 2 are different entities.

17. Slovakia

36 (incl. banks)

18. Uzbekistan

94

19. Romania

In our jurisdiction there are seventy-one investment firms and two credit institutions authorized as intermediaries.

20. Israel

In Israel there are several types of financial intermediaries:

1. Tel Aviv Stock Exchange Members – 27 (of which 15 non-banking corporations and 12 banking corporations);
2. Clearing House Members – 23 (of which 11 non-banking corporations and 12 banking corporations);
3. Banks – 29;
4. Insurance companies – 25;
5. Portfolio Managers – 165;
6. Mutual Fund Managers – 49;
7. Pension Fund Managers – 19;
8. Provident Fund Managers – 70.

The above figures of the Stock Exchange Members and Clearing House Members, as well as of the banking corporations and the banks, should not be summated as they may be double-counted.

21. Lithuania

Currently there are 13 financial brokerage firms operating in our jurisdiction.

22. Pakistan

Brokers	306
Agents	284
Government Bond Primary dealers	14

23. India

As on December 31, 2005 (Source: SEBI Bulletin – January 2006)

Sl. No.	Type of Intermediary	Number
1.	Stock Brokers – Cash Segment	9253
2.	Stock Brokers – F&O Segment	1068
3.	Sub-Brokers	19407

4.	Depository Participants	494
5.	Merchant Bankers	127
6.	RTI/STA	88
7.	Underwriters	57
8.	Portfolio Managers	120
9.	Debenture Trustees	34
10.	Bankers To Issue	60
11.	Depositories	2
12.	Custodians	11
13.	Credit Rating Agencies	4
14.	Venture Capital Fund-Foreign	34
15.	Venture Capital Fund-Domestic	69
16.	Mutual Funds	39
17.	Stock Exchanges	22

Note: While the above table gives number of intermediaries registered with SEBI, not all of them are active. For example, as regards intermediaries listed at 1-3 above, the number of active brokers /sub-brokers is much lower say around 2000 brokers and around 8000 sub-brokers.

24. Nigeria

443 (Four Hundred and Forty Three)

2) Are financial intermediaries distinguished and classified by the type of membership? For e.g. as:

- a) Securities Exchange Member**
 - i. Individual – trading only**
 - ii. Corporate – trading only**
 - iii. Corporate – Providing margin financing**
- b) Commodity Exchange member**
 - i. Corporate – clearing member**
- c) Margin financing provider only**
- d) Clearing House member**
- e) Other (please specify)**

1. Bulgaria

No

2. El-Salvador

Securities Exchange Member

3. Indonesia

Yes. Intermediaries are distinguished by the operational license that they had granted by Bapepam.

They are:

Underwriters

- The holders of this license by law also permitted to engage in brokers/dealers activity without any separate broker/dealer license.

Brokers/Dealers

- The holders of this license are divided in to 2 (two) categories:

- a. Brokers/dealers who are administering client account (member of Stock Exchange)
- b. Brokers/dealers who are not administering client account (non-member of Stock Exchange)

Margin financing is permitted for members of stock exchange after they have met certain requirements. The approval for margin financing is granted by the Stock Exchange.

Currently, all of Stock Exchange members are also Clearing members.

Investment Managers

The market intermediaries are permitted to hold more than one license.

4. China

Generally, all securities firms are members of the stock exchanges and clearing house in China.

5. South Africa

Other (please specify)

1. Authorised Users in the bond market;
2. Discretionary Financial Services Providers;

3. Equities market – Only corporate Authorised Users. There is only one category of Authorised User but they are distinguished by way of the regulated services that they may provide, being trading services, investment services and custody services.
4. Derivatives market – Two categories of Authorised Users, being trading Authorised Users and clearing Authorised Users. Clearing Authorised Users are Authorised Users of the exchange and not of the clearing house.

6. Malaysia

- a) Securities Exchange Member –
 - i. Individual – trading only
 - ii. Corporate – trading only
 - iii. Corporate – Providing margin financing

A stockbroking company needs to be licensed as a dealer as well as admitted as a Participating Organisation (“POs”) of the stock exchange.

- b) Commodity Exchange member –
Corporate – clearing member

A futures broker needs to be licensed as a futures broker as well as admitted as a Trading Participant (“TPs”) of the derivatives exchange.

- c) Margin financing provider only

No such category

- f) Clearing House member
Trading Clearing Participant for stockbroking companies and General Clearing Members for futures brokers. There are also other types of memberships including Non-Trading Clearing Participant for equity and Direct Clearing Members for derivatives.

- g) Other (please specify)

A stockbroking company is also an authorised depository agent for the central depository.

7. Morocco

- a) Securities Exchange Member
 - i. Individual – trading only
 - ii. Corporate – trading only
 - iii. Corporate – Providing margin financingNo
- b) Commodity Exchange member
 - Corporate – clearing memberWe have no commodity market
- c) Margin financing provider only
- No
- d) Clearing House member
 - Yes, 54 issuers and 17 Custodians
- e) Other (please specify)

8. Turkey

Other:

In Turkey intermediary institutions must acquire a certificate of authorization for each activity they will conduct. There are 6 main types of activities:

- a) Intermediation for the issuance or public offering of capital market instruments,
- b) Intermediation for the purchase and sale of capital market instruments issued previously (secondary trading),
- c) Intermediation for the purchase and sale of derivative instruments as a whole or partially on the basis of categories including the futures and options contracts based

on economic and financial indicators, capital market instruments, commodities, precious metals and foreign currencies.

- d) Repurchase and reverse repurchase of capital market instruments,
- e) Investment consultancy,
- f) Portfolio management.

Brokerage houses have to obtain certificates of authorization for each activity from the Board. Brokerage houses must fulfill minimum capital requirements for all of the activities listed above, apart from intermediation for the purchase and sale of derivative instruments. The amount of minimum required capital for each activity has been specified in accordance with the risk involved in each respective activity. Apart from the activities listed above, brokerage houses may engage in margin trading, short sales and securities lending activities within the scope of secondary trading without any further required capital.

9. Macedonia

Securities Exchange Member

Corporate – trading only

10. Peru

Yes.

Taking into account the definition of “member” established in section 3(a)(3)(A)(iv) of the Securities Exchange Act of 1934 as a <<registered broker or dealer which agrees to be regulated by such exchange>>, there are two types of market intermediaries in the Peruvian securities market:

SOCIEDAD AGENTE DE BOLSA (SAB): It is a corporation authorized by the National Supervisory Commission of Companies and Securities (CONASEV). Its principal purpose is to intermediate securities within one or more centralized mechanisms of trading operating in a stock exchange. Nowadays, there are 18 SABs operating in Peru.

SOCIEDAD INTERMEDIARIA DE VALORES (SIV): It is a corporation authorized by the National Supervisory Commission of Companies and Securities (CONASEV). Its principal purpose is to intermediate securities that are not registered in a stock exchange. They cannot intermediate securities within centralized mechanisms of trading operating in stock exchanges. Currently, there are 2 SIVs operating in Peru.

It is important to mention that when a centralized mechanism of trading operates within a stock exchange, it is required the participation of a SAB in the trading of securities. In Peru, stock exchanges

can be established as partnerships or corporations. Lima Stock Exchange – BVL (the only exchange operating in the Peruvian securities market) has been incorporated as a corporation and its shares are listed in the BVL. Any person can be a shareholder of the BVL, but no one can possess direct or indirectly more than 5% of the voting shares.

11. Uganda

No.

12. Oman

- a) Securities Exchange Member
 - i. Individual – trading only NIL
 - ii. Corporate – trading only 20
 - iii. Corporate – Providing margin financing Not permitted.

- b) Commodity Exchange member
 - i. Corporate – clearing member No commodity exchange

- c) Margin financing provider only NIL

- d) Clearing House member NIL

- a. Other (please specify) Many of the intermediaries are also involved in other security market activities like investment banking, asset management etc. as permitted under the composite licensing framework.

13. Mongolia

- Ⓐ Securities Exchange Member
 - ii. Individual – trading only
 - iii. Corporate – trading only
 - iv. Corporate – Providing margin financing

- Ⓕ Clearing House member

14. Ghana

Yes. By the type of license held under the securities industry law (PNDCL 333 as amended) and under sec regulations, 2003, 1728.

Under the law, intermediaries are grouped under the general heading, “dealers”. These include broker-dealers and funds

Corporate – trading only	17 (seventeen)
Other (please specify)	funds – 9 (nine) and also 25 (twenty five) investment advisors who are by the Ghanaian law are allowed to manage funds

15. Costa Rica

All the intermediaries are both Corporate Securities Exchange members and Clearing House members, because the same institution (Bolsa Nacional de Valores) is in charge of both functions.

16. Panama

a) Securities Exchange Member

- i. Individual – trading only
- ii. Corporate – trading only
- iii. Corporate – Providing margin financing

No, there is no such a classification in the Securities Law. During the course of the licensing process, intermediaries are requested to explain in detail the services they intend to provide, so the information above would be (at least partially) contained in their Business Plan.

b) Commodity Exchange member

- i. Corporate – clearing member

No. At the present time, there are no commodities exchanges licensed in our jurisdiction.

c) Margin financing provider only

No. There are general provisions in the Securities Law regarding margin accounts but no regulations have been issued by the Commission. The internal rules of the Clearing House have adopted some provisions regarding securities lending agreements, but not in particular to margin accounts.

d) Clearing House member

No.

e) Other (please specify)

Financial intermediaries are distinguished by the type of activity they engage in: broker-dealer, investment manager (of Collective Investment Vehicles) and Investment advisors.

17. Slovakia

Non-classified

18. Uzbekistan

No

19. Romania

a) Securities Exchange Member

i. Individual – trading only

ii. Corporate – trading only

iii. Corporate – Providing margin financing

Yes, there are seventy Securities Exchange Members.

b) Commodity Exchange member

i. Corporate – clearing member

No

c) Margin financing provider only

No

d) Clearing House member

Yes, there are twenty-one Clearing House member

e) Other (please specify)

20. Israel

The financial intermediaries are distinguished according to the type of business they conduct and are subject to different sets of rules accordingly:

- Tel Aviv Stock Exchange Members - there are two categories of members – non-banking corporation members which are under the rules of the Stock Exchange; and banking corporation members which are subject to the rules of the Supervisor of Banks;
- Clearing House Members – there are two categories of members, as mentioned above;
- Banks – subject to the rules of the Supervisor of Banks;
- Insurance companies – under the Insurance Supervision Regulations;
- Portfolio Managers – under the Investment Advice and Investment Portfolio Managers Regulations;
- Mutual Fund Managers – under the Joint Investment Trust Regulations;
- Pension Fund Managers – under the Pension Funds Regulations;
- Provident Fund Managers – under the Provident Funds Regulations.

21. Lithuania

Yes

- a) Securities Exchange Member
 - i. Individual – trading only
 - ii. Corporate – trading only
 - iii. Corporate – Providing margin financing

22. Pakistan

- a) Securities Exchange Member
 - iv. Individual – trading only
 - v. Corporate – trading only

Yes, intermediaries are distinguished into individual and corporate, however, further classification as margin financier has not been introduced as yet.

- b) Commodity Exchange member
 - vi. Corporate – clearing member

All Commodity Exchange members are also classified as clearing members. The member could be an individual, a partnership or a corporate entity.

- c) Margin financing provider only
No
- h) Clearing House member
Every broker is a clearing house member
- i) Other (please specify)
Primary Government Bond Dealer

23. India

SEBI is the regulator for all capital market intermediaries in India. These intermediaries can broadly be distinguished as those providing services relating to primary markets (merchant bankers, bankers to issues, registrars and share transfer agents), secondary markets (stock brokers, sub-brokers, depository participants) and those into fund / wealth management business (asset management companies, portfolio managers, venture capital funds, custodian of securities etc.).

As regards the classification of stock exchange brokers is concerned, there are individual as well as corporate brokers. Brokers have to obtain separate registration from SEBI for equity segment and derivatives segment. There is no separate registration requirement from SEBI for dealing in debt market. However, the concerned stock exchanges require them to take permission for enablement to deal on debt segment. Similarly, to provide services such as margin financing / web trading also, the brokers have to obtain specific permission from stock exchange concerned.

Commodity exchange members are not under the jurisdiction of SEBI and are subject to regulatory oversight by a different regulator viz. Forward Markets Commission.

24. Nigeria

- Securities Exchange Member: YES
- vii. Individual – trading only
- viii. Corporate – trading only
- ix. Corporate – Providing margin financing

- b) Commodity Exchange member: YES
- x. Corporate – clearing member

c) Margin financing provider only : NO

d) Clearing House member: YES

3) How is “Capital adequacy” defined in your jurisdiction?

1. Bulgaria

The “Capital adequacy” of investment intermediaries shall be defined as minimum amount, structure and ratio of the capital with intermediaries’ balance sheet assets and liabilities, including minimum liquid resources as reserve against the market and other risks, related to their activity and for ensuring their liquidity and solvency.

2. El-Salvador

The capital adequacy is an amount establishes by Law (minimum capital) and up-date according the Consumer Price Index. The capital requirement does not take into account risks from affiliates and off-balance sheet risks.

3. Indonesia

Capital adequacy is defined as the capital required for market intermediaries in engaging activities in capital market sector.

Capital required consists of “paid-up capital” and “net adjusted working capital (NAWC)” as the capital requirement for daily operational. The NAWC is current assets (cash, cash equivalent, securities portfolio, and other assets) minus total liabilities, and adjusted by deducting risks that are possibly faced.

4. China

For a securities firm, capital adequacy is defined as the minimum net capital and the minimum net capital- related financial ratios , e.g., net capital to external liabilities(total liabilities minus clients’ deposit) with which a securities firm must comply.

5. South Africa

BESA

Minimum amount required to be maintained by Authorised Users of the exchange to enable them to trade or continue to trade and clear their trading obligations.

JSE

Authorised User must hold sufficient adjusted liquid capital to meet its base requirement and its risk requirement

Discretionary FSPs

There are no capital adequacy requirements for discretionary FSPs other than that they must be solvent (tangible assets over liabilities).

6. Malaysia

Capital Adequacy Requirements (“CAR”) are principally designed to ensure that stockbroking companies (POs) are entities of substance so as to foster confidence in the stock market and to create an environment in which stockbroking companies are able to wind down their stockbroking businesses without loss to their clients and without disruption to the stock market.

Essentially, the capital adequacy ratio for the stockbroking companies is calculated as Liquid Capital divided by Total Risk Requirement (“TRR”), in which TRR comprises of Operational Risk, Position Risk, Counterparty Risk, Large Exposure Risk and Underwriting Risk Requirements. A stockbroking company needs to maintain a capital adequacy ratio of at least 1.20 times.

In the case of futures brokers (TPs), they need to comply with the Adjusted Net Capital requirement (“ANC”). ANC is calculated based on Permitted Assets less Total Liabilities less Additional Deductions and a futures broker needs to maintain an ANC of RM500,000 or 10% of aggregate margin required, whichever is the higher.

7. Morocco

Capital + Reserve + Creditor balance carried forward to next account + premium – subscribed uncalled capital debtor balance carried forward to next account – debtor retained earnings –

8. Turkey

Please refer to attached document.

The regulations concerning capital adequacy are contained in the “Communiqué Serial: V, No: 34 on Principles Regarding Capital and Capital Adequacy of Brokerage Houses”¹.

The following paragraphs taken from the Explanations on the Implementation of the Communiqué explain the way in which “capital adequacy” is understood.

“The Communiqué is based on the fact that the paid up or issued capital amounts do not sufficiently reflect the financial status of a brokerage house. It is really true that in case of poor management of the assets, it is possible to face financial problems regardless of the amount of the paid up capital of a brokerage house. In addition to this, the paid up capital might be deposited on illiquid or risky assets.

In this case, in addition to paid up capital, the management method of assets and liabilities gains importance in terms of financial structure. The main function of this Communiqué is subjecting two brokerage houses with the same paid up capital to different evaluation by taking into account the structure of their assets. In this framework, a brokerage house with securities traded in exchanges among its assets and a brokerage house with receivables from a partner among its assets shall be subject to different considerations even if their paid up capitals are the same. This difference is provided by deducting all or part of certain assets from the initial capital within the framework of provisions of the Communiqué.”

9. Macedonia

According to the article 100 from the Macedonian Securities Law (new one, adopted in November 2005) on Risk Management, a brokerage house shall always have liquid assets at disposal, in amount prescribed by the Securities and Exchange Commission of the Republic of Macedonia (hereinafter: Commission) depending on the extent and the type of services related to securities and the risks it is exposed to while performing the services; for the purpose of reducing the risk the brokerage house shall operate so that it does not exceed the coefficient of exposure limitations prescribed by the Commission; the brokerage house shall fulfill the due liabilities and maintain the solvency.

10. Peru

¹ The Communiqué Serial: V, No: 34 and its annexes are available in English at the website of the Board at <http://www.cmb.gov.tr>.

Capital Adequacy regulation is aimed at guaranteeing that intermediaries maintain adequate solvency and liquidity levels that permit them cope with risks derived from their exposition to securities prices volatility. Likewise, Capital Adequacy regulation has the purpose to establish adequate leverage levels for each market intermediary when buying or selling securities for their own account as well as to determine a prudent measurement for the obligations they can assume when buying or selling for account of their clients.

11. Uganda

Capital adequacy is defined as the minimum capital financial intermediaries are required to maintain at all times and it depends on the category of licensee, that is, broker/dealer, fund manager or Unit Trust Manager.

12. Oman

Capital Adequacy is defined as the company's "Capital" (defined as shareholders' equity plus allowed Subordinated Loans) divided by the company's Requirements. Where Capital is more than Requirements, the company will have a Capital Adequacy of more than 100%. Requirements are defined by the Capital Adequacy Requirements. A copy of the relevant circular of the Capital Market Authority is enclosed.

13. Mongolia

Capital adequacy defined in Company law as " minimum amount of company's capital " company's capital or shareholders equity defined as "the excess of the amount of its non current and current assets , as reflected on the company's balance sheet, over the amount of its liabilities as reflected on the company's balance sheet' .

14. Ghana

Broadly defined as having 1) a capitalisation of one billion cedis (¢ 1 billion) which is approximately \$110,000, 2) a positive networth and 3) minimum liquid funds of 20% of aggregate indebtedness

15. Costa Rica

It is defined as "Capital Requirements" and is calculated in 2 steps:

1. The capital is adjusted following the next parameters:

Core capital = Common stock, preferred stock, additional paid in capital (non returnable)

Supplementary capital = other contributions, unrealized gains and losses on securities, current and previous period retained earnings. There are some deductions in this part, mainly 100% of receivables and the contribution to a settlement fund.

The amount of secondary capital in excess of core capital won't be considered.

2. The required capital is a calculation based on the risk of different factors (market risk, credit risk, assets under management, etc).

The adjusted capital should be greater than the required capital at all times.

16. Panama

Article 28 of the Securities Law provides as follows:

“Net Capital and liquidity requirements. The broker-dealer houses shall maintain the minimum capital required to comply with the obligations acquired with its clients and with its creditors, computed based on rules of net capital, according to what is established by the Commission. Likewise, they must comply with the liquidity requirements ordered by the Commission. The net capital and liquidity requirements shall be established by the Commission pursuant to the obligations undertaken by the broker-dealer house, the securities transactions carried out and the risks assumed by it. To this effect, a differentiation shall be established between the transactions which the broker-dealer house makes on its own behalf and the transactions made on behalf of others. The Commission shall not establish net capital or liquidity requirements which may restrict in an unreasonable or immoderate manner the participation of persons in the stock market.- The broker-dealer houses shall report to the Commission its compliance with the requirements of net capital and liquidity in the manner and as frequently as the Commission may determine.”

17. Slovakia

Under the Act no 566/2001 on securities and investment services and on amendments and supplements of certain laws Article 74, paragraph 3 (Capital adequacy means the ratio of own funds of the stock brokerage firm to the risk-weighted assets of the stock brokerage firm and to the market risks)

18. Uzbekistan

Equivalent of net assets

19. Romania

The regulation regarding prudential supervision of the investment firms is based on the application of capital requirements regarding the various types of risk incurred by the intermediaries. The purpose of the capital adequacy analysis is to assess the intermediaries' capacity to comply in time with the prudential requirements set by regulation and to identify elements from which can arise potential critical situation or can signal abnormal situation.

20. Israel

Capital adequacy for Tel Aviv Stock Exchange Members/Clearing House Members

As for banking corporations – see below ("capital adequacy for banks").

As for non-banking corporations – according to the rules of the Stock Exchange, a non-banking member (hereinafter NBCM) which is a member of the Stock Exchange Clearing House shall at all times have minimum equity of not less than the aggregate of the amounts prescribed below or the amount of New Israeli Shekels (NIS) 10 Millions, whichever is the higher.

An NBCM which is not a member of the Stock Exchange Clearing House shall at all times have minimum equity of not less than the amount equal to 50% of the aggregate amounts prescribed below or amount of 10 New Israeli Shekels (NIS) Millions, whichever is the higher -

(1) 0.25% of the total value of the shares and convertible securities in the securities portfolios of the NBCM's customers whose securities portfolios are held by the NBCM, excluding the value of such securities of the NBCM itself ("nostro"), of its interested parties or of companies under their control;

(2) 0.1% of the value of the portfolios, excluding shares and convertible securities, of the NBCM's customers whose securities portfolios are held by the NBCM, excluding the value of securities as aforesaid of the NBCM itself ("nostro"), of its interested parties or of companies under their control;

(3) 0.1% of the value of the portfolios of the NBCM's customers whose securities portfolios are held by other members and of the value of the portfolios of the customers of the supervised companies through which the NBCM acts in accordance with paragraph 13.a. of the Rules, whose securities portfolios are not held by the NBCM and of the value of the portfolios managed by mutual fund management companies or provident fund management companies which are subsidiaries of the NBCM and whose securities portfolios as aforesaid are not held by the NBCM, excluding the value of securities as aforesaid of the NBCM itself ("nostro"), of its interested parties or of companies under their control;

- (4) 0.1% of the NBCM's trading turnover in the last half year in short term loans and bonds traded in Israel and overseas;
- (5) 0.25% of the NBCM's trading turnover in the last half year in shares and convertible securities traded in Israel and overseas;
- (6) an NBCM which is a member of the Maof (derivatives) Clearing House Ltd - 100% of the daily average of the collateral in the last half year which the NBCM is liable to obtain from its customers on account of their transactions in derivatives traded on the Stock Exchange, in accordance with the by-laws of the Maof Clearing House Ltd. An NBCM which is not a member of the Maof Clearing House Ltd - 50% of the daily average of the collateral in the last half year which the NBCM is liable to obtain from its customers on account of their transactions in derivatives traded on the Stock Exchange, in accordance with the by-laws of the Maof Clearing House Ltd;
- (7) 50% of the daily average collateral in the last half year which the NBCM is liable to obtain from its customers on account of their transactions in derivatives traded on an overseas stock exchange or that are not traded, in accordance with the Rules.
- (8) an NBCM which is a member of the Maof Clearing House Ltd - 100% of the daily average of the NBCM's exposure in the last half year, on account of its transactions in derivatives, including through subsidiaries; an NBCM which is not a member of the Maof Clearing House Ltd - 50% of the daily average of the NBCM's exposure in the last half year, on account of its transactions in derivatives, including through subsidiaries.
- (9) 50% of the NBCM's expenses in the last half year.

Capital adequacy - Banks –

A crucial, though not the only tool for testing capital adequacy is the maintenance of a minimum ratio of capital to the weighted risk elements of banking business. However, it must be emphasized that the minimum ratio required is not necessarily the optimum ratio, and most banking corporations are expected to maintain a higher ratio. The capital of a banking corporation shall not be less than 9% of the total risk-weighted elements of balance-sheet assets and off-balance-sheet items. Notwithstanding the aforesaid, the Supervisor of Banks may adopt a higher minimum capital ratio for certain corporations. The method of calculating capital is based on the classification of capital as core capital, supplementary capital and tertiary capital. Supplementary capital includes two categories which will not exceed a certain proportion of the core capital; certain investments in affiliated companies which are not non-banking corporations, in unconsolidated subsidiaries, and in another banking corporation

are to be deducted from capital. The tertiary capital will only be used to cover the exposure to market risk.

Risk weighting - The sum of the risk-weighted elements in the business of banking corporations will be the sum of:

(a) The balances of all balance-sheet assets and off-balance-sheet items, weighted according to the degree of credit risk.

(b) The multiple of the capital requirement for market risk exposure, being the converse of the minimum required capital ratio – namely.

The risk weights are based on the type of customer or counterparty. When the ultimate responsibility has been transferred by means of guarantees or letters of indemnity, this must be taken into account when assigning risk weights. If an asset held by a bank is under a lien or collateralised a third-party debt, or if a banking corporation makes a deposit with another banking corporation earmarked for loans to a third party on the depositor's responsibility, the weighting will be according to the third party's risk category. Taking into consideration the differences in the credit-risk element in transactions defined as off-balance-sheet items (guarantees, documentary credits, futures transactions, etc.), a credit conversion factor is to be applied before the credit risk weighting is computed.

The banking corporation will first calculate whether its core and supplementary capital meet the required ratio for credit risk. Thereafter, to the extent the core and supplementary capital are not sufficient in fulfilling the requirements for market risks too, the banking corporation will ensure that it has tertiary capital which will be used for that purpose.

Insurance companies - shall have minimum equity of not less than the aggregate of the amounts prescribed in the relevant regulation or the amount of New Israeli Shekels (NIS) 20 to 60 Millions (according to the type of insurance business), whichever is the higher.

Portfolio Managers – minimum equity of 223,000 NIS.

Mutual Fund Managers – minimum equity of 700,000 NIS.

Pension Fund Managers – minimum equity of NIS 7 Millions;

Provident Fund Managers – minimum equity of NIS 2 Millions.

21. Lithuania

Capital adequacy – capital requirement which shall be calculated in order to ensure that firms have enough liquid own capital to meet their liabilities. Firms must adhere to the initial capital and capital adequacy requirements. . Capital adequacy of a firm shall be expressed by the ratio of liquid own capital

and capital adequacy requirement. A firm is said to meet the capital adequacy requirement when this ratio is higher than 1. Expressed in percentage points, this ratio may not fall below 100 %.

22. Pakistan

The Securities and Exchange Rules, set out a definition of “Net Capital” for Members of the exchange. The Member’s auditor has to certify the Member’s NCB calculation on June 30 and December 31, duly certified by a practicing Chartered Accountant latest by 30th September and 31st March respectively. This “Net Capital” requirement is utilized by the exchanges to determine the maximum exposure permissible, under the Stock Exchange’s Member Exposure Regulations. Currently brokers have their trading volume for the T+3 trades determined as a multiple of their ‘Net Capital Balance’ (NCB). This is currently set at 25 times NCB.

23. India

One of the pre-conditions as laid down in the regulations for intermediaries is capital adequacy. The requirement varies from intermediary to intermediary depending on the type of risk profile and nature of activities undertaken and is specified in terms of minimum net worth requirements. Net worth is basically the sum of paid up capital and free reserves less accumulated losses. Preference capital is counted towards capital in case of some of the market intermediaries viz. merchant bankers, registrars to issue & share transfer agents, custodians, underwriters, asset management companies.

In addition, exchanges have an upfront margining system in place for which capital is required to be deposited with the exchange by the broker. Margins payable by brokers are adjusted with the capital so deposited on a real time basis, as and when the trades take place. In case the capital deposited with the exchange falls short of margin calls, the brokers are deactivated automatically and reactivated only when they bring in additional capital

24. Nigeria

Same as defined in this document

4) Are there any Capital Adequacy requirements/guidelines for market intermediaries in your jurisdiction?

Yes No

a) If yes, please elaborate.

1. Bulgaria

Yes

The Law on Public Offering of Securities and the Ordinance No 6 of the FSC on the capital adequacy and liquidity of the Investment Intermediaries are related to the Capital Adequacy of the financial intermediaries, operating on the capital market in Bulgaria

2. El-Salvador

No

The Securities Market Law establishes a minimal capital for the market intermediaries. This amount is update every two years taking into account the variation of the Consumer Price Index

3. Indonesia

Yes

Based on Bapepam regulation number V.D.5 regarding Maintenance and Reporting NAWC, market intermediaries are obliged to submit the NAWC electronically every day by 9 am at the latest. On the mentioned regulation, the intermediaries are guided on how to calculate the NAWC, trough the submission of the forms attached to this regulation. In addition, Bapepam also issued a guideline that depicted the scenario on accounting journal entries and on how to develop the report.

4. China

Yes

According to *Measures on the Administration of Securities Firms (CSRC Order No.5)*, the net capital for a brokerage firm should be not lower than RMB 20 million and for a comprehensive-type securities firm not lower than RMB 200 million; for all securities firms, the ratio of net capital to liabilities should be not lower than 8%.

At present, the CSRC is dedicated to establishing a complete securities firms risk control indicators supervisory system, i.e., *Securities Firms Risk Control Indicators Supervision Rules (SFRCISR)*, which will tighten the capital adequacy requirements that a securities firm is required to meet. SFRCISR is expected to be issued in late 2006.

5. South Africa

There are extensive rules and directives dealing with Authorised Users' prudential requirements, including detailed provisions regarding the computation of adjusted liquid capital, base requirement and the various risk requirements.

6. Malaysia

Yes

For Participating Organisation – *prescribed in the Rules of Bursa Malaysia Securities Berhad*

For Trading Participants – *prescribed in the Rules of Bursa Malaysia Derivatives Berhad*

7. Morocco

Yes

1,5 millions MAD for intermediaries having intermediation as unique activity;

5 millions MAD for brokerage firms exercising, in addition to intermediation, custody, issuing activity, counterpart and wallet management mandate.

8. Turkey

Yes; please refer to attached document.

As mentioned above in the response to Question 3, regulations concerning the capital adequacy of brokerage houses are contained in the Communiqué Serial: V, No: 34. The regulations aim to assess the financial situation of brokerage houses by taking into account the assets in which their equity capital is invested, the risks they face in their various transactions, whether their liquid assets cover their short-term debts and their indebtedness. The requirements contained in the Communiqué Serial V, No: 34 will be elaborated on in the responses to further questions.

9. Macedonia

See item 3 above.

10. Peru

Yes

According to the Securities Market Law, market intermediaries must maintain a paid-up capital in excess of the Capital Adequacy (minimum capital). Likewise, net worth must be greater than the Capital Adequacy.

11. Uganda

Yes.

Broker/dealers and Unit Trust Managers are required to maintain at all times a net capital of 15 million and 200 million Uganda shillings respectively. Fund managers should maintain a minimum level of shareholders' funds of 150 million Uganda shillings. There are no specific capital adequacy requirements for investment advisers.

12. Oman

Copy of the circular on capital adequacy and the reporting format enclosed.

13. Mongolia

Yes. By Securities market Law established next requirements

Stock exchange's minimum capital should not be less than 1.0 bln

SDAQ-s -500.0 mln .

Central Depository and Clearing House -100.0 mln.

Mutual and Investment fund -100.0 mln

Broker dealers company -50.0 mln

Underwriting company -200.0 mln .

By regulation of FRC established minimum amount of current assets percentage of paid in capital .

Stock Exchange , SDAQ , mutual and investment fund's –in 30%

Central Depository and clearing House in 75 %

Also established minimum amount of Risk Reserve in 3 % of paid in capital for all types of financial intermediaries

14. Ghana

Yes

As above, at all times

15. Costa Rica

Yes See above.

16. Panama

Yes From the legal provision mentioned in the preceding question, the Commission has issued Agreement (regulation) No. 2-2004, whereby the Minimum Capital Adequacy rule for Broker-dealers is established as follows:

“Article 5 (Minimum Capital Adequacy): Every broker-dealer shall constitute and maintain free of encumbrances at all times, a minimum total equity of ONE HUNDRED AND FIFTY THOUSAND BALBOAS (B/. 150,000.00). The minimum capital adequacy shall correspond to capital and reserves from the shareholders of the corporation and will be represented by the following segments: capital effectively paid in to the date of the Balance; greater value obtained in the placement of shares –vs- their face value; declared reserves; profits or loss generated in previous periods and income or loss generated during the period. Whenever the broker-dealer provides the service of discretionary management of investment accounts, their proprietary funds shall never be less than one per thousand of the total volume of the portfolios managed. This minimum capital adequacy shall be adjusted once the National Securities Commission issues the Agreement on net capital and prudential supervision.”

A similar provision exists in regards to investment managers, whose minimum capital adequacy requirement have been set in the amount of B/. 150,000.00. Investment advisors do not have minimum capital requirements.

* The official currency in Panama is the Balboa, but it runs at par with the US Dollar.

17. Slovakia

Yes

Act no 566/2001 Coll. on securities and investment services and on amendments and supplements of certain laws Decree 559/2002 Coll. on capital adequacy of security dealers

18. Uzbekistan

Yes, Special regulation which sets minimum requirement to capital adequacy.

19. Romania

Yes. The R.N.S.C. Regulation no. 9/2004 on capital adequacy of investment firms establishes the provisions regarding the capital adequacy and the monitoring and limitation of risks to which investment firms are exposed in accordance with Law no. 297/2004 on capital market.

20. Israel

Yes, as stipulated in the answer to question 3 above.

21. Lithuania

Yes

Resolution concerning the rules on calculation Capital Adequacy of Financial Brokerage Firms;
Resolution on Capital Adequacy Requirements on Management Companies

22. Pakistan

Yes

The current Net Capital formula was set in 2001 and is calculated as 'Adjusted Current Assets' minus 'Adjusted Current Liabilities'. Current Assets are adjusted for certain items. Liabilities are calculated in accordance with GAAP

The "Net Capital" requirement is utilized by the exchanges to determine the maximum exposure permissible, under the Stock Exchange's Member Exposure Regulations. Currently brokers have their trading volume for the T+3 trades determined as a multiple of their 'Net Capital Balance' (NCB). This is currently set at 25 times NCB.

The Corporate members of the Exchange are however required to adhere to a minimum paid up capital requirement of Rs. 20 million at all times, and for individual members the net capital balance requirement at present is Rs. 2.5 million.

There is no provision while calculating NCB which recognizes the treatment of derivative products, illiquid stocks, and any type of limit on investment positions as a ratio to NCB nor is there any stock concentration limit. There is no clarity on how futures positions offsetting cash positions should be handled for client margining and NCB.

23. India

Yes. SEBI has prescribed net worth requirements for various market intermediaries. For example, minimum net worth for asset management companies stands at Rs. 10 crores. For portfolio managers and depository participants who also undertake broking activities, the net worth requirement is of Rs. 50 lacs. For brokers, a base minimum capital requirement has been spelt out by SEBI (Rs. 10 lacs for major stock exchanges and Rs. 7 lacs or Rs. 4 lacs for smaller stock exchanges, depending upon the size). Exchanges are at liberty to set a higher limit. Members' positions are subject to a comprehensive margining system which takes into account mark to market margins, VaR margins to cover potential losses for 99% of the days and extreme loss margins to cover the expected loss in situations that lie outside the coverage of VaR margins. These margins coupled with base minimum capital takes care of market risk/ operational risk.

24. Nigeria

Yes. See Rule , 17 (2) (v) (a), (b) and (e) and 17 (4) . On our web site – www.sec.gov.ng – See Appendix 1

5) Who defines Capital adequacy, the Regulator or the SRO?

1. Bulgaria

The Capital adequacy is defined by the Regulator, represented by the Financial Supervision Commission /FSC/.

2. El-Salvador

It establishes in the Securities Market Law, and the lines for it update is issuing by the Regulator.

3. Indonesia

Regulator

4. China

The Regulator, i.e. CSRC.

5. South Africa

The SRO in consultation with the Regulator. The Regulator approves the rules of the SROs

6. Malaysia

The Securities Commission had recognised the need for a new risk-based capital adequacy framework as part of a co-ordinated effort to establish more relevant and better prudential standard of the Malaysian capital market and had thus pressed for such a framework. In this regard, the Securities Commission had directed the SRO to initiate a project on risk-based capital adequacy requirement for stockbroking companies. The SC has worked closely with Bursa to develop the said framework and the new risk-based framework replaced the Minimum Liquid Fund requirement since 1999.

7. Morocco

Finance ministry

8. Turkey

The regulator, i.e. the Capital Markets Board of Turkey (the Board)

9. Macedonia

According to the Securities Law as stated above, the Commission as regulator shall prescribe the amount, type and the manner of maintaining, calculating and inspection of the liquid assets of the brokerage house. However, the Commission is at the moment preparing this regulation, so it is still not adopted and entered into force.

10. Peru

The National Supervisory Commission of Companies and Securities (CONASEV), the Regulator, defines Capital Adequacy.

11. Uganda

The Regulator.

12. Oman

The regulator

13. Mongolia

Capital adequacy requirement defined in Securities Market law . / According to the recently adopted Law on Legal status of Financial Regulatory Commission /

14. Ghana

Under the securities industry law, it is the regulator (sec) which determines the minimum capital adequacy requirement for all securities market operators

15. Costa Rica

The Regulator (Superintendencia General de Valores-SUGEVAL)

16. Panama

Establishing capital adequacy requirements are a power granted to the National Securities Commission by virtue of Law. The SROs may set capital adequacy requirements for prospective members (and they do), however these requirements are contract-based.

17. Slovakia

Regulator

18. Uzbekistan

Centre on coordination and control over functioning of securities market of the Republic of Uzbekistan

19. Romania

The Capital adequacy is defined by the Romanian National Securities Commission.

20. Israel

The Regulator, however with regard to the Stock Exchange Members/Clearing House Members - the SRO in consultation with the regulator. The regulator has to approve the rules of the SRO.

21. Lithuania

Capital adequacy is defined by the Regulator – Lithuanian Securities Commission.

22. Pakistan

Rule 2 (d) of the Securities and Exchange Rules, 1971 sets out a definition of “Net Capital” for a Member of the exchange determined in accordance with the Third Schedule annexed to these rules. The Rules are administered by the Regulator, therefore the Regulator defines Capital adequacy in Pakistan.

The “Net Capital” requirement is utilized by the exchanges to determine the maximum exposure permissible, under the Stock Exchange’s Member Exposure Regulations. Currently brokers have their trading volume for the T+3 trades determined as a multiple of their ‘Net Capital Balance’ (NCB). This is currently set at 25 times NCB.

23. India

SEBI lays down minimum capital adequacy requirements for various intermediaries including stock brokers and depository participants. In respect of stock brokers and depository participants, Stock Exchanges and Depositories who conceptually function as SRO, are at liberty to lay down more stringent norms on capital requirements for these intermediaries.

24. Nigeria

The Regulator

6) Who can amend the Capital Adequacy requirement?

1. Bulgaria

The Regulator of non-banking financial sector in Bulgaria – the FSC

2. El-Salvador

The Regulator

3. Indonesia

Regulator, Bapepam and the Minister of Finance

4. China

The CSRC.

5. South Africa

The SRO with the approval of the Regulator.

6. Malaysia

The capital adequacy requirements are prescribed in the rules of the exchanges. Pursuant to the Securities Industry Act 1983 and Futures Industry Act 1993, any amendments to the rules of the exchanges would require the approval of the Securities Commission.

In addition to that, pursuant to the power vested under the said laws, the Securities Commission may also direct the exchanges to amend their rules in such manner and within such period as may be specified in the notice to the exchanges.

7. Morocco

Finance ministry

8. Turkey

The Board.

9. Macedonia

The Commission, since it is legally authorized to adopt it.

10. Peru

Since the Securities Market Law establishes the Capital Adequacy requirement, only another law approved by the Peruvian Congress could establish a different Capital Adequacy requirement.

11. Uganda

The Regulator (Capital Markets Authority).

12. Oman

The regulator

13. Mongolia

Financial Regulatory Commission

14. Ghana

The Regulator (SEC)

15. Costa Rica

The Regulator (Superintendencia General de Valores-SUGEVAL) with the approval of the National Council of Supervision of the Financial System (Consejo Nacional de Supervisión del Sistema Financiero-CONASSIF).

16. Panama

The National Securities Commission, by virtue of new regulations issued or the Executive Power, by means of a legal reform.

17. Slovakia

Regulator

18. Uzbekistan

Centre on coordination and control over functioning of securities market of the Republic of Uzbekistan

19. Romania

The Romanian National Securities Commission can amend the Capital Adequacy requirement.

20. Israel

The regulator but as for Stock Exchange Members/Clearing House Members - the SRO with the approval of the Regulator.

21. Lithuania

Lithuanian Securities Commission

22. Pakistan

Regulator has the power to amend the Capital Adequacy requirement; however, SROs can also make amendments, provided they are approved by the Regulator.

23. India

Capital adequacy requirements can be amended by SEBI, as also the exchanges and the depositories. However, any amendment made by the exchanges / depositories is subject to minimum capital adequacy requirements laid down by SEBI.

24. Nigeria

The Regulator

7) How frequently can the Capital Adequacy requirement be changed?

1. Bulgaria

There is no limit, changes to be made in the requirements. The amendments of the Capital Adequacy are in accordance with the development of the financial system, as well as by the necessity to harmonize the national legal framework with that of the European Union (EU).

2. El-Salvador

Every two years.

3. Indonesia

The Capital Adequacy requirement can be changed anytime when it is deemed necessary.

4. China

The CSRC can change the capital adequacy requirements according to the development of the capital market and its regulatory needs. So far, the capital adequacy requirements described in the answer to question 4 haven't been changed since they were set forth in *Measures on the Administration of Securities Firms* in 2001.

5. South Africa

As and when required.

6. Malaysia

The frequency of change is not defined, but the requirements are constantly being reviewed to ensure they remain updated and relevant.

7. Morocco

It has not been changed since 1994.

8. Turkey

There are no restrictions on the frequency of amendments in regulation. Regulations can be changed when the need arises. The minimum amount of capital that must be fulfilled by brokerage houses for each activity as defined in the response to question 2 above is raised annually by a fraction of the revaluation rate announced by the Ministry of Finance upon the decision of the Board.

9. Macedonia

As often as it's necessary, but the Commission may adopt permanent regulations after providing public notice of its draft regulation and providing all interested persons an opportunity within thirty (30) calendar days to submit written comments. Regarding the adopted regulation, the Commission shall publish a summary of the comments received on its web-site; the procedure for amending regulations shall be the same as that set forth in the previous paragraph.

10. Peru

As long as Capital Adequacy requirement is established by law, it would take a considerable time to make an amendment to the Securities Market Law, approved by the Peruvian Congress.

However, it is important to note that the minimum capital (Capital Adequacy) established by the Securities Market Law is a constant value in Nuevos Soles. This amount is adjusted annually at the end of each year taking into account the Wholesale Price Index variation (Index = January 1996).

11. Uganda

As and when the Capital Markets Authority deems it necessary.

12. Oman

As desired by the regulator.

13. Mongolia

There is no defined time interval.

14. Ghana

As the regulator sees fit, depending on its assessment of the environment

15. Costa Rica

It can be changed anytime by issuing new regulation. In practice it has been about each 3-4 years.

16. Panama

A specific or determined frequency to exercise the powers granted by Law to the Commission does not exist.

17. Slovakia

Not specified

18. Uzbekistan

Upon need

19. Romania

Every time when EU Capital Adequacy Directive is modified, the Romanian National Securities Commission (RNSC) changes the Regulation regarding capital adequacy.

20. Israel

As and when required.

21. Lithuania

Capital Adequacy requirement can be changed if there is a necessity to do so.

22. Pakistan

Changes are not very frequent or easy, however improvements are suggested to make it easier to adjust considering the market requirements.

23. India

There is no set frequency for changing capital requirements.

24. Nigeria

As the need arises

8) What type of Capital Adequacy approach is in place?

- a) Net Capital Approach,**
- b) Risk based Approach**
- c) Risk adjusted approach (VAR approach)**
- d) Any other (for e.g. Capital Adequacy Directive / Basel Approach)**

1. Bulgaria

The basic approach in use is the Net capital Approach. As well used by the FSC is the Risk based Approach.

2. El-Salvador

- a) Net Capital Approach,

3. Indonesia

The approach on setting the Capital Adequacy is a combined approach between Net Capital and Risk based approach. Whereas the capital of market intermediaries is calculated by the net capital and adjusted it with risks that are faced by the intermediaries. (for further calculation explanation, please refer to question answer number 15).

4. China

- a) Net Capital Approach,

5. South Africa

BESA

Capital Adequacy Directive which is based on VAR. Authorised Users' capital adequacy requirements are calculated as per the Directive. However, their value at risk is then calculated based on their net position and compared against the capital showed on the return that Authorised Users are required to submit on a monthly basis to BESA. Accordingly these give BESA an indication as to the level of capital adequacy that the Authorised Users should have in relation to the amount of losses that the Authorised Users can absorb to their balance sheet. Basing their capital on their value at risk also gives BESA a clear indication of the cost that could result should an Authorised User default. The value at risk is a clear indication of the re-transaction cost that could be involved to re-transact in case of default.

JSE

Capital adequacy requirements are based on the EU Capital Adequacy Directive.

6. Malaysia

- a) Risk based Approach
- b) Any other (for e.g. Capital Adequacy Directive / Basel Approach)

7. Morocco

- a) Net Capital Approach,

8. Turkey

The capital adequacy approach adopted in Turkey can be described as a mixture of various approaches.

All brokerage houses are required to calculate and maintain a minimum amount of capital on an on-going basis.

There are 4 basic requirements for brokerage houses:

- i) They must meet the required minimum shareholders' equity specified according to the certificates of authorization they hold (**Article 7 of the Communiqué Serial: V, No: 34**).

ii) The capital adequacy base (or own funds) of brokerage houses is the amount calculated by deducting the illiquid assets from their shareholders' equity (Article 4 of the Communiqué Serial: V, No: 34).

Capital adequacy base of brokerage houses shall not be less than either one of the following items;

- Minimum shareholders' equity corresponding to the certificates of authorization they possess,
- Risk provision (position risk, counter-party risk, risk for large exposures, foreign exchange risk),
- Operating costs of the last quarter.

(Article 8 of the Communiqué Serial: V, No: 34)

iii) The sum of all short and long term payables and liabilities of brokerage houses shall not exceed 15 times their capital adequacy base (Article 9 of the Communiqué Serial: V, No: 34).

iv) (Liquidity Requirement) Brokerage houses must have current assets in an amount at least equal to their short-term debts (Article 10 of the Communiqué Serial: V, No: 34).

9. Macedonia

See item 5.

10. Peru

a) Net Capital Approach,

11. Uganda

Net Capital Approach,

12. Oman

Similar to Net Capital Approach

13. Mongolia

a) Net Capital Approach,

14. Ghana

a) Net Capital Approach

15. Costa Rica

Both Risk Based Approach and Net Capital Approach. We expect to change our Regulation this year in the Basel Approach direction.

16. Panama

Currently, it is a Capital Adequacy approach.

17. Slovakia

Any other (for e.g. Capital Adequacy Directive – CAD)

18. Uzbekistan

a) Net Capital Approach

19. Romania

d). The Regulation no. 9/2004 on capital adequacy of investment firms contain the provisions of the EU Capital Adequacy Directive.

20. Israel

- Tel Aviv Stock Exchange Members/Clearing House Members – risk based approach (currently examining adaptation towards VAR approach).
- Banks – Basel Approach (towards adaptation to Basel 2 approach);
- Insurance companies – net capital approach (currently examining adaptation to "Solvency-2");
- Portfolio Managers and fund managers – net capital approach.

21. Lithuania

b) Any other (for e.g. Capital Adequacy Directive / Basel Approach)

The calculation of Capital Adequacy requirements is based on Council Directive 93/6/EEC of 15 March 1993 on the capital adequacy of investment firms and credit institutions.

22. Pakistan

Currently it is the Net Capital approach.

23. India

Capital market intermediaries in India are subject to net worth requirements specified by SEBI in the regulations. Basel approach is normally for banks which do not come under the purview of SEBI and fall under the regulatory jurisdiction of Reserve Bank of India.

In addition, there exists a comprehensive risk management framework for stock broker for both equity and the derivatives segment. For Broker - Depository Participants, the assets under custody are linked to multiple of net worth, in case the net worth of the entity is less than Rs. 10 crores. There is no limit on assets under custody for those broker DPs who have minimum net worth of Rs. 10 Crores.

24. Nigeria

Any other (for e.g. Capital Adequacy Directive / Basel Approach)

Risk Management for Cash / Equity Market:

Core of the risk management system is the liquid assets deposited by the members with the exchanges / clearing corporation. These liquid assets are intended to cover the following:

MTM (Mark To Market) Losses: Mark to market losses on outstanding settlement obligations of the member. MTM margins are collected on the gross open positions of members.

VaR Margins: Value at risk margins to cover potential losses for 99% of the days. The collection of VaR margins is on an upfront basis and is collected on the gross open positions of the members by adjusting against the total liquid assets of the members at the time of trade. VaR margin is released at the time of pay-in of securities. For liquid stocks, the VaR margins are based only on the volatility of the stock while for other stocks, the volatility of the market index is also used in the computation.

Extreme Loss Margins: Margins to cover the expected loss in situations that lie outside the coverage of the VaR margins. Extreme loss margin is set at a higher of 5% or 1.5 times the standard deviation of daily logarithmic returns of the stock price in the last six months. Extreme loss margins are collected / adjusted against the total liquid assets of the member on a real time basis.

Base Minimum Capital: Capital required for all risks other than market risk (for example, operational risk and client claims).

Special Margin : Special Margin collected as a surveillance measure.

At all the points of time, the liquid assets of the member shall be adequate to cover all the above requirements except for special margins which are collected as a surveillance measure.

Positions of institutional investors (FIIs, mutual funds, public financial institutions, banks and insurance companies) are exempted from margin requirements.

In case of any shortfall in margins, the trading terminals of the brokers are immediately deactivated.

Though the collection of margin from the clients is at the discretion of the broker, the margin requirements towards the exchange have to be met by the broker.

Risk Management for Derivatives Market:

Two type of margins have been specified:

Initial Margin - Based on 99% VaR and worst case loss over a specified horizon, which depends on the time in which Mark to Market margin is collected.

Mark to Market Margin (MTM) - collected in cash for all Futures contracts and adjusted against the available Liquid Networth for option positions. In the case of Futures Contracts, MTM may be considered as Mark to Market Settlement.

Clearing Members and Trading Members are required to collect initial margins from all their clients. The collection of margins at client level in the derivative markets is essential as derivatives are leveraged products and non-collection of margins at the client level would provide zero cost leverage. Clearing members and trading members are required to report on a daily basis, details in respect of such margin amounts due and collected from their Trading members / clients clearing and settling through them.

9) Are there separate “net capital” and “paid-up capital” requirements? Yes No

1. Bulgaria

Yes

2. El-Salvador

The Securities Market Law establishes that the net worth (net capital stock) can not be less than minimum capital. The net worth is calculated add to the capital stock the legal reserves and other capital reserves originating of current earnings, add amount of surplus and accumulated earnings and 50% of net earnings, more 50% of the authorized revaluation minus losses.

It is requested the pay in cash of the whole Minimum capital.

3. Indonesia

Yes

Yes. There is a separate requirement for paid-up capital and net capital. Minimum paid-up capital is required as an initial requirement for setting up an intermediary and a minimum net capital requirement is required on daily basis as an operational necessity.

4. China

The Article 127 of China Securities Law specifies the different minimum registered capital requirements for securities firms engaged in different types of businesses. The Article also stresses that the registered capital of a securities firm should be paid up once in full.

The minimum registered capital requirements for securities firms engaged in different businesses are as follows:

Business type	Item No.	Minimum requirement (in million yuan)
Securities brokerage, Securities investment advising and Financial consulting related to securities trading and securities investment activities		50
Any one of Securities underwriting &		100

Sponsoring, Proprietary securities business, Securities asset management and other securities businesses		
Two or more of Securities underwriting & Sponsoring, Proprietary securities business, Securities asset management and other securities businesses		500

5. South Africa

BESA - No

JSE – The JSE uses a liquid asset or net capital approach.

6. Malaysia

Yes

7. Morocco

Yes

8. Turkey

Yes; at least 25% of the shareholders' equity must be in the form of paid-up capital.

9. Macedonia

See item 5.

10. Peru

Yes

“Paid-up Capital” must be equal to or greater than Capital Adequacy established by the Securities Market Law.

“Net Capital” (or “liquid asset” according to the definitions provided previously in this questionnaire) requirement is established by the Market Intermediaries Regulation, approved by Resolucion CONASEV N° 843-97-EF/94.10 published on December 27th 1997, through the LIQUIDITY AND SOLVENCY RATIO – LSR (Indicador de Liquidez y Solvencia).

The LSR is equal to the Net Capital divided by total sum of (i) Risk-adjusted securities portfolio (own account) and (ii) market intermediaries and their clients' unsecured positions in repos, securities lending, money credits, short sales and other positions that represent obligations for market intermediaries. This indicator must be equal to or greater than 1.

11. Uganda

Not applicable; we do not have paid-up capital requirements for market intermediaries.

12. Oman

No

13. Mongolia

No

14. Ghana

No

15. Costa Rica

Yes

16. Panama

No. See answer to questions 3 and 4.

17. Slovakia

In case of CAD approach "net capital" is not relevant.

18. Uzbekistan

Yes

19. Romania

No

20. Israel

No

21. Lithuania

Yes

22. Pakistan

Yes, the minimum paid up capital requirement for corporate entities is Rs. 20million. There is no minimum capital requirement for non corporate members. However, all stock brokers are required to comply with minimum net capital requirements, as defined in Rule 2 (d) of the Securities and Exchange Rules 1971.

23. India

Not generally.

24. Nigeria

No

10) What are the components of “Liquid asset” in your jurisdiction?

1. Bulgaria

The components of Liquid assets are:

- pecuniary means;
- government securities, which have market price or are with residual term till the maturity of up to 90 days;
- bonds and shares, which have market price.

For more details see Article 3 of the ORDINANCE No 6 on the capital adequacy and liquidity of the Investment Intermediaries.

2. El-Salvador

- Cash

- Bank
- Short Investment
- Accounts to receive
- Related accounts
- Profits receivable
- Taxes

3. Indonesia

Liquid/Current Assets:

1. *Cash and Banks*

Escrow Accounts Customer Cash

Escrow Accounts Customer Securities

Other demand deposits

Bank Time Deposits

Securities purchased under agreements to resell

2. *Securities Owned - fair market value (long positions)*

Debt Obligations of BI and Gov of Indonesia

Rated Commercial paper (Indonesian issuers)

Equities Listed on Indonesian Securities Exchanges

Debt Securities Listed on Indonesian Securities Exchanges

Other securities registered with Bapepam

Securities Listed on Foreign Securities Exchanges

3. *Due from Clients (Custody)*

Clients' purchases pending settlement date

Debit Balances in clients' securities accounts

Due from Non Account Clients (IPOs)

4. *Due from Institutional clients (Non Custody)*

Institutional Client purchases pending settlement date

Fails to deliver - Institutional purchases

5. *Due from clearing guarantee corporation*

Deposits for securities borrowed

Other cash collateral

Receivable on cleared transactions

6. *Due from securities companies*

Deposits for Securities borrowed from other Brokers

Securities Account balances with Clearing members

Due from Securities companies (pending settlement)

Commissions and fees receivable

Fails to deliver -Securities companies

Dividends and Interest receivable

Further, please refer to attachment NAWC calculations Forms V.D.5-1

4. China

Liquid assets include cash, bank deposits and short-term investment.

5. South Africa

BESA - Any assets that could be converted into cash within 3 months

JSE - All assets other than intangible assets, fixed assets (net of unsecured loans)
and investments in unlisted securities

6. Malaysia

CAR

Liquid assets mean securities or other current assets which have a ready market, or which are capable of realisation within thirty (30) days.

ANC requirement

Permitted assets are cash and other assets which are commonly identified as being current assets and are realisable for cash or collectible within 10 business days.

7. Morocco

- Cash
- Monetary funds
- Short term guaranteed securities

8. Turkey

Although there is no formal definition of “liquid asset”, generally short term receivables and assets that for which there is an active market or in other words assets that can be readily sold are considered to be liquid. Furthermore, according to Article 4 of the Communiqué Serial V, No: 34, the following items are considered to be illiquid or risky and thus deducted from the shareholders’ equity to calculate the capital adequacy base (or own funds):

- a) Fixed Assets;
 - 1) Tangible fixed assets (net),
 - 2) Intangible fixed assets (net),
 - 3) Fixed asset investments, left after deducting their capital commitments and provision for decrease of value of fixed asset investments, excluding the ones traded in stock exchanges and other organized markets,
 - 4) Other fixed assets,
- b) Receivables without collateral from personnel, partners, subsidiaries, affiliated undertakings and individuals and institutions who have direct or indirect relations in terms of capital, management and auditing even with the title of customer and capital market instruments not traded in stock exchanges and other organized markets issued by such individuals and institutions.

Furthermore when calculating risk provisions, the haircut ratios applied to each item on the balance sheet of the brokerage houses were specified taking into account their riskiness and liquidity. Please refer to the response under Question 16 for details.

9. Macedonia

See item 5.

10. Peru

“Liquid asset” (or “Net Capital” according to the definitions provided previously in this questionnaire) is composed of the most liquid resources of each market intermediary. It is calculated as the sum of net worth and subordinated debt minus the following concepts:

- Account receivables whose maturities have occurred more than 30 days ago.
- Credits and other receivables whose maturities have occurred more than 30 days ago.
- Credits and advances to related companies, shareholders, managers and directors.
- Shares issued by stock exchanges and clearing houses.

- Net fixed assets.
- Net intangible assets.
- Prepaid expenses.

11. Uganda

After calculating net capital, the following adjustments (deductions) are made to come up with adjusted liquid capital:

- All liabilities
- Contingent liabilities
- Debtors and other current assets not convertible into cash within fourteen business days
- Guarantees provided by the licensed person
- Amount of investment in other business.

12. Oman

-

13. Mongolia

Liquid assets are cash, marketable securities and account receivables

14. Ghana

Shareholders funds less value of fixed assets, loans extended, and loans received, assets of doubtful collection, deferred expenses and intangible assets, hair cuts of 15% on publicly traded securities and 25% on non quoted securities

15. Costa Rica

They are not clearly defined yet, we expect to change it this year. Currently are cash and cash equivalents, securities with less than 180 to maturity and money market funds.

16. Panama

Agreement No. 2-2004 provides in Article 6, as follows:

“Broker-dealers shall maintain at all times a volume of investments in low-risk and high-liquidity assets of no less than ten percent (10%) of its total payable liabilities with a maturity of no more than a year.

The following are assets that fit the preceding criteria:

1. Cash, current deposits and time deposits with maturity of no more than 360 days held in banks with a License to operate in the Republic of Panama.
2. Public debt instruments issued by the Republic of Panama with maturity not exceeding 186 days.
3. Commercial negotiable papers listed in a licensed exchange operating in the Republic of Panama with maturity not exceeding 18 days.
4. Net current balances in Banks authorized to operate in jurisdictions members of the Organization for Economic cooperation and Development (OECD) or term deposits with maturity not exceeding 186 days and payable in a legal currency in Panama.
5. Obligations issued by governments of jurisdictions members of the Organization for Economic cooperation and Development (OECD) that are actively traded in securities markets and have investment grade as determined by an risk credit agency of international recognition, marked to market.”

17. Slovakia

In case CAD approach “liquid asset” is not relevant.

18. Uzbekistan

Current assets, including cash receivables inventory etc

19. Romania

-

20. Israel

Assets that can be converted into cash quickly, simply and at a reasonable cost or that can be paid when the management anticipates a need for additional liquidity, such as: cash, Treasury deposits for repayment up to one month, deposits with the Bank of Israel other than against the liquidity requirement for repayment up to one month, marketable government bonds and deposits with banks for repayment up to one month and other marketable government bonds in an amount of 25% of

the average monthly turnover in government bonds on the Stock Exchange in the three preceding months;

21. Lithuania

Liquid assets consists of Company assets except:

- intangible assets;
- tangible long-term assets, except to the extent that built up land and buildings are used as security for loans and may be realized;
- stocks;
- assets held in and investments made in other enterprises, where it may not realized immediately, has no market price, except the Trading Book positions;
- material holding in other financial and credit institutions;
- loans and other fees (receivables) due not earlier than in 90 days;
- deposits due not earlier than after 90 days (except payments arising from margin under futures or options);
- losses of subsidiaries.

22. Pakistan

Liquid assets are not defined; the current assets for the purposes of NCB include cash, trade receivables (overdue for more than 14 days) and securities.

23. India

The acceptable liquid assets and the applicable haircuts for stock brokers are listed below:

Item	Haircut	Limits
Cash Equivalents		
Cash	0	No limit
Bank fixed deposits	0	No limit
Bank guarantees	0	Limit on exchange's exposure to a single bank
Securities of the Central Government	10%	No limit
Units of liquid mutual funds or government securities mutual funds (by whatever name called which invest in government securities)	10%	No limit
Other Liquid Assets		
1. Cannot be used for mark to market losses		
2. Total of Other Liquid Assets cannot exceed total of Cash Equivalents		

Liquid (Group I) Equity Shares (classification of equity shares on the basis of liquidity)	Same as the VaR margin for the respective shares	Limit on exchange's exposure to a single issuer
Mutual fund units other than those listed under cash equivalents	Same as the VaR margin for the units computed using the traded price on stock exchange, if available, or else, using the NAV of the unit treating it as a liquid security.	
Card value of eligible exchanges	50% if the last sale or auction of card in the exchange took place during the last six months. 75% if the last sale or auction of card in the exchange took place during the last twelve months but not within the last six months. 100% if no sale or auction of card in the exchange has taken place during the last twelve months.	Eligible only for Extreme Loss Margin

24. Nigeria

Cash and Near Cash

11) Please specify whether regulatory / capital adequacy requirement needs to be in any or all of the below:

- a) Cash**
- b) Fixed Deposit Receipts (FDR's)**
- c) Bank Guarantee**
- d) Approved Securities**
- e) Any other, Please specify**

1. Bulgaria

The investment intermediary shall be obliged to maintain at all times:

1. money, kept in a safe;
2. money, kept on payment accounts and deposits in a bank, which is not under insolvency proceedings, in amount not less than 70 percent of all money;
3. government securities, issued by the Bulgarian state, as well as debt securities, issued or guaranteed by states and by central banks according to a list, approved by the Bulgarian National Bank (BNB), which have market price or are with residual term till the maturity of not longer than 90 days;
4. available own resources in amount 10 percent of the amount of its overall liabilities.

The assets under items 1 – 3 must be in amount not less than 50 percent of the current liabilities of the investment intermediary. As well there is a requirement - at least 50 percent of the minimum amount of the initial capital (see question 17 in this section) must be in liquid assets(see question 10 in this section).

For more details see Article 3 and article 12 of the ORDINANCE No 6 on the capital adequacy and liquidity of the Investment Intermediaries.

2. El-Salvador

- a) Cash
- b) Bank Guarantee

When the market intermediary is on-going it requested to apply the Ratio of Assets Mobilization (Fixed Assets/Net Worth). The mobilization of assets index ≥ 0.50 , means the net worth can not be invest more the half in fixed assets)

3. Indonesia

- a) Cash
- b) Fixed Deposit Receipts (FDR's)
- c) Bank Guarantee
- d) Approved Securities
- e) Any other, Please specify

All of those types are accepted. Please refer to attachment NAWC calculations Forms V.D.5-1

4. China

- a) Cash
- b) Fixed Deposit Receipts (FDR's)
- c) Bank Guarantee
- d) Approved Securities
- e) Any other, Please specify

Actually all asset items are included in net capital at a certain haircut rate which is determined on the risks related to the asset, and the haircut rate for some assets is as high as 100%, e.g., intangible assets.

5. South Africa

- a) Cash
- b) Please see answer to question 10 above.

6. Malaysia

- a) Cash
- b) Fixed Deposit Receipts (FDR's)
- c) Bank Guarantee
- d) Approved Securities

All these are within the definition of liquid capital of the CAR and permitted assets of ANC requirement

7. Morocco

No

8. Turkey

The capital adequacy requirement can be in all of the assets listed above. Furthermore all assets apart from those deducted from shareholders' equity in calculating the capital adequacy base as listed under the response to Question 10 above, count in meeting the capital adequacy requirement. Furthermore in cases where there is a deficit in the capital adequacy base, brokerage houses are allowed to cover for the deficit using bank guarantees for a term of 3 months in accordance with **Article 32 of the Communiqué Serial: V, No: 34.**

9. Macedonia

See item 5.

10. Peru

- a) Cash
- b) Fixed Deposit Receipts (FDR's)
- c) Approved Securities

11. Uganda

The capital adequacy requirement can, but does not specifically need to be in any of the forms detailed below.

- a) Cash
- b) Fixed Deposit Receipts (FDR's)
- c) Bank Guarantee
- d) Approved Securities
- e) Any other, Please specify

12. Oman

No

13. Mongolia

- a) Cash
- b) Bank Guarantee
- c) Approved Securities

14. Ghana

Not so specified.

15. Costa Rica

- a) Cash
- b) FDR's
- d) Approved Securities.

16. Panama

See answer to question 10.

17. Slovakia

In CAD approach any asset which is not deducted from own funds has to be subject of capital requirements calculations.

18. Uzbekistan

No

19. Romania

- a) Cash - For cash we assess credit risk
- b) Fixed Deposit Receipts (FDR's) – For Fixed Deposit Receipts we assess credit risk and large exposure
- c) Bank Guarantee – For Bank Guarantee we assess credit risk
- d) Approved securities – For the approved securities we assess the following risks: position risk, settlement risk, counter-party risk, credit risk, foreign exchange risk, large exposures or concentration risk.
- e) Any other, Please specify

20. Israel

- a) Cash
- b) Fixed Deposit Receipts (FDR's)
- c) Bank Guarantee
- e) Any other

21. Lithuania

- a) Fixed Deposit Receipts (FDR's)
- b) Bank Guarantee
- c) Approved Securities
- d) Any other, Please specify:
 - derivatives
 - commodity

22. Pakistan

Cash, trade receivables, and approved securities are included in the NCB

23. India

Generally all of the above are acceptable towards capital adequacy. However, approved securities cannot be used for mark to market losses and its total cannot exceed total of Cash Equivalents. Cash Equivalents for the purpose would include cash, fixed deposit receipts, bank guarantees, government securities and units of mutual funds investing only in government securities. For details, please refer to question at Sl. No. 10.

24. Nigeria

- a) Cash ✓
- b) Fixed Deposit Receipts (FDR's) ✓
- d) Approved Securities ✓
- f) Any other, Please specify **Quoted Investment**

12) Are the following forms of capital accepted for capital adequacy purposes?

- a) Core Capital (Tier 1)**
 - ii) Shareholders equity**
 - iii) Retained earnings/ disclosed reserves**

- a) Supplementary Capital (Tier 2)**
 - i) Long term subordinated debt (75 years)**
 - ii) Some loan loss reserves**
 - iii) Undisclosed and revaluation reserves**

1. Bulgaria

The available own resources of the investment intermediary shall be formed from the sum of the primary capital and the additional capital reserves, reduced with the balance sheet value of:

- the securities within the meaning of the LPOS and other forms of investment, which have no market price;
- the share participation in the capital of companies apart from the cases under item 1;
- the tangible reserves;
- the expenses for future periods;

- the receivables, except these which have residual term till the maturity of up to 90 days and are:
 - secured in amount not less than 100 percent with money in cash, with monetary gold or on account in a bank, which is not under insolvency proceedings;
 - secured in amount not less than 100 percent with government securities with market price, blocked in accordance with the respective procedure;
 - secured by a bank, which is not under insolvency proceedings;
 - receivables from the budget, established with an act of the respective state body;
 - receivables from the budget for which, according to a normative act, the intermediary has right to set-off against its liabilities to the budget;
 - receivables from clients, occurred on the occasion of transactions in securities, except if they are deferred more than 30 days, except the transactions, concluded under the conditions of delivery against payment;
- the long term tangible assets;
- the money of the company on account or deposit in a bank, which is under insolvency proceedings;
- the positive reputation;
- other assets.

The primary capital (Core capital (Tier 1)) shall consist of:

- the paid up capital according to accounting balance sheet;
- fund “Reserve”;
- other reserves with general purpose, including the premium reserves.

The primary capital shall be reduced with:

- the balance sheet value of the long term intangible assets;
- the loss from the current period;
- the non-covered loss from previous periods;
- the nominal value of repurchased own shares;

The additional capital reserves (Supplementary Capital (Tier 2)) shall consist of:

- the undistributed profit of the investment intermediary from previous periods;

- revaluation reserves, formed in accordance with the rules under the Law on accounting;
- reserves with special purpose, formed upon decision of the bodies of the investment intermediary from its profit after taxation;
- debt-equity (hybrid) instruments, issued by the investment intermediary;
- subordinated fixed-term debt, issued by the investment intermediary.

The subordinated fixed-term debt shall be included in the additional capital reserves as total in amount not more than 50 percent of the primary capital. During the last 5 years till its maturity the subordinated fixed-term debt shall be included in the additional capital reserves with reduction in amount of 20 percent per year, after the maturity being entirely excluded from them.

The including in the additional capital reserves of debt-equity instruments and of subordinated fixed-term debt shall be permitted by the deputy chairman of the Financial Supervision Commission on the basis of written application, accompanied by documents.

The additional capital reserves shall be included in the own resources in amount not larger than the primary capital.

For more details see Chapter 3 of the ORDINANCE No 6 on the capital adequacy and liquidity of the Investment Intermediaries.

2. El-Salvador

a) Core Capital (Tier 1)

3. Indonesia

No, they are not included in the calculation of Net Adjusted Working Capital.

4. China

At present, net capital isn't divided into core capital and supplementary capital for financial reporting or regulatory purposes in China. But long term subordinated debts can be proportionately comprised in net capital according to its due date.

5. South Africa

BESA – Shareholders equity; Retained earnings/disclosed reserves; long term subordinated debt (75 years)

JSE - Ordinary share capital, preference share capital, share premium, disclosed reserves, retained earnings, subordinated loans (2 years)

6. Malaysia

a) Core Capital (Tier 1)

i) Shareholders equity *Yes*

ii) Retained earnings/ disclosed reserves *Yes*

b) Supplementary Capital (Tier 2)

iii) Long term subordinated debt (75 years) *Yes (minimum 2 years)*

iv) Some loan loss reserves *No, stockbroking companies does not give out loan, save*

for margin financing

v) Undisclosed and revaluation reserves *Only for revaluation reserve, Yes*

The above only relevant to CAR. The capital structure is broken down to Core Capital and Non-Core Capital. Items mentioned above may fall under Core or Non-Core Capital categories.

7. Morocco

a) Core Capital (Tier 1) *Yes*

b) Supplementary Capital (Tier 2) *No*

8. Turkey

a) Core Capital (Tier 1)

ii) Shareholders equity

iii) Retained earnings/ disclosed reserves

9. Macedonia

See item 5.

10. Peru

- a) Core Capital (Tier 1)
 - i) Shareholders equity
 - ii) Retained earnings/ disclosed reserves
- b) Supplementary Capital (Tier 2)
 - i) Long term subordinated debt
 - ii) Some loan loss reserves
 - iii) Undisclosed and revaluation reserves

11. Uganda

- a) Core Capital (Tier 1). Yes
 - i) Shareholders equity.
 - ii) Retained earnings/ disclosed reserves.
- b) Supplementary Capital (Tier 2). Yes
 - i) Long term subordinated debt (75 years).
 - ii) Some loan loss reserves.
 - iii) Undisclosed and revaluation reserves

12. Oman

- a) Core Capital (Tier 1)
 - i) Shareholders equity YES
 - ii) Retained earnings/ disclosed reserves YES
- b) Supplementary Capital (Tier 2)
 - i) Long term subordinated debt (75 years) YES
 - ii) Some loan loss reserves NO
 - iii) Undisclosed and revaluation reserves NO

13. Mongolia

- Core Capital (Tier 1)

- i) Shareholders equity
- ii) Retained earnings/ disclosed reserves

14. Ghana

- a) Core Capital (Tier 1) NOT SO SPECIFIED
 - i) Shareholders equity - YES
 - ii) Retained earnings/ disclosed reserves - YES

- b)Supplementary Capital (Tier 2)
 - i)Long term subordinated debt (75 years) - NO
 - ii)Some loan loss reserves- YES
 - iii)Undisclosed and revaluation reserves - YES

15. Costa Rica

- a) Core Capital (Tier 1)
 - i) Shareholders equity YES
 - ii) Retained earnings/ disclosed reserves YES, but only when they are irrevocable (if not, it is included in Supplementary Capital)

- b)Supplementary Capital (Tier 2)
 - i)Long term subordinated debt (75 years) NO (it is not used by brokers)
 - ii) Some loan loss reserves NO
 - iii) Undisclosed and revaluation reserves NO

16. Panama

- a) Core Capital (Tier 1)
 - i) Shareholders equity
 - ii) Retained earnings/ disclosed reserves
Yes, see answer to question 4.

- b)Supplementary Capital (Tier 2)
 - i)Long term subordinated debt (75 years)
 - ii) Some loan loss reserves
 - iii) Undisclosed and revaluation reserves

No.

17. Slovakia

a) Core Capital (Tier 1)

- i) Shareholders equity
- ii) Retained earnings/ disclosed reserves

b) Supplementary Capital (Tier 2)

- i) Long term subordinated debt – *of maturity 5 years and more*
- ~~ii) Some loan loss reserves~~
- ~~iii) Undisclosed and revaluation reserves~~

18. Uzbekistan

a) Core Capital (Tier 1)

- i) Shareholders equity - Yes
- ii) Retained earnings/ disclosed reserves - Yes

b) Supplementary Capital (Tier 2)

- i) Long term subordinated debt (75 years) – N/A
- ii) Some loan loss reserves – N/A
- iii) Undisclosed and revaluation reserves – N/A

19. Romania

a) Core Capital (Tier 1)

- i) Shareholders equity
- ii) Retained earnings/ disclosed reserves

According to art. 111 of the R.N.S.C. Regulation no. 9/2004 on capital adequacy of investment firms, the original own funds (tier 1) are composed by: paid-up shares capital and the fund for the general financial risk (including those sums that an investment firm will decide to allocate for covering the general financial risk when this is required for reasons of prudence, taking into account the specific risks related to the operations performed by an investment firm), less own shares, intangible assets and losses of the current financial year as checked by a financial auditor.

- b) Supplementary Capital (Tier 2)
 - i) Long term subordinated debt (75 years)
 - ii) Some loan loss reserves
 - iii) Undisclosed and revaluation reserves

According to art. 112 of the R.N.S.C. Regulation no. 9/2004 on capital adequacy of investment firms, the tier 2 supplementary capital is composed by:

- a) the re-evaluation reserves;
- b) innovative capital instruments;
- c) fixed-term cumulative preferential shares;
- d) securities of undetermined duration (other debts);
- e) subordinated loan;
- f) net profits or net losses as well as capital gains and losses on the trading book net of tax liabilities and other foreseeable charges provided that none of these amounts has already been included in tier 1.

20. Israel

Yes, with respect to banks and partially to insurance companies.

- a) Core Capital (Tier 1)
 - i) Shareholders equity
 - ii) Retained earnings/ disclosed reserves
- b) Supplementary Capital (Tier 2)
 - i) Long term subordinated debt
 - ii) Some loan loss reserves
 - iii) Undisclosed and revaluation reserves

21. Lithuania

Yes

- a) Core Capital (Tier 1)
 - ii) Shareholders equity
 - iii) Retained earnings/ disclosed reserves
- b) Supplementary Capital (Tier 2)

- (i) Long term subordinated debt
- (ii) Some loan loss reserves
- (iii) Undisclosed and revaluation reserves

22. Pakistan

No division or bifurcation of capital is made into any of the aforesaid categories.

23. India

As may be seen from the definition of Net worth given on pre-pages, while core capital i.e. shareholders equity and free reserves are counted towards capital adequacy, supplementary capital as illustrated above is not included. This is in respect of capital market intermediaries only.

24. Nigeria

- a) Core Capital (Tier 1): **Yes**
- ii) Shareholders equity: **Yes**
- iii) Retained earnings/ disclosed reserves: **Yes**

- c) Supplementary Capital (Tier 2) : **No**
- i) Long term subordinated debt (75 years): **No**
- ii) Some loan loss reserves: **No**
- iii) Undisclosed and revaluation reserves: **No**

13) Are off balance sheet items (both assets and liabilities) taken into account for the purpose of determining capital?

1. Bulgaria

See question 12

2. El-Salvador

No

3. Indonesia

No, they are not taken into account in the calculation of Net Adjusted Working Capital.

4. China

Yes. For example, contingent liabilities are a deduction item to net capital.

5. South Africa

BESA - No

JSE – No, but acceptable guarantees received are included in adjusted liquid capital and guarantees provided (i.e. guarantees provided by the Authorised User in favour of another party) are deducted. If an Authorised User has provided a guarantee to meet the obligations of another party, the value of that guarantee is deducted from the Authorised User's adjusted liquid capital. Guarantees must be issued by a third party financial institution and must be exercisable on demand by the exchange.

The JSE usually requires the guarantee to be provided by a bank that is not part of the same group as the Authorised User, although the JSE has allowed exceptions in instances where the guarantee is provided by a foreign parent that is substantially larger than any local bank. The JSE also limits the value of the guarantee in relation to the Authorised User's total adjusted liquid capital, usually to approximately 20% of the total. In other words, Authorised Users can supplement their core capital with a guarantee but the JSE does not allow guarantees to constitute the core capital of the Authorised Users.

6. Malaysia

Yes. All off balance sheet transactions need to be captured under the Capital Adequacy Ratio computation.

7. Morocco

Yes (liabilities)

8. Turkey

Yes; according to Article 31 of the Communiqué Serial: V, No: 34, any kind of limitation on the assets of investment firms including mortgage and commitments to cover the debts of others by brokerage houses are to be considered by the Board.

9. Macedonia

See item 5.

10. Peru

Off balance sheet items are not taken into account in order to determine net capital.

11. Uganda

No

12. Oman

No

13. Mongolia

No

14. Ghana

Yes

15. Costa Rica

No (in general), but for custody and asset management services they are taken in account.

16. Panama

No, they are not included.

17. Slovakia

They are taken in account when calculating capital requirements but not capital. Also the calculations differ between trading and non trading activities.

18. Uzbekistan

No

19. Romania

Yes. According to art. 59 of the R.N.S.C. Regulation no. 9/2004 on capital adequacy of investment firms, off-balance-sheet items (id est guarantees provided, commitments made and derivative financial instruments) related to the items, others than those included in the trading book shall be included in the category of risk assets in order to calculate the credit risk, equal to the credit equivalent related to them.

20. Israel

Yes

21. Lithuania

Yes these items are taken into account

22. Pakistan

No

23. Inida

No. Off balance sheet items are not taken into account.

24. Nigeria

No

14) Is there an assessment of:

	a) Core liquid capital	b) Variable required liquid capital
1. Bulgaria	Yes	Yes
2. El Salvador	Yes	Yes
3. Indonesia	Yes	Yes
4. China	No	No
5. South Africa	No	No

Liquid assets are not split into core and variable components. Authorized Users are only required to hold the necessary capital requirement.

6. Malaysia	Yes	No
7. Morocco	No	No
8. Turkey	No	No

9. Macedonia According to the Securities Law as stated above, the Commission as regulator shall prescribe the amount, type and the manner of maintaining, calculating and inspection of the liquid assets of the brokerage house. However, the Commission is at the moment preparing this regulation, so it is still not adopted and entered into force.

10. Peru	Yes	Yes
11. Uganda	No	No
12. Oman	No	No
13. Mongolia	Yes	-
14. Ghana	No	Yes
15. Costa Rica	Yes	No
16. Panama	No	No
17. Slovakia	Yes	Yes
18. Uzbekistan	No	No
19. Romania	Yes	Yes
20. Israel	No	No
21. Lithuania	Yes	Yes
22. Pakistan	No	No
23. India:	yes	Please refer to question at Sl. No. 10 above.
24. Nigeria	yes	yes

15) For the purpose of calculating Capital

a) Is there any assessment of liquid assets to outstanding liabilities?

1. Bulgaria	Yes
2. El Salvador	No
3. Indonesia	Yes
4. China	No

5. South Africa liquid assets.)	No (Adjusted liquid capital is the net result of subtracting liabilities from liquid assets.)
6. Malaysia	Yes (CAR- <i>Essentially</i> , Liquid Capital is calculated based on total capital employed (shareholders funds which is total assets minus total liabilities) minus all fixed or non-liquid assets. <i>ANC Requirement</i> -The requirement is calculated based on Permitted Assets less Total Liabilities less Additional Deductions).
7. Morocco	No
8. Turkey	Yes; according to Article 10 of the Communiqué Serial: V, No: 34 , brokerage houses must have current assets in an amount at least equal to their short-term debts.
9. Macedonia	According to the Securities Law as stated above, the Commission as regulator shall prescribe the amount, type and the manner of maintaining, calculating and inspection of the liquid assets of the brokerage house. However, the Commission is at the moment preparing this regulation, so it is still not adopted and entered into force.
10. Peru	Yes, as mentioned before, the LIQUIDITY AND SOLVENCY RATIO compares the Net Capital or Liquid Assets to unsecured liabilities of market intermediaries and their clients as well as to their own risk-adjusted securities portfolio. This indicator must be equal to or greater than 1. Any insufficiency of the liquid assets with respect to the total risk-adjusted tenures of a market intermediary (LSR < 1) must be communicated to CONASEV and the stock exchange within the following 24 hours since the occurrence of such deficiency.
11. Uganda	No
12. Oman	Yes
13. Mongolia	Yes
14. Ghana	Yes
15. Costa Rica	No
16. Panama	No
17. Slovakia	No
18. Uzbekistan	No

19. Romania	Yes
20. Israel	No , there is no such assessment.
21. Lithuania	Yes
22. Pakistan	No, the requirement exists for Current (adjusted) assets and Current (adjusted) liabilities.

(i) The calculation of NCB is provided for in rule 2 (d) of the Securities and Exchange Rules 1971 and NCB is calculated as ‘Adjusted Current Assets’ minus ‘Adjusted Current Liabilities’.

(A) Current Assets are adjusted for certain items including a blanket 15% reduction in value for a broker’s own investment positions and similar, but lower, reductions are required for interest bearing bills and bonds. Reductions are made for overdue client accounts. Cash balances are not adjusted although they could include money held for clients as there are no segregated accounts. It should be noted that the new margin trading rules require segregated accounts for margin finance clients.

(B) Current liabilities are adjusted to exclude trade creditors greater than 30 days, an adjustment whose rationality is hard to fathom. Other liabilities are in accordance with generally accepted accounting principles. No adjustments are made for off balance sheet items like contingent liabilities and guarantees.

23. India	No
23. Nigeria	No

16) For the purpose of Capital Adequacy reports what are the haircut rates applied to market values of securities?

- i) Government Bonds:
- ii) Corporate bonds:
- iii) Illiquid Bonds
- iv) Local Equities
- v) Foreign Equities
- vi) Illiquid Equities

vii) Other assets:

1. Bulgaria

The required available own resources for covering of the risk from change of the market price of the securities, shall be determined by summing the market prices of the securities, multiplied by coefficient according to the kind of the securities as follows:

1. for securities, in which transactions are executed in the country or which are traded in states not included in a list of states with developed capital markets, approved by the deputy chairman
 - for debt securities, issued or guaranteed by the Bulgarian state or the Bulgarian National Bank, as well as by states and central banks according to a list, approved by the BNB, coefficient from column 2 of the following table:

Residual term till the maturity	Coefficient for securities	
1	2	3
Up to 3 months incl.	0.00	0.05
Over 3 to 12 months incl.	0.01	0.08
Over 1 year up to 5 years incl.	0.03	0.15
Over 5 years	0.05	0.20

- for other debt securities – coefficient from column 3 of the table
 - compensatory instruments – 0.20;
 - for shares, traded on regulated securities market – 0.25;
 - for other assets, accounted as securities – 0.30;
2. for securities, in which transactions are executed in states with developed capital markets according to the list, approved by the deputy chairman:
 - for debt securities, issued or guaranteed by states and central banks, indicated in a list, approved by the BNB – coefficient from column 2 of the following table:

Residual term till the Maturity	Coefficient for securities
---------------------------------	----------------------------

1	2	3	4
Up to 3 months incl.	0.00	0.01	0.05
Over 3 to 12 months incl.	0.01	0.04	0.08
Over 1 year up to 5 years incl.	0.03	0.08	0.15
Over 5 years	0.05	0.12	0.20

- for qualified debt securities – coefficient from column 3 of the table
- for other debt securities – coefficient from column 4 of the table
- for shares, traded on stock exchange or regulated over-the-counter market – 0.20.

The required own resources for covering the risk at open positions in options with base asset debt securities, shares or foreign currency, including traded abroad, shall be determined as follows:

- for issued options, traded on regulated market – the value of the required guarantee deposit;
- for bought options – the calculated own resources for the base asset, but not more than the purchase price of the option.

The required own resources for covering the risk at open positions in futures or in contracts for differences, including those traded abroad, shall be in amount of the required guarantee deposit.

For covering of the risk at open positions in other kinds of securities, including also those traded abroad, own resources in amount of their market price shall be set aside.

For more details see Chapter 4, Section 2 of the ORDINANCE No 6 on the capital adequacy and liquidity of the Investment Intermediaries.

2. El Salvador

vii) Cost Method

3. Indonesia

i) Government Bonds: 10

ii) Corporate bonds:	<i>listed in Indonesian stock exchange: 20</i>
iii) Illiquid bonds:	<i>(not listed in Indonesian stock exchange: 100%</i>
iv) Local equities:	<i>listed in Indonesian Stock Exchange: 10%</i>
v) Foreign equities:	<i>90%</i>
vi) Illiquid equities	<i>(not listed in Indonesian stock exchange) 100%</i>
vii) other assets:	<i>registered in Bapepam 30% (ie: Mutual fund), not registered 100%</i>

4. China

Actually, the net book value instead of market value of securities is required by CSRC to be used as the base to calculate the net capital of a securities firm. Moreover, CSRC is dedicated to revising *Securities Firm's Net Capital Calculation Rule* and the revised *Rule* is expected to take effect in late 2006. In the revised *Rule*, the haircut rates applied to the net book values of securities will be changed. Following are the haircut rates applicable in the present rule and in the draft of the revised *Rule* (in brackets)

i) Government Bonds:	5% (1%)
ii) Corporate bonds:	20% (10%); for convertible corporate bonds, 10 % (5%)
iii) Illiquid bonds:	NA (All kinds of bonds are liquid in China)
iv) Local equities:	10% (applicable rates are diversified for equities of different risks, which range from 1% to 80%)
v) Foreign equities:	10% (applicable rates are diversified for equities of different risks, which range from 1% to 80%)
vi) Illiquid equities:	10 % (15%)
vii) Other assets:	20 % (10%)

5. South Africa

BESA

The discount is applied not in terms of a particular asset but in terms of time to maturity.

JSE

The “haircut” is not applied to the asset but is instead computed as a risk based capital requirement. It achieves the same end result. Government bonds – Maturity based approach ranges from 0% for a bond with less than 1 month to maturity to 12,5% for a bond with more than 12 years to maturity. Corporate bonds – Maturity based approach ranges from 0.25% for a bond with less than 1 month to maturity to 14,1% for a bond with more than 12 years to maturity. Unlisted bonds – 100%. Local equities – subject to liquidity rating it ranges from 15% to 40%. Foreign equities – 10% of the market value translated into Rands (to cover the currency risk) plus the normal risk factors applicable to local equities. This ten percent is added to the 15% - 40% “haircut” applicable to the local equities which represents the position risk. The “haircut” for the currency risk is in addition to the position risk and is therefore not only 10%. Unlisted equities – 100%. Index derivatives – ranges from 10% to 20%.

d) Is subordinated debt included in the capital adequacy calculation?

BESA – Yes

JSE - Yes

e) Are the liabilities ranked according to the due dates?

(If yes, please specify.)

Yes No

BESA - Yes

Less than a year to maturity

Less than three years to maturity

More than three years to maturity

JSE – No

6. Malaysia

i) Government Bonds: 2.5% - 5.0% depending on year to maturity

ii) Corporate bonds: 100%

iii) Illiquid bonds: 100%

iv) Local equities: 5% (index stocks), 21% (other stocks), 5% (index

futures), 100% (suspended)

v) Foreign equities: 8% (recognized market indices), 12% (single stocks in recognized (market indices), 16% (other single international stocks of recognized stock exchanges)

vi) Illiquid equities: 100%

vii) other assets: 100%

The above are applicable for computation of Capital Adequacy Ratio.

7. Morocco

No

8. Turkey

The haircut rates applied to assets as specified in **Annex 1 to the Communiqué Serial: V, No: 34** are as follows:

Assets	Market Risk Ratio (%)
Liquid Assets	
Liquid Assets of Turkish Currency	
Liquid Assets of Foreign Currency	
Capital Market Instruments	
Stocks and Similar Capital Market Instruments (T)	10
Stocks and Similar Capital Market Instruments (NT)	100
Type A Fund Participation Certificates	5
Type B Fund Participation Certificates	2
Borrowing Instruments	
Private Sector Borrowing Instruments	
Less than one year maturity (T)	5
Less than one year maturity (NT)	100
More than one year maturity (T)	6
More than one year maturity (NT)	100
Public Borrowing Instruments	
Less than one year maturity (T)	1
Less than one year maturity (NT)	3
More than one year maturity (T)	2
More than one year maturity (NT)	5
Precious Metals	5

Assets	Market Risk Ratio (%)
Commodities Subject to Forward and Future Contracts	10
Other Commodities	100
Short Term Commercial Receivables (Net)	
Customers	
Central Bank and Clearing Agencies	1
Financial Institutions	5
Other Customers	8
Credit Account	
Central Bank and Clearing Agencies	1
Financial Institutions	5
Other Customers	8
Guarantees Against Borrowed Securities	
Notes Receivable (Net)	
Central Bank and Clearing Agencies	1
Financial Institutions	5
Other Customers	8
Provided Deposits and Guarantees	
Other Short Term Commercial Receivables (Net)	
Central Bank and Clearing Agencies	1
Financial Institutions	5
Other Customers	8
Other Short Term Receivables (Net)	
Receivables from Partners	8
Receivables from Participations	8
Receivables from Affiliated Partnerships	8
Short Term Other Receivables	8
Clearing and Custody Center	0
Provided Advance Payments	
Other Current Assets	
Long Term Commercial Receivables (Net)	
Central Bank and Clearing Agencies	10
Other Individuals and Institutions	10
Financial Institutions	10
Notes Receivable	10
Other Long Term Commercial Receivables	10
Other Long Term Commercial Receivables (Net)	
Due from Shareholders	10
Due from Subsidiaries	10
Due from Affiliated Undertakings	10

Assets	Market Risk Ratio (%)
Long Term Other Receivables	10
Fixed Asset Investments (Net)	
Associated Securities	
Affiliated Securities (T)	10
Affiliated Securities (NT)	
Subsidiaries (Capital Commitments Deducted)	
Subsidiaries (T)	10
Subsidiaries (NT)	
Tangible Assets (Net)	
Land	
Ground and Underground Fixtures	
Buildings	
Plants Machinery and Equipment	
Motor Vehicles	
Furnishing and Fixtures	
Other Tangible Fixed Assets	
Intangible Assets (Net)	
Other Fixed Assets (Net)	

T: Traded in exchanges and other organized markets

NT: Not traded in exchanges and other organized markets

9. Macedonia

According to the Securities Law as stated above, the Commission as regulator shall prescribe the amount, type and the manner of maintaining, calculating and inspection of the liquid assets of the brokerage house. However, the Commission is at the moment preparing this regulation, so it is still not adopted and entered into force.

10. Peru

According to the Peruvian capital Adequacy regulations, market intermediaries must always maintain an LSR greater than or equal to 1. This indicator is calculated taking into account the risk-adjusted securities portfolio (own account) of market intermediaries. The factors applied to securities belonging to market intermediaries' portfolios considering the risk levels associated to them are:

- i) GOVERNMENT BONDS: 0.04, if risk ratings are equal to or better than BBB or 0.12 otherwise.
- ii) OTHER LIQUID OR ILLIQUID DEBT INSTRUMENTS (including CORPORATE BONDS):

If risk ratings are equal to or better than BBB:

- 0.048, if maturity is within the following 6 months.
- 0.056, if maturity is between 6 months and 24 months inclusive.
- 0.063, if maturity is between 24 months and 96 months inclusive.
- 0.07, if maturity is greater than 96 months.

Otherwise, 0.12.

iii) LOCAL AND FOREIGN EQUITIES:

If they are traded within a centralized mechanism of trading and have registered at least one quotation during the last 6 months:

- 0.16, if there is no “concentration”. There is concentration when the market intermediary possess 10% or more than the total outstanding securities.
- 0.24, if concentration is between 10% and 20% inclusive.
- 0.48, if concentration is between 20% and 50% inclusive.
- 0.90, if concentration is greater than 50%.

If they are not registered in a centralized mechanism of trading or even when they might be negotiated in a centralized mechanism of trading, they have not registered any quotation during the last 6 months:

- 1, if there is no concentration.
- 1.24, if concentration is between 10% and 20% inclusive.
- 1.48, if concentration is between 20% and 50% inclusive.
- 1.90, if concentration is greater than 50%.

11. Uganda

No

12. Oman

- i) Government Bonds 0%
- ii) Corporate bonds: 5%
- iii) Illiquid bonds: 100%
- iv) Local equities: 15% TO 100% (based on concentration)
- v) Foreign equities: 100%
- vi) Illiquid equities: 100%

vii) other assets: 100%

13. Mongolia

Nil

14. Ghana

i) Government Bonds: 0%
ii) Corporate Bonds: 25%
iii) Illiquid bonds: 25%
iv) Local equities: 15%
v) Foreign equities: 25%
vi) Illiquid equities: 25%
vii) other assets: 25%

15. Costa Rica

Nil

16. Panama

Nil

17. Slovakia

Nil

18. Uzbekistan

i) Government Bonds:
ii) Corporate bonds:
iii) Illiquid bonds:
iv) Local equities:
v) Foreign equities:
vi) Illiquid equities:

vii) other assets: N/A

19. Romania

i) Government Bonds: for central governments and central banks, the weight applicable is 0%.

ii) Corporate bonds: for corporate bonds, the weights applicable are 20% and 50%.

iii) Illiquid bonds: Illiquid bonds are deducted from the own funds (supervisory capital)

iv) Local equities: for local equities, the weights applicable are 20% and 100%.

v) Foreign equities: currently, we don't have foreign equities on the capital market

vi) Illiquid equities: Illiquid bonds are deducted from the own funds (supervisory capital)

vii) other assets: -

20. Israel

Not relevant according to Basel Approach.

21. Lithuania

i) Government Bonds: 0%

Rates applied for Securities issued by the governments of Zone A jurisdictions or fully guaranteed by governments or central banks and securities issued by or fully guaranteed by non Zone A central governments and central banks with a residual maturity of 1 year and denominated in the local currency and funded by liabilities in the same currency

ii) Corporate bonds:

Qualifying securities < 6 month residual maturity	0,25%
Qualifying securities 6 - 24 month residual maturity	1,00%

Qualifying securities > 24 month residual maturity	1,60%
Non-qualifying securities	8,00%

- iii) Illiquid bonds: 100%
- iv) Local equities: 4% specific risk ratio + 8% general risk ratio
- v) Foreign equities: 4% specific risk ratio + 8% general risk ratio + 8% foreign exchange risk ratio
- vi) Illiquid equities: 100%
- vii) other assets: 8%

-

22. Pakistan

- i) Government Bonds: Marked to Market less 5% discount
- ii) Corporate bonds: Marked to Market less 10% discount
- iii) Illiquid bonds: Not treated separately
- iv) Local equities: Marked to Market less 15% discount
- v) Foreign equities: Its treatment is not mentioned
- vi) Illiquid equities: Not treated separately
- vii) other assets: at market value (treasury bills)

23. India

- i) Government bonds: 10 %

24. Nigeria

(We do not have a haircut rates)

b) Are the assets subject to discounting for the purpose of calculation of capital adequacy?

- 1. Bulgaria Yes
- 2. El Salvador No
- 3. Indonesia Yes

4. China	Yes
5. South Africa	No- As mentioned above, the assets themselves are not discounted but the “discount” factor is applied as a risk factor in computing the Authorized Users’ risk requirements.
6. Malaysia	Yes
7. Morocco	No
8. Turkey	Yes, according to Article 5 of the Communiqué Serial: V, No: 34 all assets must be marked to market on the date of the calculation
9. Macedonia	–
10. Peru	No
11. Uganda	No
12. Oman	Yes
13. Mongolia	Yes
14. Ghana	No
15. Costa Rica	No
16. Panama	No
17. Slovakia	No
18. Uzbekistan	No
19. Romania	Yes. According to R.N.S.C. Regulation no. 9/2004 on capital adequacy of investment firms, for different categories of assets different risk weights are applied.
20. Israel	No
21. Lithuania	–
22. Pakistan	No, each category of assets is reduced by a particular percentage.
23. India	Yes
24. Nigeria	No

c) Are assets and liabilities categorized specifically for calculation of capital adequacy? (i.e. different from Generally Accepted Accounting Principles.)

1. Bulgaria	No
2. El Salvador	No
3. Indonesia	Yes

4. China	Yes
5. South Africa	Yes
6. Malaysia	No
7. Morocco	No
8. Turkey	Yes
9. Macedonia	Yes
10. Peru	-
11. Uganda	No
12. Oman	Yes
13. Mongolia	No
14. Ghana	No
15. Costa Rica	No
16. Panama	Yes, The items to be considered for complying are specified in the regulation
17. Slovakia	Yes
18. Uzbekistan	No
19. Romania	No
20. Israel	No
21. Lithuania	Yes
22. Pakistan	No
23. India	Yes
24. Nigeria	No

d) Is subordinated debt included in the capital adequacy calculation?

1. Bulgaria	Yes
2. El Salvador	No
3. Indonesia	Yes
4. China	Yes
5. South Africa	Yes
6. Malaysia	Yes
7. Morocco	No
8. Turkey	No
9. Macedonia	

10. Peru	No
11. Uganda	No
12. Oman	Yes
13. Mongolia	No
14. Ghana	Yes
15. Costa Rica	No
16. Panama	No
17. Slovakia	Yes
18. Uzbekistan	No
19. Romania	Yes. According to art. 112 of the R.N.S.C. Regulation no. 9/2004 on capital adequacy of investment firms, the tier 2 supplementary capital includes subordinated loan.
20. Israel	yes
21. Lithuania	Yes
22. Pakistan	No
23. India	No
24. Nigeria	Yes

e) Are the liabilities ranked according to the due dates?

1. Bulgaria	Yes
2. El Salvador	No
3. Indonesia	Yes
4. China	No
5. South Africa	BESA – Yes, JSE – No Less than a year to maturity Less than three years to maturity More than three years to maturity
6. Malaysia	No
7. Morocco	No
8. Turkey	No
9. Macedonia	-

10. Peru	No
11. Uganda	No
12. Oman	Yes
13. Mongolia	No
14. Ghana	No
15. Costa Rica	No
16. Panama	Yes According to IAS liabilities are presented in such manner in the balance sheet.
17. Slovakia	No
18. Uzbekistan	No
19. Romania	Yes. According to art. 33 of the R.N.S.C. Regulation no. 9/2004, the investment firm shall calculate general risk on debt instruments using the method based on their maturity.
20. Israel	No
21. Lithuania	Yes
22. Pakistan	Yes, Current liabilities are adjusted to exclude trade creditors greater than 30 days, an adjustment whose rationality is hard to fathom. Other liabilities are in accordance with generally accepted accounting principles. No adjustments are made for off balance sheet items like contingent liabilities and guarantees.
23. India	No
24. Nigeria	yes

17) Does the capital adequacy requirement differ according to the type of business of the Intermediary?

1. Bulgaria	Yes
2. El Salvador	Yes
3. Indonesia	Yes
4. China	Yes
5. South Africa	BESA (No), JSE (Yes) This applies only to the JSE's derivatives market where clearing Authorized Users have a broad general capital requirement of R200 million, as opposed to the adjusted liquid capital and risk requirement approach

for trading Authorized Users. There exists no other distinction for the type of business, type of market or risk factors

- | | |
|----------------|---|
| 6. Malaysia | No, the requirement depends on the risk assumed by the intermediaries concerned. The only difference is that the Operational Risk Requirement for a Universal broker shall be RM10 million or 25% of the intermediary's annual expenditure, whichever is the higher; whereas the same requirement for a non-Universal Broker shall be RM5 million or 25% of the intermediary's annual expenditure, whichever is the higher. |
| 7. Morocco | Yes |
| 8. Turkey | Yes; the minimum required shareholders' equity and capital adequacy base differ according to the specific certificates of authorization a brokerage house holds. Please refer to the responses under Question 2 and 8 in the attached document for details |
| 9. Macedonia | According to the Securities Law as stated above, the Commission as regulator shall prescribe the amount, type and the manner of maintaining, calculating and inspection of the liquid assets of the brokerage house. However, the Commission is at the moment preparing this regulation, so it is still not adopted and entered into force |
| 10. Peru | No |
| 11. Uganda | Yes, it differs according to category of license held. |
| 12. Oman | No |
| 13. Mongolia | No |
| 14. Ghana | No |
| 15. Costa Rica | No |
| 16. Panama | Yes. |
| 17. Slovakia | Yes |
| 18. Uzbekistan | No |
| 19. Romania | Yes |
| 20. Israel | Yes, please see answer to question 2 above. |
| 21. Lithuania | Yes |
| 22. Pakistan | No |

23. India

Yes, the capital adequacy requirements differ according to the type of business of the intermediary. For example, as per SEBI stipulations, minimum paid up capital required for an individual / partnership entity wanting to start brokerage services is Rs. 10 lacs, whereas in case of corporates, the same stands at Rs. 30 lacs. National Stock Exchange requires a cash deposit of Rs. 1.25 crores for equity and derivatives segment membership and a collateral security deposit of Rs. 25 lacs in the form of FDRs, bank guarantees and approved securities subject to applicable haircut. Apart from the initial capital requirements, stock brokers are also subject to comprehensive margining system as outlined on pre-pages.

In derivatives segment, brokers are classified into trading members, clearing members and self-clearing members. For clearing members, the capital requirement stands at Rs. 3 crores, whereas in respect of only self-clearing members, the minimum net capital required is Rs. 1 crore. SEBI has not specified any minimum net worth requirement in respect of trading members of derivatives exchanges.

Intermediaries who deal in high risk securities or whose operations otherwise pose risk to the interest of investors or intermediaries who handle clients money and securities are subject to more stringent capital requirements. For example, mutual funds, who are entrusted with the management of pool of funds are subject to a net worth requirement of Rs.10 crores whereas Portfolio Manager who manage individual (not pool) client assets are subject to a net worth requirement of Rs.50 lacs.

24. Nigeria

Yes

a) If Yes, Please specify and elaborate:

- i) Type of Business, (Individual, Partnership, etc.)
- ii) Type of Market (derivative, ready, etc.)
- iii) Risk Factor (for e.g. some intermediaries deal in higher risk securities)
- iv) Others

1. Bulgaria

Investment intermediaries that perform transactions in securities for someone else's account and are to hold initial capital that is not less than BGN 200,000 (EUR 102,258)

Investment intermediaries that (apart from the above listed) also perform fiduciary management of individual securities portfolios and/or money, with the exception of portfolios of investment companies and pension funds, are to hold initial capital that is not less than BGN 250,000 (EUR 127,823)

Investment intermediaries, whose purposes also include transactions in securities for their own account and/or underwriting issues of securities, are to hold initial capital that is not less than BGN 1,500,000 (EUR 766,938)

As well, to the activity of the investment intermediaries for maintaining of two side quotations of securities under conditions and in accordance with procedure, determined with the Rules of the regulated market (activity of market - maker) shall apply special capital requirements, determined with the Rules of the regulated market and approved by the commission.

For more details see Article 2 of the ORDINANCE No 6 on the capital adequacy and liquidity of the Investment Intermediaries.

2. El Salvador

ii) There are different requirements to brokers who manage collective investment scheme respect the brokers who only made executing orders.

3. Indonesia

-

4. China

The revised China Securities Law which took effect on Jan.1, 2006 has classified securities firms into various kinds by their business types instead of simply dividing into two kinds (brokerage and comprehensive business) in the past .To adapt to such revision; SFRCISR is to set forth in detail the different minimum net capital requirements for firms engaged in different businesses. A draft of these requirements is as follows:

Business type	Item No.	Minimum requirement (RMB in million yuan)
----------------------	-----------------	--

Securities brokerage, Securities investment advising and Financial consulting related to securities trading and securities investment activities		20
Any one of Securities underwriting & Sponsoring, Proprietary securities business, Securities asset management and other securities businesses		50
and		100
Two or more of Securities underwriting & Sponsoring, Proprietary securities business, Securities asset management and other securities businesses		200

5. South Africa

-

6. Malaysia

-

7. Morocco

-

8. Turkey

9. Macedonia

-

10. Peru

-

11. Uganda

-

12. Oman

-

13. Mongolia

-

14. Ghana

-

15. Costa Rica

-

16. Panama

i) Broker-dealer and investment managers have similar minimum capital adequacy requirements; SRO's have higher requirements of paid-in capital and investment advisors do not have capital adequacy requirements

17. Slovakia

Act no 566/2001 on securities and investment services and on amendments and supplements of certain laws Article 74, paragraph 4

18. Uzbekistan

-

19. Romania

Yes. The capital adequacy requirements differ according to the type of activities which are performed by the intermediary, in accordance with the authorization granted by R.N.S.C.

In accordance with the art. 5 of the capital market Law no. 297/2004, as later amended, the financial investment services that an investment firm can perform are:

“ Art. 5 (1) The investment services regulated by the Capital Market Law are:

1. *core services:*

- a) reception and transmission, on behalf of investors, of orders in relation to one or more financial instruments;
- b) execution of such orders in relation to one or more financial instruments other than for own account;
- c) dealing in any of the financial instruments for own account;
- d) managing portfolios of investments in accordance with mandates given by investors on a discretionary, client-by-client basis, when such portfolios include one or more financial instruments;
- e) the underwriting in any financial instruments and/or the placing of such financial instruments.

2. *non-core services:*

- a) safekeeping and administration of financial instruments;
- b) safe custody services;

- c) granting credits or loans to an investor to allow him to carry out financial instruments transactions, where the firm granting the credit or loan is involved in the transaction;
- d) advice to undertakings on capital structure, industrial strategy as well as advice and service relating to mergers and the purchase of undertakings;
- e) other services related to financial instruments underwriting;
- f) investment advice concerning financial instruments;
- g) foreign exchange services where these are connected with the provision of investment services.”

20. Israel

The capital adequacy requirements differ according to the type of business of the intermediary (exchange member which is a non bank corporation vis-a-vis a bank corporation, insurance companies, portfolio managers, mutual fund managers, provident fund managers, pension fund managers – each is subject to different set of rules according to its type of business, type of market and risk.

21. Lithuania

All financial brokerage firms, depending on what kind of Investment Services they provide, are ranged in 3 categories:

1. The initial capital of financial brokerage firms holding or willing to hold a C category license (not authorizing to hold clients' money or securities, to execute securities acquisition and transfer orders (to deal) for their own account, or to underwrite issues on a firm commitment basis) may not be less than a sum equivalent to 50 000 euros.
2. The initial capital of financial brokerage firms holding or willing to hold a B category license (not authorizing to execute securities acquisition and transfer orders (to deal) for their own account, or to underwrite issues on a firm commitment basis) may not be less than a sum equivalent to 125 000 euros
3. The initial capital of financial brokerage firms which holding or willing to hold an A category license (authorized to provide all Investment Services) may not be less than a sum equivalent to 730 000 euros.

Capital adequacy requirement shall be the highest of the following:

1. Minimum amount of initial capital;

2. a total sum of the position risk, counter-party and settlement risk, large exposure and foreign exchange risk requirements;

3. Expenditure requirement

While the initial capital influences capital adequacy, capital adequacy requirement differ according to the category of financial brokerage firm.

22. Pakistan

No

23. India

Yes, the capital adequacy requirements differ according to the type of business of the intermediary. For example, as per SEBI stipulations, minimum paid up capital required for an individual / partnership entity wanting to start brokerage services is Rs. 10 lacs, whereas in case of corporates, the same stands at Rs. 30 lacs. National Stock Exchange requires a cash deposit of Rs. 1.25 crores for equity and derivatives segment membership and a collateral security deposit of Rs. 25 lacs in the form of FDRs, bank guarantees and approved securities subject to applicable haircut. Apart from the initial capital requirements, stock brokers are also subject to comprehensive margining system as outlined on pre-pages.

In derivatives segment, brokers are classified into trading members, clearing members and self-clearing members. For clearing members, the capital requirement stands at Rs. 3 crores, whereas in respect of only self-clearing members, the minimum net capital required is Rs. 1 crore. SEBI has not specified any minimum net worth requirement in respect of trading members of derivatives exchanges.

Intermediaries who deal in high risk securities or whose operations otherwise pose risk to the interest of investors or intermediaries who handle clients money and securities are subject to more stringent capital requirements. For example, mutual funds, who are entrusted with the management of pool of funds are subject to a net worth requirement of Rs.10 crores whereas Portfolio Manager who manage individual (not pool) client assets are subject to a net worth requirement of Rs.50 lacs.

24. Nigeria

Type of business, (individual, partnership, etc)

18) What are the initial and on-going minimum capital requirements for different market intermediaries?

1. Bulgaria

About the minimum initial capital, according to the extent of granted authorization for activity - see question 17.

The amount of the available own resources of the investment intermediary cannot be less than 25 percent of the minimum required amount of initial capital.

The value of the own capital from the accounting balance sheet, reduced with the value of the non paid up capital of the investment intermediary, cannot be less than the minimum amount of the initial capital.

2. El Salvador

Minimum capital for broker –intermediaries: US\$ 148,100

Minimum capital for broker – management collective found: US\$ 471,000.00

The securities firms that management collective found do not have collective investment scheme regulation.

3. Indonesia

Based on the Ministerial Decree Number 179/KMK.010/2003 and Bapepam regulation Number V.D.5 regarding Maintenance and Reporting Net Adjusted Working Capital the minimum capital requirements are:

<i>Type of Business</i>	<i>Bapepam rule No. V.D.5</i>	
	<i>Paid-up Capital</i>	<i>Net Adjusted Working Capital</i>
<i>Underwriter</i>	<i>IDR 50 billions</i>	<i>IDR 25 billions</i>
<i>1. Broker-Dealer</i>		
<i>a. not administering client account (non-member of Stock Exchange)</i>	<i>IDR 500 millions</i>	<i>IDR 200 millions</i>
<i>b. administering client account (member of Stock Exchange)</i>	<i>IDR 30 billions</i>	<i>IDR 25 billions</i>
<i>2. Investment Manager</i>	<i>IDR 5 billions</i>	<i>IDR 200 millions</i>

<i>3. Underwriter and Investment Manager</i>	<i>IDR 55 billions</i>	<i>IDR 25.2 billions</i>
<i>4. Investment Manager and Broker-Dealer which performs securities account administration for its client</i>	<i>IDR 35 billions</i>	<i>IDR 25.2 billions</i>

4. China

There's no difference between the initial and on-going minimum capital requirements for securities firms. And for the detailed requirements, please refer to the answers to question 4), 9) and 17).

5. South Africa

BESA

The initial and ongoing capital requirement is the higher of:

- (a) an amount determined by the Controlling Body of BESA as being adequate to meet the operating costs of the Authorized User for a period of 13 weeks; or
- (b) either -
 - (i) R200 000 in the case of a Authorized User that does not have access to the assets or securities of any client without referral to the client or to the client's agent; or
 - (ii) R400 000 in all other cases.

NB: This relates to the Bond Trading activities of the company only.

JSE

A base capital requirement for equities and derivatives Authorised Users is the higher of R400 000 and 13 weeks fixed operating expenses. Clearing members' capital requirements are significantly different to that of trading members (see in this regard the response to Q17). Basically the requirement for clearing members amounts to a base requirement of R200 million adjusted liquid capital.

6. Malaysia

- Universal Brokers - Minimum paid-up capital and minimum shareholders' funds unimpaired by losses of RM100 million;
- Non-Universal Brokers - Minimum paid-up capital and minimum shareholders' funds unimpaired by losses of RM20 million;
- Futures Broker - minimum paid-up capital of RM5 million.
- Fund managers - Minimum paid-up capital and minimum shareholders' funds unimpaired by losses of RM2 million.
- For Investment Advisers,
 - i) minimum paid up capital of RM500,000 and minimum Net Tangible Asset of RM50,000 at all times (for corporate finance adviser or investment adviser which is a corporation)
 - ii) minimum paid up capital of RM50,000 unimpaired by losses at all times (for Financial Planner which is a corporation)
 - iii) Minimum Total Net worth Requirement of RM50, 000 (for individual).

7. Morocco

- 1.5 millions MAD for brokerage firms having intermediation as unique activity;
- 5 millions MAD for brokerage firms exercising, in addition to intermediation, custody, issuing activity, counterpart and wallet management mandate.

8. Turkey

The minimum capital requirements that brokerage houses must fulfill in the year 2006 for each certificate of authorization they hold, are as follows:

Certificate of Authorization	Amount (New TL)	Amount (Euros)
Intermediation in Secondary Trading	723.000	362.170,01
Intermediation in Primary Offerings	363.000	181.836,40
Sale and Purchase of Securities Through Repo and Reverse Repo Agreements	363.000	181.836,40
Portfolio Management	290.000	145.268,75
Investment Consultancy	76.000	38.070,43
TOTAL	1.815.000	909.181,99

9. Macedonia

According to the article 99 from the Securities Law on Minimum Basic Capital of the Brokerage House, a brokerage house must have and maintain at all times a Minimum Basic Capital in the amount of at least:

(i) 75,000 Euros (in Denar counter value at the mid rate of the National Bank of the Republic of Macedonia) valid on the date of granting a license for operation provided that the brokerage house is registered to conduct the activities:

- the purchase and sale of securities at the order of and for the account of a customer;
- providing listing sponsor activities and
- providing investment advice;

(ii) 150,000 Euros (in Denar counter value at the mid rate of the NBRM) valid on the date of granting a license for operation provided that the brokerage house is registered to conduct the services:

- the purchase and sale of securities at the order of and for the account of a customer;
- the portfolio management of securities at the order and for the account of an individual customer;
- providing listing sponsor activities and
- providing investment advice;

(iii) 500,000 Euros (in Denar counter value at the mid rate of the NBRM) valid on the date of granting an operational license provided that the brokerage house is registered to conduct all legal activities:

- the purchase and sale of securities at the order of and for the account of a customer;
- the purchase and sale of securities for its own name and account;
- the portfolio management of securities at the order and for the account of an individual customer;
- performing transactions and activities for the account of an issuer of securities necessary for a successful public offering of securities, without mandatory buyout of unsold securities;
- performing transactions and activities for the account of an issuer of securities necessary for a successful public offering of securities, with mandatory buyout of unsold securities;
- providing listing sponsor activities;
- providing investment advice and
- performing transactions and activities for the account of third parties necessary for carrying out

a takeover of a joint stock company in accordance with the Law on Company Takeovers.

10. Peru

The minimum capital for market intermediaries is:

- SAB: 750 000 Nuevos Soles of January 1996. Nowadays, approximately US\$ 325 587.8.
- SIV: 500 000 Nuevos Soles of January 1996. Nowadays, approximately US\$ 217 058.5.

11. Uganda

Nil

12. Oman

RO 500,000 (Tier –III – brokerage group), RO 1million (Tier –II – Asset Management group), RO 5 million (Tier –I – all combined except custodian), RO 10 million (Custodian).

13. Mongolia

By Securities market Law established next requirements

Stock exchange's minimum capital should not be less than 1.0 bln .tugrug.

SDAQ-s -500.0 mln .

Central Depository and Clearing House -100.0 mln.

Mutual and Investment found -100.0 mln

Broker dealers company -50.0 mln

Underwriting company -200.0 mln .

By regulation of FRC established minimum amount of current assets percentage of paid in capital

.Stock Exchange , SDAQ , mutual and investment fund's –in 30% Central Depository and clearing

House in 75 %

Also established minimum amount of Risk Reserve in 3 % of paid in capital for all

types of financial intermediaries

14. Ghana

No

15. Costa Rica

At this time it is €94.000.000 (colonies) (about US\$188.000), but this amount is annually adjusted by inflation

16. Panama

Broker-dealers: B/. 150,000.00 minimum capital adequacy Or 1/1000 of the total volume of the portfolios managed when it provides the service of discretionary management of investment accounts.

Investment managers: B/. 150,000.00 minimum total equity

SRO's: B/. 250,000.00 minimum total equity

Investment advisors: no capital adequacy requirements

17. Slovakia

Act no 566/2001 on securities and investment services and on amendments and supplements of certain laws Article 74, paragraph 1, 4 and 6

18. Uzbekistan

N/A

19. Romania

According to the Capital Market Law no. 297/2004, the initial capital of an investment firm shall be equal to at least the RON equivalent of 50.000 Euro, 125.000 Euro and 730.000 Euro, calculated at the reference rate announced by the National Bank of Romania, depending on the activities the investment firm is authorized to perform. The investment firms are obliged to reach the above mentioned levels of initial capital until 31.12.2006.

20. Israel

Please see answer to question 3 above.

21 Lithuania

1. Paid up authorised capital – contributions of shareholders for shares, except for cumulative preference shares;

2. share premium;
3. reserves (excluding revaluation reserves);
4. audited profit (loss) account of the previous year before distribution and pre-audit loss of the previous year;
5. interim audited profit.

All financial brokerage firms are ranged in 3 categories.

1. The initial capital of financial brokerage firms holding or willing to hold a C category license (not authorizing to hold clients' money or securities, to execute securities acquisition and transfer orders (to deal) for their own account, or to underwrite issues on a firm commitment basis) may not be less than a sum equivalent to **50 000** euros.
2. The initial capital of financial brokerage firms holding or willing to hold a B category license (not authorizing to execute securities acquisition and transfer orders (to deal) for their own account, or to underwrite issues on a firm commitment basis) may not be less than a sum equivalent to **125 000** euros
3. The initial capital of financial brokerage firms which holding or willing to hold an A category license (authorized to provide all Investment Services) may not be less than a sum equivalent to **730 000** euros. On – going capital should exceed initial capital.

22. Pakistan

Section 2 (d) of the Securities and Exchange Rules, 1971 sets out a definition of Net Capital. This “net capital” requirement is utilised by the exchanges regulations on Member’s exposure.

Currently brokers have their trading volume limited via a limit on T+3 trades as a multiple of their ‘Net Capital Balance’ (NCB). This is currently set at 25 times NCB.

Corporate Members of the exchanges have to have a minimum issued and paid up capital. For KSE the minimum is Rs.20 million as per Article 14 of its memo and articles.

A member shall, at all times, maintain a net capital balance of an amount which is:

1. In the case of a stock exchange which in the previous calendar year had on the cash counter a turnover of securities exceeding 15 billion Rs.2.5 million.
2. in the case of a stock exchange which in the previous calendar year had on the cash counter a turnover of securities exceeding 7.5 billion rupees but not exceeding 15 billion Rs.1.5 million; and
3. in the case stock exchange which in the previous calendar year had on the cash counter a turnover of securities not exceeding 7.5 billion Rs.0.75 million.

23. India

Capital requirements for some of the market intermediaries are given below:

Sl. No.	Type of Intermediary	Net Worth Requirement (Rs.)
1.	Depository Participants	50,00,000 for broker DPs, 10,00,00,000 for RTI DP, 50,00,000 for NBFC DP for self and 50,00,00,000 for NBFC DP if acting on behalf of other clients.
2.	Merchant Bankers	5,00,00,000 for Category I merchant bankers, 50,00,000 and 20,00,000 respectively for Cat II and Cat III.
3.	RTI/STA	6,00,000 for Cat I and 3,00,000 for Cat II
4.	Underwriters	20,00,000
5.	Portfolio Managers	50,00,000
6.	Depositories	100,00,00,000
7.	Credit Rating Agencies	5,00,00,000
8.	Mutual Funds	10,00,00,000
9.	Indian Venture Capital Funds	Minimum corpus - 5,00,00,000
10.	Foreign Venture Capital Investors	Nil

24. Nigeria

See Appendix 2:

INITIAL MINIMUM PAID- UP CAPITAL FOR CAPITAL MARKET OPERATORS.

S/N	CATEGORY OF OPERATORS	PAID-UP CAPITAL	
1	ISSUING HOUSE	N40 M	US\$ 331, 284.05
2	BROKER DEALER	N20 M	US\$ 155,642.02
3	TRUSTEES	N10 M	US\$ 77,821.01
4	FUND MANAGERS	N10 M	US\$ 77,821.01
5	PORTFOLIO MANAGER	N10 M	US\$ 77,821.01
6	CORPORATE INVESTMENT ADVISER	N2 M	US\$ 15,564.20
7	REGISTRARS	N10 M	US\$ 77,821.01
8	RATING AGENCY	N20 M	US\$ 155,642.02
9	CORPORATE SUB BROKER	N2 M	US\$ 15,564.20
10	UNDERWRITER	N40 M	US\$ 331, 284.05
11	R/ BANKERS	AS STIPULATED BY CBN	
12	BROKER	N/A	
13	DEALER	N/A	
14	CONSULTANT INDIVIDUAL	N/A	
15	CONSULTANT PARTNERSHIP	N/A	
16	CONSULTANT CORPORATE	N/A	
17	INDIVIDUAL INVESTMENT ADVISER	N 0.1 M	US\$ 778.21
18	VENTURE CAPITAL MANAGER	N20 M	US\$ 155,642.02
19	COMMODITIES BROKER	N40 M	US\$ 331, 284.05
20	CAPITAL TRADE POINT	N200 M	US\$1,556,420.23
21	STOCK EXCHANGE	N500 M	US\$ 3,891.050.58
22	COMMODITIES EXCHANGE	N500 M	US\$ 3,891.050.58
23	CLEARING SETTLEMENTS AND CUSTODIAN AGENCY	N500 M	US\$ 3,891.050.58

19) Is the capital adequacy requirement in excess of the minimum capital requirement?

a) If yes, please elaborate.

1. Bulgaria

The amount of the available own resources of the investment intermediary cannot be less than 25 percent of the minimum required amount of initial capital (indicated in the previous question). The value of the own capital from the accounting balance sheet, reduced with the value of the non paid up

capital of the investment intermediary, cannot be less than the minimum amount of the initial capital, according to the extent of granted authorization for activity

2. El Salvador

There is not capital adequacy requirement only a minimum capital.

3. Indonesia

No

4. China

No. And please refer to the answers to question 4), 9) and 17) for details.

5. South Africa

BESA - Yes

Depending on the position held in the market, the Capital Adequacy Requirement of a Authorized User may exceed the minimum capital requirement. As mentioned above, Authorized Users are required to at all times hold the minimum capital of R200 000 or R400 000 depending on their business model, irrespective of whether they trade or are merely a dormant Authorized User. There are two instances when more capital is required. If the Authorized User is actively taking positions in the market, then the Authorized User must hold additional capital based on the risk requirements (Position risk, counterparty risk and large exposure requirements). It should be noted that this requirement only comes into effect once the Authorized User has an open position in the market. Another instance where more capital is required is if the Authorized User's calculated expenditure for three months as per the Directive is more than the minimum amount as required. The Authorized User is then expected to hold that increased amount.

JSE - Yes

The total capital adequacy requirement is the minimum (base) capital requirement plus the risk requirements related to the trading activity of the Authorized User.

6. Malaysia

Yes, both requirements are applicable.

7. Morocco

Because capital adequacy requirement is composed by the minimum capital and other items (Reserve, balance carried forward to next account...)

8. Turkey:

Yes; as explained under Question 8 in the attached document, the capital adequacy base of brokerage houses calculated by deducting some illiquid or risky assets from their shareholders' equity may not be less than either one of the following items;

- Minimum shareholders' equity corresponding to the certificates of authorization they possess,
- Risk provision (position risk, counter-party risk, risk for large exposures, foreign exchange risk),
- Operating costs of the last quarter.

Therefore although the capital adequacy base will be less than shareholders' equity, it still has to meet the required minimum amount for shareholders equity.

9. Macedonia

According to the Securities Law as stated above, the Commission as regulator shall prescribe the amount, type and the manner of maintaining, calculating and inspection of the liquid assets of the brokerage house. However, the Commission is at the moment preparing this regulation, so it is still not adopted and entered into force

10. Peru

No. In fact, Capital Adequacy is the minimum capital requirement.

11. Uganda

No

12. Oman

The manner of calculating the capital adequacy is explained in the enclosed circular. The capital minimum requirement as mentioned in the reply to the previous question has to be maintained in terms of equity share capital as well as net worth.

13. Mongolia

No

14. Ghana

Yes, The positive net worth and liquidity measures are additional measures.

15. Costa Rica

No

16. Panama

As stated before, the Commission has only established at the present time, minimum capital adequacy requirements

17. Slovakia

Act no 566/2001 on securities and investment services and on amendments and supplements of certain laws Article 74, paragraph 4.

18. Uzbekistan

Whichever larger prevails

19. Romania

Yes. According to art. 12 of the R.N.S.C. Regulation no. 9/2004 on capital adequacy of investment firms, the investment firms supervisory capital may not fall below the required minimum initial capital.

20. Israel

Capital adequacy requirement can exceed the minimum capital requirement .

21 Lithuania

Yes it is in excess of the minimum initial capital requirement

Capital adequacy requirement shall be the highest of the following:

1. minimum amount of initial capital ;
2. a total sum of the position risk, counter-party and settlement risk, large exposure and foreign exchange risk requirements;
3. expenditure requirement

22. Pakistan

Corporate Members of the exchanges have to have a minimum issued and paid up capital. For KSE the minimum is Rs.20 million as per Article 14 of its memo and articles.

A Non Corporate member is not required to maintain a minimum capital, like its corporate counterparts.

Section 2 (d) of the Securities and Exchange Rules, 1971 sets out the definition of Net Capital. This “net capital” requirement is utilised by the exchange regulations on Member’s exposure.

Currently brokers have their trading volume limited via a limit on T+3 trades as a multiple of their ‘Net Capital Balance’ (NCB). This is currently set at 25 times NCB.

23. India

Yes. The various intermediaries are required to have minimum net worth as specified above in order to obtain registration from SEBI. The exposure is linked to capital adequacy for some intermediaries such as brokers, underwriters, depository participants. For example, Depository Participants who are brokers and have net worth of less than Rs. 10 crores and where the value of securities held by them is more than 100 times its networth, they are required to bring in additional capital. Similarly, underwriters are allowed to underwrite only 20 times their net worth.

24. Nigeria

No

20) Are the capital adequacy requirements for foreign market intermediaries the same as for the local intermediaries?

- | | |
|-----------------|--|
| 1. Bulgaria | Yes |
| 2. El Salvador | No |
| 3. Indonesia | Yes (<i>The capital requirement is based on the operational type.</i>) |
| 4. China | Yes |
| 5. South Africa | BESA – Yes, JSE - No |

There are no foreign Authorised Users trading in our equities market. Foreign firms have to establish local subsidiaries as Authorised Users of our equities market. Foreign firms are only accepted in our derivatives market if they are regulated by a foreign regulator and they are then subject to the capital requirements of the home regulator.

Currently, a foreign firm in the derivatives market is required to incorporate as an external company in terms of the Companies Act, 1973 and the foreign parent of the local branch must confirm that it is required to comply with capital adequacy requirements “similar” to those in South Africa and are reporting on those requirements to an “appropriate foreign regulator”. A regulator which is a member of IOSCO would in all likelihood qualify as “an appropriate foreign regulator”. By way of example, therefore, if the "external company" is operating as a local branch of a foreign bank then the capital adequacy requirements for the parent body would have to be "similar" to those of the South African banking regulator. If the "external company" is operating as a branch of a foreign securities firm then the capital adequacy requirements of the parent body would have to be "similar" to those of the JSE.

- | | |
|-------------|-----|
| 6. Malaysia | Yes |
| 7. Morocco | Yes |

8. Turkey There are no separate capital adequacy requirements for foreign market they can enter the market by becoming shareholders in an existing brokerage house.
9. Macedonia Yes, According to article 95 on Legal Entities Performing Operations with Securities, services as set forth above may only be performed by:
- (a) a brokerage house which has obtained an operational license from the Commission;
 - (b) an authorized bank in accordance with the Law on Banks, as amended which has obtained an operational license from the Commission;
 - (c) a subsidiary of a foreign brokerage house which has obtained an operational license from the Commission.
10. Peru Yes, In order for a foreign market intermediary to participate as a securities intermediary in the Peruvian securities market, it have to be authorized by CONASEV to operate as a SAB or SIV. Thus, any foreign market intermediaries who wish to participate as a securities intermediary in the Peruvian securities market shall take into account Capital Adequacy regulations.
10. Peru Yes, In order for a foreign market intermediary to participate as a securities intermediary in the Peruvian securities market, it have to be authorized by CONASEV to operate as a SAB or SIV. Thus, any foreign market intermediary who wish to participate as a securities intermediary in the Peruvian securities market shall take into account Capital Adequacy regulations.
11. Uganda Yes
12. Oman Yes
13. Mongolia Yes
14. Ghana Yes
15. Costa Rica Yes, We do not have foreign market intermediaries.
16. Panama Yes
17. Slovakia No
18. Uzbekistan Yes

19. Romania	Yes. The capital adequacy requirements are set in accordance with the European Directive 93/6 regarding capital adequacy.
20. Israel	Yes
21. Lithuania	Yes
22. Pakistan	Yes
23. India	Yes. The various intermediaries are required to have minimum net worth as specified above in order to obtain registration from SEBI. The exposure is linked to capital adequacy for some intermediaries such as brokers, underwriters, depository participants. For example, Depository Participants who are brokers and have net worth of less than Rs. 10 crores and where the value of securities held by them is more than 100 times its network, they are required to bring in additional capital. Similarly, underwriters are allowed to underwrite only 20 times their net worth.
24. Nigeria	Yes

21) Are your capital adequacy requirements structured in such a way that they take into account the following range of risks? (Please elaborate on how you account for these different risk factors in your calculation of capital adequacy)

1. Market Risk
2. Settlement/Counterparty risk
3. Credit Risk
4. Unsecured claims and free deliveries
5. Operational Risk
6. Liquidity Risk
7. Other Risk

1. Bulgaria

The available own resources of the investment intermediary must at all times exceed or be equal to the sum of:

- b. the amounts, calculated in compliance with the covering of the risk from change of the market price of the securities (Market risk)
- c. the amounts, calculated in compliance with the covering the risk, related to the settlement and the inaccurate performance by the counter party (Settlement/Counterparty risk)
- d. the amounts, calculated in compliance with the covering of the risk, related to the currency exchange rate (Currency exchange risk)
- e. the amounts, calculated in compliance with the covering of the risk, related to the exposures to one person or to a group of related persons (Large exposures risk)
- f. the amount, calculated for covering of other risks from the activity of the investment intermediary – the investment intermediary shall be obliged to maintain at all times own resources in amount one fourth of its permanent expenses for the previous year, multiplied by the index of inflation, determined by the National statistics institute, for the period from the beginning of the current year till the moment of accounting. (Other risks).

For more details see Chapter 4 of the ORDINANCE No 6 on the capital adequacy and liquidity of the Investment Intermediaries.

2. El Salvador

No

3. Indonesia

a) Market risk

Yes. Market risk is assessed by applying haircut as mentioned in the question answer number 16 a to the intermediaries' portfolio.

b) Settlement/Counterparty risk

Yes. This risk is assessed

c) Credit risk:

No, it is not

d) Unsecured claims and free deliveries

No, it is not

e) Operational risk

Yes. This risk is assessed

f) Liquidity risk

No, it is not

g) Other risks. (Please elaborate)

Assessing risks of assets put in/hold by affiliated parties

4. China

a) Market risk

Yes. For example, the haircut rate for an index stock is lower than that for a ST (special treatment) stock.

b) Settlement/Counterparty risk

No. In China, the securities depository and clearing house instead of securities firms is exposed to settlement risk.

c) Credit risk

Yes. For example, the haircut rate for government bonds is lower than that for corporate bonds.

d) Unsecured claims and free deliveries

No. In China, the securities depository and clearing house instead of securities firms is exposed to such a risk.

e) Operational risk

Yes. For example, the net book value of an asset is required to be used as the base for securities firms to calculate its net capital, hence takes into account provisions resulting from such factors as the operational risk.

f) Liquidity risk

Yes. For example, the haircut rate for listed stocks is lower than that for unlisted securities.

g) Other risks. (Please elaborate)

5. South Africa

BESA - The relevant risks are indicated below.

a) Market risk

b) Settlement/Counterparty risk

c) Credit risk

d) Unsecured claims and free deliveries

- f) Liquidity risk
- g) Other risks. (Please elaborate)

Authorised Users are required to calculate their counterparty risk, position risk requirement, large exposure requirement and foreign exchange requirement based on the guidelines set out in the Capital Adequacy Directive. The Directive prescribes how the different assets and liabilities of the Authorised User should be classified, ranked and the percentages that are assigned to each classification.

JSE – The relevant risks are indicated below.

- a) Market risk: Calculate position risk on proprietary positions based on Established risk factors for each type of security.
- b) Settlement/Counterparty risk: In the equities market the risk factors are applied to unsettled equities transactions both pre and post settlement date. In the derivatives market a risk equal to 200% of any unpaid margin as computed by the exchange is applied.
- c) Credit risk: The risk factor is equal to 100% of any unsecured obligation of a counterparty to a credit transaction.
- d) Unsecured claims and free deliveries: The same computation as for credit risk applies.
- e) Operational risk: This risk only applies for equities Authorized Users who provide custody services and only in relation to that particular service. The value of client assets in custody as a basis for computing this risk requirement is used. No general operational risk requirement is applied.
- f) Liquidity risk: Liquidity is taken into account in the range of factors that we apply when computing position risk (market risk on proprietary positions) and counterparty risk.
- g) Other risks. (Please elaborate)

Large exposure risk, which is an additional factor added on to position risk, and counterparty risk if there is a concentrated exposure, and foreign exchange risk which applies to any exposures denominated in a foreign currency

6. Malaysia

The CAR take into consideration of risks in 5 broad categories:

- Operational Risk
- Position Risk

- Settlement / Counterparty Risk
- Large Exposure Risk
- Underwriting Risk

7. Morocco

No

8. Turkey

- Market risk
- Credit risk
- Liquidity risk
- Other risks: foreign exchange risks, risk for large exposures

9. Macedonia

According to the Securities Law as stated above, the Commission as regulator shall prescribe the amount, type and the manner of maintaining, calculating and inspection of the liquid assets of the brokerage house. However, the Commission is at the moment preparing this regulation, so it is still not adopted and entered into force.

10. Peru

The Capital Adequacy requirements are not structured based on risk.

11. Uganda

No

12. Oman

- a) Market risk – Through haircuts on investments.
- b) Settlement/Counterparty risk – Through calibrated haircuts on outstanding positions.
- c) Credit risk: - Haircuts on receivables and margin accounts.
- d) Unsecured claims and free deliveries – Covered under b) above.
- e) Operational risk – no.
- f) Liquidity risk- Implicitly by requiring intermediaries to have more liquid

capital.

13. Mongolia

Nil

14. Ghana

No

15. Costa Rica

- a) Market risk: Yes, based on duration for fixed income securities, a fixed percentage for variable securities and a fixed percentage for exchange rate risk.
- b) Settlement/Counterparty risk: No
- c) Credit risk: Yes, based on the credit quality and maturity. Special rules apply for public debt securities (lower requirements)
- d) Unsecured claims and free deliveries: No
- e) Operational risk: No (but consider Asset Management and Custody, see below)
- f) Liquidity risk: No
- g) Other risks. : Concentration risk: in the case of underwritings where intermediary keeps with unsettled security, Clients repo positions: Since intermediaries are responsible for clients before the national securities exchange (Bolsa Nacional deValores) Asset Management: A percentage of assets under management. Custody: A percentage of assets under custody of the intermediary.

16. Panama

No, the minimum capital adequacy requirement does not take into account these risk factors.

17. Slovakia

- g) Other risks. (Please elaborate): *Exchange rate risk, Commodity risk, Large exposure risk*

18. Uzbekistan

No

19. Romania

Yes. For the trading book we take to account the following types of risk: position risk, settlement/counterparty risk, large exposures or concentration risk and foreign exchange risk. For the no trading book we take to account the following types of risk: credit risk, large exposures and foreign exchange risk.

Also, investment firms are required to hold own funds equivalent to one quarter of their preceding year's fixed overheads, against the other risks.

20. Israel

- a) Market risk – yes..
- b) Settlement/Counterparty risk – no specifically.
- c) Credit risk: - yes
- d) Unsecured claims and free deliveries – if it is part of the credit risk.
- e) Operational risk – no.
- f) Liquidity risk – yes ,
- g) Other risks, such as interest-rate and inflationary mismatches.

21. Lithuania

- a) Market risk
 - b) Settlement/Counterparty risk
 - d) Unsecured claims and free deliveries
 - f) Liquidity risk
 - g) Other risks. (Please elaborate)
- Large exposures risk
 - Liquidity adjustment risk
 - Foreign exchange risk

Different risk factors have special percentage evaluation and every Trading Book position is multiplied by this percentage.

22. Pakistan

No. Section 2 (d) of the Securities and Exchange Rules 1971 arrive at Net Capital Requirement for an intermediary through adjustment of current assets with current liabilities without taking into consideration any of the aforesaid risks.

23. India

Risk management system of stock exchanges encompasses capital and margining requirements which is designed to take care of various risks associated with the operation of market. The same has been outlined in answer to question at Sl. No. 10.

Settlement and counterparty risk is taken care of by Clearing Corporation / House set up for the purpose to act as a central counterparty for all the trades executed at the stock exchange. All the trades executed at the stock exchange are guaranteed for settlement. Exchanges have also a settlement guarantee fund.

The above takes care of market risk, operational risk, liquidity risk and settlement/ counterparty risk.

Investor Protection Fund set up under the statute provides cover to investors in case of failure on the part of broker to pay up up to a limit of Rs.10 lacs per investor per broker. Credit risk is thus covered to an extent.

24. Nigeria

- a) Market risk: As defined in the document, but they are mandated to make 100% provision on the diminution in the value of quoted securities
- b) Settlement/Counterparty risk
- c) Credit risk: Same as defined in the document, but no defined basis
- d) Unsecured claims and free deliveries: As defined in the document and they are expected to have bank guarantee in event of default.
- e) Operational risk: We check internal control documents / systems as well as operational manuals to see how they safeguard third party assets.
- f) Liquidity risk: We examine at current price ratio

g) Other risks. (Please elaborate)

22) Is a change in the level of risk reflected in the capital adequacy requirement, (for e.g. if the level of risk increases does the capital adequacy requirement also increase?)

1. Bulgaria	Yes
2. El Salvador	No
3. Indonesia	No
4. China	No
5. South Africa	BESA - Yes: As the Authorized User's net position in the market increases, their risk requirements will increase, as it is calculated on total exposure. JSE – Yes
6. Malaysia	Yes
7. Morocco	No
8. Turkey	Yes, the amount of the capital adequacy base may not be lower than total risk provisions.
9. Macedonia	No
10. Peru	
11. Uganda	No
12. Oman	Yes
13. Mongolia	No
14. Ghana	No
15. Costa Rica	Yes
16. Panama	No
17. Slovakia	Yes
18. Uzbekistan	No
19. Romania	Yes. The regulation regarding prudential supervision of the investment firms is based on the application of capital requirements regarding the various types of risk incurred by the intermediaries
20. Israel	Yes
21. Lithuania	Yes

22. Pakistan	No
23. India	Yes. Additional capital and VaR based margining requirements as explained above takes into account the change in the level of risk of stock brokers viz. enhanced exposure limits, open positions. Similar provision exist for assets under custody of broker DPs and underwriters.
24. Nigeria	yes

23) Is the capital adequacy requirement designed to allow market intermediaries to absorb some losses or wind down their businesses, with minimal loss to their customers or other market intermediaries?

1. Bulgaria	Yes
2. El Salvador	No
3. Indonesia	Yes
4. China	No
5. South Africa	BESA - Yes

JSE – Yes: The risk factors take into account how long it would take an Authorised User to wind down a particular position. The risk requirements are set at a level which ensures that after winding down their exposures at a potential loss, the Authorised User should still have sufficient capital to meet their obligations.

The risk requirements contemplate that there would be no loss to clients because all of the Authorised User’s proprietary and counterparty exposures should be wound down and even if a loss is incurred on the winding down of those exposures, which is built into the risk computations, the Authorised User should still have sufficient assets left to meet its obligations and wind down its business without causing a loss to its clients.

6. Malaysia	Yes
7. Morocco	Yes

8. Turkey

Yes, The position of brokerage firms vis-à-vis capital adequacy requirements gives early warning signs of deterioration in the financial status of brokerage houses. Consequently brokerage houses can adopt measures to improve their financial condition in a timely manner.

According to Article 28 of the Communiqué Serial: V, No: 34, in case the capital adequacy base of brokerage houses falls below the required minimum amounts mentioned in the Communiqué, the deadlines for meeting these requirements vary according to the size of the deficit.

In addition, according to Article 32 of the Communiqué until the brokerage house meets its capital adequacy base requirement, it must bring a letter of guarantee that will be valid for maximum of 3 months from a bank.

Moreover, there are certain deadlines for brokerage houses to meet the other requirements that are mentioned in the Communiqué and, until the brokerage house meets its requirements, it is monitored very closely. According to Articles 28 of the Communiqué Serial: V, No: 34 and Article 64 of the Communiqué Serial: V, No: 46, if the brokerage house still fails to meet the requirement, then its activities will be suspended temporarily, or its licenses shall be revoked partially or completely.

Therefore, capital standards are sufficient to allow a brokerage house to absorb some losses and to wind down its business over a relatively short period without loss to its customers or disrupting the orderly functioning of the markets.

9. Macedonia

According to the Securities Law as stated above, the Commission as regulator shall prescribe the amount, type and the manner of maintaining, calculating and inspection of the liquid assets of the brokerage house. However, the Commission is at the moment preparing this regulation, so it is still not adopted and entered into force.

10. Peru

Yes

11. Uganda

Yes

12. Oman

No

13. Mongolia

Yes

14. Ghana	No
15. Costa Rica	Yes
16. Panama	No
17. Slovakia	No
18. Uzbekistan	Yes
19. Romania	Yes
20. Israel	Yes
21. Lithuania	Yes
22. Pakistan	No
23. India	<p>The capital adequacy requirements and risk containment measures put in place have successfully and efficaciously addressed the market risks and there have been no serious concerns in this regard.</p> <p>As regards customers, small investors are protected by Investor Protection Fund mandated under the statute and bigger investors are expected to do their own due diligence and risk assessment on the broker.</p>
24. Nigeria	Yes, (Though, we use trade guaranty funds / investment protection fund and both are statutory deposit.)

24) Are the following liabilities ranked, and if so at what percentage?

1. Bulgaria	No
2. El Salvador	No
3. Indonesia	No
4. China	No
5. South Africa	<p>BESA- Authorized Users are required to calculate their capital requirement based on the guidelines in the directives. Their liabilities or positions accordingly must be assigned to the appropriate categories on the basis of their maturity and then multiply them by weightings shown on that maturity band in order to calculate their weighted positions.</p>
6. Malaysia	<p>Under CAR, the above liabilities (exposures) would be captured under the 5 risk requirements or as a deductible in the calculation of liquid</p>

capital. As for ANC requirement, the deductibles from Total Liabilities includes subordinated loan in excess of one year or to which the Exchange is a party, long term liabilities to financial institutions and such liabilities as determined by the Exchange from time to time.

7. Morocco	No
8. Turkey	No
9. Macedonia	According to the Securities Law as stated above, the Commission as regulator shall prescribe the amount, type and the manner of maintaining, calculating and inspection of the liquid assets of the brokerage house. However, the Commission is at the moment preparing this regulation, so it is still not adopted and entered into force.
10. Peru	No
11. Uganda	No
12. Oman	No
13. Mongolia	-
14. Ghana	No
15. Costa Rica	No
16. Panama	No
17. Slovakia	We are not sure of meaning your question. In case of CAD approach all off-balance sheet items are divided in four risk categories to be multiplied by conversion factors. Details please see mentioned Decree No. 559/2002 Coll.
18. Uzbekistan	-
19. Romania	Yes
20. Israel	No
21. Lithuania	Yes
22. Pakistan	No
23. India	No, liabilities are not ranked in all the above cases.
24. Nigeria	No

a) Gearing adjustment in respect of securities margin financing

- | | |
|-----------------------|---|
| 1. Bulgaria | |
| 2. El Salvador | No |
| 3. Indonesia | No |
| 4. China | No |
| 5. South Africa (JSE) | Yes. Unpaid margin has a risk factor of 200% of the margin amount. |
| 6. Malaysia | N/A |
| 7. Morocco | |
| 8. Turkey | No |
| 9. Macedonia | According to the Securities Law as stated above, the Commission as regulator shall prescribe the amount, type and the manner of maintaining, calculating and inspection of the liquid assets of the brokerage house. However, the Commission is at the moment preparing this regulation, so it is still not adopted and entered into force. |
| 10. Peru | No |
| 11. Uganda | No |
| 12. Oman | No |
| 13. Mongolia | - |
| 14. Ghana | No |
| 15. Costa Rica | No |
| 16. Panama | No |
| 17. Slovakia | - |
| 18. Uzbekistan- | |
| 19. Romania | Yes |
| 20. Israel | - |
| 21. Lithuania | - |
| 22. Pakistan | No |
| 23. India | No |
| 24. Nigeria | No |

b) Concentration of margin clients

1. Bulgaria

2. El Salvador	No
3. Indonesia	No
4. China	No
5. South Africa (JSE)	No
6. Malaysia	N/A
7. Morocco	-
8. Turkey	No
9. Macedonia	-
10. Peru	No
11. Uganda	No
12. Oman	No
13. Mongolia	-
14. Ghana	No
15. Costa Rica	No
16. Panama	No
17. Slovakia	-
18. Uzbekistan	-
19. Romania	Yes
20. Israel	No
21. Lithuania	Yes
22. Pakistan	No
23. India	No
24. Nigeria	No

c) Short selling of securities on behalf of clients

1. Bulgaria	
2. El Salvador	No
3. Indonesia	No
4. China	No
5. South Africa (JSE)	Yes, but the risk is calculated on the securities loan because all short sales have to be settled on settlement date and this is facilitated through securities loans (see (f) below).

6. Malaysia	-
7. Morocco	-
8. Turkey	No
9. Macedonia	-
10. Peru	No
11. Uganda	No
12. Oman	No
13. Mongolia	-
14. Ghana	No
15. Costa Rica	No
16. Panama	No
17. Slovakia	-
18. Uzbekistan	-
19. Romania	Yes
20. Israel	Yes
21. Lithuania	Yes
22. Pakistan	No
23. India	No
24. Nigeria	No

d) Increase in amounts in respect of short positions for own account

1. Bulgaria	
2. El Salvador	No
3. Indonesia	No
4. China	No
5. South Africa (JSE)	A market risk factor (see 16) is applied to the market value of all proprietary short positions.
6. Malaysia	-
7. Morocco	-
8. Turkey	No
9. Macedonia	-
10. Peru	No

11. Uganda	No
12. Oman	No
13. Mongolia	-
14. Ghana	No
15. Costa Rica	No
16. Panama	No
17. Slovakia	-
18. Uzbekistan	-
19. Romania	Yes
20. Israel	-
21. Lithuania	Yes
22. Pakistan	No
23. India	No
24. Nigeria	No

e) Concentrated proprietary positions

1. Bulgaria	
2. El Salvador	No
3. Indonesia	No
4. China	No
5. South Africa (JSE)	Large exposure risk is calculated on concentrated positions and ranges from 10% to 40% of the market value of the position, which is in addition to the normal market risk factor on that position.
6. Malaysia	-
7. Morocco	-
8. Turkey	No
9. Macedonia	-
10. Peru	No
11. Uganda	No
12. Oman	Yes
13. Mongolia	-

14. Ghana	No
15. Costa Rica	No
16. Panama	No
17. Slovakia	-
18. Uzbekistan	-
19. Romania	Yes
20. Israel	-
21. Lithuania	Yes
22. Pakistan	No
23. India	No
24. Nigeria	No

f) Securities borrowing and lending

1. Bulgaria	
2. El Salvador	No
3. Indonesia	No
4. China	No
5. South Africa (JSE)	Yes. The risk equals the market value of the securities borrowed plus a market risk factor (see 16) less the value of collateral held.
6. Malaysia	-
7. Morocco	-
8. Turkey	No
9. Macedonia	-
10. Peru	No
11. Uganda	No
12. Oman	No
13. Mongolia	-
14. Ghana	No
15. Costa Rica	No
16. Panama	No
17. Slovakia	-
18. Uzbekistan	-

19. Romania	Yes
20. Israel	Yes
21. Lithuania	Yes
22. Pakistan	No
23. India	No
24. Nigeria	No

g) Net underwriting commitments

1. Bulgaria	
2. El Salvador	No
3. Indonesia	No
4. China	No
5. South Africa (JSE)	Yes. The normal market risk factors (see 16) are applied to underwriting commitments, applying a reduction factor on a sliding scale basis from the date of the commitment (90% reduction) to 5 days hence (25% reduction), with no reduction applicable after 5 days.
6. Malaysia	-
7. Morocco	-
8. Turkey	No
9. Macedonia	-
10. Peru	No
11. Uganda	No
12. Oman	Yes
13. Mongolia	-
14. Ghana	No
15. Costa Rica	No
16. Panama	No
17. Slovakia	-
18. Uzbekistan	-
19. Romania	Yes
20. Israel	-
21. Lithuania	Yes

22. Pakistan	No
23. India	No
24. Nigeria	no

h) Off-exchange traded derivative contracts and interest rate swap agreements

1. Bulgaria

2. El Salvador No

3. Indonesia No

4. China No

5. South Africa (JSE) Yes. Normal market risk factors (see 16) are applied to the equivalent underlying position if the underlying product is listed. An interest rate swap is treated as a long or short position in a debt instrument with matching maturities to the swap using the maturity based approach applied to debt instruments.

6. Malaysia -

7. Morocco -

8. Turkey No

9. Macedonia -

10. Peru No

11. Uganda No

12. Oman No

13. Mongolia -

14. Ghana No

15. Costa Rica No

16. Panama No

17. Slovakia -

18. Uzbekistan -

19. Romania Yes

20. Israel Yes

21. Lithuania Yes

22. Pakistan No

23. India No

24. Nigeria No

i) Guarantees and other financial commitments

1. Bulgaria	
2. El Salvador	No
3. Indonesia	No
4. China	No
5. South Africa (JSE)	Guarantees and other financial commitments are effectively deducted in full in computing adjusted liquid capital.
6. Malaysia	-
7. Morocco	-
8. Turkey	No
9. Macedonia	-
10. Peru	No
11. Uganda	No
12. Oman	No
13. Mongolia	-
14. Ghana	No
15. Costa Rica	No
16. Panama	No
17. Slovakia	-
18. Uzbekistan	-
19. Romania	Yes
20. Israel	Yes
21. Lithuania	
22. Pakistan	No
23. India	No
24. Nigeria	No

j) Foreign exchange agreements and foreign currency positions

1. Bulgaria	
2. El Salvador	No

3. Indonesia	No
4. China	No
5. South Africa (JSE)	Yes. Foreign currency exposures are translated into Rands and a risk factor of 10% is applied to the Rand value.
6. Malaysia	-
7. Morocco	-
8. Turkey	No
9. Macedonia	-
10. Peru	No
11. Uganda	No
12. Oman	No
13. Mongolia	-
14. Ghana	No
15. Costa Rica	Yes, net position 10%
16. Panama	No
17. Slovakia	-
18. Uzbekistan	-
19. Romania	Yes
20. Israel	Yes
21. Lithuania	Yes
22. Pakistan	No
23. India	No
24. Nigeria	No

k) Repos

1. Bulgaria	
2. El Salvador	No
3. Indonesia	No
4. China	No
5. South Africa (JSE)	Yes. Counterparty risk is computed as a percentage of the difference between the current market value of the asset received and the security provided, or vice versa. During the period of the agreement, the risk factor is zero for regulated

financial institutions and 25% for other counterparties. Subsequent to settlement date the risk factor is 100%.

6. Malaysia	-
7. Morocco	-
8. Turkey	No
9. Macedonia	-
10. Peru	No
11. Uganda	No
12. Oman	No
13. Mongolia	-
14. Ghana	No
15. Costa Rica	Yes, % of all open positions (client's or own)
16. Panama	No
17. Slovakia	-
18. Uzbekistan	-
19. Romania	Yes
20. Israel	-
21. Lithuania	Yes
22. Pakistan	No
23. India	No
24. Nigeria	No

1) Miscellaneous ranking liabilities

1. Bulgaria	
2. El Salvador	No
3. Indonesia	No
4. China	No
5. South Africa (JSE)	No
6. Malaysia	-
7. Morocco	-
8. Turkey	No
9. Macedonia	-

10. Peru	No
11. Uganda	No
12. Oman	No
13. Mongolia	-
14. Ghana	No
15. Costa Rica	No
16. Panama	No
17. Slovakia	-
18. Uzbekistan	-
19. Romania	Yes
20. Israel	-
21. Lithuania	Yes
22. Pakistan	Yes, grouped under other liabilities.
23. India	No
24. Nigeria	no

25) Are hedged and offset positions taken into consideration in the capital adequacy calculation? (Please provide details)

1. Bulgaria	Yes
2. El Salvador	No
3. Indonesia	No
4. China	No (Before 2006, margin transactions and short selling were prohibited by China <i>Securities Law</i> . Though such businesses are legal starting from Jan.1, 2006, no securities firm has developed such businesses so far. Moreover, there's no hedge fund in the Chinese capital market currently.)
5. South Africa	BESA - Yes : An allowance is made to offset or reduce the weighted position which is held alongside an opposite weighted position within the same maturity band.

JSE – Yes : Derivative positions are translated into the equivalent underlying positions and the normal risk factors are then applied to the net of the spot positions in a particular instrument and the equivalent underlying positions in respect of derivatives on those instruments.

6. Malaysia

Yes (Netting and hedging allowed under CAR).

7. Morocco

No

8. Turkey

The related regulation is Article 14 of the Communiqué Serial:V, No: 34 entitled “Net Position” according to which;

“Net position is the single item of assets or liabilities calculated by netting the liabilities of brokerage houses such as capital market instruments, foreign exchange, and precious metals if items of the same kind are among assets. Net position calculation by brokerage houses is optional.

The position risk shall be calculated on amounts determined by this way regardless of whether the amount derived is an asset or liability as a result of netting.

Net position shall be calculated by taking into account the amounts of related items valued in accordance with this Communiqué.

Calculating the net position does not hinder further provisions against counterparty risk, risk for large exposures and foreign exchange risk.

In case of capital market instruments purchased through a reverse repurchase agreement to be subject to repurchase agreements, net position calculation might be done for capital market instruments subject to repurchase with the condition that the repurchase and reverse repurchase maturities are the same. In this calculation, the current values of capital market instruments subject to repurchase and reverse repurchase shall be taken into account.

In futures and option contracts, special provisions regarding net position calculations are reserved.”

Article 16 of the Communiqué Serial: V, No: 34 describe the calculation of market risk provision for futures and options contracts. According to the last paragraph of that article;

“Net position calculation might be done as envisioned in this Communiqué with regard to futures and option contracts. In these calculations, the current value of the assets underlying futures contracts and the amount calculated by multiplying the current value of assets underlying option contracts with option delta² shall be taken into consideration.”

- | | |
|----------------|---|
| 9. Macedonia | According to the Securities Law as stated above, the Commission as regulator shall prescribe the amount, type and the manner of maintaining, calculating and inspection of the liquid assets of the brokerage house. However, the Commission is at the moment preparing this regulation, so it is still not adopted and entered into force. |
| 10. Peru | No |
| 11. Uganda | No |
| 12. Oman | No |
| 13. Mongolia | No |
| 14. Ghana | No. (In our Jurisdiction, it is a fixed amount that every market operator has to comply with) as an emerging market there was the need of encourage many professional; firms to enter the industry, hence that minimum capital requirement it would have to be reviewed in due course taking into consideration many of the risk factors and other considerations raised in this questionnaire. |
| 15. Costa Rica | No |
| 16. Panama | No |
| 17. Slovakia | Yes |
| 18. Uzbekistan | No |
| 19. Romania | Yes |
| 20. Israel | Yes |
| 21. Lithuania | Yes, All Trading Book net positions are taken into consideration in the capital adequacy calculation. A firm may offset any Trading Book position in derivatives where these met particular conditions. Short and long positions of different issues of the same issuer may be summed up only provided that these |

² The option delta is defined as the percentage change in option contract price caused by a 1% change in the current value of the underlying instrument.

securities can substitute one other. Hedged positions may be offset with positions taken in order to hedge these positions. Summed up positions give a net position. Risk value is calculated in accordance with net positions.

22. Pakistan	No
23. India	No
24. Nigeria	N/A

Section II: Record keeping and reporting requirements:

1) Are the financial statements used for the purpose of determining capital based in any or all of the following?

	a) GAAP	b) IAS
1. Bulgaria		Yes
2. El Salvador		Yes
3. Indonesia	<i>The Financial Statements are based on Indonesia Financial Accounting Standards that is set by The Financial Accounting Standards Board (DSAK) of the Indonesian Institute of Accountants. For calculating the NAWC this standard is still use but with adjustment (under Bapepam regulation) to assess risks in the capital market</i>	
4. China	Yes	
5. South Africa	Yes - Both the US GAAPs and the IAS are acceptable accounting standards for financial intermediaries.	
6. Malaysia	We have our own Malaysian Accounting Standards Board who issues accounting standards that mirror those of the International Accounting Standards Board. These standards are called Financial Reporting Standards (FRS).	
7. Morocco	No	
8. Turkey	The current accounting regulations in Turkey are in line with the IAS , however Article 5 of the Communiqué Serial: V, 34 imposes further principles for marking-to-market on the date of calculation.	
9. Macedonia		Yes
10. Peru		Yes

11. Uganda	International Financial Reporting Standards (IFRS)
12. Oman	Yes
13. Mongolia	Yes
14. Ghana	Yes
15. Costa Rica	Yes
16. Panama	The Commission has determined as acceptable accounting standards for financial intermediaries both the US GAAPs and the IAS (Agreements No. 2-2000 and 8-2000).
17. Slovakia	Yes
18. Uzbekistan	Yes
19. Romania	Yes
20. Israel	We have our Israeli Accounting Standards Board who issues accounting standards, based on those of the International Accounting Standards Board.
21. Lithuania	Yes
22. Pakistan	Yes
23. India	Financial statements prepared by intermediaries in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India are used for the purpose of determining capital.
24. Nigeria	NAS (Nigerian Accounting Standard as Prescribed by the Nigerian Accounting Standard Board)

2.) What are the capital adequacy reporting requirements by financial intermediaries?

1. Bulgaria

The investment intermediary shall present to the deputy chairman of the Financial Supervision Commission till the 10th date of each month accounting balance sheet and profit and loss account by the last date of the previous month and account on capital adequacy and liquidity.

The financial accounts of the investment intermediary shall be subject to independent financial audit by a registered auditor.

The investment intermediary shall present to the deputy chairman of the FSC within 90 days as from the end of the financial year an annual financial account, certified by a registered auditor.

The investment intermediary, which compiles consolidated financial account, shall present it to the deputy chairman together with 6-months account on the capital adequacy and liquidity on consolidated basis till August 15, and till June 30 of the following year – together with annual account on the capital adequacy and liquidity on consolidated basis. In the consolidated accounts the net positions in securities and the currency positions of the investment intermediary and the other financial institutions shall be eliminated.

Upon request by the deputy chairman the investment intermediaries shall present additional data and explanations on the accounts, including analytical information for each position, as well as accounts on capital adequacy and liquidity, accounting balance sheets, profit and loss accounts, analytical turnover lists and additional data for shorter periods.

For more details see Articles 28-29 of the ORDINANCE No 6 on the capital adequacy and liquidity of the Investment Intermediaries.

2. El Salvador

- Balance Sheet
- Profit and loss statement (Income Statement)
- Cash Flow
- Shareholder's Equity Statement
- Securities Trading Statement
- Management of Collective Fund Statement

3. Indonesia

Based on Bapepam rules Number V.D.5 regarding Maintenance and Reporting Net Adjusted Working Capital, the market intermediaries have to report their NAWC electronically every day. The reports consists of the Daily trial balance (form V.D.5-1 and V.D.5-2); Securities Ledger valuation (Form V.D.5-3); Net Adjusted Working Capital Report (V.D.5-4); and Monthly Statistics of Securities Company Activity (V.D.5-5).

In addition to the daily report, the market intermediaries have also obliged to submit audited annual and semi annual financial reports to Bapepam.

4. China

Securities firms are required to submit to CSRC their monthly Net Capital Report and audited annual Net Capital Report.

5. South Africa

Yes

6. Malaysia

CAR:

The minimum Capital Adequacy Ratio is 1.20 times and the intermediaries are to calculate on a daily basis (marked to market). The reporting requirement is tiered as follows:

- More than or equal to 4.0 times, reporting frequency is monthly.
- Less than 4.0 but more than or equal to 2.0, reporting frequency is fortnightly.
- Less than 2.0, reporting frequency is daily.

ANC Requirement:

The minimum ANC requirement is RM 500,000 or 10% of aggregate margin required, whichever is the higher and the reporting frequency is monthly.

7. Morocco

Yes

8. Turkey

Brokerage houses must send the reports designed in **Annexes 1, 2 and 3 to the Communiqué Serial: V, No: 34** to show marked-to-market values of all assets and liabilities, and their position vis-à-vis the capital adequacy base, liquidity and indebtedness requirements. A more general report showing the level of activities such as purchases and sales, margin trading, short sales and the number of portfolios managed accompanies the capital adequacy reports. Furthermore the staff of the Board periodically requests detailed information from each brokerage house for a more thorough assessment.

9. Macedonia

According to the Securities Law as stated above, the Commission as regulator shall prescribe the amount, type and the manner of maintaining, calculating and inspection of the liquid assets of the

brokerage house. However, the Commission is at the moment preparing this regulation, so it is still not adopted and entered into force.

10. Peru

Market intermediaries must send a non-audited special report about their Capital Adequacy as well as the Liquidity and Solvency Ratio. Additionally, they have to disclose information about Capital Adequacy in their audited financial information.

11. Uganda

Financial intermediaries are required to submit monthly statements of net capital to the Capital Markets Authority by the 15th day of the subsequent month.

12. Oman

Periodic reporting

13. Mongolia

Yes

14. Ghana

Yes

15. Costa Rica

It requires daily calculation, but reports must be sent monthly to the supervising authority (Superintendencia General de Valores-SUGEVAL)

16. Panama

Financial intermediaries have to submit their interim quarterly financial statements to the Commission and audited annual financial statements. During the revision of such reports, compliance with the minimum total capital adequacy requirement is given particular importance. Broker-dealers additionally file monthly transactions and liquidity reports.

17. Slovakia

Yes

18. Uzbekistan

Quarter reports to the regulator.

19. Romania

- The capital adequacy reporting requirements are the following:
- Capital requirement for the general risk on debt instruments
- Capital requirement for the specific risk on debt instruments
- Capital requirement for the general and specific risk on equity securities
- Capital requirement for the risk on positions and other instruments
- Capital requirement for the currency exchange risk
- Capital requirement for the settlement risk
- Capital requirement for the counterparty risk
- Supplementary capital requirement for the concentration risk or great exposures
- Capital requirement for the commodities risk – method of maturity scale
- Capital requirement for the commodity risk – simplified method
- Capital requirement on options : delta-plus method
- Capital requirement on options: simplified method
- Capital requirement on credit risk
- Total capital requirements (except “other risks”)
- Capital requirement for “other risks”

20. Israel

Quarter or monthly reports to the relevant regulator.

21. Lithuania

A firm must immediately notify the Securities Commission where:

- a) the ratio of its liquid own capital and the amount of the required capital adequacy falls below 110%;
- b) its contingent liabilities sum up to over 10% of the firm’s liquid own capital;

- c) its initial capital falls below the minimum set;
- d) the value of its illiquid assets exceeds 25% of the initial capital and at least one of the constituent part of its illiquid capital exceeds 10% of the initial capital;
- e) a party to a securities or commodities repurchase, reverse repurchase, borrowing, lending or sale agreement fails to fulfil its liabilities;
- f) loans provided by the firm without a collateral are greater than the initial capital;
- g) loans received by the firm are greater than the initial capital. Loans received shall not include clients' funds and subordinated loans;
- h) the firm becomes subject to extraordinary conditions (e.g., its computerised accounting system fails), which may result in disturbances of a normal daily work, also if the firm is unable to calculate capital adequacy requirements.

22. Pakistan

An intermediary is required to comply with the requirements of "Net Capital balance" as stated in Rule 2 (d) of the Securities and Exchange Rules 1971. Members are required to submit the Net Capital balance as on June 30 and December 31, duly certified by a practicing Chartered Accountant to the Securities and Exchange Commission of Pakistan. Further the Stock Exchanges monitor the capital adequacy and exposure of every trading member quarterly, monthly and weekly.

23. India

Stock brokers are required to submit half yearly net worth certificate to the concerned stock exchange. In addition, the positions of the broker vis-à-vis the capital and margins brought in are monitored online by stock exchanges and alerts are sounded for infusion of fresh funds as and when the capital of the broker nears its trading limits imposed by the stock exchanges.

In addition, market intermediaries if so required by SEBI submit copies of balance sheet, profit and loss account, and statement of capital adequacy at periodic intervals.

24. Nigeria

All liquid assets that are directly related to the operation of the intermediary are considered in the computation of capital adequacy e.g. Cash, Stock and Bonds and other short-term investment.

3) Is the reporting a continuing requirement or a periodic requirement?

1. Bulgaria

The investment intermediary shall present to the deputy chairman of the Financial Supervision Commission till the 10th date of each month accounting balance sheet and profit and loss account by the last date of the previous month and account on capital adequacy and liquidity.

The financial accounts of the investment intermediary shall be subject to independent financial audit by a registered auditor.

The investment intermediary shall present to the deputy chairman of the FSC within 90 days as from the end of the financial year an annual financial account, certified by a registered auditor.

The investment intermediary, which compiles consolidated financial account, shall present it to the deputy chairman together with 6-months account on the capital adequacy and liquidity on consolidated basis till August 15, and till June 30 of the following year – together with annual account on the capital adequacy and liquidity on consolidated basis. In the consolidated accounts the net positions in securities and the currency positions of the investment intermediary and the other financial institutions shall be eliminated.

Upon request by the deputy chairman the investment intermediaries shall present additional data and explanations on the accounts, including analytical information for each position, as well as accounts on capital adequacy and liquidity, accounting balance sheets, profit and loss accounts, analytical turnover lists and additional data for shorter periods.

For more details see Articles 28-29 of the ORDINANCE No 6 on the capital adequacy and liquidity of the Investment Intermediaries.

2. El Salvador

It is periodic requirement

3. Indonesia

Yes

4. China

Continuing requirement.

5. South Africa

All Authorised Users are required to report on their capital adequacy on a monthly basis. However, in the equities market the exchange is able to compute the Authorised Users' capital adequacy on a daily basis as the Exchange has direct access to the Authorised Users' financial records and the Exchange utilizes a system which computes the Authorised Users' capital positions based on their records.

6. Malaysia

Both, continuing and periodic depending on the capital adequacy ratio (see reply on Q.2 Section II):

CAR

The minimum Capital Adequacy Ratio is 1.20 times and the intermediaries are to calculate on a daily basis (marked to market). The reporting requirement is tiered as follows:

- More than or equal to 4.0 times, reporting frequency is monthly.
- Less than 4.0 but more than or equal to 2.0, reporting frequency is fortnightly.
- Less than 2.0, reporting frequency is daily.

ANC Requirement

The minimum ANC requirement is RM500,000 or 10% of aggregate margin required, whichever is the higher and the reporting frequency is monthly.

7. Morocco

Periodic requirement

8. Turkey

A periodic requirement. However, the Board is authorized to request capital adequacy reports on a more frequent basis from brokerage firms that fail to meet one or more of the requirements under the Communiqué.

9. Macedonia

According to the Securities Law as stated above, the Commission as regulator shall prescribe the amount, type and the manner of maintaining, calculating and inspection of the liquid assets of the brokerage house. However, the Commission is at the moment preparing this regulation, so it is still not adopted and entered into force.

10. Peru

The reporting is a periodic requirement.

Report on Capital Adequacy must be presented on a monthly basis and audited financial information in an annual basis.

11. Uganda

The reporting is a periodic requirement.

12. Oman

Perpetual

13. Mongolia

Periodic requirement

14. Ghana

Yes

15. Costa Rica

Periodic requirement but daily calculation

16. Panama

The reports indicated in answer to question above is a continuing reporting requirement.

17. Slovakia

Periodic

18. Uzbekistan

Periodic

19. Romania

Yes, the capital adequacy reporting requirements are reported periodically to R.N.S.C.

20. Israel

Periodic requirement, though we are stepping towards a continuing requirement.

21. Lithuania

Periodic

22. Pakistan

Periodic

23. India

Periodic

24. Nigeria

Based on monthly, quarterly and annual reports continuing requirement.

4) Please specify the period:

1. Bulgaria

The investment intermediary shall present to the deputy chairman of the Financial Supervision Commission till the 10th date of each month accounting balance sheet and profit and loss account by the last date of the previous month and account on capital adequacy and liquidity.

The financial accounts of the investment intermediary shall be subject to independent financial audit by a registered auditor.

The investment intermediary shall present to the deputy chairman of the FSC within 90 days as from the end of the financial year an annual financial account, certified by a registered auditor.

The investment intermediary, which compiles consolidated financial account, shall present it to the deputy chairman together with 6-months account on the capital adequacy and liquidity on consolidated basis till August 15, and till June 30 of the following year – together with annual account on the capital adequacy and liquidity on consolidated basis. In the consolidated accounts the net positions in securities and the currency positions of the investment intermediary and the other financial institutions shall be eliminated.

Upon request by the deputy chairman the investment intermediaries shall present additional data and explanations on the accounts, including analytical information for each position, as well as accounts on capital adequacy and liquidity, accounting balance sheets, profit and loss accounts, analytical turnover lists and additional data for shorter periods.

For more details see Articles 28-29 of the ORDINANCE No 6 on the capital adequacy and liquidity of the Investment Intermediaries.

2. El Salvador

Monthly

3. Indonesia

The NAWC report must be submitted daily by system by 9 am at the latest (Form V.D.5-1 until V.D.5-4), and on monthly basis for form V.D.5 the financial statements must be submitted semi annually and annually.

4. China

Monthly

5. South Africa

Monthly

6. Malaysia

CAR

The minimum Capital Adequacy Ratio is 1.20 times and the intermediaries are to calculate on a daily basis (marked to market). The reporting requirement is tiered as follows:

- More than or equal to 4.0 times, reporting frequency is monthly.
- Less than 4.0 but more than or equal to 2.0, reporting frequency is fortnightly.
- Less than 2.0, reporting frequency is daily.

ANC Requirement

The minimum ANC requirement is RM 500,000 or 10% of aggregate margin required, whichever is the higher and the reporting frequency is monthly.

7. Morocco

Monthly

8. Turkey

Other: Capital adequacy reports are required to be delivered at periods of 15 days to the Board. The reports must be kept in both electronic and printed format.

9. Macedonia

According to the Securities Law as stated above, the Commission as regulator shall prescribe the amount, type and the manner of maintaining, calculating and inspection of the liquid assets of the brokerage house. However, the Commission is at the moment preparing this regulation, so it is still not adopted and entered into force.

10. Peru

Monthly and annually

11. Uganda

Monthly

12. Oman

Quarterly

13. Mongolia

Semi-Annually

14. Ghana

Other:

a) Monthly - CASH FLOW

b) QUARTERLY- UNAUDITED FINANCIALS

c) Annually - ANNUAL REPORT

d) Other – QUARTERLY COMPLIANCE OFFICER’S REPORT

15. Costa Rica

Monthly

16. Panama

Financial statements are presented quarterly (interim) and annually (audited).

17. Slovakia

Monthly, semi-annually and quarterly.

18. Uzbekistan

Quarterly

19. Romania

The capital adequacy reports are submitted by the investment firms monthly, quarterly and semi-annually, according with their type of business.

20. Israel

Mostly Quarterly (also monthly with regard to banks).

21. Lithuania

Other: Quarterly, except financial brokerage firms, which can provide all kind of Investment Services. These firms must report monthly.

22. Pakistan

Semi Annually with the Securities and Exchange Commission.

Quarterly, Monthly and Weekly with the Stock Exchanges.

23. India

It depends on the type of intermediary and varies from quarterly financial statements to annual accounts. For example in case of stock brokers, a half yearly net worth certificate is sought.

24. Nigeria

Monthly ✓

Semi-annually ✓

Annually ✓

5) Is the cut off date used for preparation of capital adequacy report, the trade or settlement date?

1. Bulgaria

The investment intermediary shall present to the deputy chairman of the Financial Supervision Commission till the 10th date of each month accounting balance sheet and profit and loss account by the last date of the previous month and account on capital adequacy and liquidity.

The financial accounts of the investment intermediary shall be subject to independent financial audit by a registered auditor.

The investment intermediary shall present to the deputy chairman of the FSC within 90 days as from the end of the financial year an annual financial account, certified by a registered auditor.

The investment intermediary, which compiles consolidated financial account, shall present it to the deputy chairman together with 6-months account on the capital adequacy and liquidity on consolidated basis till August 15, and till June 30 of the following year – together with annual account on the capital adequacy and liquidity on consolidated basis. In the consolidated accounts the net positions in securities and the currency positions of the investment intermediary and the other financial institutions shall be eliminated.

Upon request by the deputy chairman the investment intermediaries shall present additional data and explanations on the accounts, including analytical information for each position, as well as accounts on capital adequacy and liquidity, accounting balance sheets, profit and loss accounts, analytical turnover lists and additional data for shorter periods.

For more details see Articles 28-29 of the ORDINANCE No 6 on the capital adequacy and liquidity of the Investment Intermediaries.

2. El Salvador

Trade date

3. Indonesia

The cut off date is the settlement date.

4. China

The trade date as the cut off date.

5. South Africa

BESA: Settlement date

JSE: Trade date

6. Malaysia

Trade date

7. Morocco

Non applicable

8. Turkey

Settlement date

9. Macedonia

According to the Securities Law as stated above, the Commission as regulator shall prescribe the amount, type and the manner of maintaining, calculating and inspection of the liquid assets of the

brokerage house. However, the Commission is at the moment preparing this regulation, so it is still not adopted and entered into force.

10. Peru

The cut off date for preparation of Capital Adequacy report is the trading date.

11. Uganda

The requirements are on-going but the reporting is periodic. There are no cut off dates

12. Oman

Trade date

13. Mongolia: No response

14. Ghana

No - Continuing

15. Costa Rica

Settlement date

16. Panama

Not applicable.

17. Slovakia

Trade date

18. Uzbekistan

Neither

19. Romania

The cut off date used for preparation of capital adequacy report is the trade date.

20. Israel

Mostly settlement date.

21. Lithuania

The cut off date is used for preparation of capital adequacy report.

22. Pakistan

Trade date

23. India

Normally at the end of every financial year, intermediaries prepare an annual financial statement.

24. Nigeria

It is based on settlement date

6) Are the capital adequacy reports accompanied by:

a) Auditors Report

b) Management confirmation about the accuracy of the report

1. Bulgaria

a) Yes

b) Yes

2. El Salvador

a) Yes, Only the Financial Statement of June and December

b) No

3. Indonesia

a) Accountants that audit financial reports of Securities Companies must verify the calculation of NAWC, using a random sample of 15 working days during the year, and give an opinion as to whether

NAWC was based on correct information and whether the calculation was performed and reported correctly.

b) Yes, The reports must be signed by a director of the securities company.

4. China

a) Yes for annual Net Capital Report but No for monthly report.

b) Yes for annual Net Capital Report but No for monthly report.

5. South Africa

a) No - The SROs do receive an annual report from the Authorised User's auditor which reconciles their reported capital adequacy position to their audited financial statements.

b) Yes

6. Malaysia

a) No, there is a separate requirement on submission of auditors report.

b) Yes

7. Morocco

a) No

b) No

8. Turkey

a) Yes; the annual and semi-annual capital adequacy reports of brokerage houses must be audited along with other financial statements.

b) Yes; the reports must be signed by the senior managers of brokerage houses and must bear the official seal of the firm, thereby demonstrating the confirmation of the accuracy of the report.

9. Macedonia

According to the Securities Law as stated above, the Commission as regulator shall prescribe the amount, type and the manner of maintaining, calculating and inspection of the liquid assets of the brokerage house. However, the Commission is at the moment preparing this regulation, so it is still not adopted and entered into force.

10. Peru

a) No

b) No

11. Uganda

a) No

b) Yes

12. Oman

a) Yes (Auditors are required to verify annually)

b) Yes

13. Mongolia

a) Yes

b) Yes

14. Ghana

a) Yes

b) Yes

15. Costa Rica

a) No

b) Yes

16. Panama

There are no specific capital adequacy reports.

17. Slovakia

a) No

b) Yes

18. Uzbekistan

a) No

b) Yes

19. Romania

a) Yes. The annual financial statements are accompanied by the financial auditor report. Also, the initial capital is allowed to include net profit of the current financial year, only if it's audited by a financial auditor.

b) No

20. Israel

a) Yes

b) Yes

21. Lithuania

a) No

b) No

22. Pakistan

a) Yes

b) No

23. India

Net worth certificate is required to be certified by a qualified chartered accountant in case of stock brokers. Annual financial statements are required to be duly audited before submission to the regulator or the SRO.

24. Nigeria

a) Yes

b) Yes

7. Do you have an early warning reporting system to indicate when a financial intermediary approaches the minimum capital requirement level?

1) Bulgaria

No

2) El Salvador

No: We are checking the month financial information respect the minimum capital requested.

The financial position and accounts of the intermediary are subject to audit every month by SUPERVAL auditors and every 6 months by independent external auditors approved by the SUPERVAL.

3) Indonesia

No

4) China

Yes: As the Article 34 of *Securities Firms Regulatory Rules* states, if the net capital of a securities firm is lower than 120% of the minimum requirement, or decreases by 20% compared with that of last month, the securities firm should submit a report to the CSRC in 3 working days to explain the problem and the measures to resolve it.

5) South Africa

BESA – Yes: Capital adequacy returns are verified and reviewed for its adequacy once received from the Authorised Users. The daily monitoring of all Authorised Users' positions is done irrespective of who their lead regulator is. During this process any abnormal movements of the Authorised User's position will be queried with that Authorised User. In the event that a satisfactory explanation is not received which may bring risk to the market, further action will be taken. If that Authorised User is lead regulated by BESA, its total capital will be considered to establish if it is adequate. BESA, through its surveillance function, has checks in place to monitor compliance with all requirements. The checks which are in place alert BESA if and when an Authorised User's capital adequacy position is deteriorating.

JSE - Yes: The JSE does have an inherent early warning system as a result of the daily calculation discussed in (3) above.

6) Malaysia

Yes: The early warning system is based on a set of prescribed scenarios and ratios as determined by the SROs.

7) Morocco

No

8) Turkey

No

9) Macedonia

According to the Securities Law as stated above, the Commission as regulator shall prescribe the amount, type and the manner of maintaining, calculating and inspection of the liquid assets of the brokerage house. However, the Commission is at the moment preparing this regulation, so it is still not adopted and entered into force.

10) Peru

No

11) Uganda

No

12) Oman

No

13) Mongolia

No

14) Ghana

No

15) Costa Rica

No

16) Panama

No

17) Slovakia

No

18) Uzbekistan

No

19) Romania

No

20) Israel

We do not have such an early warning reporting system but capital adequacy returns are verified and reviewed for its adequacy once received from the intermediary. Any abnormal movements will be queried with that intermediary.

21) Lithuania

Yes: A firm must immediately notify the Securities Commission where:

1. the ratio of its liquid own capital and the amount of the required capital adequacy falls below 110%;
2. its contingent liabilities sum up to over 10% of the firm's liquid own capital;
3. its initial capital falls below the minimum set;
4. the value of its illiquid assets exceeds 25% of the initial capital and at least one of the constituent part of its illiquid capital exceeds 10% of the initial capital;
5. a party to a securities or commodities repurchase, reverse repurchase, borrowing, lending or sale agreement fails to fulfil its liabilities;
6. loans provided by the firm without a collateral are greater than the initial capital;

7. loans received by the firm are greater than the initial capital. Loans received shall not include clients' funds and subordinated loans;

8. the firm becomes subject to extraordinary conditions (e.g., its computerised accounting system fails), which may result in disturbances of a normal daily work, also if the firm is unable to calculate capital adequacy requirements.

22. Pakistan

No

23. India

As has been explained earlier, stock exchanges monitor the positions of the brokers online, which are linked to the capital deposited by the stock broker with the exchange. Alerts are sounded by the exchange to the broker online through trading terminals once the broker crosses certain limits viz. 70%, 85% and 90%. Once the broker crosses 100% of the limits, his trading is immediately disabled and he is asked to bring in additional capital / margins. Further in case the broker reaches 90% limits on 8 or more occasions in a month, he is asked to bring in additional capital, even before he reaches 100% limit.

24. Nigeria

Yes, This is determined through the quarterly report sent by the intermediary from which financial ratios are computed and analyzed.

8. What actions are taken by the regulator when a financial intermediary's net capital falls below the minimum requirement?

- **Business Restrictions**
- **Penalties and Fines**
- **Additional Capital Charge**
- **License Revocation**
- **Other**

1. Bulgaria

License Revocation:

The Commission shall withdraw the issued license, If the investment intermediary fails to satisfy the requirements for capital adequacy and liquidity and does not submit within a 5-day period of the inconsistency's occurrence, a restructuring program for compliance with these requirements, or the restructuring program is not approved by the Commission within fourteen days from its submission, or does not implement the restructuring program approved by the Commission

More details:

The investment intermediary shall notify the deputy chairman at the latest till the following working day:

- from the date, on which its available own resources are below 110 percent of the necessary minimum;
- from the date, on which it does not meet and is not able within 3 days to bring itself in compliance with the requirements for capital adequacy and liquidity;
- if the counter party to contracts for repurchase or lending of securities does not fulfil its obligations.

In the aforesaid cases or if the net exposure of the investment intermediary to one person or a group of related persons exceed 25 percent of its own resources and if the amount of the large net exposures of the investment intermediary exceed 800 percent of its own resources, the investment intermediary shall be obliged within 5 days as from the occurrence of the discrepancy to propose for approval by the commission a recovery program with term for bringing of its capital adequacy and liquidity in compliance with the requirements of the ordinance not longer than 3 months.

- The recovery program must contain:
- description of the violation;
- the reasons, which led to violating of the capital adequacy and the liquidity of the investment intermediary;

- concrete measures for bringing of the financial situation of the company in compliance with the requirements of the law, which are to be adequate to the committed violation, as well as the final term for their implementation;
- documents, from which is evident, that the proposed recovery program, respectively the envisaged measures, are adopted and signed by the members of the competent body of the company, according to the statutes;
- account on the capital adequacy and liquidity, accounting balance sheet and profit and loss account of the company by the date of the violation
- prognostic account on the capital adequacy and liquidity, accounting balance sheet and profit and loss account of the company by the date of fulfilment of the programme.

The commission shall decide on the application for approval of recovery programme within 14 days as from submitting of all the necessary documents, and shall send a written notification to the investment intermediary within 3 days as from taking the decision.

Within the period of fulfilment of the recovery programme the investment intermediary cannot distribute dividends and other incomes and it shall direct the full amount of the profit after due taxation to fund “Reserve”.

For more details see Articles 30-31 of the ORDINANCE No 6 on the capital adequacy and liquidity of the Investment Intermediaries and Article 68 of Law on Public Offering of Securities.

2) El Salvador

Business Restrictions, Penalties and Fines, Additional Capital Charge:

The SUPERVAL reviews net capital levels at least monthly. Where there is material deficiency, the SUPERVAL can take a series of steps, ranging from asking the intermediary to submit a plan to improve capital level, to suspending business. In case of broker that manage collective fund, SUPERVAL can ordering transfer of client assets to other intermediaries.

3) Indonesia

Actions taken are business restriction (suspension), additional capital charge, and license revocation.

Please refer to Section III question answer 1:

- The market intermediaries that are not meeting the minimum requirement of NAWC must:
 - a. Halt the opening of Securities Accounts for new clients
 - b. Halt the transactions that will increase that will increase long or short positions in the company's own portfolio except to exercise or sell the preemptive rights
 - c. Halt all transactions that will increase the debit balance or short position in the account of clients.
 - d. Halt all purchases and sales for the account of clients, excepts for trades that reduce short positions or debit balance or sell of preemptive rights, when deficiency of NAWC is more than 20% of the amount required.
 - e. Submit to Bapepam a plan that include the schedule, the method, and the manner of increasing the capital, reducing business activities or going out of business, with copies to the Securities Exchange of which the securities companies is a member.
- Bapepam may approve or disapprove or request improvement on the plan mentioned above
- Securities company that continues violate the NAWC requirements must report the implementation of the plan in writing to Bapepam and Securities Exchange.
- Bapepam will cancel the business license and require the securities company to submit a plan for setting all liabilities to clients, when the securities company fails to meet the NAWC for 30 days continuously or more that 60 days in any 12 month period.

4. China

Business Restrictions and License Revocation:

- Cease approving the establishment or purchase of operational branches;
 - Restrict the distribution of dividends, the payment of compensation or the provision of benefits to directors, supervisors, or senior executives;
 - Restrict or encumber the transfer of property;
 - Order a change in the directors, supervisors, or senior executives, or restrict their rights;
- Restrict the transfer of equity by the controlling shareholders or the exercise by relevant shareholders of their shareholder rights.

5. South Africa

BESA: The actions are indicated below.

- Penalties and Fines
- License Revocation

JSE: All of the above actions may be taken.

6. Malaysia

The Securities Commission and the SROs will take one or a combination of the above actions depending on the severity of the drop in Capital Adequacy Ratio or ANC. Pursuant to the Securities Industry Act, a licensed intermediary that fails to comply with the minimum financial requirement shall not continue its licensed business unless a written consent has been obtained from the Securities Commission. Where a stockbroking company or a futures broker is unable to comply with the stipulated minimum capital adequacy requirement, the intermediary concerned shall immediately notify its SRO and indicate the steps taken or to be taken to comply with such requirements.

7. Morocco

Business Restrictions and Administrative sanctions

8. Turkey

Business Restrictions, Penalties and Fines, License Revocation and Other.

9. Macedonia

License Revocation: According to the article 207 on Revocation of a License, the Commission shall revoke the license for performing services related to operation with securities of a brokerage house, in several cases, including the one when the brokerage house does not satisfy the conditions with respect to capital appropriateness and other conditions pursuant to the risk management rules and other conditions and responsibilities pursuant to the laws within the competence of the Commission.

10. Peru

Penalties and Fines

Additional Capital Charge

License Revocation,

Other i.e. License suspension

11. Uganda

License revocation

12. Oman

Business Restrictions, (Suspension leading to cancellation, if instances are too many)

License Revocation.

13. Mongolia

Penalties and Fines

14. Ghana

Business Restrictions

Penalties and Fines

License Revocation

15. Costa Rica

Penalties and Fines

License Revocation

16. Panama

Whenever the minimum total equity falls below the amount of B/. 150,000.00, the Surveillance Unit issues a communication granting the intermediary a term of 15 days to remedy the insufficiency. If the intermediary does not comply within this period of time, the Commission may start a proceeding of intervention, which may result in a forced liquidation of the business and further cancellation of the license.

17. Slovakia

License Revocation.

18. Uzbekistan

License revocation

Other, i.e. warning letter.

19. Romania

Not applicable

20. Israel

- **Business Restrictions**
- **Penalties and Fines**
- **Additional Capital Charge**
- **License Revocation**

21. Lithuania

Business Restrictions

Penalties and Fines

License Revocation

Other, i.e. setting the term for their shortcomings elimination.

22. Pakistan

The membership of a member or members shall remain suspended as soon as the net capital balance falls short of the amount specified in clause (b) and shall remain suspended until the net capital balance is increased so as not to fall short of the amount. The Stock Exchanges monitor trading of brokers and their adherence to minimum capital requirements. It can suspend trading of any stock broker when the broker falls short of capital requirement. Therefore “other” suspension of membership.

23. India

As detailed above, a stock broker is subject to business restriction as also monetary fines. Stock broker is also asked to infuse fresh capital or reduce his exposure on his own choosing. License revocation is resorted to only in extreme cases where the entity is a habitual defaulter or the gravity of violation is severe enough to warrant such an action.

It may also be mentioned here that licenses of most of the intermediaries are subject to renewal and before grant of renewal, it is seen that the intermediaries conform to capital adequacy requirements.

Where fall in net worth below the minimum requirement is noticed, the entity would be asked to shore up his capital within a specified period and in case of failure to do so, his licence is liable to be cancelled. In the interim, he may be subject to business restrictions also.

24. Nigeria

- a) Business Restrictions ✓
- b) Penalties and Fines ✓
- c) Additional Capital Charge ✓
- d) Licence Revocation ✓

e Other – **Target Inspections are conducted to determine the extent of capital erosion before necessary actions can be taken which include but not limited to refusal to renew registration / license until injection of adequate capital and suspension from trade.**

9. Which of the following (capital related) records are intermediaries required to maintain at all times?

- a) Balance Sheet and Liquid assets**
- b) Liquid capital Computation**
- c) Credit facility Summary**
- d) Margin Client Analysis**
- e) Analysis of Client Assets**
- f) Profit and Loss account**
- g) Other, (Please specify)**

1. Bulgaria

Balance Sheet and liquid assets

Liquid capital Computation

Profit and Loss account.

1. El Salvador

Balance Sheet and Liquid assets

Liquid capital Computation

Analysis of Client Assets

Profit and Loss account

Other:

a. Transactions record.

b. Manager personal data.

2. Indonesia

All of documents above are related in the calculation of NAWC, therefore all documents should be kept by intermediaries, including documents that show bank accounts, deposits etc. Most importantly are documents related to Securities Ledgers, Transaction Ledgers, and General Ledgers. General Ledgers show assets, liabilities, revenues and expenses, as well as authorized capital of the company.

3. China

Balance Sheet and Liquid assets

Analysis of Client Assets

Profit and Loss account

Other; summary report for all kinds of businesses, i.e., proprietary securities investment, client's asset management, underwriting, etc.

4. South Africa

BESA:

Balance Sheet and Liquid assets

Analysis of Client Assets

Profit and Loss account

JSE:

Balance Sheet and Liquid assets

Liquid capital Computation

Margin Client Analysis

Analysis of Client Assets

Profit and Loss account

Other, i.e. Risk requirements

5. Malaysia

Balance Sheet and Liquid assets

Liquid capital Computation

Credit facility Summary

Margin Client Analysis

Analysis of Client Assets

Profit and Loss account

Pursuant to the Securities Industry Act, a licensed intermediary that fails to comply with the minimum financial requirement shall not continue its licensed business unless a written consent has been obtained from the Securities Commission. Where a stockbroking company or a futures broker is unable to comply with the stipulated minimum capital adequacy requirement, the intermediary concerned

shall immediately notify its SRO and indicate the steps taken or to be taken to comply with such requirements.

6. Morocco

Balance Sheet and Liquid assets

Analysis of Client Assets

Profit and Loss account

7. Turkey

Balance Sheet and Liquid assets

Liquid capital Computation

Credit facility Summary

Margin Client Analysis

Analysis of Client Assets

Profit and Loss account

8. Macedonia

According to the article 131 on Reporting to the Commission, on the fifteenth (15) day following the last day of the preceding calendar month, a brokerage house shall submit to the Commission a monthly reporting statement, signed by the director of the brokerage house, including calculations of its basic capital, any changes in its status and changes in ownership structure; the monthly report shall be accompanied by a declaration signed by the director stating that the brokerage house has at all times during the relevant period complied with the basic capital specified under article 99 of the Securities Law and secondary regulations issued hereunder; a brokerage house shall submit to the Commission an annual report for its work no later than the 31 of May each year, for the previous year, that shall contain the financial statements for the previous year prepared according to International Financial Reporting Standards and audited by an authorized auditor in accordance with the International Auditing Standards.

9. Peru

Balance Sheet and Liquid assets

Liquid capital Computation

Profit and Loss account

10. Uganda

No response

11. Oman

Liquid capital Computation

12. Mongolia

Can't make out response

13. Ghana

Balance Sheet and Liquid assets

Liquid capital Computation

Analysis of clients assets

Credit facility Summary

Profit and Loss account

14. Costa Rica

Balance Sheet and Liquid assets

Liquid capital Computation

Profit and Loss account

15. Panama

Most of those items are consistent with book-keeping and records requirements according to IAS. No other specific capital-related records have been required by the Commission.

16. Slovakia

Balance Sheet and Liquid assets

Margin Client Analysis

Analysis of Client Assets

Profit and Loss account

17. Uzbekistan

Balance Sheet and Liquid assets

Profit and Loss account

Other, i.e. Cash flow account

18. Romania

Investment firms shall submit to R.N.S.C. the following statements and documents:

- a. report on lending operations, margin trades and short selling;
- b. report on financial derivatives trading;
- c. balance sheet;
- d. profit or loss account;
- e. changes on own capital and cash flows;
- f. accounting policies and explanatory notes.

19. Israel 1

Balance Sheet and Liquid assets

Profit and Loss account

20. Lithuania

Liquid capital Computation

21. Pakistan

Balance Sheet after six months.

Margin Client: The margin is monitored at all times. The maintenance of margin is a requirement of Standardized Account Opening Form, which in turn form part of the Stock Exchange's General Rules and Regulations.

Profit and Loss account, after every six months.

23. India

All the intermediaries are required to maintain certain books and accounts and at the end of every financial year, have to prepare financial statements and get it audited by qualified auditors. Analysis of client assets can be done from debtor's ledger which shows the details including longevity of the dues. Similarly the intermediary is required to maintain records showing details of credit facility extended.

24. Nigeria

- a)Balance Sheet and Liquid assets ✓
- e)Analysis of Client Assets ✓
- f)Profit and Loss account ✓

10. How do financial intermediaries indicate a change / deterioration in their capital adequacy position?

1. Bulgaria

No response

2. El Salvador

Changes/deteriorations in the capital adequacy it is showed in the Financial Statement.

3. Indonesia

They can indicate from the increase of Risks components mentioned in Section I question answer 21. For more on the components details please refer to Form V.D.5-4 and the answer for question 8 in Section I.

4. China

Changes in the capital adequacy position are reflected in the monthly Net Capital Report.

5. South Africa

BESA:

On the monthly returns submitted by the Authorized User.

JSE:

For equities Authorized Users, the JSE can identify the change on a daily basis through the daily calculation referred to in 3 above. Any change would also be evident on the monthly reports submitted by all Authorized Users.

6. Malaysia

Pursuant to the Securities Industry Act, a licensed intermediary that fails to comply with the minimum financial requirement shall not continue its licensed business unless a written consent has been obtained from the Securities Commission. Where a stockbroking company or a futures broker is unable to comply with the stipulated minimum capital adequacy requirement, the intermediary concerned shall immediately notify its SRO and indicate the steps taken or to be taken to comply with such requirements.

7. Morocco

By a systematic notification done by the intermediary to the regulator

8. Turkey

In addition to periodic reporting, according to Article 25 of the Communiqué Serial: V, No: 34, in cases where a brokerage firm's capital adequacy base, minimum capital or liquidity requirements fall below the minimum requirements mentioned in the Communiqué or in case the borrowing ratio surpasses the specified ratio, the capital adequacy reports shall be immediately submitted to the Board.

9. Macedonia

According to the article 131 on Reporting to the Commission, on the fifteenth (15) day following the last day of the preceding calendar month, a brokerage house shall submit to the Commission a monthly reporting statement, signed by the director of the brokerage house, including calculations of its basic capital, any changes in its status and changes in ownership structure; the monthly report shall be accompanied by a declaration signed by the director stating that the brokerage house has at all times during the relevant period complied with the basic capital specified under article 99 of the Securities Law and secondary regulations issued hereunder; a brokerage house shall submit to the Commission an annual report for its work no later than the 31 of May each year, for the previous year, that shall contain the financial statements for the previous year prepared according to International Financial Reporting Standards and audited by an authorized auditor in accordance with the International Auditing Standards.

10. Peru

Market intermediaries present a Report on Capital Adequacy on a monthly basis. However, they are obligated to communicate to CONASEV and the stock exchange any insufficiency of liquid assets with

respect to their total risk-adjusted tenures ($LSR < 1$) within the following 24 hours since the occurrence of such deficiency.

11. Uganda

No response

12. Oman

No response

13. Mongolia

No response

14. Ghana

By their monthly and quarterly returns which also has a statement of liquid funds under which is included shareholders fund.

15. Costa Rica

With special monthly reports

16. Panama

Most of those items are consistent with book-keeping and records requirements according to IAS. No other specific capital-related records have been required by the Commission.

17. Slovakia

Only by periodic reports.

18. Uzbekistan

Reporting to the regulator

19. Romania

The investment firms are required to prove that they employ systems which can calculate their financial positions with reasonable accuracy at any time.

20. Israel 1

By means of periodic reports or immediate reports

21. Lithuania

Firms shall calculate capital requirement for position risk with respect to all their Trading Book items. They must mark to market and control their Trading Book positions daily according to the prices securities on the regulated market. Internal control units of firms must establish an efficient control system and monitor whether the assumed risk is consistent with the established requirements.

22. Pakistan

Intermediaries submit their biannual statement of Capital adequacy with the SEC. The stock exchanges collect monthly, quarterly, weekly statements for capital adequacy. Any change in financial position of an intermediary is reported to the regulators through these reports.

23. India

All the intermediaries are required to maintain certain books and accounts and at the end of every financial year, have to prepare financial statements and get it audited by qualified auditors. Analysis of client assets can be done from debtor's ledger which shows the details including longevity of the dues. Similarly the intermediary is required to maintain records showing details of credit facility extended.

24. Nigeria

Through the prescribed reporting format.

Section III: Compliance and Regulatory issues:

1) What are the penalties if intermediaries' capital falls below the minimum capital adequacy levels?

- a) Kindly list the different penalties.**
- b) How are the penalties determined?**

1. Bulgaria

See question 8 of previous section.

2. El Salvador

- a) - The securities Exchange restrict the access to the floor.
 - Regulator entity request Capital to cover the difference.
 - Sanctioning administrative process is opened
 - Superval can establish penalties no over 2% net capital and reserves.

- b) The penalties are determined by SUPERVAL through the sanctioning administrative process

3. Indonesia

- a) The market intermediaries that are not meeting the minimum requirement of NAWC must:
 - Halt the opening of Securities Accounts for new clients
 - Halt the transactions that will increase that will increase long or short positions in the company's own portfolio except to exercise or sell the preemptive rights
 - Halt all transactions that will increase the debit balance or short position in the account of clients.
 - Halt all purchases and sales for the account of clients, excepts for trades that reduce short positions or debit balance or sell of preemptive rights, when deficiency of NAWC is more than 20% of the amount required.
 - Submit to Bapepam a plan that include the schedule, the method, and the manner of increasing the capital, reducing business activities or going out of business, with copies to the Securities Exchange of which the securities companies is a member.
 - Bapepam may approve or disapprove or request improvement on the plan mentioned above
 - Securities company that continues violate the NAWC requirements must report the implementation of the plan in writing to Bapepam and Securities Exchange.
 - Bapepam will cancel the business license and require the securities company to submit a plan for setting all liabilities to clients, when the securities company fails to meet the NAWC for 30 days continuously or more that 60 days in any 12 month period.

- b) - The suspension is automatically apply when securities companies/intermediaries' capital is below minimum requirements and when they are failing to submit the report by 9 am.
- The suspension lifted after the intermediaries comply with the requirements.

4. China

Not applicable

5. South Africa

a) BESA

The penalty imposed will be the lower of 5% of the shortfall in own funds required to be held by the Authorised User in accordance with the Rules; or R25 000, for each day from the first date on which such shortfall occurs. However, the Disciplinary Tribunal (established in terms of the BESA rules) may impose any additional penalty in accordance with the Rules of BESA.

A fine imposed by the Disciplinary Tribunal shall not exceed R1 million for each contravention or non-compliance. The Tribunal may also suspend or expel an Authorised User based on a contravention of the BESA Rules.

JSE

No set penalties. A shortfall in an Authorised User's capital adequacy is a breach of the exchange's rules and in addition to requiring the Authorised User to remedy the shortfall, the JSE can impose a sanction ranging from a written warning to a monetary fine. The penalty would typically be determined based on how the Authorised User conducted itself in allowing the shortfall to arise and the steps that it took to remedy the situation.

A Disciplinary Committee (established in terms of the JSE rules) may impose a fine not in excess of R25 000 per contravention. This amount could be applied to each day that an Authorised User did not meet its capital adequacy requirements. The imposition of a fine as a form of penalty is in addition to the other measures that the JSE can take to address a capital adequacy shortfall as set out above. A Tribunal (also established in terms of the JSE rules) can impose a fine not exceeding R5 million per contravention but it is unlikely that a contravention of the JSE's capital adequacy requirements would

be referred to a Tribunal as the Tribunal process is a lengthy one and capital adequacy shortfalls need to be dealt with as expeditiously as possible.

Failure to remedy the shortfall in the short term can result in a restriction on the Authorised User's activities and if the Authorised User is unable to resolve the shortfall, its membership would be terminated as adequate capital is a condition of membership.

b) BESA

The penalties have been set in the Rules of the Exchange. However, it is the sole responsibility of the Disciplinary Tribunal, established in terms of BESA's rules, to deliberate on the contravention to determine the level of the penalty imposed.

JSE

See the discussion above.

6. Malaysia

The penalties (similar to those stated in Q8, Section II) are prescribed in the internal guidelines of the SROs and actions are determined by the SROs. However, in the event that the SRO wishes to impose trading restrictions, the SRO will consult the Securities Commission.

The Securities Commission also has the power to suspend or revoke the license of an intermediary.

7. Morocco

None

8. Turkey

a) According to **Article 46 (h) and (k) of the Capital Markets Law**, in cases where it is determined that the financial structure of a capital market institution has significantly deteriorated, the Board is authorized to;

- request the strengthening of the financial situations within a suitable period that shall be granted and to restrict or remove the signature authorities of the liable personnel of such institutions;

- take the necessary measures in case it is determined that the needed measures were not taken by these institutions within the period that was granted or that their financial situations have weakened to the extent that they shall not be able to meet their commitments, or to suspend the operations of these institutions temporarily without granting any additional time or to stop their operations permanently and to revoke their licenses;
- make a decision for gradual liquidation in case these measures do not lead to an improvement, to request bankruptcy directly or when it is deemed necessary following the conclusion of gradual liquidation;
- request the personal bankruptcies of shareholders who have a share more than 10 percent, the chairman and members of the board of directors whose offices have ended or who are still working and the administrators who have signature authority and mutual fund administrators, provided that they have been determined by the Board to be responsible in situations of gradual liquidation or bankruptcy of the capital market institutions.

In addition, according to **Article 25 of the Communiqué Serial: V, No: 34**, in cases where a brokerage firm's capital adequacy base, minimum capital or liquidity requirements fall below the minimum requirements mentioned in the Communiqué or in case the borrowing ratio surpasses the specified ratio, the capital adequacy reports shall be immediately submitted to the Board. The same article authorizes the Board to request capital adequacy reports on a more frequent basis from brokerage firms that fail to meet one or more of the requirements under the Communiqué.

The specific measure to be taken in case of failure to comply with capital adequacy requirements were specified in **Articles 27 – 30 of the Communiqué Serial: V, No: 34**.

Accordingly, if a brokerage house fails to comply with the capital adequacy base, liquidity requirement or the general borrowing limit, it must cover the deficiency within a certain period of time granted by the Board. This period is determined in accordance with the size and occurrence of the deficiency within one year. Brokerage houses may use a guarantee letter from a bank to cover deficiencies in the capital adequacy base or the liquidity requirement for a maximum period of 3 months.

If the brokerage house fails to comply with the requirements within the granted periods or if they have occurred more than twice within a year, its activities shall be suspended temporarily or its certificates of authorization shall be revoked partially or completely.

b) Based on the relevant provisions of Communiqué Serial: V, No: 34, the Board imposes relevant penalty.

9. Macedonia

a) According to the article 207 on Revocation of a License, the Commission shall revoke the license for performing services related to operation with securities of a brokerage house, in several cases, including the one when the brokerage house does not satisfy the conditions with respect to capital appropriateness and other conditions pursuant to the risk management rules and other conditions and responsibilities pursuant to the laws within the competence of the Commission.

b) With the Securities law.

10. Peru

If Capital Adequacy is not satisfied by a market intermediary, CONASEV could initiate an administrative sanction proceeding against it.

According to current legislation, all of the following are considered SERIOUS OFFENCES.

12. Not having a paid-up capital equal to or greater than Capital Adequacy.
13. Not having a net worth equal to or greater than Capital Adequacy.
14. Not having a Liquidity and Solvency Ratio equal to or greater than the minimum level,

A SERIOUS OFFENCE might be punished with:

- A fine between 50 UIT³ and 300 UIT (an UIT is equivalent to US\$ 1 000).
- License suspension for a period greater than 10 days up to 45 days.
- Suspension of market intermediaries' representatives for a period greater than 20 days up to 30 days.
- License revocation.

11. Uganda

- a) - Revocation of the license of a broker/dealer when net capital falls below two million Uganda shillings for two consecutive months.
- Withdrawal or suspension of the license of a Unit Trust Manager who does not meet CMA's capital requirements.

³ Unidad Impositiva Tributaria.

12. Oman

More than twice a year – suspension leading to cancellation.

More than 5 times in lifetime – suspension leading to cancellation.

13. Mongolia

a) According to the securities Market law amount of penalties established from 100 .0- 250.0 thousand.

b) Depending on amount below the requirement

14. Ghana

a) Initial caution is given to make good the deficit, temporary suspension, revocation of license.

b) Provided but the law.

15. Costa Rica

a) 5% of capital if it falls 80% below the minimum for more than 6 months

2% of capital if it falls 80% below the minimum for 2 to less than 6 months

b) See above

16. Panama

See answer No. 8 in Section II above. A sustained lack of compliance with the minimum capital adequacy requirement would most probably result in a cancellation of license.

17. Slovakia

Act no 566/2001 on securities and investment services and on amendments and supplements of certain laws Article 156 and Article 147, paragraph 2.

18. Uzbekistan

a) No penalty, first warning, then license revocation.

19. Romania

The penalties if intermediaries' capital falls below the minimum capital adequacy levels are the following:

- a) Warning;
- b) Fine;
- c) Complementary sanctions, applied as the case may be:
 - 1. Suspension of authorization;
 - 2. Withdrawal of authorization;
 - 3. Temporary prohibition from carrying out certain activities and services.

20. Israel

Business restriction, penalties and fines, additional capital charge, license revocation.

21. Lithuania

a) The Securities Commission shall have a right to impose on intermediaries the following sanctions:

- 1) to warn them for the shortcomings and violation of their activities and set the term for their elimination;
- 2) to impose on their employees administrative fines and other fines stipulated in this Law;
- 3) to revoke the licence authorizing them to provide one, several or all of the operations;
- 4) to appoint an interim representative of the Securities Commission for the supervision of the activity.

b) The choice of a sanction shall depend on the type of the violation and the impact of the violation and the sanction on the firm and its safety. The question concerning application of a sanction shall be considered at a meeting of the Securities Commission provided the intermediary has been informed thereof and given a possibility to present explanations. In the event the representative of the intermediary fails to attend the meeting or to present explanations, a decision concerning application of a sanction shall be taken without his participation

22. Pakistan

Yes, according to Rule 3 (d) of Securities and Exchange Rules 1971, the membership of a member shall be suspended as soon as the net capital balance falls short of the minimum capital requirement. It shall remain suspended as long as the minimum capital balance is not restored.

23. India

Refer to question at Sl. No. 7 and 8 of Section II.

24. Nigeria

- Fines
- Suspension
- Withdrawal

2) In addition to the reporting requirements is there a system of checks and balances in place to ensure that financial intermediaries are in continual compliance with the minimum level?

1. Bulgaria

No

2. El Salvador

Yes, We made a manual check to asses the compliance with the minimum level.

3. Indonesia

Yes, Bapepam and also Stock Exchanges (Jakarta Stock Exchange and Surabaya Stock Exchange) actively conduct routine inspection that covers examination on the compliance of securities companies with all capital market regulations. That will include the audit on the obligation of maintaining and calculating NAWC. The audit resulted in various outcomes, some of the intermediaries were to keep the minimum NAWC but the calculation is not complied with the rules. Any findings on incompliance of maintaining documents and calculating NAWC are always sanctioned. The sanctions also vary from written admonition to suspension or even when it is deemed necessary, license revocation.

4. China

No

5. South Africa

BESA

Yes - The Authorised User's net position are continually monitored on a daily basis and compared against the capital adequacy of the Authorised Users. The monthly returns are also checked against the Authorised User's financial statement submitted to the Exchange to ensure that they are completed correctly and accurately.

JSE

Yes – In respect of equities Authorised Users, the JSE have the daily computation mentioned in 3 above. There are also regular reviews performed by the JSE's regulatory staff on the accounting records of Authorised Users based on the exchange's risk assessment of the financial position of the Authorised User. The JSE's reviews focus on those Authorised Users who it assesses as having a relatively high risk of a potential capital shortfall.

6. Malaysia

Yes, Compliance Officer at the intermediaries shall ensure compliance. For stockbroking company, the SRO has access to the capital adequacy system via remote dial in.

7. Morocco

Yes, by investigations missions done by the regulator.

8. Turkey

No, however the compliance of brokerage firms with capital adequacy requirements is also checked during on-site inspections conducted regularly by the CMB.

9. Macedonia

According to the Securities Law as stated above, the Commission as regulator shall prescribe the amount, type and the manner of maintaining, calculating and inspection of the liquid assets of the brokerage house. However, the Commission is at the moment preparing this regulation, so it is still not adopted and entered into force.

10. Peru

No

11. Uganda

Yes, the Capital Markets Authority carries out annual, mid-term and ad hoc inspections.

12. Oman

Annual verification by auditors and periodic inspection by regulators.

13. Mongolia

No

14. Ghana

Yes, through off-site and on-site inspections.

15. Costa Rica

No

16. Panama

No

17. Slovakia

No

18. Uzbekistan

Yes; inspections

19. Romania

No

20. Israel

There are also regular reviews performed by the regulator on the accounting records of the financial intermediary.

21. Lithuania

Yes: There can be initiated For - Cause Inspections by Securities Commission to ensure that financial intermediaries are in continual compliance with the minimum level.

22. Pakistan

Yes, the stock exchanges are in continuous monitoring of minimum capital requirements. The Stock Exchanges carry out system audits of stock brokers and certify that net capital balance has been calculated and is in compliance with the relevant rules and regulations.

23. India

On-line surveillance of stock brokers by exchanges and of the depository participants by the Depositories are in addition to the reporting requirements.

24. Nigeria

Yes, The Commission carries out the following

- 1) Post Registration Inspection
- 2) Routine Inspection
- 3) Target Inspection

3) Are the laws regarding foreign market intermediaries' the same as for local?

1. Bulgaria

Yes

2. El Salvador

Yes

3. Indonesia

Yes

4. China

Yes

5. South Africa

BESA - Yes

JSE – Yes, although as mentioned in Section 1 (Q 20) above, the foreign Authorised Users in the JSE's derivatives market are subject to the capital adequacy requirements of their home regulator.

6. Malaysia

Yes

7. Morocco

Yes

8. Turkey

Yes; there is no distinction in regulations in terms of foreign market intermediaries.

9. Macedonia

Yes

10. Peru

Yes

11. Uganda

Yes

12. Oman

Yes

13. Mongolia

Yes

14. Ghana

Yes

15. Costa Rica

Yes

16. Panama

Yes

17. Slovakia

Yes

18. Uzbekistan

Yes

19. Romania

The capital market law no 297/2004 establishes rules for authorization of the local and non-EU intermediaries. EU intermediaries can perform investment services in Romania based on the authorization granted to them by their home member states competent authorities.

20. Israel

Yes

21. Lithuania

Yes

22. Pakistan

Yes

23. India

Reference is invited to question at Sl. No. 20 of Section I: Indian rules do not permit 100% ownership of foreign market intermediary. They have to set shop in India only with a local partner. Once a joint venture is formed and registered in India, it is subject to the same requirements.

24. Nigeria

Yes

4) Do you have any formal arrangement for sharing information (e.g. through MOU's) with the jurisdictions whose financial intermediaries are operating in your jurisdiction?

b) If yes, then how many and which jurisdictions?

1. Bulgaria

Yes, The FSC co-ordinates its activities with a number of local institutions, that have direct or indirect influence over the functioning of the financial markets. The first bipartite Memorandum for cooperation was concluded with the Hungarian financial supervisory. Later the FSC concluded Memorandums: with the Republic of Albania in the field of the securities, with the Macedonian Securities and Stock Exchanges Commission, with the Macedonian Capital Coverage Pension Insurance Supervisory Agency, with the Romanian Insurance Supervision Commission, with the Romanian National Securities Commission and a memorandum with the Turkish Capital Markets Board. Throughout the year 2005, the FSC concluded agreements with the Hellenic Capital Markets Commission and whit the Croatian Securities Commission.

In addition to IOSCO, the FSC is an active member of the International Association of the Insurance Supervisions (IAIS) and a founding member of the International Organization of the Pension Supervisions (IOPS).

2. El Salvador

No

3. Indonesia

Yes, Bapepam has made agreements with some foreign regulators to sign MOUs, such as with Securities and Exchange Commission of United States (5 Securities Companies), Securities Commission of Malaysia (2 securities companies), Australian Securities and Investment Commission (1 securities company), Securities and Futures Commission of Hong Kong (5 securities companies), Securities and Exchange Commission of Sri Lanka, Securities and Exchange Commission of the Philippines, SEC of Thailand, China Securities Regulatory Commission, and Securities Commission of New Zealand.

There are other foreign affiliate intermediaries operating in Indonesia but the regulators do not have MOUs yet. They are Holland (2 securities companies), England (2 securities companies), Switzerland (3 securities companies), Singapore (2 securities companies), France (1 Securities Company), German (2 securities companies), South Korea (3 securities companies) and Japan (2 securities companies).

4. China

Yes, Up to date, the CSRC has signed 29 MOUs concerning regulatory issues on securities and derivatives markets with securities regulators of 26 countries /regions, such as US SEC and CFTC, HK SFC, UK FSA, etc.

5. South Africa

Yes, Information would be shared in terms of the IOSCO Multilateral MOU signed by the Regulator and in terms of bi-lateral MOUs entered into between the Regulator and 44 other regulatory authorities. A list of the jurisdictions with which the FSB signed MOUs is available on request and is also available on the FSB's website, i.e. www.fsb.co.za

Furthermore, the exchanges have concluded MOUs with a number of foreign securities exchanges to promote the sharing of information and regulatory assistance to each other.

6. Malaysia

All financial intermediaries in Malaysia, even those owned by foreign entities, must observe and comply with the necessary laws and regulations in order to be licensed by the Commission to carry out their capital market business activities. The Commission meanwhile, in pursuing its international cooperation efforts, engages and enters into MOUs with its foreign regulatory counterparts, irrespective whether any intermediary from that foreign jurisdiction operates in Malaysia.

7. Morocco

No response

8. Turkey

Yes; the Board has signed the IOSCO Multilateral MOU and several bilateral MOUs. However as mentioned above currently there are no foreign brokerage houses operating in Turkey, there are however brokerage houses that have foreign shareholders. The jurisdictions with which the Board has signed MOUs are as follows:

	<u>Country</u>	<u>Organization</u>	<u>Date</u>
1.	United Kingdom	HM Treasury	August 1999
		FSA – Financial Services Authority	
		London Stock Exchange	
2.	France	COB – Commission des opérations de bourse	May 2000
3.	Portugal	CMVM – Comissão do Mercado de Valores Mobiliários	October 2001
4.	Sweden	Finansinspektionen	June 2001 (Summary MoU text)
5.	Italy	CONSOB – Commissione Nazionale per le Società e la Borsa	June 2001
6.	Greece	Capital Market Commission	October 2001
7.	Germany	BaFin	May 2000
8.	USA	CFTC - Commodity Futures Trading Commission	June 2001
9.	Malta	MSE - Malta Stock Exchange	June 2001
10.		MFSC – Malta Financial Services Centre	April 2002
11.	Australia	ASIC - Australian Securities and Investments Commission	June 2001
12.	Albania	ASC - Securities Commission	September 2003
13.	Romania	CNVM – National Securities Commission	October 2003
14.	Bulgaria	FSC - Financial Supervision Commission	December 2004
15.	Croatia	CROSEC - Croatian Securities Commission	April 2005
16.	Macedonia	MSEC - Securities and Exchange Commission	April 2005
17.	Netherlands	AFM - Netherlands Authority for Financial Markets	July 2005
18.	Bosnia and Herzegovina	Securities Commission of the Federation of Bosnia and Herzegovina	October 2005
19.		Republic of Srpska Securities Commission	October 2005
20.	Dubai Financial Center	DFSA – Dubai Financial Services Authority	November 2005
21.	Montenegro	Securities Commission of the Republic of Montenegro	February 2006
22.	Israel	Israel Securities Authority	February 2006
23.	Chinese Taipei	Financial Supervision Commission	June 2006

9. Macedonia

No; currently, all financial intermediaries on Macedonian capital market are established as separate domestic legal entities-shareholding companies, although some of them are founded by foreign persons.

10. Peru

Not applicable

11. Uganda

The CMA has so far signed MOUs with their counterparts in six jurisdictions as follows:

- Financial Services Board, South Africa
- Financial Services Commission, Mauritius
- Securities and Exchange Commission, Zambia
- Securities and Exchange Commission, Nigeria
- Capital Markets Authority, Kenya
- Capital Markets and Securities Authority, Tanzania

12. Oman

Application for signing IOSCO MoU in under process.

13. Mongolia

No

14. Ghana

15. Yes, question not yet applicable since foreign financial intermediary which operates in our market does not have a capital market yet. However, we do have such an MoU with Nigeria as we anticipate such cross border activities. Ghana has also signed an MOU with the Quebec Securities Commission (Commission Des Valeurs Mobilières Du Québec), Canada.

16. Costa Rica

No

17. Panama

No, however, The Commission has signed MOUs with the following jurisdictions: El Salvador, Republica Dominicana, Chile, Honduras and Puerto Rico. None of the licensed financial intermediaries are incorporated in any of those jurisdictions, but the scope of the MOUs does not reach sharing of non-public information.

18. Slovakia

9 MOU's:

Securities Market Commission - Portugal

Financial Market Authority - Greece

Commissione Nazionale per le Società e la Borsa - Italy

Commission de Surveillance du Secteur Financier - Luxembourg

Bundesanstalt für Finanzdienstleistungsaufsicht - Germany

Komise pro cenné papíry – Czech Republic

Cyprus Securities and Exchange Commission - Cyprus

International Organization of Securities Commissions (IOSCO)

Committee of European Securities Regulators (CESR).

19. Uzbekistan

Yes

20. Romania

Not applicable

21. Israel

Yes, Information would be shared with regard to the IOSCO MMoU signed by the Israel Securities Authority (ISA) and in terms of bi-lateral MOUs entered into between the ISA and 15 other regulatory authorities

22. Lithuania

No

22. Pakistan

Yes, a total of seven MOUs have been signed with India, Maldives, Sri Lanka, Bhutan, Nepal, Bangladesh, and Australia.

23. India

Yes. SEBI as the regulator of Indian capital markets do have formal arrangements for sharing information with other jurisdictions by way of MOUs.

24. Nigeria

The Commission signed MOU with the underlisted jurisdictions

- 1) China Securities Regulatory Commission
- 2) Securities and Exchange Commission, Ghana
- 3) Financial Services Board, South Africa
- 4) Capital Market and Securities Authority, Tanzania
- 5) Capital Market Authority, Uganda

5) If the Capital Adequacy requirements changed what would be the procedures to ensure implementation?

1. Bulgaria

The legislation will be changed.

2. El Salvador

To change requirements by capital adequacy it is necessary a legal change.

3. Indonesia

The changing of NAWC requirement will need a rule making process. Before it is declare effective, the changing must have the market players, including the intermediaries, comments first. After it is passed Bapepam will conduct socialization to the players and usually the changing will not take in effect immediately, there will be a grace period.

4. China

The CSRC is authorized by China *Securities Law* to take regulatory measures when a securities firm's risk control indicators including its net capital can not meet the minimum regulatory requirements.

5. South Africa

BESA

South Africa: Following consultation with the market and the Regulator, amendments are effected by the exchange, and any rule amendments will be submitted to the Regulator for approval prior to coming into effect.

6. Malaysia

If there are changes to the capital adequacy requirement, the Rules of Bursa Malaysia Securities or Bursa Malaysia Derivative Rules will change. If it involves changes to the requirements for stockbroking companies, the capital adequacy system (ARMADA) will also be updated accordingly.

7. Morocco

- Contact the intermediary to find out the mean reason
- If the capital Adequacy falls below the minimum, the intermediary is formally invited to regularize his situation within a determined period.
- Sanctions might pronounced against the intermediary if his situation hasn't been regularized within the period pre-determined.

8. Turkey

All capital market institutions are obliged to comply with the rules and regulations published by the Board. In case of failure to do so according to **Article 46 subparagraph (g) of the Capital Markets Law**, in cases where it is determined a capital market institution has engaged in operations in violation of the legislation or their articles of association, the Board is authorized to suspend the operations of these institutions temporarily or permanently and to revoke their licenses. **Furthermore according to Article 47/A of the Capital Markets Law**, with Article 47/A of the Law, the Board is authorized to impose fines on natural persons and legal entities who are determined to have acted against the Law, regulations, standards and forms or general and individual decisions taken by the Board.

However the Board posts draft regulations on its website at <http://www.spk.gov.tr> to collect comments from the industry and other related parties. These comments are taken into account in drawing up regulations. In case of a change in the capital adequacy requirements, the Board would supply a transition period and/or guidance and training that may be needed by the industry.

9. Macedonia

According to the Securities Law as stated above, the Commission as regulator shall prescribe the amount, type and the manner of maintaining, calculating and inspection of the liquid assets of the brokerage house. However, the Commission is at the moment preparing this regulation, so it is still not adopted and entered into force.

10. Peru

If Capital Adequacy requirements changed, CONASEV would establish a transitory period of time in order for market intermediaries to adapt to the new requirements. Likewise, CONASEV would monitor and oversee the transitory period with the purpose to ensure the change's implementation.

11. Uganda

For enactment of new regulations – CMA promulgates its own regulations and does not have to revert to Parliament.

12. Oman

No response

13. Mongolia

No response

14. Ghana

Their attention to the change is drawn. Hold discussions to agree on a time table to make up.

15. Costa Rica

Requirements can change through the establishment of new regulation; it usually includes an accommodation period in order to give time to increase capital or for develop internal systems or procedures. The Regulator could personally check compliance, after that.

16. Panama

Through a mandatory public consultation process of a new regulation, by the Commission.

17. Slovakia

Not sure of the meaning of the question.

18. Uzbekistán

Publish and enforce starting date

19. Romania

If the Capital Adequacy requirements are changed the adoption procedures will be the following:

- a new regulation will be issued, approved by the president of the R.N.S.C by order.
- before approving, the regulation draft will be subject to consultations with the capital market participants for remarks and proposals.
- after approval, the regulation and the order will be published in the Official Gazette, RNSC`s Bulletin & website.

20. Israel

After market consultation, the changes are approved by the regulator

21. Lithuania

The new Capital Adequacy calculation rules would be prepared and all Financial Intermediaries would be informed, there would be set a term for Financial Intermediaries to implement new requirements.

22. Pakistan

The Federal Government may propose changes in SEC Rules to change the net capital requirement of stock brokers at the proposal of SEC or the Stock Exchange or on its own initiative. The changes are published in the official gazette and the stock exchange that are front line regulators are intimated to

inform the stock brokers. Compliance is ensured by monitoring of capital adequacy requirement by the SECP.

23. India

Normally, capital adequacy requirements are specified in respective regulations governing the activities of the concerned intermediary. Any amendment to the regulations would require notification in official gazette of India and will take effect only after such notification. However in case of those intermediaries where the stipulations as regards capital adequacy are set by way of circulars, the same may be changed by issuance of another circular amending the earlier stipulations.

Similarly stock exchanges and depositories who act as first level regulator may amend their bye-laws / rules / circulars in order to affect any change in capital adequacy requirements.

24. Nigeria

The procedures to ensure implementation are:

- a) Submission of evidence of adequate capital requirement by the affected operator
- b) Verification of information supply both on site and off site by the commission

6) Do the following ancillary requirements exist in your jurisdiction?

- a) Requirement for segregated client accounts**
- b) Any method of notification, if the required capital falls to 120 % of minimum capital requirement or falls by 50 % since the last return**
- c) Recognition of subordinated debt**
- d) Any reports on additional capital for counterparty risk and position risk**
- e) Modified treatments where broker is subsidiary of bank or non bank finance holding company**

1. Bulgaria

- | | |
|---|-----|
| a) Requirement for segregated client accounts | Yes |
| b) Any method of notification, if the required capital falls to 120 % of minimum capital requirement or falls by 50 % since the last return | Yes |
| c) Recognition of subordinated debt | Yes |

- d) Any reports on additional capital for counterparty risk and position risk requirements Yes
- e) Modified treatments where broker is subsidiary of bank or non bank finance holding company No

2. El Salvador

- a) Requirement for segregated client accounts Yes
- b) Any method of notification, if the required capital falls to 120 % of minimum capital requirement or falls by 50 % since the last return Yes
- c) Recognition of subordinated debt No
- d) Any reports on additional capital for counterparty risk and position risk requirements No
- e) Modified treatments where broker is subsidiary of bank or non bank finance holding company No

3. Indonesia

- a) Requirement for segregated client accounts Yes
- b) Any method of notification, if the required capital falls to 120 % of minimum capital requirement or falls by 50 % since the last return No
- c) Recognition of subordinated debt Yes
- d) Any reports on additional capital for counterparty risk and position risk requirements No
- e) Modified treatments where broker is subsidiary of bank or non bank finance holding company Yes

4. China

- a) Requirement for segregated client accounts Yes
- b) Any method of notification, if the required capital falls to 120 % of minimum capital requirement or falls by 50 % since the last return Yes
- c) Recognition of subordinated debt Yes
- d) Any reports on additional capital for counterparty risk and position risk requirements No
- e) Modified treatments where broker is subsidiary of bank or non bank

finance holding company

No

Actually, except securities firms and trust companies, other financial institutions are not permitted to invest in a securities firm according to current financial regulations.

5. South Africa

a) Requirement for segregated client accounts

JSE & BESA - Yes

b) Any method of notification, if the required capital falls to 120 % of minimum capital requirement or falls by 50 % since the last return

BESA – Yes

JSE - No

c) Recognition of subordinated debt

BESA & JSE - Yes

d) Any reports on additional capital for counterparty risk and position risk requirements

BESA & JSE - No

JSE - Counterparty risk and position risk are included in the monthly capital adequacy reports submitted to the exchange by the Authorized Users.

e) Modified treatments where broker is subsidiary of bank or non bank finance holding company

BESA & JSE – No

6. Malaysia

a) Requirement for segregated client accounts

Yes

b) Any method of notification, if the required capital falls to 120 % of minimum capital requirement or falls by 50 % since the last return

Yes

c) Recognition of subordinated debt

Yes

d) Any reports on additional capital for counterparty risk and position risk requirements

Yes

e) Modified treatments where broker is subsidiary of bank or non bank finance holding company

No

7. Morocco

- | | |
|---|-----|
| a) Requirement for segregated client accounts | No |
| b) Any method of notification, if the required capital falls to 120 % of minimum capital requirement or falls by 50 % since the last return | No |
| c) Recognition of subordinated debt | No |
| d) Any reports on additional capital for counterparty risk and position risk requirements | Yes |
| e) Modified treatments where broker is subsidiary of bank or non bank finance holding company | No |

8. Turkey

- | | |
|---|------------|
| a) Requirement for segregated client accounts | <u>Yes</u> |
| b) Any method of notification, if the required capital falls to 120 % of minimum capital requirement or falls by 50 % since the last return | No |
| c) Recognition of subordinated debt | No |
| d) Any reports on additional capital for counterparty risk and position risk requirements | Yes |
| e) Modified treatments where broker is subsidiary of bank or non bank finance holding company | No |

9. Macedonia

- | | |
|---|-----|
| a) Requirement for segregated client accounts | Yes |
|---|-----|

According to the Securities Law as stated above, the Commission as regulator shall prescribe the amount, type and the manner of maintaining, calculating and inspection of the liquid assets of the brokerage house. However, the Commission is at the moment preparing this regulation, so it is still not adopted and entered into force.

10. Peru

- | | |
|--|---------|
| a) Requirement for segregated client accounts | Yes |
| b) Any method of notification, if the required capital falls to 120 % of minimum capital requirement or falls by 50 % since the last return. | Yes (*) |
| (*) Yes, if we refer to the Liquidity and Solvency Ratio | |
| c) Recognition of subordinated debt | Yes |

- | | |
|---|----|
| d) Any reports on additional capital for counterparty risk and position risk requirements | No |
| e) Modified treatments where broker is subsidiary of bank or non bank finance holding company | No |

11. Uganda

- | | |
|---|-----|
| a) Requirement for segregated client accounts | Yes |
| b) Any method of notification, if the required capital falls to 120 % of minimum capital requirement or falls by 50 % since the last return | No |
| c) Recognition of subordinated debt | Yes |
| d) Any reports on additional capital for counterparty risk and position risk requirements | No |
| e) Modified treatments where broker is subsidiary of bank or non bank finance holding company | No |

12. Oman

- | | |
|---|-----|
| a) Requirement for segregated client accounts | Yes |
| b) Any method of notification, if the required capital falls to 120 % of minimum capital requirement or falls by 50 % since the last return | No |
| c) Recognition of subordinated debt | Yes |
| d) Forms of additional capital for counterparty risk and position risk requirements | Yes |
| e) Modified treatments where broker is subsidiary of bank or non bank finance holding company | No |

13. Mongolia

- | | |
|---|-----|
| a) Requirement for segregated client accounts | Yes |
| b) Any method of notification, if the required capital falls to 120 % of minimum capital requirement or falls by 50 % since the last return | No |
| c) Recognition of subordinated debt | - |
| d) Any reports on additional capital for counterparty risk and position risk requirements | No |
| e) Modified treatments where broker is subsidiary of bank or non bank | |

finance holding company No

14. Ghana

- a) Requirement for segregated client accounts Yes
- b) Any method of notification, if the required capital falls to 120 % of minimum capital requirement or falls by 50 % since the last return Yes
- c) Recognition of subordinated debt Yes
- d) Any reports on additional capital for counterparty risk and position risk requirements No
- e) Modified treatments where broker is subsidiary of bank or non bank finance holding company No

15. Costa Rica

- a) Requirement for segregated client accounts Yes
- b) Any method of notification, if the required capital falls to 120 % of minimum capital requirement or falls by 50 % since the last return Yes
- c) Recognition of subordinated debt No
- d) Any reports on additional capital for counterparty risk and position risk requirements Yes
- e) Modified treatments where broker is subsidiary of bank or non bank finance holding company No

16. Panama

- a) Requirement for segregated client accounts Yes
- b) Any method of notification, if the required capital falls to 120 % of minimum capital requirement or falls by 50 % since the last return No
- c) Recognition of subordinated debt No
- d) Any reports on additional capital for counterparty risk and position risk requirements No
- e) Modified treatments where broker is subsidiary of bank or non bank finance holding company No

17. Slovakia

- | | |
|---|-----|
| a) Requirement for segregated client accounts | Yes |
| b) Any method of notification, if the required capital falls to 120 % of minimum capital requirement or falls by 50 % since the last return | No |
| c) Recognition of subordinated debt | Yes |
| d) Any reports on additional capital for counterparty risk and position risk requirements | Yes |
| e) Modified treatments where broker is subsidiary of bank or non bank finance holding company | No |

18. Uzbekistan

- | | |
|---|-----|
| a) Requirement for segregated client accounts | Yes |
| b) Any method of notification, if the required capital falls to 120 % of minimum capital requirement or falls by 50 % since the last return | Yes |
| c) Recognition of subordinated debt | No |
| d) Any reports on additional capital for counterparty risk and position risk requirements | No |
| e) Modified treatments where broker is subsidiary of bank or non bank finance holding company | No |

19. Romania

- | | |
|---|-----|
| a) Requirement for segregated client accounts | No |
| b) Any method of notification, if the required capital falls to 120 % of minimum capital requirement or falls by 50 % since the last return | No |
| c) Recognition of subordinated debt | Yes |
| d) Any reports on additional capital for counterparty risk and position risk requirements | Yes |
| e) Modified treatments where broker is subsidiary of bank or non bank finance holding company | Yes |

According to Accounting Regulations, an entity must draw up annual consolidated financial statements if it is a part of a financial group.

20. Israel

a) Requirement for segregated client accounts	Yes	
b) Any method of notification, if the required capital falls to 120 % of minimum capital requirement or falls by 50 % since the last return	Yes	
c) Recognition of subordinated debt	Yes	
d) Any reports on additional capital for counterparty risk and position risk requirements	Yes	
e) Modified treatments where broker is subsidiary of bank or non bank finance holding company		No

21. Lithuania

a) Requirement for segregated client accounts	Yes	
b) Any method of notification, if the required capital falls to 120 % of minimum capital requirement or falls by 50 % since the last return		No
c) Recognition of subordinated debt	Yes	
d) Any reports on additional capital for counterparty risk and position risk requirements	Yes	
e) Modified treatments where broker is subsidiary of bank or non bank finance holding company		No

22. Pakistan

a) Requirement for segregated client accounts	Yes	
b) Any method of notification, if the required capital falls to 120 % of minimum capital requirement or falls by 50 % since the last return		No
c) Recognition of subordinated debt		No
d) Any reports on additional capital for counterparty risk and position risk requirements		No
e) Modified treatments where broker is subsidiary of bank or non bank finance holding company		No

(No, such modified treatment only exists for Corporate/ Non Corporate Member-Brokers only. The Corporate Members are required to maintain a minimum paid up capital of Rs. 20 million all the times whereas there is no such limit for non corporate brokers.)

23.India

- | | |
|---|-----|
| a) Requirement for segregated client accounts | Yes |
| b) Any method of notification, if the required capital falls to 120 % of minimum capital requirement or falls by 50 % since the last return | - |
| c) Recognition of subordinated debt | No |
| d) Any reports on additional capital for counterparty risk and position risk requirements | - |
| e) Modified treatments where broker is subsidiary of bank or non bank finance holding company | No |

In respect of (b) and (d), as already stated, there is on line surveillance system in place for position/margin monitoring.

24. Nigeria

- | | |
|---|-----|
| a) Requirement for segregated client accounts | Yes |
| b) Any method of notification, if the required capital falls to 120 % of minimum capital requirement or falls by 50 % since the last return | Yes |
| c) Recognition of subordinated debt | - |
| d) Any reports on additional capital for counterparty risk and position risk requirements | No |
| e) Modified treatments where broker is subsidiary of bank or non bank finance holding company | No |

6 (c)

The drafting of this question as it relates to 120% is ambiguous. We believe there is an error. However, in respect of non minimum capital requirement falling by 50 %, the rules and regulations pursuant to the Investments and Securities Act, 1999 provide for immediate notification where there is a material change in information regarding the operator's eligibility to operate in the market. Also, there is provision for filing of monthly quarterly and annual returns by capital market operators.

ANNEX

Questionnaire:
CAPITAL ADEQUACY REQUIREMENTS FOR FINANCIAL INTERMEDIARIES:

Name of regulating body: _____

Contact details of concerned person: _____

Date: _____

Instructions:

1. The survey will be most useful if you answer as candidly and completely as possible
2. The questions are divided into general subject areas. When answering each question, review the general considerations described below and incorporate them into your answer.
3. Some questions may require the appropriate answers to be circled.
4. Some questions call for a “yes” or “no” answer, however you are encouraged to explain your answers in more detail and provide specific examples where helpful.
5. Kindly use a separate sheet for your responses to the open-ended questions.
6. If a question has been answered in detail earlier, it may be referred to in subsequent answers.

Definitions:

Capital Adequacy: This is the minimum capital that financial intermediaries are required to maintain at all times. In certain jurisdictions this term is also referred to as Regulatory Capital.

Regulatory Capital: The term is used in certain Jurisdictions for the minimum capital requirement and capital adequacy requirement.

Market intermediary: For the purpose of this survey, the term “market intermediary” generally covers those who are in the business of managing individual portfolios, executing orders, dealing in or distributing securities and providing information relevant to the trading of securities, however, it does not include the provision of investment advice.

Net Capital Approach: A system where capital requirements are based on the liquidity or net capital worth. Securities firms must determine their minimum liquid asset (or net capital) requirement by first calculating their net worth according to US Generally Accepted Accounting Principles.

Risk Based Approach: A system which involves the development of a risk profile of a firm by identifying its financial activities and the risks to which these activities expose a firm.

Risk Adjusted Approach (VAR approach): This approach requires the minimum risk capital to be in excess of the VaR amount. The VaR is the amount a firm could lose because of an adverse market movement under normal market conditions over a specified time interval.

EU Capital Adequacy Directive / Basel II Approach: The minimum capital is based on a capital charge for market risk plus formula based amounts.

Market risk: Associated with a fall in prices of held securities, risk of non-payment of principal, interest in debt issues, etc.

Settlement/Counterparty risk: Associated with the nature of the clearance and settlement systems in the various markets, for e.g. the risk that clients will renege on certain transactions.

Credit risk: The risk that one of the parties to a contract will not perform on its obligations.

Unsecured claims and free deliveries: The risk of loss if a counterparty fails to deliver securities that have been paid for prior to delivery.

Operational risk: The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

Liquidity risk: The risk that a position cannot be funded, or unwound/ hedged except at a loss compared to the mark-to-market valuation.

Section I: Components of Capital Adequacy:

- 1) How many market/ financial intermediaries are currently operating in your jurisdiction?
- 2) Are financial intermediaries distinguished and classified by the type of membership? For e.g. as:
 - a) Securities Exchange Member
 - i. Individual – trading only
 - ii. Corporate – trading only
 - iii. Corporate – Providing margin financing
 - b) Commodity Exchange member
 - iv. Corporate – clearing member
 - c) Margin financing provider only
 - d) Clearing House member
 - e) Other (please specify)
- 3) How is “Capital adequacy” defined in your jurisdiction?
- 4) Are there any Capital Adequacy requirements/guidelines for market intermediaries in your jurisdiction?

Yes	No
-----	----

 - a) If yes, please elaborate.
- 5) Who defines Capital adequacy, the Regulator or the SRO?
- 6) Who can amend the Capital Adequacy requirement?
- 7) How frequently can the Capital Adequacy requirement be changed?
- 8) What type of Capital Adequacy approach is in place?
 - a) Net Capital Approach,

- b) Risk based Approach
- c) Risk adjusted approach (VAR approach)
- d) Any other (for e.g. Capital Adequacy Directive / Basel Approach)

9) Are there separate “net capital” and “paid-up capital” requirements? Yes No

10) What are the components of “Liquid asset” in your jurisdiction?

11) Please specify whether regulatory / capital adequacy requirement needs to be in any or all of the below:

- a) Cash
- b) Fixed Deposit Receipts (FDR's)
- c) Bank Guarantee
- d) Approved Securities
- e) Any other, Please specify

12) Are the following forms of capital accepted for capital adequacy purposes?

- a) Core Capital (Tier 1)
 - ii) Shareholders equity
 - iii) Retained earnings/ disclosed reserves
- b) Supplementary Capital (Tier 2)
 - i) Long term subordinated debt (75 years)
 - ii) Some loan loss reserves
 - iii) Undisclosed and revaluation reserves

13) Are off balance sheet items (both assets and liabilities) taken into account for the purpose of determining capital?

14) Is there an assessment of:

- | | | |
|-------------------------------------|-----|----|
| a) Core liquid capital | Yes | No |
| b) Variable required liquid capital | Yes | No |

15) For the purpose of calculating Capital

- | | | |
|---|-----|----|
| a) Is there any assessment of liquid assets to outstanding liabilities? | Yes | No |
|---|-----|----|

16) For the purpose of Capital Adequacy reports what are the haircut rates applied to market values of securities?

- i) Government Bonds: _____
- ii) Corporate bonds: _____
- iii) Illiquid bonds: _____
- iv) Local equities: _____
- v) Foreign equities: _____
- vi) Illiquid equities: _____
- vii) other assets: _____

b) Are the assets subject to discounting for the purpose of calculation of capital adequacy?

Yes No

c) Are assets and liabilities categorized specifically for calculation of capital adequacy? (i.e. different from Generally Accepted Accounting Principles.)

Yes No

d) Is subordinated debt included in the capital adequacy calculation?

Yes No

e) Are the liabilities ranked according to the due dates?

(If yes, please specify.)

Yes No

17) Does the capital adequacy requirement differ according to the type of business of the Intermediary?

Yes No

a) If yes, please specify and elaborate:

- i) type of business, (individual, partnership, etc)
- ii) type of market, (derivatives, ready, etc)
- iii) risk factor, (for e.g. some intermediaries deal in higher risk securities)
- iv) other

18) What are the initial and on-going minimum capital requirements for different market intermediaries?

19) Is the capital adequacy requirement in excess of the minimum capital requirement?

a) If yes, please elaborate

20) Are the capital adequacy requirements for foreign market intermediaries the same as for the local intermediaries?

Yes No

a) If no, please elaborate

21) Are your capital adequacy requirements structured in such a way that they take into account the following range of risks? (Please elaborate on how you account for these different risk factors in your calculation of capital adequacy)

- a) Market risk
- b) Settlement/Counterparty risk
- c) Credit risk:
- d) Unsecured claims and free deliveries
- e) Operational risk
- f) Liquidity risk
- g) Other risks. (Please elaborate)

22) Is a change in the level of risk reflected in the capital adequacy requirement, (for e.g. if the level of risk increases does the capital adequacy requirement also increase?)

Yes No

23) Is the capital adequacy requirement designed to allow market intermediaries to absorb some losses or wind down their businesses, with minimal loss to their customers or other market intermediaries?

Yes No

24) Are the following liabilities ranked, and if so at what percentage?

a) Gearing adjustment in respect of securities margin financing	Yes	No
b) Concentration of margin clients	Yes	No
c) Short selling of securities on behalf of clients	Yes	No
d) Increase in amounts in respect of short positions for own account	Yes	No
e) Concentrated proprietary positions	Yes	No
f) Securities borrowing and lending	Yes	No
g) Net underwriting commitments	Yes	No
h) Off-exchange traded derivative contracts and interest rate swap agreements	Yes	No
i) Guarantees and other financial commitments	Yes	No
j) Foreign exchange agreements and foreign currency positions	Yes	No
k) Repos	Yes	No
l) Miscellaneous ranking liabilities	Yes	No

25) Are hedged and offset positions taken into consideration in the capital adequacy calculation?
(Please provide details)

Yes No

Section II: Record keeping and reporting requirements:

1) Are the financial statements used for the purpose of determining capital based in any or all of the following?

a) GAAP

b) IAS

2) What are the capital adequacy reporting requirements by financial intermediaries?

Yes

No

3) Is the reporting a continuing requirement or a periodic requirement?

4) Please specify the period:

a) Monthly

b) Semi-annually

c) Annually

d) Other

5) Is the cut off date used for preparation of capital adequacy report, the trade or settlement date?

6) Are the capital adequacy reports accompanied by:

a) Auditors Report

Yes

No

b) Management confirmation about the accuracy of the report

Yes

No

7) Do you have an early warning reporting system to indicate when a financial intermediary approaches the minimum capital requirement level?

Yes

No

a) If yes, please elaborate

8) What actions are taken by the regulator when a financial intermediary's net capital falls below the minimum requirement?

a) Business Restrictions

b) Penalties and Fines

c) Additional Capital Charge

d) Licence Revocation

e) Other

9) Which of the following (capital related) records are intermediaries required to maintain at all times?

a) Balance Sheet and Liquid assets

b) Liquid capital Computation

c) Credit facility Summary

d) Margin Client Analysis

e) Analysis of Client Assets

f) Profit and Loss account

g) Other, (Please specify)

10) How do financial intermediaries indicate a change / deterioration in their capital adequacy position?

Section III: Compliance and Regulatory issues:

1) What are the penalties if intermediaries' capital falls below the minimum capital adequacy levels?

a) Kindly list the different penalties.

b) How are the penalties determined?

2) In addition to the reporting requirements is there a system of checks and balances in place to ensure that financial intermediaries are in continual compliance with the minimum level?

Yes

No

a) If yes, please elaborate

3) Are the laws regarding foreign market intermediaries' the same as for local?

Yes

No

a) If no, please elaborate

4) Do you have any formal arrangement for sharing information (e.g. through MOU's) with the jurisdictions whose financial intermediaries are operating in your jurisdiction?

Yes

No

a) If yes, then how many and which jurisdictions?

5) If the Capital Adequacy requirements changed what would be the procedures to ensure implementation?

6) Do the following ancillary requirements exist in your jurisdiction?

a) Requirement for segregated client accounts	Yes	No
b) Any method of notification, if the required capital falls to 120 % of minimum capital requirement or falls by 50 % since the last return	Yes	No
c) Recognition of subordinated debt	Yes	No
d) Any reports on additional capital for counterparty risk and position risk requirements	Yes	No
e) Modified treatments where broker is subsidiary of bank or non bank finance holding company	Yes	No