



Central Bank of Trinidad and Tobago

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November 18, 2022

CIRCULAR LETTER TO:

All Financial Institutions licensed under
the Financial Institutions Act, 2008
Financial Holding Companies
The Bankers Association of Trinidad and Tobago

REF: CB-OIFI-2952/2022

**DRAFT LIQUIDITY COVERAGE RATIO (“LCR”) CONSULTATION PAPER AND REPORTING
FRAMEWORK**

The Central Bank of Trinidad and Tobago (Central Bank/ Bank), as part of Phase 2 of the “*Policy Proposals for the Implementation of the Basel II/III Capital Adequacy Framework*” introduced in May 2020, has developed a draft Liquidity Coverage Ratio Consultation Paper and reporting template. As you are aware, the liquidity monitoring measures currently in place are inadequate for the monitoring of banking institution’s liquidity by the Central Bank.

The Liquidity Coverage Ratio (LCR) is one of the Basel III reforms put forth by the Basel Committee on Banking Supervision (BCBS). It is a short-term quantitative prudential measure to ensure banking institutions are able to withstand an acute liquidity stress scenario over a 30-day horizon at both the individual and consolidated level. Institutions licensed pursuant to the Financial Institutions Act, 2008 (licensees) and their financial holding companies (FHCs) will be required to maintain a minimum LCR of 100% calculated as follows:

$$\text{LCR} = \frac{\text{Stock of HQLA}}{\text{Total net cash outflows over the next 30 calendar days}}$$

Licensees and FHCs are therefore invited to provide feedback to the Central Bank on the attached Consultation Paper which provides guidance on the calculation of the LCR and establishes rules for the determination of the respective components of the ratio.

Following receipt of your feedback, the aforementioned documents will be amended as relevant and a Quantitative Impact Study (QIS) will be conducted over a three-month period (likely April to June 2023), to assess the potential impact of the LCR requirement and inform any changes to the reporting framework. Specific details on the QIS will be provided to institutions closer to the launch date.

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Also appended for your early review are the draft reporting templates (LCR and Liquidity Monitoring Tools) and related instructions to provide institutions early sight of the proposed reporting requirements.

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The Consultation Paper together with the draft reporting templates and instructions can be accessed on the Bank's website at <https://www.central-bank.org.tt/core-functions/supervision/banking-sector-draft-consultation-papers>. Queries, comments and feedback on the Consultation Paper and draft reporting templates should be submitted electronically to the Central Bank at Baselconsultation@central-bank.org.tt by **February 17, 2023**.

The Central Bank proposes to implement the LCR requirement via a combination of Regulations, subject to the negative resolution of Parliament, and supervisory guidelines. It is proposed that the Regulations will specify *inter alia* the mandatory requirements of the LCR e.g. the minimum LCR ratio; scope of application; transition periods (if applicable); reporting periods; and supervisory action or penalties for non-compliance with the LCR. However, the operational details of the calculation of the LCR would be specified in a Guideline. The Central Bank will consult on these draft regulations and guidelines at the appropriate time.

We anticipate your usual cooperation as we progress the rollout of these important prudential standards.

Yours sincerely



Michelle Francis-Pantor

Deputy Inspector of Financial Institutions

FINANCIAL INSTITUTIONS SUPERVISION DEPARTMENT