



Deed of Covenant and Assurance - Practice Note 1 - Process

Step 1: Determine the net tangible assets of the licensee.

Step 2: Does the licensee not meet the minimum level of net tangible assets or not meet the level of net tangible assets for its required allowable annual turnover?

Step 3: Is there anyone with the stated relationship to the licensee that is able to provide the deed of covenant and assurance to the licensee?

The following entities are the only ones that may provide a Deed of Covenant and Assurance to the Licensee:

Licensee	Possible Assurers
Individual licensee - sole trader	Not Applicable
Company licensee – trading as stand alone company	- Directors - Associated company
Company licensee – trading as part of a group of companies	- Directors - Associated company - Other companies in the group
Individual or Company – trading in partnership	- Other partners - Directors(if a company licensee) - Associated company (if a company licensee)
Individual or Company - acting as trustee	- Beneficiaries of the trust - Directors (if a company licensee) - Associated company (if a company licensee)

Step 4: You must carry out an assessment of the person/company intending to provide the deed of assurance and determine their net real unencumbered assets.

In order to determine a person's/company's level of Net Real Unencumbered Assets you must assess their entire personal financial position, and then apply the same formula to that person/company as was used to determine the licensee's own Net Tangible Assets.

You must then deduct the follows items to determine their Net Real Unencumbered Asset position:

- Intangible Assets (goodwill, etc)
- Related Entity Loan or Investment assets to the Covenantor by the Licensee
- Net Tangible Assets to support the Covenantor's personal licence (where applicable)

Prepare a Covenantors Statement of Financial Position for each Covenantor as at the same date.

Step 5: If the entity providing the deed has sufficient net real unencumbered assets, you must direct them to their solicitor/s to have the deed explained to them. You should provide a copy of the financial requirements for licensing to the solicitor together with a draft copy of your report so that the solicitor is aware of how much is being assured to the licensee.

Step 6: When the licensee brings the executed deed of covenant and assurance back to you, you may finalise your report including the amount/s assured to the licensee.

The Statement of Financial Position will need to be provided to BSA along with the Report (and any new Deeds) once finalised.