

Cayman Islands Monetary Authority

SUMMARY OF PRIVATE SECTOR CONSULTATION AND FEEDBACK STATEMENT



Rule: Management of Credit Risk and Problem Assets

Statement of Guidance: Credit Risk Classification, Provisioning and Management

Section of proposed Measures	Industry Comment	Authority's response	Consequent amendments to the draft Requirements
Rule: Management of Credit Risk and Problem Assets (Comments in red did not relate to the changes made to the Measures by the Authority)			
4.4	the wording "...minimize and control the risk of loss to the Credit Holder". The risk of credit loss is something that is difficult to actually control. As such we feel that "controls designed to minimize..." may be more appropriate wording.	The Authority has no objection to the suggested wording.	Amended to read: "...appropriate measures and applying suitable controls designed to minimise and control the risk of loss to the Credit Risk Holder.
5.2.3	"asset losses". The term "asset" here seems somewhat broad. Is 'credit losses' more appropriate in the context of this rule?	The Authority has no objection to the suggested wording.	Amended to read: "... credit losses ..."
5.3.3	With regard to the authorization of loans to related individuals and	Restricting related party lending to "an exception basis" aligns with the Basel	No amendment.

<p>5.5.3</p>	<p>companies the rule suggests that approval be on an exception basis. All institutions should have documented procedures and guidelines around the approval of facilities to such parties so as such the approval cannot strictly be an 'exception' to existing processes.</p> <p>Would it be more appropriate to state that facilities to related parties should not be a regular occurring feature of the loan book and that vetting and approval of such facilities must be in accordance with established internal procedures and guidelines in this regard?</p>	<p>Committee on Banking Supervision's Principles for the Management of Credit Risk Basel Committee on Banking Supervision Basel.</p>	
<p>1. Will the asset classification categories as listed in the Guidance Notes for the Comparison of the Basel II Forms and QPRs (page 102) be amended to reflect the definitions listed here?</p> <p>2. The definitions listed at 5.5.3 appear to leave little difference between Doubtful and Loss.</p>	<p>1. The Authority Is in the final stage of incorporating the QPR forms into the Regulatory Enhanced Electronic Forms Submission ("REEFS") system. As the incorporation of the QPR into REEFS is in the final stages, the Authority is not in a position to make further changes to the QPR forms at this time. Therefore, the Authority will issue a Circular Letter to present interim adjustments to the QPR in order for banks to provide data that is in accordance with their applicable accounting standard. The QPR form will be fully updated once it is live in the REEFS system.</p> <p>The Guidance Notes for the Comparison of the Basel II Forms and QPRs will be updated to reflect the definitions noted in the Rule.</p> <p>2. Understandably, there is a thin line between doubtful and loss. The real difference is, as noted in Annex 1 of</p>	<p>No amendments to the Rule however the Guidance Notes for the Basel II Forms and QPRs will be revised to reflect the definitions noted in this Rule.</p>	

		<p>the Statement of Guidance (SoG), with respect to the payment of principal and interest:</p> <table border="1" data-bbox="251 556 446 1092"> <tr> <th colspan="2" data-bbox="251 556 292 1092">Payments of Principal & Interest</th> </tr> <tr> <td data-bbox="292 556 397 934">Doubtful:</td> <td data-bbox="292 934 397 1092">At risk. Collection of the facility in full is improbable.</td> </tr> <tr> <td data-bbox="397 556 446 934">Loss:</td> <td data-bbox="397 934 446 1092">Not supportable.</td> </tr> </table>	Payments of Principal & Interest		Doubtful:	At risk. Collection of the facility in full is improbable.	Loss:	Not supportable.
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Doubtful:	At risk. Collection of the facility in full is improbable.							
Loss:	Not supportable.							
5.10	<p>Can a definition of what the Authority considers to be an "Adversely Classified Asset" be included within Rule 4?</p>	<p>See also 5.3 of the SoG.</p> <p>5.5.2 of the Rule states that Credit Risk Holders, at a minimum, must adversely classify assets when they are contractually in arrears.</p> <p>The Authority encourages entities to move toward a risk based approach to their management of risk and recognises that each Credit Risk Holder may have a stricter definition based their own business model.</p>						
5.12.3	<p>Suggest amending "...support reclassifications..." to "...support upwards reclassifications..."</p>	<p>The Authority has no objection to revising the wording for further clarity.</p>						
5.13.1	<p>Regarding the statement "Assets classified as Loss must be fully written off within 3 months" does this mean 90 calendar days (e.g. say February 20th) or is by the end of the next calendar month sufficient?</p>	<p>Amended to read: "...within 3 months 90 calendar days."</p>						
Statement of Guidance: Credit Risk Classification, Provisioning and Management								
13.2	<p>What does "intervene" mean in this context? As this seems broad can wording be included or amended to the</p>	<p>The Authority's use of discretion to intervene cannot be restricted to just one course. There are other ways in which</p>						

	<p>effect that the Authority may direct the license holder to provide further amounts in cases where the Authority deems amounts provided to be inadequate?</p>	<p>the Authority's discretion to intervene can be used outside of just simply directing that further provisions be made.</p>	
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