



NOTICE NUMBER: SSo8/10/2015

CAPITAL ADEQUACY FRAMEWORK FOR ALTERNATIVE TRADING PLATFORMS (ATPS)

1. Capital Requirement Summary

| Category | Component | Details |
|----------|---|---|
| Tier 1 | Available paid up equity shareholders funds | <ul style="list-style-type: none"> (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 liquid assets equivalent to three (3) months operating costs |
| Tier 2 | Risk based Capital Allocation | <ul style="list-style-type: none"> (i) Capital provisioning (ii) Contingency measures in the form of insurance policies (iii) Adequate and sound risk management systems (iv) SECZ risk assessments and oversight |

2. Capital Requirements in detail

Tier 1: Positive Paid up equity, and working capital

Paid up equity capital

- 2.1 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. The ATP shall be required to have total assets cover of 250% of total liabilities and maintain liquid assets equivalent to three (3) months operating costs;
- 2.2 Preference share capital shall constitute available capital if it is not redeemable;

Positive Working Capital

- 2.3 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 |
| <u>Less: Illiquid Assets</u> | | | |
| Movable Assets, Fixtures, Fittings and software | | XX | |
| Investments in unlisted securities | | XX | |
| Investments in listed securities (40% of MV) | | XX | XX |
| <u>Less: Unrealised profits</u> | | | |
| 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% | <u>xx</u> | <u>xx</u> |
| Available Tier 1 capital | | | <u>xx</u> |

Tier 2: 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.

2.4 Risk Based Capital

2.4.1 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 firm'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 the firm | <ul style="list-style-type: none"> (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 |

from its desired strategy and business plan

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)

The risk of loss resulting from inadequate or failed internal processes, people, systems or from external events:

- 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

(Others risks covered under OR)

Reputational risk

Accounting risk

Custody risk

Fraud risk

Legal risk

Conduct risk

Technological risk

Money laundering risk

- 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

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.

- LR risk management framework;
- measurement and reporting tool(s) such as sensitivity analysis etc
- Refer to SSGR & Tier 2 capital requirements;
- Liquidity ratio of 30%;
- Quarterly impact risk evaluation report;
- 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

- Compliance risk management framework;
- Independent compliance function;
- 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

2.5 Contingency measures**2.5.1 Policy of Professional indemnity insurance and Fidelity Guarantee cover**

The firm shall be required to take up a minimum professional indemnity cover of US\$100 000, issued by an insurer registered in terms of the Insurance Act [Chapter 24:07]. The policy shall be in such reasonable form and amount as the fiduciary duties of the employees or sponsored individuals require. The policy shall be renewed annually not later than each anniversary of the commencement of the policy and failure so to renew the policy shall be the grounds of the Commission to cancel the licence concerned forthwith.

The firm shall also be required to take up a minimum fidelity guarantee policy cover of US\$200 000, issued by an insurer registered in terms of the Insurance Act [Chapter 24:07]. The bond shall be in such reasonable form and amount as the fiduciary duties of the company officials require but with due consideration to all relevant factors in relation to all its licensed activities.

3. General Obligations

- 3.1 The returns submitted by the ATP shall be signed by all Principal Officers;
- 3.2 No ATP shall allow a shortfall in any Tier capital, other than pursuant to a specific temporary exception granted by the Commission due to unusual circumstances;
- 3.3 The ATP shall notify the Commission immediately in writing if there are any indications that it may not meet the Capital Adequacy Requirements;

- 3.4 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;
- 3.5 The Commission may appoint an external auditor to verify capital shortfalls when they are detected or suspected;
- 3.6 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 ATP shall bear all costs associated with the verification exercise or inspection; and
- 3.7 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 ATP involved.

4. Suspension of Defaulting Companies

- 4.1 Where the ATP fails to comply with this Directive s, the Commission shall declare the ATP to be a defaulter;
- 4.2 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 ATP declared to be a defaulter; and
- 4.3 The suspension or cancellation of an ATP's registration shall automatically suspend all rights and privileges of the ATP, without relieving it of its liabilities.

For and On Behalf of Securities and Exchange Commission of Zimbabwe



T. Chinamo

Chief Executive Officer

08.10.2015