

Chapter 4

Capital resources

4.3 Calculation of annual income

Annual income

- 4.3.1** **R** This section contains provisions relating to the calculation of *annual income* for the purposes of:
- (1) the *limits of indemnity* for professional indemnity insurance; and
 - (2) the capital resources requirements.
- 4.3.2** **R** 'Annual income' is the annual income given in the *firm's* most recent annual financial statement from the relevant *regulated activity* or activities.
- 4.3.3** **R** For a *firm* which carries on *insurance distribution activity* or *home finance mediation activity*, *annual income* is the amount of all brokerage, fees, *commissions* and other related income (for example, administration charges, overrides, profit shares) due to the *firm* in respect of or in relation to those activities. But it does not include income generated from carrying on any *home finance mediation activity* for:
- (1) *second charge regulated mortgage contracts*; or
 - (2) *legacy CCA mortgage contracts*.
- 4.3.4** **G**
- (1) The purpose of the *rule* on *annual income* that applies to *insurance intermediaries* and *mortgage intermediaries* is to ensure that the capital resources requirement is calculated on the basis only of brokerage and other amounts earned by a *firm* which are its own income.
 - (2) *Annual income* includes *commissions* and other amounts the *firm* may have agreed to pay to other *persons* involved in a transaction, such as sub-agents or other intermediaries.
 - (3) A *firm's annual income* does not, however, include any amounts due to another *person* (for example, the product provider) which the *firm* has collected on behalf of that other *person*.
- 4.3.5** **R** If a *firm* is a *principal*, its *annual income* includes amounts due to its *appointed representative* in respect of activities for which the *firm* has accepted responsibility.

4.3.6 **G** If a *firm* is a *network*, it should include the relevant income due to all of its *appointed representatives* in its *annual income*.

Annual income for home finance administration

4.3.7 **R** For the purposes of the calculation of the capital resources of a *firm* carrying on *home finance administration* only with all the assets it administers off balance sheet, *annual income* is the sum of:

- (1) revenue (that is, *commissions*, fees, net interest income, dividends, royalties and rent); and
- (2) gains;
- (3) arising in the course of the ordinary activities of the *firm*, less profit:
 - (a) on the sale or termination of an operation;
 - (b) arising from a fundamental reorganisation or restructuring having a material effect on the nature and focus of the *firm's* operation; and
 - (c) on the disposal of fixed assets, including *investments* held in a long-term portfolio.

4.3.7A **R** In the calculation of the capital resources of a *firm* that carries on any *home finance administration activity*, the *annual income* does not include annual income from:

- (1) *second charge regulated mortgage contracts*; or
- (2) *legacy CCA mortgage contracts*.

Annual income: periods of less than 12 months

4.3.8 **R** If the *firm's* most recent annual financial statement does not cover a 12 *month* period, the *annual income* is taken to be the amount in the statement converted, proportionally, to a 12 *month* period.

Annual income: no financial statements

4.3.9 **R** If the *firm* does not have annual financial statements, the *annual income* is to be taken from the forecast or other appropriate accounts which the *firm* has submitted to the *appropriate regulator*.