



Barbados' National Discretion Items

CREDIT RISK AND CREDIT RISK MITIGATION

| Paragraph ¹ | National Discretion Item | The Central Bank of Barbados' (CBB) Comments |
|------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | Claims on sovereigns | |
| 54 (a) | Recognise the lower risk weights of other supervisory authorities for domestic currency sovereign exposures and allow banks to apply the same risk weight to domestic currency exposures to their sovereign (or central bank) funded in that currency. | Claims on sovereigns and their central banks will be risk weighted in accordance with ECAI or ECA scores. However, Barbados Government Debt or Central Bank Debt or Government guaranteed debt denominated and funded in domestic currency to be risk weighted at 0. |
| 54 (b) | Where the discretion above is exercised, other national supervisory authorities may also permit their banks to apply the same risk weight to domestic currency exposures to this sovereign (or central bank) funded in that currency. | CBB proposes to exercise this discretion. |
| 201 | Similar to paragraph 54, extend this treatment to portions of claims guaranteed by the sovereign (or central bank), where the guarantee is denominated in the domestic currency and the exposure is funded in that currency. | CBB proposes to exercise this discretion. |
| 55 | Allow the recognition of export credit agencies' country risk scores for risk weighting claims on sovereign exposures. | CBB proposes to exercise this discretion. |
| 56 | Allow claims on the Bank for International Settlements, the International Monetary Fund, the European Central Bank and the European Community to receive a 0% risk weight. | CBB proposes to exercise this discretion. |

¹ The paragraph numbers in this document refer to the paragraphs within the Basel Committee on Banking Supervision's document entitled: International Convergence of Capital Measurements and Capital Standards – A Revised Framework, Comprehensive Version, June 2006.

| Paragraph | National Discretion Item | The Central Bank of Barbados' (CBB) Comments |
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| | Claims on Public Sector Entities (PSEs) | |
| 57 | Claims on domestic PSEs to be risk-weighted using either option 1 or option 2 for claims on banks. | The Bank proposes to require banks to use Option 1; therefore claims on PSEs would receive one category less favourable than the sovereign weighting. |
| 58 (a) | Claims on certain domestic public sector entities (PSEs) may be treated as claims on the sovereigns in whose jurisdictions the PSEs are established. | CBB does not propose to exercise this discretion. |
| 58 (b) | Where this discretion is exercised, other national supervisors may allow their banks to risk weight claims on such PSEs in the same manner. | CBB does not propose to exercise this discretion. |

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| | Claims on Public Sector Entities (PSEs) | |
| 57 | Claims on domestic PSEs to be risk-weighted using either option 1 or option 2 for claims on banks. | The Bank proposes to require banks to use Option 1; therefore claims on PSEs would receive one category less favourable than the sovereign weighting. |
| 58 (a) | Claims on certain domestic public sector entities (PSEs) may be treated as claims on the sovereigns in whose jurisdictions the PSEs are established. | CBB proposes to exercise this discretion when such claims are guaranteed by the government of Barbados. |
| 58 (b) | Where this discretion is exercised, other national supervisors may allow their banks to risk weight claims on such PSEs in the same manner. | CBB proposes to exercise this discretion. |

| Paragraph | National Discretion Item | The Central Bank of Barbados' (CBB) Comments |
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| | Claims on Banks and Trust & Finance Companies | |
| 60 - 63 | <p>Require banks to risk weight claims on banks using either of the two options below:</p> <ul style="list-style-type: none"> • Under Option 1, all banks incorporated in a given country will be assigned a risk weight one category less favourable than that assigned to claims on the sovereign of incorporation. However, for claims to banks in sovereigns rated BB+ to B- and to banks in unrated countries the risk weight will be capped at 100%; or • Under Option 2 a banks' risk weighting is based on the external credit assessment of the bank itself. | <p>The Bank proposes to require banks to adopt Option 1 e. one risk-weight lower than the Sovereign risk weight. Barbados has adopted the preferential treatment for domestic sovereign debt. However, for banks where the sovereign of incorporation is lower rated or unrated, the risk weight is capped at 100%.</p> |
| 64 | <p>When the national supervisor has chosen to apply the preferential treatment for claims on the sovereign as described in paragraph 54, it can also assign, under both options 1 and 2, a risk weight that is one category less favourable than that assigned to claims on the sovereign, subject to a floor of 20%, to claims on banks of an original maturity of three months or less denominated and funded in the domestic currency. This treatment will be available to both rated and unrated bank claims, but not to banks risk weighted at 150%.</p> | <p>CBB proposes to exercise this discretion.</p> |

| Paragraph | National Discretion Item | The Central Bank of Barbados' (CBB) Comments |
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| | Claims on Securities Firms and Credit Unions | |
| 65 | Claims on securities firms may be treated as claims on banks provided these firms are subject to supervisory and regulatory arrangements comparable to those under this Framework (including, in particular, risk-based capital requirements). Otherwise such claims would follow the rules for claims on corporate exposures. | CBB proposes to exercise this discretion. However, if these criterion are not met, such claims are required to be treated as claims on corporates. |
| | Claims on Corporates and Insurance Companies | |
| 67 | Increase the standard risk weight for unrated claims when a higher risk weight is warranted by the overall default experience in their jurisdiction. | CBB does not propose to exercise this discretion at this time as we do have the necessary data to analyse the default experience of unrated claims. |
| 68 | Allow banks to risk weight all corporate claims at 100% without regard to external ratings. | CBB may permit banks to risk weight all corporate claims at 100% on a case by case basis for their entire portfolio. Where this discretion is exercised, banks must apply a single consistent approach i.e. either to always use ratings whenever available or risk weight all corporate claims at 100% without regard to external rating. |

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| | Claims included in the regulatory retail portfolios | |
| 69 | Claims that qualify under the criteria listed in paragraph 70 may be considered as retail claims for regulatory capital purposes and included in a regulatory retail portfolio. Exposures included in such a portfolio may be risk-weighted at 75%, except as provided in paragraph 75 for past due loans. | CBB proposes to allow a 75% risk weighting for claims that qualify under the criteria set out in para 70. |
| 70 | Set a numerical limit for the granularity criterion in the retail portfolio (for instance, that no aggregate exposure to one counterparty can exceed 0.2% of the overall regulatory retail portfolio). | CBB proposes to exercise this discretion. Aggregate exposures to one counterparty cannot exceed the numerical limit of 0.2% of the regulatory portfolio. |
| 71 | Barbados should determine whether the risk weights in paragraph 69 are considered to be too low based on the default experience for these types of exposures and require banks to increase these risk weights as appropriate. | CBB proposes to use this discretion to determine if such claims should warrant a standard risk weight higher than 75%. In addition, based on the level of diversification of a licensee's retail portfolio, the Bank may require a standard risk weight higher than 75% or impose an additional capital charge. |
| 70 | Low value of individual exposures. The maximum aggregated retail exposure to one counterpart cannot exceed an absolute threshold of €1 million. | CBB proposes that the maximum aggregated retail exposure to one counterpart cannot exceed an absolute threshold of BDS\$0.25 million. Small business loans are defined as business loans under BDS\$50k to companies that meet the requirements of the Small Business Act. |

| Paragraph | National Discretion Item | The Central Bank of Barbados' (CBB) Comments |
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| | Claims Secured by Residential Real Estate | |
| 73 | Barbados should evaluate whether the risk weights in paragraph 72 are considered to be too low based on the default experience for these types of exposures, and require banks to increase these risk weights as appropriate. | <p>CBB proposes the following:</p> <p>For claims secured by Residential Real Estate (RRE) with the outstanding amount of the loan-to-value (LTV) ratios of less than 80% and the loan is not 90 days past due, a risk weight of 35% will apply.</p> <p>For LTV ratios of 80% or over, a risk weight of 75% for the portion in excess of 80% will be attracted.</p> |
| | Holding information regarding LTV for individual exposures. | If a licensee does not hold information regarding LTV for individual exposures, a risk weight of 50% will be applied to the entire portfolio of exposures. |
| | Claims Secured by Commercial Real Estate | |
| 74 (note 29) | Allow certain commercial property loans to be risk-weighted at 50% (subject to certain conditions as set out on footnote 29). | CBB does <i>not</i> propose to exercise this discretion and will require all Commercial Real Estate to be risk weighted at 100%. |

| Paragraph | National Discretion Item | The Central Bank of Barbados' (CBB) Comments |
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| | Past Due Loans | |
| 75 | <p><i>Unsecured portion of past due loans</i></p> <p>Allow the unsecured portion of past due loans (<i>other than qualifying residential mortgages</i>) net of specific provisions, to be risk weighted as follows:</p> <ul style="list-style-type: none"> • 150% risk weight when specific provisions are less than 20% of the outstanding amount of the loan; • 100% risk weight when specific provisions are no less than 20% of the outstanding amount of the loan; • 100% risk weight when specific provisions are no less than 50% of the outstanding amount of the loan, but with supervisory discretion to reduce the risk weight to 50%. | CBB does not propose to exercise this discretion. |
| 78 | <p><i>Unsecured portion of past due loans</i></p> <p>Allow the unsecured portion of past due <i>qualifying residential mortgages</i> that have specific provisions that are greater than 20% of their outstanding amount a preferential risk weight of 50%.</p> | CBB does not propose to exercise this discretion. |
| 75 (note 30) | Allow banks to treat non-past due loans extended to counterparties subject to a 150% risk weight in the same way as past due loans. | CBB does not propose to exercise this discretion. |
| 76 (note 31) | For the purpose of defining the secured portion of the past due loan, allow a transitional period of three years during which a wider range of collateral for higher risk categories (past due assets) may be recognised. This expands the range of eligible collateral as described in paragraphs 145 to 146. | CBB does not propose to exercise this discretion at this time. |
| 77 | If past due loans are fully secured by those forms of collateral that are <i>not</i> recognised in paragraphs 145 and 146, apply a 100% risk weight when provisions reach 15% of the outstanding amount of the loan. | CBB does not propose to recognise forms of collateral outside the range of eligible collateral specified in the Framework. |

| | Other Assets Categories | |
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| 80 | Apply a 150% or higher risk weight reflecting the higher risks associated with some other assets, such as venture capital and private equity investments. | CBB proposes to exercise this discretion and apply a 150% risk weight to venture capital and private equity exposures. |
| 81 (note 32) | Gold bullion held in banks' own vaults or on an allocated basis to the extent backed by bullion liabilities can be treated as cash and therefore risk-weighted at 0%. In addition, cash items in the process of collection can be risk-weighted at 20%. | CBB proposes to exercise this discretion for gold bullion and cash items in course of collection will attract a risk weight of 20%. |
| 102 (note 37) | <p>Implementation considerations – Domestic and foreign currency assessments</p> <p>Permit the use of a borrower's domestic currency rating for an exposure in foreign currency if the exposure arises through a bank's participation in a loan that has been extended, or has been guaranteed against convertibility and transfer risk, by certain Multi-lateral Development Banks.</p> | CBB does not propose to exercise this discretion. |
| 108 | <p>Implementation considerations – Use of unsolicited ratings</p> <p>Allow banks to use unsolicited ratings in the same way as solicited ratings (paragraph 108).</p> | CBB does <i>not</i> intend to exercise this discretion. |

| Paragraph | National Discretion Item | The Central Bank of Barbados' (CBB) Comments |
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| 136 | <p>Credit Risk Mitigation</p> <p>For certain types of repo-style transactions, allow banks using standard supervisory haircuts or own-estimate haircuts not to apply these in calculating the exposure amount after risk mitigation.</p> | Licensees will apply a zero haircut to repo-styled transactions in securities issued by Barbados Government. |
| 138 | <p>Credit Risk Mitigation</p> <p>As a further alternative to standard supervisory haircuts and own-estimate haircuts, allow banks to use (Value-at-Risk) VaR models for calculating potential price volatility for repo-style transactions and other similar securities financing transactions (SFTs), as set out in paragraphs 178 to 181 (i) below. Alternatively, banks may also calculate an expected positive exposure, as set forth in Annex 4 of this Framework.</p> | CBB does <i>not</i> propose to exercise this discretion. |
| 170 - 171 | <p>Credit Risk Mitigation</p> <p>Allow a zero haircut for repo-style transactions where the following conditions are satisfied, and the counterparty is a <i>core market participant</i>.</p> | CBB proposes to exercise this discretion. |
| 171 | <p>Credit Risk Mitigation</p> <p>Definition of Core Market Participants (under credit risk mitigation).</p> | CBB proposes to use the definition in paragraph 171 of the Framework. |
| 172 | <p>Credit Risk Mitigation</p> <p>Recognise other supervisors' preferential treatment of repo-style transactions in securities issued by its domestic government.</p> | CBB proposes to exercise this discretion. |
| 154 | <p>Credit Risk Mitigation</p> <p>Allow banks to calculate <i>H</i> using their own internal estimates of market price volatility and foreign exchange volatility.</p> | CBB does not propose to exercise this discretion. |

OPERATIONAL RISK

| Paragraph | National Discretion Issue | The Central Bank of Barbados' (CBB) Comments |
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| 652 | <p>The Standardised Approach</p> <p>Allow a bank to use the Alternative Standardised Approach (ASA) provided the bank is able to satisfy the CBB that this alternative approach provides an improved basis by, for example, avoiding double counting of risks. <i>(It is not envisaged that large diversified banks in major markets would use the ASA. Note 104).</i></p> | CBB does <i>not</i> propose to exercise this discretion. |
| 564 | Allow a bank to adopt a more conservative treatment of negative gross income. | CBB does not propose to exercise this discretion. |
| 663 | <p>Qualifying criteria (TSA)</p> <p>Impose criteria as requirements for non-internationally active banks. (Internationally active banks using the standardised approach must meet the criteria in paragraph 663).</p> | All licensees must meet the additional criteria in order to qualify for the standardised approach. |

MARKET RISK AND TRADING BOOK DEFINITION

| Paragraph | Area of National Discretion | The Central Bank of Barbados' Comments |
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| | Scope of Capital Charges | |
| 683 (v) | Allow banking and financial entities in a group that is running a global consolidation book and whose capital is being assessed on a global basis to report short and long positions in exactly the same instrument on a net basis, irrespective of where they are booked. | The Central Bank of Barbados (Bank) exercised this discretion. Where a group is subject to consolidated supervision by the Bank, and it manages its market-related activities centrally, it may report short and long positions in the same instrument (including terms) on a net basis, no matter where in the group the transaction was booked. The Bank reserves the right, however, to request that licensees take individual positions into the measurement system without offset. This can occur in instances where there are legal or procedural difficulties limiting the consolidated management of risks. |
| 689 (ii) | For active market makers, establish a dealer exception for holdings of other banks', securities firms', and other financial entities' capital instruments in the trading book. | As this is currently not applicable to any licensee, the Bank will not exercise this discretion. |
| | Methods of Measuring Market Risks | |
| 701 (i) | Allow banks to use either standardised method or the internal models approach. | The Bank allowed entities to use the standardised approach commencing March 30, 2014. The use of more advanced approaches will be considered at a later date. |
| 701 (ii) | Allow banks to use risk measures derived from their own internal risk management. | The Bank allowed entities to use the standardised approach commencing March 30, 2014. The use of more advanced approaches will be considered at a later date. |
| 708(i) | Allow banks to use a use a combination of the standardised measurement method and the internal models approach to measure their market risks. | The Bank did not exercise this discretion. |
| | Interest Rate Risk | |
| 710(i) | Apply a specific risk weight to securities issued by certain governments, especially to securities denominated in a currency other than that of the issuing government. | The Bank does not propose to exercise this discretion at this time. |

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| 710 (i) (note 118) | Include local and regional governments subject to a zero credit risk weight in this Framework. | The Bank does not propose to exercise this discretion at this time. |
| 711 | Apply a lower risk charge to government paper denominated in the domestic currency and funded by the bank in the same currency. | The Bank exercised this discretion. |
| 711 (i) | Include within the qualifying category debt securities issued by banks in countries that have implemented this Framework. | The Bank exercised this discretion provided that they are regulated. |
| 711(i) | Include within the qualifying category debt securities issued by securities firms that are subject to equivalent rules. | The Bank did not exercise this discretion. |
| 712 (ii) | <p>For debt instruments that have a high yield to redemption relative to government debt securities, will either:</p> <p><input type="checkbox"/> apply a higher specific risk charge to such instrument; and/ or</p> <p><input type="checkbox"/> disallow offsetting for the purposes of defining the extent of general market risk between such instruments and any other debt instruments.</p> | The Bank did not exercise this discretion. |
| 718 (vii) | Allow banks to use the duration method for measuring all their general market risk by calculating the price sensitivity of each position separately. | The Bank exercised this discretion subject to regulatory approval. |
| Foreign Exchange Risks | | |
| 718 (xlii) | Allow banks doing negligible business in foreign currency that do not take foreign exchange positions for their accounts exemption from capital requirements on these positions. | The Bank requires all entities to report all their foreign currency exposures. |

| Commodities Risks | | |
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| 718 (xlvii) | <p>There are three alternative approaches for measuring commodities positions:</p> <ul style="list-style-type: none"> <input type="checkbox"/> standardised approach <input type="checkbox"/> maturity ladder approach <input type="checkbox"/> internal model approach. | The Bank will allow entities to use only the standardised approach to calculate the capital requirements for commodities positions. |
| 718(xlviii) | Allow netting between different sub-categories of the same commodity in cases where the sub-categories are deliverable against each other. | The Bank will allow subject to regulatory approval. |
| Treatment of Options | | |
| 718(lvi) | <p>Allow the following alternatives for the treatment of options:</p> <ul style="list-style-type: none"> • Banks that solely use purchased options may use the simplified approach. • Banks that also write options will be expected to use the intermediate approach or a comprehensive risk management model. | The Bank proposed that entities that solely use purchased options be allowed to use the simplified approach. However, entities that write options will be expected to use the delta plus method. |
| 718 (lix) (note 152) | Require banks to use the scenario approach or the internal models approach on certain classes of exotic options (e.g. barriers, digitals) or in options at the money that are close to expiry. | This option will be exercised at a later date. |
| 718 (lxii) note 155 | Require specific banks to calculate gamma capital charges to capture specific risk for interest rate and equity options. | The Bank exercised this discretion. |
| 718(lxiii) | For banks that are significant traders in options, allow for interest rate options to base the calculation on a minimum of six sets of time-bands. | As this is currently not applicable to any licensee, the Bank will not exercise this discretion. |