Capital Adequacy Standards
for
Financial Services Companies

This is a translation of the Official Arabic version of Capital Adequacy Standards for Financial Services Companies . In case of any discrepancies, the Arabic version shall prevail.

Article (1)

Definitions

Authority : Qatar Financial Markets Authority (QFMA).

Financial Markets: Markets licensed for dealing in securities, pursuant to the Authority's Legislations.

Authority's Legislations: Law No. 8 of 2012 regarding the Qatar Financial Markets Authority, regulations, rules, decisions and circulars issued by the Authority.

Company: Financial services company exercising one or more activities subject to the Authority's jurisdiction.

Weighting Factors: Weighting ratios determined in these standards, by which the value of assets owned by the Company is adjusted according to the risk degree associated with each of those assets to reflect the value of weighted assets by the degree of asset liquidity.

Financial Liabilities: Total Financial Liabilities of the Company as a result of exercising one or more activity subject to the Authority's jurisdiction, whether those liabilities are in-balance sheet or off-balance sheet liabilities.

Net Liquid Capital: Liquidity position of the Company at a specified date and a measure that the Company has sufficient liquidity to meet its Financial Liabilities, whether in-balance or off-balance sheet liabilities.

Capital Adequacy: Capacity of the Company's capital requirements to meet risks related to exercising its licensed activities such as market risks, operational risks, settlement risks and credit risks. It also means the Company's ability to meet its short and long term Financial Liabilities.

Capital Adequacy Standards: The standards determined by the Authority to measure the Company's Capital Adequacy.

Financial Statement: Statements showing the financial position of the Company on a specific date, which includes long-and short-term assets owned by the Company, short-and long-term liabilities, and shareholders' equities of the Company.

Article (2)

Scope of Implementation

Capital Adequacy Standards shall be applied on financial services companies licensed by the Authority to exercise one or more of activities subject to the Authority's jurisdiction pursuant to the Authority's Legislations.

Article (3)

Net Liquid Capital Requirements

The financial services company must comply with the requirements of the Net Liquid Capital to be able to face the risks associated with exercising its activities according to the following:

a) The Company must retain at all times Net Liquid Capital of at least 12% of the total liabilities.
b) The minimum Net Liquid Capital necessary for the Company to continue exercising its business must be 8% of the total liabilities of the Company.

Article (4)

Company's Obligations

A) If the Net Liquid Capital drops below the ratio that the Company shall retain at all times (12%), the Company must do the following:

1. Stop any action that has negative impact on the ratio of Net Liquid Capital for example, not limited to, accepting new requests to buy on margin trading, borrowing securities for the purpose of sale or granting any exemptions of prepayment requirements when buying shares.
2. Provide a daily report to the Market explaining the reasons for decline of the Net Liquid Capital and actions that have been taken or will be taken by the Company to reach again the ratio of a Net Liquid Capital that should be retained at all times by the Company which is (12%) within three working days.
3. Provide a daily report to the Market on the Net Liquid Capital over the period of decline.

B) If the Net Liquid Capital of the Company drops below the minimum (8%), the Company must:

1. Immediately stop the activity or activities licensed by the Authority and that related to dealing on Financial Markets.
2. Provide an action plan to the Authority within three working days on the procedures that will be taken by the Company and timetable for these procedures in order to achieve the minimum ratio of net capital and reach the permanent ratio of Net Liquid Capital that should be retained by the Company.
3. Not to resume its activities unless achieving at least the minimum Net Liquid Capital (8%) or by the Authority’s approval.

Article (5)

Measures and Actions Taken by the Authority

The Authority may ask the Company to submit a report from its external auditor regarding the Company compliance with the Capital Adequacy Standards or any related violations. The Authority may take any actions it deems appropriate, including withdrawal of the Company's license in case of non-compliance with measures and procedures set out in the previous article. The Authority may exempt the Company from any of the measures and actions if the Company provides justifications approved by the Authority.

Article (6)

Calculation of Net Liquid Capital

Net Liquid Capital is calculated by subtracting the total liabilities (in-balance and off-balance sheet) of the Company as a result of exercising the Company's activity from the total weighted assets, according to the degree of liquidity risk associated with such assets.

Article (7)

Liquidity Weighting Factors

The following Weighting Factors are applied on the items of the Company's assets and liabilities when calculating Net Liquid Capital:

First: *Current Assets:*

A) Cash balances:

1. Total available cash and banks balances, calculated at 100% of their value.

2. Checks under collection submitted to banks for collection where deposit receipt is issued by the bank, calculated at 100% of its value (in case these checks are rejected, their value shall be calculated at zero%).
3. Checks in hand held by the Company, its value is calculated at zero% (i.e., the entire value is excluded).
4. Balances of settlement accounts at Clearing and Depository, net value is calculated at 100%.

B) Company's Securities portfolio :

1. Securities listed on the Market included in the general index and held for trading are valued at 90% of the market value at the time of net capital calculation.
2. Securities listed on the Market not included in the general index and held for trading are valued at 80% of the Market value at the time of net capital calculation.
3. Securities not listed on the Market or those listed but held for non-trading purposes are valued at zero% of the Market value at the time of net capital calculation .
4. Securities listed on the Market and suspended from trading on the date of the Net Liquid Capital calculation are valued at zero% of last market value before the suspension.
5. Bonds and Sukuk issued by the Qatari government or Qatar Central Bank are valued at the lesser of either 100% of the face value or the market value.
6. Bonds and Sukuk issued by listed or non-listed companies with a credit rating of " investment grade " (minimum BBB-) obtained from a company or an institution approved by the Authority are valued at the lesser of either 80% of the face value or the market value.
7. Bonds and Sukuk issued by listed or non-listed companies with a credit rating of " non-investment grade - speculative " obtained from a company or an institution approved by the Authority (lower than investment grade)are valued at the lesser of either 40% of the face value or the market value.

C) Accounts receivable owed to the Company by clients:

1. The lesser value is used at the date of net capital calculation when comparing the balance due on each client with the market value of the security weighted as per the percentages listed in the following table:

Number of Working Days	***Item***	***Weighting Factor***
Until the settlement date	Securities	90%
Until three days after the settlement date	Securities	50%
After three days from the settlement date	Securities	zero%

   If the client provides the Company with financial guarantee, the value of accounts receivable of the client is calculated after three days from the settlement date by deducting the value of financial guarantee from the value of accounts receivable of the client and comparing the outcome with the market value of the security taking the lesser value when calculating the Net Liquid Capital.

2. Accounts receivable owed by margin trading clients:

   The debit balance owed by each client is compared with the percentage of funding by margin provided by the Company, multiplied by the market value of the client securities which are under the Company's control as a collateral to this balance. The lesser value of the Net Liquid Capital calculation is taken after deducting the value of the additional guarantees provided by the client, if any, from the value of the debit balance for the client before comparing it with the balance percentage of funding by margin provided by the Company multiplied by the market value.

D) Other current assets:

1. Security deposits ; the value is calculated at zero%.
2. Prepaid expenses; the value is calculated at zero%.
3. Loans and advances for directors and employees; the value is calculated at zero%.
4. Other debt balances; the value is calculated at zero%.

Second: ***Long-term assets:***

a) Tangible fixed assets: net fixed assets (after depreciation); the value is calculated at zero%.
b) Intangible fixed assets: such as goodwill and commercial brand; the value is calculated at zero%.
c) Investments in subsidiaries and affiliated companies; the value is calculated at zero%.
d) Other long-term assets; the value is calculated at zero%.

Third*:* *In-balance Sheet Liabilities:*

a) Current liabilities; the value is calculated at 100%.
b) Long-term liabilities; the value is calculated at 100%.
c) Subordinate loans from shareholders. The value of loans provided by the Company's shareholders is deducted from the Company's Liabilities when calculating Net Liquid Capital if the following conditions are met:
    1. The loan term when approved shall not be less than two years.
    2. The loan shall be fully paid in cash.
    3. The loan shall not be guaranteed or has priority over other supportive loans.
    4. The fulfillment of the loan shall not result a decline in Net Liquid Capital below the minimum determined in these standards.

Fourth: ***Off-Balance Sheet Liabilities:***

The Company's Liabilities shall be increased when calculating the Net Liquid Capital by 100% of the values of the following items:

a) The increased value in the debt of each margin-trading client beyond the determined maximum limit set forth according to the Margin Trading Rules issued by the Authority.
b) The increased value in the balance of each securities borrowing clients for the purpose of short-selling beyond the determined maximum per client.
c) The decrease in the value of the cash collateral provided by each securities borrowing sell client below the determined minimum.
d) Collaterals and guarantees and financial commitments provided by the Company to others except the collaterals provided to the Authority, the Financial Market or the Depositary.
e) Any other contingent liabilities.

Article (8)

Other Requirements for Capital Adequacy

a) The Company must retain cash assets covering at least 100% of all short-term liabilities of the Company as prescribed in clauses (1 and 11) in the Appendix.
b) The value of accounts receivable or payables with other party shall not exceed 10% of the owners' equity of the Company.
c) The total values of accounts receivable or payables with other party reaching the maximum percentage set forth in the preceding clause shall not exceed 800% of the owners' equity of the Company.
d) The total withdrawals of Company's shareholders shall not exceed 20% of the paid-up capital of the Company, and the Authority may prevent those withdrawals at any time when necessary.
e) The Company must take into account that the ratio of paid-up capital to average operating annual income during the last three financial years shall

not be less than 15% or that the ratio of paid-up capital to fixed expenses listed in Financial Statements for the previous year shall not be less than 25% in the event that the Company has been operated for less than three years.

Article (9)

Owners' Equity

a) The percentage of owners' equity to paid-up capital of the Company shall not be less than 75%; if it drops below this percentage, the Company shall conduct transactions on a cash basis only.
b) If the percentage of owners' equity to the paid-up capital of the Company drops below 60%, the Company is allowed to perform sale transactions.
c) If the percentage of owners' equity to the paid-up capital of the Company drops below 50%, the Company shall be stopped from exercising all of its licensed activities.

Article (10)

Reports Prepared by the Company

a) The Company shall prepare daily report of Net Liquid Capital in accordance with appendix attached to these standards, approved by the internal auditor, the risk officer, if any, and the general manager and sealed with the Company's seal. The Company shall provide the Authority and the Market with that report immediately, upon request. The compliance officer shall ensure that the report have been prepared in accordance with the prescribed procedures.
b) The Company shall prepare a report of Net Liquid Capital at the end of each week in accordance with appendix attached to these standards , approved by the internal auditor, the compliance officer, the risk officer, if any, and the general manager and sealed with the Company's seal. The Company shall provide that report to the Authority and to the Market no later than twelve o'clock noon of the first working day of the following week.

c) The Company shall provide the Authority and the Market with a quarterly report of Net Liquid Capital during a period not exceeding thirty days from the end of each quarter that the report is approved by the internal auditor, the compliance officer, the risk officer, if any, the general manager and the external auditor of the Company. The Company shall also provide the Authority with the statement of the fourth quarter within a period not exceeding forty five days from the end date of this quarter.

Article (11)

Market Obligations

a) The Market shall be obligated to ensure that the Company retain the prescribed percentages and is calculated according to Capital Adequacy Standards, that the Market shall notify the Authority to take whatever action it deems appropriate in any of the following cases:
   1. if Net Liquid Capital declines below12% of the Company's total liabilities.
   2. if the Company fails to comply with any of the other capital adequacy requirements set out in these standards.

b) In case Net Liquid Capital declines below ratios mentioned above or the company fails to meet any of other capital adequacy requirements, the Market shall issue a notice to the Company in order to comply with the prescribed percentage, or to provide additional bank collaterals within three working days from the date of notice.

c) The Market shall notify the Authority in case of a decline in Net Liquid Capital percentages prescribed above to take any other actions with the Company in this regard.

Article (12)

General Provisions

1. The attached annex is an integral part of these Standards.
2. The Company's assets shall be registered in its name, and its accounts shall be separated from clients' accounts.
3. The Company shall notify the Authority and the Market immediately about any pledges or freeze of assets . and any actions, collaterals, guarantees or financial commitments from the Company to others or lawsuits filed by or against the Company that may have an effect on the Company.
4. The Company shall not invest its funds in securities outside the State of Qatar unless it obtained the Authority's approval.
5. The Authority may exempt the Company or one of the regulated activities from complying with any of the provisions of these Standards in accordance with the reasons and justifications justified by the Authority.
6. Any person, who violates the provisions of these standards shall be punished in accordance with the Authority's Legislations.

Net Liquid Capital Calculation Form				
Company Name		**Book Balance**	**Weighting Factor**	**Weighted Value**
Date	**Item**			
Item No.				
Assets				
	Current assets			
	Available cash and bank balances:			
	Available cash in hand		100%	
	Available bank current accounts balances		100%	
	Available net clearing balances (QCSD)		100%	
	Available bank deposits		100%	
	Checks under collection submitted to banks		100%	
	Checks in hand where the receipt date is more than two days or rejected		0%	
1	**Total cash and banks balances**			
	Accounts receivable owed by clients:			
	Margin trading clients (funds owed by margin clients minus any guarantees provided by the client, compared with ratio of funding multiplied by market value of the Securities subject to margin trading, whichever is less)			
	Other clients until the settlement date		90%	
	Other clients until three days after the settlement date		50%	
	Other clients after the third day from the settlement date		0%	
	Other clients who provided guarantees after the sixth day(comparing sum of guarantee value minus accounts receivable with the market value of the shares, whichever is less)			
2	**Total value of accounts receivable owed by clients**			
	Company's investments in securities:			
	Tradable securities, which are included within the general index (market value)		90%	
	Tradable securities, which are not included within the general index (market value)		80%	
	Unlisted securities or held for non- trading purposes		0%	

	Securities suspended from trading		0%	
	Bonds, Sukuk or governmental T-Bills (face or market value, whichever is less)		100%	
	Bonds or Sukuk with credit rating of investment grade BBB- or higher (face or market value, whichever is less)		80%	
	Bonds or Sukuk with a credit rating lower than investment grade of BBB- face or market value, whichever is less)		40%	
3	**Total value of the Company's investments in securities**			
	<u>Other current assets:</u>			
	Security deposits		0%	
	Other debtors		0%	
	Prepaid expenses		0%	
	Staff advances and loans		0%	
	Other debts balances		0%	
4	**Total value of other current assets**			
	Long-term assets			
5	Net fixed assets		0%	
6	Intangible assets		0%	
7	Investments in subsidiaries and affiliated companies		0%	
8	Securities investments to be held		0%	
9	Other long-term assets		0%	
10	**Total assets of Items (1 - 9)**			
liabilities				
	Current liabilities			
	<u>Clients creditors and short-term loans:</u>			
	Payables owed by clients (until the settlement day)		90%	
	Payables owed by clients (after the settlement day)		100%	
	Bank short-term loans		100%	
	Other short-term loans		100%	
	Credit facilities and bank overdrafts		100%	
11	**Total clients creditors and short-term loans**			
	Other current liabilities:			
	Compensation claims for clients		100%	

	Other creditors and other credit balances		100%	
12	**Total other current liabilities**			
	Long term liabilities			
	Long-term bank loans		100%	
	Other long-term liabilities		100%	
13	**Total long-term liabilities**			
	Off-Balance sheet liabilities			
	The increase in the debt of each margin-trading client beyond the determined maximum limit in accordance with the explanatory statement		100%	
	Collaterals, guarantees and financial commitments(except for the collaterals provided to the Authority, the Financial Market or the Depositary)		100%	
	Other contingent liabilities (in accordance with the explanatory statement)		100%	
14	**Total value of Off-Balance sheet liabilities**			
15	**Total value of liabilities (items 11 - 14)**			
16	**Subordinate loans (in-minus) in accordance with the explanatory statement**		100%	
17	**Total value of weighted liabilities (Item 15 + item 16)**			
18	**Net Liquid Capital (the difference between item 10 and item 17)**			
19	**Percentage of Net Liquid Capital (item 18) / Total liabilities (item 17)**			