Appendix 5

In this Appendix underlining indicates new text and striking through indicates deleted text.

The DFSA Rulebook

Prudential – Investment, Insurance Intermediation and Banking Module

(PIB)

1 APPLICATION, INTERPRETATION AND CATEGORISATION

…..

1.2 Glossary for PIB

Guidance

Set out under Rule 1.2.1 are a number of mainly technical definitions used solely in PIB. Such definitions do not also appear in GLO unless they are used elsewhere in the Rulebook. GLO also contains definitions of abbreviations, terms and phrases used in PIB and those are also included in 1.2.1 for convenience purposes where such definitions are embedded in PIB specific definitions. Commonly used definitions such as "Authorised Firms", "Domestic Firms", and "Financial Services" appear only in GLO.

1.2.1 The following terms and abbreviations bear the following meanings for the purpose of this module:

…..	…..
Annual Audited Expenditure	The expenditure calculated in accordance with Rule 3.7.3 <u>or, if applicable, Rule 3.7.3A</u>.
…..	…..

…..

3 CAPITAL

…..

3.7 Expenditure Based Capital Minimum

3.7.1 This section applies to an Authorised Firm in Category 2, 3A, 3B, 3C or 4.

Guidance

The Expenditure Based Capital Minimum is a component of the calculation of the Capital Requirement under sections 3.4 and 3.5 and is a key factor in the calculation of the capital components under Rule 3.2.7.

3.7.2 An Authorised Firm must calculate its Expenditure Based Capital Minimum as:

(a) subject to (b), in the case of an Authorised Firm which holds Client Assets or Insurance Monies, 18/52;

(b) in the case of an Insurance Intermediary which holds Insurance Monies but not Client Assets, 9/52;

(c) in the case of an Authorised Firm in Category 2, 3A, 3B or 3C which does not hold Client Assets or Insurance Monies, 13/52; or

(d) in the case of an Authorised Firm in Category 4, which does not hold Insurance Monies, 6/52;

of the Annual Audited Expenditure, calculated in accordance with Rule 3.7.3.

Annual Audited Expenditure

3.7.3 (1) Subject to Rules 3.7.3A and 3.7.4, Annual Audited Expenditure constitutes all expenses and losses that arise in the Authorised Firm's normal course of business in a twelve month accounting period (excluding exceptional items) which are recorded in the Authorised Firm's audited profit and loss account, less the following items (if they are included in the Authorised Firm's audited profit and loss account):

(a) staff bonuses, except to the extent that they are non-discretionary;

(b) employees' and directors' shares in profits, including share options, except to the extent that they are non-discretionary;

(c) other appropriations of profits, except to the extent that they are automatic;

(d) shared commissions and fees payable that are directly related to commissions and fees receivable, which are included with total revenue;

(e) fees, brokerage and other charges paid to clearing houses, exchanges and intermediate brokers for the purposes of executing, registering or clearing transactions;

(f) any expenses for which pre-payments or advances have already been made to the respective claimant (e.g. pre-paid rent, pre-paid communication charges etc.) and deducted from Capital Resources as illiquid assets;

(g) foreign exchange losses; and

(h) contributions to charities.

(2) For the purposes of (1)(c), a management charge must not be treated as an appropriation of profits.

3.7.3A If a Fund Manager uses a Fund Platform, the Annual Audited Expenditure of that Fund Manager is to be calculated as the aggregate of the expenses and losses of the Authorised Firm and the expenses and losses of the Incorporated Cell Company (the Fund Platform) calculated in accordance with Rule 3.7.4.

3.7.4 (1) For the purposes of Rule 3.7.3, an Authorised Firm must calculate its relevant Annual Audited Expenditure with reference to the Authorised Firm's most recent audited financial statements.

(2) If the Authorised Firm's most recent audited financial statements do not represent a twelve month accounting period, it must calculate its Annual Audited Expenditure on a pro rata basis so as to produce an equivalent annual amount.

(3) If an Authorised Firm has not completed its first twelve months of business operations, it must calculate its Annual Audited Expenditure based on forecast expenditure as reflected in the budget for the first twelve months of business operations, as submitted with its application for authorisation.

(4) (a) If an Authorised Firm:

(i) has a material change in its expenditure (either up or down); or

(ii) has varied its authorised activities;

it must recalculate its Annual Audited Expenditure and Expenditure Based Capital Minimum accordingly.

(b) Where an Authorised Firm has recalculated its Annual Audited Expenditure and Expenditure Based Capital Minimum in accordance with (a), it must submit this recalculation to the DFSA within 7 days of its completion and seek agreement/approval from the DFSA. The DFSA may within 30 days of receiving the recalculation object to the recalculation and require the Authorised Firm to revise its Expenditure Based Capital Minimum.

…..