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# 1. About this Manual

## 1.1 Introduction

This manual is intended as a guide to help you maintain and process brokerages that are applicable to a contract involving a product in Oracle FLEXCUBE.

Besides this User Manual, you can find answers to specific features and procedures in the Online Help, which can be invoked, by choosing 'Help Contents' from the *Help* Menu of the software. You can further obtain information specific to a particular field by placing the cursor on the relevant field and striking <F1> on the keyboard.

## 1.2 Organization

This manual contains a single chapter **Processing Brokerage**, which explains how brokerage can be set up and processed. It details the procedure involved in defining brokerage rules and associating a broker with a brokerage rule and product, so that the brokerage is applicable to all deals involving the product. It also explains how to make deal-specific changes.

## 1.3 Conventions Used in this Manual

Important information is preceded with the  symbol.

## 1.4 Related Documents

*For further information on procedures discussed in the manual, refer to Oracle FLEXCUBE manuals on:*

- Common Procedures
- Products

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## 2. Processing Brokerage

### 2.1 Introduction

This manual explains the processing of brokerage in Oracle FLEXCUBE. Using the Brokerage service you can:

- Capture and maintain the details of brokers
- Specify brokerage discounts for a broker
- Specify the currency of booking
- Specify whether brokerage is to be paid on the deal in advance or in arrears
- Define a brokerage rule with amount slabs for specifying a flat amount, a percentage of the deal or the deal amount, within certain limits
- Specify whether the brokerage amount should be in the deal currency or converted to the LCY
- Book brokerage to an internal account – by debiting the expense and crediting the brokerage payable account (brokerage is booked on initiation of the deal)
- Opt to either manually liquidate brokerage or automatically liquidate brokerage either at deal initiation or at deal liquidation (You can manually liquidate the consolidated brokerage payable to a broker involved in many deals. That is, a broker may be entitled to brokerage from more than one deal. You can liquidate the brokerage payable for all these deals, once and for all, using the manual liquidation function).
- Associate a broker with a brokerage rule and a product so that the brokerage is applicable to all the deals involving the product
- Make deal - specific changes
- Generate reports on the brokerage payable and the brokerage that has been already paid

You process brokerage in Oracle FLEXCUBE in the following manner:

- Maintain broker details
- Maintain brokerage rules
- Associate a broker and product with a brokerage rule



Associating a broker and a product with a rule is explained in the **Products Manual**.

- Process brokerage on a contract

### 2.2 Capturing Broker details

You can capture the basic details of brokers with whom your bank deals with in the 'Broker Master Maintenance' screen. In this screen, you can specify the following:

- The broker's code
- The name and address of the broker
- The booking currency
- Details relating to the brokerage

- Whether it is to be paid in advance or as arrears
- Whether it is to be liquidated automatically or manually
- The tax scheme applicable
- The tax paid and the tax payable accounts

The 'Broker Maintenance Detail' screen is available when you click the **Detailed** option under **Broker Master**, in the Application Browser.

### 2.2.1 Specifying Broker ID

In the Broker Master Details screen, you should specify a (unique) Broker ID for every broker with whom you deal. The Broker ID has to be the same as the broker's Customer Identification Number (since a broker will have an account with you – that is, will be a customer of your bank). The Customer Identification Number can be selected from a list that is displayed.

This Broker ID will be used to identify the broker. For example, when processing a deal on which you have to pay brokerage, or when generating reports for a broker, you need to enter the code of the broker involved.

### 2.2.2 Entering Broker's Address

**Name** – When you select a Customer Identification Number to identify a broker, the name corresponding to the CIF number will be picked up and displayed. You cannot change the name that is displayed in this screen.

**Street, City, Country** – For the Broker ID that you specify (that is the CIF number that you select) the corresponding address will be picked up and displayed. You can change the address (the name of the street, the city and the country) here.

### 2.2.3 Specifying the Method of booking brokerage

You can opt to book the brokerage payable to a broker either:

- In advance, or
- As arrears.

If you select:

- Advance: brokerage will be booked when the deal is initiated.
- Arrears: brokerage will be booked when the deal is liquidated.

#### **2.2.4 Specifying the Payable Currency**

The brokerage is booked into the Broker Account defined in this screen. If this account is either not specified or is not available when brokerage is being booked, the brokerage will be booked in any one of the broker's savings or current accounts (in the currency specified here).

For every broker, you can specify the currency in which you would like to pay brokerage. If the currency that you specify is not the broker's account currency, the standard exchange rate (for the day) will be used to convert the brokerage into the currency of the broker's account.

#### **2.2.5 Specifying the Tax details**

If any tax is to be applied on the brokerage, you have to specify the following details:

- The tax scheme – a tax scheme holds the tax rules for the tax applicable on the brokerage paid.
- The tax paid account – that is, the account from which the broker's tax component has to be debited.
- The tax paid transaction code – specify the transaction code for the tax paid account by selecting one from the list so that the system can pass accounting entries for this transaction.
- The payable account – that is, the account to which the broker's tax component has to be credited.
- The tax payable transaction code — you have to specify the transaction code for the tax payable account so that accounting entries can be passed for this transaction.
- The liquidation transaction code — A broker will get the brokerage amount only after it is liquidated through the brokerage liquidation function. You should specify a liquidation transaction code from the codes maintained in the Core Entities module of Oracle FLEXCUBE. The system will pass accounting entries under this transaction code.

#### **2.2.6 Specifying MIS Details**

You can indicate the following MIS details for a broker, in the Broker Master Maintenance:

- The MIS Code that will represent the brokerage liquidation
- The MIS Code that will represent the brokerage volume discount

#### **2.2.7 Specifying Volume Discount Details**

You can indicate the following volume discount details in the Broker Master Maintenance:

- The respective GL accounts, to which volume discount entries on the expense side as well as the payable side, would be posted
- The transaction code that would be used to post volume discount entries, to the respective GL accounts

## 2.3 Defining a Brokerage Rule

Once you have defined a Broker ID, you should associate it with a Brokerage Rule. A brokerage rule identifies the basic nature of a brokerage component and specifies the method in which the brokerage is processed. Each brokerage rule is defined by a unique Rule ID. Attributes are defined for this Rule ID, which is then associated with a broker and product. When a deal is processed, the corresponding brokerage rule is picked up, depending upon the broker and product combination.

In order to define a brokerage rule, you have to specify the following:

- A rule code by which the rule is identified
- A description of the rule for information retrieval purposes
- The basis for slab/tier definition
- The brokerage calculation method (the calculation options are Brokerage Amount, Brokerage Rate or % of Contract Rate)
- If the brokerage calculation method chosen is Brokerage Rate or % of Contract Rate, you can define the minimum and maximum limits within which the computed brokerage amount should fall.
- If the brokerage calculation method chosen is % of Contract Rate, you can specify the minimum applicable rate
- The brokerage currency
- The Deal Currency, in case the Contract Rate option has been chosen as the Slab/Tier Basis.
- Whether the brokerage is to be cumulative or non-cumulative
- The slabs for which the various rates or flat amounts are applicable
- The floor amount or the minimum amount applicable for each slab
- Brokerage in proportion to contract tenor, if applicable
- The Tenor Basis (if applicable), which defines the interest basis for tenor-based brokerage
- The Volume Discount Group for brokerage computed using the rule
- Tenor-based discount, if applicable, as well as the tenor discount rates

A brokerage rule is defined in the 'Brokerage Rule Maintenance' screen. This screen is available under **Brokerage Maintenance** in the Application Browser.

Each of the options available for the definition of a brokerage rule, are described in the sections that follow.

### 2.3.1.1 Specifying the Slab / Tier Basis

Brokerage can be processed based on either of the following options:

- Amount of the contract, OR,
- The primary interest rate of the contract

According to the option that you choose, you can define the slabs/tiers based on the contract amount or the contract rate.

#### Example

If you intend to charge 100 GBP for a contract amount of 1M GBP or less, then the Slab/Tier Basis option would be Contract Amount.

Similarly, if you intend to charge 100GBP, for contracts in respect of which the contract primary interest rate 5% or less, then the Slab/Tier Basis option would be Contract Rate.

### 2.3.1.2 Specifying Rule Type

You need to specify whether the Rule type for calculating brokerage should be 'Aggregation' or 'Individual' type.

Aggregation type indicates that brokerage would be calculated on the total value of the deals.

Individual Type indicates that brokerage would be calculated on a deal by deal basis.

### 2.3.1.3 Specifying Booking Method

You need to specify whether the booking method should be 'Online' or 'Deferred'. If you have chosen rule type as 'Aggregation', then booking method should be 'Deferred'. If you choose rule type as 'Individual', then booking method can either be 'Online Booking' or 'Deferred Booking'.

For Online booking, the booking happens on the basis of the Broker's booking frequency i.e. Advance (booking event) or Arrears (Liquidation event)

For Deferred booking, the booking is triggered as a part of end of day batch process.

#### **2.3.1.4 Specifying Slab currency**

This field is mandatory if you select the 'Rule Type' as 'Aggregation'.

You need to specify the currency in which the slab details should be maintained for calculating brokerage on aggregation products.

If the slab currency is selected for aggregated products, the deal currency will be converted to slab currency to arrive at the total deal value.

#### **2.3.1.5 Specifying Rate Type**

This field is mandatory if you select the 'Rule Type' as 'Aggregation'. You need to specify a rate type to convert the deal amounts from the deal currency to slab currency.

#### **2.3.1.6 Specifying Rates for currency**

You have to indicate whether the currency rate for deal or slab currency should be Mid Rate, Buy Rate or Sale Rate.

#### **2.3.1.7 Indicating the Booking Frequency**

This field is applicable to both 'Aggregation' and 'Individual' type of rules where the booking method is 'Deferred'.

The booking frequency can be one of the following:

- Daily,
- Month Ends, or
- Year End

The booking process involves the following accounting entries:

Dr	Expense account
Cr	Brokerage payable account

#### **2.3.1.8 Specifying Unit Basis Details**

The unit based option is enabled only if the brokerage rule type selected is Aggregate.

You need to indicate whether the Brokerage Rate is unit based or amount based. Select this option to indicate that brokerage amount is unit based. In such a case, the number of units is arrived at by dividing the total deal value for that frequency with the unit value amount.

If this option is not checked, the brokerage is calculated using the amount basis calculation.

If the brokerage amount is unit based, you also need to specify the unit amount for brokerage calculation. The unit amount would be in slab currency.

You also need to indicate the Rounding Rate and Rounding Unit to be applied for Unit based rate.

### 2.3.1.9 Specifying the Brokerage Method

The following methods are available for calculation of brokerage. You can specify any of them for the rule, depending upon your requirement:

#### **Brokerage Amount**

If you are specifying a flat amount as brokerage, you choose this method.

##### **Example**

If you intend to charge 100GBP as a flat amount, based on either Contract Amount or Contract Rate, the method you would choose would be Brokerage Amount.

#### **Brokerage Rate**

When you need to specify the brokerage rate applicable on deal amount, you would choose this method.

##### **Example**

If you intend to charge 2% of the deal amount as brokerage, based on either Contract Amount or Contract Rate, the method you would choose would be Brokerage Rate.

#### **% of Contract Rate**

When you need to specify brokerage as a percentage of the primary interest rate of the contract, applicable on deal amount, you would choose this method.

##### **Example**

If you intend to charge 2% of the deal rate as brokerage rate (applicable on deal amount), based on Contract Rate the method you would choose would be % of Contract Rate.

#### **Examples for Combinations of Slab/Tier Basis and Brokerage Method**

The following examples illustrate and clarify the various combinations of Slab/Tier Basis and the Method that can be defined for a brokerage rule:

##### **Slab/Tier Basis option as Contract Amount and Method as Brokerage Amount**

For example, if you need to specify a flat brokerage amount 100 GBP for a deal amount of 1M GBP or less, you would choose this combination.

##### **Slab/Tier Basis option as Contract Amount and Method as Brokerage Rate**

You would choose this combination if you need to specify a rate, which will be multiplied to deal amount to get the brokerage, depending on "Contract Amount".

For example, if you need to define a brokerage rate of 5% for a deal amount 1M GBP or less, you would choose this combination. The brokerage rate thus arrived at, is applied on deal amount to compute the applicable brokerage.

##### **Slab/Tier Basis option as Contract Rate and Method as Brokerage Amount**

For example, if you need to specify a flat brokerage amount of 100 GBP when the primary interest rate of the contract is 5% or less, you would choose this combination.

##### **Slab/Tier Basis option as Contract Rate and Method as Brokerage Rate**

You would choose this combination if you need to specify a rate (which will be multiplied to deal amount to get the brokerage) depending on Contract Rate.

For example, if you need to define a brokerage rate of 5% in case the primary interest rate of the contract 10% or less, you would choose this combination. The brokerage rate thus arrived at, is applied on deal amount to the compute the applicable brokerage.

### **Slab/Tier Basis option as Contract Rate and Method as % of Contract Rate**

You would choose this combination if you need to define brokerage rate as a percentage of contract rate (which will be multiplied to deal amount to compute the brokerage), depending on Contract Rate.

For each slab, you would need to define a minimum brokerage rate. If the calculated brokerage rate falls below the minimum rate, the minimum rate would be used.

For example, if you need to define a brokerage rate as 30% of the primary interest rate in cases where the primary interest rate is 10% or less, you would choose this combination. The brokerage rate thus arrived at is then applied on deal amount to compute the applicable brokerage.

### **2.3.1.10 Specifying the relevant currencies for brokerage specification and calculation**

There are a number of currencies involved in the process for brokerage specification and calculation, such as the currencies for deal amount, Brokerage, Rates, Minimum and Maximum Amounts, Tenor Rate and Tenor Threshold Amount.

The table given below explains the representation in terms of currency, for the different options and the amount and rates specifications for a brokerage rule:

<b>Slab/Tier Basis Option</b>	<b>Method Option</b>	<b>Minimum/Maximum Amount Currency</b>	<b>Contract Rate / Contract Amount Currency</b>	<b>Brokerage. Amount / Brokerage. Rate / % of Cont. Rate Currency</b>	<b>Threshold Amount Currency</b>	<b>Tenor Discount Currency</b>
Contract Rate	Brokerage Amount	Brokerage Currency	Deal Currency	Brokerage Currency	Deal Currency	Brokerage Currency
Contract Rate	Brokerage Rate	Brokerage Currency	Deal Currency	Deal Currency	Deal Currency	Brokerage Currency
Contract Rate	% of Contract Rate	Brokerage Currency	Deal Currency	Deal Currency	Deal Currency	Brokerage Currency
Contract Amount	Brokerage Amount	LCY	LCY	LCY	-	-
Contract Amount	Brokerage Rate	LCY	LCY	LCY	-	-



This table is referred to in this user manual document for all considerations regarding currencies for brokerage calculation.

### 2.3.1.11 Indicating Tenor Basis

You can specify the applicable interest basis for tenor-based brokerage.

For rules in respect of which the Brokerage Amount option has been chosen as the Method, the specified tenor basis is used by the System to obtain the relevant tenor slab for tenor discount calculations (the tenor discount feature is explained in a later section of this user manual). If the tenor basis is not specified (that is, the Tenor Basis field is blank) the System obtains the applicable tenor basis from the specification made for the deal currency, in the Currency Definition.

The tenor basis is only applicable if the Contract Rate option is chosen as the Slab/Tier Basis.

### 2.3.1.12 Brokerage based on contract tenor

You can choose to levy brokerage in proportion to the tenor of the contract as per tenor basis. You can enable the tenor-based option only if:

- the Contract Rate option is chosen as the Slab/Tier Basis, and,
- either the % of Contract Rate or the Brokerage Rate options have been chosen as the Method.

#### Example

For a brokerage rule you have maintained the following parameters:

- Slab / Tier Basis = Contract Rate
- Method = Brokerage Rate
- The Tenor Based option has been enabled
- Tenor Basis = 'Actual/365'

The slabs have been defined as shown below:

<b>Contract Rate</b>	<b>Brokerage Rate</b>
0.5%	0.3%
1.0%	0.4%
1.5%	0.6%

For a contract with the following specifications, for which the brokerage rule is applied, the brokerage amount is computed as shown below:

#### Contract Specifications

Contract Principal Amount = JPY 100M

Rate = 0.6%

Tenor = 10 days

#### Brokerage Calculation

Since the contract rate is .6%, the corresponding brokerage rate is 0.4.

Brokerage Amount = (Principal Amount x Brokerage Rate x Tenor) / 365 = (100M x 0.004 x 10) /365 = JPY 10959

#### Example

For a brokerage rule you have maintained the following parameters:

- Slab / Tier Basis = 'Contract Rate'
- Method = '% of contract Rate'
- The Tenor Based option has been enabled
- Tenor Basis = 'Actual/365'

Contract Rate	% of Contract Rate	Minimum Rate
0.5%	20%	0.1%
1.0%	30%	0.2%
1.5%	40%	0.4%

For a contract with the following specifications, for which the brokerage rule is applied, the brokerage amount is computed as shown below:

**Contract Specifications**

Contract Principal Amount = JPY 100M

Rate = 0.6%

Tenor = 10 days

**Brokerage Calculation**

Since the contract rate is .6%, the corresponding percentage of contract rate applicable is 30%.

Hence, calculated brokerage rate =  $0.6 * 0.3 = 0.18\%$

However, the Minimum Rate for this slab is 0.2%

As the calculated brokerage rate falls below the minimum rate, the brokerage rate applied is 0.2%

Brokerage Amount = (Principal Amount x Brokerage Rate x Tenor) / 365 =  $(100M * 0.002 * 10) / 365 = \text{JPY } 5479$

**2.3.1.13 Specifying the amount limits for a brokerage rate**

For rules in respect of which either Brokerage Rate or % of Contract Rate options have been indicated as the Brokerage Method, you can specify the minimum and maximum amounts, within which the brokerage amount (calculated using the method) should fall.

If the calculated brokerage falls below the minimum limit then minimum limit is used as brokerage. Similarly, if it exceeds the maximum limit then the maximum limit specified is used.

**Example**

For the brokerage rule BR01, you have maintained the following details:

<b>Code</b>	<b>BR01</b>
Brokerage Currency	Deal CCY
Brokerage Method	Brokerage Rate
Rate	2
Min. Amount	1000
Max. Amount	10000

<b>Code</b>	<b>BR01</b>
Basis	Contract Amount

This brokerage rule is linked to deal FX 11450460. The deal currency is USD and the local currency is USD. The amount involved in the deal is 40000 USD and brokerage has to be paid in USD.

The brokerage amount for this deal is calculated as follows:

$$40000 * 2/100 = 800 \text{ (brokerage amount)}$$

As this amount is less than the Min. Amount specified for this brokerage rule, a brokerage of USD 1000 will be levied on the deal. On the other hand, if the brokerage calculated were more than 10000, USD 10000 would be applied as brokerage.

If you have specified a flat amount for the tax rule, then you need not specify the minimum and maximum amount limits.



In cases where the brokerage currency is different from the minimum / maximum limit currencies (as explained in the currency options table shown earlier), the standard currency rate is used for conversion and then only the amount is compared with minimum and maximum limits.

### **2.3.1.14 Defining slabs and tier structures**

You can define the brokerage to be applied on deals in any one of the following ways:

- In a tier structure (cumulative)
- In a slab structure (non-cumulative)

The following example illustrates how this works:

#### **Example**

You have the following Amount Basis (cumulative) structure for a Brokerage Rule defined for brokerage on principal, with the Slab/Tier Basis option being Contract Amount and the Brokerage Method being Brokerage Rate:

<b>Amount</b>	<b>Rate</b>
0 to 250 thousand	5%
> 250 thousand <= 1 Million	6%
> 1 Million <= 3 Million	7%
> 3 Million	8%

When this Brokerage Rule is applied on a spot buy deal of USD 1.5 million, the rate of brokerage will be calculated depending on whether the Amount Basis has been defined as Slab or Tier, in the following manner

#### **Tier basis**

The first 250,000 will be charged at 5% (USD 12500)

Amount from 250,001 to 1,000,000 at 6%(USD 45000)

Amount from 1,000,001 to 1,500,000 at 7%(USD 35000)

The total amount charged as brokerage will be USD 92,500

#### **Slab basis**

The entire USD 1.5 million will be charged at 7%  
The amount charged as brokerage will be USD 105,000.



Tier structures can only be defined for rules in which the brokerage is processed based on the Contract Amount (that is, the Slab / Tier Basis specified for the rule is Contract Amount).

### **2.3.1.15 Defining Slabs for rules with the Contract Amount option as the Slab/Tier Basis**

#### **Specifying the Contract Amount**

You should specify the upper limit of the slab or tier to which a particular rate or amount should be applied as brokerage (to be specified in the subsequent field). This specification is only applicable if the Contract Amount option is chosen as the Slab/Tier Basis.

#### **Example**

Suppose the following is the slab or tier structure you want to specify:

<b>Contract Amount</b>	<b>Brokerage Rate</b>
0 to 250 thousand	5%
> 250 thousand <= 1 Million	6%
> 1 Million <= 3 Million	7%
> 3 Million	8%

The Contract Amount for the first slab or tier should be indicated as 250,000; that for the second slab or tier as 1,000,000 and so on.

If you are to calculate cumulative brokerage on, say an amount of USD 300,000:

- on 250,000 you would calculate brokerage at 5%, which comes to USD 12,500;
- then, on the remaining 50,000 you apply brokerage at 6%, which works out to USD 3,000.

The total brokerage applicable on USD 300,000 would, therefore, be 15,500.

In a non-cumulative or slab structure of brokerage application you will apply 6% on USD 300,000, which works out to USD 18,000.

#### **Specifying the Brokerage Amount**

For brokerage rules for which the Brokerage Amount option has been chosen as the Brokerage Method, you will need to define the flat amount applicable for the slab.

#### **Specifying the Brokerage Rate**

For brokerage rules for which the Brokerage Rate option has been chosen as the Brokerage Method, you should specify the rate. This rate will be applied to the deal amount.

### **2.3.1.16 Defining Slabs for rules with the Contract Rate option as the Slab/Tier Basis**

For brokerage rules for which the Contract Rate option has been chosen as the Slab/Tier Basis, you should specify the upper limit of the slab or tier to which an amount, particular rate, percentage of contract rate should be applied as brokerage (to be specified in the subsequent field).

#### **Example**

Let us suppose that you want to specify the following slab or tier structure for brokerage:

<b>Contract Rate</b>	<b>Brokerage Rate</b>
10%	5%
8%	6%
6%	7%
4%	8%

The Contract Rate for the first slab or tier should be indicated as 10%; that for the second slab or tier as 8%, and so on.

If you are to calculate brokerage on, say, an amount of USD 300,000:

If the contract rate is 10%, you would calculate brokerage at 5%, which comes to USD 15,000;

If the contract rate is 8%, you apply brokerage at 6%, which works out to USD 18,000.

### **Specifying the Brokerage Amount**

For brokerage rules for which the Brokerage Amount option has been chosen as the Brokerage Method, you will need to define the flat amount applicable for the slab.

### **Specifying the Brokerage Rate**

For brokerage rules for which the Brokerage Rate option has been chosen as the Brokerage Method, you should specify the rate. This rate will be applied on the deal amount.

### **Specifying the Percentage of Contract Rate**

If you are defining a brokerage rule in which the brokerage is being processed as a percentage of the Contract Rate (that is, the Slab / Tier Basis specified for the rule is Contract Rate and the application Method selected is Percentage of Contract Rate), specify the percentage of the contract rate that is applied on the deal rate to obtain the applicable brokerage rate.

### **Specifying the Minimum Rate**

If the brokerage is in the form of a percentage of the contract rate, (that is, the % of Contract Rate option has been chosen as the Brokerage Method) you should specify the minimum applicable rate for the rule.

If the specified brokerage rate falls below this value, the minimum rate is applied on the deal rate to obtain the brokerage rate.

#### **2.3.1.17 Specifying Floor amount**

You should specify this only if the basis of brokerage application is Cumulative (for a tier structure). This will be the upper limit of the previous tier. By default, the amount specified as the Contract Amount for the previous tier limit will be displayed. This need not be specified for the first limit in the tier.

This amount is used to calculate the brokerage, along with the Floor Amount that you specify in this screen.

### 2.3.1.18 Specifying Floor Brokerage

The Floor Charge is applicable only if the Amount Basis is a Tier. This is the brokerage amount to be considered for the previous tier limit. This amount is used along with Floor Amount specified in the previous field, to arrive at the brokerage. This need not be specified for the first limit in the tier.

This amount need not be the same as the amount calculated using the Contract Amount and the rate for the previous slab.

### 2.3.1.19 Specifying Volume Discount Group

If volume discounts are to be applicable for brokerage processed using the rule, you must specify the applicable volume discount group. When the brokerage rule is applied for a broker, the volume discount process aggregates the brokerage payable. The volume discount is aggregated based on the periodicity and volume discount rates defined in the Volume Discount Preference maintenance, for the Broker and volume discount group combination.

### 2.3.1.20 Specifying Tenor Discounts

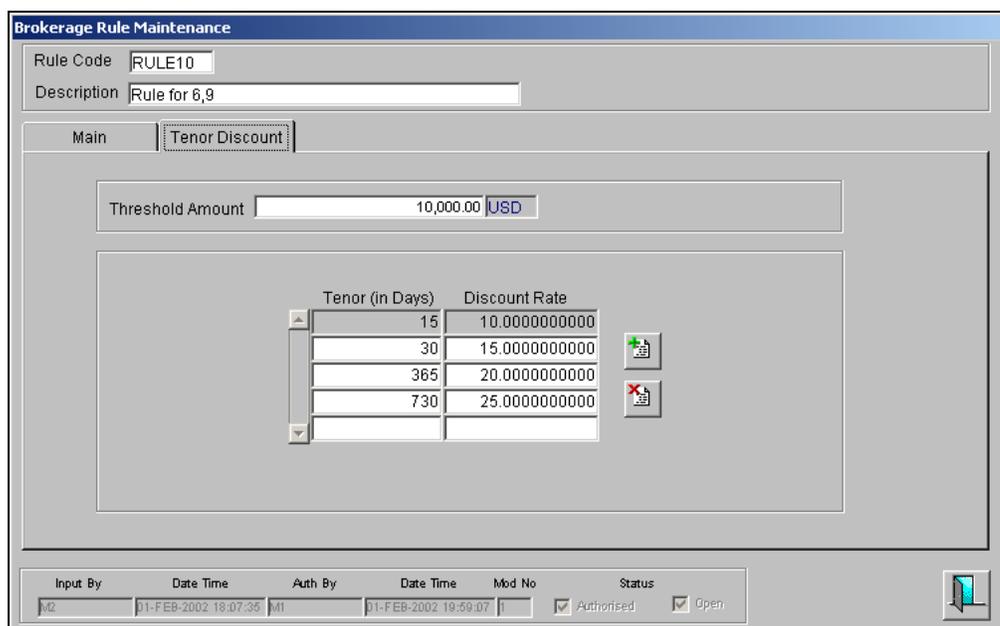
For brokerage processed using the rule, you can define whether tenor-based discount rates can be maintained. This discount is applied only after brokerage is calculated.

 The Minimum and Maximum Amounts and the Minimum Rate, are applied on brokerage calculation before applying tenor discount. Therefore, it could be possible that the computed brokerage amount after application of tenor discount could fall below the Minimum Amount.

Tenor-based discounts can only be indicated for rules in respect of which the Contract Rate option has been chosen as the Slab/Tier Basis.

#### Setting up tenor-wise discount rates

You indicate the tenor-wise discount rates in the Tenor Discount tab in the Brokerage Rule Maintenance screen. This tab is enabled only if the tenor discount option has been selected for the rule.



Brokerage Rule Maintenance

Rule Code: RULE10  
Description: Rule for 6,9

Main | Tenor Discount

Threshold Amount: 10,000.00 USD

Tenor (in Days)	Discount Rate
15	10.0000000000
30	15.0000000000
365	20.0000000000
730	25.0000000000

Input By: M2 | Date Time: 01-FEB-2002 18:07:35 | Auth By: M1 | Date Time: 01-FEB-2002 19:59:07 | Mod No: | Status:  Authorised  Open

To maintain tenor-wise discount rates in this tab, you must indicate the following details:

- The minimum principal contract amount (threshold amount) required for a contract using the rule, to qualify for tenor discount. If the contract amount falls below the threshold, the contract would not be considered for tenor discounts in respect of brokerage. For the currency of this amount, refer to the currency options table shown earlier.
- The different tenor slabs for which the tenor discount rates are being maintained. To identify the tenor discount rates applicable for a contract, the System compares the contract tenor with the different tenor slabs maintained and arrives at the slab in which the contract tenor falls. The tenor basis that has been specified is used by the System to arrive at the relevant tenor. If the tenor basis is not specified (that is, the Tenor Basis field is blank) the System obtains the applicable tenor basis from the specification made for the deal currency, in the Currency Definition. The discount rate maintained for the identified slab is applied. The tenor slabs are expressed in days.
- For each tenor slab, the discount rate to be applicable on the computed brokerage amount.

**Example**

For the brokerage rule BRK1, tenor discounts are maintained as follows:

Threshold Amount = 3M JPY

The discount rates for each tenor slab are defined as follows:

Tenor Slab (Days)	Discount Rate
15	10%
30	15%
365	20%

The rule BRK1 is applied for a contract with the following parameters:

- Contract Principal Amount = JPY 100M
- Rate = 0.75%
- Tenor = 10 days
- Brokerage Amount (specified) = JPY 5479

Since the Principal Amount (JPY 100M) exceeds the Threshold Amount (JPY 3M), the contract qualifies for tenor discount. Also, since the tenor of the contract (10 days) falls within the first slab, the applicable tenor discount rate is 10%. The applicable tenor discount is computed as follows:

Discount Amount = 10% of JPY 5479  
= JPY 548

Effective Brokerage = JPY (5479 – 548)  
= JPY 4931

If minimum / maximum brokerage has been specified for the rule BRK1, the System applies the limits on calculated brokerage amount before any tenor discount application.

## **2.4 Associating a broker and product with a rule**

Brokerage association enables you to link a product, a rule, a currency or a currency pair (in the case of foreign exchange products) and a broker.

### **Example**

You have created the following:

<b>Broker</b>	<b>Alexander</b>
Brokerage Rule	BRRL1
Foreign Exchange Product	BuyUSD

You would like Alexander to broker all deals involving the product BuyUSD. The brokerage in these deals is defined as Brokrule1.

To make BRRL1 as the brokerage for all deals involving Alexander and BuyUSD, you should associate the combination of Alexander and BuyUSD with BRRL1 through the Broker Association table.

Further, you can make a Brokerage Rule applicable for a broker, product and currency combination. Continuing the example...

### **Example**

You want to apply BRRL1 for all deals involving the product BuyUSD, *in USD only*. You can do so by associating Alexander, BuyUSD, BRRL1 and USD through the Brokerage Association screen.

For a Foreign Exchange deal, you can make the brokerage applicable only when the deal involves a specific currency pair.

You can invoke the Brokerage Association screen from the Application Browser.

Broker Code	AMBANK01	AMBANK01
Product Code	MMBO	borrowing
Currency	<input checked="" type="radio"/> Single <input type="radio"/> Pair	
Ccy1	GBP	POUND STERLING
Ccy2	GBP	POUND STERLING
Rule Code	BROK	Brokerage Rule1

Entry By	Date Time	Auth By	Date Time	Mod No	Status
NDFRAMAU	25-JUL-2001 18:48:54	NDFRAM	25-JUL-2001 18:51:31	1	Authorised Open

When a contract is processed, the System picks up the corresponding rule defined in this screen, for the Product, Broker and Currency of the contract. The rule thus derived is used to calculate the brokerage.

### **Features of the screen**

You must specify the following details in the broker association screen to define an association:

- Broker + Product Association (the rule will be applicable for all the deals involving this broker and product, irrespective of the currency of the deal)
- Enter the Broker Code, Product Code. Leave Currency or Currency Pair blank.
- Broker + Product + Currency association (the rule will be applicable for deals involving the product, broker and the currency.)

- Enter the Broker Code, Product Code, Brokerage Rule and Currency.

Rules for which any of the following definitions are enabled can only be linked with Money Market products:

- Tenor-based brokerage
- Tenor discount

Rules for which the brokerage is based on contract rate can only be associated if the deal currency of the rule is the same as the linked currency in the Brokerage Association screen.

Rules for which the brokerage is based on contract rate cannot be associated with Money Market products for which a negative interest type has been set.

## 2.5 **Maintaining Volume Discount Groups**

In order to aggregate brokerage, you can define volume discount groups. These groups can be associated at a rule level as well as with a broker. When a contract involves a broker having the same volume discount group as the brokerage rule used for the contract, the brokerage is aggregated for volume discount purposes. Volume discount is applied based on the frequency and the Reset Basis Date.

For details about associating a broker with the appropriate volume discount group, refer the proceeding section in this user manual.

Input By	Date/Time	Auth By	Date/Time	Mod No
M2	01-FEB-2002 16:31:56	M3	01-FEB-2002 16:35:30	2

For each group, you must specify a unique identification and an appropriate description.

### 2.5.1 **Maintaining Parameters for Volume Discount Application**

For brokers for whom volume-based brokerage discount is applicable, you can maintain the parameters according to which the volume discount would be aggregated and computed.

To do this, use the Volume Discount Preferences screen.

Aggregate Brokerage Amount	Discount Rate (%)
5,000.00	7.0000000000
20,000.00	12.0000000000
100,000.00	17.0000000000
999,999,999.999.00	27.0000000000

You can maintain the following parameters that will govern the application and computation of volume discount for a broker:

### Broker ID

You must indicate the broker for whom the volume discount preferences are being maintained.

### Volume Discount Group

You can indicate the volume discount group under which the broker is placed

### Frequency

You can indicate the frequency at which volume discount must be applied on the brokerage payable to the broker. You can provide the frequency in terms of any one (*not all*) of the following:

- days
- months
- years

### Reset Basis Date

The date on which the application of volume discount would commence for the selected broker and volume discount group. The frequency is considered based on this date.

### Cumulative

You can define whether the volume discount rates are applied at a cumulative (tier) level or non-cumulative (slab) level.

## Aggregate Brokerage Amount

In this column, you can define the slabs/tiers for total brokerage accumulated for the selected Broker and Volume Discount group combination in an aggregation period (based on the specified Frequency and Reset Basis Date). It is used to define Volume Discount Rates applicable for the slab/tier.

## Discount Rate

You can indicate the volume discount rate applicable to the aggregated brokerage amount, during an aggregation period (based on the specified Frequency and Reset Basis Date)

## How volume discounts are aggregated

The brokerage amount that is computed, after applying the tenor discount, is aggregated for a broker and volume discount group.

If a deal, for which volume discount had been computed during the previous period, has been reversed, the reversal does not affect the present period aggregate brokerage amount.

### Example

The volume discount parameters for a broker are maintained as follows:

Volume Discount Periodicity = Monthly

Cumulative = No (Slab basis)

Basis Currency = JPY

The slabs are defined as follows:

Aggregate Brokerage Amount	Discount Rate Percentage
5000	5
10000	10
20000	15
999999999	25

In the current month, the contracts C1, C2 and C3 have been entered for the broker. The System computes the applicable volume discount as follows:

Aggregate Brokerage Amount = Sum (Effective Brokerage on C1, C2 and C3)  
= JPY (4931 + 2912 + 2329)  
= JPY 10172

For this computed aggregate brokerage amount (JPY 10172) in respect of the selected Broker, the applicable volume discount rate (from the table above) is 15%. The applicable volume discount for the broker is 15 percent of JPY 10172 = JPY 1526

The net brokerage payable to the broker = JPY 10172 – (15% of JPY 10172)  
= JPY (10172 – 1526)  
= JPY 8646

## 2.5.2 Batch Process for Application of Brokerage Volume Discount

You can manually invoke the process for application of brokerage volume discount, using the Brokerage Volume Discount Batch screen.



When executed, the batch process computes the volume discount applicable for each broker. This computed volume discount is posted to the Brokerage Payable GL and the Expense GL maintained for the broker. The applicable volume discount rate is picked up from the Volume Discount Preferences, along with the frequency of application and the Reset Basis date.

This process must be scheduled to be executed during the End of Day process, before the Interest and Charges End of Day batch.

### 2.5.2.1 Accounting Entries for Volume Discount

The example given below illustrates how accounting entries relating to brokerage volume discount are passed, for the BOOK event as well as for the volume discount process.

#### **Example**

The volume discount parameters for a broker are maintained as follows:

Volume Discount Periodicity = Monthly

Cumulative = No (Slab basis)

Basis Currency = JPY

The slabs are defined as follows:

Aggregate Brokerage Amount	Discount Rate Percentage
5000	5
10000	10
20000	15
99999999	25

In the current month, the contracts C1, C2 and C3 have been entered for the broker, with the effective brokerage on each being JPY 4931 for C1, JPY 2912 for C2 and JPY 2329 for C3.

The entries are posted as follows:

**On BOOK event**

**For Contract C1:**

<b>Dr / Cr Indicator</b>	<b>Accounting Role</b>	<b>Entry</b>
Dr	Expense GL	JPY 4931
Cr	Brokerage Payable	JPY 4931

**For Contract C2:**

<b>Dr / Cr Indicator</b>	<b>Accounting Role</b>	<b>Entry</b>
Dr	Expense GL	JPY 2912
Cr	Brokerage Payable	JPY 2912

**For Contract C3:**

<b>Dr / Cr Indicator</b>	<b>Accounting Role</b>	<b>Entry</b>
Dr	Expense GL	JPY 2329
Cr	Brokerage Payable	JPY 2329

**When the Volume Discount Batch process is run:**

The System computes the applicable volume discount as follows:

$$\begin{aligned} \text{Aggregate Brokerage Amount} &= \text{Sum (Effective Brokerage on C1, C2 and C3)} \\ &= \text{JPY (4931 + 2912 + 2329)} \\ &= \text{JPY 10172} \end{aligned}$$

For this computed aggregate brokerage amount (JPY 10172) in respect of the selected Broker, the applicable volume discount rate (from the table above) is 15%. The applicable volume discount for the broker is 15 percent of JPY 10172 = JPY 1526

The accounting entries passed are as follows:

<b>Dr / Cr Indicator</b>	<b>Accounting Role</b>	<b>Entry</b>
Cr	Broker P&L GL	JPY 1526
Dr	Broker Payable GL	JPY 1526

**On Brokerage Liquidation (LIQD) event:**

$$\begin{aligned} \text{The net brokerage payable to the broker} &= \text{JPY 10172} - (15\% \text{ of JPY 10172}) \\ &= \text{JPY (10172} - 1526) \\ &= \text{JPY 8646} \end{aligned}$$

The entries passed are as follows:

Dr / Cr Indicator	Accounting Role	Entry
Dr	Brokerage Payable	JPY 10172
Cr	Customer (Broker) A/c	JPY 8646
Cr	Broker Payable GL	JPY 1526

## 2.6 Processing Brokerage on a Deal

When capturing the details of a deal, you will have to specify the brokerage details applicable to the deal. By default, the brokerage details specified for the product apply to the deal as well. However, if you want to change some details, like the booking of brokerage — whether the brokerage should be booked in advance, in arrears, or waived altogether — or the currency of the deal, you will have to invoke the Contract Brokerage Details screen.

You can invoke this screen through the Contract Details screen by clicking on the Brokerage button in the screen.

### 2.6.1 Features of the Contract Brokerage Details screen

If brokerage has been specified for the product that a deal involves, the system will pick up the values and display them in this screen. However, if the product has not been associated with a brokerage rule, you will not see any values in this screen.

You can define brokerage for a specific deal, even if it has not been defined for the other deals involving the product.

When you invoke the Contract Brokerage Details screen for operations like deal events delete, change, authorize, liquidate and detailed view, this screen will only display the details. You can change the values only if you have clicked the Modify option from the Action Menu.

In this screen, you can see whether the brokerage has been booked in advance or arrears for the deal that you are processing. You can change it in this screen, say, from advance to arrears, or vice-versa. You also have a third option, that is, of waiving brokerage altogether. If you opt for no booking, no accounting entries will be passed for brokerage for that particular deal.

The broker code is displayed in the screen along with the broker's name. You cannot change the broker, through this screen, for the deal that you are processing.

If the brokerage payable currency is the same as the brokerage paid currency, then the same amounts (brokerage paid and brokerage payable) will be displayed against the currencies. You can change these currencies if you wish to. While you cannot alter the brokerage payable amount that is displayed, you can change the 'brokerage paid amount' value.

This screen will also show you if the brokerage has been already liquidated. If it has been liquidated, the liquidation reference number will be displayed.

The brokerage rule code and description (on the basis of which brokerage is calculated) will also be displayed.

## 2.6.2 Liquidating Brokerage Manually

To liquidate brokerage payable on a deal, invoke the Brokerage Liquidation Screen. In this screen, you can opt to liquidate the *consolidated* brokerage that is due to a broker.

The screenshot shows the 'Brokerage Liquidation' window with the following details:

- Broker Code: BROKF05
- Liquidation Ref No: CT3ZBLQ0501302BD
- Booking Date: 13-JAN-2005
- Currency: USD
- Total Amount Payable: 500.00
- Module:  FX  MM  LT  ALL
- Generate Payment Message:
- Remarks: [Empty field]

**Transaction Details**

Contract Reference	LT Ticket ID	Payable A/C	Amount Payable	Booking Date	O	A	R
CT3ANK1050130004	819	100000056	500.00	13-JAN-2005	<input type="radio"/>	<input type="radio"/>	<input type="checkbox"/>
					<input type="radio"/>	<input type="radio"/>	<input type="checkbox"/>
					<input type="radio"/>	<input type="radio"/>	<input type="checkbox"/>
					<input type="radio"/>	<input type="radio"/>	<input type="checkbox"/>

**Audit Details**

	Entry By	Entry Time	Auth By	Auth Time	
Liquidation	JIGAR02	13/01/2005 19:14:19	JIGAR01	13/01/2005 19:14:56	<input checked="" type="checkbox"/> Authorized
Reversal					

To manually pay brokerage for various deals, involving a specific broker, you have to specify the Broker Code of the individual concerned (the code of the broker to whom you wish to pay brokerage). The payable currency defaults from the Brokerage Master Details screen.

You should also specify the module for which the brokerage is being calculated – for instance, Foreign Exchange. The tax scheme applicable on the brokerage would be the scheme specified in the Broker Master Detail screen. The date on which the brokerage is booked will also be displayed in this screen.

Once you enter the required details in this screen, you will see all the deals for which brokerage is yet to be paid to the broker, along with

- The brokerage amount in the payable currency, and
- The equivalent amount in the settlement currency (based on the standard mid-rate).
- The brokerage discount applicable to this broker

The value date for brokerage on the various deals will also be displayed. System also displays the LT Ticket ID associated with each SLT trade.

You should always liquidate the complete payable amount for a trade reference number. If you liquidate the partial payable amount, then the subsequent liquidation for the remaining payable should be operationally controlled.

If you click the Sum button, the system sums up the Settlement CCY value for all these deals. The total amount paid will be displayed.

You can invoke the tax button to go to the Deal Tax Details screen. In this screen you will see the tax details that apply on the deal.

Click the Brokerage Settlement button to go to the Brokerage Settlement screen.

Click  to see the Brokerage liquidation accounting entries.



Note the following:

- Broker Fee payable liquidation happens only after the trade/ticket is settled successfully.
- SLT bridge account is derived from 'Currency Branch Accounts' screen. In this screen, the customer account can be maintained for a branch and currency combination.
- The settlement instructions maintained for the broker id are not used for the payable liquidations and SLT bridge account overrides the settlement instructions of Broker id.
- Broker Fee liquidation is applicable only for the LT module and not for any other module.

### **2.6.3 Accounting Entries**

The brokerage that is calculated on a deal is parked in a suspense account before it is paid to the broker. This account would be an internal account of the bank. It is specified at the time of defining the accounting roles and event-wise accounting entries for the product (which involves the deal on which brokerage is to be calculated). Accounting entries for brokerage liquidation are defined at the time of product definition, both, for booking, or, initiation and liquidation.

The brokerage payable account (the broker's account into which the actual brokerage for a particular deal is to be paid) is defined in the brokerage liquidation screen in the Settlements module.

Although a broker may have to be paid brokerage on several deals, the manual liquidation function of the system consolidates these into a single settlement amount to be passed to the settlement account. The brokerage payment advice, specified at the time of defining advices for a particular product, will be triggered off.

If you click  you will see the accounting entries screen for the particular Liquidation reference number. The event is "Liquidation" and the transaction date is today's date.

You will see the following in the screen:

- Value date
- Branch
- Account no
- Currency
- Dr/Cr
- Transaction code
- FCY amount

- Exchange rate for FCY
- LCY amount

Accounting entries for payable liquidation are given below:

GL / Account	Amount Tag	Dr/Cr
Payable GL	BROK_LIQD	Dr
SLT bridge Account	BROK_LIQD	Cr

The Accounting entries (Accounting entries for payable liquidation) is applicable only for the LT module.

## 2.6.4 **Calculating Brokerage on the aggregate/individual deals**

Brokerage is always calculated on the basis of the total value of deals over a month. The slabs for brokerage are also built on the basis of the total value of the deals and not on a deal-by-deal basis.

It, therefore, becomes necessary to maintain slabs for brokerage. For example, brokerage is paid as Rs.1000 per \$1MM up to \$40MM and Rs.800 per \$1MM for \$41MM to \$80MM and so on.

Different brokerage slabs are maintained for each product. For example, there could be different slabs for Outright USDINR deals, SHORT USDINR Swaps and LONG USDINR Swaps.

Brokerage is booked depending on the Booking frequency. The Brokerage payable amount will also not be re-adjusted if contracts booked in a different period are reversed in the current period.

The following maintenances need to be done under the heads detailed below, to calculate brokerage:

*For details on maintenances for brokerage calculation, refer the section titled 'Defining a Brokerage Rule' in this User Manual.*

## 2.6.5 **Processing Brokerage Calculation and Booking on aggregate/ individual deals**

### 2.6.5.1 **Aggregate deals**

As part of the contracts being booked online in a day in Oracle FLEXCUBE, the following data would be collected:

- Branch
- Contract Reference Number
- Broker
- Rule
- Deal Currency
- Deal Amount
- Slab Currency of the Rule
- Deal amount corresponding to the slab currency

Brokerage Calculation & Booking would be done as part of the end of day batch process.

The brokerage calculation program would perform the following:

- Recalculate the Deal amount corresponding to the slab currency every day for deals booked in the current booking cycle.
- Consolidate the total amount of deals booked for a broker & rule in the current booking period.
- Calculate the total brokerage payable for a broker & rule combination in the current booking cycle.
- Reallocate the brokerage to each contract in the ratio of total deal amount to individual deal amount.
- The brokerage calculation program would ignore contracts reversed during online day if the contract was booked outside the current booking cycle. i.e. recalculation of brokerage payable amount would be affected only if contracts booked in the current booking period are reversed in the same booking period.
- If any back valued contracts are booked, with value date in the previous booking period, the brokerage that has already been calculated would not be affected, but only the current months brokerage would have a change i.e. in effect Brokerage is booking date based and not value date based.

#### **2.6.5.2 Individual deals with deferred Booking:**

For individual type rules with deferred booking, the booking would happen only at the period end date of the corresponding rule as part of BBOK event and not as part of BOOK or LIQD events.

The calculation and booking would be done as part of an End of Day batch program.

To access the 'Brokerage Product Aggregation Batch' screen, choose 'EOC Operations', 'Brokerage' and then 'Brokerage Aggregation Batch'.



A query screen is also available to view the brokerage calculation details for Aggregation type rules.