CENTRAL BANK OF TRINIDAD & TOBAGO

SUPERVISORY LADDER OF INTERVENTION POLICY

FOR REGULATED FINANCIAL INSTITUTIONS

MAY 2022

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LIST OF ABBREVIATIONS AND DEFINITIONS

AML/CFT/CPF	Anti-Money Laundering, Combatting the Financing of Terrorism and Proliferation Financing (collectively 'AML')
ATA	Anti-Terrorism Act and Regulations, Chapter 12:07
CBA	Central Bank Act, Chapter 79:02
ECA	Exchange Control Act, Chapter 79:50
FIA	Financial Institutions Act, Chapter 79:09
FIUTT	Financial Intelligence Unit of Trinidad and Tobago
FOR	Financial Obligations Regulations, 2010 (as amended)
IA	Insurance Act, Chap.84:01
POCA	Proceeds of Crime Act, Chapter 11:27
SA	Supervisory Authority
TTSEC	Trinidad and Tobago Securities and Exchange Commission

1. INTRODUCTION[1]

1.1. The Central Bank of Trinidad and Tobago ("Central Bank"/"Bank") is responsible for the licensing, regulation and supervision of specified financial institutions, pursuant to powers granted under the Central Bank Act Chap. 79:02, the Financial Institutions Act, Chap. 79:09, the Insurance Act, Chap. 84:01, and the Exchange Control Act, Chap. 79:50 (collectively "substantive legislation")[2].

1.2. The Central Bank is also the designated anti-money laundering, combatting the financing of terrorism and proliferation financing (collectively "AML") Supervisory Authority ("SA") for the financial institutions that it regulates, pursuant to the definition of '*supervisory authority*' in section 55D(4)(a) of the Proceeds of Crime Act, Chap.11:27 ("POCA"), and regulation 2 of the Financial Obligations Regulations 2010 (as amended) (FOR).

1.3. Additionally, pursuant to section 123 of the FIA, the Central Bank may require information from and enquire into or examine the affairs of the HMB, ADB and TTMF. Further, as the designated AML SA for these institutions, the Central Bank may take regulatory action as prescribed under the POCA and the FOR in respect of AML breaches or concerns.

1.4. As part of its mandate to maintain confidence in, and promote the soundness and stability of the financial system in Trinidad and Tobago, the Central Bank sets regulatory rules and guidance for financial institutions, monitors for compliance with these obligations, performs risk based on-site and off-site supervision, and takes appropriate enforcement action for non-compliance.

1.5. The substantive legislation and the POCA, empower the Central Bank to take appropriate regulatory measures to maintain/ promote sound financial institutions and prudent business practices, penalize for non-compliance with statutory or regulatory requirements and intervene as necessary, where weaknesses are detected in the financial performance, governance and risk management practices of financial institutions.

1.6. Appendix I summarizes the Bank's enforcement powers, which include a wide range of discretionary, dissuasive and proportionate intervention powers. The Bank's enforcement powers can range from written recommendations, to meetings with the Board, to warnings, and stricter enforcement measures such as:

[1] This Supervisory Ladder of Intervention Policy replaces the Bank's Exit Policy of October 1, 2001 which was previously published on the Bank's website but which was removed due to the datedness of that policy.
[2] The substantive legislation includes subsidiary legislation made under the relevant statute and any amendment, re-enactment or modification made thereunder.

- issuing compliance directions[3];
- imposing administrative fines;
- removing or replacing officers, directors, and significant and controlling shareholders or restricting their powers;
- suspension, restriction, variation or withdrawal of a licence/registration;
- pursuing civil or criminal court action; and
- seeking other injunctive relief.

1.7. In general, the Central Bank utilizes a progressive pre-emptive supervisory approach to identify areas of concern or breaches, and will seek to take appropriate regulatory measures to mitigate against unsafe and unsound practices, and to ensure that financial institutions operate in compliance with regulatory obligations. ***For example***, where the Bank has identified a concern, it may initiate an on-site examination of the institution and issue a written report containing recommendations to remedy observed deficiencies and may request an action plan approved by the Board of Directors ("Board") with milestones to address the gaps in a timely manner.

1.8. However, where issues are not being addressed in a timely manner, regulatory enforcement action will be escalated to the more coercive measures, such as, issuance of compliance directions. Further, notwithstanding the Bank's general approach to take progressive corrective enforcement measures, the Central Bank, may elect to utilise more stringent enforcement action at any stage on the basis of risk in order to ensure that the action is immediately discontinued or otherwise addressed. The supervisory intervention and enforcement process is not intended to be a rigid regime under which every situation is necessarily addressed with a sequential, predetermined set of actions. Circumstances may vary significantly from case to case and sound supervisory judgement must be utilized to select the enforcement measure that is appropriate to the circumstances.

2. PURPOSE

2.1. This Supervisory Ladder of Intervention Policy ("Policy") sets out the Central Bank's policy framework for supervisory intervention in relation to prudential and other risks,

[3] Pursuant to section 86 of the FIA, the Inspector may issue directions to the licensee, financial holding company, or the controlling shareholder, or significant shareholder and any such director, officer, other employee or agent, or principal representative. Under section 155 of the IA, the Inspector also has the power to issue directions to "*any person including the principal representative of a foreign insurance company*."

including risks related to governance and AML. The Bank's supervisory approach seeks to ensure a consistent and transparent approach to intervention by:

a. Facilitating the early identification of areas of concern/breaches that may threaten an institution's viability; and

b. Ensuring that the institution takes appropriate corrective actions to reduce the probability of failure.

2.2. This Policy sets out how the Central Bank classifies levels of risk, the types of interventions that typically will be employed at each risk level and the triggers at each stage that may cause an escalation to the next level of supervisory intervention.

2.3. Non-prudential risks such as AML or unsound or unfair market conduct behavior can impact the reputation of the financial institution and lead to a deterioration in an institution's financial soundness and viability, depending on their severity. As such, the recommended supervisory actions as the level of risk increases in the institution may also be applied for AML and market conduct risks to the extent relevant and feasible to address the observed concerns.

2.4. This Policy is not exhaustive and nothing in this document should be taken as limiting the Bank's discretion to take enforcement action where it is appropriate to do so, within the terms of the Central Bank's supervisory mandate and in accordance with the powers granted to the Bank under relevant laws.

3. SCOPE AND APPLICABILITY[4]

3.1. This Policy applies to the following entities and persons, collectively referred to as "financial institutions"/ "institutions" as appropriate:

i. licensees and financial holding companies pursuant to the Financial Institutions Act, Chap. 79:09 ("FIA");

ii. insurers, intermediaries, pension plans and financial holding companies pursuant to the Insurance Act, Chap.84:01("IA");

iii. a person licensed under the Exchange Control Act, Chap. 79:50 ("ECA") to operate a Bureau de Change;

[4] Regulatory enforcement measures will be applied in accordance with the powers granted under the respective governing legislation. As such, the full range of actions available to the Central Bank will not be applicable in all instances to all financial institutions.

iv. a person registered by the Central Bank pursuant to section 36 (cc) of the Central Bank Act Chap. 79:02 ("CBA") to conduct payment services, including money transmission or remittance business;

v. and a person licensed by the Central Bank to issue e-money pursuant to the E-Money Issuer Order issued in accordance with section 17(4) of the FIA;

vi. a person licensed under section 93 of the FIA to operate an Interbank Payment System;

vii. the Home Mortgage Bank established under the Home Mortgage Bank Act, Chap. 79:08 ("HMB");

viii. the Agricultural Development Bank established under the Agricultural Development Bank Act, Chap. 79:07 ("ADB"); and

ix. the Trinidad and Tobago Mortgage Finance Company ("TTMF").

4. THE CENTRAL BANK'S SUPERVISORY APPROACH

4.1. The Central Bank seeks to ensure that its supervisory practices remain relevant and effective and are consistent with international standards and best practices. In this regard, the Bank subscribes to the principles established by international standard-setting bodies[5] for sound prudential regulation and supervision of financial institutions.

4.2. The Central Bank has adopted a risk based approach to supervision[6], which is complemented by this Policy in ensuring that the Bank satisfies its mandate to promote the soundness and stability of the financial system. The general principle of risk-based supervision is that the nature and intensity of the Bank's supervisory oversight and engagement will be commensurate with the level of risk posed by the regulated financial institution.

4.3. The Central Bank's supervisory process involves assessing the safety and soundness of financial institutions on an ongoing basis. This is achieved by, *inter alia*, evaluating an institution's risk profile, financial condition, governance and risk management frameworks, internal controls and compliance with applicable legislation and guidelines.

[5] These include but are not limited to Basel Committee on Banking Supervision, the International Association of Insurance Supervisors, the Financial Action Task Force and the OECD (OECD Core principles for the regulation of private pension plans).
[6] Please refer to the respective sector's Risk Based Supervisory Frameworks.

4.4. The Central Bank's supervisory process entails the following key activities:

a) on-site examinations of the institution to review and assess, *inter alia*, one or more areas of risk (e.g. credit, liquidity, market, operational, AML), and the effectiveness of the institution's overall risk management framework including its corporate governance structure, in mitigating those risks, in determining the institution's financial health and ongoing viability;

b) off-site monitoring of the institution's financial condition, risks, governance and controls through the review and assessment of regulatory returns, board packages, internal and external audit reports, reports from other supervisors, and open source information;

c) Ensuring compliance with statutory requirements; and

d) Enforcement.

4.5. The supervision of financial institutions is also conducted on a consolidated basis where applicable. The Central Bank has entered into various Memoranda of Understanding ("MOUs") that permit exchange of supervisory information between the Central Bank and other supervisory authorities (both foreign and domestic) for the purpose of facilitating consolidated supervision of financial groups. Where warranted, the Central Bank will involve the home or other host regulatory authorities regarding an intended supervisory action or advise them of an action which has already occurred.

5. GUIDING PRINCIPLES FOR SUPERVISORY INTERVENTION

5.1. There are a number of principles underlying the Central Bank's application of its intervention powers:

i. ***Risk Based***

The Central Bank's intervention actions and procedures are aligned to its risk based supervisory approach. The Bank will assess the seriousness, nature and circumstances of the matter and prioritize the issues and institutions that pose the most risk and tailor its supervisory engagement accordingly.

ii. ***Transparency***

The Central Bank will seek to exercise its powers in a manner that is transparent and consistent.

iii. ***Dissuasiveness***

In determining the appropriate course of supervisory action, the Central Bank will actively consider the need to deter the recurrence of non-compliance and/or unsafe and unsound practices, by holding institutions accountable when they do not meet regulatory requirements.

iv. ***Outcomes Based***

The Bank's consideration of intervention action will be driven by its mandate to *inter alia* promote the safety, soundness and market integrity of the financial system. There will be instances where informal supervisory action may be more appropriate in addressing a breach or supervisory concern and results in timelier and more comprehensive remediation of risks.

v. ***Proportionality***

The Central Bank has a responsibility to act proportionately in executing its supervisory mandate, including when it takes intervention action. Acting proportionately means that the Central Bank will assess the facts of the particular case (including, where relevant, any submissions or representations made by the financial institution), considering all the supervisory and enforcement measures available to it, and apply the action(s) which best reflect the seriousness of the conduct.

In this regard, the Central Bank will take action that is effective, proportionate and dissuasive which will:

- be fair, and take into account current and past behavior;
- be proportionate to the nature and seriousness of the breach or supervisory concern;
- remove any financial gain or competitive benefit from the matter; and
- be sufficient to act as a deterrent to future non-compliance and unsound practices.

6. SUPERVISORY INTERVENTION POWERS

6.1. The supervisory intervention tools (*See Appendix II for details*) which are available to the Central Bank include:

i. Remedial measures such as supervisory recommendations contained in examination reports; written warnings; meetings with Senior Management the full Board or board committees; more frequent reporting by, or meetings with, the institution; and requests for action plans with timelines to address concerns;

ii. Downgrades of institutional supervisory risk ratings e.g. AML or composite risk assessment (CRA) rating;

iii. Removal, replacement or restriction of director, officer or controller;

iv. Imposition of directions and conditions, including requiring capital injections and special audits to be conducted;

v. Restriction, revocation or suspension of a licence or registration;

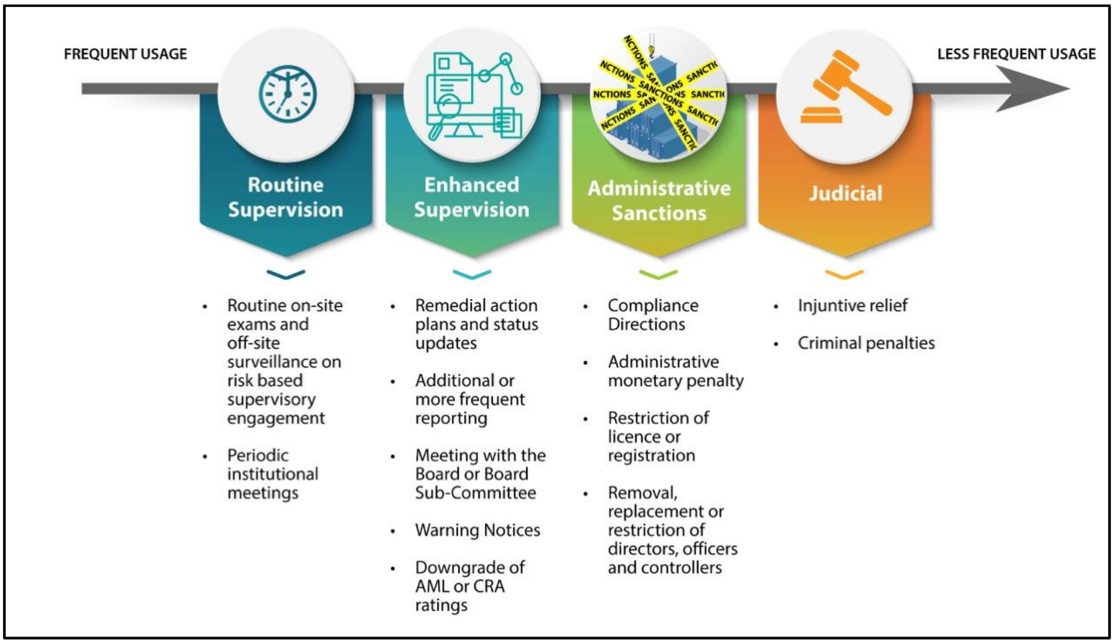
vi. Administrative penalties;

vii. Other civil and criminal sanctions or penalties; and

viii. Other injunctive relief.

6.2. The Central Bank will be strategic in using the full extent of its supervisory toolkit to encourage desired outcomes through the progressive use of its powers. As such, the Bank expects that court-based intervention will represent a relatively limited proportion of overall regulatory activity, as illustrated in Figure I.

FIGURE: I – INDICATIVE USE OF SUPERVISORY POWERS



7. THE CENTRAL BANK'S APPROACH TO THE INTERVENTION DECISION

7.1. Where the Central Bank has concerns about the soundness of a financial institution, the Bank would generally apply remedial actions initially to address the identified deficiencies.

7.2. Recommendations would be made in relation to any perceived weaknesses in the financial institution's governance, risk management and controls, and the Bank will work with an institution to ensure that corrective measures are implemented. Notwithstanding, effective remediation undertaken by the financial institution does not preclude the Bank from taking actions with respect to the breach or concern.

7.3. Consequently, issues of potential concerns or breaches of legislative requirements which create risk of harm to depositors, policy-holders or other stakeholders may prompt pursuit of stronger intervention action. These include:

i. failure to comply with statutory and regulatory obligations;

ii. breaches of licensing or registration requirements;

iii. fitness and propriety concerns;

iv. market conduct concerns;

v. ongoing deficiencies in policies and procedures, including the AML compliance programme of the institution;

vi. significant deficiencies in governance, risk management or controls that pose a risk to the effective operation of the business and/or a risk to customers and stakeholders;

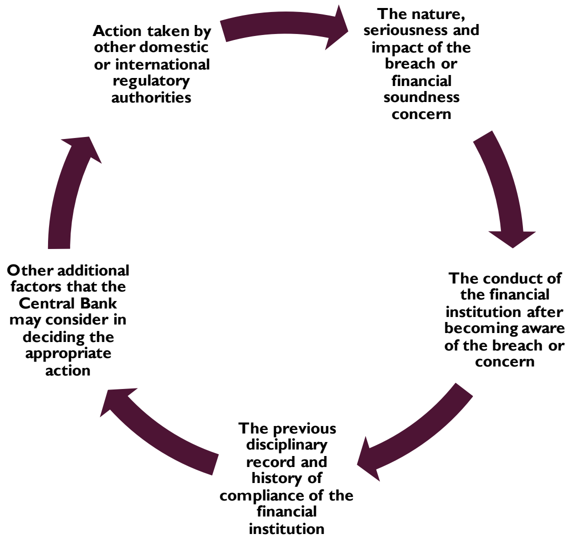
vii. failure to adequately implement an agreed action or remediation plan;

viii. repeated failures to submit statutory reports in a timely manner or inaccurate reporting; and

ix. the conduct of unauthorized business.

7.4. The Bank shall consider any one or more of the factors illustrated in Figure II, in determining the actions to take, on a case-by-case basis. The underlying criteria ***are not exhaustive*** and all will not be relevant to every case. The Central Bank may also consider other factors which, while not listed, may be relevant to a particular case.

FIGURE II- DETERMINATION OF APPROPRIATE INTERVENTION ACTION



a) ***The nature and seriousness of the breach or financial soundness concern (hereinafter referred to as "deficiency"):***

- the extent of the deficiency identified;
- the degree of responsibility, inadvertence, intent or negligence leading to the deficiency;
- the potential or actual reputational damage to the financial institution;
- any financial or other damage or loss or harm done or caused by the deficiency, including, for example, to:
  - the financial institution's depositors and policyholders as applicable;
  - the safety and soundness of the financial sector; or
  - the performance of the Central Bank's functions.
- whether there are a number of minor issues, which individually may not justify disciplinary action, but when taken collectively will warrant the imposition of enforcement action;
- whether the deficiency reveals/reveal serious or systemic weaknesses of the management systems or internal controls in the institution's business conduct.

b) ***The conduct of the financial institution and/or its principals[7] after becoming aware of the breach(es) / concern:***

- whether and how quickly the institution brought the matter to the Central Bank's attention;
- whether the institution took reasonable measures to remedy the deficiency or prevent its reoccurrence;
- the degree of co-operation with the Central Bank during the examination, the investigation and/or enquiry; and
- whether there was evidence of intent by the institution to conceal the deficiency or mislead the Bank.

c) ***The previous disciplinary record and compliance history of the financial institution:***

- whether the institution has a general history of compliance with legislative or regulatory requirements in Trinidad and Tobago, and in the case of financial groups, their history of compliance with similar laws in other jurisdictions where they operate; and
- the number of times and frequency with which the Central Bank has previously taken action against the institution or required the institution to take remedial action.

d) ***Other additional factors:***

- the measures or precautions that a reasonable person, acting prudently and exercising due diligence, would have taken to prevent the deficiency;
- whether or not the deficiency was due to:
  - reliance on information given to the institution by a credible third party and financial institution reasonably believes the information to be reliable; or
  - a cause beyond the institution's control, including, for example, a credible third party's act or default or error; and
- consideration of action the Bank has taken against other institutions for similar deficiencies.

[7] In this instance, principals are considered to be directors and officers of the financial institution.

*e) **Action taken by another domestic or international regulatory authority:***

- Some deficiencies may potentially result in supervisory actions being considered by other domestic or overseas regulatory authorities. In permissible circumstances, where other regulatory authorities are contemplating disciplinary actions against a financial institution with respect to the same matters, the Central Bank will consider in conjunction with the other regulator:
  - whether the other regulatory authority's action would be adequate to address its concerns; and/or
  - if it will need to impose separate sanctions.

8. THE CENTRAL BANK'S SUPERVISORY LADDER OF INTERVENTION

8.1. The Supervisory Ladder of Intervention ("Ladder") in Annex 1 outlines the potential triggers and likely supervisory actions to be taken in response to deterioration in the financial condition and/or performance of a regulated financial institution. The Ladder seeks to provide a useful framework for consistent decision making by the Central Bank itself.

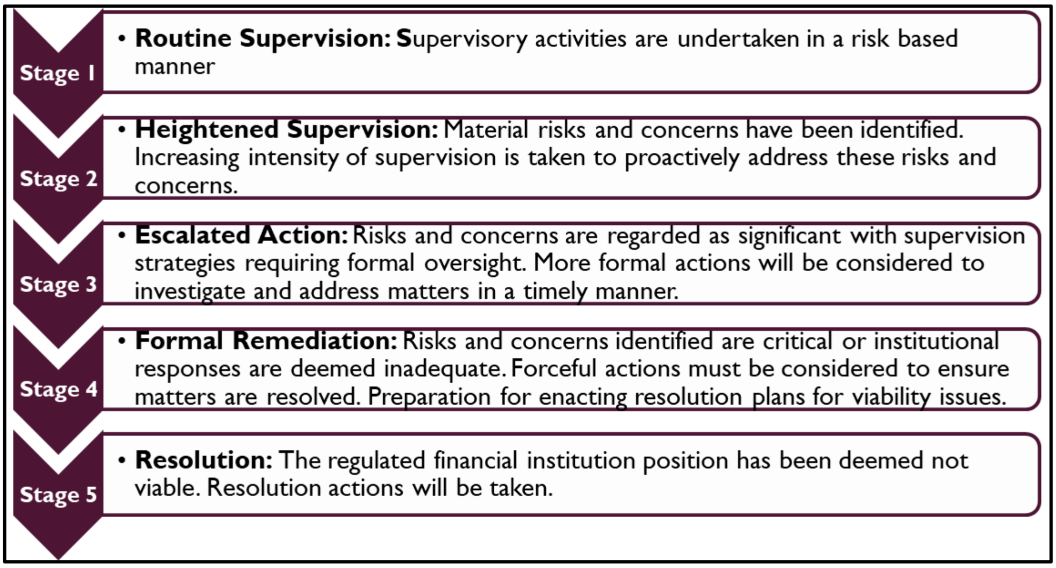
8.2. Appendix III aligns loosely the Composite Risk Assessment ("CRA") and the Risk Based Supervisory ("RBA") ratings for banks and insurers[8] respectively, to the stages of supervisory intervention in the Ladder. **However, they are not synonymous.**

8.3. **It should be noted that the CRA rating is historical/backward looking, while the intervention rating is based on ongoing risk assessment of the financial institution and is therefore more current/forward looking. Therefore, it is possible for deterioration in an institution to be observed based on continuous off-site monitoring, financial and risk analysis, before the Central Bank formally downgrades the institutional CRA rating, by verification through an on-site examination**. Notwithstanding, the CRA enables the Central Bank to assign the likely level of supervisory intensity and engagement to a regulated financial institution based on observed risk at a point in time.

8.4. Figure III illustrates the five stages of supervisory engagement: routine supervision, heightened supervision, escalated action, formal remediation and resolution.

[8] The Risk Based Supervisory Framework for the insurance sector will be published at a later date.

FIGURE III – FIVE STAGES OF SUPERVISION[9]



8.5. Broadly, there is an expectation that as an institution moves from routine supervision to formal remediation, there will be a transition from informal actions to formal actions and the use of coercive intervention powers. However, this does not prevent the Central Bank from applying coercive powers at any stage, including during routine supervision.

8.6. It is important to note that the intervention measures detailed in Annex I should neither be interpreted as being exhaustive nor a rigid application of predetermined actions. Each instance of non-compliance or identified viability or solvency concerns will be assessed on a case-by-case basis and ***nothing in this Policy should be interpreted as limiting or preventing the Central Bank from taking any other course of action from the entire range of available supervisory actions***, in accordance with the powers granted under any of the substantive legislation.

8.7. The supervisory actions to be taken for each stage of intervention may be cumulative; i.e. actions indicated at lower levels of risk are implicitly included in actions that could be considered for institutions with a higher risk profile. Conversely, where warranted, actions can be taken at risk levels lower than that indicated in the Ladder.

8.8. Where the financial institution continues to behave in an unsafe and unsound manner and where institutional failure is imminent, the Central Bank will give consideration to whether actions should be taken in accordance with its resolution plan to place the institution into liquidation or resolution.

8.9. While a range of supervisory intervention measures is at the disposal of the Central Bank, it is the Bank's expectation that primary responsibility for addressing and

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[9] Adapted from Toronto Center Turning Risk Assessments into Supervisory Actions, 2019.

rectifying weaknesses/problems rests with the Board and senior management of the financial institution. In this regard, financial institutions have a duty to report any concerns with operations or breaches of regulatory requirements to the Central Bank in a timely manner.

ANNEX I
THE CENTRAL BANK'S SUPERVISORY LADDER OF INTERVENTION

Supervision Stage	Risk Level[10]	Likely Supervisory Actions	Discretionary Actions
Stage 1 **Routine Supervision** (No significant concerns)	**Low risk:** No particular areas of concern. Strong financial position; financial soundness indicators (FSIs) are robust; (for example, capital adequacy ratios are significantly above minimum requirements, asset quality, earnings and profitability, and liquidity indicators are strong and there are no concerns). Governance and risk management controls are robust. The institution generally complies with all legislative and regulatory requirements including AML, and there are no market conduct concerns.	• Routine supervisory actions in line with the risk posed by the institution. These may include for example, routine review of financial and other regulatory submissions, board packages, on-site examinations and relationship meetings with the institution. • Maintain CRA 1 rating for banks or the equivalent for insurers if there are no concerns with the institution's risk profile.	• Senior supervisory personnel may request courtesy visit with the CEO and other senior management representatives and/or board if a large or systemic financial institution. • Consider conducting a limited scope on-site examination to verify the CRA rating if some weakening in FSIs, governance, risk management or internal controls are observed.
Stage 2 **Heightened Supervision** (Minor to Moderate weaknesses detected that can	**Emerging risk –** Declining trends in some FSIs may be observed although generally still within the safe range; reduction in capital buffers which may also be below the industry average; increasing risk in loans and /or investment portfolios; downward trend in capital adequacy and/ or liquidity; evidence of some weaknesses in corporate governance; emergence of business practices such as rapid growth without commensurate controls, overly competitive	• Request periodic status updates and monitor implementation of remedial actions as per recommendations in examination reports; • Meet with Senior Management to discuss emerging concerns. • Maintain CRA 2 rating for banks or the equivalent for insurers.	• More frequent / additional submission of financial and other operational information. • Institution is requested to provide an action plan to address the noted areas of emerging risk, with milestones for completion.

[10] See Appendix IV for potential triggers for early supervisory intervention extracted from the Basel Committee on Banking Supervision 'Guidelines for Identifying and Dealing with Weak Banks'.

Supervision Stage	Risk Level[10]	Likely Supervisory Actions	Discretionary Actions
be easily remedied but if not addressed can lead to deterioration in stability and soundness indicators)	behavior, aggressive accounting practices; on-site examinations or off-site monitoring reveal moderate weaknesses in some control procedures, including AML and market conduct procedures.		• Administrative penalties may be levied if relevant. • Consider conducting a limited scope on-site examination to verify the CRA rating if continued weakening in FSIs, governance, risk management or internal controls are observed.
Stage 3 **Escalated Actions** (Above average concerns with certain governance and risk management practices. Several FSIs outside the normal ranges with further deterioration likely in the absence of timely actions being taken.)	**Moderate risk** – Several FSIs are outside the financial institution's or sector's normal range. Compliance issues detected; Capital adequacy is approaching the level considered to be a minimum operational level. Liquidity issues may be evident. On-site examinations reveal poor corporate governance and risk management practices in certain areas and significant weaknesses in controls and/or internal procedures exist, which could give rise to serious and potentially critical business problems.	• Senior Central Bank personnel meet with the Board to discuss concerns and request immediate action. • Requirement to improve governance and risk management controls on an urgent basis. • Depending on whether at the higher end of the risk level or not, the Central Bank may intervene in operational matters, such as by restricting growth of business. • More frequent reporting (daily or weekly) instituted and more frequent meetings with the Board and/or senior management. • Maintain CRA 3 rating for banks or the equivalent for insurers.	Consider: • activating recovery plan; • requiring adjustments to capital and solvency and liquidity requirements; • imposing administrative penalties; • pursuing any other civil penalties or injunctive relief; • issuing compliance directions requiring the institution to either take, or cease and desist from taking, certain actions. • Conducting a limited scope on-site examination to verify the CRA

Supervision Stage	Risk Level[10]	Likely Supervisory Actions	Discretionary Actions
			rating if some deterioration in FSIs, governance, risk management or internal controls are observed.
Stage 4 **Formal Remediation** (Serious and imminent threat to viability; If immediate action is not taken, the institution is likely to become non-viable)	**Unacceptable risk –**. Substantial number of FSIs and other risk indicators are well outside the financial institution's or sector's normal ranges. Capital levels are at or below statutory minimum. The institution may be experiencing liquidity problems. On-site inspection reveals fundamental weaknesses such as very weak corporate governance, lack of effective senior management, ineffective investment policy, weak or non-existent risk management, including egregious AML breaches.	• Any stage 3 action (mandatory or discretionary) • Consider whether the institution should be required to strengthen the Board through the appointment of new board members or replace members of senior management. • Recovery plan should be activated and very closely monitored by the Central Bank. High probability that the plan will have to include an immediate injection of capital. • Central Bank liquidity support may be needed. • Request a special audit of the company including but not limited to independent actuarial reviews, appraisal of assets such as property, investments, loans. • Impose conditions or restrict certain business activities or transactions, or where applicable, vary the licence. • Stage 4 is not a sustainable position. The institution must be able return to at least	• Require strengthening of the Board, and/or require the removal of CEO or other officers. • Possibly take control of the company and impose provisional management. • Suspend business operations.

Supervision Stage	Risk Level[10]	Likely Supervisory Actions	Discretionary Actions
		Stage 3 through the implementation of the recovery plan and/or other supervisory action in a reasonable pre-determined timeframe or move to Stage 5 for resolution.	
Stage 5 **Resolution** (Resolution or winding-up is unavoidable; no plausible remedial actions on going concern basis.)	**The institution is no longer viable.** Depositors or policy holders cannot be put at risk by allowing the institution to continue to operate.	• Activate resolution and/or crisis management plan to resolve the institution by merger, acquisition or liquidation. • Revocation/non-renewal/ termination of licence/registration.	

APPENDIX I
THE CENTRAL BANK'S REGULATORY POWERS - LEGAL REFERENCES

	FIA	IA 2018	ECA / TERMS & CONDITIONS	POCA & ATA [applies mutatis mutandis]
a) Injunctive Relief	Section 87	Section 156	-	Section 55D of POCA; Reg 40 of the FOR
b) Criminal Sanctions / Penalties	Section 117(2)	Section 254(2) and (3)	Fourth Schedule Part II	Regulations 42 and 43 of the FOR
c) Restriction, revocation or suspension of licence	Section 23(1) Section 24 Section 63 (2) Section 125 Section 126	Section 34 (1) I Section 35 Section 101 Section 121(1) (o)	Section 5(2) Section 41(1) Terms 1.1 (vi) Terms – Section VIII	Section 55D of POCA; Reg 40 of the FOR
d) Removal, replacement or restriction of director, officer, significant shareholder, controlling shareholder and acquirer	Section 24(3)I Section 24(3)(f) Section 27(2)I Section 27(2)(f) Sections 33(2), (8) Section 71(9) Section 72 Section 74	Section 35 (3) (d) Section 35(3)I Section 38(2)I Section 38(2)(f) Sections 65(2), (7) Section 52(8) Section 53 Section 54	Section 41(1) Term- 3.1(iv)	Section 55D of POCA; Reg 40 of the FOR
e) Imposition of directions and conditions;	Section 16(7) Sections 17(5), (11) Section 21(4) Section 21(8)	Section 25(4) Section 25(9) Sections 35(3), 38(1) Section 148(3)	Fourth Schedule Part I Section 39(2) Section 41(2)	Section 55D of POCA; Reg 40 of the FOR

	FIA	**IA 2018**	**ECA / TERMS & CONDITIONS**	**POCA & ATA [applies mutatis mutandis]**
	Sections 24, 27, 28 Section 49(1) Section 86 Section 10 Section 12	Section 155 Section 245(5)		
f) Downgrade of institutional rating pursuant to examination findings.	Section 62(7), (8), (9)	Section 10(7)	Terms – Section VII (i)	Section 55D of POCA; Reg 40 of the FOR
g) Supervisory Reports and written warnings	Section 62(7), (8), (9)	Section 10(7) Section 73(4)	-	Section 55D of POCA; Reg 40 of the FOR

APPENDIX II
Examples of Central Bank's Supervisory Actions[11]

Examples of Supervisory Action	Examples of When Used
Normal day-to-day supervision and routine monitoring: On-site examinations and off-site surveillance	The financial institution generally has a sound financial position, good governance, adequate policies, procedures and risk control frameworks commensurate with its nature, scope, complexity and risk profile. The Central Bank has determined that the financial institution's overall net composite risk rating, capital, liquidity and earnings along with its practices are satisfactory and do not indicate any significant problems or control deficiencies.
Supervisory recommendations made in writing for the financial institution to institute pre-emptive/ corrective measures to mitigate/ rectify identified deficiencies (sometimes within stipulated timeframes) based on on-site examinations or external audit findings.	Routine monitoring has identified one or more deficiencies in the financial institution's risk management systems, policies and procedures that may impede the institution from complying fully with legislative requirements.
Warning letters	More serious, developing issues; less cooperative management; requests for remedial actions and findings of external audit reports are not being implemented / addressed in a timely manner.
Downgrade of institution's composite risk assessment (CRA) rating.	Generally used where an on-site examination verifies that significant deficiencies exist in an institution's governance and/or risk management framework, and the controls are inadequate to mitigate identified risks. Where an institution's CRA rating is downgraded, the institution is usually required to take specified actions within a stipulated timeframe, which may include a requirement for the institution to submit to the Central Bank a board approved action plan to cure to identified deficiencies within reasonable timeframes.

[11] It should be noted that the Central Bank may use more than one supervisory action at a time to rectify deficiencies at a financial institution.

Examples of Supervisory Action	**Examples of When Used**
Compliance Directions	Increasingly problematic issues; uncooperative management, where previous efforts at voluntary remediation have failed; inability or unwillingness to remedy issues in a reasonable timeframe; compliance directions may require the institution to take a particular action or stop taking a particular action or impose other constraints.
Administrative Monetary Fine	Upon detection of a breach of the legislation and in accordance with this Policy.
Removal, replacement or restriction of director, officer or controller or the board.	Where there is concern with the fitness and propriety of the person or where the corporate governance is severely weak over a prolonged period and areas identified for improvement are not being addressed.
Restriction, variation, or suspension of a licence or registration.	Where serious issues are detected but other attempts at correcting deficiencies have failed. These enforcement options will only be considered if other options have been ineffective. This option considers, inter alia, the probability of future compliance, the impact on policyholders, depositors, clients or other stakeholders of the financial institution and the seriousness or nature of the breach or non-compliance.
Criminal penalties and other injunctive relief	Egregious breaches of legislative requirements and institution has failed to remedy deficiencies and /or institution or its officers have committed an offence; the risk exposure presents an imminent threat to the policyholders, depositors, clients or other stakeholders of the institution and/or the financial sector.
Winding Up of the Institution / Revocation of a licence.	This is one of the most serious actions that can be taken by the Central Bank and is only used when there are no viable or appropriate alternatives. The financial institution is underperforming in all material aspects and poses an imminent threat to the financial stability of the institution and/or the financial sector, to policyholders, depositors, clients or other stakeholders of the institution and the institution has been unable to resolve its issues. Factors to be considered include: whether the institution is insolvent, whether there are breaches of regulatory requirements that are so egregious that the continued existence of the institution is not in the interests of the depositors, policy holders or stakeholders; where there is a risk to financial stability of the wider financial sector.

APPENDIX III
MAPPING OF THE SUPERVISORY LADDER OF INTERVENTION, INSURANCE RISK BASED SUPERVISORY FRAMEWORK AND BANKING SECTOR COMPOSITE RISK ASSESSMENT (CRA) RATING

SUPERVISORY LADDER OF INTERVENTION		INSURANCE SECTOR'S RISK BASED SUPERVISORY FRAMEWORK[12]		BANKING SECTOR'S COMPOSITE RISK ASSESSMENT RATING (CRA)	
STAGE	**RISK LEVEL / SUPERVISORY ACTION**	**INTERVENTION RATING**	**DESCRIPTION**	**CRA**	**DESCRIPTION**
1	Low Risk / Routine Supervision	**0**	No problems	**1**	Strong/Minor Weakness
2	Emerging Risk /Heightened Supervision	**1**	Early Warning	**2**	Satisfactory/Moderate Weaknesses
3	Moderate Risk / Escalated Action	**2**	Risk to Financial Viability/Solvency	**3**	Fair/Substantial Weaknesses
4	Unacceptable Risk / Formal Remediation	**3**	Future Financial Viability in serious doubt	**4**	Marginal/Severe Weaknesses
5	The institution is no longer viable / Resolution	**4**	Institution is not viable/Insolvency Imminent	**5**	Weak/Critical Deficiencies

[12] The Risk Based Supervisory Framework for the Insurance Sector will be published at a later date.

APPENDIX IV

Extract from the Basel Committee on Banking Supervision Guidelines for Identifying and Dealing with Weak Banks

Early supervisory intervention is warranted when the following weaknesses are observed:

• **Poor lending practices**, such as poor underwriting skills or an overly aggressive loan expansion programme, coupled with an absence of incentives to identify problem loans at an early stage and to take corrective action.

• **Excessive concentrations across the business model**, including funding, lending, sources of income and risk. Concentrations can accumulate across products, business lines, countries and legal entities, and can be destabilising. Large exposure regimes aim to limit excessive concentrations.

• **Structural imbalances in a bank's liquidity position**, determined by, for example, an unsustainable maturity structure, a high loan-to-deposit ratio, or a low share of stable sources of funding on total liabilities. An excessive concentration of funding is typical of business models that are overly reliant on ample market liquidity and that ignore the liquidity risk.

• **Excessive risk-taking** may come about when a bank's compensation scheme ties compensation or bonuses to short-term performance (e.g. short-term increases in the bank's profits, earnings or share price) or performance targets that do not take the related risks into consideration.

• **Weaknesses in risk culture and governance**, i.e. lack of risk experience and skills among senior executive and non-executive management, a lack of influence of the risk function, and weaknesses in the way risk is measured and reported.

• **Breaches or overrides of existing policies and procedures**, such as limits on concentration, connected lending, value-at-risk exposure of the trading book and liquidity risk tolerance. Individuals within the bank may override policies and procedures by force of personality, dominant ownership or executive position.

• **Fraud or criminal activities and self-dealing** by one or more individuals.

• **External factors** such as negative macroeconomic shocks (including a currency crisis, a weak real economy, inadequate preparation for financial sector liberalisation, a massive market liquidity squeeze) may also lead to problems for banks. External factors may not overwhelm a well managed and financially sound bank, but will expose deficiencies in management and control in weaker banks.

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