

Chapter 5

Financial resources

5.5 Annual expenditure

Determination

5.5.1

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Annual expenditure is:

- (a) the sum of the amounts described as total expenditure in the four quarterly **financial returns** up to (and including) that prepared at the *firm's* most recent **accounting reference date**, less the following items (if they are included within such expenditure):
 - (i) staff bonuses, except to the extent that they are guaranteed;
 - (ii) employees' and directors' shares in profits, except to the extent that they are guaranteed;
 - (iii) other appropriations of profits;
 - (iv) shared commission and fees payable which are directly related to commission and fees receivable which are included within total revenue;
 - (v) interest charges in respect of borrowings made to finance the acquisition of the *firm's* **readily realisable investments**;
 - (vi) interest paid to customers on client money;
 - (vii) interest paid to *counterparties*;
 - (viii) fees, brokerage and other charges paid to clearing houses, exchanges and intermediate brokers for the purposes of executing, registering or clearing transactions;
 - (ix) foreign exchange losses; or
- (b) where the previous accounting period does not include twelve months' trading, an amount calculated in accordance with paragraph (a) above prorated to an equivalent annual amount; or
- (c) where a *firm* has not prepared four quarterly **financial returns** since the commencement of its **permitted business**, an amount based on forecast expenditure included in its budget for the first twelve months' trading, as submitted with its application for membership.

5.5.2

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A *firm's* **financial resources requirement** will be recalculated annually when its fourth quarterly **financial return** is prepared. The *firm* must maintain **financial resources** sufficient to meet its new **financial resources requirement** from the date on which the fourth quarterly **financial return** is prepared and

no later than 80 business days after the *firm's accounting reference date*. The **expenditure based requirement** applicable at the **accounting reference date** will be based on the four quarterly **financial returns** prepared up to and on that date.