Decision No. 14 of 2007
Dated 4/2/2007
On capital adequacy requirements for securities intermediaries

Chairman of the Capital Market Authority

Having reviewed the Capital Market Law promulgated by Law No. 95 of 1992 and its amendments;
Law on the 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 135 of 1993 and its amendments;
The Executive Regulations of the Law on Central Depository and Registry promulgated by Minister of Economy and Foreign Trade's Decree 906 of 2001 and its amendments; And
Based on what the Chairman of the Board of Directors of CASE presented,

Has decided

Article (1)
Scope of Application

1. capital adequacy requirements attached herein shall apply to securities intermediaries which are engaged in one, or more, of the following activities:
   a. Securities brokerage
   b. Bond dealing activity
   c. Custodians
2. Capital adequacy means "how far financial resources of a company are enough to meet its financial liabilities when due".

Article (2)
Compliance with Capital Adequacy Requirements

1. All companies mentioned in the previous Article shall, at all times, comply with Capital Adequacy Requirements (attached herein), and shall submit to CMA and CASE forms, reports, and documents referred to therein, or any documents or data CMA or CASE may require to validate compliance of such company.
2. CASE shall ensure compliance of its corporate members mentioned above with Capital Adequacy Requirements attached herein and any amendments approved by CMA. Compliance with these requirements shall be condition-precedent to acceptance and continuation of membership in CASE.
3. CASE shall inform CMA of any violations to the provisions and attachments of this Decree once CASE knows about them and the measures taken in this regard.

Article (3)

This Decree shall be effective as of April 15th, 2007. CASE and concerned entities shall implement this decree.

CMA Chairman
Dr Hani Sarie-ELDin

Capital Adequacy Requirements for Securities Intermediaries

Objective of applying Capital Adequacy Requirements

Capital adequacy requirements for securities intermediaries aim to measure how far can these companies handle risks related to their businesses, clients, and securities they deal with. Such risks include, inter alia, market risks, settlement risks, credit risks, operation risks, and liquidity risks. Compliance with these requirements is one of the main measures of risk management at these companies. In addition, it gives out a message from the concerned company to those dealing with it stressing therein its ability to meet its financial obligations towards them, thus enhancing their trust in doing business therewith.

Article (1)
Structure of Capital Adequacy Requirements

Capital Adequacy Conditions:

A) Minimum issued and paid-in capital
Minimum issued and paid-in capital of securities intermediaries regarding the following activities shall be as follows:

1. **Securities Brokerage**
   Minimum issued and paid-in capital shall be L.E. 5,000,000. An exception to this shall be companies authorized to operate on a date prior to the effective date of Minister of Investment's Decree No. 314 of 2006. Issued and paid-in capital of such companies shall be L.E 250,000.

2. **Bond dealers**
   Minimum issued and paid-in capital shall be L.E 10,000,000.

3. **Custodians**
   Minimum issued and paid-in capital shall be L.E 10,000,000.

The CMA may increase the minimum required issued and paid-in capital subject to the conditions it sets for these companies to engage in operations, services, or mechanism for dealing in accordance with provisions of Law on Capital Market and its Executive Regulations.

Each company governed by provisions of this Decree shall, at all times, maintain a net liquid capital no less than 10% of its total liabilities. CMA Chairman may change this percentage according to market conditions and financial situation of securities intermediaries. Annex (A) clarifies definition of net liquid capital and method of its calculation. The company shall, according to the form included in Annex (B), calculate its net liquid capital and total liabilities that are used as a basis of calculating the net liquid capital.

Article (2)
Liabilities of Securities Intermediaries

The company shall comply with the following:

a- Prepare on a daily basis a statement of net liquid capital to be certified by the managing director and the financial officer of the company, and to be maintained in a special file by the company internal auditor.

b- Submit to the CMA and CASE on the first work day of every week a statement of net liquid capital on the last workday of the previous week to be certified by the financial manager and the managing director. This statement shall be submitted on a daily basis as one way of early warning system if net liquid capital of the company becomes less than 15% of its total liabilities. This statement must also be submitted daily by companies working in the business of margin trading and short selling.

c- Submit within ten days from the start of every month to the CMA and CASE a statement of net liquid capital as of the end of the previous month together with a statement of financial position certified by the financial manager and the company's managing director.

d- Submit within 45 days from date of end of every quarter a statement of net liquid capital as of end of this period, as well as financial statements about the period, and auditor's report about limited examination of these financial statements and review of its mechanism.

e- Submit to the CMA and CASE within three months as of the end of fiscal year a statement of net liquid capital, auditor's report about review of this form, annual financial statements and relevant auditor's report.

f- In case any of the above financial elements gets lower than the stipulated limits, stop any practices, or execute any operations that may increase its liabilities on the basis of which its net liquid capital is calculated; take, within five days at most, necessary procedures to ensure full compliance with these requirements.

g- If net liquid capital becomes lower than the stipulated minimum, the company shall be obliged to prepare and submit to the CMA and CASE a daily report clarifying reasons for decrease and procedures taken to reach minimum net liquid capital again. This report shall be certified by the financial manager, internal auditor and managing director of the company.

Article (3)
Other Precautions and Measures

A- The CMA and CASE may at any time demand a statement of net liquid capital, data and supporting document to verify company's compliance with Capital Adequacy Requirements. The company shall submit the statement, the information and the required documents during the next work day following the date it was requested.

B- The CMA may, upon reasons it deemed serious, ask the company's auditor to conduct, at the company's expense, a full examination of the company and submit a report to the CMA about the company's status regarding compliance with capital adequacy requirements or any related violations.

C- If the company does not comply with capita; adequacy requirements, necessary measures shall be taken according to the Capital Market Law and its Executive Regulations, rules and decisions issued in implementation thereof including banning from all or some of the activities it is licensed to practice.

Annex (A)

“Definition of Net Liquid Capital and method of calculating its elements”

I. Net Liquid Capital

“Net liquid capital” is 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 involving the asset.

Net liquid capital is calculated according to the following equation:

“Value of the company’s assets weighted by weight 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.

III. Weight factors

The following weight 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: weight factor calculated at 100%
  - Current accounts at banks: weight factor calculated at 100%
  - Balances of reconciliation accounts at clearing bank: weight factor calculated at 100%
  - Time deposits at banks: weight factor calculated at 100%

  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. investment funds, 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. The balance due on each is compared against 100% of 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. This item should be dealt with in the same manner of the item called "Other Clients" below effective the third work day and up to the fifth work day. After which the item is fully deducted.

- **Other clients**

  This item means debit balances due on clients other than those of margin trading or delivery versus payment. The securities bought for these clients are placed at the disposal of the company until clients settle amounts due from them. Due balance on each client is compared against:
  - 80% of market value of securities purchased on account of client if these securities are allowed to be margin traded; or
  - 50% of market value if securities are other than the above.

  The lesser amount shall be considered 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 (e.g. balances due from over-the-counter transactions, or cash guarantee for short selling). They are calculated at 80% for five work days regarding balances due from overseas companies, after which the balance is deducted in full (like balances due from transactions of trading Global depository Receipts).

4. 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, 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 (Misr for Clearing, Central Depository nd Registry): deducted in full
  - Long term financial investment (settlements 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: calculated at 100% of market value

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

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: weight factor calculated at 100%**

13. **Long term liabilities: calculated at 100%**
    - Long term loans other than support loans
    - Deferred taxes
    - Other long term liabilities

<u>Third: Liabilities unrecognized in financial position</u>

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 stipulated 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 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

<u>Fourth: Supporting loans</u>

15. **Support 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 have the following conditions:**
    a. Time to loan maturity should not be less than 12 Gregorian months.
    b. Loan should be paid in full
    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 capital adequacy requirements

Annex b- form of calculating net liquid capital

……. Company				
Form of calculating net liquid capital				
On 00/00/0000				
Item No.	Assets	Book balance/ market value	Weight 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		100%	
	Bank deposits		100%	
1	Total			
	Debit balances due from clients			
	Margin trading clients		According to explanation in Annex (A)	
	Delivery versus payment clients		According to explanation in Annex (A)	
	Other clients		According to explanation in Annex (A)	
2	Total			
	Balances due from securities intermediaries			
	Egyptian companies		100%	
	Overseas companies		According to explanation in Annex (A)	
3	Total			
4	Company's investment in bonds (value market)		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%	
	Intangible assets			
8	Good will and trade mark		0%	
	Other long term assets			
	Investment in Central Depository Company		0%	
	Participation 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)			
	Liabilities			
	Current liabilities			
10	Short selling of bonds on account of the company (market value)		100%	

	Creditor clients and short term loans			
	Creditor balances due to clients		100%	
	Loans allocated for financing margin trading and delivery versus payment		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%	
	Allocations		100%	
	Miscellaneous creditors, and other debit accounts and balances		100%	
12	Total			
	Long term liabilities			
	Long term loans other than support loans		100%	
	Deferred taxes		100%	
	Other long term liabilities		100%	
13	Total			
	Non-budgeted liabilities (financial position)			
	Amount of increase in percentage of debts of each client involved in margin trading beyond stipulated maximum limits		According to explanation in Annex (A)	
	Amount of increase in balance of each client involved in margin trading beyond maximum levels set for individual clients or associated group of clients		According to explanation in Annex (A)	
	Amount of increase in the		According to	

	balance of each client involved in short selling beyond stipulated maximum limit		explanation in Annex (A)	
	Decrease in value of the cash guarantee submitted by clients of short selling		According to explanation in Annex (A)	
	Increase in price of re-purchasing bonds according to re-purchase agreements		According to explanation in Annex (A)	
	Net liabilities of the company over the firm commitment in bonds		According to explanation in Annex (A)	
	Guarantees, sureties and financial undertakings		100%	
	Other contingent liabilities		100%	
14	Total			
15	Total liabilities (items 10-14)			
16	Support loans compliant with conditions set in Annex (A)		0%	
	Total weighted liabilities (items 15-16)			
17	Net liquid capital (total assets less weighted liabilities)			
18	Minimum net liquid capital - % of total weighted liabilities			
19	Increase or decrease in net liquid capital (difference between item 17 an 18)			