Feedback from the Second Round of Consultation: Basel III Draft Capital Regulations, 2022

Section	Questions/Comments Received	The Central Bank's Response
Implementing Basel III: Bahamas Capital Regulations		
General	No definition for Financial Institution, please define.	Financial Institution has the meaning given to it by Section 3 of the *Financial Transactions Reporting Act, 2018*. The definition has been included in The Bahamas Capital Regulations, 2022 ("the Capital Regulations").
General	No distinction publicly listed/private: The Capital regulations make no distinction between publicly listed and private equities, hence assigning the same level of risk to both when in reality they possess several different characteristics like trading liquidity, volume, corporate structure and most importantly a marketable and verifiable price at which they can be bought or sold.	Regulation 17(1) of the Capital Regulations allows the use of publically listed equity stocks to be used as eligible collateral under the standardised approach. Private equity stocks will remain as a deduction from a supervised financial institution's ("SFI's") CET1 capital (See Fourth Schedule – Section 19 (1)).
General	Basel Framework IV - The new Basel framework (Basel IV), which comes into effect January 1, 2022, maintains equities as part of Risk Weighted Assets while at the same time becoming more conservative than the current standard, assigning listed equities a risk weight of 250% while giving private equities a weight of 400%. Why would the Central Bank issue Capital Regulations that go far beyond that of Basel? It is apparent that guideline 19(1) of the proposed Capital Regulations is not in line with the Basel Framework, potentially adversely affecting the capital level and ratios of financial institutions.	The Central Bank's position has always been to provide a proportionally simple, yet robust capital framework conducive to the Bahamian financial industry. Our legislation requires that our capital rules be at least as conservative as Basel, not just as conservative as Basel.
General	How soon can Central Bank provide the SFIs with a template of the new Basel III capital requirements as this will be very helpful	The training for the updated ERS Forms was conducted the 30 & 31 May 2022 and the parallel run began the 30 June 2022. The presentation and updated Guidance Notes were published to

Section	Questions/Comments Received	The Central Bank's Response
	for us to appreciate the rules and calculation and if needed, align certain data sources from our side.	the Central Bank's website on the 25 April 2022 with an amended date of 29 June 2022.
General	For Credit Risk Mitigation RE: treatment of Collateral the document only mentions using the "Simple Approach". Is it possible for an SFI to use the comprehensive approach as well?	No, the Central Bank only allows the use of the Simple Approach.
General	There is no reference to the LCR and NSFR adoption. Is there any new about the implementation of these ratios?	The Central Bank has completed the review of the comments/feedback received and is in the process of drafting its second iteration and amendments of the liquidity reforms, which will be issued for consultation in due course.
General	The Central Bank has not defined its view of 'acceptable proportionality' nor is there any indication as to who will determine it at an individual SFI level or what is expected or allowable by way of a 'proportional implementation' of the capital related regulations.	The Central Bank endorses the views of the BCBS on the concept of proportionality and prudential regulation. See: BCBS-BCG Statement on proportionality. The proportionality approach imbedded in the Basel Standards allow supervisors to consider the context in which supervisory practices are applied, commensurate with the risk profile of banks and the complexity of the financial system.
General	The ICAAP includes a requirement to identify and assess "Pillar 2" potentially significant risks that are not directly assessed in "Pillar 1", and to determine capital treatment and other appropriate risk mitigation (e.g. strengthening governance, enhancing risk management and internal control practices etc.). However, we believe there is a critical need to proactively identify and assess rare risks that could threaten solvency and give rise to multi-dimensional exposure to other significant risks. For example, the Covid-19 pandemic has triggered economic, health, social and political crises. We believe the consultative papers should explicitly address this class of risk and its capital implications.	Agreed. The role of the Central Bank is to provide a robust minimum regulatory framework as a whole in accordance to Basel standard. However, we encourage individual SFIs to reflect these risks and implement contingencies into their ICAAP for their specific business model.
General	Government support and intervention in the pandemic, including loan payment deferrals, guarantees etc. are essentially another	The Covid-19 pandemic in and of itself is an unforeseen circumstance at this magnitude, but the Central Bank cannot

Section	Questions/Comments Received	The Central Bank's Response
	layer of capital, as is deposit insurance. The Central Bank's consultative papers do not address this and its impact on regulatory capital considerations.	guarantee Government's support and intervention. However, full and partial guarantees are covered in the Capital consultative documents. Regulation 10(10) of the Capital Regulations allow for the Central Bank to use its broad powers available under the Central Bank Act, 2020 and the BTCRA, 2020 to address any systemic bank or event.
General	The consultative paper do not address potential cross-industry spread of liquidity risk (e.g. large scale run by investors to liquidate investments held by the insurers).	The cross-industry spread of liquidity risk is tied to the investor's perspective on the insurers' stability and economic outlook; and therefore will not be covered in the capital reforms.
General	The consultative papers do not refer to the need for banks to calculate and articulate the capital capacity they require for the risks they need to take on to pursue their business strategies/objectives, nor does it refer to how a bank's risk appetite should be derived from its capital capacity and operational capacity.	It is essential that each SFI critically assess its internal capital adequacy. Regulation 5(3) of the Capital Regulations addresses the need for SFIs to maintain and monitor their capital (in relation to economic risk) to ensure it aligns with their size, complexity, risks and business model. Paragraph 13 of the Capital Guidelines also speaks to the capital assessment process and what SFIs should consider in documenting their ICAAPs. These are broad requirements; however, it is incumbent on the SFI to implement.
General	How soon will SFI's be able to test a demo of the new Financial Returns forms under the new Basel Framework for capital? Are equities and real estate only allowed as collateral for Simple Approach?	The financial reforms, along with the updated Guidance Notes and presentation from the training are posted on the Bank's website. Please see Regulation 17 for a list of eligible collateral and guarantees.
Regulation 5(1) pg. 12	Foreign bank subsidiaries from them when there is not material (>10% over Total B/S exposure) third party undertaking (deposits and assets from a to Third Parties) should have a simplified ICAAP document requirement limited to have a Pillar 1 exercise considering low systemic risk. If nil third party undertaking,	The Central Bank does not require a one size fit all approach to the ICAAP. SFIs with a simple business model/balance sheet or subsidiaries may be able to file a simplified ICAAP after discussing it with the Supervisory Team.

Section	Questions/Comments Received	The Central Bank's Response
	Capital Adequacy requirements limited to monitoring capital ratios (including newly introduced, such as leverage ratio) accompanied by required buffer and periodic attestation of material risks, and if any change in business that materially change used od B/S (i.e. undertaking third party deposits/assets).	Please refer to our earlier notice on simplified ICAAP and the frequency in which SFIs should submit reports to the Central Bank.
Regulation 5(2) pg. 12	Would the proposed regulations allow for a single regional ICAAP submission for entities within a Group with consistent ICAAP methodologies and approaches?	Yes, SFIs can submit a single regional ICAAP as long as the local Bahamian Board of Directors approves it. The capital adequacy planning must be adequate and meet the minimum standard prescribed by the Central Bank.
Regulation 6 pg. 14	As you are aware under Basel III, Tier 1 Capital captured CET1 and Additional Tier 1 capital. The draft Capital Regulations, by omitting references to Tier 1 Capital, will have the effect of disallowing items that are currently permitted as Additional Tier 1 capital in accordance with Basel? We respectfully submit that the Capital Regulations should include the Basel requirements for a minimum Tier 1 Capital ratio and the ratio should be in line with the Basel recommendation.	Yes, the intent is to use only CET1 as regulatory capital and not preference equity or subordinate debt. The Central Bank performed a Quantitative Impact Study (QIS) in 2018 and determined that SFIs would be able to meet the capital requirements with only CET1.
Regulation 8 pg. 16	Many banks provide fund administration services, or set up their own funds, or manage funds for third parties; in doing so, in certain circumstances they own 100% of the voting non-participating shares of these funds. Does the CB consider funds to be financial institutions and therefore although regulated by the Securities Commission, require Banks to have prior approval from the CB to own the voting shares? In addition, this would delay the implementation of such funds. Please clarify.	Regulation 8 of the Capital Regulations intent is for supervised banks and/or trust companies, but we do recognise that the Central Bank and the Securities Commission of The Bahamas ("SCB") jointly regulate a number of SFIs. The Central Bank considers fund managers as financial institutions but not funds, which does not require the Central Bank's approval for these fund shares. However, SFIs should be reminded to refer to the relevant provisions of the Regulations that would require risk weighting and deductions should there be any actual financial exposure in those shares.

Section	Questions/Comments Received	The Central Bank's Response
Regulation 8 pg. 16	We ask for clarification of whether this guideline refers only to equity exposure and if it applies only to financial related parties or, as implied by the current redaction, any related parties. Currently, the "Supervisory and Regulatory Guidelines for Large Exposure (the Guidelines) issued by the Central Bank (CBB) on March 25th, 2005 and later amended on May 8th, 2013", requires that transactions with related parties should be subject to prior approval by the Board of Directors. Kindly clarify.	*Banks and Trust Companies (Equity Investments) Regulations, 2005* defines related parties. As it pertains to our Large Exposure Guidelines (Section IV (2), it relates to the limit to any **exposure** to a related party whereas, Regulation 8 of the Capital Regulations speaks to restrictions to having any interest/ownership in any exposure.
Regulation 10 pg. 17	Minimum Capital Adequacy Requirements and Capital Buffers – Will CBB revisit the prudential norms specifically agreed with SFI's	The Central Bank recently undertook a review of all existing prudential norms/exemptions and relaxations. This exercise has resulted in the continuation of the specified prudential norm, exemption or relaxation or its cancellation where SFIs had not submitted a business case for continuance. Further, the Central Bank has determined that going forward approvals for exemptions, relaxations, and waivers of prudential norms will be granted for a maximum of five years, based on the merits of the case presented. Thereafter, subject a renewal application.
Regulation 10 pg. 17	While we recognize that it is within the CBB's power to set a higher CET1 ratio, we respectfully suggest that the CBB should revisit the level of the CET1 ratio and consider the merits of implementing the industry standard of 4.5%.	Bahamian banks have historically met the Basel II/III capital requirements with CET1 Capital. The implementation of the new capital structure simply supports the greater emphasis on common equity already held by banks. Note also, that SFIs falling below the capital threshold are not automatically penalised, but instead are required to negotiate an acceptable capital recovery plan with the Central Bank's approval.
Regulation 10(1) pg. 17	For additional buffer will be implementation be a phased-in?	The Central Bank will require full implementation of the Capital Requirements once it comes into effect. SFIs requiring additional time for internal implementation can apply for transition consideration.

Section	Questions/Comments Received	The Central Bank's Response
Regulation 10(2)(a) pg. 17 Regulation 2 pg. 8	Section 1 of Capital Regulations defines "*Total Regulatory Capital*" as "*the eligible capital base of a SFI, which is the sum of CET1 Capital net of regulatory adjustments*", while, Section 10 (2) states that, "*the capital adequacy ratio of a SFI shall be determined by dividing its CET1 Capital by its total risk weighted assets*". Under Basel, "*total regulatory capital is the sum of Common Equity Tier 1, Additional Tier 1 and Tier 2 capital, net of regulatory adjustments*". Basel III guidelines also outline the calculation of the capital adequacy ratio as "*total regulatory capital divided by the sum of Credit RWA, Operational Risk and Market Risk where Capital includes Common Equity Tier 1 Capital, Additional Tier 1 Capital and Tier 2 Capital*". The proposed changes in this area of the Capital Regulations will result in total regulatory capital and capital adequacy calculations in the Bahamas being more stringent, vis-a-vis other countries implementing Basel standards, as the Bahamas regulations only permit CET1 in the calculation of Total Regulatory Capital.	The Central Bank has reviewed its definition of Total Regulatory Capital. Our intention is for regulatory capital to be defined as, "the sum of total CET1 capital **only** net of regulatory adjustments". We have no intention to include Additional Tier 1 or Tier 2 capital.
Regulation 10(5) pg. 17	How long will the SFI have to implement the capital by Central Bank?	See comment above.
Regulation 11 pg. 19	Is this added to capital ratio?	Net CET1 Capital also known as regulatory capital is the numerator of the Leverage Ratio.
Regulation 11 pg. 19	It is unclear whether the capital measure (CET1 including deductions) used for the purpose of calculating the Leverage Ratio as defined in Schedule 2 section 1, will then also be used as the regulatory capital for the purposes of other regulatory ratios, such as large exposures.	Yes, when determining the "capital base" the calculation for CET1 Capital minus any regulatory/deductions will be used.

Section	Questions/Comments Received	The Central Bank's Response
Regulation 11(3) pg. 19	What is the frequency for the leverage ratio be calculated, for example: monthly basis? How will this ratio be reported to Central Bank – will there be a specific template? How will the composition of exposures would be reported?	While the leverage ratio requirement will be continuous, SFIs will report the Leverage Ratio along with the capital adequacy calculations on a quarterly (monthly for commercial banks) basis. The ERS Forms has been updated for SFIs to capture this ratio information. The presentation on the changes to the forms are on the Bank's website.
Paragraph 11(5) pg. 19	Will there be a phased-in period for the bank be compliant to the new leverage ratio?	See comment above.
Regulation 16 Sections (2,3,4) pg. 22	Scenario: collateral may be a term deposit for 3 years covering a 7 year loan, the original maturity would be less than the maturity of the exposure - will this not be maturity mismatch instead (subject to haircut)? However, if the TD is set to continue rolling at each maturity date and essentially will cover the life of the exposure. Therefore, can this collateral still be recognized for credit risk mitigation purposes?	For term deposit ("TD") to be classified as collateral for credit 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*". Therefore, collateral that can be cashed out before repayment of the loan cannot be classified as collateral. In the case of the 3 year TD, covering less than the 7-year loan maturity will be subject to the standard haircut. However, if the TD is guaranteed to roll over for the full term of the loan, it will not be subject to the haircut.
Regulation 16(5) pg. 22	We note the currency mismatch haircut of 20%, which has been changed from 8%. If the SFI has credit policies in place which sufficiently incorporate such currency mismatches when calculating the appropriate lending value to be assigned to the cash collateral, is there an allowance for the previously lower percentage used.	No, as this is an immaterial issue for the great majority of SFIs, the Central Bank will remain steadfast on the recommended currency mismatch minimum risk weight of 20%.
Regulation 17 pg. 22	Is gold in all forms rated the same as cash or in what forms is the risk the same as cash. And for all precious metal currency (XAU, XPT, XAG) what would be the risk weightings used?	Physical gold bullion is a 0% risk-weighted item (an item perceived as "less risky"), which is considered a liquid asset, that is treated the same as cash. The Central Bank will treat exchange traded gold (but not gold stocks) the same way we treat physical

Section	Questions/Comments Received	The Central Bank's Response
		gold. For all other precious metals, a risk weighting of 100% will be used (Fourth Schedule – Regulation 21 (3)(c)). Fourth Schedule – Section 21 (3)(b) has been amended to "Gold Bullion - other".
Regulation 17(1)(e) pg. 22	The equity securities risk weighting here seems to imply that a lower risk weighting than what is described in later paragraphs (paragraph 23 point 6 defined at 100%). Is the goal to have SFIs where wishing to apply a lower risk weighting for these securities to provide to the Central Bank their rationale for doing so overall as indicated in point 7 of para. 23?	Listed Equity securities stated in Regulation 23(4)(c) as eligible collateral will incur a risk-weight of 100%; however, SFIs can request approval from the Central Bank for Lombard (secured) lending.
Regulation 17(2)(a) pg. 23	So guarantor with the same risk weight as the counterparty will not be eligible?	The Central Bank allows for the use of guarantors for credit risk mitigation purposes with certain conditions (See Regulation 16 – Treatment of Collateral and Guarantees).
Regulation 18 pg. 23	What is the capital charge applied to both sides of the repo transaction?	Repurchase (repo) and reverse repurchase agreements are both collateralised transactions. A capital requirement will be applied to banks on either side of the collateralised transaction. The capital charge to be applied will depend on the risk weight of the asset (security) or the counterparty.
Regulation 19(a) pg. 24	Clarity required on "each relevant jurisdiction". Is it the jurisdiction of the client and/or the SFI? In most cases for these on balance sheet netting scenarios, the deposit and the loan will be held by the SFI. Are these situations also subject to this requirement?	The Central Bank acknowledges that the adoption of the Basel standard varies with each jurisdiction. Where the minimum regulatory or legal requirements of the home and host countries differ, SFIs are encouraged to apply the higher standard of the two. Basel defines 'each relevant jurisdiction' to the laws of the jurisdiction in which the counterparty is chartered and, if the foreign branch of a counterparty is involved, then also under: • the laws of the jurisdiction in which the branch is located; • the laws that governs the individual transactions; and

Section	Questions/Comments Received	The Central Bank's Response
		• the laws that governs any contract or agreement necessary to effect the netting. The national supervisor, after consultation when necessary with other relevant supervisors, must be satisfied that the netting is enforceable under the laws of each of the relevant jurisdictions.
Regulation 21 pg. 25	Is the interpretation here, "the lowest risk weight to be applied is 20% except for as set out in point 2? See schedule 4 for risk weighting categories". Could you kindly clarify?	Yes, the Central Bank adopted the Basel III Standard in applying the risk weight floor of 20% on the collateralised portion with the exception as outlined in Regulation 21(2).
Regulation 23 pg. 26	Points 2 and 3b seem to be contradictory. Could you kindly clarify the intent here?	Your comment is noted and we have corrected the wording to minimize confusion.
Regulation 23 pg. 25	Is this the term the CB will use and do all Banks need to adapt to this wording? The wording is not identified under Basel. Not all banks call lending secured by marketable securities Lombard Loans. In many cases it is described as a type of Loan, as you may have secured by Cash, Securities or other assets.	The Central Bank acknowledges that the term "Lombard Lending" is not a part of the Basel Framework and SFIs are not required to adopt this language. However, the Central Bank will continue to use this term as we are trying to create a simplified rule for an important element in the Bahamian banking industry. The term "Lombard Lending" is defined in Regulation 23 of the Capital Regulations. The treatment will apply to loans secured by a portfolio of securities, which could include cash collateral. It does not apply to cash collateralised loans, which is addressed in Part V of the Capital Regulation – Calculating Risk Weighted Assets of the Regulations.
Regulation 23 pg. 25	Please clarify whether this refers to Lombard Lending or Secured Lending. Terminology is used interchangeable.	Regulation 23 refers to Lombard Lending and Secured Lending interchangeably due to the nature of these transactions. Therefore, SFIs should refer to Lombard lending as "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".

Section	Questions/Comments Received	The Central Bank's Response
Paragraph 23(3)(b) pg. 26	The risk weight that would apply had the SFI lent separately to the borrower against each security as a separate collateral. What does this mean?	The statement requires that SFIs scrutinize each collateral individually to determine the appropriate risk weight.
Paragraph 23(6) pg. 26	Would this not indicate no CRM benefit to be derived from this collateral?	Yes, publically listed equities can be identified as collateral but not as a CRM benefit.
Paragraph 23(7) pg. 26	Is this related to 6) above. Is this done once the regs come into effect, meaning as a form of prudential norm ratios?	Yes, SFIs can request approval to a lower risk weight once the regulations come into effect.
Regulation 24 pg. 26	SFIs will no longer have the option to calculate Operational Risk using the Basic Indicator Approach (BIA)?	No, the Basic Indicator and the current standardised approach will no longer be allowed. The new standardised approach (also known as the standardised measure approach) will serve as a replacement for all others. The Central Bank has updated the document to avoid confusion.
Regulation 26(3) pg. 27 Schedule 2 Section 2(1)(a)(ii) pg. 30	The Bank's capital deductions comprise of intangible assets and treasury shares. However, treasury shares are not included in total assets, so just wanted to confirm that we would not deduct the treasury shares to calculate total on-balance sheet risk weighted assets even though it is a CET1 deduction?	As stated in your comment, treasury shares are deducted from CET1 to determine total regulatory capital. To determine total on-balance sheet risk, deductions from CET1 should be excluded in the calculations.
Schedule 1 pg. 29	Can CB confirm with each institution how they have classified their institution, Home or Host supervised?	The Central Bank can provide the confirmations as to how SFIs are categorised.
Schedule 1 pg. 29	Can CB reconfirm the table and the numbers? The Credit Unions total does not add up; it should read 10.5% as total, however the table, shows 12%. Is the table correct otherwise?	The Central Bank acknowledges this inconsistency and has made the necessary adjustment for 'Additional CET1 Capital Buffer' from 2.5% to 4% for a total of 12%. However, the Central Bank has decided to exclude Credit Unions in the Capital Regulations and Guidelines at this time, with the intent to include them at a later date.

Section	Questions/Comments Received	The Central Bank's Response
Schedule 4 pg. 33	Global Money Market funds: please confirm Risk Weighting. Many Banks place daily overnight cash in money market funds.	To determine the risk weighting for Global Money Market funds, SFIs are ask to deploy the Look-Through Approach ("LTA") to determine the underlying investment type/exposures.
Schedule 4(2)(b) pg. 33	The CB only consider exposures issued by the Government of The Bahamas denominated in B$ at 0%. Will the CB not consider those issued in USD at the same weighting?	As stated in the Fourth Schedule 2(b), the Central Bank has applied national discretion in setting exposures by the Bahamian Government and the Central Bank at a risk weight of 0%. Yes, the Central Bank would consider issuing the same rating, considering that those issued in USD are at a risk weighting of AA.
Schedule 4(3) pg. 33	Are Non-Central Government Public Sector Entities (PSEs) referring to public corporations and public financial institutions?	Non-Central Government Public Sector Entities refer to both public corporations and public financial institutions using national discretion to assign risk weights.
Schedule 4(5) pg. 34	Are there more precise indicators to be evaluated for the bank counterparty grading schematic? Internally we would use the same indicators that we would use to assess ourselves, such as capital ratio and other regulatory metrics.	The Central Bank will allow the use of our national minimum standard, as well as internal indicators to determine the credit risk assessment of counterparties. The Basel Framework also requires that SFIs take the following into consideration: • A Grade A assessment requires that the counterparty meet or exceed the minimum regulatory standards. Failure to disclose will result in a grading of B or lower; • A Grade B assessment requires that the counterparty must meet or exceed the minimum regulatory standard (excluding buffers); and • A Grade C assessment if the counterparty does not fall into the other categories. The following information was provided in our Guidance Notes for completing the ERS Forms. SFIs are asked to take all of this into consideration, as well as supervisory intervention/actions when assessing a counterparty.

Section	Questions/Comments Received	The Central Bank's Response
Schedule 4(8) pg. 35	We are missing the "Retail Test" (i.e. criterions and exposures amount) covered in the Capital Requirement Discussion Paper from August 29th, 2018.	The criteria for the 'regulatory retail portfolio' has been included in the Capital Regulations.
Schedule 4(15)(3) pg. 39	Given that this section refers to the look through approach (LTA) in investments in Funds, we understand it wishes to apply similar reasoning as per above on 19(1). If so, all our arguments as described for section 19(1) would apply to this section?	Yes, the LTA under the standardised approach should be used to determine the risk weighting for on-balance sheet netting items in accordance to the capital framework.
Schedule 4(15) pg. 40	Why only allow the LTA which is the most complex calculation method and costly to implement, and not allow the "mandate-based approach" (MBA) or the "fall-back approach" (FBA) as proposed by the Basel Committee in the Basel Framework CRE 60.1?	The Central Bank's view is that the LTA better accounts for funds' leverage and more appropriately reflects a fund's underlying investments as it assigns the individual asset to the appropriate exposure class, substantially improving its regulatory treatment. The FBA attracts a risk weight of 1,250% to the bank's equity investment in the fund, and the MBA involves calculations that are more complexed.
Schedule 4(19)(1) pg. 41	Would CBB consider keeping the current methodology that includes equities under risk-weighted average but achieve its objective of being more conservative by increasing the risk weightings for equity categories in line with Basel IV?	SFIs with a deduction in equity are eligible to reduce a portion of the equity that is less than 5% of the equity listed on the stock exchange. These SFIs can apply the Basel III treatment. If a SFI owns 50% or more of a listed firm, the investment should be deducted. SFIs with an investment position in a liquid entity that we define as less than 5% of the outstanding volume can be risk weighted at 250% as outlined in Basel IV.
Schedule 4(19)(1) pg. 41	We see Guideline 19(1) bears no relation with Basel III guidelines with regards to the treatment of equity investments. The current Basel framework, under section "CRE20 – Standardised approach: individual exposures", assigns a risk weight of 100% to all other assets, including investments in equity, both public and private. The only exception is that investments in regulatory capital instruments issued by other	SFIs with a deduction in equity are eligible to reduce a portion of the equity that is less than 5% of the equity listed on the stock exchange. These SFIs can apply the Basel III treatment. If a SFI owns 50% or more of a listed firm, the investment should be deducted.

Section	Questions/Comments Received	The Central Bank's Response
	financial entities must be deducted from CET1 capital, as defined in section "CAP30 – Regulatory adjustments". Deducting "equity-like assets" directly from CET1 capital can have a dramatic effect on capital of Banks and essentially make investing in any asset class other that fixed income prohibitive, eliminating the possibility of investing in any other asset class for diversification, and forcing concentration in only one asset class. At the same time, the Capital Regulations assign a 0% recovery value to equities by deducting them directly from CET1 capital. At the same time, corporate credit exposure with a rating lower than B- is assigned a 150% risk-weight. Even though equity securities are inherently riskier than fixed income, arguably, bonds rated CCC or lower could have similar or higher risk than equity investments, yet they are treated differently under the Capital Regulations. Usually equity is commonly accepted as collateral after applying some discount to face value, as this guideline has identified under Lombard Loans. It seems the treatment of equities as compared to fixed income is overly conservative and disproportionate to a degree when considering their characteristics, especially for listed equity securities.	
Schedule 4(22) pg. 44 Table 10	Are forward foreign exchange and other derivative contracts considered for the 10% bucket?	Forwards and derivatives have a CCF of 100%.
Schedule 4(22) pg. 43 Table 10	For the treatment of "Off-Balance Sheet Exposures", paragraph 37 of the "Revised Capital Adequacy Guidelines" talks about "Any commitment to provide off-balance sheet facilities should be assigned the lower of the two applicable CCFs."	Paragraph 37 of the Capital Adequacy Guidelines suggests that in the case of where a commitment falls into more than one category, the lower CCF should be assigned.

Section	Questions/Comments Received	The Central Bank’s Response
	Following the off-balance sheet exposures CCFs’ table 10, we see 3 distinct commitments: • 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. CCF of 10%. • Commitments with an original maturity up to one year. CCF of 20%. • Commitments with an original maturity exceeding one year, including underwriting commitments and commercial credit lines. CCF of 50%. Thus, could you please explain the above sentence in the paragraph 37?	
Schedule 5	How will a SFI report or disclose to the Central Bank any operational risk loss event that exceeds $100,000?	In the event of any operational risk loss that exceeds $100,000, SFIs should report in line with the Central Bank’s Notice. There is no standardised way of reporting such events.
Schedule 5(2) pg. 45	Will Central Bank provide the detailed formula to calculate BI components?	The complete formula and explanation is in the updated *Guidance Notes for the Completion of the ERS Forms*, which is on the Bank’s website.
Schedule 5(2)(2) pg. 45	SFIs shall calculate gross income on the same basis as that for the SFI’s financial accounts, which would be defined as the sum of interest income and non-interest income for the Bank. However, the previous guidance from the Quantitative Impact Study (QIS) Instruction Notes March 2015 stated that gross income is defined as the sum of net interest income and net non-interest income. So under the new approach, should gross income be comprised of the gross or net amounts of interest income and non-interest income?	As previously stated in our original response (here), gross income is defined as net interest income plus net non-interest income. Further clarification is provided in our Guidance Notes for completing the ERS Forms. Note that changes have been made to the Operational Risk Regulation of the ERS Forms. However, the reporting period recorded should include the three (3) most recent year-end date in descending order. SFIs should use the most recent published

Section	Questions/Comments Received	The Central Bank's Response
	Also, does the 3-year span still follow the same QIS guidelines where Year 3 would be the last year and Year 1 would be 2 years prior to the last year?	financial statement, based on their fiscal year end, rather than calendar year end.
Schedule 5(2)(2) pg.45	If an SFI was utilizing a different coefficient, before would this reviewed or is 12 now the standard.	Once the Regulations come into effect, only the 12% will be allowed.
Schedule 5(2)(4) pg. 45	Is this threshold referring to a single event or an accumulation of events? For e.g. should the SFI report to the Central Bank only if it is a single loss event exceeding $100K or if the accumulation of several events exceeded $100K as well?	Single events and multiple events. Where multiple events are due to the same cause – this should be reported to the Central Bank. Loss amounts and the associated recoveries should also be reported in the year in which they were recorded in the financial statements.
Schedule 5(2)(4) pg.45	How will this reporting or disclosure take place? Is it quarterly or at the time of the loss event and is the $100,000 related to a single event or cumulative?	In the event of any operational risk loss that exceeds $100,000, SFIs should report in line with the Central Bank's Notice. There is no standardised way of reporting such events.
Implementing Basel III: Capital Adequacy Guidelines		
General	The guidelines do not address potentially existential non-financial risks such as systemic risk, and how the Central Bank would expect them to be addressed within the ICAAP.	The Central Bank is responsible for providing the outline or the minimum standard required in accordance to international (Basel) standards. We expect each SFI to develop their own ICAAP. After approval from the Board of Directors and Senior Management, the Central Bank will regularly perform an assessment.
Section 2(3) pg. 2	Central Bank's Basel Implementation Roadmap was last released in 2013. Is there an updated timeline for the implementation of the Basel Framework and related reforms?	The implementation date for the Capital Reforms is as of 15 July 2022.
Section 2(3) pg. 2	What is the anticipated timeline for final issuance of both the draft amendments and new regulations (if different), and will	Please see comment above.

Section	Questions/Comments Received	The Central Bank's Response
	there be phase-in periods for SFIs to implement and comply with the same?	
Section 4(13) pg. 4	The Central Bank would consider including an exemption for subsidiaries of international financial groups from having to execute full-blown ICAAP to the extent of having a Pillar II (stress testing/economic capital) developed, if they have less than 10% of their own Balance Sheet on third party/public undertaking. These institutions leverage on and roll up to their HQ's capital adequacy processes. To avoid any misunderstanding, the guideline should clearly indicate that a licensed branch of a foreign bank is exempt from the requirement. Additionally, in accordance with the Stress testing principals, Banks should ensure that scenarios are tailored to their businesses and address their bank specific vulnerabilities. In Citi's case, vulnerabilities may not be related to events in the Bahamas domestic economy.	We acknowledge your concern and understand that not all of the scenarios will directly relate to the domestic Bahamian economy. SFIs may be eligible to submit a simplified ICAAP after discussing it with the Supervisory Team. The Central Bank has not indicated a definite percentage however; subsidiaries may incorporate parts of their group's ICAAP. In the case of a branch of a foreign bank, these Regulations do not apply (See Regulations 3(2) pg. 12).
Section 5(16) pg. 5	Would our licensee, Latin American Investment Bank Bahamas Limited be considered a Host SFI, with a new total capital requirement of 10.5%, up from 8%?	Yes, the Central Bank currently classifies Latin American Investment Bank Bahamas Limited as a host SFI. This SFI classification will result in a new capital requirement of 10.5%.
Section 5(16) pg. 5	How will SFIs be informed of their additional capital requirements? What are the triggers or metrics for Central Bank to require a SFI to hold additional capital?	Refer to our Capital Regulations where you can find the capital adequacy requirements and buffers in table format in addition to the definition of home SFI and host SFI. The capital buffers were mandated under the Basel III regulatory reforms and was incorporated in The Bahamas capital requirements.
Section 6(20) pg. 5	Will SFIs be required to submit their Capital Recovery Plan along with the ICAAP submission or only have their plans prepared and submitted upon a breach or request?	The BTCRA, 2020 calls for an annual submission of the recovery plan. The Central Bank require that the capital recovery plan should be incorporated in the capital management plan where the SFI is

Section	Questions/Comments Received	The Central Bank's Response
		found to be in breach of its minimum capital requirement or required by the Central Bank.
Section 7 pg. 6	Per Basel's "*1 January 2022: Implementation of Pillar 1 minimum requirement (in addition to any applicable G-SIB buffer requirement) and associated Pillar 3 disclosure requirements per the revised version of the standard*". • Will SFIs be required to utilize the current Basel methodology (effective 2018) or the revised methodology specified above (effective 2022) to calculate the leverage Ratio?	The Central Bank will require SFIs to utilise the revised methodology to calculate the Leverage Ratio.
Section 7(24) pg. 6	Allow for netting over derivatives on B/S (Liabilities/Assets). Note the netting principle as risk mitigation is introduced in article 39. This tightens up article 27.	The Central Bank will assume that you are referencing Regulation 25 and 39 for the following response. The Central Bank allows for the use of netting as a credit mitigation technique that meet certain conditions. We follow the Basel III framework that states, netting of loans and deposits are not allowed because it will affect (i.e. reduce) the leverage ratio exposure measure.
Section 7(25)(a)(ii) pg. 6	Will the values be considered as positive (adding to total values)?	Yes, the Central Bank requires that liability items be added into the overall on-balance sheet exposures. The Guidance Notes for the completion of the ERS forms provides additional information.
Section 9(58) pg. 12	Request: To include netting over On Balance Derivatives (Asset/Liability) through a legal binding agreement (enforceable offsetting agreement) when derivatives are Intercompany or same counterparty could be demonstrated from the asset/liability side.	The Central Bank kept the current arrangement in the Capital Regulations that uses the netting accounting position however, should a material concern arise SFIs are asked to discuss it with the Supervisory Team.
Section 11(92) pg. 19	Does the coefficient range by bucket will be not applied "BI marginal coefficient is 12% in bucket 1(≤ $bn), 15% in bucket 2 ($1 bn < BI ≤ $30 bn) and 18% in bucket 3 (>$30 bn)"?	The Basel III Framework methodology provides the coefficient range, which was provided for information purposes. The

Section	Questions/Comments Received	The Central Bank's Response
		Central Bank decided to take the simplistic approach and only apply the 12% marginal coefficient.
Section 11(93) pg. 20	Does it mean that the sum of [(ILDC); the services component (SC) and the financial component (FC)] will be multiplied by the marginal coefficients?	Yes, note that the Central Bank provides additional guidance in our Guidance Notes for completing the ERS Forms.
Section 11(95) pg. 20	Will the ILM always be equal to 1? If not, will the formula to calculate the ILM be consistent with the Basel methodology?	Yes, the Central Bank has decided to take the simplistic approach where the ILM will remain at 1.
Section 11(98) pg. 20	Is there a frequency required to report the losses (i.e. If quarterly report is required even if no losses occurred) or does it have to be report in a specific timeframe after the loss occurred or was registered? Will a specific template provided by the regulator (i.e. an excel with specific columns)? How will it be sent i.e. by email, return in ORIMS? What area should be responsible to send the report (i.e. Finance)?	Loss amounts and the associated recoveries should be reported in the year in which they were recorded in the financial statements. When there are no losses or recoveries to report, the form should reflect as such. The Guidance Notes and ERS Forms (inclusive of the Operational Risk Form) for reporting purposes are on the Bank's website.
Section 12(111) pg. 22	Will the Central Bank define how should an SFI conclude on materiality of the trading book when determining whether capital is required to be held under market risk?	According to the Capital Regulations – Schedule 6 (2)(4), provides the de minimis threshold to determine if an SFI is subject to a Market Risk Charge. Those that do not meet the requirement are exempted from calculating the market risk capital charge. For those that qualify, total capital required for market risk is calculated in the "CapSum" tab of the ERS Forms. SFIs are then required to determine their materiality based on the nature, scale and complexity of the business. Should the Central Bank, through its risk assessment process, conclude that the market risk exposure of a SFI is high relative to current capital, it will discuss this concern with senior management of the SFI. Depending on the circumstances, the

Section	Questions/Comments Received	The Central Bank's Response
		Central Bank may require a licensee to strengthen its capital position or reduce its level of market risk exposure.
Section 12(119) pg. 23	Does Central Bank plan to phase-in the Basel III market risk reforms such as the Fundamental Review to the Trading Book (FRTB) approach, or continue utilizing the Basel II simplified alternative? What is the anticipated timeline for implementation of the simplified standardised approach for calculating market risk?	The Central Bank plans to continue with the use of the simplified approach for calculating Market Risk. Please see comment above on implementation.
Section 12(126)(c) pg. 25	It is not clear whether the market risk product classifications are mutually exclusive, (e.g. currency swaps and related exposures could fall under both the interest rate risk class and/or foreign exchange risk class).	In cases where a market risk product fall under multiple risk classes, SFIs are required to take into consideration the underlying investment types or exposures. If the commonality exist, the exposure should be applied to the higher risk weight.
Section 12(133) pg. 26	Will it be necessary to inform Central Bank or require some previous approval for the method that will be used?	Approval from the Central Bank is not required before selecting the method that will be used, but SFIs are required to update their policies and procedures. The Central Bank will then examine the adequacy of the policies and procedures when necessary.