Cayman Islands Monetary Authority

SUMMARY OF PRIVATE SECTOR CONSULTATION AND FEEDBACK STATEMENT

Regulatory Procedure: Internal Capital Models

Section	Industry Comments	CIMA responses	Consequent amendments to the draft SOG
GENERAL COMMENTS			
	1. Specify timeframes throughout.	This is not practical as each ICM is unique in size and complexity and it is therefore not advisable to prescribe timeframes. This can work against the licensee in practice if they are required to deliver certain evidence to the Authority within timeframes prescribed by the Authority. The Authority will work with the licensee to establish and agree timeframes for submission to the Authority and response from the Authority, which are specifically tailored for each licensee.	None

	2. There are formatting areas on the diagram.	Noted. These formatting areas will be removed.	The formatting areas in Schedule 1 will be removed.
	3. In this and the SoG there is duplication similarities between, Calibration, Stress testing and Validation.	This is not duplication. Please note that in the Regulatory Procedure, these areas are specifically included as they form the compliance statements.	None
	4. There should be more certainty around the costs/fees. Develop a tiered fee structure.	This is considered in the Consultation Paper. The Authority cannot specify third party fees.	None
1. Statement of Objectives			
General comments			
2. Definitions			
General comments			
3. Introduction			
General comments			
3.3 – "The Authority requires signed approval by the Board of Directors of any application for Initial Review or Formal Application to the Authority. The Board of Directors is also required to formally acknowledge the	1. Consider requiring CIMA to formally acknowledge the application and have a defined time for which to respond to the application	Formal acknowledgement of the application by the Authority is already included. See Sections 4.5 and 5.3. A defined time for which to respond to the application was considered however is not practical and is unfavorable for the licensee and the Authority. See Section 1 above.	None

communication of the results of the ICM review including the Initial Review feedback, conditions and post-approval reporting requirements."		Please also refer to Section 4.1 whereby the Authority and the Licensee will establish a tentative schedule for reviews to be conducted. The outcome of these reviews will determine the subsequent timeline for the overall ICM review.	
3.8 - The overall timeframe expected for the review of the ICM will be dependent on the nature, scale and complexity of the ICM. The quality of information provided to the Authority and the accessibility to the information will also determine the length of the review.	2. CIMA should commit to providing comments/feedback within a specified timeframe, both after the Initial Review commences and also after the Formal Application is submitted. Licensees need to be fully aware of the expected timeframe for each stage of the approval. This would hold CIMA and its external service providers accountable for responding and moving the process forward.	See the Authority's comment above in response to the comment on Section 3.3.	None
4. Initial Review Process			
General comments			
4.2 – "A Licensee must continue to meet the PCR to the required standard as prescribed in the regulations until approval of the ICM is granted. The Licensee may only use its ICM to calculate the PCR upon receiving formal acknowledgement from the Authority in which the Authority grants such approval**."**	1. Clarify that ICM approval can be full or partial (that the ICM is used for some elements of the PCR).	The purpose of Section 4.2 is to reinforce that a licensee may not use its ICM to calculate the PCR for regulatory purposes until full approval has been granted by the Authority. At this time, the Authority does not envisage considering applications for the use of a partial ICM..	None
4.7 - The Authority will work with the Licensee throughout the initial review process to	2. CIMA should commit to providing a formal letter listing all deficiencies within a specified number of	The Initial Review involves frequent and open communication between the Authority and the licensee	None

address any deficiencies highlighted by the Authority during the reviews. An action plan and timeline to resolve any such deficiencies will be presented by the Licensee to the Authority and the Authority will make the final determination as to how the deficiencies are addressed.	months after commencement of the Initial Review.	during which deficiencies will be highlighted and continually discussed. Feedback to the licensee will be frequent and continual throughout the process.	
4.8 - When the Authority has determined that the Licensee has resolved the majority of the deficiencies, the final outcome of the Authority's review of the initial review process will be communicated to the Licensee as feedback. The purpose of this feedback is to inform the Licensee as to how prepared it is to submit a formal ICM application for the use of its ICM to calculate the PCR.	3. There are a number of areas in the RP where definitions or defined timeframes would be helpful. For example, RP 4.8 refers to resolving "the majority of deficiencies". This seems open to interpretation, without any mention of deficiencies being prioritized. There are no mechanisms to ensure the processes are brought to a close by a certain date. There are references in the RP to reasonable timeframes, where it would be preferable for timeframes to be more specific.	See the Authority's response in Section 1 under the 'General Comments' herein.	None
5. Formal Application Process			
General comments			
5.5 - At the end of the formal review period, the Authority will communicate the outcome	1. The RP should provide for a maximum period within which CIMA must communicate the	The Authority agrees to include a maximum period within which the outcome of the Formal Application	Insert as the final sentence to Section 4.8:

of the formal application review in writing to the Licensee. The Board of Directors of the Licensee is required to acknowledge the formal communication by the Authority.	outcome of the Formal Application review after its receipt.	review will be communicated to the licensee. This period will be licensee specific as it will depend on the outstanding issues from the Initial Review and therefore the period will be included in the feedback for the Initial Review.	The feedback will include a specified period within which the Authority will communicate the outcome of the Formal Application to the licensee.
6. Post-Approval Monitoring			
General comments			
6.2 – "The Licensee will be required to submit a validation report to the Authority as part of the annual return. This should be current and at a minimum it should coincide with the Licensee's financial year end."	1. The SoG outlined a "validation cycle" that was not defined. For example, this could be 3 years or annually. How frequently will this validation report be required? That should be defined here as well and be consistent with the SoG..	It is defined in the SOG as annually at a minimum. See Section 9.7	None
6.3 – "The Authority will hold discussions with the Licensee prior to the end of the ICM review process to establish an appropriate policy relating to post-approval monitoring and reporting of major and minor changes to the ICM, including the threshold of materiality in relation to major and minor ICM changes."	2. Change "Policy" to "Approach".	A specific policy will be required which determines how post-approval monitoring will take place and the reporting or major and minor changes.	None
Schedule 1 CIMA ICM Framework – Overview of the Application and Review Process			
General comments			
Schedule 2 Items to be Submitted to the Authority per the Initial Review Process			

General comments			
3.9.1 – Compliance Statements: "All material and quantifiable risks have been considered in the ICM."	1. Delete 'quantifiable risks'.	It is not clear why a suggestion has been made to delete 'quantifiable risks'. This does not preclude risks that cannot be easily quantified from being included in the ICM.	None
4.2 – Presentation of the ICM: "Business Overview - an overview of the Licensee's business activity including classes of business written and jurisdictions from which the Licensee's risks arise from. The business overview should also include organization charts to show the various functions and key personnel within the organization. It should further highlight their roles, responsibilities and reporting lines."	1. Clarify if this in general or specific to the model	This is in general so that the Authority has the most up-to-date viewpoint at commencement of the ICM review.	None
7 – Independent Validation Report: "The Licensee is required to subject its ICM to an independent validation review which must be conducted by either an independent internal or independent external reviewer. An independent review should therefore be performed by parties not directly involved with the development and operation of the ICM. Independent reviewers should be skilled and sufficiently knowledgeable to challenge the ICM inputs, process and	1. Due to the size of most local entities, it is not possible or reasonable to expect each to have an internal independent reviewer, and this wording should not indicate that. Be definitive as to what the necessary qualification of such a person would need to have.	It is not necessarily required that a licensee has an internal independent reviewer as they may instead have an independent external reviewer. It is unlikely that one person would be able to validate an entire ICM as a broad range of skillsets are necessary to enable all aspects of the ICM to be reviewed.	None

methodology, model outputs, and its use in decision making. Licensees undergoing a comprehensive validation process for the first time are encouraged to discuss their independent validation process with the Authority. The Authority has the right to make a judgment on the whether the person(s) conducting the validation process are independent and have the necessary qualifications / expertise."			
Schedule 3 Items to be Submitted to the Authority per the Formal Application Process			
General comments			