

Draft

Bangladesh Securities and Exchange Commission (Risk Based Capital Adequacy) Rules, 2018

In exercise of the power conferred by section 33 of the Securities and Exchange Ordinance, 1969 (Ordinance No. XVII of 1969) and section 24 of the Bangladesh Securities and Exchange Commission Act, 1993 (Act No. XV of 1993), to introduce capital adequacy requirements for all market intermediaries, the Bangladesh Securities and Exchange Commission makes, after prior circulation, the following rules, namely:-

1. Short title and applicability.-

- (1) These rules may be called the Bangladesh Securities and Exchange Commission (Risk Based Capital Adequacy) Rules, 2018.
- (2) These rules shall be applicable for the registered entities as defined under clause (w) of sub-rule (1) of rule 2; and any other market intermediaries registered or to be registered with the Commission except registered mutual fund and collective investment scheme including alternative investment fund.
- (3) The provisions of these rules along with the existing provisions under different rules regarding the capital adequacy of the registered entities shall be observed, in parallel, until or unless the Commission makes these rules effective by an order in writing.
- (4) With the effective of the provision of these rules, provisions related to capital adequacy or risk based capital adequacy, whatever term used, in different rules issued under section 24 of the Bangladesh Securities and Exchange Commission Act, 1993 (Act No. XV of 1993) and section 33 of the Securities and Exchange Ordinance, 1969 (Ordinance No. XVII of 1969) for the registered entities shall be guided by these rules until or unless the Commission give any explanation or clarification by order in writing.

2. Definitions.-

- (1) In these rules, unless there is anything repugnant in the subject or context –
 - (a) “Act” means the Bangladesh Securities and Exchange Commission Act, 1993 (Act No. XV of 1993);
 - (b) “capital adequacy” means the level of total capital against the total risk exposure of a registered entity that is required to be maintained as per these rules to ensure continuation of a safe and efficient operation and to withstand against any seen and unforeseen losses;

- (c) “capital adequacy ratio (CAR)” means the standard ratio prescribed in these rules for measuring the level of capital adequacy of a registered entity;
- (d) “counterparty” means any person who is enjoying margin financing from any registered entity;
- (e) “counterparty exposure” means the outstanding balance of the margin account holder arises due to availing margin financing facility from any registered entity;
- (f) “counterparty risk requirement (CPRR)” means exposure to financial loss due to risk of default or non recovery of any receivable or any other overdue amount due from any counterparty;
- (g) "collateral", in relation to a registered entity, means the following securities or assets, which have been considered as eligible to be kept as collateral-
 - (i) any listed shares;
 - (ii) any specified securities as declared by central counterparty (CCP);
 - (iii) any qualifying debt securities;
 - (iv) any special debt securities, which is-
 - (1) deposited as security by the registered entity with another person; or
 - (2) deposited as security with the registered entity by another person, and are un-encumbered in its possession and readily realizable by it; or
 - (3) encumbered only by virtue of being lent, deposited or pledged by the registered entity with a central counter party or any of its clearing participants to secure its obligation to meet its clearing obligations or liabilities;
 - (v) any others assets, as determined;
- (h) “Entry Capital Requirement (ECR)” means the minimum capital requirement along with the minimum net worth requirement laid down in the respective rules under which a registered entity shall apply for its registration;
- (i) "haircut" means the percentage used on any component of assets or liabilities to determine the deductible amount in computing the liquid capital and the total capital requirement;
- (j) "haircut amount" means-
 - (i) an amount derived by multiplying the value of the assets with the haircut percentage specified at Part A of Schedule-A, in determining the liquid asset in connection with the computation of liquid capital balance (LCB) of a registered entity;
 - (ii) an amount derived by multiplying the value of the components of the supplementary capital with the haircut percentage specified at Part A of Schedule-C in connection with the computation of the Total Capital (TC);
- (k) “large exposure risk requirement (LERR)” means exposure to financial loss due to default of any concentrated position in any counterparty and liquidity risk of any securities;
- (l) “liability risk requirement (LRR)” means exposure to financial loss caused by non-performance or negligence in the legitimate role and contractual obligations with its clients, stakeholders, counterparty, unitholders and related parties of the

trust fund, or any other person who has right to claim against the registered entities;

- (m) "liquid assets" means the aggregate amount of the components of the current assets, which is realizable within thirty (30) days of claim, are required to be counted in the liquid assets of a registered entity under these rules:

Provided that property, plant and equipment, related party amounts due to the entity, deferred expenditure, intangible assets and such other long term assets are not counted as liquid assets;

- (n) "liquid capital" means the amount constituted as liquid assets (adjusted by applicable haircut) less net short term obligations (adjusted by applicable deductions);
- (o) "liquid capital deficit", means the shortfall in liquid capital maintained from minimum liquid capital requirement;
- (p) "listed" in relation to securities, means listed with or traded on any exchange;
- (q) "margin account holder" means—
- (i) any client to whom the registered entity provides credit financing under the Margin Rules, 1999; or
 - (ii) any client who maintains margin account with the registered entity under the সিকিউরিটিজ ও এক্সচেঞ্জ কমিশন (মার্কেট ব্যাংকার ও পোর্টফোলিও ম্যানেজার) বিধিমালা, ১৯৯৬;
- (r) "margin financing" or "credit facilities" means the process of financing arrangements by a registered entity to its client to facilitate the acquisition or holding of marginable securities;
- (s) "marking to market" means the method or the procedure of adjusting the value of open position on any securities on the basis of market price;
- (t) "operational risk" means the risk of loss resulting from inadequate or failed internal processes, people management and systems or from any other internal or external events those exposed from inadequate management of operational risk, clearance and settlement failure, shortage of liquid resources, non-flexibility of funding sources or such type of other risk issues;
- (u) "operational risk requirement (ORR)" means exposure to financial loss that may incur due to expected and unexpected events arising from operational risk and other general risk factors like market risk, interest rate risk, currency risk, liquidity risk, economic risk, country risk, legal risk, inflation risk, stakeholder risk, settlement risk, etc;
- (v) "Ordinance" means the Securities and Exchange Ordinance, 1969 (Ordinance No. XVII of 1969);
- (w) "position risk requirement (PRR)" means exposure to financial loss due to adverse effect in the value of investment positions;
- (x) "qualifying debt securities" means a bond, debenture, notes or any other securities or instruments acknowledging, evidencing or creating indebtedness shall be eligible in consideration of these rules;

- (y) “registered entity” means an entity registered with the Commission under section 10 of the Act for which a regulatory capital requirement is prescribed under rule 6;
- (z) “regulatory capital” means the minimum amount of total capital requirement that the intermediaries are required to maintain on continuous basis;
- (aa) "repurchase transaction" means a transaction where there is a sale of securities and a further arrangement obliging the seller of the securities to repurchase from the purchaser, or obliging the purchaser to resell to the seller, securities of the same description as the securities first sold, at a pre-determined consideration and date;
- (bb) "required minimum liquid capital", means an amount equal to minimum liquid capital for the registered entity as specified in the rules; or regulatory liquid capital as specified in the rules; whichever is higher;
- (cc) "regulatory liquid capital”, in relation to a registered entity, means the percentage of the total liabilities specified in these rules, to be maintained as liquid capital on continuous basis;
- (dd) "securities borrowing and lending counterparty" means-
 - (i) a registered central counterparty (CCP); or
 - (ii) a person approved as such party under the respective rules;
- (ee) "segregated account" means any specified account for holding client’s money which is separate from the accounts of a registered entity;
- (ff) "short selling" means unless otherwise defined in any other rules or regulation, any such transaction where at the time of sale-
 - (i) the seller does not have a presently exercisable and un-conditional right to vest the securities in the purchaser of them; or
 - (ii) the seller has a presently exercisable and unconditional right to vest the securities in the purchaser of them by virtue of having entered into a securities borrowing and lending agreement;
- (gg) “specific provision” means the percentage of provision set by the Commission from time to time to be maintained against the overdue outstanding margin financing to any margin client or any other client;
- (hh) “strategic holding” means long term investment in any securities declared by a registered entity which the entity shall hold at least for five (05) years and shall not sell or transfer any amount of such holding without the permission of the Commission and proper disclosure;
- (ii) "subordinated debt", means any debt instrument having maturity equal or above seven (07) years issued by the registered entity, the claim of the instrument holder on which is subordinated to the claims of all other present and future creditors of that entity;
- (jj) “total capital” means the sum of core capital and supplementary capital;
- (kk) "trade date", in relation to a transaction in any securities, means-
 - (i) in case of a transaction on any exchange, the date on which the transaction is executed; or
 - (ii) in any other case, the date on which the agreement is made;

- (ll) "underwriting risk requirement (URR)" means exposure to financial loss due to execution of underwriting commitment and subsequent risk arises from position risk on the underwritten securities;
- (mm) "unrealized losses" means accrued loss in any instrument not accounted for at any given point of time;
- (nn) "unrealized profits" means un-actualized profits calculated by marking to market an open position in- (a) any securities; (b) a derivative contract; (c) a foreign exchange agreement; or (d) an interest rate swap agreement; and
- (oo) "wholesale trading" means any such trading where the trader or beneficiary of the trade is participating in the trade execution but executing the transaction through any third party or through any custodian or securities custodian.

(2) Unless otherwise repugnant for any purpose, words and expressions used herein and not defined, but defined in the Securities and Exchange Ordinance, 1969 (Ordinance No. XVII of 1969), the Bangladesh Securities and Exchange Commission Act 1993 (Act XV of 1993), the Depository Act 1999 (Act VI of 1999), the এক্সচেঞ্জস ডিমিউচুয়ালাইজেশন আইন, ২০১৩, the Companies Act 1994 (Act XVIII of 1994), the Bank Companies Act 1991 (Act XIV of 1991), the Financial Institutions Act 1993 (Act XXVII of 1993), the Trust Act, 1882 (Act No. II of 1882), the Registration Act, 1908 (Act No. XVI of 1908), and the Insurance Act, 2010 (Act XIII of 2010), shall have the same meanings respectively assigned to them in the said Acts and Ordinances, and the rules and regulations made thereunder.

3. Financial reporting and disclosures.-A registered entity shall, for the purposes of these rules, -

- (a) account for all assets and liabilities as per the requirements of Bangladesh Financial Reporting Standards (BFRS), unless or otherwise specified in these rules or any other relevant rules related to the operation of the registered entity;
- (b) prepare financial statements with minimum disclosures in accordance with the components described in "Uniform components of financial reporting and disclosures" as per **Schedule-B** or as decided by the Commission from time to time, as applicable for the registered entity considering its operation nature.

4. Financial resources requirements under capital adequacy framework.-

(1) **Capital adequacy framework:** A registered entity shall, at all times, maintain the minimum financial resources required under the following conditions,-

- (a) Entry Capital (EC) requirement shall be as per the eligibility conditions of registration laid down in the relevant rules;
- (b) Total Capital (TC) requirement shall be maintained on continuous basis within two years from the effective date of these rules;

Provided that the registered entity shall calculate and submit report of the total capital requirement as per Part A of Schedule-C and also following the

conditions prescribed at Part B of Schedule-C within six months from the effective date of these rules;

- (c) Capital Adequacy (CA) requirement shall be maintained on continuous basis against its level of risk exposures within two years from the effective date of these rules:

Provided that the registered entity shall calculate and submit report of the capital adequacy as specified in sub-clause (3) within six months from the effective date of these rules;

- (d) Liquid Capital (LC) requirement of any registered entity shall be maintained on continuous basis as specified in rule 8 of these rules within one year from the effective date of these rules:

Provided that the registered entity shall calculate and submit report of the liquid capital balance as per Part A of Schedule-A and also following the principles outlined at Part B of Schedule -A within six months from the effective date of these rules.

- (2) **Computation of capital adequacy ratio (CAR):** Each registered entity shall follow the following formula in computing the capital adequacy:

$$\text{Capital Adequacy Ratio (CAR)} = \frac{\text{Total Capital}}{\text{Total Risk Requirement}} \times 100;$$

Where,

- (a) Total Capital = Core Capital + Supplementary Capital ; and
- (b) Total Risk Requirement (TRR) = Operation Risk Requirement (ORR) + Position Risk Requirement (PRR) + Counterparty Risk Requirement (CRR) + Underwriting Risk Requirement (URR) + Large Exposure Risk Requirement (LERR)+ Liability Risk Requirement (LRR).

- (3) Each registered entity shall fulfill the following requirements for capital adequacy purposes: –

- (a) Capital adequacy ratio shall be maintained minimum 125%, i.e. its Total Capital requirement shall be, at all times, minimum 1.25 times of its Total Risk Requirement;
- (b) Its Core Capital shall be, at all times, greater than its Operational Risk Requirement;

- (4) The components of the Total Risk Requirement (TRR) of the respective registered entity shall be computed as per the framework outlined in Part B of Schedule – D and as per the prescribed form in Part A of Schedule –D, as applicable.

5. Components of total capital.-

(1) A registered entity shall maintain the total capital considering the components of capital under the following Regulatory Capital Requirement (RCR) framework:

(a) **Core Capital:** The components of core capital as follows:

- (i) Share capital (i.e. Paid-up capital +Share Premium, if any);
- (ii) General Reserve;
- (iii) Retained Earnings;
- (iv) Capital Reserve;

(b) **Supplementary Capital:** The components of supplementary capital as follows:

- (i) General Provision;
- (ii) Specific Provision;
- (ii) Revaluation Surplus:
 - (1) Revaluation surplus for property, plant and equipment (with applicable haircut);
 - (2) Revaluation surplus for proprietary position in listed securities (with applicable haircut);
 - (3) Revaluation surplus for proprietary position in non-listed securities (with applicable haircut);
 - (4) Revaluation surplus for strategic holding (with applicable haircut);
- (iii) Any preference share (with applicable haircut);
- (iv) Long -term Subordinated debt not below credit rating of “A”.

(c) Total Capital = Core Capital + Supplementary Capital.

(2) **Conditions in computing total capital:** A registered entity shall calculate the total capital as per Part A of **Schedule-C** and maintaining the conditions at Part B of Schedule-C.

6. Regulatory capital requirements for registered entities.-

(1) **For stock broker and stock dealer:**

- (a) Each stock broker and stock dealer shall maintain the regulatory capital considering its scope of operation mentioned at clause (b) on single or consolidated operation basis;
- (b) The scope of operations of a stock broker and stock dealer shall be as follows:
 - (i) **General Stock Broking:** when the stock broker deals with retail and institutional account directly;
 - (ii) **Wholesale trading:** when the stock broker beside general stock broking activities, deals with such account where clients are trading through any

securities custodian, custodian or any approved agents (on behalf of underlying clients or designated broker);

- (iii) **Margin Financing:** when the stock broker is providing credit facilities to its approved clients for securities transaction and maintains margin accounts;
 - (iv) **Depository Participant:** when the stock broker is performing the activities of depository participant;
 - (v) **Clearing Participant:** when the stock broker is performing the activities of clearing participant as per the rules;
 - (vi) **Stock Dealer:** when the stock broker is also functioning as a stock dealer;
 - (vii) **Full-fledged stock broker:** when the stock broker is functioning all the above mentioned roles simultaneously.
- (c) Each stock broker and stock dealer shall maintain the regulatory capital as follows:

Category of operation	Regulatory Capital
General Stock Broking	Minimum Tk.50 million as base requirement
Wholesale trading	Additional Tk. 30 million over the base requirement
Margin Financing	Additional Tk. 50 million over the base requirement
Depository Participant and Clearing participant	No additional requirement over the base requirement
Stock Dealer	Additional Tk. 20 million over the base requirement; but minimum Tk. 20 million if only Stock Dealer
Full Fledged Stock Broker and Stock Dealer	Minimum Tk. 150 million

- (2) **For merchant banker and portfolio manager:** Each merchant banker and portfolio manger shall maintain the regulatory capital considering its scope of operation as follows:

Area of operation	Regulatory Capital
Issue Management	Minimum Tk. 50 million as base requirement
Underwriting	Additional Tk. 150 million over the base requirement
Portfolio Management (Margin Financing)	Additional Tk. 150 million over the base requirement
Proprietary Fund management	Tk. 50 million over the base requirement
Full Fledged Merchant Bank	Minimum Tk. 350 million

- (3) **For asset manager:** Each asset manger shall maintain the regulatory capital considering its scope of operation as follows:

Area of operation	Regulatory Capital
Mutual fund management	Base requirement: Minimum Tk. 100 million or Tk. 50 million over the initial paid-up capital requirement, whichever is higher
Institutional Portfolio Management	Additional Tk. 20 million over the base requirement
Proprietary position as Sponsor of any fund	Equivalent amount of full subscription being sponsor as additional requirement over the base requirement

- (4) **For fund manager:** Each fund manager shall maintain the regulatory capital considering its scope of operation as follows:

Area of Operation	Regulatory Capital
Alternative investment fund management	Base requirement : Tk. 20 million over the initial paid-up capital requirement
Proprietary position as sponsor and Fund Manager	Equivalent amount of the minimum legal requirement of subscription as sponsor and fund manager, as additional requirement over the base requirement

- (5) **For credit rating company:** Each credit rating company shall compute the regulatory capital as the sum of entry paid up capital requirement plus Tk. 50 million.
- (6) **For trustee, securities custodian and custodian:** Each trustee, securities custodian and custodian shall compute the regulatory capital as 150% of the entry paid-up-capital requirement.
- (7) **For any other registered entities:** The Commission may set the regulatory capital requirement for any other registered entities from time to time by an order in writing.
- (8) Each registered entity shall report to the Commission, Exchange(s), if applicable, and also disclose its operational scope in its financial statements and in the company website covering any or all of the following areas of operation.

7. Framework of total risk requirement (TRR).- The computation framework of the risk requirements against each components of TRR shall be as per Part B of Schedule-D.

8. Maintenance of liquid capital (LC).-

- (1) A registered entity shall maintain a liquid capital balance under the risk based capital adequacy framework, which is higher of the ‘regulatory liquid capital balance’ and the ‘minimum liquid capital balance.’
- (2) The minimum liquid capital balance and the regulatory liquid capital balance shall be maintained by each registered entity as specified in the following table:

Category of Operation	Minimum Liquid Capital Balance	Regulatory Liquid Capital Balance
Stock Broker and Stock Dealer	Tk. 40.00 million	8% of Total Liabilities
Merchant Banker and Portfolio Manager	Tk. 50.00 million	8% of Total Liabilities
Asset Manager	Tk. 20.00 million	8% of Total Liabilities
Fund Manager	Tk. 20.00 million	8% of Total Liabilities
Credit Rating Company	Tk. 10.00 million	8% of Total Liabilities

- (3) A registered entity, if avails registration for more than one category of operation from the Commission, then it shall maintain the higher requirement of the liquid capital requirement specified at sub-rule (2).
 Provided that the Commission may impose additional requirement for the other area of operation if required;
- (4) The computation of the liquid capital balance shall be as per the prescribed form as per Part A of Schedule-A and also as per the principles outlined for liquid assets at Part B of Schedule-A.

9. Reporting and Compliance.-

- (1) A registered entity shall, at the end of month or quarter, and not later than fifteen days after the end of month or quarter, as applicable, submit to the Commission, monthly or quarterly reports in the manner specified under sub-rule (3), and in a form specified by the Commission and signed in the manner specified under sub-rule (4).
- (2) A report made under sub-rule (1) shall include-
- a comparison statement of comprehensive income, as at the end of each quarter;
 - a summary of bank loans, advances, credit facilities and other financial accommodation availed by the registered entity, as at the end of each quarter;
 - a statement of total capital in a form prescribed at Part A of Schedule – C, as at the end of each quarter;
 - a report on computation of capital adequacy ratio as per sub-rule (2) of rule 4, as at the end of the quarter;
 - a statement on liquid capital computation as per sub-rule (4) of rule 8, as at the end of the month.
- (3) For the purposes of these rules, a registered entity shall submit all the reports referred to in the sub-rule (2) to the Commission and Exchange(s), if applicable, in paper and electronically by means of an online communication system approved by the Commission.
- (4) A report made under sub-rule (2) shall be signed by the chief executive officer of the registered entity or by an officer duly authorized by the Board to carry out such mandate.

- (7) The Commission shall, for the purposes of reporting under these rules, approve framework for an online communication system for the submission of the reports.
- (8) Each registered entity shall calculate the capital adequacy report on monthly basis and preserve those reports internally upto the completion of statutory audit.
- (9) The trade date shall be the cut-off date for preparation of the capital adequacy related reports.
- (10) The computation of the year end capital adequacy shall be a part of the financial statements and the statutory auditor shall also provide a separate report about the accuracy of the computation in the financial statements.
- (11) The Commission or the exchange(s), as applicable, shall time to time implement an early warning system, by order in writing, to ensure the appropriate capital adequacy level:

Provided that the Commission shall impose any type of operational restriction or condition under the early warning system to maintain the appropriate capital adequacy level at anytime.

- (12) No registered entity shall declare and distribute cash dividend if the capital adequacy level falls below the minimum level specified in these rules.

10. Registered entities to provide information.- The Commission may at any time, by notice in writing, require a registered entity to provide within the time and in a manner specified in the notice, such information, including any document relating to its financial resources or any other matter.

11. Amendment to different rules.- Certain provisions related to capital adequacy of different rules shall be amended, in the following manner, namely:-

- (1) **Amendment to the Securities and Exchange Rules, 1987:-**Rule 15 of the Securities and Exchange Rules, 1987 shall be replaced by the following new rule 15, namely:-

“15 (1) A member shall at all times maintain the capital adequacy requirement under the Bangladesh Securities and Exchange Commission (Risk Based Capital Adequacy) Rules, 2018.

(2) Sub-rule (1) shall be effective, in time, specified by the Commission, by order in writing.”.

- (2) **Amendment to the সিকিউরিটিজ ও এক্সচেঞ্জ কমিশন (মার্চেন্ট ব্যাংকার ও পোর্টফোলিও ম্যানেজার) বিধিমালা, ১৯৯৬:-** উপ-বিধি (২) of বিধি ৬ of the সিকিউরিটিজ ও এক্সচেঞ্জ কমিশন (মার্চেন্ট ব্যাংকার ও পোর্টফোলিও ম্যানেজার) বিধিমালা, ১৯৯৬ shall be replaced by the following new উপ-বিধি (২), namely:-

“(2) Bangladesh Securities and Exchange Commission (Risk Based Capital Adequacy) Rules, 2018 দ্বারা নির্ধারিত মূলধন পর্যাণ্ডতার বিধান প্রযোজ্য হইবে।”.

12. Clarification, Instructions and Order.-

- (1) The Commission may provide clarifications of any provision of these rules in case of arising any confusion.
- (2) The Commission may issue instructions and guidelines on operational aspects or may issue order, if necessary, under these rules.
- (3) The Commission may impose any further restrictions or conditions to any registered entity on any reasonable ground by order in writing.

13. Remedial measures, penalty and administrative sanctions.-

Contravention of any of the provisions of these rules shall be punishable under the provisions of the Securities and Exchange Ordinance, 1969 (Ordinance No. XVII of 1969), and the Bangladesh Securities and Exchange Commission Act, 1993 (Act No. XV of 1993).

Schedule-A
Part A
[see rule 2(1)(i);rule 4(1)(d);rule 8(4)]
Statement of Liquid Capital balance

Name of the Intermediary :				As on the date :		
Area of Operation:						
Item	Assets		Note ref.	Amount as in Balance sheet	Proposed Haircut in %	Amount after Haircut
1	Cash and Bank Balances			-		-
	Cash in Hand				0.0	-
	Cash at Bank in Company's account				0.0	-
	Cash at Bank in trading accounts (Stock Dealer A/C)				0.0	-
	Cash at Bank accounts for clients (net claim in consolidated customer account)				100.0	-
	Cash at Bank at IPO Account				0.0	-
	Investments in FDR (those to be matured within six months)				0.0	-
2	Net Receivable from Exchange, Depository, CCP and others			-		-
	Cash deposits with Exchanges (as margin/security)			-		
	Mandatory				100.0	
	Excess over mandatory				0.0	
	Cash deposits with Clearing House (as margin/security)			-		
	Mandatory				100.0	
	Excess over mandatory				0.0	
	Cash deposit with depository (as per rule)			-		
	Mandatory				100.0	
	Excess over mandatory				0.0	
	Assets provided to others as security			-		-
		Assets kept as security against any obligations			100.0	
		Assets kept as security but exercisable			0.0	

		Cash provided as security for short selling			100.0	
3	Net Receivable from Securities Trading			-		-
	Receivable from DSE (categorized as A,B,G,N,Z and DVP)					-
		Receivable against A, B, G & N category			0.0	-
		Receivable against z category			5.0	-
		Receivable against DVP category			5.0	-
	Receivable from CSE (categorized as A,B,G,N,Z and DVP):					-
		Receivable against A, B, G & N category			0.0	-
		Receivable against z category			5.0	-
		Receivable against DVP category			5.0	-
	Receivable from Stock Broker/Stock Dealer				0.0	-
	Receivable from Merchant Banker				0.0	-
	Receivable from selling agents				0.0	-
	Receivable under securities borrowing and lending agreements				5.0	-
	Receivable under repurchase transactions				0.0	-
	Receivable from others				0.0	-
4	Net Receivable from Cash Clients-			-		-
		Receivable after securities trading			30.0	-
		Receivable arises from fee, commission & charges			15.0	-
5	Net receivable from counterparties (clients, designated clients, etc)				0.0	-
6	Net receivable from margin clients -			-		-

	Receivable to Clients having no margin or full erosion of clients' equity (e.g.no equity against debit balance)				30.0	-
	Receivable to Clients fall under force sale condition (e.g. equity is between 100% and 125% of DB)				20.0	-
	Receivable to Clients fall under margin call (e.g. equity is >125% of DB but <150% of DB)				5.0	-
	Receivable to regular Margin Clients (e.g. equity is >150% of debit balance)				0.0	-
7	Net Receivable arises from short selling				10.0	-
8	Proprietary positions in securities and specified investments			-		-
	Proprietary positions in Equity securities			-		-
		Value of "A" category instruments			10.0	-
		Value of "B/G/N/..." category instruments			15.0	-
		Value of "Z" category instruments			20.0	-
		Value of "OTC" category instruments			25.0	-
		Value of Non-Listed Instruments			30.0	-
	Proprietary positions in MFs & CISs including AIFs			-		-
		Value of listed funds			10.0	-
		Value of non-listed funds			3.0	-
		Value of AIFs			30.0	-
	Proprietary positions in Debt Instruments & ABSs			-		-
		Value of listed debt instruments			5.0	-

		Value of no-listed debt instruments			10.0	-
		Value of ABSs			20.0	-
	Proprietary Position in strategic investments			-		-
		Value of listed strategic investments			10.0	-
		Value of no-listed strategic investments			30.0	-
	Proprietary Position in money market Instruments			-		-
		Value of Govt. & BB instruments			0.0	-
		Value of commercial paper			10.0	-
	Own subscription in IPOs but not yet allotted				10.0	-
9	Proprietary position in Derivatives				0.0	-
10	Other assets arising from:			-		-
	Receivable against Advisory Fees, Commission, etc				10.0	-
	Dividend Receivable				0.0	-
	Interest Receivable				0.0	-
	Prepaid expenses				100.0	-
	Security deposits				100.0	-
	Any other (need to specify)					
11	Total liquid assets	(aggregate of items 1 to 10)		-		-
	Liabilities:					
12	Short positions in securities held for own account				0.0	-
13	Payable to Clients				0.0	-
14	Short Term Business Liabilities:			-		-
	Payable to Banks, if not for trading & investment (current due of long term liabilities)				0.0	-
	Payable to FIs, if not for trading & Investment (current due of long term liabilities)				0.0	-
	Payable to Banks & FIs for loan against Margin Financing & Investment (full amount)				0.0	-

	Payment obligation against sub-debt, preference shares (current due)				0.0	-
	Payable to associate companies or persons				0.0	-
15	Amounts payable to clearing houses/Exchanges/Depository, etc			-		-
	Payable to Exchanges				0.0	-
	Payable to Clearing House				0.0	-
	Payable to Depository				0.0	-
	Payable to Brokers				0.0	-
16	Other Liabilities and Provisions:			-		-
	Accruals & Accounts payable				0.0	-
	Deferred tax and other differed liabilities				0.0	-
	Provision for Margin Loan				100.0	-
	Provision for Gratuity, PF & others				0.0	-
	Provision for Tax & VAT				0.0	-
	Interest Suspense against Margin Loan				100.0	-
	Liabilities for Expenses				0.0	-
	Interest Payable				0.0	-
	Provision for contingent liabilities and floating losses				100.0	-
	Others (clearly specified in notes)				0.0	-
17	Net Short term obligations after haircut	Aggregate of item 12 to item 16		XXXXX		XXXX
18	Total Liabilities	As per Balance Sheet		XXXXX		XXXX
19	Liquid Capital (Amount in item 11 minus item 17)			XXXXX		
20	Minimum Liquid Capital Balance for the Entity (as per sub-rule (2) of rule 8)			XXXXX		
21	Regulatory LCB : 8% of Total Liabilities (8 % of Item 28)			XXXXX		
22	Required minimum Liquid capital Balance (higher of Item 20 or Item 21)			XXXXX		
23	Excess/(Deficit) in Liquid Capital	(Amount in Item 22 less 19)		XXXXX		

Part B
[See rule 8(4)]

Components and computation principles of liquid assets

- (1) **Exclusions from liquid assets:** A registered entity shall not include in its liquid assets-
- (i) any of its assets which is under control of exchange, CCP or any other part; or
 - (ii) any of its assets whose proceeds are not freely remittable to Bangladesh or realizable within five working days of execution;
 - (iii) any assets under its ownership, provided to any person as security or collateral against any liabilities or obligations, which is not realizable within thirty days of application;
 - (iv) any cash or cash equivalent assets of the clients is under control of the registered entity;
 - (v) any of its fixed assets or tangible assets or any other long term assets including intangible assets.
- (2) **Inclusion in Liquid Assets:** A registered entity shall calculate the liquid assets as prescribed in the Statement of Liquid Capital Balance as per this Schedule and the conditions as follows:
- (a) **Assets of registered entity provided to others as security or collateral:**
any assets under its ownership, provided to any person as security or collateral against any liabilities, obligations or any facilities which is realizable within thirty days of application.
- (b) **Cash in hand and cash at bank:** A registered entity shall include in its liquid assets:
- (i) cash in hand which the registered entity beneficially owns;
 - (ii) money which the registered entity beneficially owns and holds in its name to any bank and FIs, which is realizable within thirty days of notice;
- (c) **Amounts receivable from clients in respect of securities trading:** A registered entity shall include in its liquid assets the following amount as receivable from any of its clients arising from purchase by the client of securities on a cash-against-delivery basis:-
- (i) any such amount receivable which is not yet due for settlement according to the settlement date; or
 - (ii) any such amount receivable has been outstanding for more than three business day after the settlement date, the amount which is the lower of-
 - (a) such outstanding amount receivable less any specific provision for bad or doubtful debts made in respect of such outstanding amount; and
 - (b) seventy percent of such outstanding amount;

(d) Amounts receivable in respect of providing securities margin financing:

- (a) A registered entity shall include in its liquid assets any net amount receivable from any of the margin clients of a registered entity, calculated as the amount by which the amount receivable from the margin client exceeds the amount payable by the registered entity to the margin client arising from the provision made by the registered entity, after deducting the higher of-
 - (i) any specific provision for bad or doubtful debts made in respect of such net amount receivable; and
 - (ii) the margin shortfall amount, calculated as the amount by which the net amount receivable exceeds the aggregate of-
 - (a) the market value of collateral, other than illiquid collateral, provided by the client, less the applicable haircut amount in relation to such collateral;
 - (b) the amount of cash deposited as security by the client; and
 - (c) the maximum amount that the registered entity can draw under a bank guarantee provided to the registered entity by the client and issued by an authorized financial institution or an approved bank incorporated outside Bangladesh;

(e) Cash provided as security for short selling: A registered entity shall include in its liquid assets an amount receivable in the amount of any cash (including interest accrued on it) provided by the registered entity as a security to the counterparty in respect of a short selling of securities by the registered entity where the registered entity has not yet delivered securities to the counterparty for settlement, where the counterparty is-

- (a) a dealer;
- (b) a central counterparty; or
- (c) a clearing participant;

(f) Proprietary positions of registered entities:

- (1) A registered entity shall include in its liquid assets any of the following assets which it beneficially owns-
 - (a) position in equity securities;
 - (b) position in mutual funds and collective investment schemes (CISs);
 - (c) position in debt instruments and asset backed securities (ABSs); and
 - (d) position in strategic investments
 - (e) position in money market instruments; at marking to market value or fair value, whichever is applicable, less the haircut amounts in relation to the securities or specified investments concerned as per Schedule - A.
- (2) A registered entity shall include in its liquid assets any derivative contract which the registered entity beneficially owns –
 - (a) listed shares;
 - (b) qualifying debt securities;
 - (c) special debt securities;

- (d) specified securities; and
 - (e) specified investments by the Commission, at market value, less twice the haircut amounts in relation to the securities or specified investments concerned;
- (g) Amounts receivable from central counter party, etc:** A registered entity shall include in its liquid assets-
- (a) amount receivable from a registered central counter party; and
 - (b) cash deposited with such central counter party, other than-
 - (i) admission fees which the registered entity has paid to such central counter party;
 - (ii) contributions which the registered entity has made to the Investor Protection Fund and Settlement Guarantee Fund of such central counter party; and
 - (iii) clients money held in a segregated account maintained with such central counter party.
- (h) Amounts receivable under securities borrowing and lending agreements:** A registered entity, which is the borrower of securities under a securities borrowing and lending agreement, shall include in its liquid assets, any amount receivable from the lender of the securities which it is considered to have in respect of any cash provided by the registered entity as a security to the lender.
- (i) Amounts receivable under repurchase transactions:** A registered entity which is the purchaser in the first instance of any securities under a repurchase transaction, shall include, in its liquid assets, any amount receivable from the seller of the securities which is considered to have in respect of the consideration for which the registered entity purchased the securities.
- (j) Miscellaneous assets:**
- A registered entity shall include in its liquid assets any of the following-
- (a) the amount of any fees, commissions, commission rebates and interest charges to which the registered entity is beneficially entitled which arise from the carrying on of any activity for which it is registered and-
 - (i) which have accrued and will first be due for billing or payment within the next three months; or
 - (ii) which have been billed or fallen due for payment and remain outstanding for one month or less after the date on which they were billed or fell due;
 - (b) deposits which the registered entity beneficially owns and maintained with, and in accordance with the **rules** or requirements of a registered securities exchange as security for its obligations or liabilities owed to the registered securities exchange;
 - (c) prepaid operating expenses to be incurred within the next three months;

- (d) dividends receivable within one month on shares listed on a exchange which are traded on an ex-dividend basis and which the registered entity beneficially owns;
- (e) interest accrued on qualifying debt securities or special debt securities which are traded on an ex-interest basis and which the registered entity beneficially owns.

Schedule - B
[see rule 3]
Uniform Components of Financial Reporting and Disclosures

Name of the Intermediary :				As on the date...	As on the date..
Area of Operation:					
			<u>Note ref.</u>	Amount as in	Amount as in
Item	Assets			Balance sheet	Balance sheet
1	Cash and Bank Balances			-	-
	Cash in Hand				
	Cash at Bank in Company's account				
	Cash at Bank in trading accounts (Stock Dealer A/C)				
	Cash at Bank accounts for clients (consolidated customer account)				
	Cash at Bank at IPO Account				
	Investments in FDR				
2	Amounts Receivable from Exchange, Depository and CCP			-	-
	Cash deposits with Exchanges (as margin) (mandatory/excess)				
	Mandatory				
	Excess over mandatory				
	Cash deposits with Clearing House (as margin) (mandatory/excess)				
	Mandatory				
	Excess over mandatory				
	Cash deposit with depository (as per rule) (mandatory/excess)				
	Mandatory				
	Excess over mandatory				
3	Amounts Receivable from Securities Trading			-	-
	Receivable from DSE (categorize as A, B, G, N, Z and DVP)				
		Receivable against A, B, G and N category			
		Receivable against Z category			
		Receivable against DVP category			

	Receivable from CSE (categorize as A,B,G,N, Z and DVP):			
		Receivable against A, B, G & N category		
		Receivable against z category		
		Receivable against DVP category		
	Receivable from Stock Broker/Stock Dealer			
	Receivable from Merchant Banker			
	Receivable from selling agents			
	Receivable from others			
4	Amounts Receivable from Cash Clients-		-	-
		Receivable after securities trading		
		Receivable arises from fee, commission & charges		
5	Amounts receivable from securities dealer (if subsidiary)			
6	Amounts receivable from margin clients -		-	-
	Receivable to Clients having no margin or full erosion of equity (e.g.no equity against debit balance)			
	Receivable to Clients fall under force sale condition (e.g. equity is >DB but < 125% of DB)			
	Receivable to Clients fall under margin call (e.g. equity is >125% of DB but <150% of DB)			
	Receivable to regular Margin Clients (e.g. equity is >150% of debit balance)			
7	Amounts Receivable arises from short sale			
8	Proprietary positions in securities and specified investments		-	-
	Proprietary positions in Equity securities		-	-
		Value of "A" category instruments		

		Value of "B/C/N/..." category instruments			
		Value of "Z" category instruments			
		Value of "OTC" category instruments			
		Value of Non-Listed Instruments			
	Proprietary positions in MFs & CISs including AFs		-		-
		Value of listed funds			
		Value of non-listed funds			
		Value of AIFs			
	Proprietary positions in Debt Instruments & ABSs		-		-
		Value of listed debt instruments			
		Value of no-listed debt instruments			
		Value of ABSs			
	Proprietary Position in strategic investments		-		-
		Value of listed strategic investments			
		Value of no-listed strategic investments			
	Proprietary Position in money market Instruments		-		-
		Value of Govt. & BB instruments			
		Value of commercial paper			
	Own subscription in IPOs but not yet allotted				
9	Proprietary position in Derivatives				
10	Other assets arising from:		-		-
	Receivable against Advisory Fees, Commission, etc.				
	Prepaid expenses				
	Security deposits				
11	Advance /Investments in Associated undertakings (long term):		-		-

	Advance to Subsidiaries			
	Advance to Associated Companies			
	Advance to Directors & Staffs			
	Other Advances			
12	Fixed assets (net off Depreciation & amortization):		-	-
	Land & Land Development			
	Building & Other structures			
	Other tangible assets			
13	Intangible Assets:		-	-
	Software			
	Goodwill, Patents and other Intangible Assets			
14	Value of investment in Exchange (against Membership value)			
15	Other Long Term Assets:		-	-
	Long Term Investments			
	Long Term Prepayments & Deposits			
	Deferred Tax Assets			
	Others (clearly specified in notes)			
16	Total assets (aggregate of amount in items 9 to 15)		-	-
	Liabilities:			
17	Short positions in securities held for own account			
18	Payable to Clients			
19	Short Term Business Liabilities:		-	-
	Payable to Banks, if not for trading & investment (current due of long term liabilities)			
	Payable to FIs, if not for trading & Investment (current due of long term liabilities)			
	Payable to Banks & FIs for loan against Margin Financing & Investment (full amount)			
	Payment obligation against sub-debt, preference shares (current due)			

	Payable to associate companies or persons				
20	Amounts payable to clearing houses/Exchanges/Depository, etc			-	-
	Payable to Exchanges				
	Payable to Clearing House				
	Payable to Depository				
	Payable to Brokers				
21	Other Liabilities and Provisions:			-	-
	Accruals & Accounts payable				
	Deferred tax and other deferred liabilities				
	Provision for Margin Loan				
	Provision for Gratuity, PF & others				
	Provision for Tax & VAT				
	Interest Suspense against Margin Loan				
	Liabilities for Expenses				
	Interest Payable				
	Provision for contingent liabilities and floating losses				
	Others (clearly specified in notes)				
22	Any others (need to be specified)				
23	Non-current Loan Liabilities			-	-
	Long term loan liabilities (other than current due amount)				
	Approved subordinated debt (other than current due amount)				
	Approved Redeemable preference shares (other than current due amount)				
24	Shareholders' Equity:			-	-
	Share Capital				
	Share Premium				
	General Reserve				
	Capital Reserve				
	Dividend Equalization Reserve				
	Revaluation Reserve				
	Adjustment for diminution in value of portfolio holdings				

	Other Reserves				
	Retained Earnings				
25	Total liabilities & Shareholders' Equity	(aggregate of amounts in item 17 to 24)		-	-

Schedule-C
Part A
[see rule 2(1)(j)(ii); rule 4(1)(b); rule 5(2)]
Statement of Total Capital Computation

SL.	Components	B/S Amount	Haircut	Eligible Amount	Sum
a.	Paid-up-capital		0		
b.	Share Premium		0		
c.	General reserve		0		
d.	Capital Reserve		0		
e.	Retained Earnings		0		
	Sum of core capital			XXXXXX	XXXXXX
f.	General Provision & Specific Provision		50%		
g.	Revaluation Surplus:				
i.	For Fixed Assets (Property, plant & equipments other than Intangible assets)		50%		
ii.	For investment in listed securities		30%		
iii.	For investment in non-listed securities (other than closed end mutual fund)		60%		
iv.	For strategic holding		30%		
h.	Preference Share		50%		
i.	Subordinated debt			@ 20% of total issued value	
	Sum of supplementary capital			XXXXXX	XXXXXX
Total Capital				XXXXXX	XXXXXX

Part B
[rule (1)(b); rule 5(2)]
Conditions in computing total capital

- (a) In the computation of supplementary capital, stock broker shall follow the value of investment in shares of exchange(s) as disclosed by the respective exchange;
- (b) Supplementary capital over three times of core capital shall not be eligible in computation of total capital;
- (c) Revaluation surplus of intangible assets, if allowed, shall not be considered in supplementary capital;
- (d) The Commission may impose additional haircut or change the haircut against any components of the supplementary capital for any registered entity by order in writing;
- (e) The registered entity shall also follow the following in computing the value of components of total capital:
 - (i) Each registered entity shall maintain a mandatory provision at least @ 10% of profit after tax of last year as capital reserve and the full amount of such reserve shall be accounted for in computing total capital;
 - (ii) Each registered entity those are providing margin financing shall maintain a mandatory provision @ 1% of all outstanding margin exposures and in computation of total capital 50% haircut shall be applicable on total amount of provision:

Provided that if the Commission prescribes the maintenance of any specific provision, such provision shall also be eligible in computing the total capital without any haircut;

- (iii) Each registered entity is allowed to account for revaluation surplus for fixed assets (i.e. property, plant & equipment) in computing total capital with a haircut @50% of the total value:

Provided that revaluation of fixed asset shall be eligible in computing, only if the revaluation is not done in the last five years;

- (iv) Revaluation surplus for listed equity instruments shall be eligible to account for @ 30% haircut and non-listed equity instruments @ 60%

haircut following the standard valuation principle and as disclosed in the Audited accounts;

- (v) Revaluation surplus for strategic holding shall be eligible to account for @ 30% haircut following the standard valuation principle and as disclosed in the audited accounts;
- (vi) Any preference share having maturity equal or above seven (07) years shall be eligible in the computation of total capital with a 50% haircut;
- (vii) Any long term Subordinated debt not below “A” rated having maturity equal or above seven (07) years is eligible in computation of total capital @ 20% of the total value in each year after two years of the issuance of the subordinated debt.

Schedule-D
Part A
[see rule 4(4)]
Statement of Total Risk Requirement Computation

Area of Risk	Computation Formula	Risk Factor	Applicable for Registered Entity
Operation Risk Requirement (ORR)	Based on Average Annual Gross Income (see clause (b) of sub-rule (7.1) of rule 7)	5%	All
Position Risk Requirement (PRR)	i. Proprietary positions in Equity securities:		
	Value of "A" category securities	10%	
	Value of "B/C/N/." category securities	15%	
	Value of "Z" category instruments	20%	
	Value of "OTC" category instruments	30%	
	Value of Non-Listed Instruments	35%	
	ii. Proprietary positions in MFs & CISs:		
	Value of listed funds	10%	
	Value of non-listed funds	3%	
	Value of AIFs	20%	
	iii. Proprietary positions in Debt Instruments & ABSs:		
	Value of listed debt instruments	5%	
	Value of non-listed debt instruments	10%	
	Value of ABSs	20%	
	iv. Proprietary Position in strategic investments:		
	Value of listed strategic investments	15%	
	Value of non-listed strategic investments	30%	

	v. Proprietary Position in money market Instruments:		
	Value of Government securities/ instruments	0.0	
	Value of commercial paper	10%	
Counterparty Risk Requirement(CPRR)	i. Exposure of credit facilities to Clients	8%	Stock Broker, Portfolio Manager
	ii. Exposure of Guarantee Provided to counterparty	2%	All
Underwriting Risk Requirement (URR)	Sum of Underwriting Commitment against the followings:		Merchant Banker
	i. Public Issue of Equity Instruments (IPO)	15%	
	ii. Public Issue of Equity Instruments (Rights Issue)	20%	
	iii. Public Issue of Debt Instruments	5%	
Large Exposure Risk Requirement (LERR)	Sum of Large Exposures against the followings:		All
	Sum of all Large Exposure to a Single counterparty	10%	
	Sum of all Large Exposure to Single Equity	15%	
	Sum of all Large Exposure to Debt Instruments	3%	
Liability Risk Requirement (LRR)	i. Exposure of Asset under Management (AUM)	1%	Asset Manager (AM)
	ii. Exposure of Fund Under Management (FUM)	1%	Fund Manager (FM)
	iii. Exposure of Institutional Fund Under	0.5%	Asset

	Management (IFUM)		Manager, Merchant Banker and Portfolio Manager
	iv. Annual Revenue Reported in last year	0.25%	Credit rating Company, Stock Broker & Stock Dealer, Merchant Banker and Portfolio Manager

Part B
[see rule 4(4)]
Framework of Total Risk Requirement Computation (TRR)

The computation framework of the total risk requirement against each component of TRR shall be as following:

(1) Consideration of Operational Risk Requirement (ORR):

- (a) A registered entity shall calculate its operational risk requirement in accordance with clause (b) to (d), unless otherwise specified by the Commission from time to time;
- (b) **Calculation of the operational risk requirement:** A registered entity shall calculate its operational risk requirement based on the following:-
 - (i) 5% of its average annual gross income, calculated in accordance with clause (c) and (d), for three immediately preceding financial years; or
 - (ii) Tk. 1,000,000; whichever is higher;
- (c) “annual gross income” for a financial year means the total revenue less the sum of fee expenses, commission expenses, and interest expenses reported in the financial statements;
- (d) For the purposes of clause (c), the total revenue of the registered entity shall be adjusted by excluding the following:
 - (i) any realized profits arising from the sale of securities in that financial year that are classified as “held to maturity”;
 - (ii) any extraordinary income; and
 - (iii) any income derived from any insurance recoveries in that financial year.

(2) Consideration of Position Risk Requirement (PRR):

- (a) A registered entity shall calculate its position risk requirement - in respect of all securities held by it as proprietary position, including those held pursuant to its intra-day activities following the formula below:

$$\text{Position Risk Requirement (PRR)} = \text{Value of each type of securities} \times \text{Standard Risk Factor \{Instrument wise\}}$$

- (b) In assessing the position risk requirement, the registered entity shall segregate the total holdings under its proprietary position and also consider

the standard risk factor as per Part A of Schedule - D and make sum of the instrument wise PRR;

- (c) In calculating the position risk requirement, a registered entity shall fulfill the following conditions -
 - (i) shall calculate all proprietary positions held by it according to its category;
 - (ii) shall calculate all its proprietary positions in listed securities on marking to market basis;
 - (iii) shall calculate all its proprietary position in non-listed securities on fair value basis in each month as per international accounting norms;
- (d) Each registered entity shall follow the standard risk factor against each instrument under the capital adequacy framework;

Provided that Commission may adopt alternative method of risk calculation in assessing the risk factor of each securities under the proprietary position;

- (5) Explanation in ambiguity: where a registered entity has a position in an instrument for which no treatment method is specified; then the registered entity shall immediately, in writing, seek guidance from the Commission on the treatment method to apply for such position, and until an appropriate treatment has been determined by the Commission, the position risk requirement shall be considered at cost value of the instrument.

- (3) **Consideration of counterparty risk requirement (CPRR):** Each registered entity shall assess the counterparty risk in relation to margin financing; where the counterparty risk requirement shall be computed @ 8% on all Counterparty Exposures following the formula below:

Counterparty Risk Requirement (CPRR) = Sum of all outstanding counterparty exposure X Standard Risk Factor (i.e.8%) + Sum of guarantee outstanding X Standard Risk Factor (i.e.2%)

- (4) **Consideration of underwriting risk requirement (URR):**

- (a) The underwriting risk requirement of a registered entity shall be twenty percent (20%) of the underwritten commitment multiplied by the standard risk factor depending on the type of securities as per this Schedule;

(b) The formula to compute the underwriting risk requirement (URR) shall be as follows:

Underwriting Risk Requirement (URR) = Sum of all underwritten commitment X 20% X Standard Risk Factor (Instrument wise).

(5) Consideration of large exposure risk requirement (LERR):

(a) **General principle:** Each registered entity is exposed to large exposure risk in relation to its position on the followings:

(i) its large exposure to a single client or counterparty including connected person thereof, if the exposure exceeds five percent (5%) of the registered entity's Shareholders' Equity less the revaluation surplus;

Large Exposure Risk Requirement (LERR): Sum of all Large Exposure to a Single counterparty X Standard Risk Factor (10%);

(ii) its large exposure to a single debt instrument, if the exposure exceeds ten percent (10%) of the registered entity's Shareholders' Equity excluding revaluation surplus; and

(iii) its large exposure to a single equity instrument, if the exposure exceeds five percent (5%) of the paid up capital of the issuer;

(b) Computation of large exposure risk requirement: The computation of large exposure risk requirement against each exposure mentioned at clause (a) as following:

(i) LERR to a single client or counterparty: Sum of all Large Exposure to clients or counterparties X Standard Risk Factor (10%);

(ii) LERR to single debt instrument: Sum of all Large Exposure to Debt Instruments X Standard Risk Factor (3%)

(iii) LERR to a Single Equity instrument: Sum of all large exposure to equity instruments X standard risk factor (15%)

(c) **Meaning of single client/counterparty:** For the purposes of calculation, the expression "single client or counterparty" includes -

(a) Where such single client or counterparty is an individual; then, the individual, spouse of the individual, the partnership of which he is a partner, any partner of the individual, the spouse of the partner and all the companies or corporations over which the individual exercises control;

Explanation : For the purpose of these rules, an individual is deemed to exercise "control" over a company or corporation if the individual or the individual's spouse, single or jointly - (1) holds, directly or indirectly, more than fifty per cent (50%) of the shares of the entity, (2) has the power to appoint, or cause to be appointed, a majority of the directors of the company or corporation, or (3) has the power to make, cause to be made, decisions in respect of the business or administration of the company or corporation, and to give effect to such decisions, or cause them to be given effect to.

- (b) where such single client or counterparty is a company or corporation; the company or corporation, its subsidiary, its related company or corporation and its associated companies;

Explanation : For the purpose of this calculation, a related company is deemed to be an associated company of the company or corporation where the company holds, directly or indirectly, not less than twenty percent (20%) and not more than fifty percent (50%) of the issued share capital of such company.

(6) Consideration of liability risk requirement (LRR).-

- (a) A registered entity which undertakes the legitimate liability for investment management of any fund or institutional fund or involved in such evaluation services or any other services those may expose future liability to the registered entity;
- (b) A registered entity shall assess the risk requirement against its liability risk exposure as specified in this Schedule- D as per following formula:

Liability Risk Requirement (LRR): Sum of all liability risk exposure X standard risk factor (as per this Schedule).