



CENTRAL BANK OF TRINIDAD & TOBAGO

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April 24, 2017

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

REF: CB-OIFI-1082/2017

BASEL II/ III SECOND QUANTITATIVE IMPACT STUDY

The Central Bank of Trinidad and Tobago (Central Bank/ Bank) advises that a second Quantitative Impact Study (QIS 2) to test the impact of proposals for the implementation of Basel II/III will commence on **May 1, 2017**. Returns for the QIS 2 are to be submitted to the Central Bank by **July 31, 2017**. You are further advised that for the QIS 2 you are required to use data as at **December 31, 2016**.

As indicated in the meeting on QIS 1, held with the industry on November 17, 2016, some notable changes have been made to the conduct of QIS 2 to treat with the issues arising from the first impact study. In addition, the Capital Adequacy Reporting Template (CapAd Return), Instructions, Validation Rules and the Policy Proposal Document for the implementation of Basel II/III in Trinidad and Tobago (PPD) have been amended and will be available on the Bank's website from May 1, 2017. The key changes to these documents are highlighted in **Appendix 1**.

The treatment of sovereign exposures in a foreign jurisdiction is an area of national discretion under the Basel II capital adequacy rules. In order to test the impact on licensee's capital adequacy ratios of applying a preferential risk weight to sovereign exposures in a foreign jurisdiction, we will require you to submit two versions of the QIS 2 returns to the Central Bank – one with the preferential treatment applied and the other without. **In this regard, institutions are to clearly label the respective submissions.**

For the QIS 2, licensees are reminded of the following:

- a. Reporting is required on both an **individual (solo) and consolidated** basis. This means that where a licensee is the parent of a group or sub-group¹, the licensee is required to submit a consolidated Capital Adequacy return for the group or sub-group in addition to a solo return. Further, licensees that do not currently report on a sub-group basis are to commence submitting returns under the current rules as at December 2016. Financial holding companies are required to submit consolidated capital adequacy returns only.

¹ Guideline 3.1 of the *Central Bank's Consolidated Reporting Guideline*.

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- b. Licensees that report on a consolidated basis are to ensure that the CB100 A/B Capital Adequacy report as at December 2016 includes capital charges for **both credit and market risk**. An updated consolidated capital adequacy return will be available on the Bank's website.
 - c. Licensees are required to submit evidence of reconciliation of the QIS 2 Return to the CB100 and CB 20 returns. Instructions for the minimum reconciliations to be conducted will be posted on the Bank's website.
 - d. For the purposes of assessing the impact of the national discretion for foreign sovereign exposure, institutions are to provide a supplemental schedule listing the sovereigns to which they are exposed and the quantum of exposure to the respective jurisdictions. Similar information should be provided for sovereign-guaranteed exposures.

Please direct any queries you may have regarding the QIS 2 to the **Baselconsultation@central-bank.org.tt** email address or alternatively you may contact Ayana George at 625-4835 extension 5022.

The Central Bank anticipates your continued cooperation as we move forward with the implementation of Basel II/ III with the objective of enhancing the resilience of the financial sector.

Yours sincerely,



Michelle Francis-Pantor
Deputy Inspector - Banks, Non-Banks and Payment Systems Oversight
FINANCIAL INSTITUTIONS SUPERVISION DEPARTMENT

Appendix 1

Summary of Key Changes to QIS Documents

1. Reporting Template and Validation Rules
<ul style="list-style-type: none"> a. Schedule 2-Summary of Risk Weighted Assets Change to the formula for the market risk capital charge given changes to Schedule 21-Foreign Exchange Risk and Schedule 21B- Interest Rate Risk (General Risk) b. Schedule 3A-Qualifying Capital Issued out of Subsidiaries Increase in the number of subsidiaries c. Schedule 5 Sub-division of sovereign exposures for the respective risk buckets by local or foreign d. Schedule 7 Inclusion of the 0% risk weight for highly rated MDBs e. Schedules 5-13 Inclusion of the 0% risk weight on all core schedules for the recognition of cash collateral where the cash is held by the licensee incurring the counterparty exposure f. Schedules 5-13 Change to the market risk template given an error on both the Foreign Exchange and Interest Rate Risk Schedules g. Schedule 18-Off-Balance Sheet Exposures Inclusion of an aggregate (total) off-balance sheet line h. Schedule 21-Foreign Exchange Risk Changes to the Foreign Exchange position/exposure calculation to address template error i. Schedule 21-Interest Rate Risk Changes to the Interest Rate Risk (General Risk) to address template error j. Schedule 24-Reconciliation to the Consolidated Balance Sheet Inclusion of 'other credit risk weighted assets' k. General Changes Linking of some spreadsheets for automatic population and changes to correct minor errors such as wording
2. Instructions for the Completion of the Capital Adequacy Reporting Template
<ul style="list-style-type: none"> a. Page 4- Unit of Measure and Reporting Values Banking booking assets should be reported at cost b. Page 12-Sovereigns The inclusion of a requirement for exposures to be disaggregated by local and foreign c. Page 12-Sovereigns Inclusion of an instruction for the testing of the national discretion item for foreign sovereign exposure d. Page 19-Allowance for CRM Change to the Treatment of CRM allowing the Simple Approach for the banking book and the Comprehensive Approach for the trading book and repo-style transactions e. Inclusion of Appendix 3 Examples of the calculation of capital charges for Repo-style transactions f. Inclusion of Appendix 4 Examples of the calculation of the Credit Equivalent amount for the purposes of the calculation of the counter party credit risk charge (Current Exposure Method) g. Some changes in wording to improve clarity

3. Policy Proposal Document for the implementation of Basel II/III in Trinidad and Tobago

- a. **Paragraph 46:** Inclusion of a definition of Small Business Enterprise
- b. **Paragraph 76:** Change to repo-style transactions such that repo-style transactions would be subject to the comprehensive approach in both the banking and the trading book
- c. **Paragraph 80:** Inclusion of the 0% risk weight to apply where the exposure and the collateral are denominated in the same currency and the collateral is cash
- d. Removal of the D-SIB Capital Charge which is to be addressed separately