Comments received on the Basel II/III Consultative Papers

Comment/Questions Received	Section of the Consultation Paper	Central Bank's Response
"In the table, add words 'of Sovereign' to Credit Assessment category in order to be consistent with the Option 1 table in paragraph 63 of the Basel document '*International Convergence of Capital Measurement and Capital Standards: A Revised Framework'* and as reflected on the ERS template lines 6.1.1 to 6.1.6 which was also outlined in the Central Bank's letter dated September 14, 2015 responding to a licensee's concern on feedback on the Areas of National Discretion."	Paragraph 13	Recommendation noted. The Central Bank will make the necessary adjustments.
"In order to be consistent with paragraph 75 of the *International Convergence of Capital Measurement and Capital Standards: A Revised Framework* it is being recommended to add: • The words '(including partial write-offs)' after the words 'net of specific provisions' • In the third bullet, expand the sentence to include the words 'but with supervisory discretion to reduce the risk weight to 50%'. This will allow for consistency with the ERS template line 15.2.1-Risk Weight 50 % (CBoB approval).	Paragraph 30	Point 1: No obvious implication for including the words "including partial write-offs". Note: The Basel II framework defines "total eligible provisions" under the IRB approach as the sum of all provisions (e.g. specific provisions, partial write-offs, portfolio-specific general provisions or general provisions). Under the Central Bank's Impaired Assets Policy Guidelines, the classification of non-accrual assets (i.e. 90-days past due) should include, at a minimum, all assets against which a specific provision has been established, or a write-off taken (except in the case of restructured assets or assets acquired through security enforcements).

		Point 2: Recommendation noted, however, this supervisory discretion was not accepted by the Central Bank. Please refer to the Consultative Paper on the Areas of National Discretion (para. Ref. 75 (&FN30).
"It is not clear how to treat Commercial Mortgages that are past due (Over 90 days). Please confirm whether Commercial Mortgages should be given 100% risk weight thereby being treated as though not pass due."	Paragraph 31	Commercial Mortgages that are past due (over 90 days) should be treated as Past Due Loans outlined under paragraph 30 – 33 of the Credit Risk: Standardized Approach Consultative Paper.
"The risk weightings assigned by CBTB under its national discretion are quite conservative as compared to the risk weightings selected by other regional regulators who are also implementing Basel II: • Weighting claims on Corporates at 100% without regard to external ratings vs. the Central Bank of Trinidad and Tobago (CBTT) and the Central Bank of Barbados (CBB) which have lower weightings and which factor in external ratings. • Weighting residential property loans at 100% if certain conditions are not met vs. CBTT 75% and CBB 50% weighting if the conditions are not met. • Residential property loans risk weighted at 50% if certain conditions are met vs. CBB's and Canada's Office of the Superintendent of Financial Institutions (OSFI) allowed 35%. • The threshold for regulatory retail portfolio (other than mortgages) is \$100,000 only vs. CBTT of USD \$1 million and CBB of BBD \$250,000 (USD \$125,000) We recommend that the risk weighting claims on	Paragraph 3	Point 1: The Central Bank acknowledges your comments relative to other regional counterparts, and advises that this was an area of national discretion which was accepted by the Bank, given most corporate entities in The Bahamas do not have an external rating. Point 2: Given our current default experience, the Central Bank considers it prudent to assign a 100% risk weight to residential property loans that are more than 90 days past due and not occupied, as the collection on these exposures are now more risky. Point 3: The Central Bank has taken the position that the current economic environment does not warrant a risk weight of 35%, even on a restrictive basis. Further, due to the level of the default experience currently in The Bahamas, the risk weight

corporates, claims secured by residential property and claims included in the regulatory retail portfolios be reviewed and adjusted downwards closer to our regional counterparts. It also appears that, should the risk of being further downgraded be realized, CBTB still expects a zero rating and will likely also expect the reports to reflect face value whereas our books will likely reflect market value. This may require us to report differently for Regulatory reporting and Statutory & Management reporting. We welcome any additional clarity you may be able to provide."		remains at 50% until such time as the Central Bank re-assesses the risk. Point 4: the limit on the overall retail portfolio of $100,000 for exposures to single counterparties applies to the consumer loan portfolio only (and excludes the residential mortgage portfolio). Also, based on our Basel Readiness survey results, commercial banks indicated that the current limit is $75,000. The Central Bank risk weights all sovereign debt or exposure at 0%, this was an area of national discretion which was accepted by the jurisdiction. We do recognize that this may vary in home jurisdictions and therefore may require licensees to report differently, however, we are of the view that we have taken the correct position relative to recognition of The Bahamas Government debt or exposure.
"1) Two alternatives were provided for the implementation of capital charges for credit risk: the Standardized Approach, and the Internal Ratings Based Approach. The Basel II and III ERS Form template appears to be tailored for the Standardized Approach. Is there a separate template if the bank opts to use the Internal Ratings based Approach instead?" "2) On the Operational Risk tab of the template, a choice was given to disclose gross income using the Basic Indicator Approach and the Standardized Approach. If the bank adopts the Standardized Approach alternative from	N/A	Point 1: Because the Central Bank has chosen the Standardized Approach for determining capital requirements for credit and operational risks as a jurisdiction, no separate template has been developed for use under the Internal Ratings Based Approach. Notwithstanding the above, the Central Bank acknowledges that some banks may be subsidiaries of large international banks that are subject to the more advanced

item #1 above, do we still have the option to disclose gross income using the Basic Indicator Approach, or are we required to show gross income by business line?" "3) If the bank's information is not readily available at the level of detail required for the implementation of the Standardized Approach from item #1 above, when is the bank expected to have its data in that format?"		approaches in their home countries. However, for the purposes of reporting at the local level, the standardized approach will be the measurement. Point 2: Note that banks are expected to select only one approach that is commensurate to the operational risk profile and risk management capacity. Point 3: Generally, banks are encouraged to move from the Basic Indicator Approach to the Standardised Approach as they develop more sophisticated operational risk management systems and practices. There is no transitory period that has been established by the Central Bank for banks to migrate to the Standardized Approach. This is left to the bank's discretion.

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'***A copy of the ICAAP report must be submitted to the Central Bank within 120 days of the end of each calendar year***.' This implies that the ICAAP should be done with year-end financials, but the Bank would like to know if this is a prerequisite. If the ICAAP can be based on a financial snapshot from a quarter-end in the previous year it gives the Bank much more flexibility to manage its workload. While 120 days is adequate time in total to prepare an ICAAP, the period after the calendar year-end is a particularly eventful time	Paragraph 38	The Central Bank acknowledges your comments with respect to the submission of the ICAAP and advises that the timeframe for submission has been increased from 120 days to 180 days after a bank's calendar year-end. A copy of the ICAAP Guidelines is located in the Bank Supervision area of the Bank's website at www.centralbankbahamas.com under: Bank Supervision → Regulatory Framework → Guidelines and Regulations →

for the Finance department, External Audit and Management/Board. Board approval becomes challenging if a significant proportion of the 120 days is already used up waiting for year-end financials to become available. **Conclusion**: If the deadline for submission is to be 120 days after calendar year end, the bank has a strong preference for the flexibility to use a financial snapshot from a quarter in the preceding year. In our view this does not impact the validity of the ICAAP providing the snapshot used remains representative of the business model going forward.		Prudential Limits and Restrictions.

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"It would have been useful if the guidance notes for completing the ERS Basel II and III template were also made available to the industry in order to be able to provide feedback on the template."	N/A	Recommendation noted. Guidance Notes for the completion of the Second QIS was provided.
"The worksheet is consistent with other templates we have seen. We recommend however that wherever there are shortfalls in capital, the entity be allowed to earn into the new capital requirement within a specified period of time."	N/A	Recommendation noted, the Central Bank will dialogue with licensees on a case by case basis with respect to bank's remediating any capital shortfalls.