



SAINT VINCENT AND THE GRENADINES

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DEPARTMENTAL AND OTHER NOTICES

NOTICE

The St. Vincent and the Grenadines Financial Services Authority hereby gives notice that the following Business Companies have been struck from the Register pursuant to Section 172 (3) and (4) of the Business Companies (Amendment and Consolidation) Act, Chapter 149 of the Revised Laws of Saint Vincent and the Grenadines, 2009.

1. GRELENA LIMITED	2961	BC	1999
2. ANTILLA LIMITED	5770	BC	2000
3. MIDNIGHTDREAM LIMITED	9070	BC	2002
4. CURRY LIMITED	16844	BC	2008
5. NAUTILUS MARINE LIMITED	17621	BC	2009
6. WHITE ROSE LIMITED	24681	BC	2018
7. S & S INVESTING LTD.	19891	BC	2011
8. ELMORE INTERNATIONAL LTD.	20123	BC	2012
9. CAG LIMITED	26060	BC	2020
10. IDC LIMITED	26061	BC	2020
11. FCC LIMITED	26062	BC	2020
12. PARUS LIMITED	26889	BC	2022

CARLA JAMES,
Registrar, Business Companies.

NOTICE

The St. Vincent and the Grenadines Financial Services Authority hereby gives notice that the following Limited Liability Company has been cancelled on 4th November, 2024 and struck from the Register of Limited Liability Companies pursuant to Section 37 of the Financial Services Authority Act, No. 33 of 2011.

1. INTERNATIONAL PAYMENT SERVICE LLC PROVIDER LLC	1628	LLC	2021
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CARLA JAMES,
Registrar, Limited Liability Companies.

NOTICE

The St. Vincent and the Grenadines Financial Services Authority hereby gives notice pursuant to Section 71 (5) the Limited Liability Companies Act, Chapter 151 of the Revised Laws of Saint Vincent and the Grenadines, 2009 that the following Limited Liability Companies have been struck from the Register pursuant to Section 71 (1)(b) of the Limited Liability Companies Act.

1.

Cattywampus Consulting LLC

2455 LLC 2022
2.

Edge Solutions LLC

2456 LLC 2022
3.

Gubbins Solutions LLC

2458 LLC 2022

CARLA JAMES,
Registrar, Limited Liability Companies.

NOTICE

The St. Vincent and the Grenadines Financial Services Authority hereby gives notice that the following Business Companies are liable to be struck from the Register pursuant to Section 68 (1) of the Business Companies (Amendment and Consolidation) Act, Chapter 149 of the Revised Laws of Saint Vincent and the Grenadines, 2009.

Notice is hereby given to effect a change of Registered Agent to a person who holds a valid License in Saint Vincent and the Grenadines within Sixty (60) days of this notice.

Registration No.		Name of Company	Registered Agent
20723	BC 2012	EAMONT CORP.	St. Vincent Trust Service Limited
19569	BC 2011	SEVENTH HEAVEN LIMITED	St. Vincent Trust Service Limited

CARLA JAMES,
Registrar, Business Companies.

PRUDENTIAL STANDARD FOR THE MANAGEMENT OF INTEREST RATE RISK IN THE BANKING BOOK FOR FINANCIAL INSTITUTIONS LICENSED UNDER THE BANKING ACT, 2015



EASTERN CARIBBEAN CENTRAL BANK ST. KITTS
AUGUST, 2024

Revisions Control Page

a) Original Issuance of the Prudential Standard

Document Title	<i>Prudential Standard for the Management of Interest Rate Risk in the Banking Book for Institutions Licensed Under the Banking Act, 2015</i>
Issuance Date	22nd August, 2024
Effective Date	1st April, 2025
Standard Date	1 of 2024

b) Revisions to the Prudential Standard

Review Date (DD-MM-YYY)	Amended Sections	Issue Date of Revised Versions	Effective Date of Revised Versions	Revised Numbering

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LIST OF ACRONYMS

ALCO	Asset and Liability Committee
BCBS	Basel Committee on Banking Supervision
CET1	Common Equity Tier 1
CPR	Conditional prepayment rate
EaR	Earnings at risk
EVE	Economic value of equity
ICAAP	Internal Capital Adequacy Assessment Process
IRRBB	Interest rate risk in the banking book
LFI	Licensed financial institution
NII	Net interest income
NIM	Net interest margin
NMD	Non-maturity deposits
RAS	Risk appetite statement

PRUDENTIAL STANDARD (NO 1 OF 2024)

1.0 INTRODUCTION

1. The Prudential Standard for the Management of Interest Rate Risk in the Banking Book for Financial Institutions Licensed Under the Banking Act, 2015 (Standard) is issued by the Eastern Caribbean Central Bank (Central Bank), in exercise of the powers conferred on it by section 184 of the Banking Act, 2015 , as amended (hereinafter referred to as the Act²).

2.0 COMMENCEMENT

2. This Standard shall come into effect on the 1st day of April, 2025.

3.0 INTERPRETATION

3. This section of the Standard employs the interpretation established in the Act, however, the following terms are defined for the purpose of this Standard:
- a) **Banking Book Instruments:** Financial instruments that do not meet the definition of the trading book and include on and off-balance sheet items sensitive to interest rate changes.

b) **Core Deposits:** These are deposits that are highly likely to remain stable in terms of volume and are unlikely to reprice after interest rate changes.

¹ Section 183 of Anguilla Banking Act, 2015, as amended.

² Anguilla Banking Act No. 6 of 2015, as amended;
Antigua and Barbuda Banking Act No. 10 of 2015, as amended;
Commonwealth of Dominica Banking Act No. 4 of 2015, as amended;
Grenada Banking Act No. 20 of 2015, as amended;
Montserrat Banking Act No. 15 of 2015, as amended;
Saint Christopher and Nevis Banking Act No. 1 of 2015, as amended;
Saint Lucia Banking Act No. 3 of 2015; and
Saint Vincent and the Grenadines Banking Act No. 4 of 2015, as amended.

- c) **Earnings at Risk:** The potential impact of interest rate changes on the net interest income and other sources of income earned on the licensed financial institution's (LFI) banking book.
- d) **Economic Value:** The economic value of an instrument represents the present value of its expected net cash flows, discounted to reflect market rates.
- e) **Economic Value of Equity (EVE):** The calculation of cash flow that takes the present value of all assets' cash flows and deducts the same from the present value of liabilities' cash flows. LFIs can use the change in EVE as a measure of loss/gain in capital.
- f) **Interest Rate Risk in the Banking Book (IRRBB):** The current or prospective risk to a LFI's capital and earnings, arising from the impact of adverse movements in interest rates on its banking book positions. IRRBB arises due to interest rate variability over time, while the business of banking typically involves intermediation activity that produces exposures to both maturity mismatch (such as long-maturity assets funded by short-maturity liabilities) and rate mismatch (such as fixed rate loans funded by variable rate deposits). The three (3) main sub-types of IRRBB are gap risk (or yield curve risk), basis risk, and option risk (**see definitions in Appendix 1**).
- g) **IRRBB Capital Needs:** The capital a LFI is required to hold to protect itself against unexpected losses driven by adverse changes in interest rate risk under Pillar 2.
- h) **IRRBB Framework:** The organisational structures, processes and systems used in identifying, assessing, measuring, monitoring, controlling and mitigating IRRBB.
- i) **IRRBB Measurement System:** The various systems and data used internally³ to measure IRRBB. A LFI's IRRBB measurement system forms part of its management of IRRBB framework.
- j) **Non-maturity deposits:** This represents deposit liabilities of the LFI which do not have a contractual maturity date.
- k) **Trading Book⁴:** The LFI's portfolio comprising of financial instruments, measured at fair value through profit and loss, held for one or more of the following purposes:
 - i. Short-term resale;
 - ii. Profiting from short-term price movements;
 - iii. Locking in arbitrage profits; and/or
 - iv. Hedging risks that arise from instruments meeting criteria (i), (ii) or (iii) above.

Trading book items are those accounted for at fair value through profit and loss.

4.0 OBJECTIVES

4. This Standard seeks to:

- a) Outline the supervisory requirements of LFIs in relation to the identification, measurement and management of IRRBB including:
 - (i) The principles and methods to be adopted;
 - (ii) The specific systems to be implemented; and
 - (iii) Internal governance and control arrangement.

³ At the appropriate time in the future, the Central Bank intends to implement the BCBS' standardised methodology for the measurement of IRRBB, which derives an economic value of equity risk measure for IRRBB. This framework includes a maturity schedule and six interest rate shock scenarios that LFIs will eventually be expected to use.

⁴ For further information on the trading book, see section 9 of the Prudential Standard for Capital Measurement: Basel II/III Definition of Capital and Pillar I Framework.

- b) Provide the minimum policies and procedures that each LFI should have in place, within their overall corporate governance processes and risk management framework, to manage IRRBB.

5.0 APPLICATION

- 5. This Standard applies to all financial institutions licensed under the Banking Act, 2015. Section 9 provides guidance on regulatory reporting. Notwithstanding, the LFIs to which Basel II/III applies⁵ will have additional reporting requirements (for example, with the ICAAP).
- 6. For subsidiaries where the parent company has implemented a management of IRRBB framework that is consistent with this Standard, and which provides for the subsidiary in question, the Central Bank will consider the merits of such a case. If the parent company's IRRBB framework is deemed satisfactory, the Central Bank may exempt the subsidiary from establishing a separate framework, where appropriate, provided that the subsidiary can demonstrate that it clearly understands and applies the methodology provided.

6.0 OVERVIEW OF THE STANDARD

- 7. A framework that manages IRRBB to prudent levels is a fundamental component of sound banking practice. This Standard is consistent with the principles of the Basel Committee on Banking Supervision's (BCBS) *Standards on Interest Rate Risk in the Banking Book*⁶, published in April, 2016. The Central Bank anticipates that in implementing the principles outlined in this Standard, the board of directors (the board) and senior management of LFIs should be positioned to exercise sound oversight to effectively identify, measure, monitor and control IRRBB.

⁵ The LFIs to which Basel II/III applies are already aware of this requirement.

⁶ This paper can be accessed via the link <https://www.bis.org/bcbs/publ/d368.pdf>. In December 2023, the BCBS proposed revisions to this standard to adjust the specified interest rate shocks. Please visit [Recalibration of shocks for interest rate risk in the banking book \(bis.org\)](https://www.bis.org/bcbs/publ/d368.pdf) for more information.

7.0 PRUDENTIAL STANDARD REQUIREMENTS

7.1 THE TRADING BOOK/BANKING BOOK BOUNDARY

- 8. While LFIs are exposed to interest rate risk in both the trading book and banking book, the Central Bank recognises the importance of clearly distinguishing between the two. LFIs must document and disclose their policies for the assignment of instruments to either the trading book or banking book.
- 9. LFIs are restricted from switching instruments after initial designation and may be permitted to do so only in exceptional circumstances, subject to the Central Bank's approval.
- 10. This Standard only focuses on interest rate risk with respect to the banking book exposures, as interest rate risk arising from trading book exposures is covered under the Pillar 1 market risk regulations⁷.

7.2 PERSPECTIVES FOR ASSESSING IRRBB

- 11. When interest rates change, the present value and timing of future cash flows change. These changes in turn affect the underlying value of LFIs' rate-sensitive assets, liabilities, and off-balance sheet items and hence, their economic value (EV). Changes in interest rates also affect LFIs' earnings by altering interest rate-sensitive income and expenses, affecting their net interest income (NII). IRRBB exposures can therefore be assessed from separate but complementary perspectives, as highlighted below:

⁷ Details of the Pillar 1 market risk capital adequacy requirements are outlined in the *Prudential Standard for Capital Measurement: Basel II/III Definition of Capital and Pillar Framework*.

7.2.1 *EARNINGS PERSPECTIVE*

12. The earnings perspective (or income effect) provides a short term⁸ perspective, and focuses on the impact of interest rate changes on accruing or reported earnings. This reflects both the importance of NII⁹ in LFIs' overall earnings and its direct link to changes in interest rates¹⁰. Since reduced earnings or outright losses can threaten the financial viability of a LFI by undermining its capital and by reducing market confidence, LFIs should assess the impact of interest rate changes on:

- a) NII; and
- b) Activities that generate fee-based and other non-interest income such as loan servicing and asset securitisation, which can be highly sensitive to interest rates.

7.2.2 *ECONOMIC VALUE PERSPECTIVE*

13. Variations in interest rates can affect the economic value of LFIs' assets, liabilities and off-balance sheet positions from a long term perspective. The economic value of an instrument represents the calculation of the present value of its expected net cash flows, discounted at an appropriate interest rate that represents the risk associated with the cash flows and to reflect market rates. Just as fluctuations in interest rates will affect a LFI's earnings, they will also affect its economic value and therefore the change in its capital requirement. Under the economic value perspective, LFIs should assess the potential long term effects of changes in interest rates on their overall position.

⁸ Short term means overnight to < two (2) years; medium term 2 years to <7 years; and long term 7 years and over.

⁹ NII is the difference between total interest income and total interest expense.

¹⁰ Note that as some LFIs expanded increasingly into activities that generate fee-based income and other non-interest income, a broader focus on operating earnings/overall net income (incorporating both interest and non-interest income and expenses) has become more common.

7.3 *SUPERVISORY EXPECTATIONS*

14. LFIs are required to assess their exposure to IRRBB and implement a comprehensive IRRBB management process that is subjected to board and senior management oversight. The IRRBB management framework should be proportional to the LFI's size, level of exposure to IRRBB and the range and complexity of activities undertaken. The Central Bank will use the following nine (9) principles as supervisory criteria to evaluate the IRRBB management framework of LFIs.

7.3.1 *PRINCIPLE 1: ELEMENTS OF IRRBB*

15. LFIs are expected to be familiar with all elements of IRRBB and on a continuous basis identify, monitor, measure and control their exposure to IRRBB including the IRRBB inherent in their products and activities. Products and activities that are new to a LFI must undergo a careful pre-acquisition review to ensure that the IRRBB characteristics are well understood. The management of a LFI's IRRBB should be integrated within its broader risk management framework and aligned with its business planning and budgeting activities.

7.3.2 *PRINCIPLE 2: GOVERNANCE AND MANAGEMENT OF IRRBB FRAMEWORK*

16. To develop a comprehensive management framework for IRRBB, the following are required, at a minimum:

7.3.2.1 *General Requirements of Management of IRRBB Framework*

17. The LFI's management of IRRBB framework must:

- a) Be clearly documented, and commensurate with the nature, scale and complexity of its operations;
- b) Clearly assign accountabilities for monitoring its exposures against limits, approving variation on limits, and responding to, and escalating any breaches of IRRBB limits;

- c) Clearly articulate the responsibilities of, and reporting relationships to the board and where applicable, the relevant board committee¹¹; and
 - d) Be effectively supervised by the board and senior management.
18. Regardless of the size of the LFI, the board and senior management should ensure adequate segregation of duties in key elements of the risk management process to avoid potential conflicts of interest. Thus, LFIs should have risk measurement, monitoring, and control functions with clearly defined duties that are sufficiently independent from its position-taking functions, which report risk exposures directly to senior management and the board.
19. The board may delegate responsibility for establishing IRRBB policies and strategies to an appropriate committee which is sufficiently independent from position taking decisions (for example, the Asset and Liability Committee¹² (ALCO)). Larger or more complex LFIs should have such committees responsible for the design and administration of IRRBB management.

7.3.2.2 Board of Directors' Responsibilities:

20. The board is ultimately responsible for understanding the LFI's nature and level of IRRBB exposure and its management of IRRBB.
21. Generally, the responsibilities of the board are to:
- a) Approve broad objectives, business strategies, as well as overall policies with respect to IRRBB. These policies should identify lines of authority and responsibility for managing IRRBB exposures and ensure that adequate resources are allocated;

¹¹ All references to the board includes any relevant board committee(s).

¹² The ALCO oversees the LFI's operations relating to interest-rate risk, market risk and liquidity risk and, in particular, ensures that the organisation has adequate funds to meet its obligations. Other functions of the committee are dependent on the organisation's lines of business and asset/liability mix.

- b) Ensure that there is clear guidance regarding the acceptable level of IRRBB, given the LFI's business strategies;
- c) Ensure that steps are taken for the LFI to identify, measure, monitor and control IRRBB consistent with the approved strategies and policies. More specifically, the board is responsible for:
 - (i) The LFI's tolerance for IRRBB and providing clear guidance to senior management regarding the board's tolerance for this risk including approving relevant risk limits and ensuring compliance with those limits;
 - (ii) Ensuring the development of adequate systems, tools and standards for measuring IRRBB;
 - (iii) Ensuring the development of standards for measuring IRRBB, valuing positions and assessing performance including procedures for updating interest rate shocks and stress scenarios and key underlying assumptions driving the institution's IRRBB analysis;
 - (iv) Ensuring the development of a comprehensive internal IRRBB reporting and reviewing process that includes all repricing and maturity data such as current balance and contractual rate of interest associated with the instruments and portfolios; principal payments; interest reset dates; maturities; the rate index used for repricing; and contractual interest rate ceilings or floors for adjustable-rate items; and
 - (v) Ensuring effective internal controls and management information systems.
- d) Establish the LFI's risk appetite for IRRBB;
- e) Provide oversight of the LFI's management of IRRBB framework;

- f) Understand the implications of the LFI's IRRBB strategies including the potential linkages with and impact on market, liquidity, credit and operational risks;
- g) Ensure the framework is subject to periodic review by a suitable independent party, in accordance with **Section 7.3.2.4.1** of this Standard;
- h) Regularly review management of IRRBB reports (**see Section 9 of this Standard**) to ensure that IRRBB is appropriately managed. The board should have sufficient technical knowledge to question and challenge the reports being presented;
- i) Facilitate capacity building opportunities to increase senior management's understanding of the IRRBB incurred by the LFI and encourage discussions between its members, as well as between its members and senior management, regarding the management of IRRBB process;
- j) Periodically review information that is sufficient in detail and timely, to assess senior management's performance in monitoring and controlling IRRBB, in compliance with the board-approved strategies and policies. Such reviews should be carried out more frequently when the LFI has significant IRRBB exposures or has positions in complex IRRBB instruments;
- k) Periodically assess compliance with approved policies, procedures, and risk limits; and
- l) Re-evaluate significant IRRBB management policies, procedures and risk limits, at least annually.

7.3.2.3 Senior Management's Responsibilities

22. The general responsibilities of senior management are as follows:

- a) Implement the LFI's management of IRRBB framework and ensure its effective operation over time;
- b) Ensure that roles and responsibilities of personnel and functions involved in the management of IRRBB are clearly defined and documented;
- c) Develop and implement appropriate policies relating to the management of IRRBB framework; and be responsible for the design and maintenance of the management of IRRBB framework;
- d) Ensure the management and measurement of IRRBB including holding regular meetings to discuss the performance of the management of IRRBB framework, areas requiring improvement and the status of efforts to address previously identified deficiencies;
- e) Ensure that the personnel responsible for the management, measurement and control of IRRBB are sufficiently skilled so that the management of IRRBB framework is effective;
- f) Notify the board of material changes or exceptions from established policies that could have an impact on the operation of the management of IRRBB framework including the capital allocated to cover losses arising from IRRBB;
- g) Continuously monitor the LFI's compliance with the management of IRRBB framework, and produce and analyse regular reports on the output of the management information systems;
- h) Prior to introducing a new product, instrument type or activity, assess the IRRBB characteristics and have adequate operational procedures and risk control systems in place;
- i) Ensure adherence to the lines of authority and responsibility that the board has approved for managing, measuring, controlling and reporting IRRBB exposures;
- j) Oversee the implementation and maintenance of management information and other systems that measure, monitor, control and report the LFI's IRRBB;
- k) Establish and maintain effective internal controls over the management of IRRBB framework which should include the following:
 - (i) Adequate policies and procedures;

- (ii) Appropriate risk identification, measurement, monitoring and control functions; and
- (iii) Comprehensive internal controls and independent audits.

¹³Materiality refers to the nature, size, complexity and implications of a transaction that involves IRRBB. LFIs should develop materiality criteria for each type and category of IRRBB transactions. In addition, internal reporting thresholds should be set for each type and category.

- l) Monitor the LFI's overall IRRBB exposure and ensure that the level of IRRBB is maintained at limits consistent with its approved risk appetite.

7.3.2.4 Internal Controls

- 23. LFIs should have adequate internal controls to ensure the integrity of their IRRBB management process. Procedures can include appropriate approval processes, exposure limits, reviews and other mechanisms designed to provide a reasonable assurance that risk management objectives are being achieved.
- 24. In addition, LFIs should have in place regular evaluations and reviews of their internal control system and risk management processes. This includes ensuring that personnel comply with established policies and procedures. Such reviews should also address any significant changes that may affect the effectiveness of controls, and ensure that there are appropriate escalation procedures for any exceeded limits. Such evaluations and reviews are to be conducted regularly by individuals and/or units that are independent of the function they are assigned to review. When revisions or enhancements to internal controls are warranted, there should be an internal review mechanism in place to ensure that these are implemented in a timely manner.
- 25. The use of hedging techniques is one method of managing and controlling interest rate risk. Financial instruments can be used for hedging purposes, the most common one being derivative instruments¹⁴. Each LFI should consider which instruments and techniques are appropriate for the nature and extent of its interest rate risk activities, the necessary skills and experience of management, and the capacity of the IRRBB reporting and control systems.

¹⁴ LFIs will need authorisation from the Central Bank to engage in Over-the-Counter Derivative (OTC) other than simple forwards on FX and interest rates, FX swaps, currency swaps on interest rates swaps.

7.3.2.4.1 Internal Reviews and Independent Audits

- 26. LFIs should regularly conduct independent reviews and audits of their IRRBB identification, measurement, monitoring and control processes to ensure integrity, accuracy and reasonableness. Management should ensure that internal reviews and evaluations are conducted regularly by personnel who are independent of the function that is being reviewed.
- 27. LFIs are required to have reviews conducted by an independent audit function at least annually.
- 28. Reports written by the independent reviewer (for example, internal/external auditors or other equivalent external parties such as consultants) should be made available to the relevant supervisory authorities.
- 29. The following factors should be considered by the internal reviewer and the independent auditor, as appropriate, in undertaking the assessments:
 - a) The level of IRRBB and the quality of IRRBB management;
 - b) The volume and price sensitivity of various products;
 - c) The vulnerability of earnings and capital under differing interest rate changes;
 - d) The exposure of earnings and economic value to various forms of IRRBB;
 - e) The extent of the board and senior management involvement in the risk control process;
 - f) The adequacy of a LFI's documented internal policies, controls and procedures concerning IRRBB and the extent to which they are complied with;

- g) The adequacy of, and personnel's compliance with, the institution's risk measurement system;
 - h) The appropriateness of the LFI's risk measurement system, given the nature, scope and complexity of its activities;
 - i) The accuracy and completeness of data inputs into the LFI's risk measurement system, and the appropriateness and reliability of the process to ensure integrity and consistency;
 - j) The assumptions, parameters, and methodologies used in IRRBB measurement systems; and
 - k) The reasonableness and validity of scenarios used in the risk measurement system. The validity of the risk measurement calculations is often tested by comparing actual versus forecasted results.
30. The scope, formality and frequency of conducting internal reviews or independent audits will depend on the size and complexity of the LFI. The results of the review or audit must be reported to the board.

7.3.2.5 Stress Testing

31. A LFI must develop and implement an effective stress testing framework¹⁵ for IRRBB as part of its broader risk management and governance processes, commensurate with its nature, size and complexity, as well as business activities and overall risk profile. The stress testing framework should include consideration of the impact of severe market conditions including sudden changes in interest rates on the economic value of the banking book and net interest income.
32. A LFI's IRRBB stress testing framework must:

¹⁵Please refer to the Central Bank's Prudential Standard on Stress Testing issued in July 2023.

- a) Feed into the decision-making process at the appropriate management level including strategic decisions (for example, business and capital planning decisions) of the board;
 - b) Include internally selected interest rate shock scenarios tailored to the LFI's business activities and risk profile, according to its Internal Capital Adequacy Assessment Process (ICAAP), if applicable;
 - c) Include multiple stress scenarios, with some based on historical events and others being hypothetical and forward-looking;
 - d) Have clearly defined objectives, well documented assumptions and sound methodologies;
 - e) Consider wide-ranging scenarios, give special considerations to instruments or markets where concentrations exist and include scenarios that capture the exercise of behavioural options (for example, non-maturing deposits, fixed rate loans subject to prepayment risk, term deposits subject to early redemption risk, or fixed rate commitments), in the development of their interest rate shocks and stress scenarios for IRRBB;
 - f) Communicate risks, both within the LFI and externally with the Central Bank and the market, through appropriate reporting and disclosures; and
 - g) Include any additional interest rate shock scenarios prescribed by the Central Bank.
33. LFIs are expected to perform qualitative and quantitative reverse stress tests¹⁶ to:
- (i) Identify interest rate scenarios that could severely threaten their capital and earnings; and
 - (ii) Reveal vulnerabilities arising from their hedging strategies and the potential behavioural reactions of their customers.

¹⁶Reverse stress tests are stress tests that starts from the identification of the pre-defined outcome (for example, points at which the business model becomes unviable) and then explore scenarios and circumstances that might cause this to occur.

34. A LFI's policies and limits for IRRBB must reflect the results of stress testing exercises. Furthermore, the LFI must regularly communicate these results to the board and senior management.
35. As part of its assessment of LFIs' interest rate risk arrangements, the Central Bank will expect LFIs to provide such results expressed in terms of the threat to economic value and earnings, using appropriate interest rate shock scenarios.

7.3.3 Principle 3: Risk Appetite

36. In the context of IRRBB, a risk appetite statement (RAS) is a written articulation of the aggregate level and types of IRRBB exposures that a LFI will accept or avoid, in order to achieve its business objectives. LFIs should have a board-approved and clear RAS for IRRBB, and this should be articulated in terms of the risk to both EVE and earnings. The risk appetite framework should delineate delegated powers, lines of responsibility and accountability over IRRBB management decisions and should clearly define authorised instruments, hedging strategies and risk-taking opportunities. It is expected that the risk appetite for IRRBB will be implemented through the LFI's corporate risk appetite framework.
37. The LFI's approach to monitor its risk appetite, including the applicable limits, will be subject to the Central Bank's supervisory review and evaluation.

7.3.3.1 IRRBB Limits

38. Internal policy limits set by the board should be consistent with the LFI's overall approach for measuring IRRBB. Aggregate risk limits, clearly articulating the amount of IRRBB acceptable to the board, should be applied on an individual basis and, as appropriate, on a consolidated basis.
39. Limits may be associated with specific scenarios of changes in interest rates and/or term structures¹⁷ such as an increase or decrease of a particular size or a change in shape. The interest rate movements used in developing these limits should represent meaningful shock and stress situations, taking into account historical interest rate volatility and the time required by management to mitigate those risk exposures.
40. Policy limits should be appropriate to the nature, size, complexity and capital adequacy of the LFI, as well as its ability to measure and manage its risks. Depending on the nature of a LFI's activities and business model, sub-limits may also be identified for individual business units, portfolios, instrument types or specific instruments.
41. The board should approve significant hedging or risk-taking initiatives in advance of implementation. A dedicated set of risk limits should be developed to monitor the evolution of hedging strategies that rely on instruments such as derivatives, and to control mark-to-market risks in instruments that are accounted for at market value.
42. There should be systems in place to ensure that positions that exceed, or are likely to exceed limits approved by the board, should receive prompt management attention and be escalated without delay. There should be a clear policy on who will be informed, how the communication will take place and the actions which will be taken in response to an exception¹⁸.

¹⁷Term structure shows the relationship between the interest rates (or yields) and the time to maturity (short-term to long-term) for various banking book instruments.

¹⁸Limits could be absolute in the sense that they should never be exceeded or whether, under specific circumstances, breaches of limits can be tolerated for a predetermined short period.

7.3.4 PRINCIPLE 4: IRRBB MEASUREMENT

43. Accurate and timely identification and measurement of IRRBB are necessary for the effective functioning of the management of IRRBB framework. In addition to the impact of an interest rate shocks on its economic value, a LFI's policy approach should take into account its ability to generate stable earnings sufficient to maintain its normal business operations.
44. IRRBB may be identified through the use of tools such as a modified duration approach, an interest rate gap and the analysis of the various risk exposures (including the BCBS

Standardised Approach¹⁹), mainly gap risk. Once identified, LFIs should devise measurement systems that capture all material sources of IRRBB. The system should provide accurate measurements of a LFI's current levels of IRRBB risk exposure, and should be capable of identifying exposure that may arise.

45. LFIs must include an overview of their methodologies for measuring IRRBB for capital purposes and include results of any stress and scenario testing performed. As part of the process, LFIs must:
- a) Document the reason for and result of the various stress tests;
 - b) Provide a summary of the assumptions and methodologies used in each scenario;
 - c) Indicate how they would manage their business and capital to ensure ongoing compliance with minimum regulatory requirements; and
 - d) Document and report measurement results.
46. LFIs should pay attention to the complementary nature of economic value and earnings-based measures in their risk and internal capital assessments, in particular in terms of:

¹⁹For example, the BCBS developed a standard methodology to measure the impact of adverse changes of interest rates on EVE, <https://www.bis.org/bcbs/publ/d368.htm>).

Assessment Criteria	Economic Value Measures	Earnings Measures
Outcomes	Compute a change in the net present value of the LFI's assets, liabilities and off-balance sheet items subject to its specific interest rate shocks and stress scenarios.	Focus on changes to future profitability within a given time horizon eventually affecting future levels of a LFI's own equity capital.
Assessment Horizons	Reflect changes in value over the remaining life of the LFI's assets, liabilities and off-balance sheet items, that is, until all positions have run off.	Only cover the short to medium term, and therefore do not fully capture those risks that will continue to impact profit and loss accounts beyond the period of estimation.
Future Business	Consider the net present value of repricing cash flows of instruments on the LFI's balance sheet or accounted for as an off-balance sheet item (that is a run-off view).	In addition to a run-off view, earnings measures may assume rollover of maturing items (that is, a constant balance sheet view) and/or assess the scenario-consistent impact on the LFI's future earnings inclusive of future business (that is, a dynamic view).

7.3.4.1 IRRBB INFORMATION SYSTEM AND DATA QUALITY

47. The integrity and timeliness of data on current positions is also a key component of the risk measurement process. A LFI should have adequate information systems and applications for identifying, measuring, monitoring, controlling and reporting IRRBB. The system requirements include but are not limited to the following:
- (a) Capture interest rate risk data on all the LFI's material IRRBB exposures including exposures to gap, basis, and option risks. This should support the LFI's measurement system to identify, measure and aggregate the major sources of IRRBB exposures;
 - (b) Be capable of fully and clearly recording all transactions made by the LFI, taking into account their IRRBB characteristics;
 - (c) Be tailored to the complexity and number of transactions creating IRRBB;

- (d) Offer sufficient flexibility to accommodate a reasonable range of shocks and stress scenarios and any additional scenarios;
 - (e) Enable the LFI to fully measure, assess and monitor the contribution of individual transactions to its overall exposure;
 - (f) Be able to compute economic value and earnings-based measures of IRRBB, as well as other measures of IRRBB prescribed by the Central Bank;
 - (g) Be sufficiently flexible to incorporate supervisory-imposed constraints on institutions' internal risk parameter assumptions; and
 - (h) Have the capability to handle historical data maintenance²⁰ and a range of scenarios, higher tenure analysis, and granularity of data.
48. Reports must be provided on a timely basis to the LFI's board, senior management and where appropriate, individual business line managers.
49. A LFI must have transparent and verifiable processes for collecting and testing relevant data inputs to its IRRBB measurement system (for example, exposure information, details about customer behaviour and product and interest rate histories). These processes must be consistent, timely and comprehensive across the LFI. A LFI's data collection system must include processes for ensuring integrity, completeness, consistency and accuracy.
50. A LFI's IRRBB exposure data must comprehensively capture all material exposures from appropriate business activities, banking book items and geographic locations. A LFI must be able to demonstrate that any excluded exposures, both individually and in aggregate, would not have a material impact on the overall estimate of its IRRBB capital charge.

7.3.5 PRINCIPLE 5: ASSUMPTIONS

51. LFIs should ensure that the key behavioural and modelling assumptions underlying their measurement system are fully understood, conceptually sound, consistent with historical experience, and well documented.

²⁰Granular historical data includes contractual maturity, associated optionality, early maturity dates, and other attributes, as required for behavioural modelling, et cetera.

52. LFIs should, in particular, make sound and reasonable judgments and assumptions about how an instrument's actual maturity or repricing behaviour may vary from the instrument's contractual terms because of behavioural optionality. Generally, assumptions may be made in relation to:
- a) Expectations for the exercise of interest rate options (explicit and embedded) by both the LFI and its customers under specific interest rate shocks and stress scenarios;
 - b) Treatment of balances and interest flows arising from non-maturity deposits (NMDs);
 - c) Treatment of own equity in economic value measures; and
 - d) The implications of accounting practices for IRRBB.
53. LFIs should carefully consider how the exercise of behavioural optionality could vary, not only under the interest rate shocks and stress scenarios but also across other dimensions. These considerations are contained in **Appendix 2**.
54. LFIs must be able to test the appropriateness of key behavioural assumptions, and all changes to the assumptions of key parameters should be documented. The most significant assumptions underlying the system should be documented and clearly understood by the board. Documentation should also include descriptions on how those assumptions could potentially affect the LFI's hedging strategies.

7.3.6 PRINCIPLE 6: IRRBB MEASUREMENT SYSTEMS AND MODELS

55. A LFI's internal measurement system for IRRBB must be conceptually sound, sufficiently comprehensive, consistently implemented and transparent, so that it captures:

- a) All material sources of IRRBB across the LFI; and
- b) Reliable and accurate data about exposures in a timely manner. The effectiveness and accuracy of this process must be periodically tested.

56. In addition, the LFI must:

- a) Regularly monitor its IRRBB profile in terms of both earnings at risk and economic value sensitivity;
- b) May choose between a variety of methodologies to quantify its IRRBB exposures under both the economic value and earnings-based measures. These can range from simple calculations based on static simulations using current holdings, to more sophisticated dynamic modelling techniques that reflect potential future business activities;
- c) Inform its board of the most significant assumptions of the measurement system and how those assumptions affect any significant IRRBB hedging strategies the LFI undertakes;
- d) Periodically review the assumptions made by the system, and the materiality of any IRRBB not captured by the system;
- e) Perform periodical sensitivity testing of key assumptions including behavioural assumptions; and
- f) Ensure that the IRRBB measurement system has comprehensive and detailed documentation, which must, at a minimum, include the specification of:
 - (i) Data sources and capture methods;
 - (ii) Calculation method and assumptions including behavioural and other assumptions about the timing of cash flows; and
 - (iii) The rationale for the calculation method and all assumptions.

57. When measuring IRRBB exposures, LFIs should pay special attention to the treatment of positions where behavioural maturity differs from contractual maturity and the treatment of positions denominated in different currencies. Deposits may have contractual maturities such as term deposits, or may be NMDs such as retail savings and chequing accounts. Notwithstanding, depositors generally have the option to make withdrawals at any time. As such, changes in interest rates may affect the value of the positions, as well as the timing of cash flows in ways which may be difficult to predict.

58. Where material positions are held in different currencies, LFIs should consider the different interest rate risk exposures in each currency. LFIs may also choose to include in the risk measurement process, methods to aggregate exposures in different currencies using assumptions about the correlation between interest rates in different currencies. LFIs that use such correlation assumptions should periodically review the stability and accuracy of those assumptions and evaluate the potential risk exposures in the event such correlations break down.

59. The validation of IRRBB measurement methods and assessment of corresponding model risk should be included in a formal policy process that should be reviewed and approved by the board. The policy should specify the management roles and designate who is responsible for the development, implementation and use of models. An effective validation framework should include three core elements:

- (i) Evaluation of conceptual/methodological soundness, including developmental evidence;
- (ii) Ongoing model monitoring, including process verification and benchmarking; and
- (iii) Outcomes analysis, including back testing of key internal parameters (for example, stability of deposits, prepayments, early redemptions, pricing of instruments).

7.3.7 PRINCIPLE 7: REPORTING

60. A LFI must regularly (at least semi-annually) report its IRRBB exposure to the board.

61. In developing an appropriate reporting framework, a LFI must consider the nature of its IRRBB exposure and the strategy adopted for managing and measuring it. Management

reports prepared for the board must be produced and reviewed regularly and must at least include information on:

- (i) Summaries of the LFI's aggregate IRRBB exposures, and explanatory text that highlights the items that drive the level and direction of IRRBB;
 - (ii) Reports demonstrating the LFI's compliance with policies and limits;
 - (iii) Key modelling assumptions such as NMD characteristics, prepayments on fixed rate loans and currency aggregation;
 - (iv) Results of stress tests, including assessment of sensitivity to key assumptions and parameters;
 - (v) Summaries of the reviews of IRRBB policies, procedures and adequacy of the measurement systems, including any findings of internal and external auditors and/or other equivalent external parties (such as consultants); and
 - (vi) The performance of risk management strategies and the output of the LFI's risk measurement system.
62. The reviews must be conducted by management with authority to enforce, where necessary, mitigation of the LFI's exposure to IRRBB. A LFI must have in place, a process for ensuring that the board and senior management are able to respond appropriately to the information contained in management of IRRBB reports. This process must include escalation procedures for key IRRBB issues to facilitate appropriate action between formal reporting cycles. The board should review the LFI's IRRBB management policies and procedures in light of the reports, to ensure that they remain appropriate and sound.

7.3.8 PRINCIPLE 8: IRRBB DISCLOSURE

63. The IRRBB to which LFIs are exposed, and the techniques that the institutions use to identify, measure, monitor and control those risks, are important factors that market participants consider in their assessment of an institution.
64. LFIs are required to publicly disclose information on their level of IRRBB, strategies, processes, risk reporting and measurement systems, in accordance with the Pillar 3 reporting and public disclosure provisions of the Basel framework²¹. Additionally, LFIs are required to disclose their policies for hedging and other risk mitigation and processes for monitoring the effectiveness of hedges and other mitigants. **Appendix 3** provides additional information on qualitative disclosure requirements.

7.3.9 PRINCIPLE 9: CAPITAL ADEQUACY FOR IRRBB

65. In addition to adequate systems and controls, capital has an important role to play in mitigating and supporting IRRBB. Capital should be allocated specifically to support unexpected losses created by this risk. The appropriate level of capital in support of IRRBB should be at the discretion of the LFI's board and senior management. Capital adequacy for IRRBB should be considered in relation to the risks to economic value, given that such risks are embedded in the LFI's assets, liabilities and off-balance sheet items.
66. LFIs are responsible for evaluating the appropriate capital level to hold, and for ensuring that this is sufficient to cover IRRBB and its related risks.

²¹In due course, the Central Bank will implement Pillar 3 as Phase 3 of its roadmap to implement its hybrid Basel II/III framework. In the interim, LFIs will make the disclosures as required, based on accounting standards.

The overall level of capital should be commensurate with both the LFI's actual measured level of risk (including for IRRBB) and its risk appetite, and should be duly documented in its ICAAP report, where applicable.

67. LFIs must not only rely on the supervisory assessments of capital adequacy for IRRBB or on the outcome of the supervisory outlier test (**see section 8.1**), but must develop and use their own methodologies for capital allocation, based on their risk appetite, level of risk and risk management policies. In determining the appropriate level of capital, institutions must consider both the amount and the quality of capital needed.

68. If the Central Bank concludes that a LFI's management of IRRBB is inadequate or that it has excessive risk relative to its capital or earnings, or its general risk profile, it will require the LFI to take one or more of the following actions:
- (i) Strengthen its capital position;
 - (ii) Improve its risk management framework; and/or
 - (iii) Reduce its level of IRRBB exposures (for example, through hedging).
69. The reduction in IRRBB and/or the expected higher level of capital should be achieved within a specified time frame to be established, taking into consideration the prevailing financial and economic conditions, as well as the causes of the IRRBB exposure exceeding the supervisory threshold and its structural nature.
70. While, as aforementioned, this Standard applies to all LFIs, the licensees to which Basel II/III applies are required to include IRRBB in their ICAAP, under Basel's Pillar 2 requirements for assessing their overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital levels. These LFIs should consult the Central Bank's *Prudential Standard on the ICAAP*.
71. As necessary, the ICAAP should include all of the LFI's material positions and consider all relevant re-pricing and maturity data. The process should have well-documented assumptions and techniques. A LFI should be able to support its assumptions about the behavioural characteristics of non-maturing assets and liabilities, especially those exposures characterised by embedded options. Given uncertainty in such assumptions, stress testing and scenario analysis should be used in the analysis of interest rate risk.
72. Where relevant, the Central Bank will review the LFI's ICAAP report and conduct other assessments using risk-focused information to monitor the impact of potential interest rate changes on a LFI's financial performance and economic value, to be satisfied that LFIs have in place effective and appropriate arrangements for measuring, monitoring and controlling interest rate risk.

8.0 SUPERVISORY RESPONSIBILITIES

73. The Central Bank has adopted a risk-based supervisory approach which enables continuous supervision of LFIs' IRRBB through a combination of on-site examinations, off-site reviews and prudential meetings. The objective is to assess the adequacy and effectiveness of a LFI's IRRBB management process, the level and trend of the risk exposure and the adequacy of the LFI's capital relative to the size of its IRRBB exposure.
74. When reviewing a LFI's compliance with this Standard, the Central Bank will consider the following criteria:
- (i) The level of inherent IRRBB at the LFI;
 - (ii) The complexity of a LFI's business lines, products and services; and
 - (iii) The size of a LFI, taking into consideration on and off-balance sheet exposures, as well as income statement metrics (such as earnings) and potential organisational structural limitations due to the institution's size.
75. As part of its Supervisory Review and Evaluation Process (SREP), the Central Bank will regularly collect sufficient and relevant information to be able to:
- (i) Monitor industry trends with respect to IRRBB exposures;
 - (ii) Assess the soundness of LFIs' IRRBB management; and
 - (iii) Identify outlier LFIs (that is, LFIs with material IRRBB exposures) that will be subject to further review and/or Pillar 2 IRRBB capital add-on.

9.0 REGULATORY REPORTING REQUIREMENTS

76. When requested, all LFIs must provide the Central Bank with comprehensive reports of the calculations of their capital needs for IRRBB exposures²².

77. The IRRBB report should cover every major currency in which a LFI holds interest rate-sensitive positions (for example, United States Dollars, Euro, British Pound, et cetera), which is defined, for the purpose of this Standard, as each currency with material exposures (that is, those accounting for more than 5.0 per cent of either the LFI's banking book assets or liabilities).
78. The Central Bank will use the information to evaluate the LFI's level of IRRBB based on both the earnings approach and the economic value approach. The information collected takes appropriate account of the range of maturities and currencies in each LFI's portfolio, including off balance sheet items, as well as other relevant factors (for example, basis risk).

²²The ECCB may develop and introduce a prudential return at a later date.

APPENDIX 1: MAIN SUB-TYPES OF IRRBB

1. **Option Risk** results from option derivative positions or from optional elements embedded in a LFI's assets, liabilities and/or off-balance sheet items, where the LFI or its customer can alter the level and timing of their cash flows. Option risk can be further characterised into:
 - a) **Automatic option risk:** this risk arises from standalone instruments, such as exchange-traded and over-the-counter option contracts (such as caps and floors) or they may be explicitly embedded within an otherwise standard financial instrument, where the option will almost certainly be exercised if it is in the holder's financial interest to do so; and
 - b) **Behavioural option risk:** this risk arises from the flexibility embedded implicitly or within the terms of financial contracts, such that changes in interest rates may affect the behaviour of the client. For example, LFIs may experience a higher proportion of fixed rate loan commitments to be drawn down when the spread increases, and vice versa.

On the deposit side, customers can generally withdraw early. Early withdrawal rights are equivalent to put options on deposits. If rates increase, the market value of customers' deposits declines and customers may withdraw them and place them with the same LFI, or a different one, at a higher rate. Another common product with behavioural optionality is non-maturity deposits, which can be withdrawn at any time without notice, but a portion of which tend to remain with the LFI in practice (that is, core deposits).
2. **Gap Risk (or Yield Curve Risk)** arises from the term structure of interest sensitive banking book instruments, and describes the risk arising from the timing of instruments' rate changes. The extent of gap risk depends on whether changes to the term structure of interest rates occur consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk).
 - a) **Parallel Risk** is fundamental to banking business and some LFIs may take on this risk in their balance sheet, as part of their strategy to improve earnings. It can, however, affect the income and economic value of a LFI as interest rates fluctuate. For example, a LFI that has funded a long-term fixed rate loan with a short-term deposit could face a decline in future income if interest rates increase. This is because the cash flows from the loan are fixed while interest payable on replacement funding will be higher after the short-term deposit matures.
 - b) **Non-parallel risk** materialises when unanticipated changes in the shape of the yield curve have adverse effects on a LFI's income or economic value. As an example, the economic value of a LFI's long position in ten-year government bonds hedged by a short position in five-year government bonds could decline sharply if the yield curve steepens, even if the position is hedged against parallel movements in the yield curve.
3. **Basis Risk** describes the impact of relative changes in interest rates for interest sensitive financial instruments that have similar tenors but are repriced using different interest rate indices which change at different times or by different amounts. As a result of these

differences, interest rate changes can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities and off-balance sheet instruments of similar maturities or re-pricing frequencies.

A LFI may have mortgage loans priced at a different rate to that for its funding. The LFI has the option of increasing its prime rate but in practice, its scope to do so may depend on whether other LFs will do the same. This scenario affects the LFI's current net interest margin through changes in the spread between earnings and payments on instruments that are being repriced. It will also affect future cash flows from these instruments, which will in turn affect the economic value of the LFI.

APPENDIX 2: DIMENSIONS INFLUENCING BEHAVIOURAL OPTIONS

Products	Dimensions Influencing the Embedded Behavioural Options
<p>Fixed rate loans subject to prepayment risk.</p> <p>LFI's should understand the nature of prepayment risk for their portfolios and make reasonable and prudent estimates of the expected prepayments. The assumptions underlying the estimates and where prepayment penalties or other contractual features affect the embedded optionality effect should be documented. There are several factors that are important determinants of the LFI's estimate of the effect of each interest rate shock and stress scenario on the average prepayment speed. Specifically, a LFI must assess the expected average prepayment speed under each scenario.</p>	<p>Loan size, loan-to-value ratio, borrower characteristics, contractual interest rates, seasoning¹, geographical location, original and remaining maturity, and other historical factors.</p> <p>Other macroeconomic variables such as unemployment rates, gross domestic product (GDP), inflation, prices in the housing market and stock indices should be considered in modelling prepayment behaviour.</p>
<p>Fixed rate loan commitments.</p> <p>LFI's may sell options to retail customers whereby, for a limited period, the customers can choose to draw down a loan at a committed rate. Unlike loan commitments to corporates, where drawdowns strongly reflect characteristics of automatic interest rate options, mortgage commitments to retail customers are impacted by other drivers.</p>	<p>Borrower characteristics, geographical location (including competitive environment and local premium conventions), customer relationship with the LFI as evidenced by cross-products, remaining maturity of the commitment, seasoning and remaining term of the mortgage.</p>
<p>Term deposits subject to early redemption risk.</p> <p>LFI's may attract deposits with a contractual maturity term or with step-up clauses that enable the depositor at different time periods to modify the speed of redemption. The classification scheme should be documented, whether a term deposit is deemed to be subject to redemption penalties or to other contractual features that preserve the cash flow profile of the instrument.</p>	<p>Deposit size, depositor characteristics, funding channel (for example direct or brokered deposit), contractual interest rates, seasonal factors, geographical location and competitive environment, remaining maturity and other historical factors.</p> <p>Other macroeconomic variables such as unemployment rates, GDP, inflation prices in the housing market and stock indices should be considered in modelling deposit redemption behaviour.</p>
<p>NMDs.</p> <p>Behavioural assumptions for deposits that have</p>	<p>Responsiveness of product rates to changes in market interest rates, current level of interest</p>

¹ Seasoning is the amount of time that has passed since a loan was issued and the borrower has made regular payments on it. Generally, borrowers with a longer seasoning period and a good payment history are considered less risky and may be eligible for more favourable rates and terms than those with a shorter seasoning period or a spotty payment record.

Products	Dimensions Influencing the Embedded Behavioural Options
<p>no specific repricing date can be a major determinant of IRRBB exposures under the economic value and earnings-based measures. LFIs should document, monitor and regularly update key assumptions for NMD balances and behaviour used in their internal measurement systems.</p> <p>To determine the appropriate assumptions for its NMDs, a LFI should analyse its depositor base in order to identify the proportion of core deposits (that is NMDs which are unlikely to reprice even under significant changes in interest rate environment). Assumptions should vary according to depositor characteristics (for example retail/wholesale) and account characteristics (for example, transactional/non-transactional).</p>	<p>rates, spread between a LFI’s offer rate and market rate, competition from other firms, the LFI’s geographical location and demographic and other relevant characteristics of its customer base.</p>

APPENDIX 3: DISCLOSURES

Qualitative Disclosure

The LFI must disclose the following qualitative information:

- a) A description of how they define IRRIBB for purpose of risk control and measurement.
- b) A description of the institution's overall IRRBB management and mitigation strategies. Examples are: monitoring of economic value of equity (EVE) and net interest income (NII) in relation to established limits, hedging practices, conduct of stress testing, outcome analysis, the role of independent audit, the role and practices of the asset and liability management committee, the institution's practices to ensure appropriate model validation, and timely updates in response to changing market conditions.
- c) The periodicity of the calculation of the institution's IRRBB measures, and a description of the specific risk measures that the institution uses to gauge its sensitivity to IRRBB, including changes to its economic value and earnings.
- d) A description of the interest rate shock and stress scenarios that the institution uses to estimate changes in its economic value and in earnings.
- e) A high-level description of key modelling and parametric assumptions used in calculating change in economic value of equity and change in net interest income.
- f) A high-level description of how the institution hedges its IRRBB, as well as the associated accounting treatment.

**PRUDENTIAL STANDARD ON INTERNAL CAPITAL ADEQUACY
ASSESSMENT PROCESS (ICAAP)
FOR INSTITUTIONS LICENSED TO CONDUCT BANKING
BUSINESS UNDER THE BANKING ACT, 2015**



**EASTERN CARIBBEAN CENTRAL BANK
ST. KITTS**

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LIST OF ACRONYMS

CRM	Credit Risk Mitigation
CRMF	Credit Risk Management Framework
ICAAP	Internal Capital Adequacy Assessment Process
ORMF	Operational Risk Management Framework
LFI	Licensed Financial Institution
RAROC	Risk-adjusted return on capital
RAS	Risk Appetite Statement
RBS	Risk Based Supervision
ROE	Return measures e.g. return on equity
RORAC	Return on risk-adjusted capital
SREP	Supervisory Review and Evaluation Process

PRUDENTIAL STANDARD ON THE INTERNAL CAPITAL ADEQUACY
ASSESSMENT PROCESS (ICAAP)
FOR INSTITUTIONS LICENSED TO CONDUCT BANKING BUSINESS UNDER
THE BANKING ACT, 2015

1.0 INTRODUCTION

1.1 AUTHORITY

This prudential standard (Standard) is issued by the Eastern Caribbean Central Bank (Central Bank), in exercise of the powers conferred on it by Section 184 of the Banking Act, 2015 (hereinafter referred to as the Act).

1.2 COMMENCEMENT

This Standard shall come into effect on 1st day of January, 2023.

1.3 OVERVIEW

The Basel II/III framework is predicated on three mutually reinforcing pillars - minimum capital requirements (Pillar 1), supervisory review (Pillar 2), and market discipline (Pillar 3). Pillar 2 reinforces Pillar 1² by addressing risks not considered under Pillar 1I and certain specific issues not considered within Pillar 1 risks³. It requires licensed financial institutions (LFIs) to have adequate capital to support all present material risks and to maintain adequate capital levels over time, taking into account their business strategy and future business environment. In addition, it encourages LFIs to address weaknesses in current risk management by using improved risk management techniques to monitor and manage their risks.

Pillar II is based on four interlocking principles:

1. **Principle 1:** Banks should have a process for assessing their overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital levels. This includes the development of an Internal Capital Adequacy Assessment Process (ICAAP).

¹ Section 183 of the Banking Act of Anguilla, No 6 of 2015

²Pillar 1 sets minimum requirements for capital to cover credit, market and operational risks.

³Examples include credit concentration risk and residual risk

2. **Principle 2:** Supervisors should review and evaluate banks' internal capital adequacy assessments and strategies, as well as their ability to monitor and ensure their compliance with regulatory capital ratios. Supervisors should take appropriate supervisory action if they are not satisfied with the results of this process.
3. **Principle 3:** Supervisors should expect banks to operate above the minimum regulatory capital ratios and should have the ability to require banks to hold capital in excess of the minimum.
4. **Principle 4:** Supervisors should seek to intervene at an early stage to prevent capital from falling below the minimum levels required to support the risk characteristics of a particular bank and should require rapid remedial action if capital is not maintained or restored.

1.4 PURPOSE

This standard is intended to help LFIs strengthen their risk management capabilities and their ICAAP. An LFI's ICAAP should be tailored to its operations and may not include some of the areas discussed within this standard or may include other areas that may be relevant to their operations. As such, the ICAAP should be guided by the principle of proportionality, commensurate with the nature, scope, scale and the degree of complexity of an LFI's business activities. This will contribute to a more consistent and effective supervision of capital adequacy through the Supervisory Review and Evaluation Process (SREP), that is intended to:

- a) Address the LFI's responsibility for formulating and implementing an adequate ICAAP towards setting internal capital targets and triggers and developing strategies to achieve those internal targets, consistent with its business plans, risk profile and current operating environment.
- b) Serve as a general guide to the development and implementation of an LFI's ICAAP which should be tailored to its operations.
- c) Ensure that LFIs maintain a level of capital that is consistent with the risks to which they are exposed arising from their business activities.

1.5 SCOPE OF APPLICATION

This Standard applies to all LFIs that are incorporated in the Eastern Caribbean Currency Union (ECCU) and are licensed under the Banking Act to which the Central Bank's Basel II/III capital framework applies. The Central Bank recognises that some LFIs may be subsidiaries of larger banking groups and the ICAAP may be led and/or managed by their Head Office. Nevertheless, the Central Bank expects the management of the local LFI to fully understand how the Head Office's global capital allocation process is accounting for the LFI and how risk management at the local level fits into the Group's ICAAP.

2.0 THE INTERNAL CAPITAL ADEQUACY PROCESS (ICAAP)

2.1 DEFINITION OF ICAAP

The ICAAP is a formal internal process through which an LFI, on an ongoing basis, adequately identifies, measures, aggregates and monitors its material present and future risks, taking into account the business environment and with a forward-looking view to guarantee the adequacy of capital for its present and future operations.

The level of complexity and sophistication within an ICAAP should depend on the nature of an LFI's business operations. Some LFIs may adopt a sophisticated economic

⁴Based on Basel Committee on Banking Supervision's: "International Convergence of Capital Measurement and Capital Standards - A Revised Framework", 2004 (rev. June 2006) and "Enhancements to the Basel II Framework", June 2009.

capital model in formulating their ICAAP, while for others, the ICAAP will more likely be derived from their Pillar I calculation, together with appropriate capital add-ons to cover other material risks. In each case, it must be clear to the Central Bank that the LFI has adequately considered and understood all of its material risks.

The ICAAP should produce an appropriate and realistic result in the sense of the internal assessment of risk-based capital assessment and the internal capital requirements. The LFI should be able to satisfactorily document and explain to the Central Bank the similarities and differences between its internal assessment of risk-based capital requirements and the minimum capital requirements. For example, the total amount of capital the LFI needs to satisfy shareholder and market expectations - (such as underpinning its rating/share price may differ from the Central Bank's specific depositor protection consideration.

2.2 CHARACTERISTICS OF A SOUND ICAAP

A comprehensive ICAAP (see **Appendix I**) is a vital component of a strong risk management process. A sound and effective ICAAP should include at a minimum, the following six components:

- i. Board and Senior Management Oversight;
- ii. Comprehensive Assessment of Risks;
- iii. Stress Testing;
- iv. Sound Capital Assessment and Planning;
- v. Monitoring and Reporting; and
- vi. Internal Control Review.

2.2.1 BOARD AND SENIOR MANAGEMENT OVERSIGHT

2.2.1.1 BOARD RESPONSIBILITY

The board of directors (board) has the responsibility of ensuring that management establishes an adequate ICAAP including an appropriate control environment or high level governance framework, underpinned by written policies and procedures. The board should:

- i. Develop a risk appetite framework including a risk appetite statement (*see Appendix II* for some of the minimum features) to set the LFI's tolerance for risks and ensure that the institution's strategies and decisions align with the stated risk appetite and that at least on an annual basis, review the risk appetite and risk tolerance levels.
- ii. Ensure that management establishes an adequate ICAAP framework to assess the various risks and monitor compliance with internal controls and policies and procedures;
- iii. Receive regular and timely reviews of reports on the nature and level of all risk exposure and their relation to capital levels;
- iv. Ensure that the ICAAP forms an integral part of the risk management process and the decision-making culture of the LFI;
- v. Review and approve the ICAAP, the procedures for its preparation and all related policies;
- vi. Review regular and timely reports on the nature and level of all risk exposure and their relation to capital levels;
- vii. Understand and acknowledge that risk measurements will include a level of uncertainty;
- viii. Ensure that the results of the ICAAP form part of the ongoing management of the LFI's business and influence its strategic planning and risk management;
- ix. Ensure that management effectively communicates the ICAAP's results throughout the organisation; and
- x. Review the ICAAP at least annually, or as often as deemed necessary to ensure adequate capital coverage of the risks to which the LFI is or could be exposed. For example, this includes whenever material changes in the LFI's risk profile or business environment become evident.

⁵Financial Stability Board (FSB), Principles for an effective risk appetite framework, November 2013.

2.2.1.2 SENIOR MANAGEMENT RESPONSIBILITY

The responsibility for the definition, design and ongoing development of the ICAAP should reside with senior management. Additionally, senior management should develop for the board's approval, a sound risk management framework, which ensures a comprehensive assessment of all risks to which the LFI is exposed. This framework should also integrate the LFI's assessment of risk to determine internal capital needs. Senior management should help the board ensure that the formality and sophistication of the risk management processes are appropriate to the LFI's risk profile, size, complexity and business plan.

Throughout these processes, senior management must establish clear and transparent reporting lines and define corresponding responsibilities. Specifically, senior managers should:

- i. Define, together with the board, corporate objectives and risk strategies, the LFI's risk profile, and establish corresponding procedures and processes and supporting documentation;
- ii. Define strategies and procedures for the setting of limits and adherence to capital requirements;
- iii. Ensure that there is adequate capital to support its risks beyond the core minimum requirements.
- iv. Ensure that there are adequate systems for measuring, assessing and reporting on the size, composition and quality of exposures on an LFI wide basis across all risk types, products and counterparties;

- v. Establish procedures for the regular and independent validation and testing of any models used to measure components of risk;
- vi. Report to the board in a timely manner, the nature and level of all risk exposures and their relation to capital levels;
- vii. Ensure dissemination of information and procedures on the ICAAP to relevant staff;
- viii. Establish suitable internal control systems and reporting structures and ICAAP supporting documentation to support the ICAAP;
- ix. Ensure that employees are trained and well equipped to perform their duties; and
- x. Ensure that there is a regular (at least annually) review of systems, procedures and processes that support the ICAAP and that adaptation is carried out as necessary.

Overall, senior management is responsible for integrating capital planning and capital management into the LFI's risk-management culture and approach.

2.2.2 COMPREHENSIVE ASSESSMENT OF RISKS

The ICAAP should address all material risks faced by the LFI. Adequate explanations to justify the conclusions regarding the materiality of risks should be provided (including explanations for risks identified as immaterial). The ICAAP should also consider any additional capital that may be required for the risks identified having regard to the LFI's risk management and mitigation strategies.

Specifically, the ICAAP should explicitly address risks included under the minimum regulatory capital requirements (i.e. credit, market and operational risks under Pillar 1) as well as risks not captured (or not adequately captured) under Pillar 1. For example, external risks arising from business cycle effects and the macroeconomic environment should also be considered. The techniques used in assessing material risks should be commensurate with the nature, scope and complexity of the LFI's activities. LFIs must demonstrate how they combine their risk measurement approaches to arrive at the overall internal capital for the respective risks.

The following sections provide guidance on material risks that the Central Bank expects LFIs to address in their ICAAP, including credit risk, market risk, operational risk, liquidity risk, interest rate risk in the banking book and credit concentration risk. LFIs are also expected to:

- Include any other material risks to which they are exposed;
- Be mindful of the capital adequacy effects of concentrations which may arise within each risk type; and
- Refer to the relevant prudential standard(s) pertaining to each risk type.

2.2.2.1 CREDIT RISK

To achieve and maintain effective credit risk management, an LFI should develop and implement a comprehensive credit risk management framework (CRMF) in accordance with its credit risk strategy. The board of directors, management and staff of the LFI should be aware of and understand their respective responsibilities within the CRMF.

An effective CRMF includes the implementation of clearly defined credit policies and procedures to facilitate the identification and quantification of risks inherent in an institution's lending and investment activities:

- The credit policy should be formally established in writing and approved by the board of directors, and should clearly set out the parameters under which credit risk is to be controlled; and
- The policy document should be supported by procedures that clearly define how the roles, responsibilities and objectives outlined in the policy are to be executed.

The following should be noted:

- a. This area of the ICAAP is partly addressed through the regulatory minimum capital charge determined by Pillar 1 (and aided by robust internal limit-setting and monitoring procedures).

- b. LFIs should have methodologies that enable them to assess the credit risk of exposures to individual borrowers or counterparties as well as at the portfolio level.
- c. The credit review of capital adequacy should cover (where relevant) the following four areas:
 - i. Risk rating systems;
 - ii. Portfolio analysis/aggregation;
 - iii. Large exposures and risk concentrations; and
 - iv. Securitisation and complex structured instruments.
- d. Internal risk ratings are an important tool in monitoring credit risk. The internal risk ratings must support the identification and measurement of risk from all credit exposures, as well as being integrated into the overall analysis of credit risk and capital adequacy of the financial institution.
- e. The credit review process must be comprehensive and, at a minimum, have the ability to:
 - i. Generate detailed internal ratings for all credit exposures;
 - ii. An adequate level of loan loss reserves and provisions for losses in other assets held;
 - iii. Identify credit weakness at the portfolio level, especially large exposures and credit risk concentrations; and
 - iv. Consider the risks involved in securitisation programmes and complex credit derivative transactions.
- f. The sophistication of the methodologies used to quantify credit risk should be appropriate to the scope and complexity of the LFI's credit risk taking activities. Less complex credit risk taking activities may incorporate a variety of methodologies but should, at minimum, take into consideration:
 - i. Historical loss experience;
 - ii. Forecasted economic conditions;
 - iii. Future business and competitive environment;
 - iv. Attributes specific to a defined group of borrowers; and
 - v. Other characteristics directly affecting the collectability of a pool or portfolio of loans.

For additional guidance, LFIs should refer to the prudential standard on *Credit Risk Management and Credit Underwriting for Institutions Licensed to Conduct Banking Business under the Banking Act*.

2.2.2.2 CONCENTRATION RISK

- a. LFIs should explicitly consider the extent of their credit risk concentrations in their assessment of capital adequacy under Pillar 2. The assessment of concentration risk in an institution's ICAAP should not be a mechanical process, but one in which each LFI determines, in the context on its business model, its own specific vulnerabilities. An appropriate level of capital for risk concentrations should also be incorporated in the institution's ICAAP.
- b. A risk concentration is any single exposure or group of similar exposures (e.g. to the same borrower or including protection providers, geographic area, industry or other factors) with the potential to produce:
 - i. Losses large enough (relative to an institution's earnings, capital, total assets or overall risk level) to threaten the LFI's creditworthiness or ability to maintain its core operations; or
 - ii. A material change in the institution's risk profile.
- c. LFIs should be able to identify and aggregate similar risk exposures across their institution, including across legal entities, asset types (e.g. loans, investments and other structured products), and risk areas (e.g. the trading and geographic regions). They should carefully assess the various sources of credit concentration risk.

The typical situations in which risk concentrations arise include:

- i. Exposures to a single counterparty, borrower or group of connected counterparties or borrowers;
- ii. Exposures to industry or economic sectors, including exposures to regulated and non-regulated financial institutions, hedge funds and private equity firms;
- iii. Geographical regions;
- iv. Exposures arising from credit risk mitigation techniques, including exposure to similar collateral types or to a single or closely related credit protection provider;
- v. Trading exposures/market risk;
- vi. Exposures to counterparties (e.g. hedge funds and hedge counterparties) through the execution or processing of transactions (either product or service);
- vii. Funding sources;
- viii. Assets that are held the banking book or trading book, such as loans, investments and other structured products; and
- ix. Off-balance sheet exposures, including guarantees, liquidity lines and other commitments.

2.2.2.3 CREDIT RISK MITIGATION

LFI are required to have credit risk mitigation (CRM) techniques in place which are approved by the board. These may include altering business strategies, reducing limits or increasing capital buffers in line with the desired risk profile. LFIs must also consider possible concentrations that may arise as a result of employing risk mitigation techniques.

While LFIs use CRM techniques to reduce their credit risk, these techniques potentially give rise to residual risks that may render overall risk reduction less effective. Examples of these risks include legal risk and documentation risk. In assessing their CRM strategies, LFIs should ensure that these residual risks are measured, monitored and reported to senior management and board. A capital charge should also be applied.

2.2.2.4 OPERATIONAL RISK

Sound internal governance forms the foundation of an effective operational risk management framework (ORMF), which often relies on three lines of defense: business line, risk management and an independent review.

LFIs are required to develop, implement and maintain an ORMF. The framework developed would depend on the nature, size and complexity of the activities of the LFI and its risk profile. Board and senior management oversight, internal reporting controls and contingency planning are critical elements of an effective framework.

Board and senior management are responsible for developing a risk management environment in the institution. While the board is ultimately responsible for the oversight of the LFI's management of operational risk, senior management has responsibility for implementing the board-approved ORMF.

The following should be noted:

- a. The failure to properly manage operational risk can result in a misstatement of an institution's risk/return profile and expose the institution to significant losses. LFIs should therefore develop a robust framework for managing operational risk and evaluate the adequacy of capital given this framework.
- b. The framework must cover the LFI's appetite and tolerance for operational risk, as specified through the policies for managing this risk. This would include the extent and manner in which operational risk is transferred outside the institution, for example, by insurance. It should also include policies outlining the LFI's approach to identifying, assessing, monitoring and controlling or mitigating the risk.
- c. LFIs should be able to assess the potential risks resulting from inadequate or failed internal processes, people, and systems, as well as from external events (for example cyber-attacks). This assessment should include the effects of extreme events and shocks relating to operational risk. Events could include a sudden increase in failed processes across business units or a significant incidence of failed internal controls.

- d. It must be noted that the regulatory capital for operational risk in the ECCU, is calculated using the Basic Indicator Approach (BIA), a very simple proxy-based approach that does not guarantee that the regulatory capital adequately reflects the operational risks capital needs of the LFI. Therefore, LFIs should evaluate their operational risks capital independently to determine its sufficiency. The Central Bank intends to introduce a more risk sensitive approach at an appropriate time.

For additional guidance, LFIs should refer to the *Prudential Standard for the Management of Operational Risks for Institutions Licensed under the Banking Act, 2015*.

2.2.2.5 MARKET RISK

- a. LFIs should have methodologies that enable them to assess and actively manage all material market risks, wherever they arise throughout the institution (i.e. positions, trading desk, business line or LFI level), including the treatment of less liquid positions in the trading book.
- b. LFIs should identify risks in trading activities resulting from a movement in market prices. This determination should consider factors such as illiquidity of instruments, concentrated positions, one-way markets, non-linear/deep out-of-the money positions, and the potential for significant shifts in correlations. Exercises that incorporate extreme events and shocks should also be tailored to capture key portfolio vulnerabilities to the relevant market developments.
- c. Concentration risk should be pro-actively managed and assessed and concentrated positions should be routinely reported to senior management and board.
- d. LFIs should also have clear and robust governance structures for the production, assignment and verification of financial instrument valuations. Policies should ensure that the approvals of all valuation methodologies are well documented. In addition, policies and procedures should set out the range of acceptable practices for the initial pricing, marking-to-market model, valuation adjustments and periodic independent revaluation.
- e. In assessing whether an information or price source is reliable, a financial institution should consider, among other things:
 - i. The frequency and availability of the prices/quotes;
 - ii. Whether those prices represent actual regularly occurring transactions on an arm's length basis;
 - iii. The breadth of the distribution of the data and whether it includes the relevant participants in the market;
 - iv. The timeliness the information relative to the frequency of valuations;
 - v. The number of independent sources that produce the quotes/prices;
 - vi. Whether the quotes/prices are supported by actual transactions;
 - vii. The maturity of the market; and
 - viii. The similarity between the financial instrument sold in a transaction and the instrument issued by the institution.
- f. Stress tests applied by an LFI and, in particular, the calibration of those tests (e.g. the parameters of the shocks or types of events considered) should be reconciled to a clear statement setting out the premise upon which the institution's internal capital assessment is based.
- g. The market shocks applied in stress tests must reflect the nature of portfolios and the time it could take to hedge out or manage risks under severe market conditions.

For additional guidance, LFIs should refer to the *Prudential Standard on Market Risk Management for Institutions Licensed under the Banking Act, 2015*⁵⁶.

2.2.2.6 LIQUIDITY RISK

Liquidity is crucial to the ongoing viability of a financial institution. The board and senior management should consider the relationship between liquidity and capital since liquidity risk can impact capital adequacy which, in turn, can aggravate an LFI's liquidity profile. For example, LFIs' capital positions

can affect their ability to obtain liquidity, especially in a crisis. Each LFI must therefore have adequate systems in place for measuring, monitoring, and controlling liquidity risk. LFIs should evaluate the adequacy of capital given their own liquidity profile and the liquidity of the markets in which they operate.

The ICAAP must reflect the importance of assessing the potential impact of liquidity risk on an LFI's capital adequacy. A key element in the management of liquidity risk is the need for strong governance of liquidity risk, including the setting of a liquidity risk tolerance by the board. The risk tolerance must be communicated throughout the LFI and reflected in the strategy and policies that senior management sets to manage liquidity risk. LFIs may also appropriately price the costs, benefits and risks of liquidity into the internal pricing, performance measurement, and new product approval process of all significant business activities.

LFIs may utilise early warning indicators to identify the emergence of increased risk or vulnerabilities in its liquidity position or funding needs. LFIs must have the ability to control liquidity risk exposure and funding needs, regardless of their organisation structure, within and across legal entities, business lines, and currencies, taking into account any legal, regulatory and operational limitations to the transferability of liquidity. Intra-day liquidity risks must be considered as a crucial part of an LFI's

⁶The ECCB will issue this prudential standard to support its implementation of pillar 2.

liquidity risk management. An LFI must also actively manage its collateral positions and have the ability to calculate all of its collateral positions.

LFIs must perform stress tests or scenario analyses on a regular basis in order to identify and quantify their exposures to possible future liquidity stresses, and to analyse possible impacts on the institutions' cash flow, liquidity positions, profitability, and solvency. For additional guidance, LFIs should refer to the *Guidelines on Liquidity Risk Management for Institutions Licensed Under the Banking Act*⁷.

2.2.2.7 INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

- a. LFI must be familiar with all elements of IRRBB, actively identify their IRRBB exposures and take appropriate steps to measure, monitor and control it. In particular, the measurement process should include all material interest rate positions of the LFI and consider all relevant repricing and maturity data. Such information will generally include current balance and contractual rate of interest associated with the instruments and portfolios, principal payments, interest reset dates, maturities, the rate index used for repricing, and contractual interest rate ceilings or floors for adjustable-rate items. The system should also have well-documented assumptions and techniques.
- b. LFIs must identify the IRRBB inherent in all products and activities, and ensure that these are subject to adequate procedures and controls. The board must approve significant hedging or risk management initiatives, before implementation. The management of IRRBB should be integrated within the LFI's broad risk management framework and aligned with its business planning and budgeting activities⁸.
- c. The board and senior management are responsible for understanding the nature and the level of the IRRBB exposure of the LFI. The board should approve broad

⁷Also, refer to BCBS Principles for Sound Liquidity Risk Management and Supervision 2008
⁸ Details on the risk management framework for IRRBB will be included in the Central Bank's "Guideline for Interest Rate Risk in the Banking Book"

business strategies as well as overall policies with respect to IRRBB. The IRRBB policies should be documented and should include clear guidance regarding the acceptable level of IRRBB, given the LFI's business strategies.

- d. In measuring IRRBB, LFIs should take into account a wide and appropriate range of interest rate shock and stress scenarios. An LFI's ability to generate stable earnings sufficient to maintain its normal business operations should also be considered.

- e. LFIs are responsible for determining the optimal level of capital to support their operations and should ensure that it is sufficient to cover IRRBB and its related risks.
- f. An LFI should be able to support its assumptions about the behavioural characteristics of non-maturity deposits and other assets and liabilities, especially those exposures characterised by embedded optionality. Given uncertainty in such assumptions, stress testing should be used in the analysis of interest rate risks.

2.2.2.8 OTHER RISKS CONSIDERATIONS

The Central Bank requires the internal capital allocation process of LFIs to cover all risk, which, though not identified above, are material for the institution for example, strategic risk, reputational risk, settlement risk, and residual risk. Although additional risks such as strategic and reputational risk are not easily measurable, LFIs should develop techniques for evaluating and managing all aspects of their risks. **Appendix III** provides additional information on other risks.

3.0 STRESS TESTING⁹

3.1 REQUIREMENT FOR STRESS TESTING

Stress tests are forward-looking simulation exercises conducted to evaluate the impact of severe but plausible adverse scenarios (which reflect stressful or adverse

The ECCB's Prudential Standard on Stress Testing provides further guidance on stress tests.

macroeconomic and financial developments), on the resilience of financial institutions or the entire financial system. Additionally, the term "stress testing" not only refers to the mechanics of applying specific individual tests, but also to the wider environment within which the tests are developed, evaluated and used within the decision-making process.

As a forward-looking analytical technique, stress tests should be undertaken to:

- i. Improve the LFI's understanding of its vulnerabilities under adverse conditions; and
- ii. Increase the LFI's anticipation of possible losses if for example, an identified economic downturn or a risk event materialises.

Stress testing also supplements other risk management approaches and measures. In particular, it plays an important role in:

- i. Providing forward looking assessments of risk;
- ii. Overcoming limitations of models and historical data;
- iii. Feeding into capital and liquidity planning procedures;
- iv. Informing the setting of an institution's risk tolerance;
- v. Addressing existing or potential, institution-wide risk concentrations; and
- vi. Facilitating the development of risk mitigation or contingency plans across a range of stressed conditions.

LFIs are required to conduct stress tests on a regular basis, to identify and quantify their exposures to possible future stress scenarios and analyse possible impacts on their cash flows, liquidity positions, profitability and solvency.

The most common stress testing techniques are:

- a) **Sensitivity analysis:** this provides only first-level direct effects (and not indirect effects) of the impact on a portfolio or a business unit of a move in a particular risk factor or a limited set of risk factors at a time. For example, following a rating downgrade, the first-level direct effects are an increase of the probability of default and capital requirements. This may trigger higher margin call as an indirect effect. Sensitivity analysis does not rely on scenarios.
- b) **Scenario analysis:** this allows banks to simultaneously stress a set of risk factors (for example, equity prices, foreign exchange rates and interest rates), reflecting an extreme but plausible event that may occur in the foreseeable future. Scenario stress testing is generally broken down into two categories:

- i. Reverse stress tests which start with the identification of a defined outcome (for example, a bank 'failure or likely to fail' situation or a substantial loss) and then work backwards to determine the external shocks and related scenarios that would trigger the defined outcome; and
- ii. Direct stress tests which start from a scenario and compute its impact. It follows either a top-down (supervisor-run) approach¹⁰ or bottom-up (bank-run) approach¹¹.

The results of stress tests must be discussed thoroughly by the board and senior management, and based on this discussion, must form the basis for taking remedial or mitigating actions to limit the LFI's exposures, build up a liquidity cushion, and adjust its liquidity profile to fit its risk tolerance. The results of stress tests must also play a key role in shaping the LFI's contingency funding planning, which must outline policies for managing a range of stress events and clearly sets out strategies for addressing liquidity shortfalls in emergency situations.

¹⁰This enables supervisors to perform a comparative assessment between banks under a common and uniform framework but it neglects the idiosyncratic aspects of banks as it is based on less granular data and models.

¹¹This provides a more granular view of the relationship between the bank's own risk factors and macroeconomic or financial parameters

The capital planning process should incorporate rigorous, forward looking stress testing that identifies possible events or changes in market conditions that could adversely impact the institution. In particular, stress testing alerts management to adverse unexpected outcomes related to a broad variety of risks and indicates how much capital might be needed to absorb losses should large shocks occur. The board is required to review the stress testing results periodically and take them into account in the capital management process.

The Central Bank expects LFIs to have in place procedures to undertake, review and, where appropriate, react to the results of rigorous, forward-looking stress testing that identifies possible events or cyclical changes in market conditions that could adversely impact LFIs' capital, earnings, liquidity or asset values.

4.0 SOUND CAPITAL ASSESSMENT AND PLANNING

Capital assessment and planning is a necessary complement to a robust regulatory framework. Sound capital planning is critical for determining the prudent amount, type and composition of capital that is consistent with a long-term strategy that allows for pursuit of business objectives while also withstanding a stress event.

LFIs should have a system in place for effective capital assessment that is sufficiently comprehensive, appropriately forward-looking and adequately formalized. Among other things, the capital plan should take into account the strategic objectives/ plans of the institution and be appropriate to the nature of risks posed by its business activities and operating environment.

A sound capital assessment and planning process should enable the board and senior management to make informed decisions on the appropriate amount and composition of capital needed to support the LFI's business strategies across a range of potential scenarios and outcomes. There are four fundamental components of a sound capital planning process that should be instituted:

- i. Governance and internal controls;
- ii. Capital policy and risk capture;
- iii. Strategic and forward-looking view; and
- iv. A management framework for setting and preserving capital.

Each of the foregoing components is discussed below:

4.1 GOVERNANCE AND INTERNAL CONTROLS

- a) LFIs should have in place a formalised capital planning process that is administered through an effective governance structure.
- b) An LFI's capital planning process should produce an internally consistent and coherent view of its current and future capital needs.
- c) An LFI's capital planning process should reflect the input of different skillsets, including but not limited to staff from business, risk, finance and treasury departments. There should also

be a strong link between the capital planning, budgeting and strategic planning processes.

- d) LFIs must have a formal process in place to identify situations where competing assumptions are made. In this context, differences in strategic planning and capital allocation across the institution should be escalated for discussion and approval by senior management and, where appropriate, by the board.
- e) Capital plans and their underlying processes and models should be subject to regular independent validation.
- f) Sound practice typically involves a management committee or similar body that works under the auspices of the board and guides and reviews efforts related to capital planning.
- g) The board should establish the principles that underpin the capital planning process including the forward strategy for the institution, an expression of risk appetite, and a perspective on striking the right balance between reinvesting capital in the operations and providing returns to shareholders.
- h) Capital plans should be approved at least annually by the board or one or more of its committees.

4.2 CAPITAL POLICY AND RISK CAPTURE

- a) LFIs should have a written capital policy that is developed by the senior management and approved by the board. The capital policy should specify the principles that management will follow in making decisions about how to deploy capital.
- b) The capital policy should reference a suite of capital and performance-related metrics against which management monitors the institution including:
 - i. Regulatory capital measures e.g. the capital adequacy ratio (CAR) and common equity Tier 1 (CET1) ratio; and
 - ii. Return measures e.g. return on equity (ROE), return on risk-adjusted capital (RORAC) and risk-adjusted return on capital (RAROC).
- c) LFIs should identify triggers and limits for every metric specified in the capital policy. Capital policies should incorporate minimum thresholds that are monitored by managers to ensure that the LFI remains strong.
- d) A monitoring framework should be put in place and complemented by a clear and transparent formal escalation protocol for situations when a trigger or limit is approached and/or breached, at which point a timely decision needs to be taken.
- e) An important input to a capital policy is an expression of risk tolerance/appetite that should be approved and renewed annually by the board.

4.3. STRATEGIC AND FORWARD-LOOKING VIEW

- i. The ICAAP should take into account the LFI's strategic plans and how they relate to macroeconomic factors. The LFI should develop internal strategies which incorporate factors such as loan growth expectations, future sources and use of funds, and similar factors such as (pro-cyclicality).
 - a) LFIs should incorporate rigorous, sufficiently severe but plausible, forward-looking stress testing in their capital planning process as these techniques provide a forward view on the sufficiency of the capital base of an LFI.
 - b) An effective capital planning process requires an LFI to assess the risks to which it is exposed as well as to consider the potential impact on earnings and capital from an assumed economic downturn. Stress testing therefore needs to be an integral component of the capital planning process.
 - c) Stress testing provide a view as to how the capitalisation of the LFI could be jeopardised if there were a dramatic institution-specific or economic change. Without such a component, a capital plan would be highly vulnerable, and thus any actions pursuant to it may not adequately insulate the institution against future adverse developments. Stress testing therefore needs to be an integral component of the capital planning process (see Section 5 on Stress testing).

- d) Stress testing should incorporate all relevant risks to the LFI and conservatively capture and account for changes in key risk factors across all portfolios and businesses under appropriately severe forward-looking scenarios. In addition, the institution should conduct stress testing on a consistent basis and in ad hoc scenarios outside the normal stress testing procedures.

4.4 MANAGEMENT FRAMEWORK FOR SETTING AND PRESERVING CAPITAL

4.4.1 Setting the Target Capital Level

- a) A key component of an ICAAP is the setting of target levels of capital that are commensurate with the LFI's risk profile and control environment including its external rating, market reputation and strategic objectives. An LFI should therefore set its capital targets based on internal assessments of its capital needs¹². Both the quantity and quality of capital should be assessed.
- b) An LFI should consider both bottom-up (for example, by summing capital amounts for individual risks) and top-down (for example, via stress testing of the overall capital position) perspectives on the adequacy and composition of its capital.
- c) The board should ensure alignment of the capital targets set with the institution's risk appetite. In addition, the following should be considered:
 - i. Regulatory capital requirements;
 - ii. Internal assessments of capital needs, including those arising from the institution's business plans and strategy;
 - iii. The likely volatility of profit and the capital surplus;
 - iv. The dividend policy;
 - v. Where relevant, external credit ratings;
 - vi. The expected time horizon for achieving capital targets; and
 - vii. Access to additional capital.
- d) The strategic plan should clearly outline the LFI's capital needs, anticipated capital expenditures, desirable capital level, and external capital sources. Senior management and the board should view capital planning as a crucial element in being able to achieve the desired strategic objectives.
- e) The strategic plan should clearly outline the LFI's capital needs,

¹²The target capital should not be less than the regulatory capital requirement under Pillar 1.

anticipated capital expenditures, desirable capital level, and external capital sources. Senior management and the board should view capital planning as a crucial element in being able to achieve the desired strategic objectives.

- f) It is important that actions to maintain capital are clearly defined in advance and that the management process allows for plans to be updated swiftly to allow for better decision-making in changing circumstances.
- g) For a capital planning process to be meaningful, the board and senior management should rely on it. In particular, the process should provide information on the degree to which an institution's business strategy and capital position may be vulnerable to unexpected changes in conditions.
- h) The board and senior management of an LFI should ensure that the capital policy and associated monitoring and escalation protocols remain relevant alongside an appropriate risk reporting and stress testing framework.
- i) Board and senior management are also responsible for prioritising and quantifying the capital actions available to them to cushion against unexpected events which may include reductions in or cessation of common stock dividends, equity raises and/or balance sheet reductions (for example, monetising business units or reducing credit origination).

- j) LFIs should ensure that actions to maintain capital are clearly defined in advance. Guiding principles should therefore be developed for determining the appropriateness of particular actions under different scenarios, which take into account Internal relevant considerations, such as economic value added, costs and benefits, and market conditions.

5.0 MONITORING AND REPORTING

The LFI should establish a formal monitoring and reporting mechanism which will enable its board and senior management to regularly monitor risk exposures so that they can assess how the LFI's risk profile is changing and the impact of those changes on the adequacy of capital levels.

Reports should include all material risk exposures, including those that are off-balance sheet to allow the board and senior management to:

- i. Evaluate the level and trend of material risks and their effect on capital levels;
- ii. Evaluate the sensitivity and reasonableness of key assumptions used in the capital assessment/measurement system;
- iii. Determine that the LFI holds sufficient capital against the various risks and is in compliance with established capital adequacy goals; and
- iv. Assess its future capital requirements based on the LFI's reported risk profile and make necessary adjustments to the LFI's strategic plan accordingly.

The periodicity of risk reporting may vary according to the severity, duration and type of risks. However, LFIs should generate such reports at least on a quarterly basis for all material risks for senior management review.

5.1 MANAGEMENT INFORMATION SYSTEMS

LFIs may conduct a gap analysis to determine if the current management information systems (MIS) are fit for purpose to meet the requirements of the ICAAP. To enable management to adequately monitor and control material risk exposures and provide the board and other relevant parties with timely and relevant reports on the LFI's risk profile and capital needs, the LFI's MIS should:

- a) Be commensurate with its size, complexity and risk profile;
- b) Facilitate evaluation of the impact of various economic and financial shocks;
- c) Enable risks to be aggregated across business lines, as well as support customised identification of concentrations and emerging risks;
- d) Have the capacity to capture limit breaches and be supported by procedures to report and rectify such breaches;
- e) Be adaptable and responsive to changes in underlying risk assumptions; and
- f) Incorporate multiple perspectives of risk exposure to account for uncertainties in risk measurement.

In some cases, LFIs may be able to rely on existing risk management systems (risk measurement, limit monitoring) to support their ICAAP. However, it may be necessary for some LFIs to invest in expansions and new acquisitions within their MIS, in order to support its ICAAP.

6.0 INTERNAL CONTROL REVIEW

The LFI's systems for assessing and determining capital adequacy for its material risks need to be reviewed, assessed, monitored and tested independently and on a regular basis.

The internal control review involves putting in place an appropriate mechanism of internal and external audits for ensuring the reasonableness of ICAAP and the accuracy of the data and stress scenarios used. The LFI's internal control structure is essential to a sound capital assessment process. Effective control of the capital assessment process includes an independent review and, where appropriate, the involvement of internal or external audits. At least annually, the internal audit and risk and compliance functions should conduct independent reviews of the strategies and processes to:

- a) Maintain the ICAAP's integrity, reliability and relevance;
- b) Ensure compliance with applicable laws and regulations, the Central Bank's prudential standards and other directives as well as internal policies and procedures; and

- c) Ensure that capital coverage reflects the actual risk profile of the LFI.

The LFI's board of directors has a responsibility to ensure that management establishes a system for assessing the various risks, develops a system to relate risk to the LFI's capital level, and establishes a method for monitoring compliance with internal policies. The board should regularly verify whether its system of internal controls is adequate to ensure well-ordered and prudent conduct of business. The LFI should conduct annual reviews of its risk management process to ensure its integrity, accuracy and reasonableness. Key areas that should be reviewed include:

- i. The appropriateness of the LFI's capital assessment process given the nature, scope and complexity of its activities;
- ii. The identification of large and/or material exposures and risk concentrations;
- iii. The accuracy and completeness of data inputs into the LFI's assessment process;
- iv. The reasonableness and validity of scenarios used in the assessment process; and
- v. Stress testing and analysis of assumptions and inputs.

7.0 GROUP ICAAP

Group risk applies to all subsidiary LFIs that are part of a group established either in the ECCU or in another country. This section relates to the risks that emanate from the relationship that the LFI has with other group entities. LFIs are required to have adequate, sound and appropriate risk management processes and internal control mechanisms for the purpose of assessing and managing its own exposure to group risk, including sound administrative and accounting procedures.

An LFI's ICAAP should take into account the risks to which that LFI is exposed due to its membership in a broader group. These risks include contagion risks, counterparty risks, reputational risks and risks related to operational dependencies such as shared systems, functions and service level arrangements. Assessment of capital resources at a group level will need to have regard to the transferability of capital between group entities in a range of market conditions.

An LFI may make use of a group ICAAP (i.e. the ICAAP produced at the parent level) or components of that ICAAP. However, where this is the case, the ICAAP must adequately identify the risks and capital needs of each LFI within the group. Further, the board of each LFI within the group is still required to ensure that the Group ICAAP is appropriate and meets the minimum regulatory requirements in relation to the LFI.

8.0 DOCUMENTING THE ICAAP

All items covered by the ICAAP should be clearly documented and approved at the board level. The ICAAP's documentation should include methodologies, assumptions, procedures, the risk management processes and responsibilities. The Central Bank has provided a template of an ICAAP document. The LFI's capital plan must also be documented and submitted as an appendix to the ICAAP.

The ICAAP must be transparent throughout the organisation and documentation of its different aspects should be tailored to the relevant target groups throughout the organisational structure. It is therefore advisable to use various levels of detail and explanation of the ICAAP for different levels of responsibility throughout the organisation.

The scope and level of detail of documentation should be proportionate to the size, complexity and risk levels of the LFI. Therefore, management must determine whether varying levels of documentation are necessary to support the type of business operations, which the ICAAP is meant to support. In cases where this kind of documentation structure may be necessary, **Appendix IV** gives an indication of the type and depth of documentation that may be required at each level of responsibility within the organisation.

The documented ICAAP should be supported by, at a minimum, the following documents/ processes:

- a) Business and strategic plans (including business model);
- b) Risk governance and risk management frameworks;
- c) Risk appetite statement;
- d) Stress-testing framework;
- e) Capital plan (including capital restoration strategy);
- f) Risk data, including key risk indicators;

- g) Details of the information technology systems;
- h) Any aggregation methodologies;
- i) Risk and compliance reports covering the ICAAP; and
- j) Internal audit reports covering the ICAAP.

LFI should clearly indicate if any of the requested documentation is unavailable and a proposed timeline for submission. Additionally, the LFI's ICAAP and supporting documentation should be appropriately updated as necessary to reflect any significant changes in its strategic policies, business plan, operating environment or other factors that materially affect assumptions or methodologies used in the ICAAP. The LFI should also ensure that new risks to which it is exposed are promptly and properly identified, assessed and incorporated into the ICAAP.

9.0 REGULATORY REPORTING REQUIREMENTS

The board must ensure that the ICAAP report is completed at least once a year and upon any significant change(s) in risk exposure. The template for the ICAAP report format including the ICAAP Submission Summary is provided as a separate document.

The first ICAAP submission date will be determined by the ECCB. Thereafter, the ICAAP will be due within three (3) months of the LFI's financial year end, using the most recent financial data.

Notwithstanding the aforementioned schedule for submission of the ICAAP, LFIs should consistently monitor their internal and external environment and business operations to determine issues that may impact the ICAAP and associated capital targets. The Central Bank may request that an LFI submits an updated ICAAP outside of the aforementioned timeline should there be any major change to its business model, operations, markets, or the economy or any other aspect that may significantly impact its risk profile.

10.0 ICAAP AND THE SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP)

The Central Bank will use its SREP (see Appendix V for more details) to determine whether an LFI has an adequate ICAAP. This should include a robust risk management framework, an assessment of all material risks and sufficient capital to support its risk profile (that is, its inherent risks and overall net risk (ONR)), as determined through the ECCB's Risk Based Supervision (RBS) Framework and meets its regulatory capital requirements. Specifically, the Central Bank will use the SREP to evaluate the inherent risk(s) within each significant activity undertaken by an institution and then evaluate the quality of the risk management applied to mitigate these risks.

A well-structured ICAAP document with supporting evidence/documentation enables the board to explain to the Central Bank possible differences in its views on the adequacy of its framework for capital assessment and allocation of capital. The outcome of the SREP will guide the Central Bank's supervisory/regulatory expectations with respect to the Basel capital framework, including the mandatory minimum capital requirements for the next 12-month period.

10.1 THE CENTRAL BANK'S REVIEW AND FEEDBACK PROCESS

The SREP involves both qualitative and quantitative reviews of LFIs' ICAAP as mentioned below:

10.1.1 Qualitative Reviews

The Central Bank will conduct periodic reviews of the effectiveness, completeness and quality of an LFI's ICAAPs and provide each LFI with feedback. The Central Bank will use the review of each ICAAP report as the basis for ongoing discussions with LFIs so that it can promptly take appropriate action if it is dissatisfied with the results of the LFI's own risk assessment and capital allocation. For example, the SREP might highlight errors in an LFI's methodology or assumptions which can significantly impact the resulting capital requirements.

The depth and frequency of the supervisory review of an LFI's ICAAP will reflect the principle of proportionality related to the nature, scale and complexity of its activities, and the risks posed to

the Central Bank's supervisory objectives of preserving the safety and soundness of LFIs towards financial stability.

10.1.2 Quantitative Reviews

The SREP will also involve a quantitative review of the LFIs' Pillar 2 inherent risk exposures. However, where risks are not readily quantifiable, the Central Bank will exercise its supervisory judgment, as necessary. This may include qualitative assessments of the LFIs' ability to contain actual risk exposures within prudent, planned levels through effective risk governance, oversight, management and control practices.

Additionally, the SREP will consider other important factors which LFIs need to take into account in arriving at its overall capital targets. These might include:

- a) Capital cover for plausible adverse stress scenario outcomes if there are uncertainties on the sufficiency of risk estimates;
- b) Additional capital to support planned business growth; and
- c) Additional capital to provide a general buffer for contingencies.

The Central Bank will assess both the adequacy of LFIs' capital targets and their strategies and the capacity for achieving and maintaining these targets.

10.2 SREP and Risk Based Supervisory Framework

The Composite Risk Rating (CRR) will help to determine the LFI's target regulatory capital ratio to support its risk profile. Therefore, the SREP will form an integral part of the Central Bank's RBS framework and will leverage any additional information obtained and assessments conducted as part of the wider supervisory regime. This includes off-site reviews, on-site examinations, periodic reporting, discussions with the LFIs' management, media coverage and other research.

The Central Bank's RBS framework produces a CRR to represent its assessment of the safety and soundness of an LFI. The Central Bank establishes this rating by:

1. Identifying and determining the level of all inherent risks present in the significant activities of the LFI;
2. Assessing the effectiveness and adequacy of its oversight and risk management functions; and
3. Assessing the mitigating ability of its capital and earnings.

10.3 The Central Bank's Supervisory Response

It is a serious matter for LFIs to fall below minimum regulatory capital requirements as they will be in breach of the Banking Act, 2015/prudential regulations and face corrective supervisory action. The Central Bank will consider a range of actions and issue a Supervisory Letter as appropriate, to advise:

- a) Whether the LFI's ICAAP is considered adequate;
- b) Reasons for any capital adjustments including limits and a minimum Pillar 1 regulatory capital requirement¹³; and
- c) What actions it may take if not satisfied with the results of the LFIs' own risk assessment and capital allocation.

The Central Bank will consider a range of options consistent with BSD's Ladder of Enforcement to address increased/unmitigated risks, including but not limited to:

- a) Intensifying the monitoring of the LFI and/or reporting scope and frequency;
- b) Strengthening of the management framework;
- c) Requiring enhancement to existing control procedures or creation of new ones;
- d) Requiring changes in strategy for example by requiring certain actions or issuing directives to restrict the scope of the LFI's business (for example, acquisitions;

- e) Requiring that the LFI scales down on or ceases to undertake certain activities;
- f) Restricting or prohibiting the payment of dividends;
- g) Increasing the level of provisions and reserves;
- h) Requesting that the LFI prepares and implements a satisfactory capital adequacy restoration plan; and
- i) Mandating that the LFI raises additional capital within a stipulated timeframe.

¹³This ratio will be based on each LFI's risk profile.

These actions and the reasons for them, will be discussed with/explained to the LFI's management prior to being implemented.

10.4 Requirement for Additional Capital

The increase in an LFI's capital should not be seen as a permanent solution to address perceived weaknesses. Rather, it should involve more sustainable measures (such as improving systems and controls) which may take some time to implement. In such circumstances, the Central Bank might require an increase in capital as an interim measure to provide additional depositor protection while permanent measures, such as improved risk management systems are instituted to improve the LFI's position. Once these permanent measures are implemented and deemed to be effective by the Central Bank, the interim increase in capital requirements can be discontinued or reduced.

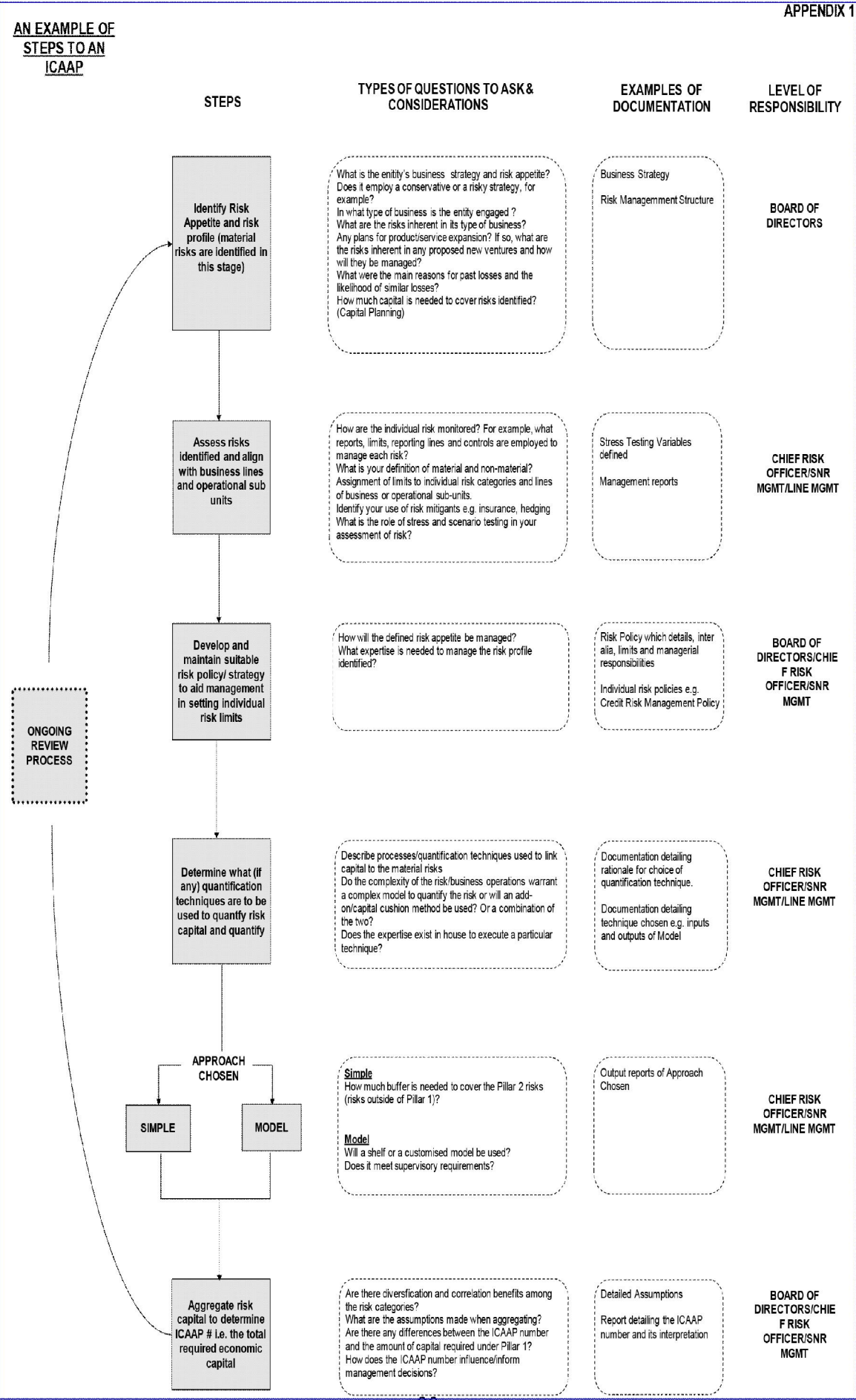
Additionally, where it considers it prudent to do so, the Central Bank will consider, at a minimum, the following as circumstances which may necessitate a supervisory capital adjustment under Pillar 2:

- i. Where the business model and/or strategy is very risky or difficult to assess. For example, in the normal course of business, the type and volume of activities may change, as will the different risk exposures, causing fluctuations in the overall capital ratio;
- ii. Where there are strategic or cyclical risks inherent in the LFI's business model that need to be incorporated into its capital planning. These will emanate from appropriate stress testing - the results of which should be shared and discussed with the Central Bank and summarised in the ICAAP document;
- iii. Where risks exist (either specific to individual LFIs, or more generally to an economy at large) that are only partially, or not captured by Pillar 1 - unless management can show that those risks are adequately mitigated in some other way, (such as by recognised risk management techniques that have been put into place and assessed as adequate by the Central Bank);
- iv. Where the LFI is a recently licensed entity or has or plans to significantly change its business activities;
- v. Where the LFI participated in a merger/acquisition;
- vi. Where the ICAAP and/or supporting inputs are considered ill-defined or inadequately implemented;
- vii. Where it may be costly for LFIs to raise additional capital in the future, especially if this needs to be done quickly or at a time when market conditions are unfavourable;
- viii. Where regulatory compliance risk of the LFI is assessed as high; and
- ix. Where there are material deficiencies in the governance and/or risk management framework of the LFI.

The Central Bank has the discretion to use the tools best suited to the circumstances of the LFI and its operating environment. Therefore, LFIs should be guided accordingly.

APPENDIX I

DIAGRAM ILLUSTRATING THE ICAAP



APPENDIX II

KEY FEATURES OF A RISK APPETITE STATEMENT (RAS)

A. The risk appetite statement (RAS):

- i. Is the written articulation of the aggregate level and types of risk that an LFI will accept, or avoid, in order to achieve its business objectives. A well-developed risk appetite articulated through a RAS is a critical aspect of an effective risk governance framework. The LFI should therefore develop and clearly convey its RAS throughout the institution to reinforce a strong risk culture.
- ii. Is a statement to address reputation and conduct risks, as well as money laundering and unethical practices. It should also include measures expressed relative to earnings, capital, risk measures, liquidity and other relevant measures as appropriate.

B. An effective risk appetite statement should:

- a) Include qualitative statements that articulate clearly the motivations for taking on or avoiding certain types of risk, and establish some form of boundaries or indicators (for example non-quantitative measures) for monitoring these risks;
- b) Include quantitative measures which can be translated into risk limits applicable to business lines and legal entities as relevant, and at group level, which in turn can be aggregated and disaggregated to enable measurement of the risk profile against risk appetite and risk capacity;
- c) Include key background information and assumptions that informed the LFI's strategic and business plans at the time of approval;
- d) Be linked to the institution's short- and long-term strategic, capital and financial plans, as well as compensation programs;
- e) Establish the amount of risk the financial institution is prepared to accept in pursuit of its strategic objectives and business plan, taking into account the interests of its customers (for example depositors, policyholders) and the fiduciary duty to shareholders, as well as capital and other regulatory requirements;

¹⁴¹ BCBS (2015), Corporate governance principles for banks (See 'Glossary').

- f) Determine for each material risk, and overall the maximum level of risk that the LFI is willing to operate within, based on its risk appetite, risk capacity, and risk profile;
- g) Ensure that the strategy and risk limits of each business line and legal entity, as relevant, align with the institution-wide risk appetite statement as appropriate; and
- h) Be forward looking and, where applicable, subject to stress testing to ensure that the financial institution understands what events might push the financial institution outside of its risk appetite and/or risk capacity.

APPENDIX III

OTHER TYPES OF RISKS AND OTHER ISSUES

LFI's are required to include in their capital assessment, any other material risks to which they are exposed and to be mindful of the capital adequacy effects of concentrations which may arise within each risk type:

1. Strategic/Business Risk

- a) Strategic/business risks may impact on the capital of an LFI as a result of adverse business decisions, improper implementation of those decisions, or a lack of responsiveness to political, fiscal, regulatory, economic, cultural, market or industry changes.
- b) LFI's should constantly review and assess the compatibility of their strategic goals with the prevailing environment in which they have material operations. There will be both quantitative and qualitative dimensions to the resources needed to carry out business strategies. These

include effective communication channels, efficient operating systems, reliable delivery networks, and good quality management and staff.

- c) Quantitative considerations in the assessment of strategic risk may include, for example, operating expenses (for example as percentage (%) of operating income) and loans (both performing and non-performing). Qualitative considerations may include growth plans in areas such as deposits, loans/advances, profits, or expansion in activities.

2. Reputational Risk

- a) Reputational risk often arises because of inadequate management of other risks including insurance, market, credit, and operational risks, whether they are associated with direct or indirect involvement in the sale or origination of complex financial transactions or relatively routine operational activities.
- b) Reputational risk can lead to the provision of implicit support¹⁵, which may give rise to credit, liquidity, market and legal risk - all of which can have a negative impact on an institution's earnings, liquidity and capital position.
- c) An LFI should identify potential sources of reputational risk to which it is exposed. This includes the institution's business lines, liabilities, affiliated operations, off-balance sheet vehicles and markets in which it operates. The risks that arise should be incorporated into the institution's risk management process and appropriately addressed in its ICAAP and liquidity contingency plans.
- d) LFIs should have in place appropriate policies to identify sources of reputational risk when entering new markets, products or lines of activities. In addition, an institution's stress testing procedures should take account of reputational risk so management has a firm understanding of the consequences and second round effects of reputational risk.
- e) LFIs should pay particular attention to the effects of reputational risk on their overall liquidity position, taking into account both possible increases in the asset side of the balance sheet and possible restrictions on funding, should the loss of reputation result in various counterparties' loss of confidence.

3. Securitisation Risk

- a) Where securitisation activities¹⁶ are material, an LFI's ICAAP needs to consider the risks arising from originating, structuring, distributing and/or investing in such assets, both on and off balance sheet, including risks that are fully captured in minimum regulatory capital requirements. These may include, for example, reputational risk.

¹⁵For example, in stressed conditions LFIs may go beyond their contractual obligations to support their sponsored securitisations and off-balance sheet instruments. Further, where an institution sponsors activities such as money market mutual funds, in-house hedge funds and real estate investment trusts (REITs) it may decide to support the value of shares/units held by investors even though it is not contractually required to provide the support.

¹⁶For example, securitisation of own-assets for risk transfer and/or funding; provision of backstop credit facilities to third-party conduits and the provision of non-contractual or implicit support to securitisation vehicles.

- b) Asset performance may cause assets to return to the balance sheet through amortisation and repurchase. Disruptions in market demand for asset-backed paper may leave assets in securitisation pipelines on the balance sheet or force the originator to support its own paper. These have adverse implications for capital and liquidity that should be part of the LFI's capital and liquidity planning.
- c) LFIs should develop prudent contingency plans specifying how it would respond to capital pressures that arise when access to securitisation markets is reduced. The contingency plans should also address how the institution would address valuation challenges for potentially illiquid positions held for sale or for trading. The risk measures, stress testing results and contingency plans should be incorporated into the institutions' risk management processes and ICAAP and should result in an appropriate level of capital under Pillar 2 in excess of the minimum requirements commensurate with the board's stated risk appetite/tolerance.

4. Climate Related Risk

- a) The linkages between climate change and financial system risk have become increasingly evident and present unique challenges for financial institutions. For example, climate change may exacerbate credit, market, operational and reputational risk for financial institutions.
- b) The risks to LFIs on account of climate change are far reaching, have uncertain and extended time horizons and have the potential to significantly impact business operations. It is therefore important, given the nature of climate related risk, that LFIs adopt a strategic, holistic and long-term approach, considering how climate-related risks might impact all aspects of their risk profile.
- c) LFIs should embed climate related risk in their overall risk management framework. As a result, the LFI's policies, systems, management information and risk reports to the board should reflect climate related risk considerations. Specifically, the risk management framework should reflect climate related risk considerations and include robust structures to identify, measure, monitor, manage and report on exposure to climate related risk.
- d) The LFI's ICAAP should incorporate a climate related risk assessment of the institution. At a minimum, the institution should evaluate its portfolios and determine the materiality of the risks which may emanate from a climate related event.
- e) The assessment should also consider the likely impact of climate events on all aspects of the operations of the financial institution. The likelihood of such climate related risk events should also be ascertained. A contingency plan should also be developed to formalise the course of action that would be taken in the event of a climate event occurring.
- f) LFIs should utilise scenario analysis to enable testing of their resilience to climate change events. In particular, climate related risk related scenarios, using appropriate assumptions, should be incorporated into the institution's stress testing framework. This should enable the institution to ascertain the potential loss and overall impact of possible climate events. This information along with the general assessment of the impact of climate change should inform decision-making by the board and senior management.

5. Cyber Security Risk

The Central Bank expects LFIs to consider IT risk, of which cyber risk is a subset, as part of their broader risk management framework:

- a) By incorporating a layered approach to cybersecurity, which includes strategies involving people, processes and technology with emphasis on cyber resilience in light of ongoing threats;
- b) Developing an incident response plan based on ongoing risk assessments, continuously using multiple sources that address the materiality of cyber incidents; and
- c) Implementing a cyber-hygiene routine to maintain a robust security posture.

The necessary monitoring and reporting mechanism should be in place to ensure that cyber incidents are reported to the board in a timely manner¹⁷.

6. Pension Risk

- a) LFIs that offer pensions must have in place appropriate systems for measuring, monitoring and controlling pension obligation risk and its impact on liquidity and profitability. Similarly, LFIs that manage or provide trustee services for pension plans must also have adequate systems in place to ensure that these plans are administered appropriately from an operational and reputational standpoint. In assessing the level of risk, there should be a well-founded projection to evaluate the corresponding Pillar 2 capital charge.

7. Valuation Practices

- a) LFIs are expected to have adequate governance structures and control processes for fair valuing of exposures for risk management and financial reporting purposes. The valuation governance structures and related processes should be embedded in the overall governance structure of the institution and consistent for both risk management and reporting purposes.

¹⁷Shortly, the ECCB will issue a Prudential Standard on Cybersecurity for Institutions Licensed to Conduct Banking Business under the Banking Act.

- b) The governance structures and processes are expected to explicitly cover the role of the board and senior management. In addition, the board should receive reports from senior management on the valuation oversight and valuation model performance issues as well as all significant changes to valuation policies.
- c) New product approval processes should include all internal stakeholders relevant to risk measurement, risk control, and the assignment and verification of the valuation of financial instruments.
- d) LFIs should have control processes in place for measuring and reporting valuations that are consistently applied across the institution and integrated with risk measurement and management processes. In particular, controls should be applied consistently across similar instruments (risks) and business lines (books). These controls should be subject to internal audit. Regardless of the booking location of a new product, reviews and approval of valuation methodologies must be guided by a minimum set of considerations.
- e) The valuation and new product approval processes should be supported by a transparent, well-documented inventory of acceptable valuation methodologies that are specific to products or businesses.
- f) To establish and verify valuations for instruments and transactions in which it engages, an LFI must have adequate capacity available, including during periods of stress. This capacity should be commensurate with the importance, riskiness and size of these exposures in the context of the business profile of the institution.
- g) The relevance and reliability of valuations is directly related to the quality and reliability of the inputs. LFIs are expected to apply the accounting guidance provided to determine the relevant market information and other factors likely to have a material effect on an instrument's fair value when selecting the appropriate inputs to use in the valuation process.
- h) Where values are determined to be in an active market, LFIs should maximise the use of relevant observable inputs and minimise the use of unobservable inputs when estimating fair value using a valuation technique. However, where a market is inactive, transactions may not be observable or observable inputs or transactions may not be relevant, such as in forced liquidation or distressed sale. In such cases, accounting fair guidance provides assistance on what should be considered, but may not be determinative.

8. Sound Compensation Practices

- a) For a broad and deep risk management culture to develop and be maintained over time, compensation policies must not be unduly linked to short-term accounting profit generation. Compensation policies should be linked to longer-term capital preservation and the financial strength of the institution, and should consider risk-adjusted performance measures.
- b) The board and senior management of an LFI have the responsibility to mitigate the risks arising from remuneration policies in order to ensure effective risk management.
- c) The board must actively oversee the compensation system's design and operation that should not be controlled primarily by the CEO and management team. Relevant board members and employees must have independence and expertise in risk management and compensation.

9. Cross Border Lending

- a) LFIs that engage in cross border lending are subject to increased risk including country risk, concentration risk, foreign currency risk (market risk) as well as regulatory, legal, compliance and operational risks, all of which should be reflected in the ICAAP.
- b) Laws and regulatory actions in foreign jurisdictions could make it much more difficult to realise assets and security in the event of a default. Where regulatory, legal and compliance

risks associated with concentrations in cross border lending are not considered elsewhere in an institution's risk assessment process, additional capital may be required for this type of lending in an LFI's CAAP.

LFIs are required to conduct their assessments on the basis of their risk profile. LFIs should refer to the relevant prudential standard(s) issued by the Central Bank for further considerations relevant to the management of the respective risks.

10. Risk Aggregation and Diversification Benefits

- a) An effective ICAAP should assess the risks across the entire LFI. An LFI choosing to conduct risk aggregation among various risk types or business lines should understand the challenges in such aggregation.
- b) When aggregating risks, LFIs should ensure that any potential concentrations across more than one risk dimension are addressed, given that losses could arise in several risk dimensions simultaneously, stemming from the same event or a common set of factors. For example, a localised natural disaster could generate losses from credit, market, and operational risks at the same time.
- c) An LFI should have systems capable of aggregating risks based on its selected framework. For example, an LFI calculating correlations among risk types should consider data quality and consistency, and the volatility of correlations over time and under stressed market conditions.

APPENDIX IV
Type and Depth of Documentation Required

Responsibility	Subject of Documentation	Significance and level of detail (increases with direction of arrow)
Board	Example of document type : Risk Strategy - Risk appetite - Risk Management Structure	<div><div></div><div>Strategic Significance</div><div>Level of Detail and frequency of revisions</div><div></div></div>
Chief Risk Officer	Example of document type: Risk Manual - Risk Management Process - Risk assessment, control and monitoring tools	
Division/ Department	Example of document type: Department Specific manuals - IT user manuals - Work objectives	

APPENDIX V

OVERVIEW OF THE SUPERVISORY REVIEW AND EVALUATION PROCESS

The Central Bank will review the internal process by which an LFI assesses its capital adequacy, risk position, resulting capital levels, and quality of capital held to determine that:

- a) Target levels of capital are comprehensive and relevant to the current operating environment;
- b) The established target levels of capital are properly approved, monitored and reviewed by senior management; and
- c) The composition of capital is appropriate for the nature and scale of the business of the LFI.

REVIEW OF THE ADEQUACY OF RISK ASSESSMENT

The Central Bank will assess the degree to which internal targets and processes incorporate the full range of material risks faced by the financial institution.

The Central Bank will also review the adequacy of risk measures used in assessing internal capital adequacy and the extent to which these risk measures are used operationally in setting limits and triggers, evaluating business line performance, and evaluating and controlling risks more generally. The Central Bank will assess the appropriateness of the risk appetite statement when compared to the LFI's strategic objectives.

In its SREP, the Central Bank will also place particular emphasis on the quality of the risk management and controls of a financial institution which may be assessed by any combination of:

- (a) On-site examinations or inspections;
- (b) Off-site review including review of period/prudential reporting;
- (c) Discussions with management; and
- (d) Review of work done by internal and/or external auditors (provided it is adequately focused on the necessary capital issues).

ASSESSMENT OF THE EFFECTIVENESS OF INTERNAL STRESS TESTING

The Central Bank will consider the results of sensitivity analyses and stress tests conducted by the institution and how these results relate to capital plans. Specifically, the Central Bank will:

- (a) Assess the effectiveness of an LFI's stress testing programme to identify relevant vulnerabilities;
- (b) Review the key assumptions driving stress testing results;
- (c) Challenge their continuing relevance in view of existing and potentially changing market conditions; and
- (d) Challenge LFIs on how stress testing is used and the way it affects decision-making.

Where the Central Bank's assessment reveals material shortcomings, it will require the LFI to detail a plan of corrective action. The Central Bank will consider the extent to which the LFI has provided for unexpected events in setting its capital levels. This analysis should cover a wide range of external conditions and scenarios. The sophistication of techniques and stress tests used should be commensurate with the LFI's activities.

REVIEW OF COMPLIANCE WITH MINIMUM CAPITAL REQUIREMENTS

For specific areas under the Standardised Approach to be recognised for regulatory capital purposes (such as operational risk, credit risk mitigation techniques and asset securitisations), financial institutions are required to meet a number of minimum requirements, including risk management standards and disclosures. In particular, LFIs are required to disclose features of their methodologies to calculate minimum capital requirements.

The Central Bank will assess the institution's adherence to these minimum standards and qualifying criteria as an integral part of the supervisory review process. In this context, the Central Bank will ensure that the use of various instruments that can reduce Pillar 1 capital requirements are utilised and understood as part of a sound, tested and properly documented risk management process.

ASSESSMENT OF THE CONTROL ENVIRONMENT

In conducting its ICAAP reviews, the Central Bank will have regard to, inter alia, the:-

- a) Soundness of the overall ICAAP given the nature and scale of business activities;
- b) Degree of management involvement in the process for example, whether target and actual capital levels are monitored and reviewed by the board;
- c) Extent to which the internal capital assessment is used routinely within a financial institution for decision-making purposes;
- d) Extent to which a financial institution has considered unexpected events in setting capital levels;
- e) Quality of the financial institution's management information reporting and systems;
- f) Manner in which business risks and activities are aggregated;
- g) Management's record in responding to emerging or changing risks;
- h) Reasonableness of the outcome of the ICAAP and in particular whether the:-
 - i. Amount of capital determined in the ICAAP is sufficient to support the risks faced by the financial institution;
 - ii. Level and composition of capital determined in the ICAAP:-
 - 1) Is comprehensive and relevant to the institution's current operating environment;
 - 2) Is appropriate for the nature and scale of the its business activities;
 - 3) Is appropriate for the adequacy of its risk management process and internal controls; and
 - 4) Considers external factors such as business cycle effects and the macroeconomic environment.

The Central Bank may, where necessary, request further information and meet with the board and senior management of financial institutions in order to evaluate fully the comprehensiveness of the ICAAP and the adequacy of the governance arrangements around it. The institution's management should be prepared to discuss and defend all aspects of the ICAAP, including both quantitative and qualitative components. Among other things, the board and senior management should be able to explain and demonstrate to the Central Bank:

- (a) An understanding of the ICAAP consistent with their ownership of the process;
- (b) How the ICAAP meets supervisory requirements;
- (c) How material risks are defined, categorized and measured;
- (d) How internal capital targets are chosen and how those targets are consistent with the overall risk profile, current operating environment and future business needs; and
- (e) The reason for any differences between the target level of capital computed based on the ICAAP and the capital target determined by the Central Bank.

CUSTOMS NOTICE

PUBLICATION NOTICE

AUCTION SALE LIST

By Authority of Section 58, subsection (8) of the Customs Control and Management Act 14/1999, Chapter 422 of the Revised Laws of St. Vincent and the Grenadines, the attached list of goods which have been at the Customs Kingstown, Campden Park and Transit Shed for more than two (2) months shall be sold by Public Auction on Saturday 7th December, 2024, at the Queens' Warehouse No. 2 unless they are duly cleared within one (1) month of the first publication of this notice.

LOT	NAME	CARRIER	DESCRIPTION
	Donnique Millington	AIA	1 Suitcase
	Leona M. Obabachian	AIA/Air Canada	1 Suitcase
	Renne Jackson	AIA/Air Canada	1 Suitcase
	Shant Ryan	AIA/Virgin	1 Suitcase
	Charles 1	AIA	1 Suitcase
	Stefan Sager	AIA	1 Black Long Bag
	C. Morgan	AIA/Inter	1 Bag (blue with red stripes)
	Glasgow	AIA/CAL	1 Suitcase
	-	-	4 pcs Bicycle
	Yvette Ollivierre	MV Amigo	1 pc
	Jason Sahadeo	BORA	1 bx
	Sasin Arthur	V. Scorpio	16 bxs
	-	-	4 bxs
	-	-	2 pcs (hard plastic)
	Emmanuel Daige	Fouma	2 bxs
	Maureen Warner	Fouma	3 bxs
	-	Runner	1 ctr
	-	-	3 pcs av seat (used), 1 drive shaft
	-	-	1 pc replacement port
	Young Island Resort	T. Unity	1 ctr
	Natalie Bute	Fouma	2 bxs
	Natalie Bute	Fabmzia	1 bx
	Shamika Wallace	Fouma	1 bx Popcorn Machine
	HosanEficiente	T. Carib	1 Brl
	-	T. Carib	1 plt (shoes)
	-	T. Unity	1 plt
	Olisea Antoine	-	1 pc TV
	Cash Wiz	T. Carib	3 plts (damaged)
	Gary Lewis	-	1 Crate Auto parts

LOT	NAME	CARRIER	DESCRIPTION
-	-	-	1 plt Vehicle seats, 1 drive shaft
	Hugh Dougan	Tropical Carib	2 brls
	Dirrone Bess	Tropical Carib	2 brls + 1 box
	Lillian Roberts	T. Island	1 brl
	Daniel Bascombe	T. Carib	4 pkgs, 3 brls + 1 box
	Alton James	-	1 brl
	Laurette James	T. Unity	1 brl
	Hayden Sealey	-	1 brl
	Sylvia Williams	-	1 brl
	Boris Wilson	T. Carib	2 brls
	Bianca Nicholls	Amaica	1 brl
	Melissa Joseph	Tropical	1 brl
	Lensol Robertson	Tropical	4 boxes
	Brenda Casty	T. Carib	1 box
	Pedro Harry	T. Unity	1 box
	Patrice Jobe	-	1 pc
	Feme Joseph	Tropical	1 box
	-	-	1 box filters
	-	-	1 plt ceramic plates (wares)
	Boris Wilson	T. Carib	2 pcs Metal center table
	Austin Dev	Tropical Carib	1 box
	Custly Phillips	-	1 ctr
	Computec	-	1 bx
	-	-	2 bxs fencing wire
	Carenage Bay	Fouma	1 box
	-	-	2 bxs Adult pampers
	Ernin MacDowald	T. Unity	2 bxs
	Liznette Forde	T. Unity	1 bag
	Mandesin Oriental	Fouma	3 bxs
	Johann Trant	V. Scorpio	1 box
	-	-	2 crates
	Maria Williams	T. Unity	2 brls
	Earl O'Garro	-	1 fridge
	Emmesson Quashie	T. Unity	1 fridge
	West Maruie	T. Carib	1 bx
	-	-	5 bxs books
	-	-	1 plt
	Jessica Douglas	Vega Scorpio	1 box
	Ricardo Jackson	-	1 pc sofa
	Gertude Peters	T. Unity	1 ctr
	-	T. Unity	1 pc
		Js P Bora	1 bx

LOT	NAME	CARRIER	DESCRIPTION
	-	-	2 ctrs
	Jacinthe Payne	-	1 ctr Adult pampers
	Okoro Chigoyie	T. Carib	1 brl
	Maxroy Russel	-	1 plt
	Kimmisha Young	T. Unity	1 pc
	Errol Allen	A. Kliper	1 bx
	Lawson Allick	Aurora	1 pc
	Olika Richardson	Fouma	1 bx
	Lucinder Benjamin	L. Island	1 bx
	-	-	1 bx
	Latoya John	-	1 pkg
	Sandra Hundles	-	1 pc machine
	Melissa Baptiste	Mv Amigo	1 ctr
	Laurette Creese	-	2 ctrs
	Hayelann Thomas	-	1 pkg
	Lavern Garrick	Amigo	4 pkgs
	Wesly Trimmingham	-	1 plt (couch)
	Frankly James	Mv Amigo	1 plt tiles
	-	1 plt	-
	Genee Mulrain	T. Unity	3 ctrs
	Peters Badshaw	L. Strait	1 bx
	Callista Huggins	-	1 bx
	Glenroy Baptiste	Aurora	2 plts (stove)
	Sonetha John	Hohebank	1 ctr
	-	T. Carib	20 ctrs
	Joel Bibby	Fabmzia	3 ctrs
	-	Fabmzia	1 ctr (crib)
	-	Fabmzia	4 ctrs
	Manderin Oriental	Jsp Bora	1 ctr
	Alfonzo Bobb Sampson	-	1 brl
	-	-	2 brls
	Alford Douglas	T. Carib	1 pkg (couch)
1.	Robinson Auto Service	Tranquil Ace	2015 Mazda Demio CH#D15FS/38978
2.	Frankie Liverpool	Tropic Carib	2011 Toyota CH#XZB500060908
3.	Frankie Liverpool	Tropic Carib	2016 NISSAN CH#CWMGE25120570
4.	Bargin Auto	Tropic Carib	2015 Toyota CH#NCP1312024678
5.	Bargin Auto	Tropic Carib	2015 Suzuki CH#DA16T248776

LOT	NAME	CARRIER	DESCRIPTION
6.	Bargin Auto	Tropic Carib	2016 Suzuki CH#ZC725372156
7.	Bargin Auto	Tropic Carib	2025 Suzuki CH#ZC725354736
8.	Glenwin James	Hoegh Beijing 2015	Toyota Noah CH#ZRR800157980
9.	Janella Carlita Issac	Hoegh Beijing 2013	Toyota Voxy CH#ZRR7501102621
10.	Verrol Walker	Hoegh Beijing	Suzuki Swift CH#ZC835122178
11.	Michael John	Hoegh Beijing 2018	Toyota Vitz CH#NSP1302287183
12.	Myson Wilkinson	Hoegh Beijing 2012	NISSAN CH#NT32549097
13.	Omari David	Hoegh Beijing 2016	NISSAN Xtrail CH#NT32549097
14.	David Gibbs	Hoegh Beijing 2025	Toyota Spade CH#NCP1419170276
15.	Bargin Auto	Hoegh Beijing 2015	Toyota Vitz CH#NSP130219422
16.	Bargin Auto	Hoegh Beijing 2015	Toyota Vitz CH#NSP1302200425
17.	Oswald Byam	Hoegh Caribia	Toyota CH#ACA315050955
18.	Star Garage	Admiral Bay 2	Kia Pick up CH#KNCSHX71LP7714714
19.	Star Garage	Admiral Bay 2	Kia Pick up CH#KNCSHX71LP7714715
20.	Star Garage	Admiral Bay 2	Kia Pick up CH#KNCSHX71LP7709071
21.	Sylvia Llewlllyn	MV Nadia	Acura 2015 CH#5FRYD4H421FB022144
22.	Javil Parris	Hoegh Caribia	Toyota Vitz 2015 CH#NSP1302216368
23.	Allana Scipio	Hoegh Caribia	Honda fit 2014 CH#GK31110668
24.	Allana Scipio	Hoegh Caribia	Honda fit 2014 CH#GK31100940
25.	Amette + Neville Gaymes	Hoegh Caribia	Nissan Xtrail 2019 CH#HNT32176887
26.	Bobby's Trucking Heavy Equipment Rentals	Luzon Strait	Escavator CH#CAT0314DTTXN00582
27.	Bobby's Trucking Heavy Equipment Rentals	Luzon Strait	Escavator CH#CAT0312CLBWH01670
28.	David Richards Pope (Best deal auto)	Hoegh Caribia	Mazda Cx5 2016 CHKEZAE210966
29.	David Richards Pope (Best deal auto)	Hoegh Caribia	Suzuki Escudo 2016 CH#TSMCYE21S00159206
30.	Noel/Modua Lowman	Hoegh Caribia	Mazda Cx5 2016 CH#KEZAW214040

LOT	NAME	CARRIER	DESCRIPTION
31.	Glenwin James	Hoegh Caribia	Nissan Juke 2016 CH#YF15503755
32.	Romano Griffith	H. Caribia	Nissan Serena 2014 CH#AFC26209647
33.	Auturo Young	H. Caribia	BMW x2 2011 CH#WBAWX52040L398714
34.	Ronnelle Payne	H. Caribia	Mazda Cx5 2017 CH#KF2P121605
35.	Edrickia Wright	H. Caribia	Toyota Vitz 2016 CH#NSP13022353758
36.	Lemore Ryan	Cygnus Leaders	Toyota Passo 2013 CH#KGC340141400
37.	David Richards (Best deal auto)	Cygnus Leaders	Suzuki swift 2018 CH#ZC335107943
38.	Evans Brown	Cygnus Leaders	Nissan Others 2017 CH#CS4E26011035
39.	-	Tropic Carib	Motors Bike CH#MM168FMLLOMOF2089