



TTSEC responses to comments from the Second Round of Public Consultations (May 7th 2024, to June 11th, 2024)  
Draft Risk-Based Capital and Liquidity Requirements Bye-Laws, 2023

#	Bye-Law #	Bye-Law Name	Market Comments and Proposed Revisions	TTSEC Responses/Comments
1	6	Definitions	Should the term “financial organisation’s” in the definition of "foreign currency risk" of the RBCAL Bye-laws be “registrant’s” instead, given that the term registrant is used in bye-law 22 and elsewhere?	<b>STAFF AGREED</b> -the definition of “foreign currency risk” was amended as follows “ <i>foreign currency risk means the risk that a registrant’s financial performance or position will be affected by fluctuations in the exchange rates between currencies.</i> ”
2	6	Definitions	"Credit Rating" - should there be reference to a specific standards setting body? Consider using general language referring to appropriate/such ratings as prescribed by recognised credit rating agency.	The information is included in the Reporting Forms and Instructions.
3	6	Definitions	It is suggested that consideration be given to amending the definition of “capital charge” to distinguish it from the definition of “qualifying capital” and make it clear that it is the amount of capital as determined by application of a specified percentage.	<b>STAFF AGREED</b> – The definition of “capital charge” was amended to “capital requirements” to provide a clear distinction between the aforementioned and qualifying capital.



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4	6	Definitions	Consideration may be given to re-drafting the definition of “fixed net asset value” as follows: “means the redemption price guarantee provided by the CIS manager regardless of the current net asset value of the CIS.”	<b>STAFF AMENDED</b> - Definition included for “fixed NAV CIS” guarantee to mean “ <i>the redemption price guarantee provided by the CIS manager regardless of the current net asset value of the CIS.</i> ”
5	6	Definitions	Recommend rewording the definition for "operational risk".	The TTSEC's definition is aligned to the Financial Institutions Capital Adequacy Regulations 2020. No change required.
6	6	Definitions	Exceptional costs - would "commissions" be considered exceptional as it is a variable cost, directly linked to revenue.	Bye-law 6 defines Exceptional costs as unanticipated material expenses which arise from an entity’s ordinary business activities;
7	7	Liquidity Requirements	Consider amending bye-law 7.4.a. to state, “including in stress scenarios referred to under bye-law 38(2)” for precision in setting out the requirement.	<b>STAFF AGREED</b> -Bye-law 7(4)(a) was amended as follows “ <i>A registrant and an SRO shall also have, at all times: such additional liquid assets as the registrant or SRO deems necessary to ensure it can continue to meets its obligations as they fall due, including in stress scenarios referred to under Bye-law 38.</i> ” The RBCAL forms were also revised to include a line item for reporting on Additional Liquid Assets as per Bye-law 7(3).
8	7	Liquidity Requirements	Banking entities which are subject to the requirements of the Central Bank of Trinidad and Tobago’s Liquidity Coverage Ratio (LCR) be expressly exempted from the liquidity requirements under TTSEC's Bye Laws as there is limited value in assessing the bank's	Dually registered entities which are commercial banks will be allowed to apply for an exemption under Part VII of the RBCAL Bye-Laws.



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			liquidity risk when tested under normal conditions only. More useful information is determined if the Bank is tested under stressed or crisis market conditions.	
9	7	Liquidity Requirements	Consider including "a minimum of" as follows: 1. before six months, 2. before fifteen percent and 3. before six months	<b>STAFF AGREE</b> -Bye law 17 (1)-(3) were amended to included "a minimum of".
10	7	Liquidity Requirements	Clarification should be provided for what six month period of operational expenses to be used in the calculation of liquid assets for the registrant.	The RBCAL forms and instructions states that operational expenses should be taken from the Registrant's last audited financial statement. <b>STAFF AMENDED</b> -Bye-law 7 (1) and (3) were amended to include " <i>as per the Registrant's most recent audited financial statement.</i> "
11	8	Liquid Assets	The TTSEC is asked to reconsider the removal of underlying collateral securities of Repos from liquid assets. By excluding encumbered assets, liquidity is understated.	The TTSEC is unable to facilitate the recommendation provided. The TTSEC views Collateral used in Repos as encumbered and therefore do not meet the definition of liquid assets.
12	8	Liquid Assets	The TTSEC is asked to reconsider the removal of Fixed NAV domestic CISs from eligible liquid assets.	The Fixed Nav CISs pose a financial stability risk to the Securities Market in Trinidad and Tobago. If registrants are required to draw on their liquid assets, this could trigger large redemptions from Fixed NAV funds which might in turn, prompt a redemption/liquidity shock in those funds which are not well-placed to deal with given current holdings of long-term instruments.



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13	8	Liquid Assets	Consider defining "Stock Exchange" in Bye-law 6 of the Definitions Section. In future there can be additional Stock Exchanges in our jurisdiction.	<b>STAFF AMENDED</b> – Bye-law 7 (1) (c) was amended to include “or any other securities exchange registered under this Act”.
14	8	Liquid Assets	Will a list of sovereign bonds issued by the Organisation for Economic Co-operation and Development countries and listed and traded on regulated markets in the OECD countries be available.	A link to the list of OECD countries will be provided in the online instructions for the Risk-Based Capital and Liquidity Requirements Reporting Forms.
15	8	Liquid Assets	The Bye-Laws state that for an asset to be liquid, it must be unencumbered. A request is made for the surplus collateral or margin to be considered as liquid assets.	Repo margin requirements are required under the Trinidad and Tobago Securities and Exchange Commission’s Sale and Repurchase Agreements Guidelines 2018. These requirements are meant to facilitate the price volatility of underlying securities. As a result, the Commission is unable to facilitate changes regarding same.
16	8	Liquid Assets	The Bye-Laws include - "Other assets held in such form as approved by the TTSEC" - is there a list ? What is the process to have it approved?	The TTSEC reserves the right to designate assets other than those listed in Bye-law 8(1)(a) - (h) as liquid assets via order of the Board of Commissioners
18	11	Common Equity Tier 1 Capital	“statutory reserve fund” is not defined in Bye-law 6.	<b>STAFF AMENDED</b> – Bye -law 6 was amended to include the definition for Statutory Reserve Fund as follows “ <i>statutory reserve fund means the mandatory amounts that a registrant or self-regulatory organisation may be required to hold as per legislative requirements</i> ”



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19	11	Common Equity Tier 1 Capital	In relation to paragraph 11(b), the term “statutory fund” is not defined.	<b>STAFF AMENDED</b> - Definition included.
20	11	Tier 1 Capital	Why does the Capital reserve exclude the asset revaluation reserve. This is not excluded under Basel or the Capital Adequacy Regulations under the Insurance Act. If assets are sold at that time it would be included in retained earnings.	The purpose of a capital requirement is to ensure that sufficient capital is held to absorb a reasonable level of losses associated with the firm’s business. The TTSEC’s current definition of qualifying capital broadly refers to balance sheet capital, much of which may not be able to absorb losses (for example: revaluation reserves, unrealized profits, statutory reserves, etc). The CBTTs prudential framework , which is based on Bank for International Settlements (BIS), has a definition of capital that seeks to limit qualifying capital only to capital that is useful for absorbing losses. The TTSEC has adopted a similar approach. As such, no change required.
21	15	Capital Requirement	Increased Clarity – 1. Is the amount under bye-law 15 (1) (c ) intended to be in any form, as distinct from the risk-based capital add-on referred to in Bye-laws 32 (3) to 32 (5)? 2. Please consider if the word ‘additional’ should be inserted after the word “amount” at the beginning of Bye- law 15 (1) (c )	1. The amount required under Bye-law 15(1) (c) is distinct from Bye-law 32(2)- (5). 2. The inclusion of the word “additional” is not necessary.



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22	15	Capital Requirement	It is not clear that the term “minimum capital requirement” in paragraph 15 (1) (a) is one and the same as “minimum qualifying capital”.	<b>STAFF AMENDED</b> - Amendments made to Bye-laws 15 (2) (a) and 15 (3) to state minimum capital requirement.
23	16	Minimum Capital Requirement	Can this section be clarified to indicate whether the prescribed capital to be held by registrants is that listed under Bye Law 8 - Liquid Assets.	<b>STAFF AMENDED-</b> Capital requirements shall be held as outlined in Bye-law 8. Amendments included for clarification in Bye-law 15.
24	16	Minimum Capital Requirement	For the purposes of Liquidity, the 5million capital requirement of unencumbered GORTT bonds as an example, can these form part of the liquid assets that can be used as part of the 15% of maturing repos in 3 months? If these are sold, organisations may no longer meet the capital requirements.	Yes, once the asset is included in the category of the liquid assets it can be considered towards the 15% of maturing Repos in 3 months. GORTT is currently on the list of liquid assets.
25	16	Minimum Capital Requirement	The question arises as to whether there is a need to revoke Bye-Law 27 (1)(c)of the Securities (General) Bye-Laws 2015.	Bye-law 27 and 28 of the Securities (General) Bye-Laws will be revoked.
26	16	Minimum Capital Requirement	Will the Form 24 be updated to reflect the capital requirements.	The Risk Based Capital and Liquidity Requirements ("RBCAL") forms would replace the TTSEC's Form 24.



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27	20	General Interest Rate Risk Requirement	The word “prescribed” should be amended to read ‘specified’ or ‘published’ by the Central Bank (CBTT) in light of the meaning of the term ‘prescribed’ in section 79 of the Interpretation Act.	<b>STAFF AMENDED</b> – Bye law 20 was amended as follows “ <i>For the purposes of these Bye-laws, the Standardized Trinidad and Tobago Treasury Yield Curve as published by the Central Bank shall be used in determining the general interest rate risk requirement.</i> ”
28	20	General Interest Rate Risk Requirement	Could an explanation be provided on the difference between General Interest Rate Risk and Specific Interest Rate Risk?	The general interest rate risk requirement reflects the sensitivity of interest rate bearing instruments to changes in yields in the market. The specific interest rate risk requirement reflects the exposure to the specific issuer of the instrument
29	20	General Interest Rate Risk Requirement	Will the maturity bands, modified duration conversion factors and assumed changes in yield be posted prior to the end of the quarter for the reporting period?	The conversion factors are included in the RBCAL forms.



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30	20	General Interest Rate Risk Requirement	How are the specific Duration factors and the Assumed change in yields calculated	<p>The TTSEC would utilise the CBTT Standardized Trinidad and Tobago Yield Curve to determine the modified duration conversion factors used in the calculation of the general interest rate risk charge. The TTSEC would include these factors in the Risk-Based Capital and Liquidity Requirements Reporting Forms.</p> <p>The Duration proxy is determined based on the CBTT yield curve assuming the issuance is a plain vanilla bond with 5% coupon and 5 years to maturity. The assumed change in yields was taken from the Bank of International Settlements.</p> <p>The price sensitivity of each security is determined by assuming a change in yields between 0.65% and 1.00% depending on the remaining time to maturity zone.</p>
31	20	General Interest Rate Risk Requirement	Considering rewording phrase "posting on the website" to "posting this information on the website"	<b>STAFF AMENDED</b> – Bye-law 20 was amended to include "this information."
32	21	Specific Interest Rate Risk Requirement	Does the reference to "lower" in 22(5) mean less credit risk or lower credit rating ?	Bye- law 21 (5) refers to a lower credit rating.





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33	22	Foreign Currency Risk Requirement	Paragraph 22 (2) speaks to “net long position” and “net short position.” These should be amended to “net long foreign currency position” and “net short foreign currency position,” respectively.	<b>STAFF AMENDED</b> – Bye-law 22 (2) was amended to include “net long foreign currency position”.
34	22	Foreign Currency Risk Requirement	If a CIS has assets and liabilities, inflows and outflows denominated in the same currency (eg USD Mutual Fund) then is there a Foreign Currency Risk Requirement?	Only Fixed Nav fund managers would have an additional capital requirement based on the market risk of the Fixed NAV CIS. If the Fixed NAV CIS is a USD denominated fund then the foreign exchange capital charge will be applicable.
35	22	Foreign Currency Risk Requirement	Why should there be a Capital Charge for a net long foreign currency position in USD? It is economically beneficial to have your assets denominated in a strong currency.	The foreign exchange risk capital charge is consistent with international standards and is intended to capture the risk inherent in holding currencies that may fluctuate relative to the domestic currency.
36	22	Foreign Currency Risk Requirement	We do not support a net long USD position requiring an additional capital.	The foreign currency risk requirement provides a buffer for foreign currency fluctuations and addresses the potential for imbalances of foreign assets and liabilities. Considering the local perspective on foreign currency, the original 10 percent capital charge was reduced to 2 percent for net long position.



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37	23	Equity Risk Requirement	Equity should be excluded in the Equity Risk.	<p><b>STAFF AMENDED -</b></p> <p>According to BIS, Specific risk is defined as the bank’s gross equity positions (ie the sum of all long equity positions and all short equity positions) and general market risk as the difference between the sum of the longs and the sum of the shorts (ie the overall net position in an equity market). Short positions do not exist in the T&amp;T market therefore only Specific risk will be applicable to Equity Market Risk.</p> <p>As such the equity charge is adjusted to 8%.</p>
38	26	Capital Charge of the Risk to Client Assets Under Management	Does the AUM include assets held in trust? For example, pension plans.	Investment management activity (whether it be for a pension plan, savings plan or CIS) is susceptible to operational risk and this can directly impact the interests, rights and assets of clients, and for which a firm will be liable. A separate risk also arises when a firm has direct control over client assets held in custody or safekeeping. The capital charge of the risk to client assets in safekeeping would not apply to firms that do not have discretionary control over client assets in custody.



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39	27	Capital Charge of the Risk to Client Assets in Safekeeping	All assets in safekeeping are segregated from own book. The assets are not used for trading, repos nor for lending. There is no counterparty risk.	Operational risk exist when client funds are held by the registrant. This activity is highly exposed to errors and misconduct that may harm the interests, rights, and assets of clients, which the firm would be liable to make good. Although the TTSEC regulations require client monies to be held in separate bank accounts, the monies remain in direct control of the firm and often on a firm's own balance sheet.
40	27	Capital Charge of the Risk to Client Assets in Safekeeping	Assets in safe keeping, both cash and investments, can you give clarification on "under instruction from the registrant"? The registrant cannot withdraw cash from the investor account without written consent. Only Discretionary accounts, the registrant can invest on behalf of the client.	Bye-law 27 (4) (a) Client assets in safekeeping includes; investments held by another party but under instruction from the registrant, rather than from the investor. Where an asset manager outsources the investment management function; the capital charge is still applicable to the original asset manager.
41	29	Fixed NAV CISs	The wording relating to "be held separately" should be defined further to clarify if it is meant to be a capital reserve account as per TTSEC comments. Also please clarity if it is intended to be a part of equity.	Yes the amount is to be held as a Fixed NAV reserve and can be included as part of equity.
42	29	Fixed NAV CISs	FNAV not defined in definitions.	<b>STAFF AMENDED</b> - Bye-Laws 28 and 29(4)(b) have been amended



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43	31	Underwriting Risk Requirement	<p>Bye-law 16 (1) (d) seems to be in line with the existing criteria whereby underwriters must have a minimum qualifying capital of TTD5million.</p> <p>Bye-law 31 seems to speak of an (additional) capital requirement of 5percent of the value of the underwritten. Is this a new requirement? Can the TTSEC provide an example of how this calculation would work, possibly with multiple underwritten securities?</p>	<p>As per the "<a href="#">Guidelines on Capital Requirements for Underwriters and Issuers of Asset Backed Securities 2006</a>", underwriters are required to demonstrate that they have capital of five percent (5%) of the value of the transaction.</p>



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44	32	Supervisory review and evaluation process	This section was not in the first draft. Can further clarification be provided on this.	<p>Noteworthy is that a supervisory review and evaluation process ('SREP') of whether capital is appropriate to the particular firm is an important component of international standards, as elaborated by the BIS. The BIS approach is based on three 'Pillars':</p> <p>Pillar 1: Minimum standards – analogous to what is currently in the CIS bye-laws.</p> <p>Pillar 2: Supervisory review.</p> <p>Pillar 3: Disclosure and market discipline.</p> <p>The TTSEC acknowledges the benefit of having an additional supervisory tool which enables them to adjust capital holdings in response to firm-specific risks. This would align well with the risk-based approach currently being implemented and the biennial risk-based assessments being introduced as a result, which could inform decisions as to whether a supervisory review is required.</p>



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45	32	Supervisory review and evaluation process	<p>Increased Clarity – It is suggested that Bye-law 32 (5) (c ) of these Bye-laws be amended as follows:</p> <p>“The capital add-on referred to in paragraphs (3) and (4) may take the form of any or all of the following:</p> <p>(a) ...</p> <p>(b) A requirement to hold a specified amount or proportion of its capital in a more restricted list of instruments than that indicated in Bye-law 8, as required by the Commission.”</p>	<b>STAFF AMENDED</b> - Bye-Law 32(5)(b) and (c) were merged into Bye-law 32(5)(b).
46	32	Supervisory review and evaluation process	<p>Consideration should be given to re-locating Bye-law 32 to its own Part as it addresses the supervisory review and evaluation process as it relates to liquidity requirements under Part II and capital requirements under Part IV. Accordingly it should not be located in Part IV which deals only with capital requirements to the exclusion of liquidity requirements.</p>	<b>STAFF AMENDED</b> - The supervisory review and evaluation process (SREP) is now included in a separate section (Part V).



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47	34	Quarterly Reports	Currently the MMRF is required to be submitted within thirty (30) days following the end of the quarter. Can the TTSEC clarify whether there will be a reworking of the MMRF to include the requirements of the Quarterly Reports considering that the MMRF is already used by the TTSEC to monitor the liquidity in particular of Fixed NAV CIS's or would this quarterly report be in addition to the MMRF.	The MMRF and the RBCAL forms will be required to be reported separately on a quarterly basis.
48	35	Additional Reporting Requirements	The reporting requirement states to inform the TTSEC within 30 days should the qualifying capital fall below 125% of the total capital. Are broker dealers required to hold an extra 25% Capital to satisfy this provision. For example, should the Capital Requirement for the line of business be 6 million dollars, are we required to now hold 7.5 million dollars. The by-law identifies this qualifying capital as "minimum" is that 125% already reflected in this minimum value?	The additional reporting requirements requiring firms to monitor their capital and liquidity on a monthly basis throughout the quarter and to report any instance where their qualifying capital falls below 125% of their total capital requirement.



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49	35	Additional Reporting Requirements	Will TTSEC provide templates for this? Does the form calculate this %, if not , maybe it should be included.	The TTSEC will advise firms as to the notification method.
50	35	Additional Reporting Requirements	This point states reporting 30 days of each quarterly period in the calendar year but in section 34 Quarterly Reports - says thirty days the end of each quarterly period in the financial year.	The Transitional period in Bye-law 42 will be based on the calendar year when the Bye-laws are enacted. The Additional Reporting requirements will commence after the Transitional period.
51	40	Imposition of Penalty	Identify the associated penalties which apply under the Act.	Penalties and/or Administrative fines are in accordance with the SA 2012.
52	42	Transitional Provisions	Bye-Law 42 (2) - Should the Bye-law being referred to be 16 (1) rather than 16 (2).	<b>STAFF AMENDED</b> - Reference is made to Bye-Law 16.