



CENTRAL BANK OF TRINIDAD & TOBAGO

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**CIRCULAR LETTER TO ALL FINANCIAL INSTITUTIONS
LICENSED UNDER THE FINANCIAL INSTITUTIONS ACT, 2008**

REF: CB-OIFI-2867/2015

BASEL II IMPLEMENTATION PROJECT

The Central Bank of Trinidad and Tobago ('Central Bank/Bank') issued a Draft Capital Adequacy Reporting Template ('Template') together with Guidance Notes for the Completion of the Capital Adequacy Return on September 30 2015, and requested that institutions submit project plans outlining how they intended to implement the requirements.

The Bank conducted desk reviews of the submissions received from institutions and is deeply concerned that project plans were very 'high level' and did not demonstrate a comprehensive understanding of the undertaking required to implement Basel II. For example, project plans generally failed to document the key actions necessary for the implementation of the reporting requirements.

As a consequence, the Central Bank met with several institutions and the Technical Working Group during the period November 30 to December 3, 2015 to (a) ascertain whether institutions had more detailed action plans; and (b) provide feedback on the key actions needed for proper implementation of Basel II capital requirements. These meetings confirmed that institutions are not making adequate preparations to meet the milestones of the Basel II project.

We advise that successful and timely implementation of Basel II requirements is critical and therefore it is essential that institutions commit sufficient and appropriate resources to the project. In view of the foregoing, the Central Bank requests institutions to **review, revise and re-submit all project plans by January 31, 2016**. Revised project plans must be approved by the board of directors and institutions must clearly identify the Senior Manager who will champion the project.

To assist with the revision of project plans, the Central Bank has presented the details of the required steps in Appendix 1 which include the following:-

- i. Data Collection and Classification;
- ii. Information Technology Architectural Design;
- iii. Data Mapping; and
- iv. Validation (Institutions are encouraged to use the Template and validation rules provided to assist in this area).

Project plans must also clearly stipulate the resource requirements. Therefore the information technology, people and other requirements needed to implement the Template and transition seamlessly from manual to automated reporting must be determined and specified. Any foreseen challenges to implementation and steps that are to be adopted to address them, as well as specific timelines must be clearly documented on project plans.

Given the foregoing, the Central Bank will extend the "Go Live" reporting date to July 2017 compared to the previous timeline of January 2017. However, institutions are strongly urged to carefully revisit their plans and ensure that sufficient resources are allocated to the project in order to achieve compliance with the revised deadline. We advise that institutions that do not meet the new timeframe may be subject to higher capital charges.

Queries and comments on this Circular or other Basel documents may be submitted by electronic mail to **Baselconsultation@central-bank.org.tt**.

The Central Bank reiterates the importance of this project and the need for the institutions' board and senior management to be fully engaged in this initiative.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Carl Hiralal', is centered on the page. The signature is fluid and cursive.

Carl Hiralal
INSPECTOR OF FINANCIAL INSTITUTIONS

APPENDIX I

BASEL II/III IMPLEMENTATION PROJECT – 5 KEY STEPS TOWARDS IMPLEMENTATION

FIVE (5) STEPS IMPLEMENTATION

There are five (5) key steps that institutions are required to conduct in preparing for the completion of the revised Cap Ad returns. The steps are summarized below:

1. DATA COLLECTION AND CLASSIFICATION

A. Identify the data

Find the data needed for the reporting from internal and external source systems. This may be achieved by using the policy proposal document and the instructions to the completion of the capital adequacy report template ('Template') bearing in mind that the data may be sourced from the ledger system or any other source (for example an excel file).

B. Gap analysis

Identify the missing data in the source system for reporting purposes.

C. Data quality analysis

Identify the data that does not have the quality required for reporting purposes. For example, the value of the collateral for residential mortgages should be revised on an annual basis.

D. Classify the data by Basel asset class (as outlined in the Policy Proposal Document and Instructions for the Completion of the Capital Adequacy Return). A Basel asset class should be assigned to all the wholesale and retail credit exposures. For example:

- a. in the case of wholesale exposures, classification by the nature of the counterparty, if it is sovereign, bank or corporate, the institution could use the SIC code (industry sector).
- b. in the case of retail classification according to the 4 criteria outlined in the guidance notes.

E. Documentation

Document the data to be used from the source system and the Basel asset class classification. For example, the institution should document:-

- a. All the addresses/names of the respective data components needed from the source system to be inputted on the Template.
- b. The criteria used to assign a Basel asset class for all the exposures required for reporting purposes.

2. INFORMATION TECHNOLOGY ARCHITECTURAL DESIGN

Decision and documentation of the IT solution by the bank (manual, semi-automated or fully automated):

- a. Document the solution used to address missing data;
- b. Develop/ document inbuilt IT controls for each step of the process to ensure a high level of data integrity.

Controls - used to ensure the quality of the data as it passes from one source system to another, for example controls should be implemented for total amounts or the total number of lines of information required.

- c. To obtain a high level of data integrity regardless of the option chosen the data process must incorporate business materiality thresholds, including monetary and numerical thresholds.

Thresholds - the level of tolerance regarding flawed data should be benchmarked with the materiality of the bank portfolio. In the case of data that is flawed, the system should reject it and the institution should make efforts to make corrections.

(The diagram in Appendix II is a suggested system that is provided for illustration purposes only and is not intended to dictate the IT design of the respective institutions).

- d. Consideration should be given to ensuring the IT solution has significant data storage capacity to ensure that the report could be replicated (requiring historical data, historical business rules and historical report results).

3. MAPPING

Ensure that all exposures are placed in the correct schedule in the reporting template by mapping the data to conform to the Basel II classification criteria (as outlined in the Policy proposal document/instructions) with the data point in the report.

For example, a drawn amount for a sovereign loan exposure that is AAA+ rated is assigned to the 20% bucket on the Sovereign schedule and should be reported in the drawn portion of the report (i.e. Schedule 5). In this case, the data point address of the cell is S05.DP0002 (See example below).

Schedule 5 - Standardized Approach – credit risk-weighted assets

Return to Schedule Listing

For Banking Book - Sovereign

(TT\$ 000)

Before CRM			
Risk weight	Notional Principal Amount	Gross* exposure (credit-equiv. amount for off B/S)	Net* exposure (credit-equiv. amount for off B/S)
(a)			(b)
Drawn			
0%		S05.DP0001	S05.DP0007
20%		S05.DP0002	S05.DP0008

There should be clear documentation of the specific data in the source systems and from external systems that are to be mapped to specific data points in the reporting template.

4. VALIDATION

Validation would be initiated after the completion of all relevant data points on the reporting template. Validation rules (provided by the Central Bank) should therefore be built in to allow for in-schedule and cross schedule validation of the report.

5. GENERATION OF THE REPORT FOR SUBMISSION TO THE CENTRAL BANK

The file should be converted to a flat file to facilitate submission to the Central Bank.

CBTT Regulatory Filing System
Filing Institution High Level Suggested
Data Flow

