LAPSE OF TIME

SM/20/136
Correction 1

October 16, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Trinidad and Tobago—Financial System Stability Assessment**

Board Action:	The attached corrections to SM/20/136 (7/31/20) have been provided by the staff:
Factual Errors Affecting the Presentation of Staff's Analysis or Views	**Page 2**
Typographical Errors	**Pages 17, 55, 61**
Questions:	Mr. Dobler, MCM (ext. 36198) Mr. Visconti, MCM (ext. 34228)

resolution frameworks need to be updated to meet best international practice, and supervisors' independence, resources, and powers strengthened. Macroprudential powers should be adopted and used to attenuate banks' sovereign exposures among other risks. Climate risks warrant a comprehensive environmental risk assessment of the financial sector and the development of a green finance strategy.

- The FSAP team was led by Marc Dobler (IMF) and Marius Vismantas (World Bank) and included deputy mission chiefs Claudio Visconti (IMF) and Oliver Masetti (World Bank). The team also comprised Ali Al-Sadiq, Hippolyte Balima, and Ivan Guerra (all IMF); Holti Banka, Ezio Caruso, Rami Mikko Ahmed Galal, Tatsiana Kliatskova, and Martijn Gert Jan Regelink (all World Bank); and external experts Peter van den Broeke, Geraldine Low, José Rutman, David Scott, Matthew Sullivan, and Daniel Waters. AML/CFT issues were covered remotely by Ivana Rossi (IMF) and Kuntay Celik (World Bank).

- The mission met with senior leaders and officials from a number of regulatory and government agencies in Port of Spain, including the Central Bank of Trinidad and Tobago (CBTT), Financial Intelligence Unit of Trinidad and Tobago, Ministry of Finance (MoF), Ministry of Labor and Small Enterprise Development, Trinidad and Tobago Securities and Exchange Commission (TTSEC), and Deposit Insurance Corporation ~~Commission~~ (DIC). It also met with representatives from financial institutions, industry organizations, and the private sector.

- FSAPs assess the stability of the financial system as a whole and not that of individual institutions. They are intended to help countries identify key sources of systemic risk in the financial sector and implement policies to enhance its resilience to shocks and contagion. Certain categories of risk affecting financial institutions, such as operational or legal risk, or risk related to fraud, are not covered in FSAPs.

- This report was prepared by Marc Dobler and Claudio Visconti, with contributions from the members of the FSAP team.

- **Risks:** CBTT should develop further guidance and/or conduct more in-depth analysis on key risk areas including market, credit (see below), liquidity, interest rate risk in the banking book, FX, cyber, AML/CFT,[8] and climate risks, as well as enhancing its supervisory data in these areas.

- **Corporate governance:** CBTT should update bank corporate governance guidelines to ensure banks have adequate internal control and risk management practices (risk data aggregation, IT, valuation methodology) in place and specify additional requirements for SIFIs (e.g., mandatory Board committees). CBTT needs to communicate examination findings on a timely basis and meet frequently with banks' Boards/independent members.

23. CBTT should continue to strengthen oversight of credit risks. While NPLs were 3.4 percent of total loans at end-June 2019, past-due loans (more than 30 days overdue) were 4.5 percent and riskier refinanced and debt consolidation loans accounted for close to 7 percent of total loans. CBTT should build on steps already taken and conduct in-depth, regular onsite credit reviews at all large banks to assess the continuing adequacy of asset classification, quality of underwriting, and adequacy of provisioning. CBTT's credit risk guidance should be updated to reflect international best practices.

Insurance

24. The recently passed insurance legislation should significantly strengthen the supervisory regime. The failure of CLICO in 2009 triggered substantial fiscal outlays and propagated a cross-border shock. At the time of the FSAP, the insurance supervisor continued to work with serious limitations, including inadequate capital requirements and restrictions on related-party transactions, as well as insufficient legal authority for onsite supervision. Improvements in the new legislation include introducing risk-based capital,[9] enhanced reporting, stricter requirements around corporate governance and in respect of market conduct, and strengthening CBTT's enforcement powers, among others. Final amendments were recently approved by parliament and should be enacted urgently.[10] Risk-based supervision will require enhanced technical skills and additional resources at CBTT. The supervisor will need to develop and issue technical guidelines, monitor the introduction of risk-based capital, develop a supervisory review and reporting framework, and adopt policy on enforcement measures including a "ladder of intervention".

Investment Funds

25. The regulatory regime for collective investment schemes is being updated. A new regulatory regime is being developed, with new binding requirements covering investment restrictions; reporting requirements; segregation and custody of client assets; asset valuation and pricing; fund borrowing; and suspension of redemptions. These reforms are critical for addressing the systemic risks posed by this sector and should be brought into force without delay. TTSEC should

[8] CBTT issued detailed revised guidance on AML/CFT in 2018.

[9] With a five-year transitional period to implement the new capital requirements.

[10] Requiring presidential proclamation, which awaits final revisions to tax legislation and approval of the regulations.

currency, IRRBB, country risks, and exposures to related parties should be included or enhanced as appropriate. In addition, any pertinent data that is being collected by CBTT (e.g., data that the Statistics Unit or the Research Department collects) should be made available to supervisors, if relevant. Further, CBTT's data validation mechanisms will benefit from the future planned adoption of an electronic software system versus some of the manual verification and validation processes currently in place.

Corrective and Sanctioning Powers of Supervisors (CP 11)

23. Although CBTT has an adequate range of legislative powers to take corrective measures in dealing with problem banks, it should formalize its internal reporting and release its "ladder of intervention" document to the banks. CBTT should augment its reporting processes for tracking problem financial institutions through an aggregate report on all banks being monitored to both the Inspector (the individual responsible for the supervision of financial institutions at CBTT), and to CBTT's Governor/Board to ensure operational preparedness to deal effectively in practice with emerging risk issues. Moreover, CBTT should contemplate releasing its "~~Ladder~~ ladder of ~~Intervention~~intervention" to the banks to clarify what corrective measures CBTT may utilize depending on the risk profile of the problem bank.

Corporate Governance and Internal Audit (CPs 14 and 26)

24. CBTT's Corporate Governance Guideline (2007) is outdated and does not capture several essential elements, including the need for banks' Board-approved risk appetite frameworks. CBTT is currently developing a new Corporate Governance Guideline, expected to be released in 2020, which will address the requirements for Board-approved risk management policies and practices, as well as articulate internal audit and compliance functions. Once the new Guideline is released, CBTT should undertake a full-scope review of banks' corporate governance frameworks, at least for the more complex banks, as well as improve its direct contact with Boards, including independent Board members, to ensure banks' compliance with the new corporate governance requirements.

Capital (CP 16)

25. Laws, regulations, and prudential standards pertaining to banks' capital adequacy requirements have not been updated as necessary to ensure they remain effective and relevant to changing industry and regulatory practices. Although CBTT is in the process of introducing the Basel II capital framework for banks, banks are subject to Basel I capital adequacy requirements. The Draft Capital Regulation, soon to be promulgated by parliament, will bring into force the new Basel II capital adequacy requirements for banks. Banks have been required to report capital requirements under both frameworks on a parallel run basis for close to two years. Further, CBTT's Basel Policy Paper 'Phase 2', published early November 2019 outlined banks' requirements to prepare ICAAPs (based on nature, size, and complexity of the bank) as well as introducing a new leverage ratio, a capital conservation buffer, and Pillar 3 disclosure requirements. Further amendments to the Draft Capital Regulations were released for public consultation on

Core Principle	Comments
9. Supervisory techniques and tools	CBTT makes good use of the information that it collects to analyze the risk profile of the banks. CBTT's onsite supervision program for banks, especially for SIFIs, does not provide for adequate coverage of the assessment of all key risks (credit, market, interest rate risk in the banking book, foreign exchange, and liquidity), including the overall risk management and internal control systems. CBTT's onsite examination reports are not completed and released to the banks on a timely basis, nor does CBTT meet with banks' Boards on a consistent basis.
10. Supervisory reporting	CBTT's regulatory data being collected does not necessarily include all key risk data (liquidity, market, foreign currency, interest rate risk in the banking book, etc.). In some instances (e.g., liquidity), regulatory reporting is lacking. Further, data collected for stress testing purposes is not necessarily being actively shared with the supervisors. CBTT's data validation mechanisms will benefit from the future planned adoption of an electronic software system to replace some of the manual verification and validation processes currently in place.
11. Corrective and sanctioning powers of supervisors	CBTT has an adequate range of legislative powers to take corrective measures in dealing with problem financial institutions. CBTT lacks a practical internal guide to deal with a problem bank/banking group, at a suitably early juncture, well before failure. Although informal communication channels within CBTT work effectively, CBTT does not have formal internal reporting mechanisms (such as formal reporting to the Inspector/Governor or CBTT's Board on CRA rated three banks, for instance) to ensure that operational preparedness is working effectively. The banks are unaware of CBTT's process for using enforcement or corrective measures as outlined in CBTT's internal l~~L~~adder of intervention table to the banks.
12. Consolidated supervision	CBTT has introduced a Consolidated Supervision Framework in 2016, including the collection of key data, conducting joint examinations with foreign regulators, and sharing/receiving key quantitative and qualitative information from foreign regulators. Several key components of the Consolidated Supervision Framework do not include the group level Internal Capital Adequacy Assessment Process (ICAAP), liquidity prudential requirements (LCR) and the ability for CBTT to collect key risk data on a group wide basis (e.g., net cumulative cash flow). Further, there is no requirement for group level recovery and resolution plans or resolvability assessments as part of the consolidated supervision framework. Although CBTT currently collaborates well with other relevant supervisors (e.g., insurance and TTSEC), CBTT's risk-based supervisory framework does not analyze all types of entities in the group from the various sectors (e.g., insurance and securities entities).
13. Home-host relationships	CBTT has put in place informal mechanisms to share key quantitative and qualitative bank and banking group information with host regulators. At this time, CBTT does not share pertinent information with host regulators regarding group wide recovery and resolution plans (one has been completed for the largest bank SIFI). Further, the CGBS has not finalized the Regional Crisis Management Plan.