St. Vincent and the Grenadines
Financial Services Authority ("the Authority" or "the FSA")

Statement of Guidance
Large Exposures and Credit Risk Concentration for International Banks

1. Statement of Objectives:

To provide guidance to international banks (banks) on large exposures pursuant to Section 31 of the *International Banks Act*, Chapter 99 of the Revised Laws of Saint Vincent and the Grenadines, 2009 ('the International Banks Act' or 'the Act').

2. Application:

(i) This guidance applies to a bank both on an unconsolidated (solo) basis, and on a consolidated basis inclusive of its subsidiaries and associated companies

(ii) These guidelines require a bank to establish and implement policies, practices and procedures relating to**:**

i. Credit granting and investment decisions;
ii. Large exposures and credit risk concentrations to single or closely related borrowers, group of connected counterparties, related counterparties, economic sectors and countries; and
iii. Monitoring and reporting[1] of large exposures.

Policy documents are to be maintained in writing and made available to the FSA on request.

(iii) **Definitions:**

i. An exposure includes all loans and advances (including overdrafts), securities, investments, promissory notes, guarantees, letters of credit, placements with another banking institution or any other instrument that may expose the bank to a loss.
ii. An exposure is the maximum loss including accrued interest that a bank may suffer if a counterparty fails to meet its obligations.
iii. A large exposure means any exposure that exceeds 25 per cent of a bank's capital base.
iv. The capital base means the consolidated total capital of a company as defined for the purpose of calculating its risk based capital adequacy ratio: the sum of Tier I and Tier II capital less goodwill and other intangible assets, capital investments in affiliates and other financial institutions and any other

[1] **Reporting Requirements** – A bank must report all large exposures (as defined) on a quarterly basis as part of its quarterly returns submission to the FSA

adjustments determined by the Authority. The capital base usually consists of paid-up capital plus retained earnings.

v. A counterparty is any party with whom a bank has an exposure.

vi. A related counterparty is a counterparty that is linked to the bank and includes:

a. Any parent, subsidiary, or sister company that together with the bank constitutes a group;
b. associated entities (in which the bank owns at least 20% but less than half of the voting shares);
c. A natural person who is a director, controlling shareholder, senior officer, or otherwise has control of the bank, or any business partner of immediate relative of such individual; and
d. Any company of which any of the persons referred to in (v) c. above is a director, controlling shareholder and senior officer or has control.

(iv) **A Bank's Policy Statements on Large Exposures and Credit Risk:**

i) A bank must adopt internal policies and internal limits that will ensure compliance with the exposure limits set out in (v) through (ix) below.
ii) A bank must have adequate information systems to identify and measure its large exposures and identify any breaches of the policy and guideline limits.
iii) Any breaches of these rules must be reported directly to the bank's board of directors.
iv) A bank must assign a designated officer (e.g. compliance officer), to monitor large exposures to ensure the bank's compliance with the limits established by the guideline and the bank's internal limits.
v) A bank should monitor concentration to a particular country, geographic region, economic sector and an individual. Systems for monitoring and determining such exposures and the bank's policy should be in line with the size, nature and complexity of the bank's operations.
vi) A bank's large exposure policy will be reviewed by the Authority either by requesting a copy of that statement during the offsite supervision process or during an onsite examination.

(v) **Single Exposure Limits:**

i) A bank must not incur exposures to an individual counterparty or group of connected parties that exceeds 25 % of its capital base, without the prior written approval of the Authority.

Large Exposure Limits by Subsidiaries

A company that is the subsidiary of a parent regulated international bank may have an exposure to any entity or connection that is no greater than 100 per cent of the total capital of the subsidiary. Notwithstanding this limit, it is expected subsidiary companies will establish lower internal limits and that the 100 per cent regulatory limit will be employed only on an exceptional basis.

- These subsidiaries must notify the Authority of any exposure to one entity or connection that exceeds 50 per cent of their total capital. Exposures that increase to an amount greater than 50 per cent of capital because of changes in exchange rates need not be reported upon that occurrence, but will be reviewed as part of the examination process.

- The 100 per cent of the total capital limit is contingent upon the following criteria being met:

    - the parent bank is made aware of and has sanctioned exposures greater than 50 per cent of the total capital of the bank subsidiary;
    - the parent bank and the subsidiary are adequately supervised consistent with the minimum standards for supervision published by the Basle Committee on Banking Supervision in June 1992;
    - the parent bank is, in the opinion of the Authority, a continuing source of financial strength for the subsidiary; and
    - there are no legal, regulatory, statutory or fiscal restrictions in the parent's home jurisdiction to obtaining capital from the parent in the event of losses.

Failure to meet all of the above conditions will result in the Authority reducing the limit to not lower than 25 per cent of the total capital of the bank subsidiary.

Parent Guarantees

A company may not use a guarantee from its parent or an affiliate to reduce an exposure to an amount within the limits prescribed in this guideline.

ii) A bank must not invest in the shares of an entity so that the value of the investment exceeds ten per cent of the capital base of the bank without the approval of the Authority[2].

(vi) **Related Counterparty Limits:**

Exposures to related parties are further restricted by the Act and this guideline as follows:

i) Exposures to shareholders and the directors of a bank, in aggregate, may not exceed 5 % of the capital base of the bank[3].

[2] Section 17 (f) of the International Banks Act.

[3] Section 17 (1)(a) of the International Banks Act.

ii) Unsecured exposures to or on behalf of related parties may not exceed, in aggregate, the greater of US $250,000 or 1 % of capital[4].
iii) Unsecured exposures to officers or employees may not exceed one year's emoluments[5].
iv) Investments in shares or ownership interests in entities by the bank or its subsidiaries, in aggregate, may not exceed 70 per cent of the capital base of the bank[6].

(vii) **Investments in Collective Investments, Mutual Funds, Hedge Funds and Similar Investments:**

Exposures to such funds should be measured at the individual fund level, and not to each of the underlying individual investments within the fund. In some instances, as provided by Section (x), *see below*, the Authority may permit a bank's exposure to a particular fund to exceed 25% of its capital, subject to the Authority's prior approval. In reviewing such situations, the Authority will examine factors that include the source of funding (i.e. depositors, versus group funds), track record and the investment manager.

(viii) **Exposures secured by cash and certificates of deposit (CDs):**

An exposure secured by cash (including CDs issued by the bank) held by a bank is exempt from the limits contained in Section (v) of this guideline, provided that:

i. Both the exposure and deposit are made in the same country and currency;
ii. The deposit that secures the exposure must have the same or longer maturity than the exposure; and
iii. The bank must have a legal opinion that confirms the right of set-off between the deposit and the exposure.

(ix) **Exposures to Regulated Banks and Insurance Companies:**

The following exposures are exempted from the Authority's large exposure guideline;

Placements such as deposits at regulated banks and insurance companies. Such deposits to any one bank or insurance company are limited to 200 per cent of the bank's capital base.

(x) **Additional Limits:**

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4 Section 17(1)(b) of the International Banks Act.

5 Section 17(d) of the International Banks Act.

6 Section 18(b) of the International Banks Act.

Notwithstanding any limits or exemptions provided by this Guidance Note, the Authority may on a case-by case basis:

i. Limit and vary the availability and amount of any exemption provided by the Guidance Note.
ii. Require a bank to limit its exposures to any entity, country, economic sector or otherwise as the Authority may determine.

(xi) **Enforcement:**

If a bank breaches any of the Large Exposure Guidelines, the Authority may take any action it deems appropriate as authorized by the Financial Services Authority Act and/or the International Banks Act, including but not restricted to the imposition of sanctions and suspension of licenses. Sanctions imposed may also be publicly posted on the FSA's website.

Issued on the 11th day of February, 2016 by the Financial Services Authority.