

## **Capital Adequacy Calculator - Safexcar3**

### **A users guide to assist in completing the return**

This guide will assist you in completing the Safex capital adequacy return. It gives a breakdown of how to complete each page.

**The pages of the return have been password protected to prevent you from mistakenly deleting a vital formula or cross reference.**

**The red dot in the corner of certain cells gives additional information relating to the type of information required to be entered in that cell. Read these as they might just answer any questions that you may have.**

**Only enter information into the grey highlighted areas.**

#### **1) Summary page**

- a). Enter the members name who is submitting the return next to “**Company name**”.
- b). Enter the date on which the figures are based next to “**These figures as at**”.
- c). This is all you have to enter on this page. The other cells will automatically read information from other pages as you work your way through the spreadsheet.

#### **2). Initial Capital page**

- a). Enter member’s initial capital requirement as per members class and category of membership. Use the table as a guide.

#### **3) Own Funds page**

Refer to the letters in column B of the spreadsheet.

- A1). Per member’s latest audited financial statements or as per additional share issues during the year that have yet to be reflected on financial statements.
- A2). As above. Also refer to the note in the cell.
- A3). As above.
- A4). E.g. General reserve but not a building revaluation See C4.
- A5). Per member’s latest audited financial statement.
- A6). Net profit or loss since the previous audited financial statements. This figure must be BEFORE any tax adjustments & must NOT be grossed up to reflect a yearly figure but be the figure as at the date of this return. See B6 for more information.
- A7). Only if the member is a partnership.
- A8). These may include loans from holding or subsidiary companies. Submit a copy of the agreement to Safex before it may be included.
- A9). The figure that may entered has to be a fixed loan that is not repayable within 2 years of it being included for the first time in the report & a note to that effect must be included in the audited financial statements. Shareholder / partner loans are therefore to be split into short & long term portions in the AFS.

#### MINUS Part B

- B1). E.g. Goodwill.
- B2). Refers to current & fixed assets.
- B3). Self explanatory.
- B4). Refers to guarantees that the member has given where no money has yet been paid. The figure to be entered will be the maximum exposure per the agreement.
- B5). Excludes Safex initial margin.
- B6). Any taxation that is due PLUS 35% (or other prevailing tax rate) of A6. If A6 is a loss then PLUS nil.

## PLUS Part C

- C1). This will include agreements concluded with other parties who guarantee the member to a certain value PLUS amounts lodged with the clearing member. These have to be proved to Safex before they may be included and the agreements can only be of less than one year's duration after which they will have to be re-concluded.
- C2). Note - The market value figure entered must agree to the figures that you enter in either the simple method or building block method for calculating Position Risk. Refer to the "Simple" & "BB Securities etc." pages. The book value figure is the purchase price of the investments.
- C3). This refers to fixed assets.
- C4). Refer to the note in the cell per the spreadsheet.

## MINUS Part D

- D1). Shareholding of 10% or more of a financial institution own funds as calculated in A1 to A7.

### **4) Annual Operating Costs**

The purpose of this calculation is to determine the fixed costs that will be incurred by the member if it was to be liquidated, the average period being 13 weeks. The aim is to determine the admin / non-trading expenditure portion of the income statement and convert this to 13 weeks.

**NB !! - All figures that are entered are to be grossed up to 12 months before being entered.**

- a). "Total Revenue" can also be interpreted as Net revenue.
- b). "Previous year audited loss" self explanatory.
- c). "Profit / loss before tax" as currently reflected in your unaudited income statement.
- d). "Bonuses" as per current year income statement that were not guaranteed ie. incentive bonuses.
- e). "Profit shares" that are payable even if the member makes a loss for the year.
- f). "Commissions paid" other than to appointed representatives or agents of the member.
- g). "Fees & charges" paid to clearing houses etc. Can be included if the cost will not continue at liquidation.
- h). "Interest payable to counterparties" e.g. on repo's & carries.
- i). "Interest payable on borrowings" to finance long term investment business.
- j). "Foreign currency loss" self explanatory.
- k). "Abnormal or extraordinary items" self explanatory.

### **5) Position Risk Choice page**

- a). **Method 1 - simple** : enter a "y" and then complete the page "Simple"
- b). **Method 2 - building block** : enter a "y" and complete pages "BB Loan Stock" & "BB Securities etc".
- c). **Method 3 - in house value at risk model** : enter a "y" and then enter your risk figure in cell D14. Also submit a copy of this calculation with the return.

### **6). Counterparty Risk Requirement page**

Work your way through the page "Counterparty Risk Req't" and evaluate if any of your investments or positions are subject to counterparty risk.

Enter the relevant information.

### **7). Large Exposure Requirement page**

Work your way through the page "Large Exposure Req't" and evaluate if any of your investments or positions fall within the category.

Enter the relevant information

### **8). Foreign Exchange Requirement page**

Work your way through the page "Forex Req't" and enter the relevant currency information.