CENTRAL BANK OF TRINIDAD & TOBAGO

Guidelines for the use of Bankers' Acceptances by Institutions Licensed under the Financial Institutions Act, 1993

MARCH 21, 1995

Definition

1. A Bankers' Acceptance is defined as a time Bill of Exchange which has been drawn on and accepted by a licensee which thereby becomes primarily liable for its payment. A Bankers' Acceptance comes within the definition of credit facilities under Section 2 of the Financial Institutions Act, 1993 as the licensee thereby agrees to undertake on behalf of a customer a financial liability to another person.

Accounting Treatment

2. Customers' Liability on Acceptances/ Acceptances Executed - Where a licensee acts as intermediary in transactions between investors (the payees) and borrowers (the drawers) such transactions should be reported in the following contra accounts to the CB20 Report: -

   (a) Asset Account #15 - Customers' Liability on Acceptances (to reflect the licensee's claims on the borrowers).

   (b) Liabillty Account #25 - Acceptances Executed (to reflect the contingent liabilities of the licensee under the B accepted).

3. Investments – A licensee may hold as part of its on-balance sheet investment portfolio a Bill which has been accepted by another licensee where the licensee is the original payee thereof or has re-discounted i.e. purchased the Bill from the payee or a subsequent holder. In such cases the Acceptances should be classified in the CB20 Report under Account #13 - Investments.

4. On-Balance Sheet Credit Facility - Where a licensee has accepted a Bill of Exchange and subsequently discounts the same using its own funds, the licensee shall treat the transaction as an on-balance sheet credit facility and not as an investment. The transaction should be categorised under the heading "Bills Discounted" in the CB20 Report until traded, whereupon it will be reclassified in accordance with Clause 2 of these Guidelines.

Prudential Criteria Regulations

5. With respect to Acceptances classified in Clause 2 of these Guidelines, the Financial Institutions (Prudential Criteria) Regulations, 1994 require that the nominal amount of the Acceptances be converted to credit equivalents as follows: -

   (a) a conversion factor of twenty percent (20%) is to be applied to Acceptances which could be considered short-term, self-liquidating, trade-related contingencies, that is, transactions such as letters of credit and documentary collections, which arise from the movement of goods and which are collateralised by the underlying goods.

   (b) a conversion factor of one hundred percent (100%) is to be applied to all other Acceptances classified under Clause 2.

   The appropriate risk weight will then be applied to the credit equivalents as provided for in Schedule III of the Regulations.

6. Transactions classified in Clause 3 may be viewed as short-term money market investments held with another licensee, and accordingly a risk weight of twenty percent (20%) is applied to the

nominal value of the Acceptances in accordance with Schedule 11 of the Regulations which deals with on-balance sheet assets.

7. Transactions categorised in Clause 4 will be risk weighted In accordance with Schedule II of the Regulations. The risk weights will generally be dependent upon the principal obligor, the guarantor and the collateral held. Where an Acceptance qualifies for more than one category of risk weights, the lowest risk weight will apply.

8. The equivalent of at least eight per cent (8%) of <u>the risk adiusted value</u> of an Acceptance must be held as qualifying capital to offset possible losses.

<u>Purpose</u>

9. Bankers' Acceptances shall be used only for the following purposes: -

   (a) financing trade, whether domestic or international,

   (b) pre-export financing,

   (c) the financing of self-liquidating short-term receivables and Inventories.

Where existing arrangements do not fall within this Clause, Acceptances must be retired on maturity without any provision for extension of the facility or alternatively re-designated at that time as on-balance sheet credit facilities.

10. Acceptances which are issued for trade-related purposes and are collateralised by the underlying goods should be identified/supported by the appropriate trade-related documents e.g. shipping documents, warehouse receipts, etc.

Duration

11. Bankers' Acceptances should not exceed 184 days from the date of acceptance to maturity. All Acceptances which at the date of issuance of these Guidelines exceed this duration will nevertheless be allowed to run to their existing dates of maturity when they should be retired in full.

Security

12. Bankers' Acceptances may be made as secured or unsecured credit facilities in accordance with the terms of the Financial Institutions Act, 1993. Bankers' Acceptances are currently regulated under Section 22 of the Financial Institutions Act, 1993 which prohibits, inter alia, the grant by a licensee of unsecured credit facilities to any one person or borrower group exceeding in the aggregate five percent of its capital base or such proportion thereof as the Central Bank may from time to time approve; or secured facilities to any one person exceeding twenty-five per cent of its capital base or to a borrower group exceeding thirty-two per cent of its capital base or such greater proportion thereof as the Central Bank may from time to time approve.

13. Licensees are expected to observe the provisions of the Act and to conform to written institutional polices in determining the need for and adequacy of any security in relation to the extension of credit facilities.

Policies and Procedures

14. Licensees are required to have in place no later than March 31,1995 adequate written policies and procedures with respect to their Bankers' Acceptances business. These policies and procedures are required to cover, as a minimum, the management of the liquidity and funding risks attached to this activity, internal controls, proper documentation, collateral sufficiency, credit quality and collectibility.

Reporting Requirements

15. Licensees will continue to submit to the Inspector of Banks on a quarterly basis, a detailed report on their Bankers' Acceptances Portfolios in a form as prescribed by the Inspector of Banks.