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October 26, 2023

CIRCULAR LETTER TO:
All Licensed Financial Institutions and
Permitted Financial Holding Companies
under the Financial Institutions Act, 2008
Bankers Association of Trinidad and Tobago and
Institute of Chartered Accountants of Trinidad and Tobago

REF: CB-OIFI-3360/2023

NOTICE IN THE GAZETTE BY THE MINISTER OF FINANCE - REGULATIONS 18, 19 AND 20 OF THE FINANCIAL INSTITUTIONS (CAPITAL ADEQUACY) REGULATIONS, 2020

In accordance with Regulation 2 of the Financial Institutions (Capital Adequacy) Regulations, 2020 (Regulations), a Notice by the Minister of Finance dated September 30, 2023 (Appendix 1) was published in the Gazette on October 12, 2023. The purpose of the Notice was to give effect to the following regulations commencing January 1, 2024:

- Regulation 18 – the Capital Conservation Buffer;
- Regulation 19 – the Leverage Ratio; and
- Regulation 20 – the additional capital charge for a domestic systemically important bank (DSIB add-on).

The implementation of these Regulations are an integral part of Phase 2 of the Basel II/III Implementation process by the Central Bank of Trinidad and Tobago (Central Bank). These Regulations refer to Basel III standards which are aimed at ensuring banks maintain adequate capital for their operations and potential risks. The requirements for these standards are as follows:

Regulation 18 – Capital Conservation Buffer (CCB)

Regulation 18 stipulates that a financial organization, namely, a licensee or financial holding company (FHC), shall maintain a minimum CCB of 2.5% of its risk weighted assets in the form of Common Equity Tier 1 (CET1) capital. **The CCB requirement is in addition to the minimum regulatory CET1 requirement of 4.5% under Pillar I.** The CCB is intended to promote additional high quality capital above the prescribed regulatory minimum requirements under Pillar 1, that could be used to absorb losses during periods of financial and economic stress. Consequently, where the level of CET 1 capital plus CCB falls below 7%, constraints will be imposed on the discretionary distribution of earnings. Full details regarding the CCB can be found in Schedule 5 of the Regulations.

Regulation 19 – Leverage Ratio

The Leverage Ratio is a non-risk based "back stop" measure used to complement the risk based minimum requirements and to help safeguard against unsustainable levels of leverage in the banking sector. The ratio, which is calculated as:

Leverage Ratio = Tier 1 Capital / Exposure Measure $\geq$ 3%

Regulation 19 stipulates that licensees and FHCs are required to maintain a minimum Leverage Ratio of 3% (on an individual and consolidated basis) and that the ratio shall be calculated in accordance with Central Bank's guidelines. Accordingly, in March 2022, the Central Bank issued a draft Leverage Ratio Guideline and reporting framework to the banking industry for consultation. The Guideline requires licensees and FHCs to report the Leverage Ratio monthly, on an individual basis, and quarterly, on a consolidated basis. Additionally, a Quantitative Impact Study (QIS) was conducted on the leverage ratio and all financial institutions demonstrated the ability to meet the leverage ratio. **The Leverage Ratio Guideline has been finalized and has been posted to the website at** https://www.central-bank.org.tt/core-functions/supervision/basel-ii-iii-implementation. The Central Bank will issue the final Leverage Ratio Reporting Template in December 2023. In the interim financial institutions should be guided by the leverage ratio reporting template on the Bank's website at https://www.central-bank.org.tt/core-functions/supervision/basel-ii-iii-implementation.

Regulation 20 – the D-SIB capital add-on

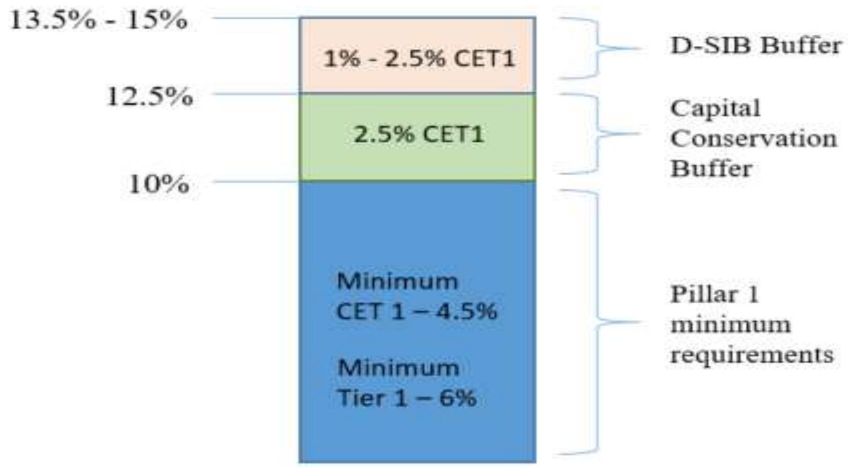
Pursuant to Regulation 20, Domestic Systemically Important Banks (D-SIBs) are required to maintain **an additional capital charge between the range of 1% - 2.5% of risk weighted assets in the form of CET1 capital**, as determined by the Inspector. The draft *Framework for Determining a Domestic Systemically Important Bank and Higher Loss Absorbency Requirement (D-SIB Framework)* was issued to the banking industry for consultation in August 2021 and has been finalized. Licensees have been assessed against the framework and two banks were determined to be DSIBs and were thus informed. The DSIB Framework can be found at https://www.central-bank.org.tt/core-functions/supervision/basel-ii-iii-implementation.

As specified in the Notice, the DSIB framework considers three criteria for assessing domestic systemic importance. The criteria are weighted based on their significance to Trinidad and Tobago's financial sector as follows: **size – 40%; interconnectedness – 30%; and substitutability – 30%**. Each of the criteria is determined by a combination of indicators as detailed in the DSIB Framework. The DSIB score which is calculated as 0.4 (Size) + 0.3 (Interconnectedness) + (0.3 (Substitutability) will determine the quantum of the respective capital add-on as shown in the table below.

Bucket	DSIB Score "X" (in %)	Capital add-on
1	$10 \leq X < 15$	1.0%
2	$15 \leq X < 20$	1.5%
3	$20 \leq X < 25$	2.0%
4	≥ 25	2.5%

The impact of the CCB and DSIB add-on (where applicable) **entail additional capital requirements to the Pillar 1 risk based capital framework and are illustrated below**. The Leverage Ratio is a non-risk based capital measure which does not require banks to hold any additional capital once the minimum requirement of 3% is met.

In summary, effective January 2024, licensees and FHCs will be required to hold an additional 2.5% of RWAs in CET1 capital, above the minimum capital requirement of 10%, as a CCB. Failure to hold the CCB buffer will result in restriction in dividend payments. In addition, a D-SIB will be required to also hold an additional capital buffer of between 1% - 2.5% of RWAs in CET1 capital as determined by the Inspector. You are advised that the illustration below does not take into account any additional capital the financial institution may require based on its Pillar 2 Internal Capital Adequacy Assessment Process (ICAAP).



Reporting to the Central Bank

Please note that the CCB and the D-SIB add on are to be reported on the Basel template (CB 100B form) within the same time period and frequency as required for the solo and consolidated Basel II/III CB 100B Returns.

The Leverage Ratio is to be reported on the leverage ratio reporting template. A finalized template (with validation checks) will be issued in December 2023.

The Central Bank takes the opportunity to thank the banking sector for its cooperation with the rollout of the new capital adequacy standards. Any queries regarding these Regulations can be submitted electronically to the Central Bank via Baselconsultation@central-bank.org.tt.

Please be guided accordingly.

Yours sincerely

Patrick Solomon
INSPECTOR OF FINANCIAL INSTITUTIONS

Appendix 1 – Notice

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REPUBLIC OF TRINIDAD AND TOBAGO

THE FINANCIAL INSTITUTIONS ACT, CHAP. 79:09

FINANCIAL INSTITUTIONS (CAPITAL ADEQUACY) REGULATIONS 2020

NOTICE

ISSUED BY THE MINISTER OF FINANCE UNDER REGULATION 2 OF THE FINANCIAL INSTITUTIONS (CAPITAL ADEQUACY) REGULATIONS, 2020

NOTICE is hereby given that Regulations 18, 19 and 20 of the Financial Institutions (Capital Adequacy) Regulations, 2020 shall come into force on January 1, 2024.

For the purpose of Regulation 20, a licensee shall be deemed to be systemically important based on the following criteria:

(a) size;

(b) interconnectedness;

(c) substitutability; and

(d) such other criteria as may be specified by the Central Bank following consultation with the licensees thereon.

Where a licensee is deemed systemically important, the Central Bank shall inform the licensee in writing of the relevant additional capital charge the licensee shall be required to maintain and the date from which the said additional capital charge shall be effective.

Dated this 30th day of September, 2023

C. IMBERT
Minister of Finance