2023

CENTRAL BANK OF TRINIDAD & TOBAGO

Quantitative Impact Study Report on the Leverage Ratio Guideline

October 2023

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Results of the Quantitative Impact Study ("QIS") on the draft Leverage Ratio Guideline and Report

1. INTRODUCTION

The Leverage Ratio is a non-risk based backstop measure aimed at restricting the build-up of excessive leverage in banking institutions. This measure is one of the Basel III post financial crisis reforms and is supplemental to the Basel II Pillar 1 risk based capital adequacy framework.

The Leverage Ratio is the ratio of a bank's Tier 1 capital to its exposure measure and is to be calculated in accordance with the Central Bank's Leverage Ratio Guideline. The exposure measure comprises four components: on-balance sheet assets, derivative exposures, securities financing transactions (SFTs) and off-balance sheet exposures. The minimum requirement for the Leverage Ratio is 3% as stipulated in the Financial Institutions (Capital Adequacy) Regulations, 2020 (Regulations) and in keeping Basel III principles. This requirement must be met on an individual and consolidated basis where applicable.

2. BACKGROUND

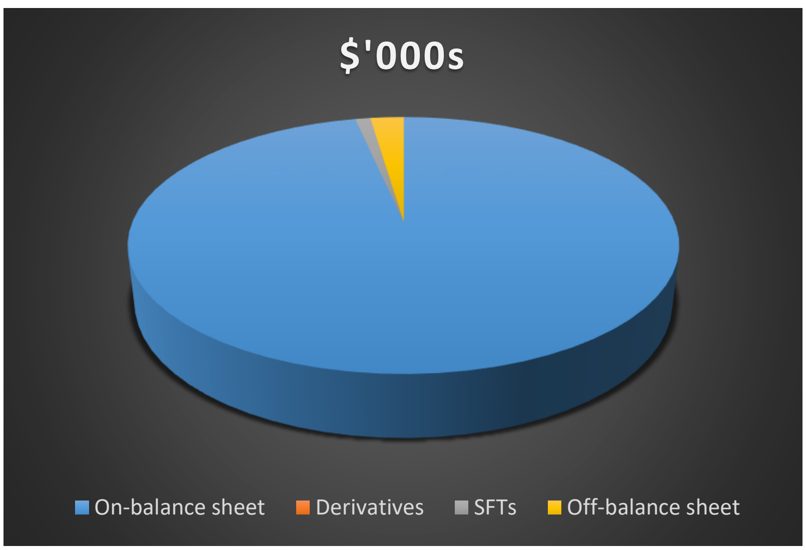
The Central Bank of Trinidad and Tobago ("Central Bank") commenced Phase 2 of Basel II/III Framework following the promulgation of the Regulations in May 2020 which introduced Pillar 1 minimum capital requirements.

Accordingly, the Central Bank issued a draft Leverage Ratio Guideline, Leverage Ratio reporting template and instructions for industry consultation on March 31, 2022. Simultaneously, a Quantitative Impact Study ("QIS") was launched to ascertain the readiness of the banking sector to meet the minimum Leverage Ratio requirement of 3%. Licensees were asked to complete the reporting template using data as at January, February and March 2022 and submit those along with feedback on the Guideline by June 30, 2022.

3. QIS RESULTS - MAIN FINDINGS

1. All licensees reported that they were able to meet the minimum leverage ratio on an individual and consolidated basis.
2. All financial holding companies reported that they were able to also meet the leverage ratio.
3. The leverage ratio reported for licensees averaged over a three-month period ranged from 7% to 153%.
4. The leverage ratio for the entire banking system was 13%. The sector ratio for commercial banks was 11%, while the sector ratio for non-banks was 37%.

Chart 1 – Exposure Measure Composition



Exposure Measure

5. Predictably, for the banking sector, the exposure measure comprised predominantly on-balance sheet assets which accounted for 97% of the total. Off-balance sheet exposures and SFTs represented 2% and 1% of the exposure measure respectively, while derivatives were a negligible component as only one institution reported a relatively miniscule amount.

4. CONCLUSION

The results of the Leverage Ratio QIS show that the local banking sector is able to maintain the minimum requirement of 3% and has the capacity to conduct the requisite regulatory reporting. On this basis, the Central Bank sought to activate the Leverage Ratio requirement in regulation 19 of the Regulations by publication of a Notice in the Gazette by the Minister of Finance as per regulation 2 of the Regulations.

The minor comments received on the draft Leverage Ratio Guideline and Report can be found in Appendix 1 of this document.

APPENDIX 1 - INDUSTRY COMMENTS ON THE DRAFT LEVERAGE RATIO GUIDELINE AND REPORT

Topic	Comment/Question	Central Bank's Response
Frequency of Consolidated Leverage Ratio Report	Section 2.4 requires Financial Institutions to submit the Leverage return on a monthly basis. Currently, the consolidated Basel returns are submitted quarterly, we recommend that the consolidated leverage returns also be submitted on a quarterly basis while individual return be submitted monthly.	The Central Bank agrees with this recommendation. The Guideline will be amended to state that the consolidated submissions will be required on a quarterly basis.
Direct Credit Substitutes	We also request clarification on whether Direct Credit Substitutes e.g. general guarantees of indebtedness with an original maturity of to one year would attract a Credit Conversion Factor of 20% or 100% as per Appendix 3 of the Guideline – Off Balance Sheet Items a. i.) CCF 20% or a. i.) CCF 100%.	Direct Credit Substitutes attract a credit conversion factor of 100%. The nature of the exposure takes precedence over the maturity date.