DRAFT FINANCIAL INSTITUTIONS (LIQUIDITY) REGULATIONS, 2024

ARRANGEMENT OF REGULATIONS

Regulation

REPUBLIC OF TRINIDAD AND TOBAGO

THE FINANCIAL INSTITUTIONS ACT, CHAP. 79:09

REGULATIONS

MADE BY THE MINISTER PURSUANT TO SECTIONS 9(1)(C) AND 9(3)(B) OF THE FINANCIAL INSTITUTIONS ACT AND SUBJECT TO NEGATIVE RESOLUTION OF PARLIAMENT

FINANCIAL INSTITUTIONS (LIQUIDITY) REGULATIONS, 2024

Citation	1.	These Regulations may be cited as the Financial Institutions (Liquidity) Regulations, 2024.	
Interpretation	2.	In these Regulations – “Act” means the Financial Institutions Act, Chap 79:09; “control” has the meaning as defined in the Act; “financial holding company” has the meaning as defined in the Act; “financial institution” means a licensee or financial holding company as defined under the Act; “high quality liquid assets” means assets which are unencumbered by liens and other restrictions on transfer which can be converted into cash easily and immediately, with little or no loss of value, including under stressed market conditions; “licensee” has the meaning as defined in the Act; “liquidity coverage ratio” means the ratio as determined under regulation 4; “liquidity monitoring tools” means financial metrics which capture specific information related to an institution’s cash flows, balance sheet structure, available unencumbered collateral and certain market indicators; “significant currency” means a currency in which the aggregate liabilities denominated in that currency amounts to five per cent or more of total liabilities;	

		“total net cash outflows” means the net amount of outflows as determined under regulation 7; “unencumbered asset” means an asset free of legal, regulatory, contractual or other restrictions on the ability of the institution to liquidate, sell, transfer or assign the asset. The asset is not pledged (either explicitly or implicitly) to secure, collateralize or credit-enhance any transaction nor is it designated to cover operational costs (such as rents and salaries).	
Application	3.	(1) In accordance with sections 9(1)(c) and 9(3)(b) of the Act, these Regulations shall apply: (a) Subject to regulation 12(1), to a licensee on an individual basis; and (b) on a consolidated basis, to a licensee that is a parent company to include where applicable, all domestic and foreign: (i) subsidiaries of the licensee; or (ii) companies in which the licensee is a significant shareholder; and (c) on a consolidated basis, to a financial holding company and all the domestic and foreign members of the financial group that the financial holding company controls. (2) The scope of consolidation referred to in sub-regulation (1) will be specified by the Central Bank.	
Liquidity Coverage Ratio Minimum Requirement	4.	(1) A financial institution referred to in regulation 3 , shall maintain a minimum liquidity coverage ratio of 100 per cent, on an individual or consolidated basis where applicable for all currencies, in aggregate. (2) The minimum liquidity coverage ratio referred to in sub-regulation (1) shall be calculated as the stock of high quality liquid assets divided by the total net cash outflows over the next 30 calendar days. (3) When calculating the liquidity coverage ratio on a consolidated basis, a financial institution with cross border operations– (a) must apply treatments on liquidity transfer restrictions; and	

		(b) where a parent company is domiciled in Trinidad and Tobago must apply the liquidity parameters, as may be specified by the Central Bank. (4) A financial institution that becomes aware that its liquidity coverage ratio has, or will fall, below the minimum requirement as per sub-regulation (1), shall notify the Central Bank immediately. (5) Where a financial institution fails to comply with sub-regulation (1), the Central Bank may take any action as allowed under the Act to bring about compliance with the Regulations. (6) Notwithstanding the minimum liquidity coverage ratio as per sub-regulation (1), at any time the Central Bank is of the opinion that a financial institution is exposed to excessive liquidity risk, the Central Bank may increase its liquidity coverage ratio or require the financial institution to take such other measures as may be directed by the Central Bank to reduce its liquidity risk.	
High Quality Liquid Assets	5.	(1) The stock of high quality liquid assets shall be the sum of Level 1 and Level 2 Assets, where: (a) Level 1 Assets - (i) are the highest quality liquid assets which should be capable of being converted into cash at minimal or no loss of value in private markets to meet liquidity needs; and (ii) may be included in the stock of high quality liquid assets without limit. (b) Level 2 Assets – (i) are lower quality than level 1 assets, (ii) shall comprise no more than 40 per cent of a financial institution's high quality liquid assets; and (iii) shall be the sum of Level 2A Assets and Level 2B Assets where – A. Level 2A Assets are higher quality than Level 2B Assets; B. All Level 2 Assets shall be subject to haircuts;	

		C. Level 2B assets shall not exceed 15 per cent of the stock of high quality liquid assets; and D. the caps specified in sub-regulation 1(b) and 1(b)(iii) must be determined after the application of the haircuts referred to in sub-regulation 1(b)(ii). (2) The value of the assets included as Level 1 or Level 2 assets may be limited by market valuation discounts. (3) The haircuts applicable for Level 2 Assets referred to in sub-regulation (1) shall be specified by the Central Bank. (4) The types of high quality liquid assets which can qualify as Level 1, Level 2A or Level 2B assets as referred to in sub-regulation (1) shall be specified by the Central Bank.	
Total Net Cash Outflows	6.	(1) The total net cash outflows shall be the difference between the total expected cash outflows and the total expected cash inflows over the next 30 calendar days where: (a) Total expected cash outflows shall be calculated by multiplying the outstanding balance of various types of liabilities and off-balance sheet commitments by the rates at which they are expected to run off or be drawn down; (b) Total expected cash inflows shall be calculated by multiplying the outstanding balances of various categories of contractual receivables by the rates at which they are expected to flow in, up to an aggregate cap of 75% of total expected cash outflows. (2) The types and categories of the expected cash outflows and inflows and the respective run-off rates to be applied as referred to in sub-regulation (1) shall be specified by the Central Bank.	
Stress Testing	7.	(1) Every financial institution shall be required to conduct liquidity stress tests to: (a) assess the level of liquidity that should be held above the minimum requirement under regulation 4(1);	

		(b) incorporate institution specific scenarios, including adverse scenarios, that could cause difficulties for the financial institution's specific business activities; and (c) incorporate longer time horizons than the one mandated by regulations or guidelines.	
Liquidity Monitoring Tools	8.	(1) Every financial institution shall submit to the Central Bank information on liquidity monitoring tools including– (a) Contractual maturity mismatch; (b) Concentration of funding; (c) Available unencumbered assets; (d) Market-related monitoring tools; and (e) Any other liquidity metric or liquidity monitoring tool as specified by the Central Bank. (2) Subject to regulation 12(1), a financial institution shall also submit to the Central Bank information on the liquidity coverage ratio by significant currency.	
Reporting Requirements	9.	(1) Subject to regulation 12(1)- (a) a licensee, on an individual basis shall submit to the Central Bank within 10 business days after the end of each month and at such other times as may be required by the Central Bank, and in such form as the Central Bank may from time to time specify, returns on the computation of the liquidity coverage ratio and the liquidity monitoring tools; and (b) A licensee or financial holding company on a consolidated basis shall submit to the Central Bank within 15 business days after the end of each quarter and at such other times as may be required by the Central Bank, and in such form as the Central Bank may from time to time specify, returns on the computation of the liquidity coverage ratio and the liquidity monitoring tools. (2) Sub-regulations (1)(a) and (b) shall be subject to the transition periods under regulations 11(3) (a) and (b). (3) A financial institution shall submit to the Central Bank information on the additional stress tests referred to in regulation 7, which were conducted in the preceding financial year within such period as may be specified by the Central Bank, and in such	

form as the Central Bank may from time to time approve.

Review by Inspector

10. (1) For the purposes of determining whether a financial institution is complying with these Regulations the Inspector or his delegate may, at any time, prior to the submission or after the submission of any report or return under these Regulations, examine any records, systems, procedures, or calculations used by a licensee or financial holding company in determining its liquidity coverage ratio and the liquidity monitoring tools.

Transition Period

11. (1) Upon the coming into force of these Regulations, where a financial institution referred to in regulation 3, does not meet the minimum liquidity coverage ratio requirement in accordance with regulation 4(1), either on an individual or consolidated basis, it shall–

(a) have a transition period of up to twelve months to comply with regulation 4(1); and

(b) within three months, submit to the Central Bank a board approved action plan to comply with regulation 4(1) within the period specified in sub-regulation (1)(a).

(2) Notwithstanding sub-regulation (1)(a)-

(a) a financial institution referred to in regulation 3 shall attain no less than the following transitional liquidity coverage ratios during the transition period referred to in sub-regulation (1)(a):

Minimum Transitional Liquidity Coverage Ratios	
At the coming into force of these Regulations	80%
Within six months of the coming into force of these Regulations	90%
Within twelve months of the coming into force of these Regulations	100%

(b) if at any time within the twelve-month transition period, a financial institution exceeds any of the transitional liquidity coverage ratios in the table in sub-regulation (2)(a), it shall not reduce its liquidity coverage ratio in subsequent reporting periods and shall continue to comply with the transitional liquidity ratios during the transitional period;

(c) where a financial institution is unable to comply with the transitional ratios referred to in sub-regulation (2)(a) as a result of external unforeseeable circumstances beyond reasonable control including but not limited to the occurrence of any natural disaster, industrial unrest, public disorder, epidemic or the like, the Central Bank may extend the transition period by up to one year as considered necessary.

(3) Upon the coming into force of these Regulations-

(a) a licensee on an individual basis shall have a transition period of six months, during which the returns referred to in regulation 9(1)(a) may be submitted to the Central Bank within 15 business days after the end of each month, and after which the licensee shall be required to comply with the reporting timelines under regulation 9(1)(a); and

(b) a licensee or financial holding company on a consolidated basis shall have a transition period of six months, during which the returns referred to in regulation 9(1)(b) may be submitted to the Central Bank within 20 business days after the end of each quarter, and after which the licensee or financial holding company shall be required to comply with the reporting timelines under regulation 9(1)(b).

Exempted financial institutions

12. (1) A financial institution licensed pursuant to section 17 of the Act, shall, on an individual basis, be exempted from complying with the liquidity coverage ratio reporting requirements under regulation 9(1)(a).

(2) A financial institution exempted from the liquidity coverage ratio reporting requirements under sub-regulation (1), shall still be required to submit the liquidity monitoring tools return on an individual basis in accordance with regulation 9(1)(a).

(3) A financial institution exempted from the liquidity coverage ratio reporting requirements under sub-regulation (1), that is the parent of a financial group or is a financial holding company, shall be required to submit the returns under regulation 9(1)(b) on a consolidated basis.

(4) Notwithstanding sub-regulation (1), the Central Bank may apply the liquidity coverage ratio to a

		financial institution licensed pursuant to section 17 of the Act based on its size, complexity and risks. (5) Where sub-regulation (4) applies, the Central Bank shall provide written notice to the licensee that the exemption pursuant to sub-regulation (1) shall cease to apply and the licensee shall be required to comply with the liquidity coverage ratio reporting requirements under regulation 9(1)(a) and the effective date to commence reporting.	