



# Jersey Financial Services Commission

## GUIDANCE NOTE:

## DEFINITIONS AND GUIDANCE ON THE ADJUSTED NET LIQUID ASSETS (“ANLA”) CALCULATION

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### 1 Introduction

- 1.1 The purpose of this document is to provide definitions and guidance relating to a number of terms utilised in the Resource Requirement Calculation (also known as the “ANLA calculation”).
- 1.2 The Schedules to the Codes of Practice for Fund Services Business (“FSB Codes”), Investment Business (“IB Codes”) and Trust Company Business (“TCB Codes”), as published by the Jersey Financial Services Commission (the “Commission”), contain the proforma ANLA calculation.

### 2 Scope of ANLA Calculation

- 2.1 In accordance with the FSB Codes, IB Codes and TCB Codes the ANLA calculation must be completed by all registered persons except:
- 2.1.1 a registered person that is a managed fund services business providing services to qualifying funds, in which case paragraph 5.1.3 of the FSB Codes is relevant; a registered person must have and maintain financial resources which are, in the opinion of its directors, sufficient to meet its commitments;
- 2.1.2 registered persons that have been granted a registration to carry on deposit-taking business (“banks”) (see also paragraph 2.2);

- 2.1.3 where the Commission has consented, a trust company business that is 100% owned by a Jersey Bank (a Jersey incorporated company registered to carry on deposit-taking business) (see also paragraph 2.3); and
- 2.1.4 trust company businesses that are part of an affiliation and are able to take advantage of paragraph 5.1.7 of the TCB Codes.
- 2.2 All banks, both Jersey Banks and Jersey Branches (a branch in Jersey of a company incorporated overseas that is registered to carry on deposit-taking business in Jersey), are required to provide the Commission with quarterly prudential reports which provide comprehensive financial information. Consequently, the Commission does not require these registered persons to complete an ANLA calculation.
- 2.3 As provided at paragraph 5.1.3 of the TCB Codes, where a trust company business is 100% owned by a Jersey Bank, it may apply to the Commission, in writing, for a variance (exemption) from completing the ANLA calculation. Such a variance will only be considered if the Jersey Bank has provided a letter of undertaking, acceptable to the Commission, in respect of providing financial support to the trust company business.
- 2.4 The ANLA calculation is to be undertaken in respect of the financial position of a registered person as a whole, rather than a particular business line. Consequently, in the majority of cases, a registered person that holds more than one registration, which requires the completion of an ANLA calculation, for example, fund services business and trust company business, is only required to complete one ANLA calculation. The ANLA calculation should reflect the most prudent circumstances.
- 2.5 However, to be clear, where a registered person carries on fund services business and is a trust company business participating member, an ANLA calculation should be completed. This requirement does not affect the ability of the affiliation from taking advantage of paragraph 5.1.7 of the TCB Codes.
- 2.6 Where the registered person operates in Jersey through a branch, the financial information to be included in the ANLA calculation should be taken from either the most recent management accounts or the audited financial statements of the registered person, as determined in section 5, i.e. the financial information should not only be in respect of the Jersey Branch.
- 2.7 Section 5 assists registered persons with more than one registration by identifying those items which are not common across the ANLA calculation of the FSB Codes, IB Codes and TCB Codes.

### **3 Frequency of ANLA Calculation**

- 3.1 In accordance with the FSB Codes, IB Codes and TCB Codes, registered persons must complete an ANLA calculation as appropriate to the nature of the business, but at least on a quarterly basis.
- 3.2 The FSB Codes, IB Codes and TCB Codes include specific circumstances where the frequency of the ANLA calculation is greater than quarterly:

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- 3.2.1 All three Codes require that the ANLA calculation is undertaken on at least a monthly basis, if it is not already being completed on a more frequent basis, where:
- 3.2.1.1 a registered person's ANLA position is either between 130% and 110%, or
  - 3.2.1.2 an event out of the ordinary course of business occurs which has a material adverse effect on the registered person's financial position.
- 3.2.2 Paragraph 5.1.6 of the IB Codes requires a person registered to carry on investment business that has position, counterparty or foreign currency risk exposures to complete its ANLA calculation on a daily basis. The Commission will consider a variance to the daily ANLA calculation if the registered person can demonstrate either enhanced capitalisation or that it regularly exceeds the requirement to a sufficient extent suggesting that the risk of an ANLA breach is minimal. If granted, such a variance will be conditional on these circumstances being maintained.
- 3.2.3 Paragraph 5.1.8 of the FSB Codes requires a person registered to carry on fund services business which has one or more of position, counterparty or foreign currency risk to approach the Commission for guidance regarding the impact of the risk(s) on its financial resources calculation. Each case will be considered on its own merits, however the FSB Codes highlight that the Commission anticipates that the registered person will need to complete the financial resource calculation on a monthly basis.

#### **4 Financial Resources Notification**

- 4.1 If a registered person submits a notification to the Commission that its ANLA is less than 110% of its Expenditure Requirement, it is the Commission's expectation that the registered person will have a documented plan for restoring its financial resources position such that it is compliant with the Codes.
- 4.2 Given the importance of financial resources, the Commission will, in the majority of cases, require the registered person to submit its restoration plan to the Commission within 30 days of having made its financial resource notification.
- 4.3 Where it deems it appropriate, the Commission may impose conditions, financial or otherwise, on a registered person whilst it restores its financial resources position.

## 5 Table of definitions and guidance in relation to the basic ANLA calculation

5.1 The following items are mostly relevant for the basic ANLA calculation as established in the FSB Codes, IB Codes and TCB Codes.

Ref	Item	Relevant for:			Definition/Guidance
		FSB	IB	TCB	
<b>Calculation of Adjusted Total Assets</b>					
1.	Total Assets	✓	✓	✓	A registered person should include the asset values as reported and agreed by the board of directors in the most recent management accounts. This approach aims at maintaining the timeliness of the financial information.
2.	Fixed Assets	✓	✓	✓	Fixed assets such as land, buildings or intangibles (goodwill, intellectual property etc) must be treated as illiquid.
3.	Debtors >90 days	✓	✓	✓	Debtors where the balance has been outstanding for 90 calendar days must be treated as illiquid.
4.	Work in Progress ("WIP") > 90 days	✓	✓	✓	WIP which is not billable and collectable within 90 calendar days of the date of the ANLA calculation should be treated as illiquid. The WIP balance may fluctuate due to a registered person's position in its billing cycle. However, a registered person should be able to demonstrate that any WIP, which is not adjusted out of the Total Assets, can be both billed and collected within 90 calendar days. The liquidity of WIP is interlinked with that of debtors consequently, a registered person should assess them in conjunction. For example, where a fee debtor is deemed illiquid, as it has not been recovered within 90 calendar days, it is unlikely that any WIP in respect of that same customer can be considered liquid.
5.	Prepayments > 90 days	✓	✓	✓	Only that element of prepayments which relates to goods or services to be received or performed within 90 calendar days of the date of the ANLA calculation should be included as a liquid asset. Therefore, any prepayment relating to a period after 90 calendar days should be adjusted out as an illiquid asset.

Ref	Item	Relevant for:			Definition/Guidance
		FSB	IB	TCB	
6.	Amounts due from related parties	✓	✓	✓	<p>All amounts due from related parties (including shareholders, directors and connected companies) are considered illiquid unless they are in the normal course of business and the outstanding balances are usually settled within 60 calendar days.</p> <p>However, where a registered person pays certain expenses on behalf of another company and the balance is regularly settled by way of intercompany payment, this related party debtor may be treated as liquid if it is settled within 60 calendar days in the normal course of business.</p> <p>Where a registered person makes a loan to a related party, this is typically not considered liquid, even if it could be recovered within 60 calendar days if necessary, as this would not be in the normal course of business.</p>
<b>Calculation of Adjusted Total Liabilities</b>					
7.	Amounts due to related parties	✓	✓	✓	<p>All amounts due to related parties must be included within the total liabilities as either a current or long term liability. See item 14 below regarding the ability to deduct an element of this liability if there is appropriate subordination.</p> <p>Details of the criteria for Commission consent to the exclusion of a subordinated loan are set out in 5.1 of each of the FSB Codes, IB Codes and TCB Codes with proforma subordinated loan agreements and consent checklists available from the Commission website.</p>
8.	Total Liabilities	✓	✓	✓	<p>The liability values as reported and agreed by the board of directors in the most recent management accounts should be reflected in the total liabilities figure, excluding shareholders' funds or equivalent.</p> <p>This approach aims at maintaining the timeliness of the financial information.</p>
9.	Professional Indemnity Insurance ("PII") Excess	✓	✓	✓	<p>The amount of the excess on a registered person's PII policy should be treated as an additional liability within the ANLA calculation in all cases.</p> <p>Where a registered person is a member of a trust company affiliation and is covered by that affiliation's group policy and is registered to undertake fund services business, the full amount of the excess should be included in its ANLA calculation.</p>

Ref	Item	Relevant for:			Definition/Guidance
		FSB	IB	TCB	
10.	Additional excess on PII		✓	✓	<p>Where the Commission has provided written consent for a registered person to have a PII excess higher than the level specified in Principle 5 of the TCB Codes and IB Codes (granted a variance), the registered person must increase Total Liabilities by inclusion of an adjustment equal to three times the additional excess.</p> <p>The rationale for requiring this multiple is that claims may arise from an inherent weakness embedded in the systems and controls of the registered person. There is therefore a risk that a single claim will not emerge in isolation but will rather form part of a series of similar claims.</p> <p>This adjustment does not apply where a registered person only carries on fund services business as the FSB Codes do not specify a maximum permitted level of PII excess, rather the responsibility for determining the appropriate level of PII cover and excess is placed on the Board of the registered person.</p>
11.	Guarantees and/or charges over assets	✓	✓	✓	<p>Where there is a charge, or the registered person has entered into a guarantee arrangement, relating to any asset within Adjusted Total Assets then an appropriate adjustment must be made to increase Total Liabilities thus reducing the ANLA.</p>
12.	Provision for Clawback		✓		<p>This figure must be an appropriate estimate of the anticipated clawback that the registered person may suffer in the year, based on available information such as persistency rates, if such an accrual has not already been included within Total Liabilities (e.g. as part of trade creditors and accruals).</p>
13.	Non-refundable deferred income	✓	✓	✓	<p>Where a registered person undertakes billing of fixed fees in advance, the Total Liabilities figure will include deferred income, which will be released to profit and loss over the period to which the bill relates.</p> <p>For registered persons undertaking fund services business or investment business, where it is clearly stated in the registered person's terms and conditions/client agreement that the fee is non-refundable, deferred income may be deducted from the Total Liabilities figure thereby increasing the overall adjusted net liquid assets figure. However, if the terms and conditions/client agreement are silent on this matter, or permit a repayment of fees collected in advance, then the deferred income creditor may not be deducted.</p>

Ref	Item	Relevant for:			Definition/Guidance
		FSB	IB	TCB	
	Non-refundable deferred income (cont'd)	✓	✓	✓	<p>For registered persons undertaking trust company business, the Commission recognises that it is industry standard for fees billed in advance not to be refundable consequently all deferred income can be deducted from the total liabilities figure.</p> <p>At the point of billing (especially if an element of billing is undertaken annually), the impact of the deferred income adjustment may be to produce the registered person's most favourable ANLA position of the year. It is therefore important that a registered person considers the impact of deferred income on their ANLA position and on their ability to meet the financial resource requirements throughout the year.</p>
14.	Allowable subordinated loans > 1 year	✓	✓	✓	<p>Where the Commission has granted a variance in respect of the treatment of a subordinated loan in the ANLA calculation, the outstanding balance of the subordinated loan may be deducted from Total Liabilities, subject to the following:</p> <ul style="list-style-type: none"> <li>• The amount deducted may not exceed four times the net asset position of the registered person, calculated using the registered person's latest audited financial statements.</li> <li>• The Commission's consent to vary the subordinated loan treatment in the ANLA will fall away if either: <ul style="list-style-type: none"> <li>• the registered person fails to comply with any of the requirements of the subordinated loan agreement, including the notification requirements; or</li> <li>• the subordinated loan repayment date falls due within one year.</li> </ul> </li> </ul>
15.	Allowable undrawn credit facilities	✓	✓	✓	<p>An undrawn credit facility is allowable as an adjustment to Total Liabilities within the ANLA calculation, with the written consent of the Commission. Such consent will generally be granted when a registered person anticipates a short-term liquidity problem arising in exceptional circumstances, as the adjustment will reduce the total liabilities figure.</p> <p>Exceptional circumstances that may give rise to such consent are:</p> <ul style="list-style-type: none"> <li>• The registered person anticipates a future liquidity shortfall and is seeking to recognise the undrawn credit facility in its ANLA calculation pending implementation of an agreed plan to maintain compliance with the financial resource requirements.</li> </ul>

Ref	Item	Relevant for:			Definition/Guidance
		FSB	IB	TCB	
	Allowable undrawn credit facilities (cont'd)	✓	✓	✓	<ul style="list-style-type: none"> <li>The registered person has encountered an unforeseen cash outflow that has resulted in a breach of the financial resource requirement (below 110%) and is formulating measures to address the breach. As a short term measure however, the undrawn credit facility is required.</li> </ul> <p>In considering whether to grant consent the Commission will assess:</p> <ul style="list-style-type: none"> <li>the extent of the actual breach or anticipated position;</li> <li>the registered person's track record of compliance with the financial resource requirements;</li> <li>the purpose and terms of the facility; and</li> <li>the stature of the lender.</li> </ul>
<b>Calculation of Expenditure Requirement</b>					
16.	Other expenses	✓	✓	✓	<p>Where the registered person forms part of a larger group, it is common for a management charge to be made between the registered person and a related party. The charge often comprises an element of expenditure that has been borne by the related party, particularly where the related party is a service company which recharges an element of shared costs, such as rent or insurance, back to the registered person.</p> <p>The Commission's expectation is that within the ANLA calculation, the expenditure requirement of the registered person should include that element of costs, which is reflected within the management charge or borne by a related party in respect of the registered person. This is because the registered person would have to incur these costs in their own right if they were not part of a larger group.</p> <p>Any management charges and payments to related parties should be included within the "other expenses" section of the total actual expenditure calculation.</p>
17.	Total actual expenditure	✓	✓	✓	<p>For the majority of the year, the total actual expenditure should agree to the latest audited financial statements. However, following this approach there is a period of up to four months at the start of the financial year when this information reflects a position that is anything up to 16 months old i.e. the calculation of 31 March 2013 would be utilising information as at 31 December 2011, assuming a December year-end.</p>

Ref	Item	Relevant for:			Definition/Guidance
		FSB	IB	TCB	
	Total actual expenditure (cont'd)				Consequently, during this four-month period, a registered person should consider the actual unaudited expenditure of the financial year just gone. If this figure is higher than the expenditure recorded in the latest audited financial statements then the unaudited expenditure should be utilised in the calculation.
18.	Adjustments to total actual expenditure	✓	✓	✓	No amendment may be made to the total actual expenditure figure for either taxation or depreciation. Whilst not a cashflow movement, depreciation reflects the impact of purchasing the fixed assets appropriate to the ongoing operation of the registered person's business. Depreciation is therefore an effective mechanism for ensuring on an ongoing basis that the cashflow impact of fixed asset purchases is appropriately included on a consistent basis in the ANLA calculation.
19.	Discretionary bonuses/profit share	✓	✓	✓	This adjustment may only be applied where the payments are non-contractual and wholly discretionary.
20.	Exceptional costs	✓	✓	✓	Total actual expenditure may be adjusted for any exceptional costs providing the Commission has given its written consent.  Exceptional costs are incurred outside of the day-to-day activities of the registered person and are not expected to recur. Examples would include restructuring costs, asset write downs, profit or loss on disposal of assets and investments and discontinuing operations.  Where the Commission is satisfied that the expenditure is exceptional, it may consider consenting to the exclusion of the expense from total actual expenditure in calculating the registered person's expenditure requirement. Any forecast exceptional expenditure may not, however, be excluded from total budgeted expenditure as this would not be a prudent methodology.  Amounts payable in respect of litigation may be considered to be exceptional once the litigation has been concluded and related legal fees and settlement amounts due have been physically paid. In considering consent, the Commission will seek to be satisfied that the litigation does not form part of a wider trend and that there are no similar cases pending.

Ref	Item	Relevant for:			Definition/Guidance
		FSB	IB	TCB	
21.	Other adjustment to total actual expenditure	✓	✓	✓	<p>Where a management charge or payment to a related party includes an element of profit, which is not made on a contracted basis, an adjustment may be undertaken to the total actual expenditure to exclude this element, as this could distort the expenditure requirement and have an adverse effect on the ANLA calculation.</p> <p>Conversely, where expenses are borne by a related party (e.g. parent or service company within the group) and no, or minimal, management charge is applied, the Commission expects this position to be rectified by an appropriate apportionment of costs being included within the registered person's ANLA calculation.</p>
22.	Budgeted expenditure	✓	✓	✓	<p>This figure must be based on the business plan budget for the year in question. During the year, the figure should be flexed if it becomes apparent that actual expenditure is forecast to be materially different than budgeted.</p>
23.	Relevant Annual Expenditure ("RAE")	✓	✓	✓	<p>The RAE should reflect all costs incurred by the registered person in meeting its legal and regulatory responsibilities.</p> <p>For the purposes of the ANLA calculation the Commission has defined RAE as being the higher of:</p> <ul style="list-style-type: none"> <li>• total budgeted expenditure for the current year, as flexed upwards if necessary; and</li> <li>• the total actual expenditure, adjusted for discretionary bonuses/profit share, bad debt expenses, and any exceptional costs for which the Commission has granted consent to remove them from the total actual expenditure.</li> </ul>

## 6 Table of definitions and guidance in relation to the technical elements of the investment business ANLA calculation

- 6.1 The IB Codes place additional requirements on registered persons holding an investment business registration in the form of the position risk requirement (“**PRR**”), counterparty risk requirement (“**CRR**”) and foreign currency risk requirement (“**FCRR**”) therefore the following items are predominately relevant for the ANLA calculation as established in the IB Codes.
- 6.2 However, paragraph 5.1.8 of the FSB Codes recognises that PRR, CRR and FCRR may also be a feature of a fund services business. Where this is the case, the FSB Codes require the registered person to approach the Commission for guidance on the adjustment(s) to their financial resource calculation. The calculation of any adjustment will follow the methodology relevant to investment businesses therefore the following might also be of interest to some fund services businesses.
- 6.3 The requirements aim to mitigate the associated risks, which can be broadly summarised as:
- 6.3.1 position risk – the risk arising from adverse changes in general market conditions;
- 6.3.2 counterparty risk – the risk that a counterparty will not live up to its contractual obligations; and
- 6.3.3 foreign currency risk – risk arising from changes in currency rates.

Ref	Item	Definition/Guidance			
<b>Position Risk Requirement</b>					
	<b>A. Debt:</b>	< 90 days	90 days - 1 yr	1 - 5 yrs	>5 years
24.	UK Government or local authority	2% x Market Value	2% x Market Value	5% x Market Value	10% x Market Value
25.	Issued or accepted by an approved bank <sup>1</sup>	2% x Market Value	5% x Market Value	10% x Market Value	15% x Market Value
26.	Other marketable investments, including commodities	5% x Market Value	5% x Market Value	10% x Market Value	15% x Market Value
27.	Floating Rate Notes which are marketable investments	Under 20 years - 5% x Market Value		Over 20 years - 10% x Market Value	

<sup>1</sup> “approved banks” are those as defined in Article 1 of the Financial Services (Investment Business (Client Assets)) (Jersey) Order 2001

Ref	Item	Definition/Guidance
	<b>B. Equities</b>	
28.	Listed on a regulated investment exchange	25% x Market Value
29.	Traded on a regulated investment exchange	35% x Market Value
	<b>C. Futures, Options and Contracts for Difference</b>	
30.	Exchange traded futures	4 x initial margin requirement
31.	Over The Counter futures	The appropriate percentage must be applied to the market value of the underlying position. The appropriate percentage should be determined by reference to sections A. Debt and B. Equities above.
32.	Purchased options	The appropriate percentage must be applied to the value of the underlying position limited to the market value of the option. The appropriate percentage should be determined by reference to sections A. Debt and B. Equities above.
33.	Contracts for difference	20% x Market Value of contract
	<b>D. Other Investments</b>	
34.	Unit linked bonds and units in a regulated collective investment scheme <sup>2</sup> unless covered below	25% x realisable value
35.	Units in higher volatility <sup>3</sup> and property funds	50% x realisable value
36.	With profit life policies	20% x surrender value
37.	Any other investments <sup>4</sup>	100% x value of the asset

<sup>2</sup> Refer to the UK Financial Conduct Authority definition of a collective investment scheme

<sup>3</sup> Higher volatility funds would include geared futures and options fund or warrant funds, assuming they are regulated schemes. Where they are not regulated 100% of realisable value must be taken as the PRR.

Ref	Item	Definition/Guidance												
<b>Counterparty Risk Requirement</b>														
38.	Cash against document transactions	Where a registered person has unsettled bargains in any securities it must calculate the price difference <sup>5</sup> to which it is exposed and then multiply this by the appropriate percentage below to calculate the CRR for each separate unsettled bargain. <table border="1" data-bbox="987 448 2119 799"> <thead> <tr> <th>Business days after settlement</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>0 - 15</td> <td>Nil</td> </tr> <tr> <td>16 - 30</td> <td>25%</td> </tr> <tr> <td>31 - 45</td> <td>50%</td> </tr> <tr> <td>46 - 60</td> <td>75%</td> </tr> <tr> <td>Over 60</td> <td>100%</td> </tr> </tbody> </table>	Business days after settlement	Percentage	0 - 15	Nil	16 - 30	25%	31 - 45	50%	46 - 60	75%	Over 60	100%
Business days after settlement	Percentage													
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16 - 30	25%													
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46 - 60	75%													
Over 60	100%													

<sup>4</sup> Any items subject to Position Risk that are not covered under the defined categories within parts A - D of this table.

<sup>5</sup> Where the registered person has purchased securities for or sold securities to another party (i.e. a securities debtor), the price difference is the excess of the contract value over the current mid-market price of the securities. The price difference is taken as nil if there is no excess. Where a registered person has sold securities for or purchased securities from another party (i.e. a securities creditor), the price difference is the excess of the mid-market value of the security over the contract value. The price difference is taken as nil if there is no excess.

Ref	Item	Definition/Guidance
39.	Free deliveries	<p>Where a registered person has either (a) made payment to a counterparty in respect of securities but not received the appropriate certificates, or (b) provided certificates in respect of securities to a counterparty but not received payment, and settlement is more than three business days overdue, the full value must be counted as part of the CRR.</p> <p>Exceptions may be made where the registered person has appropriate guarantees or other controls in place to provide assurance that the settlement will occur, up to a maximum of 15 business days. However, such an approach must be documented and where it is not met, the full value must be provided for. Where there is any doubt over appropriate treatment, the registered person must discuss this with the Commission.</p>
40.	Options purchased for a counterparty	<p>Where a registered person has purchased an option on behalf of a counterparty on terms which do not impose on the counterparty any actual or contingent margin requirement, or liability to make any payment other than the initial purchase price of the option, and the counterparty has not paid the price by three days after trade date, the CRR is the amount by which the purchase price exceeds the current realisable value of the option.</p> <p>Where a registered person has purchased a traditional option for its own account or on behalf of a counterparty who has not paid the registered person, then, if the registered person has paid the option premium to the writer, it must calculate a CRR equal to the option premium.</p>
41.	Amounts owed in respect of exchange traded margined transactions	<p>Where, as a result of an exchange traded margined transaction, a counterparty of the registered person has an initial margin and/or variation margin requirement and has not met it fully with cash, acceptable collateral or a positive equity balance not used to meet variation margin, and more than three business days have passed since the shortfall occurred, the full value must be counted as part of the CRR.</p>

Ref	Item	Definition/Guidance								
	Amounts owed in respect of exchange traded margined transactions (cont'd)	Exceptions may be made where the registered person has appropriate guarantees or other controls in place to provide assurance that the settlement will occur, up to a maximum of 15 days. However, such an approach must be documented and where it is not met, the full value must be provided for. Where there is any doubt over appropriate treatment the registered person must discuss this with the Commission.								
42.	Concentrated risk from one counterparty	<p>If the total amount due to a registered person for free deliveries or other debts attracting a CRR from a single counterparty (treating as one counterparty several counterparties grouped together by the registered person for margin or credit treatment) exceeds 25% of the registered person's ANLA<sup>6</sup> it must calculate additional CRR by applying the appropriate percentage below:</p> <table border="1"> <thead> <tr> <th>Amount of ANLA</th> <th>Additional CRR</th> </tr> </thead> <tbody> <tr> <td>Up to 25%</td> <td>Nil</td> </tr> <tr> <td>25% - 50%</td> <td>15% (or the entire excess if less)</td> </tr> <tr> <td>Over 50%</td> <td>40% (or the entire excess if less)</td> </tr> </tbody> </table>	Amount of ANLA	Additional CRR	Up to 25%	Nil	25% - 50%	15% (or the entire excess if less)	Over 50%	40% (or the entire excess if less)
Amount of ANLA	Additional CRR									
Up to 25%	Nil									
25% - 50%	15% (or the entire excess if less)									
Over 50%	40% (or the entire excess if less)									
43.	Investments subject to repurchase, reverse repurchase, stock borrowing or stock lending transactions	After providing for PRR as appropriate, an additional provision in respect of CRR must also be made in respect of these items. The CRR deducted must equal the exposure of the items if that exposure is not in the registered person's favour.								
44.	Over the Counter Derivatives	By attaching current market values to contracts (marking to market), obtain the current replacement cost of all contracts with positive values.								

<sup>6</sup> Note that this is also a notification requirement under paragraph 5.1.7.3 of the IB Codes.

Ref	Item	Definition/Guidance									
	Over the Counter Derivatives (cont'd)	<p>To obtain a figure for potential future credit exposure (except in the case of single currency "floating/floating interest rate swaps" in which only the current replacement costs will be calculated), multiply the notional principal amounts or values underlying the registered person's aggregate positions by the following percentages:</p> <table border="1" data-bbox="992 427 2098 595"> <thead> <tr> <th data-bbox="992 427 1350 480">Residual Maturity</th> <th data-bbox="1357 427 1704 480">Interest Rate Contracts</th> <th data-bbox="1711 427 2098 480">Foreign Exchange Contracts</th> </tr> </thead> <tbody> <tr> <td data-bbox="992 485 1350 537">One year or less</td> <td data-bbox="1357 485 1704 537">Nil</td> <td data-bbox="1711 485 2098 537">1%</td> </tr> <tr> <td data-bbox="992 542 1350 595">More than 1 year</td> <td data-bbox="1357 542 1704 595">0.5%</td> <td data-bbox="1711 542 2098 595">5%</td> </tr> </tbody> </table>	Residual Maturity	Interest Rate Contracts	Foreign Exchange Contracts	One year or less	Nil	1%	More than 1 year	0.5%	5%
Residual Maturity	Interest Rate Contracts	Foreign Exchange Contracts									
One year or less	Nil	1%									
More than 1 year	0.5%	5%									
45.	Other receivables and accrued income	Any item not covered in notes 1 - 15 or 38 - 44 above must attract 100% CRR from the time that they become due.									
<b>Foreign Currency Risk Requirement</b>											
46.	Foreign Currency Risk	<p>The Foreign Currency Risk requirement is calculated as 10% of the net open foreign currency position and should be included in the investment business Resource Requirements Table (Table 1).</p> <p>For each non-reporting currency (that is, each currency other than that in which the registered person's books of accounts are maintained) in which the registered person has monetary assets or liabilities, or any off balance sheet contracts, which would give rise to a position in that currency, the registered person must calculate the net open position (netting assets and liabilities). The net open position may be a net long or net short position.</p> <p>The net open position for each currency must be converted into the reporting currency, using the daily spot rate. Where the price of an investment is quoted in more than one currency, a position in the investment shall be treated as an asset or liability in the currency of the country in which the main or principal market in the investment is based.</p>									

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Ref	Item	Definition/Guidance
	Foreign Currency Risk (cont'd)	<p>The net open foreign currency position is the sum of all the net open positions in foreign currencies converted into the reporting currency, i.e. net long and net short positions are aggregated as each represents an exposure to a movement in foreign exchange rates.</p> <p>Note: Options included in the position risk requirement are to be excluded from this calculation.</p>

**If you have any further queries regarding completion of the ANLA calculation, please contact your supervision manager at the Commission.**