FINANCIAL SERVICES COMMISSION

# DOMESTIC NON-BANK SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS GUIDELINE

**This Guideline was issued on December 1st, 2024 pursuant to Section 53 of the Financial Services Commission Act, 2010-21**

**Table of Contents**

# PURPOSE

This guideline outlines the standards and requirements for financial institutions designated as Domestic Non-bank Systemically Important Financial Institutions (DNB-SIFIs).

These measures are intended to mitigate the risk posed by such entities to the financial system and broader economy. DNB-SIFIs are expected to adopt and implement robust risk-based capital, liquidity, risk management, governance, business continuity, and resolution standards. DNB-SIFIs will be subject to enhanced disclosure and reporting requirements to enable timely and effective responses to emerging risks.

# 1. CRITERIA FOR DETERMINING SYSTEMIC IMPORTANCE

Consistent with criteria established by the Basel Committee on Banking Supervision (2012)[1], the Financial Services Commission (Commission) defines a Domestic Non-Bank Systemically Important Financial Institution (DNB-SIFI) as a non-bank financial institution (FI) whose distress or disorderly failure would cause significant disruption to the broader financial system and economic activity because of its size, substitutability, and systemic interconnectedness.

## 1.1 Size

The ability of a financial institution to impact on the financial system and the broader economy in the event of its failure is directly correlated with its size. A large financial institution whose activities comprise a significant share of the domestic system and economy will have a significant negative impact on the system and economy if it fails.

The Commission considers a number of factors in evaluating the size of a financial institution and its potential impact, including but not limited to the following:

- Total assets of the financial entity relative to other similar entities in the market,
- Total assets relative to the overall financial sector
- Size of off-balance sheet exposures.

## 1.2 Substitutability

Substitutability is determined by how much a financial institution can be replaced by another

[1] In document titled "A Framework for Dealing with Domestic Systemically Important Banks", published in October 2012.

market participant and financial services provider. The more significant the FI’s role as a market participant and a financial services provider, the greater the risk of a significant disruption following its failure, given the limited capacity and ability of other FIs to address the service gaps in a timely manner.

The Commission employs the following indicators to assess the substitutability of a FI.

- Total funds held in a fiduciary capacity,
- Total deposits accepted from non-FI customers,
- Total loans extended to non-FI customers
- The number of institutions providing the registered activity or capable of providing the registered activity.
- The importance of the entity as a financial marketplace (settlements facilitator).
- The volume and value of premiums written relative to the life market.

## 1.3 Interconnectedness

In a financial institution, interconnectedness refers to the complex relationships and dependencies between entities, systems, and processes within the institution and with external partners, markets, and regulatory bodies. The higher the level of interconnectedness, the greater the risk that a financial institution's failure will spread to other financial institutions and the broader economy.

The Commission utilizes the following indicators to capture the interconnectedness of a FI:

- Total intra-financial assets and intra-off-balance sheet exposures held by the FI,
- Total intra-financial assets and off-balance sheet exposures held by the FI relative to total financial sector assets.
- The extent to which assets in the FI or group (including off-balance sheet assets) are highly integrated with the key aspects of the real sector such that the loss of the assets will cause significant economic stress to the system.

# 2. REGULATORY AND SUPERVISORY REQUIREMENTS FOR DNB-SIFIs

FIs designated as DNB-SIFIs are subject to enhanced regulatory and supervisory measures and mechanisms. These measures and mechanisms are intended to monitor, assess, and respond to emerging risks and developments within and in respect of the institution.

The requirements for designated DNB-SIFI are as follows:

## 2.1 Capital

A designated DNB-SIFI is required to:

i. maintain such capital as may be determined by the Commission. This may include additional capital buffers, limitations on the type of instruments accepted as capital, limitations on the jurisdiction in which the capital may be held, etc.

ii. create, implement, and maintain a capital management plan that outlines, among other things, the FI's capital adequacy assessment process, including the frequency of internal capital assessment reviews, capital buffers that are in excess of minimum regulatory capital requirements, and a capital restoration plan. Where the financial institution is a part of a group, it is required to have an enterprise-wide capital plan in addition to its individual plan.

iii. In clear, documented terms, illustrate that the FI's capital levels and targets align with the Board of Directors' risk appetite, strategic plans, and initiatives. The FI's capital is required to be adequate to support the complexity of the FI's business and risk exposure.

iv. Assess and update its capital management plan at least annually and at other times as necessary.

## 2.2 Liquidity and Large Exposures

i. A DNB-SIFI is required to establish and monitor its liquidity risk tolerance and maintain a contingency funding plan and liquidity buffers to manage liquidity stress events when normal funding sources may not be available. A DNB-SIFI must ensure its ongoing ability to meet its short-term (thirty-day) obligations by maintaining a liquidity coverage ratio such that its assets can sufficiently fund cash outflows for a thirty-day period. Additionally, a DNB-SIFI is expected to maintain its capacity to meet its obligations in the long term (twelve months) by maintaining a net stable funding ratio such that its funding structure is deemed sustainable.

## 2.3 Reporting and Disclosure

i. A DNB-SIFI is required to file reports and make disclosures related to, among other things: its business, financial condition, internal controls, and risk management when requested by the Commission.

ii. A DNB-SIFI is required to file the reports outlined in **Appendix 1** with the Commission in accordance with stated periods or such other times as the Commission may require.

## 2.4 Corporate Governance

i. The Board of a DNB-SIFI is an oversight role. It has ultimate responsibility for promoting and approving the FI's business and strategic objectives, governance, risk management and compliance frameworks, control functions, and corporate culture. The Board is required to ensure management has effectively implemented the policies and standards set. The Board may delegate some of its functions, though not its responsibilities, to board committees where appropriate, subject to effective Board oversight and ratification of key decisions that materially impact the FI's operations. The Board of a DNB-SIFI shall NOT be an Executive Board and shall not be engaged in the day-to-day operations of the FI. As provided in the Corporate Governance guideline, DNB-SIFIs are required to adopt higher standards and are expected to have an Asset Liability Committee (ALCO), a subcommittee of the Board.

ii. The Board must be sufficiently large, based on the size, risk profile, and complexity of the FI, to ensure that it can adequately and effectively oversee the FI but should not be so large as to make oversight challenging. It is recommended that the Board of a DNB-SIFI be between 7-13 members and comprises members with sufficient experience and expertise to facilitate effective oversight. Board qualification is an ongoing requirement, and members should be and remain qualified, individually and collectively, with a sufficient breadth of understanding of the FI’s business for their positions. They should understand their oversight and corporate governance role and be able to exercise sound, objective judgment about the affairs of the FI.

iii. The Board must develop, document, and regularly review the criteria and skill sets required by its members, individually and collectively.

iv. The Board should comprise individuals with diverse skills, backgrounds, experience, and expertise who collectively possess the necessary qualifications commensurate with the FI's size, complexity, and risk profile. Their skills and expertise should include, inter alia, capital markets, financial analysis, financial stability issues, financial reporting, information technology, strategic planning, risk management, compensation, regulation, corporate governance, and management. Take note that this list is not intended to be exhaustive.

v. The Board should collectively have a reasonable understanding of local, regional, and global economic and market forces and the legal and regulatory environment.

## 2.5 Fitness and Propriety

i. All candidates for the Board of Directors, elected committees, committees to whom the

Board has delegated authority, and Senior Management/Officers, including acting appointees or any person responsible for executing major policy decisions of the Board, must be vetted and approved by the Commission before assuming office. Where this requirement has been contravened, the Commission may exercise its power to remove that person.

ii. The Board should have a precise, rigorous, and documented process for identifying, assessing, and selecting Board candidates.

The selection process should include an assessment of whether the Board candidates:

i. Demonstrate the requisite knowledge, skills, experience, and independence of mind (for independent directors), considering their responsibilities on the Board and the financial institution’s business and risk profile.

ii. Bring a unique skill set when combined with the existing Board members' capabilities.

iii. Enhances the overall competence of the Board.

iv. Meet the "fit and proper" criteria, ensuring they are suitable for their role.

v. Have sufficient time and availability to carry out their responsibilities effectively.

vi. Facilitate smooth interaction and collaboration among Board members.

iii. When a regulated entity seeks to appoint or engage a person to perform a regulated function, it is the responsibility of the regulated entity to satisfy the Commission that the person is fit and proper and consistent with the Commission's Fit and Proper Guideline to perform the function for which they are being appointed or engaged.

iv. It is expected that the assessment conducted by the FI will take place at the recruitment stage, and on an ongoing basis, and that the regulated entity will make every effort to verify qualifications, experience, references and membership in professional bodies. The regulated entity is also expected to conduct probity checks on criminal history, sanctions, legal proceedings, and other similar matters. The regulated entity should be able to satisfy the Commission that the person acting or proposing to act in a regulated function possesses good character, integrity, competence, and capability for the particular function and is financially sound.

v. Assessments conducted by the regulated entity to determine the fitness and propriety of persons seeking to conduct a regulated function must be documented to evidence what was done to determine the applicant's suitability for the position. Such internal assessments must be made available to the Commission upon request.

vi. The Commission expects that when a third party is submitting the fit and proper documentation on behalf of a regulated entity or person (e.g., in the case of a licensing application when an attorney or other representative is submitting the application), the third party shall obtain and submit all relevant information as required and ensure that only complete applications are submitted to the Commission.

vii. The responsibilities of the Board of a regulated entity with respect to fitness and propriety are as follows:

- Ensuring that the regulated entity develops and implements fit and proper policies and procedures, including an assessment process. Such policies, procedures, and processes shall be approved by the Boards and reviewed at least annually.
- Either alone or through its Nominating Committee, conduct fit and proper assessments of directors, the CEO, and the company secretary, subject to regulatory requirements, and make decisions on their appointments.

## 2.6 Risk Management

i. A DNB-SIFI is required to establish a risk committee responsible for approving and periodically reviewing the risk management policies of the financial institution. Where the DNB-SIFI is a part of a group, the committee should oversee the enterprise-wide risk management framework.

ii. A DNB-SIFI is required to create and maintain an enterprise-wide risk management framework commensurate with its size, activities, structure, risk profile, and complexity.

iii. The framework should address, at a minimum:

- the policies and procedures for determining its risk management governance,
- processes and infrastructure to identify, mitigate, and report risk management deficiencies and failures, as well as emerging risks,

- processes and infrastructure to ensure timely, effective action is taken to address emerging risks and risk management failures/deficiencies,
- the responsibilities of the board, management, and employees in the risk management process and framework,
- that the policies, processes, and infrastructure are established to safeguard the risk management function's independence.

## 2.7 Business Recovery Planning

i. Each DNB-SIFI should have a robust and credible recovery plan which the Board approves.

ii. The recovery plan serves as a guide to restoring a distressed DNB-SIFI. During the recovery phase, the financial institution has not yet met the conditions for resolution or entered the resolution regime. If appropriate recovery measures are taken, there should be a reasonable prospect of recovery. The recovery plan should include measures to reduce the institution's risk profile and conserve capital, as well as strategic options, such as the divestiture of business lines and balance sheet restructuring.

iii. The recovery plan should consider the institution's specific circumstances and reflect its nature, complexity, interconnectedness, level of substitutability, and size.

iv. The underlying assumptions of the recovery plan and stress scenarios should be sufficiently severe. Organization (group) specific stress scenarios, including idiosyncratic, market-wide risk, and system-wide stress scenarios, should be considered. The stress scenarios should consider the potential impact of contagion in crisis scenarios and simultaneous stress situations. Upon request, a DNB-SIFI is required to provide strategy and scenario analysis.

v. The recovery plan should guide the DNB-SIFI and the Commission in a recovery or resolution scenario. It does not imply that the Commission would be obliged to implement or prevent them from implementing a different strategy if the organisation needs to be resolved.

vi. The responsibility for developing, maintaining, and executing the recovery plan where necessary lies with the institution's senior management. This includes periodic simulation of scenario exercises to assess whether the recovery plans are feasible and credible. The Commission will review the recovery plan as part of the overall supervisory process, assessing its credibility and ability to be effectively implemented.

vii. DNB-SIFIs must regularly update their recovery plan and whenever events significantly affect the organization's structure, operations, strategy, or overall risk exposure. They are expected to regularly review the assumptions by informing the recovery plans and assess their relevance and applicability on an ongoing basis. If necessary, DNB-SIFIs should adapt their recovery plan accordingly.

viii. DNB-SIFIs are required to have a robust governance structure in place and sufficient resources to support the recovery planning process. This includes clear responsibilities for business units, senior managers, and Board members. It also includes identifying a senior-level executive responsible for ensuring the organization complies with recovery plan requirements and ensuring recovery planning is integrated into the organization's overall governance processes.

ix. DNB-SIFIs are expected to have systems in place to generate timely information required to support the recovery planning process. This will enable both the institution and the Commission to effectively carry out recovery and resolution planning and, where necessary, implement the recovery or resolution plan.

## 2.8 Resolution Planning

i. Each designated DNB-SIFI must develop, and the Board must approve resolution plans, also known as "living wills," which detail how the entity will resolve itself in an orderly manner if it is no longer able to continue as a "going concern," to minimize the impact of the failure on customers, stakeholders, other FIs and the broader economy. These plans must be reviewed annually and updated to consider changes in the entity's circumstances or operating environment.

## 2.9 Expert Reviews and Reports

A DNB-SIFI is required to have reviews conducted and reports provided by experts such as actuaries, accountants, and members of other professional bodies, as the Commission may require.

# 3. SANCTIONS

Failure to comply with this guideline is a breach of the Financial Services Commission Act (FSCA). It can result in sanctions and penalties, including limitations on the licence and allowed activities.

# 4. APPENDIX 1

Domestic Non-bank Systemically Important Financial Institutions

| Frequency | Filing deadline | Report type |
|---|---|---|
| Annual | Within 30 days of the end of the institution’s financial year-end. | • Corporate Structure<br>• Annual business plan and objectives<br>• Internal Audit Reports<br>• Reports on Internal control failures<br>• Auditor’s management letter |
| Bi-annual | Within 30 days of the end of the second and fourth quarters. | • Stress testing reports |
| Quarterly | Within 30 days of the end of each quarter. | • Liquidity report<br>• Large exposure report<br>• Cash flow statements<br>• Loan report<br>• Delinquency report<br>• Report regarding affiliated entities, including their parent or holding company and subsidiaries |
| Monthly | Within 15 days of the end of each month. | Board minutes and related Board papers and packages. |