Central Bank of Trinidad and Tobago

Responses to Industry Comments on the Draft Guideline for the Management of Market Risk

Guideline Reference	Industry Comment	CBTT Response
General	Clarify/Define what is considered "material".	See Footnote 2 of the Guideline which states:- "*The assessment of the materiality of an event or issue should be guided by the risk appetite and tolerance of the institution taking into account both quantitative and qualitative issues which may have a significant impact on the institution. Examples include (but are not limited to) issues which may impact the institution's operations, profitability, reputation or compliance with legislation and guidelines.*"
General	Reference to senior - Unlike the reference to the Board of Directors, management and senior management may vary between institutions and should be defined to refer to executive management and/or all managers	The term 'Senior Management' is a widely used and accepted term.
General	We recommend that the Central Bank considers an 18-24 month period for implementation, from the effective date of the guideline. This will allow the industry time to make the necessary changes to ensure compliance with the Guideline.	See Section 7 of the Guideline, which treats with Effective Date and Implementation. Upon issuance of the Guideline, institutions will be required to conduct gap analyses and, where gaps are identified, should submit Board-approved action plans to the Central Bank setting out timelines to ensure full compliance with the various requirements in the Guideline. The action plan should seek to address identified gaps within an 18-month window.

CENTRAL BANK OF TRINIDAD & TOBAGO

Central Bank of Trinidad and Tobago

Responses to Industry Comments on the Draft Guideline for the Management of Market Risk

Guideline Reference	Industry Comment	CBTT Response
General	These requirements should only apply to investments backing policyholder funds and not 'free' assets being held/ invested to earn a return to the company's shareholders.	The requirements in the Guideline are intended to ensure that institutions prudently and comprehensively manage their market risk exposure, which may emanate from any assets held by the institution, irrespective of purpose.
General	The requirements prescribed are extremely onerous, and do not take into consideration the level of risk associated with a company's preferred and/or prescribed investment mix as outlined in its investment policy. Therefore, a company with a very risk averse portfolio mix, e.g. primarily made up of bonds and money-market funds is being bound by the same onerous requirements as a company with a much higher risk appetite e.g. a high percentage of volatile securities/currencies etc.	The principle of proportionality is imbedded in the Guideline. Accordingly, the level of sophistication of the market risk management framework implemented by institutions should align with their business model, risk profile and level of market risk exposure.
General	If the primary intention of the guideline is to protect against the risk of deterioration of the assets backing policyholder liabilities then the requirements in the Insurance Act 2018 relating to (i) capital adequacy, (ii) credit exposure, (iii) investment policies and procedures, and (iv) investment of at least 75% of policyholder	The Guideline is aimed at ensuring regulated financial institutions have robust systems and processes in place to manage and mitigate their market risk exposures. This would support the respective requirements in the Insurance Act, 2018.

Central Bank of Trinidad & Tobago

Central Bank of Trinidad and Tobago

Responses to Industry Comments on the Draft Guideline for the Management of Market Risk

Guideline Reference	Industry Comment	CBTT Response
	liabilities in Trinidad and Tobago, already create a structure for safe guarding these assets.	
General	Given the relationship between market risk, liquidity risk, credit risk, interest rate risk and foreign exchange risk it seems more prudent to require licensees to create a robust overarching framework for treating with these risks together rather than requiring several separate but similar frameworks, documentation for each risk which would become extremely burdensome for smaller, less complex companies to manage given their limited resources. A consolidated framework would allow for a more holistic review of all of these interrelated financial risks.	Institutions should have a comprehensive enterprise-wide risk management (ERM) framework in place that treats with all risk holistically. The ERM Framework implemented should consider the guidance provided by the Central Bank in respect of the managing the different areas of risk, e.g. credit, market, liquidity.
General	This guideline is again geared primarily towards banks which would be involved in a much wider range of transactions that can be significantly impacted by market risk than would be applicable for the average insurer, resulting in the requirements over the guideline appearing to be excessive for the insurance industry.	We respectfully disagree that the guideline is geared specifically towards banks. Insurers also face market risk. The expectation is that the level of sophistication of the market risk management framework implemented is commensurate with the institution's level of market risk exposures.
1.1	Consideration should be giving to defining Market Risk consistent with that of global market regulator organization. Consider including the definition for Market Risk.	The definition is intended to apply broadly enough to all institutions covered by the Guideline.

Central Bank of Trinidad and Tobago

Responses to Industry Comments on the Draft Guideline for the Management of Market Risk

Guideline Reference	Industry Comment	CBTT Response
	Market risk inherent in any investment is the risk that the investment will not be as profitable as the investor expected because of fluctuations in the market. Market risk involves the risk that prices or rates will adversely change due to economic forces. Such risks include adverse effects of movements in equity and interest rate markets, currency exchange rates, and commodity prices.	
1.5	Syntax – page 4 Section 1.5: should be 'operate' versus 'operates	Amended.
	In detailing the other risks, it is proposed that the following be indicated: 'including, but not limited to' or 'specifically' if reference is going to be only to those 5 additional risks.	Amended.
	Given that Market risk is systematic in nature and tends to influence the entire market at the same time, should its correlation to reputational risk and legal risk be considered as relevant as credit risk, liquidity risk, and operational risk? Clarification is required in this section.	While there are varying degrees of correlation between market risk and other risks to which an institution is exposed, the important principle is that the various correlations are to be taken into account in the market risk management framework.
2	What is meant by "inadequate market depth or market disruption" in market liquidity risk definition?	Inadequate market depth refers to situations in which a market does not have the capacity to absorb relatively large market trades etc. without significantly impacting the price of the security/instrument.

Central Bank of Trinidad and Tobago

Responses to Industry Comments on the Draft Guideline for the Management of Market Risk

Guideline Reference	**Industry Comment**	**CBTT Response**
		Market disruption refers to situations in which markets are not operating optimally and is usually characterized by rapid and large market declines.
5.1.2	Consider including "Scenario and Sensitivity Analysis" in this section. See below: 'Comprehensive policies, procedures, systems and controls for identifying, measuring, monitoring and controlling market risk, including not limited to stress testing; Scenario and Sensitivity Analysis'	Amended.
5.1.4	"sound internal controls and independent review procedures" – just to confirm, does this mean independent of the Company?	Internal controls are an integral part of an institution's market risk management framework and includes measures such as authority thresholds and limits. The independent review may or may not be carried out by persons within the organization (e.g. internal or external audit). However, it is important that the parties conducting the reviews are independent from the persons involved in the execution of risk management activities or activities that generate market risk exposure.

Central Bank of Trinidad and Tobago

Responses to Industry Comments on the Draft Guideline for the Management of Market Risk

Guideline Reference	Industry Comment	CBTT Response
5.6.1. (d)	This is subjective and consideration should be 'regular basis' given to replacing with a more measurable term, E.g., at least quarterly, annually.	An amendment has been included to reflect that the frequency should be determined by the nature and scale of an institution's market risk exposure. See footnote 6 of the Guideline.
	Can "market risk capital" be explained further as used in this paragraph?	A definition of market risk capital has been included in the Guideline.
5.6.1. (f)	Clarity needed on what constitutes "material" developments that may adversely impact the institution's market risk profile.	See previous comment on the issue of materiality.
	The method and timeframe for notification should be specified.	As discussed previously, this requirement reflects the principle set out in the FIA and the Corporate Governance Guideline and is meant to address generally any time a material risk arises. An amendment has been included in the Guideline to suggest that notification is required as soon as the Board is aware of the issue.
	Review requirement for notification to be made by the Board; this could be rephrased to say the Board should ensure that CBTT is notified of any material developments that adversely impact the institution's market risk profile. This is having regard to the annual obligation the Board already has under s. 37 (1) (b) of the FIA 2008.	This requirement accords with Section 35 of the Financial Institutions Act, 2008 ("FIA") which states:- *"The directors of a licensee or of a financial holding company shall notify the Inspector of any developments that pose material risks to the licensee or financial holding company"*

Central Bank of Trinidad and Tobago

Central Bank of Trinidad and Tobago

Responses to Industry Comments on the Draft Guideline for the Management of Market Risk

Guideline Reference	Industry Comment	CBTT Response
		A similar obligation exists in section 67(3) of the Insurance Act, 2018 ("IA"). It also reflects the principle set out at paragraph 3.4 of the Central Bank's Corporate Governance Guideline, which requires timely notification of material issues by the Board of a financial institution including notification on risk and risk management.
5.6.2 (c)	"Standards" may not prescribe what is intended. Consider replacing "standards" with "procedures" or "methodologies"	Amended.
5.6.2. (h)	If the intent is to have the market risks assessed as a part of the FI's wider risk framework, then the suggested review should be in keeping with that framework.	It is a generally accepted practice that reviews of the risk management framework (including the market risk framework) be conducted at least annually or with greater frequency depending on, for example, significant changes to the institution's business model or risk profile.
5.6.2. (k)	Consideration should be given to re-state in keeping with section 5.13 of the Guideline.	Agreed. The change has been made.
5.6.2 (j)	Frequency of evaluation of the framework can be linked to review cycle of the framework. Consider including the frequency for the evaluations of the framework and aligning this with the review cycle.	Annual reviews are in keeping with best practices.

Central Bank of Trinidad and Tobago

Central Bank of Trinidad and Tobago

Responses to Industry Comments on the Draft Guideline for the Management of Market Risk

Guideline Reference	**Industry Comment**	**CBTT Response**
5.7	Is a Market Risk Framework necessary in addition to a Market Risk Management Policy, if a licensee has a comprehensive Market Risk Management Policy that covers all of the other requirements of the Guideline?	In general, market risk policies are a component of the market risk management framework. However, whether the term Market Risk Framework or Market Risk Policy is used, compliance would be determined by considering the requirements of the Guideline, the market risk management elements instituted by the institution and the institution's documentation of same.
5.7.1 (e) (as well as 5.6.1 (e)/ 5.6.2 (h))	Consider including the frequency as "Biennial review cycle/at least every two years or when there are material changes."	It is expected that reviews of the various components of the risk management framework be conducted at least annually.
5.7.1 (h)(ii)	Does this correspond to IFRS standards? If portfolio is held at amortized cost-will this be required?	Valuation processes should accord with accepted accounting standards/requirements.
5.7.1 (j)	What is meant by describe type of market risk monitoring here?	Market risk monitoring refers to processes in place to monitor both market risk exposures and the efficacy of the market risk management systems and processes implemented by the institution.
5.8.3	Clarification is needed on whether the expectation is that the model be vetted before implementation AND at intervals thereafter, in keeping with the internal/external audit scope.	5.8.3 and 5.8.4 have been amended for clarity.
5.8.4 (b)	The requirement for Board review of measurement systems (models and supporting documentation) may be highly technical at the Board.	This review need not be carried out by all members of the Board as the functions of the Board may be deferred to an appropriate Board Committee. This is reflected in 5.8.4.c.

Central Bank of Trinidad and Tobago

Responses to Industry Comments on the Draft Guideline for the Management of Market Risk

Guideline Reference	Industry Comment	CBTT Response
	Recommend that approval be kept at Management Committee with all changes being independently audited.	
5.8.4 (d)	Carrying out back-testing of all models individually and consolidated on an annual basis may become a very onerous task especially in the case of more complex models and a high volume of models. Recommend that guideline be changed to every two years for all major models, with a clarification that the key model of Value at Risk be back-tested annually.	The Guideline will be amended to remove the annual frequency of back-testing. However, annual testing of the measurement systems or models used in material aspects of their operations will still be required. See new 5.8.4. e.
5.8.4 (c, d, e)	If the Ultimate Parent Company, calculates the VaR and Single Factor shock stress exposures and the back testing for the Trinidad licensee, would the Central Bank have any objections to the direct Parent bank performing the obligations detailed in sub-sections c, d, and e?	There must be sufficient evidence to demonstrate that the requirements regarding measurement systems, including back-testing, are relevant for the local entity specifically. Importantly, the board and management of the local entity must demonstrate sufficient understanding of the model and its applicability to the local entity. The framework to be used by the local financial institution should also be approved by the local board.
5.8.5	Clarification is required on what evidence will be considered adequate. E.g. Are their external reports sufficient?	An amendment has been included to reflect that there should be a review of relevant documentation that would allow for an assessment of the validation and controls in respect of the third party model.
5.8.9	Some of these requirements are not practical or necessary for an insurance company, so would there be differences between the requirements for insurers compared to banks?	In keeping with the principle of proportionality, the expectation is that the market risk management framework put in place by institutions will

Guideline Reference	Industry Comment	CBTT Response
		be appropriate to the specific characteristics and/or operations of the institution and materiality of market risk exposures.
5.8.9 (b)	Based on current processes, intra-day and even daily may not be available with current internal systems. Is monthly acceptable or can it be considered?	Institutions should ensure that the system implemented allows for such intra-day monitoring where risk levels fluctuate significantly in a trading day.
5.8.9 (c)	Sufficiently frequent marked-to-market revaluations require further clarity/detail. What is considered “sufficiently frequent” by the Central Bank for the mentioned purpose? Monthly is the internal practice.	The frequency of valuations is to be determined based on market conditions. For example, while in normal times monthly may be appropriate, in volatile or unfavourable market circumstances a higher frequency of revaluations would be expected.
5.9.1	Historical correlation data may not be available to include in the stress test.	While this type of data may not be available initially, the institution should put things in place to ensure the availability of such data in future.
5.11	The Central Bank should consider removing the clause “and the Regulator” in line 4 of subsection b as this is redundant. The terms “Central Bank” and “other regulatory authorities” cover the universe of regulators. We further suggest that footnote 9 be referenced to “other regulatory authorities”.	Please note the section was edited and the footnote deleted.

Central Bank of Trinidad and Tobago

Responses to Industry Comments on the Draft Guideline for the Management of Market Risk

Guideline Reference	Industry Comment	CBTT Response
5.11.1	This phrase is subjective and consideration should be given to replacing with a more measurable term. E.g. at least quarterly, annually.	The frequency of market risk reporting to the Board should be determined by the specific institution guided by, inter alia, the scope and complexity of its market risk exposures and should be stipulated in the institutions Market Risk Policy.
5.12.1	The footnote refers to an Outsourcing Guideline. When will the Central Bank be issuing the Outsourcing Guidelines?	The Outsourcing Guideline was issued in February 2022 and is available on the Bank's website.
5.13.1	Given that market risk models and processes do not change frequently, we recommend that the requirement for internal and external audit of Market Risk function be set by the internal audit schedule of the firm but no later than every three years.	The requirements for annual review of risk management systems and processes etc. including those related to market risk accords with best practice.
5.13.1	The Guideline requires an annual review but we believe that the frequency should be aligned to the risk level for Market Risk, and as such, the licensee should be allowed to determine the frequency of reviews, based on the assigned risk level.	Annual reviews are consistent with risk management best practices. Further, it is expected that the external auditor will conduct a review of the institutions market risk model at least annually for the purposes of producing annual audited financial statements.
5.7.1 p)	This would only be relevant for lending institutions. It is proposed that a footnote be inserted by capital adequacy to indicate such. Capital adequacy requirements may only apply to specific institutions based on their business operations. Consider including "where applicable" or "required by CBTT or other regulatory bodies"	Amended.

Central Bank of Trinidad and Tobago

Central Bank of Trinidad and Tobago

Responses to Industry Comments on the Draft Guideline for the Management of Market Risk

Guideline Reference	Industry Comment	CBTT Response
5.9	Some institutions may not have banking or trading books. Confirm whether these are the only two areas where stress testing is required. Review the areas for which stress testing is required and specifically outline same for greater clarity.	The Guideline will be amended to remove specific references to banking and trading books.
	Include definitions for "banking book" and "trading book" in the "definitions" section	See previous comment.
5.13.1	Frequency of independent reviews should be risk based. Remove "at least annually" from section 5.13.1 Add frequency to 5.13.2 – "The frequency, level and depth……"	Annual reviews are a minimum standard.
6.1	It was stated that the quality of market risk measurement will be assessed in compliance with minimum capital ratios specified by the Central Bank. However, no specific information was provided on: • How the foreign currency risks capital charges will be applied; • How interest rate risks would be applied to marked to market debt securities.	It is expected that the Guideline will be read along with other regulatory requirements for market risk as relevant. For example, guidance on the minimum capital ratios and in particular the determination of market risk capital charges for banking institutions are provided in the Financial Institutions (Capital Adequacy) Regulations, 2020. For insurance companies, risk based capital requirements are addressed in the Insurance (Capital Adequacy) Regulations.
	Providing guidance on the calculation of market risk capital charge can assist licensees to ensure their market risk measurements are in line with CBTT expected capital charges for foreign exchange, interest rate, equity and commodity risks.	

Central Bank of Trinidad and Tobago

Responses to Industry Comments on the Draft Guideline for the Management of Market Risk

Guideline Reference	Industry Comment	CBTT Response
6.2	An important statement that is relatively vague: 'However, the Central Bank expects the market risk management framework to be appropriate for the institution. In assessing market risk management practices the Central Bank will therefore have regard for the specific characteristics and risk of the institution.' Recommendation - The term "risks" in the second sentence in this context may be too broad or generalized. Consideration should be to identifying the "specific characteristics" for greater clarity.	Noted. 6.1 has been reworded and captures the essence of 6.2. 6.2 has been deleted.
7.2	Clarity should be provided on what is meant by "reasonable timeframe" given the likelihood of internal changes that may occur for market participants after this guidance have implemented. Recommended time frame should be provided.	Noted 7.2 has been revised and includes a suggested timeframe.