

**Decision No. 147 of 2007**  
**Dated 13/9/2007**  
**Amending Decision No. 14 of 2007**  
**Regarding**  
**Capital Adequacy Requirements for Securities Intermediaries**

CMA Chairman

Having reviewed the Capital Market Law promulgated by Law No. 95 of 1992 and its amendments;

Law on the Securities Central Depository and Registry promulgated by Law No. 93 of 2000;

The Executive Regulations of the Capital Market Law promulgated by Minister of Economy and Foreign Trade's Decree no.135 of 1993 and its amendments;

The Executive Regulations of the Law on Securities Central Depository and Registry promulgated by Minister of Economy and Foreign Trade's Decree no. 906 of 2001 and its amendments;

Law no. 14 of 2007 regarding capital adequacy requirements for securities intermediaries;

Based on what the Chairman of the Board of Directors of CASE presented; And

Based on the approval of the CMA Board of Directors in its session dated 12 September 2007,

**Has Decided**

**Article (1)**

Item (b) of Article (3) in the attachment to Decree no. 14 of 2007 regarding capital adequacy requirements for securities intermediaries shall be replaced with the following text:

“CMA and the Stock Exchange shall, whenever they find any reasons they deem serious, request a company to conduct a full examination and have a report submitted by the company's auditor about the position of the company in terms of capital adequacy or any related violations.”

**Article (2)**

Annexes (A) and (B) attached to the above-mentioned Decree no. 14 of 2007 shall be replaced with the annexes attached hereto.

**Article (3)**

This Decision shall take effect as of October 1<sup>st</sup>, 2007. The stock exchange and concerned entity shall implement it.

CMA Chairman

Dr. Ahmed Saad Abel- Latif

## **Annex (A)**

### **“Definition of Net Liquid Capital and Method of Calculating its Elements”**

#### **I. Net Liquid Capital**

“Net liquid capital” represents the amount of liquidity the company has at the date of preparing a statement of net liquid capital (Annex B). It is a measure of how much liquid capital the company has to meet its financial liabilities whether recognized or not in its financial position. This is calculated by weighting the book value (or market value as the case may be) of every asset item using a weighting factor to reflect liquidity of the asset after deducting a Hair-Cut-Rate (HCR) according to the amount of risks involved in the asset.

#### **Net liquid capital is calculated according to the following equation:**

“Value of the company’s assets weighted by weighting factors for liquidity less company’s liabilities, both recognized and non-recognized in its financial position, which are incurred as a result of engaging in business and contingent liabilities”. This is shown in Annex (B).

#### **II. Mark-to-market Valuation of securities**

When calculating net liquid capital, securities (including shares and bonds), are evaluated according to market-to-market valuation. This includes securities owned by clients and under the disposal of the company as security for its rights vis-à-vis these clients (e.g. margin trading, delivery versus payment transactions), short selling, and bonds owned by bond dealers and brokers.

### **III. Weighting factors**

The following weighting factors shall apply to the asset items and liabilities of a company when calculating net liquid capital:

#### **First: Assets**

- **Current assets**

- 1. Cash in hand and at bank**

- Cash in hand: calculated at 100%
    - Current accounts at banks: calculated at 100%
    - Balances of reconciliation accounts at Misr for Clearing, Depository and Central Registry: calculated at net value (total sales- total purchases), with 100% added to or deducted from the balance
    - Time deposits at banks: calculated at 100%
    - Certificates of money market funds (redeemable on a daily basis): calculated at 100%
    - Checks in the process of collection:  
Only checks submitted to the bank along with deposit slips shall be recognized. Any other checks in the process of collection and kept in a company's safe, or checks submitted by concerned parties shall not be recognized when calculating balances at banks. In case any of these checks submitted to the bank bounces, the debit balance of the client (who submitted the check) shall be fully deducted from the capital adequacy report.

- 2. Debit balances of clients**

- **Margin trading clients**

- This balance shows only at companies permitted to do business in margin trading according to Chapter 9 of the Executive Regulations of the Capital Market Law. The client's debit balance is compared vis-à-vis 50% of the market value of his securities which are placed at the disposal of the company as a guarantee for this balance. The lesser amount is used for calculating net liquid capital. In case the client submits letters of guarantee, bank deposits, or treasury bills according to provisions of the above Chapter 9, their value is deducted from his debit balance, and the balance (after deduction) is compared against 50% of the market value of the securities.

○ **Delivery versus payment**

This item means balances due from clients (i.e. local and foreign institutions, and individuals) who do business with the company on the basis of “Delivery versus payment” via a custodian acting as an agent for the client in dealing with the broker regarding delivery and payment transactions. The balance due from each is compared against 100% of the market value of securities subject of transaction, with the less value considered for calculating net liquid capital for a two work days from the date of settlement of each purchase transaction. The balance due from each client shall be compared effective the third work day and up to the fifth work day as follows:

- 80% of market value of securities purchased for account of the client if these securities are allowed to be margin traded; or
- 50% of market value if securities are other than the above.

After the fifth work day from the date of settlement, this item is fully deducted.

○ **Other clients**

This item means debit balances due from clients other than those of margin trading or delivery versus payment transactions. The securities bought for these clients are placed at the disposal of the company until clients settle amounts due from them. Balance is calculated by comparing due balance and market value of the client’s portfolio that is at the disposal of the company, whichever is less. The value is calculated on the following basis:

- 100% of market value of securities purchased for account of the client up to the date of settlement;
- 80% of market value of securities put at disposal of the company for account of client if these securities are allowed to be margin traded; or
- 50% of market value of the securities which are at the disposal of the company for account of the client if such securities are other than the above. The lesser amount shall be recognized in calculating net liquid capital for five work days from the settlement date of each purchase transaction. Afterward, this item is calculated as zero.

### **3. Balances due from securities intermediaries**

These balances are calculated at 100% of balances due from companies operating in the capital market in Egypt. They are calculated at 80% for five work days regarding balances due from overseas companies, after which period the balance is deducted in full (like balances due from transactions of trading Global Depository Receipts).

### **4. Bond investments of bonds dealers at market price - calculated at 100%**

### **5. Other current assets**

- Third party insurances: deducted in full
- Miscellaneous debtors, taxes deducted at source, current accounts of sister companies, and others: deducted in full
- Prepaid expenses: deducted in full
- Amounts in trust with and loans to directors and staff: deducted in full
- Other accounts receivables and debit balances: deducted in full

### **• Long Term Assets**

#### **6. Investments in subsidiaries and sister companies**

- Subsidiaries: deducted in full
- Sister companies: deducted in full

#### **7. Fixed assets**

- Net fixed assets (after depreciation): deducted in full

#### **8. Intangible assets**

- Goodwill and trade mark: deducted in full

#### **9. Other long term assets**

- Long term financial investment (MCDR): deducted in full
- Long term financial investment (settlements guarantee fund): deducted in full
- Prepaid advances for purchase of fixed assets or long term investments: deducted in full
- Deferred taxes: deducted in full
- Others: deducted in full

## **Second: Liabilities recognized in financial position**

- **Current liabilities**

- 10. Short selling in case of bond dealers/ brokers: calculated at 100% of market value**

- 11. Creditor clients and short term loans**

- Creditor balances due to clients: calculated at 91%
    - Loans allocated for financing margin trading and delivery versus payment transactions: calculated at 100%
    - Other short term bank loans: calculated at 100%
    - Creditors sister companies and short term loans from other sources: calculated at 100%

- 12. Other current liabilities: calculated at 100%**

- Claims of compensations for clients
    - Creditor balances due to securities intermediaries
    - Allocations
    - Miscellaneous creditors, and other creditor accounts and balances

- **Long term liabilities**

- 13. Long term liabilities: calculated at 100%**

- Long term loans other than support loans
    - Deferred taxes
    - Other long term liabilities
    -

## **Third: Liabilities unrecognized in financial position**

- 14. Liabilities of a company shall be increased with the following items and calculated at 100%**

- Amount of increase in percentage of debts of each client involved in margin trading beyond maximum limits set according to Chapter 9 of the Executive Regulations
    - Amount of increase in balance of each client involved in margin trading beyond maximum levels set for individual clients or an associated group of clients
    - Amount of increase in the balance of each client involved in short selling beyond maximum limit set for individual client or an associated group of clients

- Decrease in value of the cash guarantee submitted by clients of short selling below the minimum limit set according to Chapter 9 of the Executive Regulations
- Increase in price of re-purchasing bonds according to re-purchase agreements over the price of selling these bonds.
- Net liabilities of bond dealers as firm commitment (after deducting liabilities covered under other contracts)
- Guarantees, sureties and financial undertakings submitted by the company to other parties
- Other contingent liabilities

#### **Fourth: Supporting loans**

**15. Supporting loans shall be deducted from the liabilities of the company when calculating net liquid capital according to the form in the Annex (B) if they meet the following conditions:**

- a. Time to loan maturity should not be less than two years.
- b. Loan should be paid in full in cash.
- c. Loan should not be secured or has precedence except over other support loans
- d. Payment of loan shall not result in decrease in net liquid capital below minimum limit set forth in the capital adequacy requirements, except after securing approval of CMA.

**Annex (B)**  
**Net Liquid Capital Calculation Form**

Company.....				
Calculation of net liquid capital				
On 00/00/0000				
Item No.	Assets	Book balance/ market value	Weighting factor	Weighted value
	Current assets			
	Cash in hand and at banks			
	Cash at safe		100%	
	Current bank accounts		100%	
	Balance of settlement accounts at clearing bank (net)		100%	
	Bank deposits		100%	
	Money market funds certificates		100%	
	Checks in process of collection		100%	
1	Total			
	Debit balances due from clients (net value after deducting allocations)			
	Margin trading clients		50%	
	Delivery versus payment clients (up to two days from settlement date)		100%	
	Delivery versus payment clients (after two days and up to the 5 <sup>th</sup> day from settlement date) Securities cleared for dealing in margin trading		80%	
	Delivery versus payment clients (after two days and up to the 5 <sup>th</sup> day from settlement date) Securities not cleared for dealing in margin trading		50%	

	Delivery versus payment clients (after five days from settlement date)		0%	
	Other clients (up to settlement date)		100%	
	Other clients (after settlement and up to the 5 <sup>th</sup> day from settlement date) (Securities cleared for dealing in margin trading)		80%	
	Other clients (after settlement and up to the 5 <sup>th</sup> day from settlement date) (Securities not cleared for dealing in margin trading)		50%	
	Other clients (after five days from settlement date)		0%	
2	Total			
	Balances due from securities intermediaries:			
	Egyptian companies (up to five work days after settlement)		100%	
	Egyptian companies (after five work days from settlement date)		0%	
	Overseas companies (up to five work days from settlement)		80%	
	Overseas companies (after five work days from settlement date)		0%	
3	Total			
4	Company's investment in bonds (market value)		100%	
	Other current assets			
	Third party insurances			
	Miscellaneous debtors, taxes deducted at source, current of sister companies		0%	
	Prepaid expenses		0%	
	Amounts in trust with, and loans to staff and directors		0%	
	Other debit accounts and balances		0%	
5	Total			

	Long term assets			
	Investments in subsidiaries and sister companies			
	Subsidiaries		0%	
	Sister companies		0%	
6	Total			
7	Fixed assets, net (after depreciation)		0%	
	<b>Intangible assets</b>			
8	Good will and trade mark		0%	
	<b>Other long term assets</b>			
	Investment in Central Depository Company		0%	
	Subscription in Settlement Guarantee Fund		0%	
	Advances paid for purchase of assets and investments		0%	
	Deferred taxes		0%	
	Other		0%	
9	Total			
	Total weighted value of assets (items 1-9)			
	<b>Liabilities*</b>			
	<b>Current liabilities:</b>			
10	Short selling of bonds for account of the company (market value)		100%	
	<b>Creditor clients and short term loans</b>			
	Creditor balances due to clients		91%	
	Loans allocated for financing margin trading and delivery versus payment transactions		100%	
	Other short term loans from banks		100%	
	Creditor sister companies and short term loans from other sources		100%	

11	Total			
	Other current liabilities			
	Claims for compensations for clients		100%	
	Creditor balances due to securities intermediaries		100%	
	Miscellaneous creditors, and other debit accounts and balances		100%	
12	Total			
	<b>Long term liabilities</b>			
	Long term loans other than support loans		100%	
	Deferred taxes		100%	
	Other long term liabilities		100%	
13	Total			
	<b>Non-budgeted liabilities (financial position):</b>			
	Amount of increase in percentage of debts of each client involved in margin trading beyond .....		According to .....	