



Central Bank of The Bahamas
PUBLIC CONSULTATION

On the
The Bahamas Capital Regulations, 2020

I. INTRODUCTION

- 1.1 The Central Bank of The Bahamas (“Central Bank”) released several Discussion Papers between August and December, 2018 (First Round Consultation) setting out the Central Bank’s proposals for changes to the Basel II/III capital and liquidity frameworks. These proposals strengthen the prudential and supervisory framework of supervised financial institutions (SFIs), while improving the resilience and stability of the Bahamian banking sector.
- 1.2 This consultation paper summarises key reforms, which the Central Bank proposes to operationalise by introducing new capital regulations.

DETAILS OF THE PROPOSED REGULATIONS

- 1.3 The proposed Capital Regulations will be enacted to construct a simpler yet effective prudential framework, through proportionate application of the Basel international standards. These regulations appropriately balance simplicity with comparability, without generating disproportionate compliance costs on SFIs, thereby ensuring the regulatory framework remains fit for purpose. This will be achieved by:
 - 1.3.1 Requiring SFIs to improve the quality of capital with a focus on common equity (see Part 3 of the Regulations).
 - 1.3.2 Requiring SFIs to maintain a forward-looking process for capital planning, by way of the Internal Capital Adequacy Assessment Process (ICAAP) (See Part 2 of the Regulations).
 - 1.3.3 Establishing minimum capital adequacy requirements and additional capital buffers, to support macro prudential regulation and graduated supervisory action (See Part 4 of the Regulations).
 - 1.3.4 Providing for supervisory intervention when any SFI is unable to meet its capital adequacy requirement (See Part 4 of the Regulations).
 - 1.3.5 Introducing a leverage ratio requirement to supplement the risk-based capital requirement (see Part 5 of the Regulations); and

- 1.3.6 Adopting the standardised approaches for calculating risk-weighted assets for credit, market and operational risks (see Part 6 of the Regulations).

II. DRAFT AMENDMENTS TO THE GUIDELINES FOR THE MANAGEMENT OF CAPITAL AND THE CALCULATION OF CAPITAL ADEQUACY

- 2.1 Annexed (see Annexes A and B) to this Consultation paper are draft documents, which set out the provisions for the Capital Regulations, revisions to the Guidelines for the Management of Capital and the Calculation of Capital Adequacy, and an Act to Amend the Central Bank of The Bahamas Act, 2020.
- 2.2 Also attached are comments/feedback from industry during the First Round Consultation, and Central Bank responses.

III. CONSULTATION PERIOD

The Central Bank invites your comments on the proposed capital regulations, which should be submitted no later than 31st January 2021. Your comments and questions regarding the proposals and amendments should be directed via email to:

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Signed

JOHN A. ROLLE

Governor of the Central Bank of The Bahamas

Annex B

DRAFT BAHAMAS CAPITAL REGULATIONS, 2020

Arrangement of Regulations

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The Governor of The Central Bank of The Bahamas in exercise of his powers conferred by section 67 of the Central Bank of The Bahamas Act, 2020, makes the following Regulations:

PART 1 - PRELIMINARY

1. Short Title and Commencement

- (1) These Regulations may be cited as The Bahamas Capital Regulations, 2020.
- (2) These regulations shall come into force on such date as the Minister may appoint by Notice published in the Gazette.

2. Interpretation

In these Regulations –

“**Base risk weight**” means a minimum floor requirement imposed under the standardised approach for weighting certain types of exposure classes.

“**Capital Buffer**” means additional CET1 capital. This includes, the conservation buffer, a systemic risk buffer, and any other Pillar 2 capital add-ons imposed from time to time.

“**capital adequacy ratio**” means the minimum capital requirement expressed as a percentage. The capital ratio is calculated using the definition of total regulatory capital and risk weighted assets.

“**capital recovery plan**” means a written plan developed and submitted to restore the capital of the SFI within such period as may be prescribed by the Central Bank.

“**CET1 Capital**” means Common Equity Tier 1 Capital that meets all of the criteria for classification as common equity for regulatory capital purposes net of regulatory adjustments.

“**Central Bank**” means the Central Bank of The Bahamas continued pursuant to section 3 of the Central Bank of The Bahamas Act, 2020.

“Credit Risk” means risk associated with a bank’s on and off-balance sheet exposures. The risk to earnings or capital arising from the potential that a borrower or counterparty will fail to perform on a loan or extension of credit.

“Credit conversion factor (CCF)” means the conversion of off-balance sheet exposures to the credit risk weighted equivalent for the different types of off-balance sheet items or transactions.

“Credit risk mitigation (CRM)” means any technique used by a SFI to reduce the credit risk associated with any exposure held by the reporting SFI.

“D-SIBs” means domestic systemically important banks.

“de minimis threshold” means the point at which a SFI must apply the market risk capital requirement arising from trading activity.

“financial subsidiary” means majority-owned or -controlled banking entities, securities entities and other financial entities (excluding insurance entities).

“fit for purpose insurance” means a general, property, or casualty insurance policy which

- (a) covers a building against all perils, including storm, flood, and tsunami damage, but not necessarily including business interruption;
- (b) names the lending SFI as the beneficiary; and
- (c) covers the full replacement value of the pledged property.

“Guidelines” means the Guidelines for the Management of Capital and the Calculation of Capital Adequacy as amended or revised from time to time.

“Internal capital adequacy assessment process” or **“ICAAP”** means the process by which a SFI assesses its capital adequacy risk position, resulting capital levels and sufficiency of capital held.

“Internal Loss Multiplier or “(ILM)” means the risk sensitive component that captures a SFI’s internal operational risk losses and which is equal to 1.00 where the loss and business indicator component are equal.

“ECAI” means an “external credit assessment institution”, commonly referred to as a ratings agency.

“Home Supervised Financial Institutions” means those financial institutions that are licensed pursuant to the Bank and Trust Companies Regulations Act, 2000 and the Central Bank of The Bahamas Act, 2000 to carry on bank, trust or bank and trust

business in or from within The Bahamas. These institutions operate on a standalone basis (i.e. without a Parent or the presence of consolidated supervision). Home supervised financial institutions also include financial institutions registered under The Bahamas Co-operative Credit Unions Act, 2015.

“Host Supervised Financial Institutions” means financial institutions that are subsidiary banks, located and incorporated in The Bahamas, but are wholly owned or majority owned by a parent bank which is incorporated in a country other than The Bahamas.

“Loan to Value Ratio” means the current amount of the property loan divided by the valuation of the property.

“LTA” means the look-through approach. Under this methodology, the SFI must use the risk weight of the underlying exposure, as if the exposures were held directly by the bank.

“Market risk” means the risk associated with a SFI’s on and off-balance sheet exposures arising from changes in financial market prices. The risk is defined as the risk to earnings or capital resulting from adverse movements in market rates or prices, assessed based on consideration of the interaction between market volatility and the SFI’s business strategy.

“Operational Risk” means risk arising from inadequate or failed internal processes, people and systems, or from external events.

“Pillar 2” means the supervisory review of SFI’s capital adequacy to address any institution-specific risks not adequately covered under Pillar 1 (minimum capital requirements).

“Property” has the meaning ascribed to it in section 2 of the Homeowners Protection Act, 2017.

“Qualifying shares” has the meaning ascribed to it in section 2 of the Bahamas Co-operative Credit Unions, Act, 2015

“Related party” has the meaning ascribed to it in regulation 2 of the Bank and Trust Companies (Large Exposure) Regulations, 2005.

“Risk weighted asset or RWA” is a calculation that converts a bank’s risk exposures to a standardised measure of exposure, as calculated in this Regulation.

“SMEs” means small and medium-sized enterprises.

“Supervised financial institution or “SFI” means any licensed bank, bank and trust company, or registered credit union; but does not include any entity mentioned in regulation 3(2).

“Total regulatory capital” means the eligible capital base of a SFI, which is the sum of CET1 Capital net of regulatory adjustments.

“Trading book” means all positions in financial instruments or commodities held either with trading intent or in order to hedge, that meet the criteria for the trading book set out in these regulations. All other instruments must be included in the banking book.

PART 2 - CAPITAL GOVERNANCE

3. Applicability

- (1) Subject to paragraph (2) these Regulations shall apply to banks and bank and trust companies licensed under the Banks and Trust Companies Regulation Act, 2020, and to co-operative credit unions registered under the Bahamas Co-operative Credit Unions Act, 2015.
- (2) These Regulations shall not apply to pure trust companies, nominee trust companies, branches of foreign banks, restricted banks, restricted trust companies or managed branches.
- (3) These Regulations shall not alter the minimum capital requirements for supervised financial institutions, which may be imposed as a condition of a license or registration to operate.

4. Responsibility for Capital Management

- (1) The Board of Directors (“the Board”) and Senior Management of an SFI shall regularly assess the SFI’s capital adequacy to ensure that the quality and level of capital is appropriate for the risk profile and systemic importance of the SFI.

5. Internal Capital Adequacy Assessment Process

- (1) Every SFI shall –
 - (a) maintain an ICAAP unless the Central Bank, exempts the SFI, group of SFIs, or any class of SFI from this requirement; and
 - (b) implement and maintain adequate capital planning.
- (2) Every SFI shall implement a process for capital planning which –
 - (a) enables the SFI to assess its capital adequacy over a three-year period;

- (b) provides a reliable forecast of available capital based on the business planning needs of the SFI and documents in a transparent and comprehensive manner any assumptions on which such a forecast is based
- (3) Every SFI must maintain an ICAAP that is:
 - (a) proportionate to the SFI's size, complexity, risks, and business model;
 - (b) updated following a material change to any of the matters listed in paragraph (a)
 - (c) fully documented and approved by the Board of Directors with the assistance of Senior Management; and
 - (d) updated, formally reviewed and re-approved by the Board no less frequently than every three years.
- (2) Where an SFI is a subsidiary of a group of companies –
 - (a) the SFI may incorporate parts of the group's ICAAP in its ICAAP;
 - (b) the SFI's ICAAP must clearly specify the circumstances in which the SFI may call on the group for additional capital support.
- (3) Every SFI must ensure that its ICAAP is subject to a separate and regular review by its internal audit function and such internal audit function must be operationally independent from the SFI's capital management process.
- (4) The Central Bank may conduct periodic reviews and assessments of an SFI's capital management process (inclusive of its capital recovery plan).
- (5) The Central Bank may where, in the Central Bank's view, an SFI's risks are insufficiently covered, impose additional capital charges (that is, Pillar 2 add-ons) to ensure the minimum capital requirements are met at all times.
- (6) Every SFI must submit a copy of its ICAAP to the Central Bank in such manner and within such time as may be specified by the Central Bank upon a request of the Central Bank, upon any material change to the ICAAP, and after every Board review.

PART 3 - DEFINITION OF CAPITAL

6. Regulatory Capital

- (1) For the purpose of these regulations, the terms “common equity” or “ordinary shares” are defined as –
 - (a) equity instruments that are subordinated to all other classes of equity instruments; or
 - (b) such other definition as may be consistent with international accounting standards as the Central Bank may specify in Guidelines.
- (2) Every SFI shall maintain the minimum CET1 Capital ratio as prescribed in Schedule 1.
- (3) For the purpose of these Regulations, CET1 Capital must include the following:
 - (a) common shares issued by the SFI;
 - (b) stock surplus (share premium) resulting from the issue of instruments included in CET1 Capital;
 - (c) retained earnings;
 - (d) General or Statutory Reserves as disclosed on the balance sheet;
 - (e) accumulated other comprehensive income.
- (4) Every SFI must, when calculating CET1 capital, make deductions for applicable regulatory adjustments.
- (5) For the purpose of these Regulations, CET1 Capital must:
 - (a) be perpetual;
 - (b) be the most subordinated claim in liquidation;
 - (c) be irredeemable without the Central Bank’s prior approval;
 - (d) be fully paid-in;
 - (e) be classified as equity under relevant accounting standards;
 - (f) give shareholders a claim on residual assets that is proportional to their
 - (g) share of issued capital; and
 - (h) have distributions that are not mandatory, cumulative or subject to a contractual cap.
- (6) Notwithstanding any other provisions in these Regulations, for the purpose of

determining the total regulatory capital of a credit union, only qualifying shares that are fully paid-in, unable to be withdrawn, and have loss absorbing properties shall be considered CET1 Capital.

- (7) No SFI shall, without prior approval of the Central Bank, make any modification to the terms and conditions of any financial instrument that may affect the instrument's eligibility to continue to qualify as regulatory capital.

7. Regulatory Adjustments

- (1) For the purposes of determining total regulatory capital, every SFI must deduct from CET 1 Capital:
 - (a) goodwill and other intangibles;
 - (b) a defined benefit pension fund that is an asset on the SFI's balance sheet, net of any associated deferred tax liability;
 - (c) investments in own shares (treasury stock);
 - (d) non-consolidated equity of financial institutions;
 - (e) reciprocal cross holdings in the capital of banking, financial and insurance entities; and
 - (f) any other deductions as specified by the Central Bank by Notice for a single SFI or any group of SFIs.
- (2) Notwithstanding paragraph (1), every SFI must apply the following regulatory adjustments when calculating CET 1 Capital:
 - (a) cumulative gains and losses due to changes in the SFI's own credit risk on fair valued financial liabilities; and
 - (b) liabilities as recorded on the balance sheet in respect of a defined benefit pension fund, must automatically result in a reduction in the SFI's common equity (through a reduction in reserves).
- (3) Notwithstanding paragraphs (1) and (2) , the Central Bank may, for the purpose of calculating regulatory capital , require a SFI, in writing to:
 - (a) exclude from its regulatory capital any component of capital, that in the opinion of the Central Bank, does not represent a sufficient contribution to the financial strength of the SFI;
 - (b) exclude from its categories of assets any item or part of an item, that in the opinion of the Central Bank, is not sufficiently sound to qualify as an asset;

- (c) add to its classification of liabilities, any liability that, in the opinion of the Central Bank, has been omitted or understated; or
- (d) re-classify any off-balance sheet exposure (i.e. assets and liabilities) as an on-balance sheet exposure.

8. Regulatory approvals for increase or decrease in capital

- (1) No SFI shall, without the prior written approval of the Central Bank:
 - (a) acquire more than five percent (either directly or indirectly) of equity investments in any other financial institution;
 - (b) acquire or hold shares, securities or other interests in any related party;
 - (c) provide a loan to a party secured against the SFI's own equity;
 - (d) seek to increase or reduce or otherwise change the nature of its issued capital or the rights and obligations attached to those shares; or
 - (e) merge with or acquire any other financial institution.

9. Capital Consolidation

- (1) The capital adequacy requirements in these regulations shall apply to an SFI on both a stand-alone ("solo") and a consolidated ("group") basis, covering all banking, securities and other financial subsidiaries within the group excluding any subsidiaries engaged in insurance and commercial businesses.
- (2) No recognition shall be given to minority interests and other capital issued by subsidiaries, which are less than wholly owned.
- (3) Every SFI must consolidate the financial statements of all of its subsidiaries in accordance with the International Financial Reporting Standards unless exempted in writing by the Central Bank.

PART 4 - CAPITAL REQUIREMENTS

10. Minimum Capital Adequacy Requirements and Capital Buffers

- (1) Unless exempted by the Central Bank, a SFI shall at all times maintain the following minimum capital levels:
 - (a) a CET1 Capital ratio of 8 percent;
 - (b) an Additional CET1 Capital Buffer as determined in Schedule 1; and
 - (c) for D-SIBs, a Systemic Buffer (comprising CET1 Capital) as determined by the Central Bank from time to time in Schedule 1.
- (2) For the purpose of paragraph (1)--
 - (a) the capital adequacy ratio of a SFI shall be determined by dividing its CET1 Capital by its total risk weighted assets;
 - (b) CET 1 Capital shall be net of the regulatory adjustments as set out in these Regulations.
- (3) A SFI's total risk weighted assets shall be calculated as the sum of--:
 - (a) risk weighted on-balance sheet and off-balance sheet assets for credit risk;
 - (b) 12.5 times risk weighted assets for operational risk; and
 - (c) 12.5 times risk weighted assets for market risk.
- (4) Every SFI shall determine risk weighted assets by multiplying the current book value of the exposure by the relevant risk weight set out in Schedule 4.
- (5) The Central Bank may require additional capital above the minimum for any SFI or any class of SFI, based on unusual or excessive risks of the SFI, inadequate risk management as demonstrated by the SFI, or to address systemic concerns.
- (6) Every SFI shall provide the Central Bank with its capital adequacy ratio for any business day in such manner and form as may be specified in writing by the Bank.
- (7) Where a SFI's capital adequacy ratio falls below its capital requirement, the Central Bank may immediately suspend all of the SFI's capital distributions.

- (8) Notwithstanding paragraph (7), the Central Bank may lift the suspension where the Central Bank and the SFI agree on a capital recovery plan acceptable to the Bank.
- (9) A SFI's capital recovery plan must be provided to the Central Bank in such manner and form as may be specified by the Central Bank.
- (10) Where a SFI is -
- (a) Unable to provide a capital recovery plan that is satisfactory to the Central Bank;
 - (b) Unable to meet the capital adequacy requirement prescribed by these regulations; or
 - (c) In the Central Bank's opinion, is at material risk of becoming unable to meet its capital adequacy requirement,

the Bank may use the powers available to it under the Banks and Trust Companies Regulation Act, 2020, the Bahamas Co-operative Credit Unions Act, 2015, or any other relevant legislation, to protect the SFI's depositors and the Bahamian financial system.

PART 5 - LEVERAGE RATIO

11. Leverage Ratio

- (1) Every SFI shall, in order to supplement the risk based capital adequacy requirement, maintain a leverage ratio requirement as set out in Schedule 1.
- (2) The leverage ratio referred to in paragraph (1) shall be calculated by dividing CET1 Capital by the exposure measure as prescribed in Schedule 2.
- (3) The Central Bank may require a SFI to calculate and provide its leverage ratio at any time, for any business day in such manner and form as may be specified by the Central Bank.
- (4) Where a SFI is unable to meet its leverage ratio requirement, or in the Central Bank's opinion, is at material risk of becoming unable to meet its leverage ratio requirement, the Central Bank may direct the SFI to take such action as may be necessary to limit its leverage, within the time specified including but not limited to:
 - (a) the actions prescribed in regulation 10; and
 - (b) limiting or restricting exposures to sovereigns or other exposures that attract low RWAs.
- (5) The Central Bank may, in writing, require an increase of the leverage ratio requirement for any SFI, or any class of SFI.

PART 6 - CALCULATING RISK WEIGHTED ASSETS

12. External Credit Assessments

- (1) A SFI shall determine risk weights by using assessments from recognised external credit assessment institutions or ratings agencies prescribed in Schedule 3.
- (2) Notwithstanding paragraph (1), the use of external ratings agencies shall not relieve the SFI from its obligation to perform due diligence on the risks of an exposure.

13. Credit Risk: Standardised Approach

- (1) Every SFI shall -
 - (a) determine risk weighted assets for credit risk by using the standardised approach prescribed in Schedule 4;
 - (b) apply risk weights to its on-balance sheet assets and off-balance sheet exposures;
 - (c) convert off-balance sheet exposures into credit equivalent exposures through the use of credit conversion factors (CCFs); and
 - (d) determine the risk weighted amounts of off-balance sheet items, by multiplying the notional principal amounts by the CCFs prescribed in Table 9 of Schedule 4.
- (2) Every SFI may classify their exposures to banks that are unrated, or that are incorporated in jurisdictions that do not allow the use of external ratings agencies, in one of the three risk-weight buckets prescribed in Schedule 4.
- (3) The Central Bank shall provide additional information on the treatment of off-balance sheet exposures in Guidelines.

14. Provisions for Credit Risk Mitigation

- (1) When determining the risk weight for an exposure, SFIs may use any of the following recognised credit risk mitigation techniques to mitigate the credit risks to which they are exposed:
 - (a) exposures may be collateralised by first priority claims, in whole or in part with cash or securities;
 - (b) SFIs may agree to net loans owed to them against deposits from the same counterparty; and
 - (c) a loan exposure may be guaranteed by a third party.

15. General Requirements for Credit Risk Mitigation

- (1) Only recognised credit risk mitigation techniques may be taken into account in determining a risk weight for an exposure.
- (2) A transaction in which credit risk mitigation techniques is used must not receive a higher capital requirement than the same transaction where such techniques are not used.
- (3) The effects of credit risk mitigation must not be double-counted so that no additional recognition for credit risk mitigation for regulatory capital purposes will be permitted for exposures where the risk weight applied already reflects that credit risk mitigation.
- (4) Credit risk mitigation techniques may be used for the purposes of determining risk weights only if the following documentation requirements are met:
 - (a) the documentation used must be binding on all parties and legally enforceable in all relevant jurisdictions;
 - (b) SFIs must conduct sufficient legal reviews to verify such conclusions; and
 - (c) the enforceability of the documentation may be confirmed through legal reviews (if required).
- (5) Every SFI shall employ procedures and processes satisfactory to the Central Bank to control residual risks (including legal, operational, liquidity, market and other roll-off risks).

- (6) Where residual risks are not adequately controlled, the Central Bank may increase a SFI's capital requirement or impose additional capital charges, or take other supervisory actions.
- (7) For credit risk mitigation techniques to provide protection, the credit quality of the counterparty must not have a material positive correlation with the credit risk mitigation technique or with the resulting residual risk.

16. Treatment of Collateral and Guarantees

- (1) Where a SFI uses the simple approach, the risk weight of the counterparty is replaced by the risk weight of the collateral instrument, collateralising or partially collateralising the exposure.
- (2) Partial collateralisation may be recognised by an SFI.
- (3) Where the residual maturity of the credit protection is less than the underlying exposure, a maturity mismatch has occurred.
- (4) A collateral or guarantee will only be recognised for credit risk mitigation purposes where the original maturity of the collateral or guarantee is equal to or greater than the maturity of the exposure covered by the collateral or guarantee.
- (5) Where the credit protection is denominated in a currency different from the currency of the underlying exposure, a standard haircut of twenty percent for the currency mismatch must be used.

17. Eligible Collateral and Guarantees

- (1) Collateral instruments eligible for recognition under the simple approach are:
 - (a) cash (as well as certificates of deposit or comparable instruments issued by the lending bank) on deposit with the lending bank;
 - (b) gold;
 - (c) rated debt securities;
 - (d) unrated debt securities;
 - (e) equity securities (listed on a public stock exchange);
 - (f) real estate; and

- (g) cash value of life insurance from entities rated A- or better.
- (2) Eligible Guarantors under the simple approach are:
 - (a) Government of The Bahamas, local governments in other countries; sovereign entities, international banking agencies, central banks, public sector entities (PSEs) in The Bahamas and overseas, public bank and trust companies, credit unions, and other multilateral regional development banks, where these guarantors have a lower risk weight than the counterparty.
 - (b) Insurance Companies rated A- or better (provided the guarantee is unconditional); and
 - (c) Other entities rated A- or better.
- (3) Claims secured or collateralised in other ways (e.g. by put options, forward obligations or other derivative contracts or agreements) will not be considered eligible collateral.

18. Treatment of Collateral under the Simple Approach

- (1) A collateralised transaction is one in which:
 - (a) the SFI has a credit exposure or potential credit exposure; and
 - (b) the credit exposure or potential credit exposure is hedged in whole or in part by collateral posted by a counterparty or by a third party on behalf of the counterparty.
- (2) For the purpose of paragraph (1), 'counterparty' is used to denote a party to whom a SFI has an on- or off-balance sheet credit exposure or a potential credit exposure.
- (3) For collateral to be deemed eligible collateral, it must be pledged for at least the life of an exposure, and it must be marked to market with a minimum frequency appropriate to the nature of the asset.
- (4) Where a claim is secured by the market value of recognised collateral –
 - (a) the secured portion of the claim shall receive the risk weight applicable to the collateral instrument;
 - (b) the risk weight on the collateralised portion of the claim shall be subject to a floor of 20 percent except under the condition specified in paragraph 21(2) below.

- (5) The uncollateralised or unsecured portion of a claim will be assigned to the risk weight appropriate to the counterparty.
- (6) A capital charge will be applied to the SFI on either side of the collateralised transaction¹.

19. On-Balance Sheet Netting

- (1) A SFI may use the net exposure of loans and deposits as the basis for its capital adequacy ratio, subject to the following conditions being met:
 - (a) there must be a well-founded legal basis for concluding that the netting or offsetting arrangement is enforceable in each relevant jurisdiction, including in the event of the insolvency or bankruptcy of the counterparty;
 - (b) the SFI must --
 - (i) have the ability at any time to determine those assets and liabilities with the same counterparty that are subject to the netting arrangement;
 - (ii) monitor and control its roll-off risks; and
 - (iii) monitor and control the relevant exposures on a net basis.
- (2) When calculating the net exposure, a SFI must treat assets (loans) as exposures and liabilities (deposits) as collateral.

20. Treatment of Guarantees

- (1) A substitution approach must be applied so that only guarantees issued by or protection provided by entities with a lower risk weight than the counterparty will lead to reduced capital charges.
- (2) The protected or secured portion of the counterparty exposure will be assigned the risk weight of the guarantor or protection provider, whereas the uncovered portion retains the risk weight of the original counterparty.
- (3) A guarantee –

¹ For example, both repos and reverse repos will be subject to capital charges. Likewise, both sides of a securities lending and borrowing transaction will be subject to capital charges.

- (a) shall represent a direct claim on the guarantor and must be irrevocable such that there is no clause in the guarantee that would allow the guarantor to cancel the guarantee or increase the cost of the cover due to deteriorating credit quality of the guaranteed exposure; and
 - (b) must not have a material positive correlation with the decreasing credit quality of the original counterparty.
- (4) Every SFI must be aware of exposures that give rise to wrong-way risk.

21. Risk weighting of collateralised transactions under the Simple Approach

- (1) Claims collateralised or partially collateralised by the market value of eligible collateral may receive the higher of -
 - (a) the risk weight applicable to the collateral under Schedule 4 – Standardised Approach (for calculating credit risk for on-balance sheet exposures); or
 - (b) 20%; subject to the exception set out in paragraph (2).
- (2) A 0% risk weight may be applied to collateralised transactions where the exposure and the collateral are denominated in the same currency and the collateral is cash on deposit.

22. Proportional Cover

- (1) Where the amount collateralised or guaranteed, is less than the amount of the exposure, and the secured and unsecured portions are of equal seniority (that is, the SFI and the guarantor share losses on a pro-rata basis), the protected or secured portion of the exposure will receive treatment applicable to the eligible collateral or guarantee, with the remainder treated as unsecured.

23. Lombard (Secured) Lending

- (1) For the purposes of this Part ‘lombard lending’ means a loan granted by a SFI to its client and secured by some or all of the marketable securities held by the client in a custody account with that SFI.

- (2) When lending against a portfolio of securities, SFIs may use all or the most favourable risk weights associated with the underlying collateral.
- (3) The risk weight on the underlying exposure or collateral, will receive the higher of:
 - (a) 20%; or
 - (b) the risk weight that would apply had the SFI lent separately to the borrower against each security as a separate collateral.
- (4) Securities issued by a borrower or an affiliate of the borrower must not be included in the collateral risk weight calculation.
- (5) Debt securities with ratings from eligible rating agencies may be included in the collateral risk weight calculation at the risk weights outlined in Schedule 4.
- (6) Equities listed on a public stock exchange may be included in the collateral pool, at a risk weighting of 100%.
- (7) A SFI may apply to the Central Bank for approval to apply a lower risk weight, subject to the Central Bank's satisfaction with the SFI's collateralised lending arrangements.
- (8) Every SFI must have in place robust, board-approved risk management policies, processes and controls for its secured lending program.
- (9) Notwithstanding subparagraph (8), a SFI engaged in Lombard lending must implement a Lombard lending policy acceptable to the Central Bank.

24. Operational Risk

Risk weighted assets for operational risk shall be determined using the standardised approach prescribed in Schedule 5.

25. Market Risk

Risk weighted assets for market risk shall be determined using the simple standardised approach prescribed in Schedule 6.

26. Adjustments to Capital

- (1) The Central Bank may at any time, if it deems necessary, adjust the risk weights for any exposure or class of exposures for any SFI, if it considers the standard calculation insufficient.
- (2) Notwithstanding paragraph (1), the Central Bank may also require a SFI to make a direct deduction from capital, for exposures which the Bank considers to be unduly risky for inclusion on the SFI's balance sheet.
- (3) Every SFI, shall, when calculating its total on-balance sheet risk weighted assets, exclude from total assets all items deducted from total capital.

PART 7 - MISCELLANEOUS

27. Reporting Requirements

- (1) Every SFI shall provide the Central Bank with their capital adequacy calculation in the manner specified by the Central Bank, whether on a quarterly or monthly basis.
- (2) Notwithstanding paragraph (1), the Central Bank may require more frequent reporting of a SFI's capital adequacy calculation, particularly in cases of a breach of the minimum capital requirement, or where a program of remedial action is in place.

28. Financial Notification

- (1) A SFI shall immediately notify the Central Bank where the SFI has reason to believe that:
 - (a) a material reduction in its capital is likely;
 - (b) a breach of any of its capital requirements is likely; or
 - (c) a material reduction of its total regulatory capital or capital ratio is likely.

29. Exemptions

- (1) The Central Bank may exempt any SFI, group of SFIs or class of SFI from any provision of these Regulations, subject to such terms and conditions as the Central Bank may determine.

30. Artificiality

- (1) When in the Central Bank's opinion, any SFI has structured or determined its total capital, risk weighted assets, or capital requirements in a manner that meets the form but not the intent of these regulations, the Central Bank may direct that SFI to recalculate its capital position to reflect the economic reality of the SFI's capital position.

SCHEDULE 1
(Regulation 10)

Minimum CET1 Capital, Capital Buffers and Leverage Ratio Requirements

Capital Adequacy Requirements and Capital Buffers				
	Commercial Banks	Credit Unions	Home Supervised Financial Institutions	Host Supervised Financial Institutions
Minimum CET1 Capital Ratio	8%	8%	8%	8%
Additional CET1 Capital Buffer	5%	2.5%	4%	2.5%
Systemic Risk Buffer (CET1 Capital)	4%	0%	0%	0%
Total Capital Requirement	17%	12%	12%	10.5%
Leverage Ratio				
Minimum Leverage Ratio Requirement	6%	4%	4%	4%

SCHEDULE 2

(Regulation 11)

Calculating the Exposure Measure for the Leverage Ratio

$$\text{Leverage Ratio} = \frac{\text{Common Equity Tier 1 (CET1)}}{\text{Exposure Measure}}$$

1. The Leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator), expressed as a percentage. The capital measure for the leverage ratio is CET 1 Capital.

2. Exposure Measure

- (1) The exposure measure for the leverage ratio generally follows financial accounting values and will be the sum of the following:

- (a) On-balance sheet exposures

- (i) liability items must not be deducted from the leverage ratio exposure measure;
- (ii) items deducted from CET1 Capital and regulatory adjustments (other than those related to liabilities) may also be deducted from the exposure measure; and

- (b) Off-balance sheet items

- (2) These items include commitments (whether or not unconditionally cancellable), direct credit substitutes, acceptances and letters of credit. These items will be converted into the credit exposure equivalent by applying credit CCFs to the commitment notional amounts, identical to the treatment of off-balance sheet exposures in the risk-based capital framework.
- (3) Derivatives and securities financing transactions will be counted in the exposure measure as part of total assets.
- (4) The leverage ratio is to be calculated as follows:

Exposure = A + B; where:

A = On-balance sheet exposures

B = Off-balance sheet exposures

Where,

A is **Total assets** calculated in accordance with International Financial Reporting Standards (including derivatives and securities financing transactions)

Less:

- Items deducted from CET1 Capital;
- Specific and general provisions; and
- All other regulatory adjustments deducted from the calculation of CET1 Capital

Plus B:

Off-Balance Sheet Items are converted under the standardised approach for credit risk into credit exposure equivalents, through the use of CCFs as set out in Schedule 4.

SCHEDULE 3

(Regulation 12)

External Credit Assessment Institutions (ECAI)

1. Under the standardised approach, SFIs are able to rely on the credit assessments prepared by ECAIs. For such ratings to be used for capital adequacy purposes, the ECAI must first be recognised as eligible by the Central Bank. Where necessary, an appropriate mapping of the ratings of individual ECAI ratings will also be determined by the Central Bank. Eligibility, recognition, and other general considerations are outlined in the Guidelines.

2. Recognised ECAIs

(a) The Central Bank recognizes the ECAIs as prescribed from time to time in the Guidelines.

(b) The Central Bank may also recognize additional ECAIs upon application and approval. The list of eligible ECAIs will be updated subject to applicants satisfying the prescribed eligible criteria.

(c) The ratings of the respective ECAIs are to be mapped as follows:

(i) Short Term Rating

Rating Grade	S&P	Fitch	Moody's	CariCRIS ¹
1	A-1	F-1	P-1	
2	A-2	F-2	P-2	P1/P+1
3	A-3	F-3	P-3	P2/P+2
4	Other	Other	Other	Other

¹Since inception CariCRIS has not been approached to do any short term ratings.

(ii) Long term Rating

Rating Grade	S&P	Fitch	Moody's	CariCRIS
1	AAA to AA-	AAA to AA-	Aaa to Aa3	
2	A+ to A-	A+ to A-	A1 to A3	AAA
3	BBB+ to BBB-	BBB+ to BBB-	Baa1 to Baa3	AA+ to AA-
4	BB+ to B-	BB+ to B-	Ba1 to B3	A+ to A-
5,6	Below B-	Below B-	Below B3	Below A-
	Unrated	Unrated	Unrated	Unrated

SCHEDULE 4
(Regulation 13)
Credit Risk – Standardised Approach

1. This Schedule sets out the standardised approach to be used for risk weighting exposures to credit risk.

2. Exposures to Sovereigns

(a) Claims on Sovereigns must be weighted as follows:

Table 1

Credit Assessment of Sovereign	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Risk Weight	0%	20%	50%	100%	150%	100%

(b) The Central Bank will allow a 0% risk weight for exposures denominated in Bahamian Dollars to The Bahamas government or to the Central Bank.

3. Exposures to Non-Central Government Public Sector Entities (PSEs)

(a) Using national discretion, SFI's must assign claims on domestic PSEs a risk weight using the following three criteria below:

Table 2

Domestic PSEs	Criteria	Risk Weight
Treated as a Sovereign	Claims of domestic PSEs, which are guaranteed by central governments must be explicit, unconditional, legally enforceable and irrevocable.	See risk weights for claims on sovereigns
Treated as a Bank	Claims of domestic PSEs which are not guaranteed by central government and the PSE does not participate in a competitive market, will be assessed an equivalent risk weight as a bank.	See risk weights for claims on Banks
Treated as a Corporate	Claims of domestic PSEs which are not guaranteed by central government and the PSE participates in a competitive market, will be assessed an equivalent risk weight as a corporate.	See risk weight for claims on corporates

4. Exposures to Multilateral Development Banks (MDBs)

- (1) Eligible MDBs that are rated AAA to AA- will be risk weighted at 20%. All other MDB exposures will be risk weighted at 100%.

5. Exposures to Banks

- (1) Exposures to banks are as follows:

Table 3

External rating of Counterparty	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-
"Base" risk weight	20%	30%	50%	100%	150%
Risk weight for short-term exposures	20%	20%	20%	50%	150%

- (2) Where a SFI's analysis reflects higher risk characteristics than that determined by the external rating bucket in Table 3, the SFI must assign a risk weight higher than the "base" risk weight.
- (3) Risk weights for "short-term exposures" are defined as having an original maturity of three months or less.
- (4) For exposures to banks that are **unrated**, the Central Bank shall apply the following:

Table 4

Credit risk assessment of counterparty	Grade A	Grade B	Grade C
"Base" risk weight	40%	75%	100%
Risk weight for short-term exposures	20%	50%	100%

- (5) The counterparty bank must satisfy all of the requirements outlined for Grade A, Grade B and Grade C classifications.
- (6) For the purposes of these Regulations:

"Grade A" means exposures to banks, where the counterparty bank has adequate capacity to meet its financial commitments (including repayments of principal and

interest) in a timely manner, for the projected life of the assets or exposures and irrespective of the economic cycles and business conditions;

“**Grade B**” means exposures to banks, where the counterparty bank is subject to substantial credit risk, such as repayment capacities that are dependent on stable or favorable economic or business conditions;

“**Grade C**” means higher credit risk exposures to banks, where the counterparty bank has material default risks and limited margins of safety.

6. Exposures to Securities Firms

- (1) Exposures to securities firms must be treated as claims on banks, provided that these firms are subject to prudential standards and a level of supervision comparable to those applied to banks.
- (2) When requirements under sub-paragraph (1) are not met, such claims must be risk weighted as claims on corporates in accordance with Table 5.

7. Exposures to Corporates

- (1) For exposures to corporates, the Central Bank shall apply the following risk weightings:

Table 5

Credit Assessment of counterparty	AAA to AA-	A+ to A-	BBB+ to BB-	Below BB-	Unrated
Risk weight	20%	50%	100%	150%	100%

- (2) Exposures to corporates include:
 - (a) Claims on corporates (excluding venture capital and private equity investments);
 - (b) Claims on insurance companies; and
 - (c) Claims on securities firms that do not qualify for treatment as claims on banks.

8. Retail Exposures

- (1) Retail exposures must be risk weighted at 75%.

- (2) For the purpose of subparagraph (1), “retail exposures” mean exposures to an individual person or persons, or to regulatory retail Small and Medium-sized Enterprises (SMEs). Regulatory retail SMEs are corporate exposures where the borrower’s reported annual sales are less than BSD\$10 million.
- (3) Retail exposures secured by residential real estate must be treated as mortgage exposures.
- (4) Retail exposures secured by commercial property must be treated as commercial real estate exposures or the lower of the retail exposure risk weight.

9. Exposures secured by Residential Real Estate (Mortgage Exposures)

- (1) For the purposes of this Schedule:
 - (a) “residential real estate exposure” means an exposure secured by a mortgage on residential property that is or will be occupied for housing purposes. This includes residential land or residential property under construction, provided the loan is for a one-to-four family residential housing unit or condominium;
 - (b) “commercial real estate exposures” mean real estate exposures (other than residential real estate exposures) secured by a mortgage on property.
- (2) Residential Real estate exposures must be tied to a Loan to Value (LTV) ratio where the “Loan amount” is the current exposure amount, and the “Value” is determined using the lower of the valuation that the SFI holds or the net sale price.
- (3) Risk weights for residential real estate exposures must be determined as provided in Table 6:

Table 6

Risk weights for Residential Real Estate Exposures			
	LTV≤60%	60%<LTV≤80%	LTV>80%
Risk weight	25%	50%	100%

- (4) For a loan to be risk weighted using the values set out in Table 6:

- (a) the property which is the subject of the loan must be fully completed and fit for occupation;
 - (b) any security claim on the property must be legally enforceable;
 - (c) the lending SFI must hold a first lien or first ranking mortgage over the property;
 - (d) the loan must have been appropriately underwritten, with the borrower's ability to repay evaluated in accordance with the SFI's policies, including the borrower's ability to maintain payments for insurance, property tax, and utilities; and
 - (e) the property must be covered by fit for purpose insurance.
- (5) Residential land, including vacant residential property must be risk weighted using Table 6.
- (6) An SFI must apply a 100% risk weight to an exposure that fails to comply with the criteria prescribed in sub-paragraph (4).

10. Loan Amount

- (1) For the purposes of this Schedule the loan amount includes the outstanding loan amount along with any undrawn committed amounts related to the loan.
- (2) An SFI must calculate the loan amount gross of any provisions.

11. Value

For the purposes of this Schedule "value" means the lower of the valuation that a SFI holds, or the net acquisition price for the property (not including closing costs such as commission, taxes, or legal fees).

12. Valuation Requirements

- (1) A SFI may only use a valuation of property which has been independently appraised using conservative valuation criteria.
- (2) For the purposes of this Schedule "independent valuation" means a valuation conducted by an appropriately qualified person or entity who is not associated with a person who has an interest in the property in respect of which the valuation was conducted.

- (3) Every SFI must implement the following minimum valuation practices:
- (a) prepare a board approved valuation policy;
 - (b) ensure that valuation estimates are readily available, reliable and sourced independently from reputable brokers;
 - (c) regularly (at least annually) verify real estate prices for accuracy.
- (4) Every SFI must obtain a new valuation when an exposure becomes non-performing, when there is a material change in the terms and conditions of a loan, or where the SFI considers that there may have been a material reduction in the property's value. There is no requirement to refresh the valuation for performing loans in the absence of any reason to believe that the property's value has been materially reduced.
- (5) A SFI must refresh a valuation when a loan is materially amended, for example by refinancing, equity release, or an increase in the loan to finance renovations.
- (6) A SFI may not increase a valuation (and therefore reduce loan to value ratios and capital requirements) by assuming a general increase in a property's value. Only values supported by a valuation or sale are valid.
- (7) The Central Bank may require a SFI to reduce its valuation for any property or group of properties, based upon economic or other conditions applicable at the time.
- (8) The Central Bank may require a SFI to carry out a revaluation of any property at any time.

13. Exposures secured by Commercial Real Estate

- (1) Risk weights for commercial real estate exposures, where repayment is **not materially dependent** on cash flows generated by the property shall be calculated as prescribed in Table 7:

Table 7

Risk Weights for Commercial Real Estate Exposures (Repayment is not materially dependent on cash flows generated by property)		
	LTV≤60%	LTV>60%
Risk weight	Lower of 60%, or the risk weight of the counterparty	Lower of 100%, or the risk weight of the counterparty

- (2) Risk weights for commercial real estate exposures, where repayment is **materially dependent** on cash flows generated by the property shall be calculated as prescribed in Table 8:

Table 8

Risk Weights for Commercial Real Estate Exposures (Repayment is materially dependent on cash flows generated by property)			
	LTV≤60%	60% < LTV ≤ 80%	LTV > 80%
Risk weight	70%	90%	110%

- (3) For SFIs originating stand-alone commercial real estate exposures exceeding 80% loan to value ratios, the Central Bank may also apply supervisory intervention measures, including Pillar 2 adjustments.
- (4) Mortgages on commercial real estate must be covered by fit for purpose insurance.

14. Land acquisition, development and construction exposures

- (1) The Central Bank's treatment for land acquisition, development and construction exposures is as follows:
- (a) Residential land and construction exposures must be risk weighted using Table 6 – Risk Weights for Residential Real Estate Exposures.
 - (b) Commercial land acquisition, development and construction lending must generally be risk-weighted at 100%. When the property is completed, which includes not only physical completion but also occupancy by tenants, the risk weight should be derived from Tables 7 or 8, as applicable.

15. Capital Requirements for Equity Investments in Funds

- (1) Equity investment in funds held in the banking book shall be subject to the Look-Through Approach (LTA) for determining the risk weights. Under the LTA, the risk weight treatment will depend on the underlying investment type(s) or exposures. An SFI is required to risk weight the underlying exposures of a fund as if the exposures were held directly by the SFI.
- (2) When applying the LTA:
 - (a) there must be sufficient and frequent information provided to the SFI regarding the underlying exposures of the fund; and
 - (b) the information must be verified by an independent third party.
- (3) All other investments in equity or other regulatory capital instruments (of other entities) must be deducted from CET1 Capital.

16. Unsecured Portions of Past Due Loans

- (1) The unsecured portion of any loan (other than a qualifying residential mortgage loan) that is past due for more than 90 days, net of specific provisions, including partial write offs, must be risk-weighted as follows:
 - (a) 150% risk weight when specific provisions are less than 20% of the outstanding amount of the loan;
 - (b) 100% risk weight when specific provisions are equal to or greater than 20% of the outstanding amount of the loan.
- (2) For the purpose of subparagraph (1) “past due for more than 90 days” means an exposure where any amount due under contract (interest, principle, fee or other amount) has not been paid in full for at least 90 days from the date when it was due.

17. Secured Portions of Past Due Loans

- (1) Banks should apply the same risk weight on the secured portion of past due loans secured by eligible collateral or guarantees, as if they were not past due, provided the credit risk mitigation criteria continues to be satisfied.
- (2) Past due loans fully secured by collateral not recognised under the Credit Risk Mitigation framework must be risk-weighted at 150%.
- (3) Qualifying residential mortgage loans that are past due for more than 90 days must be risk weighted at 100%, net of specific provisions.

18. Treatment of Secured Portions of Non-Performing Loans

- (1) Aggregate specific provisioning on the secured portion of a non-performing portfolio must be at least:
 - (a) 20% from zero to two years;
 - (b) 40% from three to five years; and
 - (c) 100% above five years.
- (2) Where the current specific provisions fall short of this safeguard, the SFI must deduct the shortfall from CET1 Capital.
- (3) Notwithstanding paragraph 18(1), the Central Bank may take action to reduce asset values, increase capital requirements, or mandate increased provisioning when specific provisioning is not adequate.
- (4) To the extent that a SFI's financial accounts under International Financial Reporting Standards require lower specific provisioning than required under regulation 6, the SFI shall deduct the difference between its financial provisions (based on IFRS 9) and its required regulatory provisions from CET1 Capital.

19. High Risk Categories

- (1) Exposures that display equity-like rather than debt-like risk, such as long or short crypto-asset exposures, venture capital and private equity investments, must be deducted from the SFI's CET1 capital.

- (2) Commercial property held other than for the SFI's own operations must be risk weighted at 300%.

20. Securitizations

- (1) The risk weights for securitization exposures are summarized in Table 9.

Table 9

Credit Assessment	AAA to AA- (A-1/P-1)	A+ to A- (A-2/P-2)	BBB+ to BBB- (A-3/P-3)	BB+ to BB-	B+ and Below	Unrated
Risk Weight	20%	100%	CET1 Deduction			

21. Other Assets

- (1) A 0% risk weight shall apply to:
- (a) cash;
 - (b) gold bullion, held in the SFI's own vaults or on an allocated basis to the extent backed by bullion liabilities; and
 - (c) exposures collateralised by cash deposits.
- (2) A 20% risk weight shall apply to cash items in the process of collection.
- (3) A 100% risk weight will apply to:
- (a) premises, plant, equipment and other fixed assets, when used for an SFI's own business;
 - (b) gold bullion;
 - (c) silver bullion, precious metals and gemstones; and
 - (d) all other assets not mentioned in this Schedule.

22. Off-Balance Sheet Items

- (1) A SFI's total risk-weighted off-balance sheet credit exposures must be calculated as the sum of the risk-weighted amounts of all its market-related (i.e. derivative

instruments) and non-market related (i.e. non-derivative instruments) transactions.

- (2) Every SFI is required to apply CCFs to off-balance sheet exposures. The categories of off-balance sheet items shall include guarantees, commitments and similar contracts whose full notional principal amount may not be reflected on the balance sheet.
- (3) The credit equivalent amount for an off-balance sheet exposure must be calculated by multiplying the credit conversion factor by the notional principal amount.
- (4) The resulting credit equivalent amount must be multiplied by the risk weight applicable to the counterparty or the type of asset, as set out in Table 10.
- (5) Where off-balance sheet exposures comprise market related contracts or derivative assets, these exposures must be risk weighted at 100%.
- (6) For non-market related off-balance sheet exposures, these items are to be risk weighted according to the counterparty with whom the transaction has been entered into or by the type of asset.
- (7) Off-Balance sheet exposures will attract the following CCFs:

Table 10

Off-Balance Sheet Exposure	Credit Conversion Factors (CCFs)
(a) Commitments that are unconditionally cancellable at any time by the SFI without prior notice or that effectively provide for automatic cancellation due to the deterioration in a borrower's credit worthiness.	10%
(b) Commitments with an original maturity up to one year. (c) Short-term self-liquidating trade letters of credit arising from the movement of goods (e.g. documentary credits collateralised by the underlying shipment).	20%

Off-Balance Sheet Exposure	Credit Conversion Factors (CCFs)
<p>(d) Commitments with an original maturity exceeding one year, including underwriting commitments and commercial credit lines.</p> <p>(e) Certain transaction-related contingent items (e.g. performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions).</p> <p>(f) Note issuance facilities and revolving underwriting facilities.</p>	<p>50%</p>
<p>(g) Direct credit substitutes, e.g. general guarantees of indebtedness (including standby letters of credit serving as financial guarantees for loans and securities) and acceptances (including endorsements with the character of acceptances).</p> <p>(h) Sale and repurchase agreements and asset sales with recourse where the credit risk remains with SFI.</p> <p>(i) Forward asset purchases, forward deposits and partly-paid shares and securities, which represent commitments with certain drawdown.</p> <p>(j) Lending of the SFI's securities or the posting of securities as collateral by the SFI, including instances where these arise out of repo-style transactions (i.e. repurchase/reverse repurchase and securities lending/securities borrowing transactions).</p>	<p>100%</p>

SCHEDULE 5: (Regulation 24)

Calculation for Operational Risk – Standardised Approach

1. This Schedule sets out the standardised approach to be used for risk weighting exposures to operational risk.
2. **Calculation for Operational Risk Capital Charge**
 - (1) Every SFI must apply the standardised approach for calculating operational risk.
 - (2) The operational risk capital requirement is to be calculated by taking a SFI's total gross income as the average over three years, multiplied by the marginal coefficient of 12 percent. The SFI's gross income shall be calculated on the same basis as that for the SFI's financial accounts.
 - (3) Notwithstanding sub-paragraph (2) the Central Bank may apply a different calculation for a SFI with an unusual or negative gross income profile.
 - (4) Every SFI must report or disclose to the Central Bank any operational risk loss event that exceeds \$100,000.

SCHEDULE 6: (Regulation 25)
Calculation for Market Risk – Simple Standardised Approach

1. This Schedule sets out the standardised approach to be used for risk weighting exposures to market risk.
2. **Calculation for Market Risk Capital Charge**
 - (1) For the purposes of this Schedule, a trading book shall consist of positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book.
 - (2) Every SFI must hold capital against all marked-to-market interest rate related instruments, equities, foreign exchange and commodity risk positions and associated derivatives arising from positions held in both the banking and trading books.
 - (3) Risk weighted assets for market risk shall be determined using the Standardised Approach. The market risk capital requirements and other general considerations are outlined in the Guidelines.
 - (4) Notwithstanding subparagraph (1), every SFI having a trading book that meets the de minimis threshold will be subject to a market risk capital charge, where:
 - (a) the SFI's market risk positions are greater than 5% of the total on and off-balance sheet assets;
 - (b) the SFI's market risk positions are greater than US\$100 million;
 - (c) in the case of a SFI that is jointly regulated by the Central Bank and the Securities Commission of The Bahamas, the SFI's market risk positions exceed US\$25 million.
 - (8) Every SFI with market risk positions that do not meet the de minimis threshold prescribed in sub-subparagraphs (4)(a), (b) and (c) are exempt from calculating the market risk capital charge.
 - (9) Where circumstances warrant, the Central Bank may require a SFI to strengthen its capital position or reduce its level of market risk exposure.