SECURITIES AND EXCHANGE COMMISSION OF ZIMBABWE

CAPITAL ADEQUACY FRAMEWORK FOR INVESTMENT MANAGEMENT COMPANIES

August 2014

Short title

This Directive shall be cited as the Securities and Exchange Commission **(Capital requirements of Investment Management Companies)** Directive 2014. It is made in terms of Section 21 of the First Schedule to the Securities and Exchange Act, Chapter 24:25, as read with Section 6 of the Sixth Schedule to S.I. 100 of 2010.

1. Proposed New Capital Requirement Summary

Category	Component	Details
Tier 1	Liquid capital	Liquid capital equivalent to- 1 (i) The company's operational costs over a minimum of 3 months expenditure based on the last audited financial statements and reviewed quarterly; or (ii) $ 250,000 money market investment, whichever is the higher, placed with at least two independent financial institutions. 2. The company may invest up to 10% of tier 1 capital in money market unit trust fund(s) it is managing.
Tier 2	Available paid up equity shareholders funds	(i) Shareholders' funds must always be positive. In other words, where shareholders' funds become negative, shareholders will have to recapitalise the business. (ii) Maintain positive working capital (Current assets less current liabilities) (iii) Maintain a Liquidity ratio of 30% (Tier 2 equivalent to 30% of current liabilities)
Tier 3	Risk based Capital Allocation	(i) Capital provisioning (ii) Other contingency measures in the form of insurance policies (iii) Adequate and sound risk management systems (iv) SECZ risk assessments and oversight

3. Proposed Capital Requirements in detail

Tier 1: 3 Months Liquid Capital

3.1 Every investment manager shall have minimum capital sufficient to cover 3 months expenditure, with the minimum pegged at $250,000, whichever is greater, based on the previous year audited financial statements and reviewed quarterly, based on quarterly returns submitted to SECZ;

3.2 The $250,000 shall be in the form of liquid capital to be placed with at least two independent financial institutions of the asset manager's choice;

3.3 The liquid capital shall not be withdrawn unless with the consent of the Commission. However, it can be rolled over or moved to a different institution from time to time. The point of emphasis is that it cannot be liquidated without approval from the Commission;

3.4 Three months expenditure cover will also enable the institution to fund its obligations in the event of winding down its operations. In addition, paid up share capital (capital plus reserves) should be positive, to reflect the company as a going concern;

3.5 Not later than 3 months after the last day of its financial year end, the Investment Management Company shall submit to the Commission, together with its audited financial statements, a return of the expenses detailed below incurred by the Investment Management Company during the year.

Operating Expenditure...

In determining the three months expenditure cover, the following items shall be considered:

- Accounting and secretarial, or other services/charges, etc
- Auditors' remuneration
- Depreciation
- Insurance
- Interest paid other than to directors
- Bank overdraft
- Other finance
- Other charges and fees
- Motor vehicle expenses
- Net loss on disposal of fixed assets
- Office rental
- Machine and other leasing charges/rentals
- Printing costs
- Salaries and employee benefits
- Telephone, telex and postage
- Salaries and directors' fees
- Interest
- Other administration expenses not covered in this list

Note: The audited or reviewed accounts and or quarterly returns must provide a schedule of EBDAT (expenses before depreciation, amortization and tax).

Tier 2: Positive Paid up equity, and working capital

Paid up equity capital

3.6 Shareholders' funds must always be positive as shown in the computation below. In other words, where shareholders' funds become negative, shareholders must immediately recapitalize the company;

3.7 Preference share capital shall constitute available capital if it is not redeemable;

Positive Working Capital

3.8 Maintain positive working capital (current assets less current liabilities) all the time. Variation to this requirement must be regularized within 30 days.

Computation of available paid up equity capital:

				$
Ordinary share capital			xx	
Preference share capital			xx	
Share premium			xx	
Retained income			xx	
Other distributable reserves				xx
Shareholders' funds				**xx**
Less: Illiquid Assets				
Movable Assets, Fixtures, Fittings and software		xx		
Investments in unlisted securities		xx		
Investments in listed securities (40% of MV)		xx		xx
Less: Unrealised profits				
Unlisted securities	100%	xx		
Listed securities	100%	xx		xx
Government Debt securities/Banks (issued/guaranteed):				
Overdue interest receivable	100%	xx		
Registered unit trust scheme	100%	xx		xx
Property:				
Residential	50%	xx		
Commercial	75%	xx		xx
Available Tier 2 capital				**xx**

Tier 3: Risk Governance and Risk Based Capital

Risk Governance

(i) Adequacy of board and senior management oversight including existence of a risk management and compliance committee or its equivalent thereof, as well as other functional board & management committees;

(ii) Adequacy of strategy, policies and procedures;

(iii) Adequacy of risk identification, measurement, monitoring, control, evaluation and reporting systems; and

(iv) SECZ Supervisory and regulatory risks rating

3.9 Risk Based Capital

3.9.1 Risks applicable but not limited to the following:

Risk Category	Definition	Mitigation
Business risk	Risk of loss due to operating income not covering operating costs mainly caused by inflexible costs structure, subdued demand, tariffs/commissions/fees reduction, changes on an asset manager's business, including the risk that the firm may not be able to carry out its business plan and its desired investment strategy. In a broader sense, it is exposure to a wide range of macro-economic, geopolitical, industry, regulatory and other external risks that might deflect an asset manager from its desired strategy and business plan	(i) BR management framework and reporting tools; (ii) Cyclical capital buffer provisioning; (iii) Quarterly impact evaluation report; (iv) SECZ Adequacy and effectiveness of risk management systems assessment report.
Market risk (MR)	The risk of loss arising from fluctuations in values of, or income from, assets or arising from fluctuations in factors such as foreign exchange rates, equity/property prices and interest rates	i. MR management framework and reporting tools; ii. Quarterly Sensitivity analysis report –Interest rate sensitive assets and

		equities; iii. Other measurement methodologies such as exposures concentration, stop loss triggers etc iv. Quarterly impact evaluation report; v. SECZ adequacy and effectiveness of risk management systems assessment report
Operational risk (OR) **(Others risks covered under OR)** *Reputational risk* *Accounting risk* *Custody risk* *Fraud risk* *Legal risk* *Conduct risk* *Technological risk* *Money laundering risk*	The risk of loss resulting from inadequate or failed internal processes, people, systems or from external events: **i. Processes** • Policies and procedures • Roles segregation • Automated processes • Company funds management • Document management • Company assets management • Limits management • Payments and settlements • Accurate, timely and credible information reporting **ii. People** • Skills retention policies • Training and development • Rewards, recognition & performance management • Safety of employees • Fraudulent activity • Employee discipline **iii. Systems** • System enhancements and support • Systems deficiencies, availability, maintenance and state (obsolete) • System integrity, confidentiality, access control and change management	i. OR management framework; ii. Conducting stress testing and reports; iii. Adequate professional indemnity cover ; iv. Adequate fidelity guarantee cover; v. Adequate insurance cover for all company assets; vi. Comprehensive KYC procedures; vii. Quarterly impact evaluation report; viii. SECZ adequacy and effectiveness of firm's risk management assessment report

	iv. External • Trade counterparties relationships • Customer complaints monitoring procedures • Litigation and claims • Penalties and fines • Legislative developments • Competitors	
Liquidity risk (LR)	The risk that the firm, although solvent, either does not have sufficient available funds to enable it to meet its commitments as they fall due, or can secure them only at excessive cost.	i. LR risk management framework; ii. measurement and reporting tool(s) such as sensitivity analysis etc iii. Refer to CRR & Tier 2 capital requirements; iv. Liquidity ratio of 30%; v. Quarterly impact risk evaluation report; vi. SECZ adequacy and effectiveness of the firm's risk management assessment report
Regulatory/Compliance risk	The risk of failure by the company to meet its regulatory requirement or manage changes in regulatory requirements with respect to new legislation, resulting in investigations, fines or regulatory sanction	(i) Compliance risk management framework; (ii) Independent compliance function; (iii) Regular internal audits reports to SECZ
Strategic risk	The potential negative impact on earnings due to misjudged strategic decisions or lack of responsiveness to industry changes.	(i) Board and Board Committees oversight; (ii) Board and Management performance; measurement tool(s) and evaluation results

4 General Obligations

4.1 The returns submitted by the Investment Management Company shall be signed by all Principal Officers;

4.2 No Investment Management Company shall allow a shortfall in any Tier capital, other than pursuant to a specific temporary exception granted by the Commission due to unusual circumstances;

4.3 The Investment Management Company shall notify the Commission immediately in writing if there are any indication that it may not meet the Capital Adequacy Requirements;

4.4 The Commission may require the Principal Officers to appear personally and produce the Company's set of financial statements and answer questions, including questions relating to any actual or possible violation of this Directive;

4.5 The Commission may appoint an external auditor to verify capital shortfalls when they are detected or suspected;

4.6 In the event that such irregularities and or capital shortfalls, as the case may be, are confirmed by the auditor or an inspection report, the Investment Management company shall bear all costs associated with the verification exercise or inspection; and

4.7 The Commission has full discretion as to the necessity and sufficiency of special adjustments in any particular case, taking into consideration all factors pertaining to the market with regard to financial position or future contracts and the affairs as a whole of the Investment Management Company involved.

5. Suspension of Defaulting Companies

5.1 Where the Investment Management Company fails to comply with this Directive s, the Commission shall declare the Investment Management Company to be a defaulter;

5.2 The Commission shall have the power, in terms of the Securities and Exchange Act, to reprimand, sanction, suspend and or cancel the registration of an Investment Management Company declared to be a defaulter; and

5.3 The suspension or cancellation of an Investment Management Company's registration shall automatically suspend all rights and privileges of the Investment Company, without relieving it of its liabilities.

For and On Behalf of Securities and Exchange Commission of Zimbabwe

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Mr. Tafadzwa Chinamo

Chief Executive Officer

Date 14. 8. 14