CENTRAL BANK OF TRINIDAD & TOBAGO

Quantitative Impact Study Report on the Liquidity Coverage Ratio

July 2024

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INTRODUCTION

The Liquidity Coverage Ratio (LCR) is a short-term quantitative prudential measure to ensure banking institutions are able to withstand an acute liquidity stress scenario over a 30-day horizon at both the individual and consolidated level. This measure is one of the Basel III post financial crisis reforms. The LCR is being implemented to promote the short-term resilience of a licensee's liquidity risk profile by ensuring that it has an adequate stock of unencumbered high quality liquid assets (HQLA) that can be converted into cash readily to meets its liquidity needs over a 30-calendar day stressed liquidity period. The LCR ratio is calculated as follows:

$$\text{LCR} = \frac{Stock\ of\ HQLA}{Total\ net\ cash\ outflows\ over\ the\ next\ 30\ days} \geq \mathbf{100}$$

The stock of HQLA and the net cash outflows are to be calculated in accordance with the requirements stipulated which will be stipulated in the LCR Regulations and Guideline upon their coming into effect. The Central Bank's minimum requirement for the LCR is 100% in keeping with Basel III principles and must be met in the domestic currency in aggregate for all currencies, on an individual and consolidated basis as applicable.

BACKGROUND

The Central Bank first issued consultation documents on the LCR in November 2022, for which feedback was required by February 2023. Thereafter, the Central Bank conducted a Quantitative Impact Study (QIS) on the LCR framework and reporting forms using data over a three-month period from May to July 2023. All QIS reports were received in September 2023.

At the request of representatives of the Bankers Association of Trinidad and Tobago (BATT), during a meeting in March 2024 regarding the QIS, the Central Bank agreed to conduct a second QIS for the commercial banks and selected non-bank financial institutions (NFIs) only for a period of one month using data as at December 31, 2023. At the meeting, BATT also requested that the Central Bank consider including primary reserves in HQLA.

Two key objectives of the second QIS were to:-

1. confirm whether generally, licensees and their FHCs could meet the LCR given feedback from the industry; and
2. test the application of calculating the LCR for TTD only, given that instructions for the first QIS did not make it clear that TTD should be reported as a significant currency.

The results of the second QIS were due for submission by end April 2024. The

The results of the two QIS have been used to inform the Bank's LCR policy framework and drafting of the Liquidity Regulations.

HIGHLIGHTS – QIS 1 & QIS 2

BANKING SECTOR	LCR (%)			
	QIS 1			QIS 2
2023	May	June	July	Dec
COMMERCIAL BANKS	164%	177%	188%	140%
NON-BANKS	666%	754%	664%	N/A
BANKING SECTOR	184%	197%	205%	N/A
CONSOLIDATED ENTITIES	N/A	164%	N/A	160%
FINANCIAL HOLDING COMPANIES (FHCs)	N/A	166%	N/A	195%

Liquidity Coverage Ratio – QIS 1 Main Findings

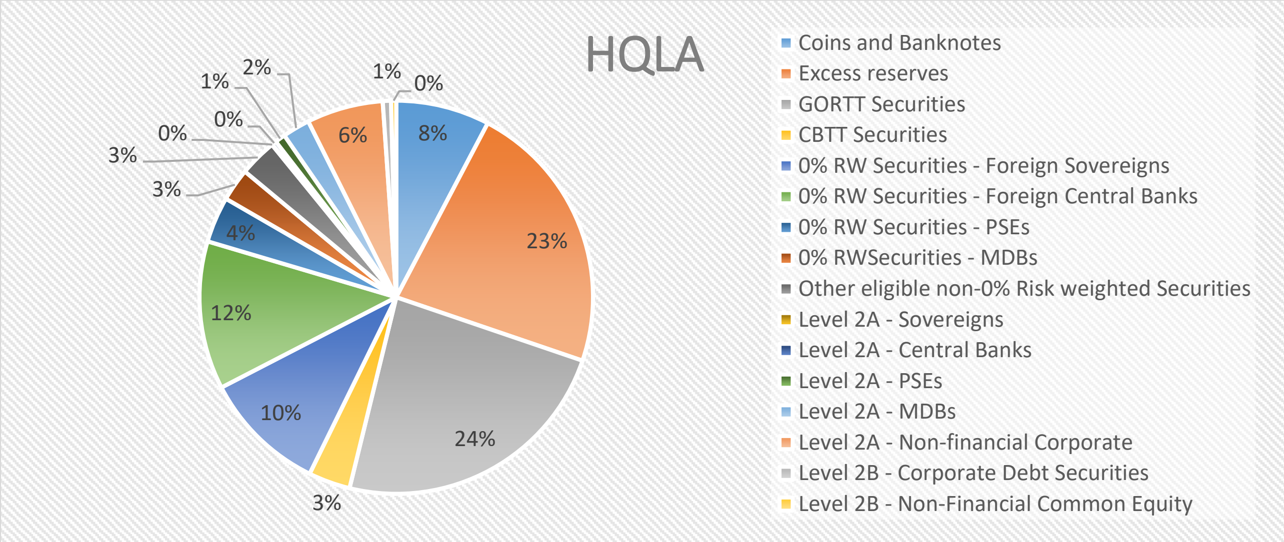
- QIS 1 was conducted on the eight (8) commercial banks, 16 NFIs, six (6) consolidated banking groups, and three (3) financial holding companies (FHCs).
- For the first QIS, 83% of licensees (twenty (20) out of twenty-four (24) licensees) met the LCR minimum requirement for all three months.
- Two (2) of the eight (8) commercial banks fell below the LCR minimum requirement of 100% for at least one month of the first QIS.
- Two (2) of the 16 NFIs reported an LCR below 100%.
- Four (4) of the 16 NFIs reported zero cash outflows, therefore their LCR measure was infinity.

Liquidity Coverage Ratio – QIS 2 Main Findings

- QIS 2 was conducted on the eight (8) commercial banks, one (1) non-bank financial institution, six (6) consolidated entities and three (3) financial holding companies.
- For the second QIS, 89% (eight (8) out of nine (9) licensees) met the LCR minimum of 100% in the aggregate of all currencies as required.
- All consolidated entities and FHCs reported LCRs above the minimum requirement both as at June and December 2023.
- For both QIS 1 and 2, no licensees or FHCs reported an LCR below 80%.

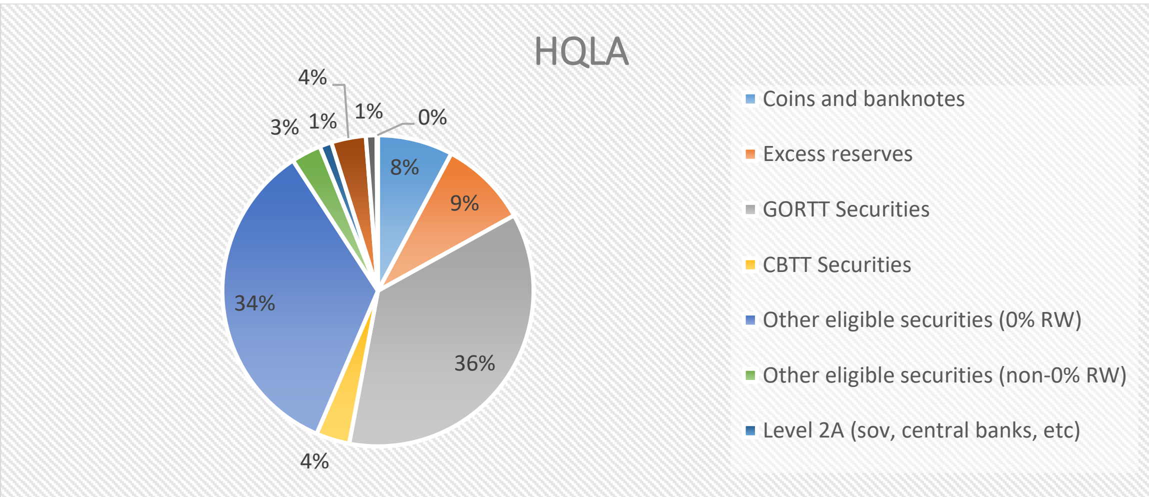
High Quality Liquid Assets – Findings

QIS 1 - Averaged for 3 months May to July 2023



- HQLA for the banking sector totaled $42.1 billion. This comprised mostly:
  - Securities issued by the Government of the Republic of Trinidad and Tobago (GoRTT) - $10.2 billion (24%)
  - Excess reserves held at the Central Bank - $9.7 billion (23%)
  - Other eligible securities issued by central banks - $5.3 billion (12%)
  - Other eligible securities issued by sovereigns - $4.4 billion (10%)
  - Coins and banknotes - $3.3 billion (8%)
- Banks HQLA – $36.6 billion. NFIs HQLA – $5.5 billion
- Level 1 assets represented 92% of the banking sector's HQLA.

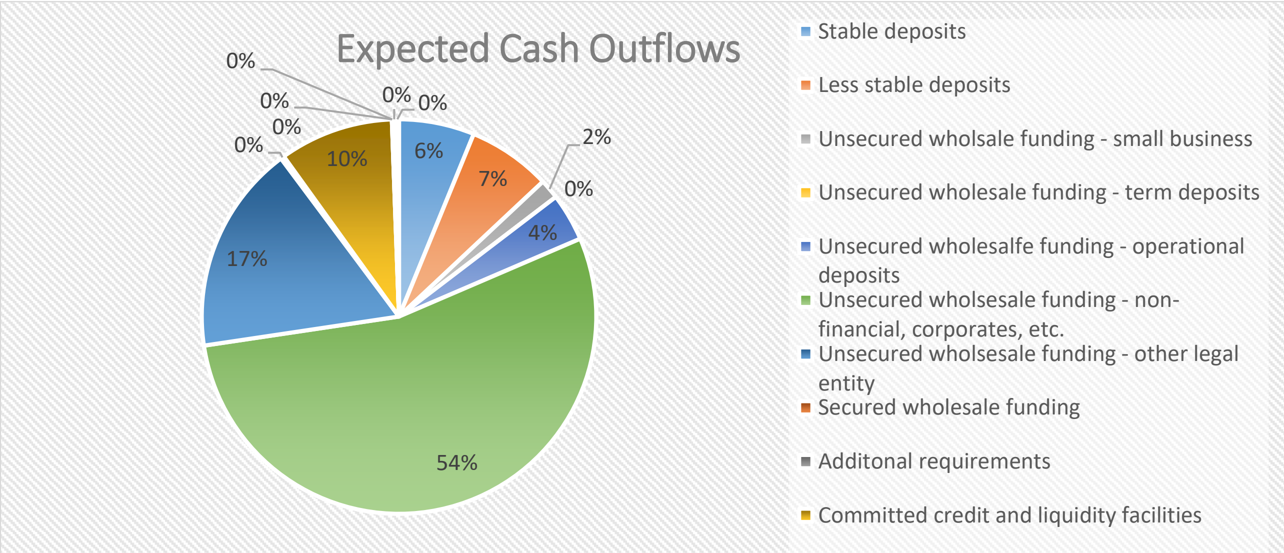
QIS 2 – December 2023



- HQLA for the banking sector[1] comprised mostly:
    - Securities issued by GoRTT - $12.4 billion (36%)
    - Other eligible securities issued by sovereigns - $11.8 billion (34%)
    - Excess reserves (i.e. reserves at the Central Bank in excess of the primary reserve requirement) - $3.1 billion (9%). This represented a significant decrease from the first QIS (average of three months), in which the commercial banks reported $9.6 billion in excess reserves.
    - Coins and banknotes – $2.7 billion (8%)

Expected Cash Outflows - Findings

QIS 1 - Averaged for 3 months May to July 2023

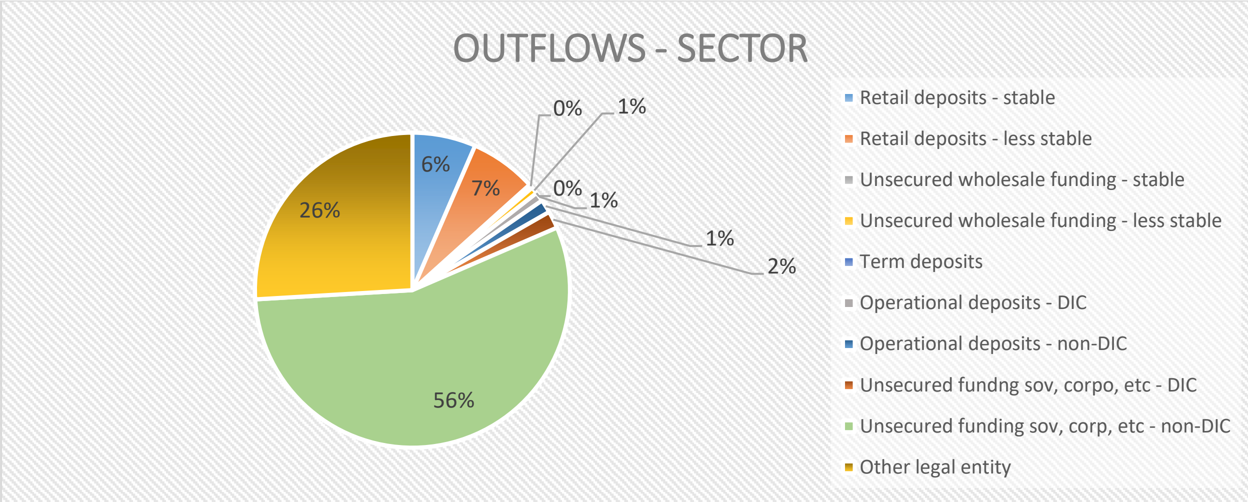


- Expected cash outflows for the banking sector totaled $27.4 billion and comprised mostly:
    - Unsecured wholesale funding from non-financial corporates, sovereigns, etc. - $14.9 billion (54%)
    - Unsecured wholesale funding from other legal entity customers - $4.7 billion (17%)
    - Total committed credit and liquidity facilities - $2.6 billion (10%)
    - Retail - Less stable deposits - $1.9 billion (7%)
    - Retail - Stable deposits - $1.7 billion (6%).

[1] Commercial banks and selected non-banks

- Commercial banks' outflows averaged $26.5 billion, while NFIs averaged $0.9 billion in cash outflows.

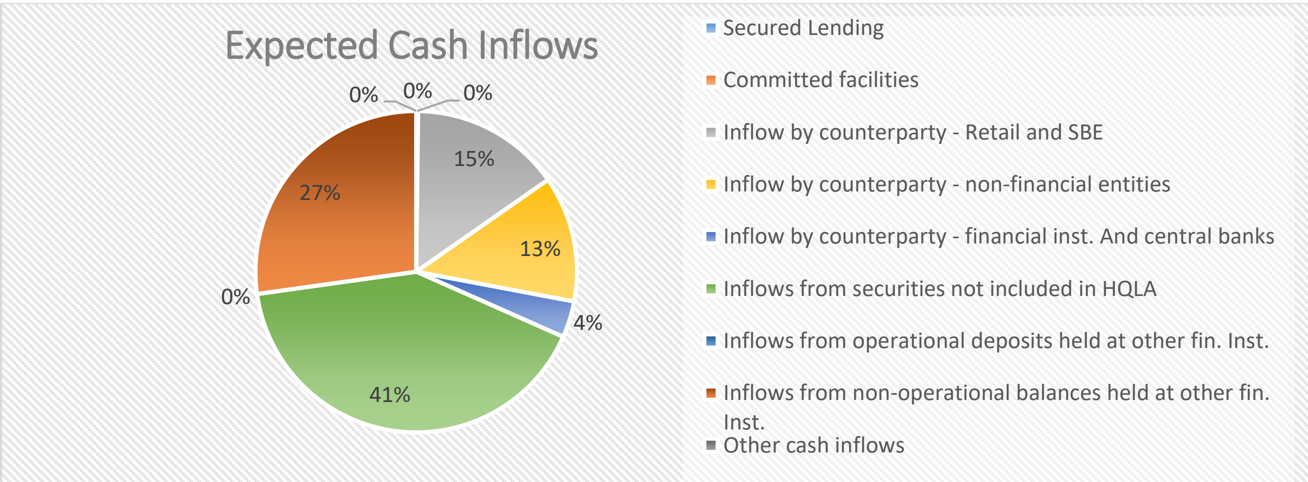
QIS 2 – December 2023



- Cash outflows comprised mostly unsecured wholesale funding from non-financial sovereigns, corporates, etc. ($14.9 billion), unsecured funding from other legal entity customers ($6.9 billion), total committed credit and liquidity facilities ($2.4 billion), less stable deposits ($1.8 billion) and stable deposits ($1.7 billion).

Expected Cash Inflows – Findings

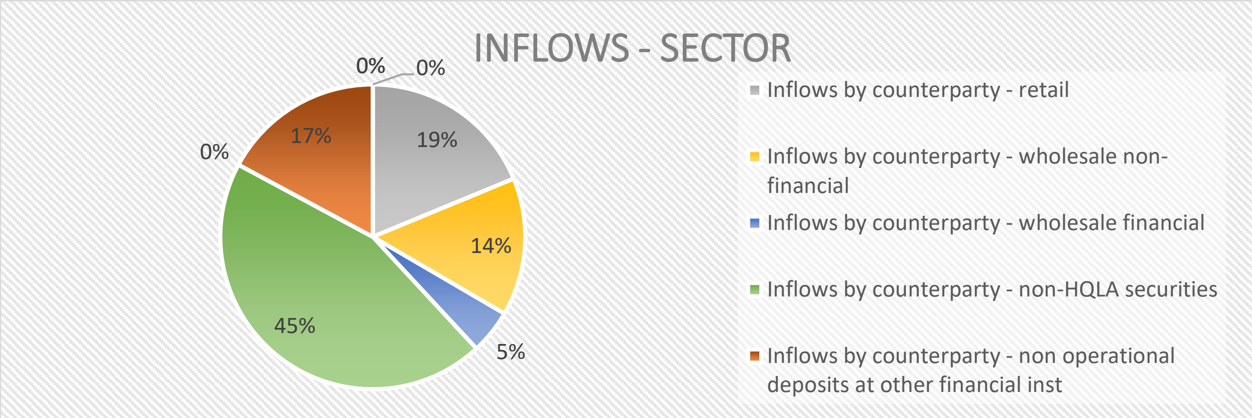
QIS 1 - averaged for 3 months May to July 2023



- Expected cash inflows for the banking sector totaled $6.2 billion and comprised almost entirely (99.8%) inflows by counterparty. This category consists mostly:
    - Inflows from securities not included in HQLA - $2.6 billion (41%)

- Inflows from balances held at other financial institutions in excess of operational deposits - $1.7 billion (27%)
- Inflows from retail and small business customers - $0.9 billion (15%)
- Inflows from non-financial entities - $0.8 billion (13%)

QIS 2 – December 2023



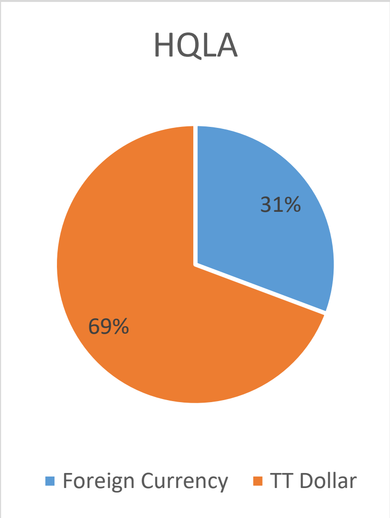
- Cash inflows for the banking sector comprised entirely (100%) inflows by counterparty, of which the largest component is inflows from non-HQLA securities ($2.5 billion), followed by retail inflows ($1 billion) and non-operational deposits held at other financial institutions ($1 billion).

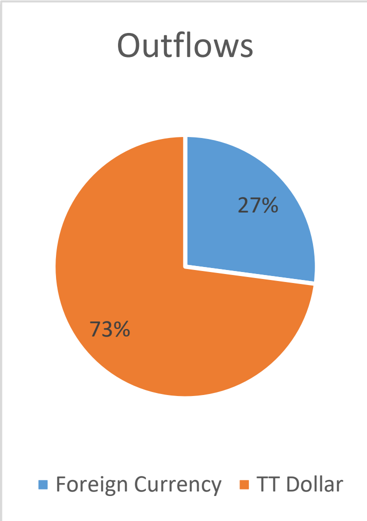
LCR BY SIGNIFICANT CURRENCY

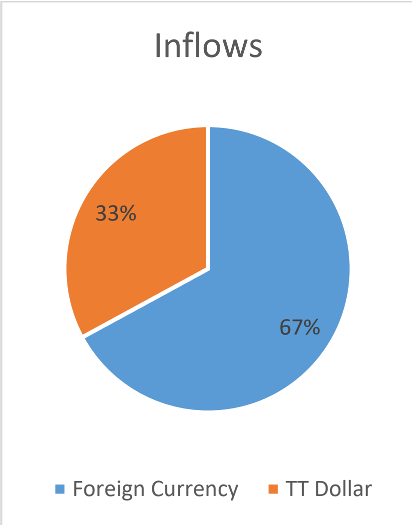
QIS 1 – averaged over three months

- Foreign currency (FX) HQLA represented 31% of the average sector HQLA, FX outflows accounted for 27% of total sector outflows, while FX inflows made up 67% of total cash inflows.
- The United States Dollar (USD) was the predominant significant foreign currency reported, with USD HQLA comprising of 99.5% of total FX HQLA.
- Eighteen (18) licensees reported LCR in foreign currencies. All reported USD as a significant foreign currency while two (2) of these licensees also reported other significant foreign currencies, namely Canadian Dollar (CAD) and Indian Rupee (INR).
- Six (6) of the twenty-four (24) licensees reported TTD as a significant currency. Upon inquiry it was observed that there was some ambiguity in the LCR Consultation Paper regarding the requirement. This will be clarified in the amended LCR Guideline (formerly, the LCR Consultation Paper).
- The FX LCRs varied significantly, ranging from 0% to 33142609%.

- Six (6) licensees reported FX LCRs below 100%. Of these, two (2) licensees reported an FX LCR of 0%. However, it should be noted that the minimum 100% LCR ratio is not intended to cover the LCR by any single significant currency at this time, rather the LCR applies to all currencies in aggregate in the equivalent domestic currency. Another six licensees reported zero FX outflows, therefore, the LCR measure was infinity.





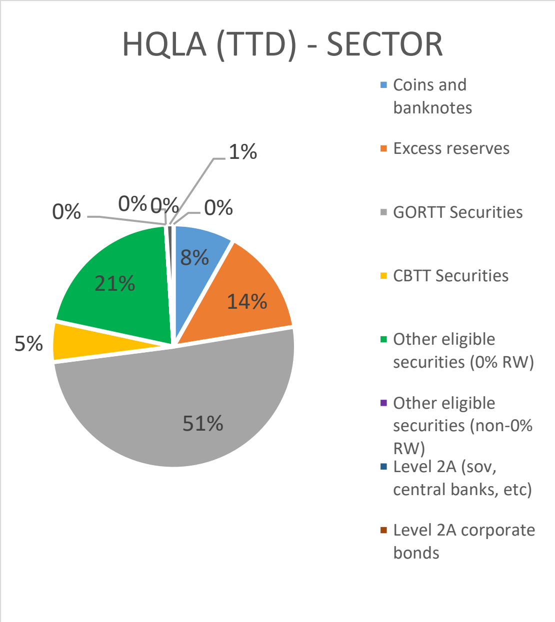


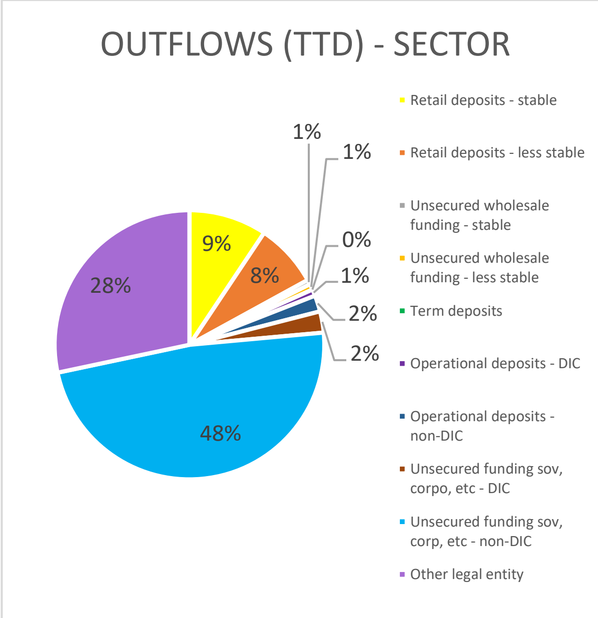
QIS 2 – December 2023

Significant currency - TTD

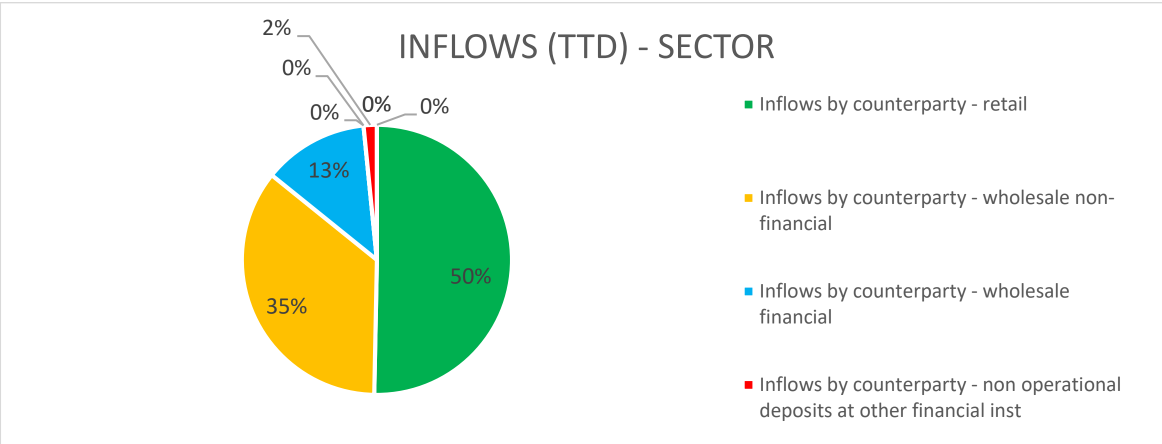
DECEMBER 2023	LCR - TTD
COMMERCIAL BANKS	114%
CONSOLIDATED ENTITIES	128%
FINANCIAL HOLDING COMPANIES (FHCs)	217%

- Two licensees reported an LCR in TTD as a significant currency of less than 100%, both on an individual and consolidated basis. However, the LCR is not required to be met in significant currencies, including the TTD currency, but in aggregate for all currencies.





- TTD HQLA comprised mostly GORTT securities ($11.2 billion), other eligible 0% RW securities ($4.6 billion) and excess reserves ($3.1 billion).
- TTD outflows comprised mostly unsecured funding from sovereigns, corporates, etc. ($8.9 billion) and unsecured funding from other legal entities ($5.3 billion).



- TTD inflows comprised primarily retail inflows ($1 billion), followed by wholesale inflows from non-financial counterparties ($0.7 billion) and wholesale inflows from financial institutions ($0.3 billion).

CONCLUSIONS

- The QIS data showed that four (4) licensees failed to meet the minimum LCR requirement of 100% over the conduct of QIS 1 and QIS 2. Consequently, the Central Bank proposes to include a transition period of twelve (12) months, starting from a baseline of 80%. This would allow licensees which may not meet the LCR requirement of 100% upon the promulgation of the Liquidity Regulations time to become compliant.

- Four (4) NFIs reported no outflows over the three-month period, while a further eight (8) NFIs reported no expected cash outflows in the form of deposits or committed facilities. Consequently, the Central Bank proposes to exempt NFIs from the LCR on an individual basis on the basis of proportionality. However, where an NFI is a parent of a financial group, the NFI will be subject to the LCR on a consolidated basis. Further, the Central Bank will retain the right to apply the LCR to an exempted NFI if based on its submission of the Liquidity Monitoring Tools, it is warranted.
- The LCR reporting template will be amended to include a tab for significant currency in TTD plus two (2) additional tabs for reporting other significant currencies. There will be no minimum requirement for the LCR in TTD as a significant currency at this time.
- The Central Bank has considered further and agreed to include a portion of the primary reserves to be included in HQLA for purposes of calculating the LCR. Consequently, cash reserves held in the Reserve Account amounting to no more than 6 per cent of the licensee's prescribed liabilities calculated in accordance with section 57 (1) of the Financial Institutions Act, Chap 79:09 will be allowed to be counted as HQLA.