Appendix

Liquidity Coverage Ratio – Draft Consultation Paper

Industry Feedback

Section	**Questions/ Comments**	**Central Bank Response**
Section 4 – Legal Framework		
Section 4.2 *"Given frequent changes to international best practices and standards and to remain agile and responsive to changes in liquidity practices, the Regulations will provide for the Central Bank to specify the details for the calculation of the LCR requirement, that is, how the HQLA and the 30-day cash outflow are to be calculated, in a Guideline."*	If there is a change what is the timeline the bank would need to adhere to? i.e., if the CBTT determines that an asset is no longer considered HQLA, how long will the Bank have to replace such as asset	The Central Bank will consider the prevailing circumstances (e.g. economic conditions, whether the asset is widely held, etc.) in determining the time to replace the asset.
Section 5 – Scope of Applicability		
Sections 5.2 and 5.3 *"Financial Institutions should actively monitor and control their liquidity risk exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries and the group as a whole, taking into account legal,*	Does point 5.6 negate all points above (5.1 to 5.5) and require that individual LCRs be calculated for all Subsidiaries across the Group? i.e. there appears to be some miscommunication as section 5.6 seems to contradict 5.1 to 5.5.	The guidance provided in section 5 is complementary and the section must be read as a whole. Consolidated LCRs must be calculated for a FHC or financial group to include all legal entities in the group. Where there is a sub-group within the financial group headed by a regulated domestic entity, a consolidated LCR will also

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regulatory and operational limitations to the transferability of liquidity."		be required for the sub-group. Additionally, standalone LCRs will be required for each regulated entity (licensee) within the financial group. For consolidated LCRs, the local parameters should only be applied to foreign subsidiaries where there is no commensurate requirement in the host jurisdiction or where the other conditions specified in section 5.8 exist. Where a foreign subsidiary in the group is in a jurisdiction that has implemented an LCR, in accordance with 5.7 the local parent company is permitted to use the host jurisdiction's parameters for retail and small business in calculating the consolidated LCR.
Section 5.3 *"In addition, the Central Bank may determine, on a case-by-case basis, the entities of financial groups that should be included or excluded from the scope of consolidation for the purposes of the LCR. Further, the scope of the LCR does not*	Further clarity is required on the *"exclusion of insurance business within financial groups"*. Does this mean that an insurance subsidiary is to be excluded from the consolidated reporting? Additionally, how would the licensed subsidiaries treat with	When calculating the LCR, the exclusion of insurance business conducted within financial groups means that HQLA held by the insurance subsidiaries and net cash outflows of the insurance subsidiaries would not be considered for the parent company's consolidated LCR.

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include liquidity risks stemming from insurance business conducted within financial groups."	intergroup exposures to an insurance subsidiary for consolidated reporting?	However, intragroup exposures of banking licensees with insurance companies are to be considered. That is, deposits or other exposures from insurance companies held with the reporting institution are to be treated as specified based on the nature of the exposure. (See for example, sections 8.25 and 8.39)
Section 5.5 *"If the HQLA held in excess of the total net cash outflows are not transferable, such surplus liquidity should be excluded from the consolidated LCR calculation."*	We respectfully seek clarification within this draft specification on the term "not transferable"; can this be defined?	Non-transferable assets in this context means assets that may not be freely available to the reporting entity due to regulatory, legal, tax, accounting or other impediments. This definition is now included in the Guideline.
Section 5 *Scope of Applicability*	Section III of the Basel III LCR framework states that there would challenges in applying to the FHC. The LCR was directed primarily to only Banking Groups. "Group" in the consultation document appears to refer more to cross-border banking groups.	Section III of the Basel III LCR framework does not state that there are challenges in applying the LCR to the FHC. The Scope of consolidation for a FHC or financial group will the same as that which applies for consolidated capital adequacy reporting as stated in section 3.2 of the Consolidated Prudential Reporting Guideline. This inclusion can be found in section 5.2 of the Guideline.
Section 6 – General Requirements and Calculation		

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Section 6.4 *“The stress test scenarios referred to at 5.3 above establishes minimum requirements for financial institutions.” However, institutions would be expected to conduct their own stress tests that: -* *a) assess the level of liquidity they should hold beyond this minimum;* *b) incorporate their own scenarios that could cause difficulties for their specific business activities; and* *c) incorporate longer time horizons than the one mandated by the LCR.* *The results of these stress tests should be shared with the Central Bank.*	With reference to the relevant numbered section above, the first line may benefit from a revisit as the reference to item “5.3” should be amended to “6.3”. We respectfully suggest that the draft requirement may benefit from further clarification on the definition of minimum requirements. Section 6.3 does not state minimum stress test requirements. Define what are the minimum requirements.	Section 6.3 specifies the outcomes of a stress scenario as determined by FIs that should be considered at a minimum for calculating the LCR. Sections 6.3 and 6.4 have been amended. Section 6.3 has been reworded to state “The stress scenario for the LCR standard is premised on a combined idiosyncratic and market wide shock that would result in:……” Consequently, the LCR is the minimum stress test. Section 6.4 has therefore been amended to make it clear that in addition to the LCR, financial institutions are expected to conduct their own internal liquidity stress tests. The stress tests conducted should consider whether the institutions should (a) hold a level of liquidity above the minimum eg. 120%; (b) incorporate own scenarios that could cause problems based on their specific business activities e.g. where there is concentration in institutional deposits; and/ or (c) incorporate longer time

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	Define what are the Stress Test that should be submitted to Central Bank	horizons than the one mandated by the LCR e.g. 40 days instead of 30. The liquidity stress tests conducted internally by each bank, are those to be submitted to the Central Bank. The required submission frequency (annually) has been included in section 6.4 of the Guideline.
Section 6.5 *"The time lag in reporting should be as short as feasible and ideally should not surpass 10 working days after the end of the reported month."*	Further to our review, we respectfully advise that this does not provide sufficient time to submit the report for the following reasons: i. Reports to support preparation of the LCR and Liquidity Monitoring reports will not be available to meet the timeframe 10 working days after the reported month. Challenge is anticipated to meet this deadline especially for consolidated reporting, where applicable; and ii. The proposed timeframe of 10 working days does not allow for sufficient time to ensure report maintains consistency to other Central Bank returns submitted.	The reporting deadline of 10 working days is the applicable best practice standard and is necessary to ensure minimal time lag. Notwithstanding, the Central Bank acknowledges that institutions may experience some difficulty initially in meeting this timeline and is considering a transition period of three months from the date of effecting of the Regulations for financial institutions to meet the required reporting standard of 2 weeks. In the transition period individual licensees will have 15 working days to report, and 20 working days for consolidated submissions. This has been included in section 6.5 of the Guideline.

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	We respectfully suggest that the provision may benefit from extending the report submission to 15 working days for licensed Banks and Non-Banks and 20 working days for Consolidated reporting. Additionally, can consideration be given to extend the LCR reporting frequency to quarterly rather than monthly (entity specific) and quarterly (consolidated)?	Monthly LCR reporting is best practice and is necessary given the unpredictable and time sensitive nature of liquidity risk. The BIS recommends monthly reporting as a minimum.
Section 7 – High Quality Liquid Assets		
Section 7.7.a *"A financial institution should periodically monetise a representative proportion of the assets in the stock through repo or outright sale, in order to test its access to the market, the effectiveness of its processes for monetisation, the availability of the assets, and to minimize the risk of negative signalling during a period of actual stress"*	We respectfully suggest that this draft provision may benefit from including clarification as the requirement appears to be impractical and potentially will result in Accounting reclassifications. We also seek clarification on the definition of "periodically" included this draft specification.	Section 7.7.a states "this requirement for periodic monetization may be satisfied by transactions carried out through a bank's normal course of business." Assets held for trading should be able to be monetized through normal business operations. Periodically in this context should be determined by each financial institution at a reasonable frequency.

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Section 7.7.b *"All assets in the stock of HQLA should be unencumbered"*	General clarity is needed on assets that are repoed - would the haircut portion of the assets count towards liquidity (as it is technically unencumbered)?	The haircut portion of the repo should be treated as an inflow, the rate of which would be depend on the type of asset (i.e. level 1, level 2, etc.) in accordance with section 9.4(a) i & ii.
Section 7.7.b.iii *"Assets which qualify for the stock of HQLA that have been pre-positioned or deposited with, or pledged to, the central bank7 or a public sector entity (PSE) but have not been used to generate liquidity may be included in the stock."*	We respectfully seek clarification on this item as the collateral requirement is new. The amplification will support an accurate list of unencumbered HQLA for inclusion in the requirement.	Such assets can include cash balances deposited at the Central Bank (exclusive of any reserve requirements). Assets pledged to the Central Bank can only be included in the stock of HQLA if they are not being used to generate liquidity.
Section 7.8 *"The stock of HQLA should be well diversified within the asset classes themselves"*	We kindly request further explanation on the term "well-diversified". Does this refer to overall portfolio or by currency as well?	The diversification requirements are listed in section 7.9 and includes diversification by currency.
Section 7.17 *(Provides the list of HQLA and the corresponding haircuts)*	We refer to LCR30 High-quality liquid assets, version effective as of 15 December 2019, and note that the following were listed as HQLA: 30.41 Level 1 assets are limited to:	Primary or required reserves under section 57(1) of the FIA will not be counted in HQLA. The LCR framework shall include in the stock of HQLA, reserves which are

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	(1) Coins and Banknotes. (2) Central Bank reserves (including required reserves) to the extent that the Central Bank policies allow them to be drawn down in times of stress. With reference to point 2 above, we ask, whether CBTT will consider the extent to which reserves should count towards the stock of liquid assets (that is. the extent to which reserves are able to be drawn down in times of stress)?	held at the Central Bank in excess of the minimum reserves required under section 57(1) of the FIA. This has been amended in section 7.17 and Appendix 1 of the Guideline.
Section 7.17 *(Provides the list of HQLA and the corresponding haircuts)*	The significant 50% haircut in high-credit quality assets (A + to BBB) seems rather punitive.	Despite the high credit rating, corporate debt securities are susceptible to market volatility and may not retain their full value in a stressed economic environment.
Section 7.21.e *"…not an obligation of a financial institution or any of its affiliated entities"*	Confirmation is needed whether all assets attributable to any financial ('Financials') institution are excluded as part of the LCR calculation.	Assets that are issued by or are an obligation of a financial institution are not considered HQLA given that such assets are likely to be less liquid during times of stress as mentioned in section 7.4 (a) (iii).

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Section 7.23 Level 2B Assets (inclusion made by the Central Bank)	"Corporate debt securities including commercial paper subject to the following conditions: -…"	Additional criteria, which was previously excluded has now been included to be consistent with the Basel Committee on Banking Supervision (BCBS) LCR guidance: "a) not issued by a financial institution or any of its affiliated entities;"
Section 8 – Cash Outflows		
Section 8.5 *Retail deposits*	With respect to retail deposits across the Broker/Dealer and Bank, how are accredited retail investors treated with respect to factors affecting the volatility of foreign currency deposits include the type and sophistication of the depositors, and the nature of such deposits.	The treatment of retail investors is based on the type of deposit, the deposit insurance coverage and the depositor's relationship with the bank. Whether they are accredited or not, the treatment of retail investors are defined by sections 8.5 to 8.19.
Section 8.7 *"Stable deposits are the amount of the deposits that are fully insured by the Deposit Insurance Corporation, Trinidad and Tobago ("DIC)"…"*	We kindly request further clarification for the application of the Deposit Insurance Corporation calculation for fully insured deposits. This information is not readily available as there is currently no system in place to calculate this amount with accuracy for depositors. Assumptions will have to be made to apply same.	In the Central Bank's CB30/11 Quarterly Return, FIs are required to report the number of Deposit accounts categorized by various bucket sizes. FIs can use this information to calculate the value of the Deposits which are Insured/ Uninsured. DIC's website provides

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		information on the value of Deposit Insurance applied to individual accounts. **Total insured deposits for Commercial Banks** = Dollar value of deposits (time, saving and demand) under $125,000 + Number of accounts (time, saving and demand) greater than $125,000 X $125,000 **Total insured deposits for Non-Commercial Banks** = Dollar value of deposits (NFI) under $125,000 + Number of accounts greater (NFI) than $125,000 X $125,000 **Total insured deposits for Commercial Banks and Non-Commercial Banks** = **Total insured depositors for Commercial Banks** + **Total insured deposits for Non-Commercial Banks**
Section 8.8 *Deposit Insurance Schemes*	Clarity will be required on whether, for the purpose of this analysis, deposit insurance coverage is only on individual accounts, or whether coverage is to be separated with respect to joint accounts or Trusts.	The treatment is applicable to all accounts with DIC coverage. Please see the DIC's website which provides a breakdown of how coverage is applied to joint and trust accounts.

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Section 8.12 *"For the purposes of paragraph 8.7 b), a retail deposit shall be considered as being "held in a transactional account" where salaries, income or transactions are regularly credited and debited respectively against that account."*	For the purpose of treating with a retail deposit as stable deemed "being held in a transactional account", no clarity is offered as to the duration of the transactional relationship to be considered as "regular" as stipulated under Section 8.12 where salaries, income or transactions are regularly credited and debited respectively against that account.	Each bank should determine what is 'regular' for their operations. For example, salaries can be paid daily, weekly, fortnightly or monthly in most instances.
Section 8.20 *"Unsecured wholesale funding is defined as those liabilities and general obligations that are raised from non-natural persons…"*	This information is not readily available. Additionally, we respectfully recommend that the provision may benefit from further clarification. For instance, does Basel II definition which utilizes the three criteria to classify Small Business Customers apply to this requirement?	This information should be readily available to any bank. The Basel II/III definition of 'small business' as stated in the Financial Institutions (Capital Adequacy) Regulations, 2020 is also applicable to the LCR and this along with additional criteria stated in section 8.24.
Sections 8.5 – 8.15 – *Retail deposits* Sections 8.25 – 8.36 – *Operational deposits*	The data segmentation required to sub-categorize the retail and operational accounts is outside the scope of our core banking	This seems reasonable and the assumptions must be documented. Additionally, with regards to operational

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	system at present. As such, a number of assumptions would be made to ensure that we are conservative in our analysis that can impact the accuracy of our submission.	deposits, we refer to section 8.27 which states that *"Institutions must seek the Central Bank's prior approval for such accounts and the Bank may choose not to allow the institutions to use operational deposit run-off rates in certain cases."*
Section 8.25 *"Certain banking activities lead to financial and non-financial customers needing to place, or leave deposits with a financial institution in order to facilitate their access and ability to use payment and settlement systems and otherwise make payments."*	Clarity is also being sought on whether operational deposits generated by clearing, custody and cash management activities provided to affiliate companies would be subject to a run-off rate of 25% under Section 8.25 of the Guideline. Section 8.25 does not specify the subcategories of financial and non-financial customers that place operational deposits while 8.39 speaks specifically to funding from affiliated entities for non-operational purposes.	Operational deposits from affiliated entities would be subject to the 25% run-off rate once they meet the requisite criteria and are approved by the Central Bank.
Section 8.27 *"A financial institution may assign a 25 percent run-off factor to operational deposits only if the customer has a substantive dependency with the institution and the deposit is required for such activities."*	The guidance speaks to determining dependency for operational flows. In a system where clients are multi-banked, there is an argument that this creates the case for multiple clients having core dependencies in different Banks for different products. Clarification on the Bank's ability to create any justification for	A customer may have multiple substantive dependencies with various banks.

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	treatment of specific clients who may have an operational dependency on us for a specific product or products.	
Section 8.29 *"To be considered a qualifying operational deposit, financial institutions should ensure that the operational deposits are held in specifically designated accounts and priced without giving an economic incentive to the customer (not limited to paying market interest rates) to leave any excess funds on these accounts. Where interest rates in a jurisdiction are close to zero, it would be expected that such accounts are non-interest bearing. Financial institutions should be particularly aware that during prolonged periods of low interest rates, excess balances (as defined at 8.30 below) could be significant."*	For Banks of a smaller Balance Sheet size, the business models are designed to pay somewhat of a higher rate for deposit flows given that all categories of Banking products may not exist, to attract cash management and excess flows from corporate and commercial clients. Our request is for guidance on same, given that our business model is aligned to this strategy.	For a bank to classify certain sums as 'operational deposits' for the purpose of calculating its outflows, prior approval is required from the Central Bank in accordance with section 8.27. If a bank thinks that its banking product (i.e. the type of deposit account) meets the criteria for operational deposits, it can be submitted for approval and the Central Bank will assess and determine whether or not the relatively higher interest rate excludes it from that category. Consideration should also be made to sections 8.30 to 8.32 which describe how excess balances should be treated and would impact the classification as an 'operational deposit'.
Section 8.39 *"All deposits and other funding from other institutions (including banks, securities firms, insurance companies, etc.), fiduciaries,*	This category of clients are known to invest specifically for a yield and the behavior of such funding in most instances is relatively	In a stressed scenario, these types of institutions may need liquidity of their own and thus these deposits are likely to be drawn regardless of the yield.

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beneficiaries, conduits and special purpose vehicles, affiliated entities of the financial institution and other entities, that are not specifically held for operational purposes and not included in the prior categories. A 100% run-off rate will apply to such funds."	stable. We would ask whether some consideration to applying specific run off rates against these firms can be applied.	
Section 8.40 *Unsecured wholesale funding providing by other legal entity customers (Run-off Rate-100%)*	This section refers to the treatment of notes, bonds and other debt securities assumes that the run off rate is 100%, which is converse to the treatment of such facilities. We respectfully suggest that the provision may benefit from further clarification. Is the 100% run off rate applied if within 30 days to the maturity of the instrument?	Yes, as stated in section 8.20 (b)
Section 8.74 *Drawdowns on committed credit and liquidity facilities.*	This section refers to the treatment of committed credit and liquidity facilities. We respectfully seek clarification on this item. Does this line item require inclusion of unused credit card facilities? If so, this would represent a large outflow.	This would include the unused portion of credit cards if said credit cards are contractually irrevocable or conditionally revocable as stated in section 8.74 (b). If they are not (i.e. "unconditionally revocable facilities that are unconditionally cancellable by the bank" as

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	We respectfully suggest that the provision may benefit from further clarification to ensure accurate treatment.	stated in 8.74(c) then they should be treated under section 8.84 which provides outflow rates based on counterparty. Section 8.74(c) has been amended to include the following which is highlighted: "unconditionally revocable facilities that are unconditionally cancellable by the bank (in particular, those without a precondition of a material change in the credit condition of the borrower) are excluded from this section and included in either section 8.84 which refers to contractual loan drawdowns or "Other Contingent Funding Liabilities" based on the nature of the facility."
Section 8.95 b and c(iii) *Other contingent funding obligations*	We refer to 8.95 b), with respect to Letters of Credit and Custom Bonds; can a lower run off rate be considered for these facilities as these are rarely drawn? The section 8.95 c) iii refers to the treatment of managed funds that are marketed with the objective of maintaining a stable value such as money market mutual funds or other types of stable value collective investment funds. Currently, there are some institutions which do not have a floating rate. We respectfully suggest that this	The applicable run off rate has been amended to 50% following representations with the Basel II/ III Technical Working Group and the Treasury Sub-Committee of BATT.

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	provision may benefit from further clarification to ensure accurate treatment and provide guidance to financial institutions in such cases where floating rate is not utilized. Can a phased implementation of this item be considered into the calculation of the requirement?	
Section 9 – Expected Cash Inflows		
Section 9.4.a *Secured Lending Inflows*	General clarity is needed on assets that are repoed - would the haircut portion of the assets count towards liquidity (as it is technically unencumbered)? This is linked to point 7.7 b) above.	The inflow associated with reverse repos after application of the haircut would count towards liquidity in accordance with sections 9.4(a) i & ii.
Section 9.4.b *Inflows Relating to Committed Facilities*	Time will be required to develop reports to quantify monthly installments from loan book.	This section refers to facilities that the bank has at other financial institutions. It does not refer to inflows from the loan book, which is addressed in section 9.4(c). However, the point is noted.
Section 9.4.b.i and ii *Expected Cash Inflows from Committed facilities.*	We kindly request clarification as item ii. refers to contagion risk of liquidity shortages which implies local market will be the core focus. What about facilities provided to domestic banks from	No, the focus is not restricted to the local market and thus the requirement applies to both local and foreign financial institutions.

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	outside the jurisdiction, for example US Market? Can these be given a non-zero inflow rate?	
Section 9.4 c *Other inflows by counterparty*	This information is not readily available for inclusion in the template. Financial institutions will be required to create extracts to support completion of this section.	Noted.
Section 9.4.c.vi *Other inflows by counterparty*	Confirmation is need whether we can include Financials institutions securities maturing within the next 30 days, including all interest income attributable.	Inflows from securities from financial institutions, including interest income, can be included once they are maturing within 30 days and not included in HQLA.
Section 9.4.c.viii *"…deposits placed for the purpose of correspondent banking are held for operational purposes and, as such, must receive a 0% inflow rate."*	Clarity is needed on whether inflows due to local clearings and all nostro balances in Correspondent Banks will be considered as operational flows and so does not count towards liquidity. This seems rather punitive.	Given that the LCR considers a stressed 30 day scenario, it would be imprudent to assume that such deposits held at other financial institutions would be readily available and as such should not be included as liquidity inflows. However, section 9.4(c) viii. also states, that *"a 100% inflow rate may be applied to the amount for which the institution is able to determine that the funds are "excess*

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		balances" in the sense of 8.30 - 8.32, i.e. they are not tied to operational purposes and may be withdrawn within 30 days."
Section 10 – Liquidity Monitoring Tools		
Concentration of Funding: *iii. Calculation of Metric - 3. Significant Counterparties*	This information is not readily available for inclusion in the template. Financial institutions will be required to create extracts to support completion with the inclusion of assumptions to obtain the required information.	Noted.
Calculation of Metric – *6. Significant instruments / products*	Worksheet 3: Funding liabilities sourced from each significant product/instrument as a % of total liabilities a. The numerator for type of instrument/product should be calculated for each individually significant funding instrument/product, as well as by calculating groups of similar types of instruments/products. b. A "significant instrument/product" is defined as a single instrument/product or group of similar instruments/products that in aggregate amount to more than 1% of the institution's total balance sheet.	A significant instrument/product is any that is 1% or more of the total liabilities. The instructions were amended accordingly.

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	Is the definition of a significant instrument 1 % of total balance sheet or 1 % of total liabilities?	
Available Unencumbered Assets	We respectfully advise that at the Holding Company Level that this information is not readily available for inclusion in the template given the fluidity of some entity segment activity. Individual financial institution would be required to create extracts to support completion of this section.	Noted.
General	The guideline also speaks to the need for recognized rating agencies for specific credit exposures. Clarification on whether regional rating agencies such as Caricris will be in scope.	For the purposes of calculating the LCR, a recognized credit rating agency will be one that is in accordance with the Central Bank's Guidelines for the Use of Credit Ratings. The list of credit rating agencies recognised by the Central Bank and their equivalency mapping can be found at https://www.central-bank.org.tt/sites/default/files/page-file-uploads/recognized-credit-rating-agencies-and-ratings-equivalency-table.pdf. This has been added as a definition in the LCR guideline. CariCris is included.