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CIRCULAR LETTER TO:
FINANCIAL INSTITUTIONS AND
FINANCIAL HOLDING COMPANIES LICENSED
UNDER THE FINANCIAL INSTITUTIONS ACT, 2008

CB-OIFI: 988/2020

Basel II/ III Implementation:
Finalisation of Phase 2 Policy Proposals and Revised Basel II/III Reporting Template

As you are aware on November 6, 2019, the Central Bank of Trinidad and Tobago ("Central Bank" / "Bank") issued its Phase 2 proposals for the implementation of Basel II/ III in the document entitled "*Policy Document for the Implementation of Basel II/III-Phase II*" ("Phase 2 Policy") for industry consultation.

The Central Bank has considered your feedback as well as the potential impact of the novel Coronavirus ("COVID-19") on the financial system and has decided to delay the implementation of Phase 2 elements, namely, Pillar 3 (Market Disclosures), the leverage ratio, the capital conservation buffer and the capital add-on for domestic systemically important financial institutions to January 2022. This notwithstanding, the Bank will continue to progress these areas and consult with the indutry during 2020-2021 in order to ensure readiness for implementation by January 2022.

We advise that although consultation on Pillar 2 (that is, the Supervisory Review and Evaluation Process) was concluded in 2019, the Bank has decided to also delay its implementation. Consequently, Guidelines for the Internal Capital Adequacy Assesment Process ("ICAAP") will be issued formally later this year and the first submission of the ICAAP will be due by end January 2022. A revised draft of the Guideline based on feedback received is also contained in the revised Phase 2 Policy.

Further, on November 26, 2019 the Bank issued a *Policy Paper- for Amendments to the draft Financial Institutions (Capital Adequacy) Regulations* ("Amendments") which included:

i. *the removal of asset revaluation reserves from Tier 2 capital;*
ii. *the removal of the preferential (20%) risk weight for exposures to local public sector entities; and*
iii. *the removal of the blanket 50% risk weight for a portfolio of residential mortgage loans.*

The Bank's responses to comments received on both the Phase 2 Policy and the Amendments are posted on the Bank's website at https://www.central-bank.org.tt/core-functions/supervision/basel-ii-iii-implementation.

Transition Period

As a consequence of the aforementioned changes and taking into consideration industry feedback, a transition period to comply with the minimum capital ratios stipulated under Phase 1 was included in the draft Regulations. While we do not anticipate that the transition period will be widely utilised, the potential impact of Covid-19 on licensees' capital adequacy is unknown. Consequently, further extension of the transition period beyond one year if circumstances so warrant is under consideration.

Updated Reporting Template

The Bank has revised the Basel II/ III reporting template to reflect the aforementioned changes. In this regard, licensees and financial holding companies are required to continue parallel reporting by applying the revised capital rules and using this new version of the Basel II/III reporting template (i.e. *CB100B/2020_v3*). The "*Instructions for the Completion of the Basel II/III Capital Adequacy Return*" document has also been updated and should be used together with the new version of the reporting template both of which can be accessed on the Central Bank's website at https://www.central-bank.org.tt/core-functions/supervision/basel-ii-iii-implementation.

Reporting using the revised template is to commence for the reporting period ended May 31, 2020, which should be submitted in accordance with the timelines stipulated in Bank's Circular letter (**REF: CB –OIFI – 747/2020**) dated March 26, 2020 which provided an extension of reporting timelines for a 3 month period commencing with reports due to be submitted end March 2020. Thereafter, the regular reporting schedule, that is within 20 working days of the end of the period, should be resumed unless otherwise specified by the Bank.

Notwithstanding the inclusion of certain Phase 2 elements on the template, for example, the Capital Conservation Buffer and the D-SIB capital add-on, only Phase 1 minimum capital requirements will continue to be assessed at this time.

Status of Draft Regulations

Finally, we advise that the the Central Bank is awaiting the promulgation of the draft Regulations. In the meantime, parallel reporting by licensees and financial holding companies should continue as the new capital adequacy regime provides for better alignment of a financial institution's risk exposures with capital requirements. We thank you in advance for your understanding and acknowledge the challenges of reporting on dual regimes.

Please forward any queries you may have by email to Baselconsultation@central-bank.org.tt.

The Bank looks forward to your continued cooperation as we seek to implement this important prudential standard.

Yours sincerely,

Patrick Solomon

Patrick Solomon
Inspector of Financial Institutions