Research Document Working Paper

Risk Based Supervision

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Policy Research and Planning

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LIST OF ABBREVIATIONS

Act	Securities Act, Chapter 83:02 of the Laws of the Republic of Trinidad and Tobago
AML	Anti-Money Laundering
AML/CFT	Anti-Money Laundering/ Countering the Financing of Terrorism
AUM	Assets Under Management
CIS	Collective Investment Scheme
Commission	Trinidad and Tobago Securities and Exchange Commission
Framework	Risk-Based Supervision Framework
FUM	Funds Under Management
IOSCO	International Organization of Securities Commissions
ML/FT	Money Laundering/ Financing of Terrorism
MMRF	Micro and Macro-prudential Reporting Framework
NAV	Net Asset Value
RAQ	Risk Assessment Questionnaire
RBS	Risk-Based Supervision
Registrants	Collectively refers to Broker-Dealers, Investment Advisers and Underwriters (as defined under Section 51(1) of the Securities Act, Chapter 83:02 of the Laws of the Republic of Trinidad and Tobago)
Repos	Repurchase Agreements
RFI	Request for Information

1. Introduction

Background

The Trinidad and Tobago Securities and Exchange Commission ("the Commission") is mandated under Section 6(*l*) of the Securities Act, Chapter 83:02 of the Laws of the Republic of Trinidad and Tobago ("the Act") to "*assess, measure and evaluate risk exposure in the securities industry*". The Commission is empowered under Section 7(1)(*l*) of the Act to "*monitor the risk exposure of registrants and self-regulatory organisations and take measures to protect the interest of investors, clients, members and the securities industry*". To fulfill these objectives, the Commission utilises a Risk-Based Supervision ("RBS") Framework to identify, assess, monitor, and mitigate the risks associated with registrants, as defined under Section 51(1) of the Act, operating within the securities market of Trinidad and Tobago.

Traditionally, regulators have employed a compliance-based or rules-based approach to the supervision of financial institutions; which essentially focused on assessing the entities' compliance with regulatory rules and legislation. This method was a 'one size fits all' approach that did not adequately assess the risks inherent in firms' business activities and was extremely labour-intensive for regulators. The risk-based approach to supervision was introduced to bridge the gaps of compliance-based supervision.

Evolution of the Commission's Risk-Based Approach to Supervision

Since 2014, the Commission has been utilising a risk-based approach for the supervision of its registrants, that is Broker-Dealers, Investment Advisers and Underwriters. Every two or three years, a Risk Assessment Questionnaire ("RAQ"), which seeks to capture information on an entity's operations and risk management activities, is distributed to all registrants. The responses are analysed to assign a risk rating to each entity which is then used to determine the Commission's onsite inspection plan.

In 2017, the Commission developed an RBS Framework, which incorporated both onsite and offsite inspections. This Framework was based on the principles espoused by the International Organization of Securities Commissions ("IOSCO").

Objectives of the RBS Framework

The RBS Framework enables the Commission to:

1. Implement a risk-based approach to determining the Commission's supervisory plan;
2. Implement a systematic approach to supervision;
3. Allocate supervisory resources to where risk is more pertinent;
4. Assess the adequacy of the risk management processes of registrants;
5. Identify, monitor and mitigate systemic risks within the securities market;
6. Continuously review the perimeter of regulation; and
7. Address the overarching goal of investor protection.

The core principles of this Framework are as follows:

1. To reduce the risk of failure or inappropriate behaviour by registrants; however, it cannot prevent all failures as that would result in excessive regulatory burden for the industry and could negatively impact its efficiency.
2. To exercise sound judgement in the evaluation of a registrant's risk management in the context of its business activities.
3. To enable the continuous assessment of the risk profiles of registrants and provide an objective basis for allocating supervisory resources.
4. To promote good corporate governance by placing the responsibility for risk oversight on registrants' board of directors and management.

2. Overview of the Supervisory Framework

The objectives of the Commission include the protection of investors, the promotion of the growth and development of the securities industry of Trinidad and Tobago, the nurturing of a fair, efficient and transparent securities market, and the mitigation of systemic risk. The Commission is concerned with any risks that threaten the achievement of the above-mentioned objectives and has therefore adopted a risk-based approach to the supervision of its registrants.

The analyses of registrants follow a step-by-step approach as illustrated in **Box 1** and summarised below. This step-by-step approach is not distinct but rather dynamic in nature as a firm's assessment is updated as and when more information becomes available.

I. **Impact Assessment:** The potential impact on the Commission's objectives in the event that a registrant fails or experiences significant problems (for reasons such as insolvency, illiquidity, weak internal controls, and misconduct) is assessed.

II. **Risk Assessment:** The likelihood that a registrant may fail is assessed. This includes the following specific analyses:

   a. **Significant Activities** - the business model of the registrant is analysed to identify its significant business activities, that is, those actions that contribute most to its risk profile.

   b. **Material Inherent Risks** - the analysis of the key risks associated with the registrant's significant activities.

   c. **Effectiveness of Internal Controls -** the registrant's control framework is assessed for the mitigating effect on those inherent risks. The key question is what aspects of the controls might indicate that the Commission should increase vigilance of the registrant. In other words, to what extent can the Commission rely on the controls at the firm.

   d. **Institutional-Level Risks and Controls** - there are some risks that affect all institutions regardless of their business type. The risks and controls at firm-level are assessed to determine to what extent they reduce or increase the risk profile of the registrant. This includes a specific assessment of the following:

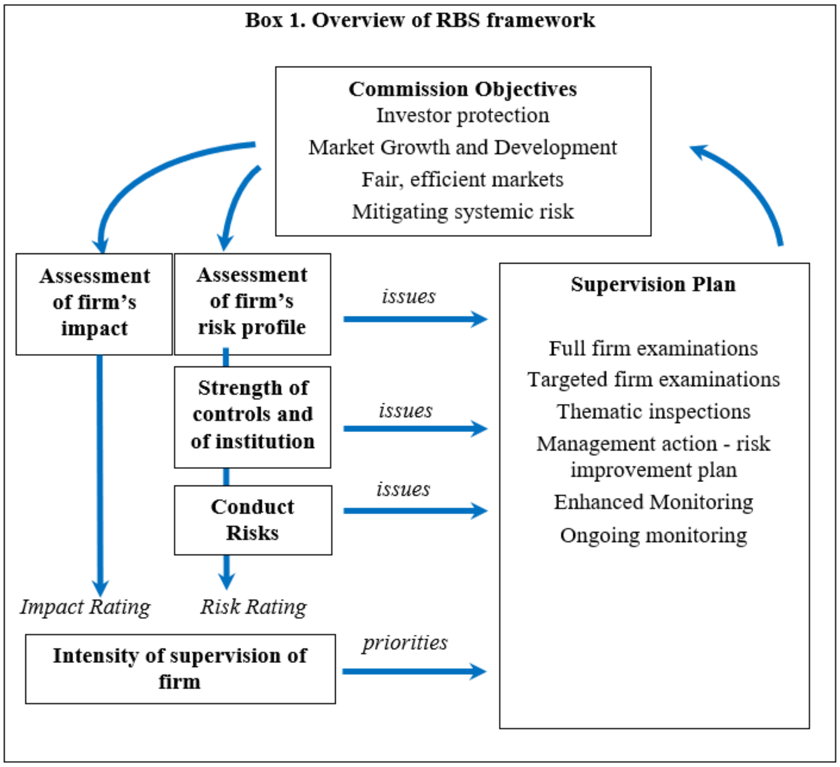
i. The corporate governance structure of the registrant which includes the internal audit and senior management functions;
ii. The financial structure of the registrant, including capital, liquid assets and financial management; and
iii. The culture, controls and behavior of a registrant in relation to the priority it gives to protecting clients' interests.

e. **Composite Risk Rating -** the final product of the risk assessment is the registrant's composite risk rating and the identification of areas of supervisory concerns within the organisation.

III. **Supervisory Intensity:** The Commission gauges the priority of supervision for a particular registrant using both the firm's impact rating and the composite risk rating. The registrant is usually assigned to one of four levels of supervisory intensity (High, Moderate, Low and Very Low).

IV. **Supervisory Plan:** The results of the assessments of registrants are reviewed and a supervisory plan is developed. This plan may include:

- Full onsite examinations of registrants;
- Targeted onsite inspections;
- Thematic inspections across many registrants;
- Targeted risk improvement plans whereby registrants are required to submit to the Commission an improvement plan that addresses specific risks identified during the RBS assessment process; and
- Enhanced off-site monitoring.



3. Impact Assessment

Impact is one of the two key dimensions for determination of the supervisory intensity to be applied to a registrant. Impact refers to the potential effect on the Commission meeting its objectives if there were a significant failure by the firm in its securities related activities, for reasons such as insolvency, inability to find liquidity, massive failure of controls, and widespread misconduct. It is a measure of the potential damage to consumer confidence and trust in a well-functioning financial market, on economic growth and on the reputation of the country.

A registrant's impact rating is obtained through a combination of the following three indicators:

i. **Investor Exposure:** Measured by the number of active client accounts for securities business activities. This number may include accounts for the same client but for different purposes (for example, broking and portfolio management).

ii. **Market Power and Scale of Operations:** The absolute sum of the following is used to determine the share of the securities market held by the registrant or its scale of operations: total assets on its balance sheet, assets under management (“AUM”) for Collective Investment Schemes (“CISs”), cash held for clients, total Repo liabilities, and debt issued by the registrant. The failure of large-scale registrants can have significant implications for the securities market.

iii. **Interconnectedness and Impact of the Firm on the Financial System:** The absolute sum of the amounts due to and due from related parties[1]. This provides an indication of the amounts that would be called from debtors and the amounts that may be written off by creditors if the failure of the firm’s securities business activities was to lead it to insolvency.

Each of the above-mentioned indicators is calculated using data collected via the Commission’s Micro and Macro-prudential Reporting Framework (“MMRF”) and the registrants’ Request for Information (“RFI”) template.

Several of the entities registered with the Commission are also banks and insurance companies. Their balance sheets and client lists reflect both bank/insurance and securities businesses. As such, the following exceptions are applied when assessing data for banks and insurance companies:

i. Client account numbers are restricted to only active securities accounts. This will include CIS unitholders, portfolio management accounts and investment advice accounts.

ii. Total assets, client cash as well as amounts due to and from related parties for banks and insurance companies are excluded from the impact rating. This is because the balance sheet numbers for banks and insurance companies include assets needed for banking and insurance activities. These will be orders of magnitude greater than the balance sheets for securities firms and it will be highly misleading to include these numbers in the analysis. Furthermore, balance sheet numbers for only the securities activities conducted by these banks and insurance companies are not available. Similarly, it is impossible to separate inter-indebtedness related to securities activities from that related to banking/ insurance business. The exclusion of these numbers is immaterial for registrants’ impact ratings

[1] A net figure is not used in this instance as it would conceal the scale of interconnections.

because banks and insurance companies do not provide significant securities business outside of CISs. Furthermore, CIS business does not have significant debtor and creditor balances like the other segments of the financial sector.

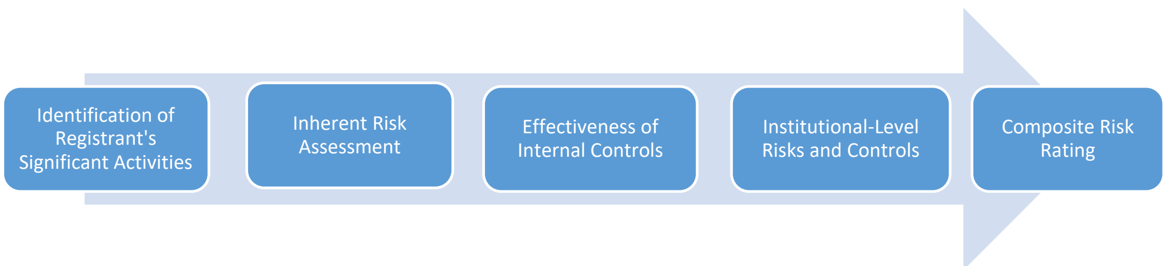
The Commission has five grades of impact based on a registrant's market share of the three indicators.

i. **Very High (5)** – failure of this registrant will have a very high material adverse impact on the ability of the Commission to achieve its objectives. In other words, a failure of this registrant due to insolvency, illiquidity, massive failure of internal controls or misconduct, will have catastrophic implications for the securities market.
ii. **High (4)** – failure of this registrant will have a high material adverse impact on the ability of the Commission to achieve its objectives.
iii. **Medium (3)** – failure of this registrant will have a moderate material adverse impact on the ability of the Commission to achieve its objectives.
iv. **Medium Low (2)** – failure of this registrant will have a less than moderate material adverse impact on the ability of the Commission to achieve its objectives.
v. **Low (1)** – failure of this registrant will have a low material adverse impact on the ability of the Commission to achieve its objectives. In other words, a failure of this firm will be immaterial for the securities market.

4. Risk Assessment

The risk assessment of registrants follows a step-by-step approach as summarised in **Figure 3** below. Although the approach is described sequentially, it is a dynamic and iterative process that may require reassessment at various stages.

Figure 3: Risk Assessment



4.1 Identification of Registrant's Significant Activities

The challenge for securities regulators, when compared to the regulators of banks and insurance companies, is that the potential range of activities of their regulated entities is extremely wide, and each can pose different risks. The following is a non-exhaustive list of significant activities observed in the securities industry of Trinidad and Tobago:

- **Dealing:** executing trades for the company's own account as principal (e.g. maintenance of proprietary book).
- **Broking:** executing trades on behalf of clients based on their instructions.
- **Portfolio Management:** managing securities or a portfolio of securities belonging to another person (excluding CISs) in circumstances involving the exercise of discretion (e.g. private wealth manager).
- **CIS Management:** managing securities or a portfolio of securities belonging to a CIS.
- **Investment Advice:** advising a person as to buying, selling or holding a security only.
- **Structuring and Distributing Securities/ Underwriting:** structure and issuance of securities and/ or underwriting securities on a best-efforts basis or firm commitment basis.
- **Repo Selling:** creating and selling Repos based on proprietary holdings.

Identification of Significant Activities Process

The significant business activities of a registrant are determined using the following indicators:

i. **Size:** the size of the assets and liabilities related to each activity relative to total firm assets and liabilities;
ii. **Income:** the cash flows associated with the activity relative to total firm cash flow; and
iii. **Client Exposure:** the number of active clients for each activity relative to total clients for the registrant. Client active account numbers must be unaltered, that is, not adjusted for duplications. For example, a client may have an account for Repos and another for portfolio management, both accounts are to be considered, so long as they are active.

Table 1 outlines the metrics for these indicators.

Table 1: Significant Activities' Metrics

Activity	**Metric**		
	Size	Income	Client Exposure
Dealing	Own financial investments (including those funded by Repos)	Investment income (excluding Repo securities)	Not applicable
Broking	FUM* of broking clients (excluding portfolio management clients)	Commissions and fees earned	Number of broking client accounts (excluding portfolio management)
Portfolio Management	FUM* of portfolio management clients	Commissions and fees earned	Number of portfolio management client accounts
CIS Management	AUM* of CISs administered	Commissions and fees earned	Number of CIS unitholders
Investment Advice	Not applicable	Commissions and fees earned	Number of investment advice client accounts
Structuring and Distributing Securities/ Underwriting	Total assets structured and issued in the past two years	Commissions and fees earned	Not applicable
Repo Selling	Repo Liabilities	Repo interest income	Number of Repo client accounts

* FUM = Funds under management, AUM = Assets under management

4.2 Inherent Risk Assessment

Inherent risk is a risk that cannot be segregated from the activity. It is intrinsic to an activity and arises from exposure to and uncertainty from potential future events. For assessment purposes, risks inherent in registrants' activities are grouped in the following seven categories:

- **Market Risk:** The risk of impact on the registrant from changes in market prices and rates, including interest rates, equity prices and foreign exchange rates.
- **Liquidity Risk:** The risk that, as a result of its specific activities, a registrant does not have the liquidity it needs. Note that entity-wide liquidity is considered in the assessment of the registrant's finances and financial management, rather than here.
- **Operational and Technology Risks:** The risk that issues arise from the business operations and processes of the registrant. This includes matters arising from errors in the processing of transactions or information, fraud, inadequate training and human capacity, and data security challenges.
- **Legal and Regulatory Risks:** The risk of problems arising from non-compliance with existing or new laws, rules, standards, and guidelines.
- **ML/FT Risk:** The risk that the registrant may be or become a conduit for operations aimed at laundering money or financing terrorism.
- **Climate Risk:** The risk that the registrant's business may be impacted significantly by the approaching transition to a low carbon economy. This includes potential policy changes. While this is not a high priority for registrants at the moment, it is expected to become critical within the next few years as policy changes by trading partners of Trinidad and Tobago accelerate in matters such as carbon pricing, and the exploitation of new oil and gas reserves.
- **Other Risks:** There are many other categories of risk that are commonly included in RBS assessments, but which are not very significant for many actors within the securities industry of Trinidad and Tobago. These include risks around client concentration, loans, use of derivatives, conflicts of interest and high public profile.

The approach adopted by the Commission analyses each risk category and then considers the relevance of the risk category to the activities conducted by the registrant. **Table 2** provides the risks inherent in various activities conducted by registrants.

Table 2: Inherent Risks

Significant Activity	Market Risk	Liquidity Risk	Operational & Technology Risk	Legal & Regulatory Risk	ML/FT Risk	Climate Risk	Other Risk
Dealing	✓		✓	✓	✓	✓	✓
Broking	✓		✓	✓	✓	✓	✓
Portfolio Management	✓		✓	✓	✓	✓	✓
CIS Management	✓	✓	✓	✓	✓	✓	✓
Investment Advice			✓	✓	✓	✓	✓
Structuring and Distributing Securities/ Underwriting	✓		✓	✓	✓	✓	✓
Repo Selling	✓	✓	✓	✓	✓	✓	✓

A series of indicators are used to assess each inherent or material risk. **Appendix I** outlines the risk indicators. Some indicators are relevant only for specific significant activities. For example, liquidity risk includes an indicator (liquid assets in fixed NAV funds ÷ fixed NAV AUM) that are specific only to those registrants that conduct CIS management. Each indicator is rated from a scale of 1(Low Risk) to 5(High Risk).

4.3 Effectiveness of Internal Controls

A firm's overall risk profile will be impacted by the efficacy of the control framework within the firm to mitigate its risk exposures. Accordingly, the Commission's RBS Framework incorporates an evaluation of the strengths or weaknesses of a registrant's risk management, regulatory compliance and anti-money laundering ("AML") compliance functions.

For these assessments, registrants' responses to the RAQ are rated on a scale of 1(Strong Controls) to 4(Weak Controls). The rating scale for the effectiveness of internal controls is different from that for the inherent risks so as to avoid the natural trap of putting subjective judgements into the middle category. Accordingly, the assessor must decide whether a registrant's controls are better than necessary or worse than necessary. The definitions of the control ratings are as follows:

i. **Strong Controls (1):** The controls in place are better than adequate and the registrant is a good example for others to follow. Strong controls are expected to result in a significant improvement in the registrant's risk profile.

ii. **Adequate Controls (2):** The controls in place are acceptable or satisfactory. Adequate controls are expected to result in a moderate improvement in the registrant's risk profile.

iii. **Deficient Controls (3):** Some improvement on the controls in place is required. Deficient controls are not expected to make any significant improvement to the registrant's risk profile.

iv. **Weak Controls (4):** The controls in place are weak, ineffective or non-existent.

The average rating for all the indicators for each control category (risk management, corporate regulatory compliance, and AML compliance) is calculated to determine the overall score for the control. One caveat to the assessment process pertains to smaller firms, that is, firms with 3 or less employees, or who have been in operation for less than 3 years, but is not a medium, high or very high impact firm or part of a financial group. Smaller firms would have fewer resources to meet all the requirements inherent in the assessment questions for risk management, compliance and corporate governance. It is unreasonable to require these firms to have the controls necessary to obtain a strong control rating. In order to avoid unjustifiably penalizing these entities, the assessor should increase their control ratings by one notch.

4.4 Institutional-Level Risks and Controls

The risk profile for securities firms is strongly shaped by three institutional level matters: corporate governance, finance and conduct. Registrants are rated on a scale of 1(Strong Controls) to 4(Weak Controls) in these areas. The average scores for the areas are calculated to determine the overall score for institutional-level risks and controls.

Corporate Governance

Institutions incorporated in Trinidad and Tobago are required by legislation to have a board of directors and senior management. The board of directors is ultimately accountable for the management and oversight of the registrant, even though, it may delegate some of that responsibility to senior management and the internal audit department. The Commission's RBS Framework includes an assessment of the nature and quality of the board of directors and senior management oversight as well as the effectiveness of the internal audit function at a registrant. The assessment incorporates questions on the following:

i. **Board of Directors**: Composition of the board of directors - in terms of age, gender and experience; the independence of directors; conflict of interest policy or procedures; orientation and training programmes for directors; and the circulation of meeting documents. A diversified and independent board of directors creates constructive debates and a broad range of views. The early circulation of meeting material provides board members with sufficient time to review and prepare for the meetings. This in turn allows for productive discussions and effective decisions.

ii. **Senior Management**: The interaction between senior management and the risk management and compliance functions, including the nature of the interaction (e.g. meetings or reports) and the frequency of interactions. Senior management play an important role in ensuring risk management and regulatory and legal compliance.

iii. **Internal Audit**: Whether the registrant has an internal audit function; who appoints and removes the head of internal audit; and the interaction between the head of internal audit and the board of directors. The role of internal audit is to provide independent assurance that the risk management, compliance and internal controls of an organisation are appropriate and effective.

<u>Finance</u>

The finances of a registrant may impact its riskiness from a number of perspectives: the adequacy of capital and liquidity, and the active management of each of these. In assessing a registrant's finances, the Commission leverages on its Risk-Based Capital Adequacy and Liquidity Framework.

The assessment also includes questions about aspects of financial management that are considered to be important for the control of potential risks to the Commission's objectives. These include questions about the direction of profitability, contingent liquidity sources, cash flow forecasting, stress testing and external audit opinions.

Conduct

The approach of a registrant to its conduct with clients and the priority given to the interests of clients, are directly linked to the Commission's objective to protect the interests of investors. This is particularly important in securities markets given the asymmetry of information and knowledge between investors and brokers. Moreover, brokers have significant conflicts of interest as they may prioritise commission generation over client's best interest.

Registrants' conduct is assessed based on their responses to questions related to:

i. The tools and processes for assessing the investment profile and risk appetite of new clients;
ii. The percentage of trades done outside of clients' investment profiles;
iii. The familarisation of employees with the company's Code of Conduct and Ethics; and
iv. The firm's history as it pertains to the treatment of clients and the resolution of clients' problems.

4.5 Composite Risk Rating

The ratings for the inherent risks, control framework and institutional-level risks and controls are automatically uploaded to the risk assessment worksheet of the Risk Assessment Tool. The following process is used to compute the Composite Risk Rating for the registrant.

i. The average score or overall rating for each inherent risk – market, liquidity, operational and technology, legal and regulatory, ML/FT, climate, and other – are inputted accordingly.
ii. The rating for risk management is used for all risk types, unless there is an indication that certain types of risks are not included in the capture of risk management.
iii. The corporate regulatory compliance score is used for all risk types except ML/FT. This risk type is populated with the score for the AML compliance.
iv. The scores for risk management and compliance are averaged to compute the rating for the control framework.

v. The inherent risk scores are either increased or decreased depending on the rating for the control framework. The Commission's Risk Assessment Tool has an inbuilt formula for superimposing the control rating on the inherent risk scores. The net score is the residual risk rating.

vi. The net residual risk for the registrant is equal to the average of the residual risk ratings.

vii. The average score for each element of the institutional-level risks and controls are inputted accordingly.

viii. The final rating is the Composite Risk Rating for the registrant.

5. Supervisory Intensity Matrix

The Commission's Supervisory Intensity Matrix is based on the standard RBS heat map, a graphical representation of an institution's impact and risk ratings. The heat map separates impact and risk as two different dimensions of a graph; impact depicted on the vertical axes and risk on the horizontal axis. The heat map makes it easy to distinguish registrants that have a high impact, high risk, or both. The greater the distance of the registrant (represented by a diamond marker in **Figure 7**) from the point of intersection of the axes (no impact/ no risk point), the greater the threat to the Commission's objectives.

Figure 7: Supervisory Intensity Matrix

RISK ASSESSMENT		
Impact assessment:	2.0	Medium
Composite risk rating	4.4	High

Supervisory Action Matrix

IMPACT OF INSTITUTION'S FAILURE					
VERY HIGH			High Intensity		
HIGH	Moderate Intensity			High Intensity	
MEDIUM	Low Intensity	Moderate Intensity	Moderate Intensity		High Intensity
MEDIUM LOW		Low Intensity	Low Intensity	Moderate Intensity	
LOW	Very low intensity			Low Intensity	Moderate Intensity
	VERY LOW	LOW	MODERATE	HIGH	VERY HIGH
	INSTITUTION'S OVERALL NET RISK				

The Commission's Supervisory Intensity Matrix is divided into four zones:

i. **High Intensity** – a registrant falling in this zone will receive a visit at least every two years, either as a full inspection or as a targeted inspection, focusing on areas of higher risk as determined by the assessment.

ii. **Moderate Intensity** – a registrant falling in this zone will receive a visit at least every four years, either as a full inspection or as a targeted inspection, or two thematic inspections.

iii. **Low Intensity** – the registrant will receive a visit at least every six years, either as a full inspection, a targeted inspection, or a thematic inspection.

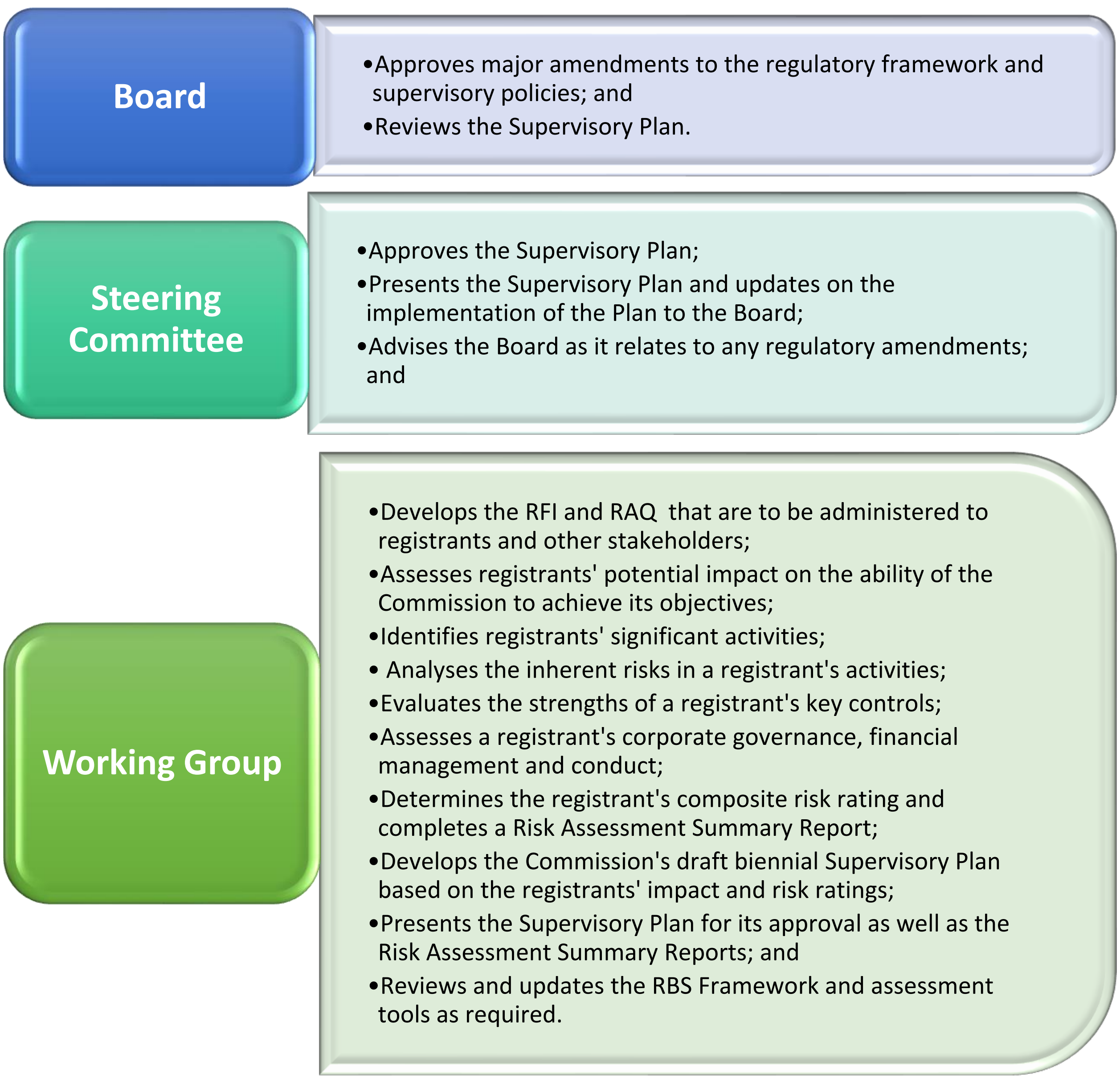
iv. **Very Low Intensity** – the registrant will either receive a visit at least every six years (full inspection, targeted inspection, thematic inspection) or may be required to submit a targeted risk improvement plan to the Commission.

6. Supervisory Governance Structure

The implementation of the RBS Framework is overseen by a Steering Committee and operationally administered by a working group who is responsible for the assessment of registrants and the determination of the Commission's biennial Supervisory Plan.

Figure 8 outlines the main functions of each body.

Figure 8: Supervisory Governance Structure



7. Supervisory Plan

The Commission has a biennial Supervisory Plan which draws from the impact and risk assessment of registrants. The purpose of the plan is to prioritise the inspection of registrants that fall within the high supervisory intensity zone, so doing ensures the optimal allocation of the Commission's resources in the attainment of its objectives. The types of inspections and monitoring includes:

i. **Full Inspection:** a full scope examination of a registrant's activities, policies and practices.
ii. **Targeted Inspection:** limited scope examination that focuses on specific activities, products/ services, or areas of risk.
iii. **Thematic Inspection:** bespoke inspection focusing on specific issues - such as ethical practices, valuation practices, complaints handling, liquidity contingency plans, or transaction monitoring practices – that are common to many registrants.
iv. **Enhanced off-site monitoring:** regular analysis of prudential indicators.

8. Data Sources

The RAQ is a key source of information for input into the Commission's Risk Assessment Tool. The RAQ, seeks to:

- Identify the material risks faced by a registrant.
- Assess the quality of a registrant's:
  - ✓ operational manuals and business continuity plan;
  - ✓ client complaints handling process;
  - ✓ AML/CFT policies and climate change policy;
  - ✓ risk management framework and compliance function;
  - ✓ corporate governance framework;
  - ✓ internal audit and senior management functions;
  - ✓ finances and financial management and conduct.

Other sources of information include registrants' regulatory filings, data provided through the Commission's MMRF, enforcement and integrity cases, inspection reports, and investor complaints.

Appendix I: Risk Indicators

Inherent Risk	Source of Risk	Indicators
Market	Decline in Equity Prices	Equities Value ÷ Capital (excl revaluation reserves)
	Fixed NAV Guarantee crystallizes	Does the firm administer Fixed NAV funds and is there an expectation that the firm will support the guarantee itself?
	Increase in interest rates/ Decline in bond prices	Bond value times average maturity (years) *0.8 ÷ Capital (excl revaluation reserves)
	Devaluation of TT$	FX net (liabilities - assets) ÷ Capital (excl revaluation reserves)
Liquidity	Inability to sell securities in a timely manner to satisfy repo redemptions	Liquid Assets ÷ Repo Liabilities
	Insufficient liquidity to satisfy sudden CIS redemptions	Liquid assets in Fixed NAV Funds ÷ AUM (Fixed NAV Funds)
	Increase in interest rates	Interest ÷ Annual EBITDA
Operational & Technological	Inadequate information management systems; inadequate records and processes; Fraud; Inadequate recruitment; inadequate training	Please describe to what extent your Operational Manuals for front office and back office operations been ISO certified/ approved by board / reviewed by internal or external auditors for completeness and accuracy? When were your Operational Manuals for front office and back office operations last given a substantial review/overhaul? For operational staff, what was the average number of hours of training per person they received last year? Please describe the key components of your IT back up plan.

Inherent Risk	Source of Risk	Indicators
		Client money ÷ Capital
Legal & Regulatory	Weak client complaints handling practices	Please describe the complaints process.
	Risk of infractions adversely affecting market confidence	Number of investigation and enforcement cases opened during the past two years. Were any of them related to integrity issues? Number of complaints received by Commission in past two years. Was integrity at the heart of any of the complaints received?
	A high number of different business activities	Do the significant activities carry higher legal & regulatory risk?
ML/FT	Offshore clients	What percentage of clients are foreign resident?
	Cash transactions	Do you accept amounts of over 50,000 TTD (or equiv.) in cash or cryptocurrency from clients?
	Black listed jurisdictions	Do you accept direct funds transfers from FATF list jurisdictions (grey/black lists)?
	PEP clients	Percentage of clients who are PEPs within their countries of residence or persons connected to a PEP (family and close associates)?

Inherent Risk	Source of Risk	Indicators
	Higher risk jurisdictions	Is the firm known for offering services to South America and other locations of ML/FT interest?
	Anonymous transactions	Has the firm ever facilitated funds transfers to accounts not in the name of the client (inside or outside Trinidad and Tobago)?
Climate	Climate change policies	Does the firm have a board-approved policy on sustainability and climate change? What does it cover? Has the firm ever carried out a review of the potential impact of climate change on the business model and services and products of the firm? Did the results go to the board? If no such review has been carried out, are there any plans to do so? Has the firm ever carried out a review of the potential impacts of climate change on the value of assets held by the firm, by funds, or by clients, including in particular the impact of "transition risks" of policy changes at international and national level, such as the introduction of carbon pricing, carbon accounting by funds, mandatory carbon-related disclosures by issuers? If no such review has been carried out, are there any plans to do so?
Other	There are risks that are specific to very few firms in Trinidad and Tobago, for which it would be imprudent to create standing indicators, but which nevertheless should be considered in the assessment of those firms.	Is there anything about the business model or financial structure of the firm that creates an elevated risk?