REGULATORY POLICY

Domestic Systemically Important Deposit Taking Institutions (D-SIDTIs)

May 2023

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List of Acronyms

ACH	Automated Clearing House
BCBS	Basel Committee on Banking Supervision
CAR	Capital Adequacy Ratio
CET1	Common Equity Tier 1
CIE	Cheque Image Exchange
CIMA	Cayman Islands Monetary Authority
DBA	Domestic Banking Activity
D-SIBs	Domestic Systemically Important Banks
D-SIDTIs	Domestic Systemically Important Deposit Taking Institutions
EFT	Electronic Funds Transfer
FSB	Financial Stability Board
GDP	Gross Domestic Product
G-SIBs	Global Systemically Important Banks
HLA	Higher Loss Absorbency
IBA	Indicator-Based Approach
MAA	Monetary Authority Act
MCR	Minimum Capital Requirement
OTC	Over-The-Counter
RBA	Risk-Based Approach
RRP	Recovery and Resolution Plan

Regulatory Policy on
Domestic Systemically Important Deposit Taking Institutions

1. Introduction

1.1. This document sets out the Cayman Islands Monetary Authority's (the "Authority" or "CIMA") Regulatory Policy (the "Policy") on identification of Domestic Systemically Important Deposit Taking Institutions (the "D-SIDTIs") in the Cayman Islands, and the calibration of any Higher Loss Absorbency ("HLA") capital requirements applicable to them. The Policy also sets out other supervisory expectations for institutions identified as being systemically important at the domestic level.

1.2. The Policy should be read in conjunction with the following:

(1) Rule on Domestic Systemically Important Deposit Taking Institutions;
(2) Rules, Conditions and Guidelines on Minimum Capital Requirements (Pillar 1); and
(3) Any other relevant acts and regulatory instruments issued by the Authority from time to time.

Background

1.3. In November 2011, in response to the financial crisis that began in 2007, the Basel Committee on Banking Supervision ("BCBS") issued *Global systemically important banks: assessment methodology and the additional loss absorbency requirement,* which sets out the framework for identifying and supervising global systemically important banks (the "BCBS G-SIB Framework"). *Inter alia*, the BCBS G-SIB Framework introduced HLA requirements for global systemically important banks ("G-SIBs") as a means of reducing their risk of failure by applying a prescriptive approach to increasing their capacity to absorb losses.

1.4. In October 2012, the BCBS issued *A framework for dealing with domestic systemically important banks* (the "BCBS D-SIB Framework"). The BCBS D-SIB Framework is complementary to the BCBS G-SIB Framework and focuses on the impact that the failure or distress of a bank or a deposit taking institution may have on a jurisdiction's domestic economy. The BCBS D-SIB Framework provides that the impact of a D-SIB's failure on the domestic economy should, in principle, be assessed having regard to bank-specific factors such as size, interconnectedness, substitutability and complexity (including any additional complexities from cross-border activity).

1.5. Under the BCBS D-SIB Framework, national authorities are responsible for establishing a methodology for assessing the degree to which banks are systemically important to the domestic economy and calibrating the level of appropriate HLA and other requirements to address the risks posed by such institutions. Unlike the G-SIBs Framework, the BCBS D-SIB Framework adopts a principles-based approach which allows for national discretion in establishing the assessment methodology and HLA calibration to accommodate structural characteristics of individual jurisdictions.

1.6. The Authority's assessment methodology as described in Appendix I of this document considers banks and other deposit taking institutions and the direct impact their failure or distress could have on the financial soundness of other participants and the domestic economy. It also considers the possible indirect impact through extensive loss of confidence in the financial system. The scale of the adverse impact of an institution's failure or distress will depend on the significance of the economic functions served by the institution as well as the size, complexity, and the interconnectedness with the rest of the financial system.

2. Definitions

2.1. The following definitions are provided for the purpose of this Policy:

a) **"Deposit Taking Institution"** refers to an institution that is authorized to accept deposits from the public and may include a bank (including a development bank), cooperative society, building society, or other similar institutions.

b) **"HLA Requirement"** refers to the surcharge above the minimum regulatory capital requirement, levied to increase a D-SIDTI's going-concern loss absorbency capacity. Where there is no minimum regulatory capital requirement established for an institution, the HLA requirement will refer to any capital requirement which is established by the Authority following the designation of the institution as a D-SIDTI specifically in relation to the need to enhance the institutions' loss absorbency.

3. Statement of Objectives

3.1. The objectives of the Policy are to:

a) set out the Authority's criteria for identifying and designating D-SIDTIs, which are institutions that could cause significant disruption to the Cayman Islands' financial system and economy in the event of their distress or failure; and

b) set out the Authority's approach to mitigating the negative externalities posed by D-SIDTIs, which includes regulatory and supervisory measures aimed at:

i. reducing probability of their failure by increasing their going-concern loss absorbency, requiring early recovery planning and increasing the intensity of their supervision; and

ii. reducing the extent or impact of any failure by improving the resolvability of these institutions.

4. Statutory Authority

4.1. As applicable, this Policy is consistent with:

(1) the Authority's statutory objectives as prescribed in section 6(2) (a and b) of the Monetary Authority Act ("MAA") which provides that, among others:

In performing its functions and managing its affairs, the Authority shall:
(a) act in the best economic interests of the Islands; and
(b) promote and maintain a sound financial system in the Islands.

(2) section 10 of the Banks and Trust Companies Act which requires entities carrying on banking business and incorporated under the Companies Act to maintain a capital adequacy ratio as may be determined by the Authority from time to time.

(3) section 40 of the Cooperative Societies Act which requires the Authority to maintain a general review of credit union business practice, including its financial soundness.

(4) section 33 of the Building Societies Act which requires the Authority to maintain a general review of building society business practice, including its financial soundness.

(5) section 23 of the Development Bank Act which requires the Authority to undertake procedures to ensure the bank is in a sound financial position and is carrying on its business in a satisfactory manner.

5. Scope of Application

5.1. The following are within the scope of the Authority's assessment for the purpose of identifying D-SIDTIs and applying the requisite regulatory requirements under the Policy:

a) all banks incorporated in the Cayman Islands together with their local or overseas branches and subsidiaries; and

b) all cooperative societies such as credit unions or building societies that are supervised by the Authority; and

c) development bank of the Cayman Islands supervised by the Authority.

5.2. References to any Act or regulation shall be construed as references to those provisions as amended, modified, re-enacted or replaced from time to time.

Application to foreign branches of overseas banks

5.3. Foreign banks' branches are not separate legal entities and therefore are not subject to separate capital adequacy requirements by the Authority for the branch in the Cayman Islands. The home supervisor typically has the primary responsibility for supervising capital adequacy of the parent legal entity and will take into consideration the nature, size and complexity of the banking group or legal entity including its foreign branches.

5.4. Should the Authority's assessment for D-SIDTIs identify a foreign bank branch to be systemically important to the domestic economy, the Authority will assess if appropriate HLA capital requirements for the parent entity have been enforced by the home supervisor. In the absence of this, the Authority will consider adopting a more intense supervisory approach to the branch and implementing additional regulatory actions or requirements as appropriate.

Level of assessment for the purpose of identifying D-SIDTIs

5.5. The Authority's assessment for the purpose of identifying D-SIDTIs will be conducted on a consolidated basis including all subsidiaries for deposit taking institutions where the Authority is the home supervisor, and on a solo basis where the Authority is the host supervisor. However, where the Authority is the host supervisor to a deposit taking institution that is a subsidiary of a wider group and also has deposit-taking subsidiary/subsidiaries, the assessment will be on a sub-consolidated basis (i.e. the deposit taking institution supervised by the Authority must consolidate all of its subsidiaries). Where the subsidiaries of the supervised entity are non-deposit taking institutions, the Authority will undertake the quantitative assessment of the supervised entity on a solo basis and consider these subsidiaries through the supervisory overlay process. A similar approach will be undertaken where the holding company of the deposit taking institution supervised by the Authority consolidates non-deposit taking subsidiaries.

5.6. In cases where the subsidiary of a hosted deposit taking institution is considered to be a D-SIDTI by the Authority, the Authority will seek to make arrangements with the home supervisors to coordinate and cooperate on the appropriate HLA capital requirement, within the constraints imposed by relevant laws in the host jurisdiction.

6. Overview of the Assessment Methodology

6.1. Consistent with Basel's G-SIBs approach, the Authority has adopted an Indicator Based Approach ("IBA") for identifying D-SIDTIs. The assessment of systemic importance will also incorporate additional information via a supervisory overlay process which is further explained in Appendix I.

6.2. Under the IBA, a deposit taking institution's systemic importance will be assessed in terms of the impact of distress or failure of the institution on the domestic financial system and economy. Indicators are selected across the following five factors of systemic importance which are further explained in Appendix I:

a) size;
b) interconnectedness;
c) substitutability;
d) complexity; and
e) households' dependency.

6.3. Due to the unique features of the deposit taking institutions supervised by the Authority, homogenous entities in terms of nature of products and services permissible under the licence, market segments served, place of operations etc will be aggregated into a pool for quantitative assessment and qualitative supervisory overlay. The attributes of the pool will inform the decisions about the inclusion of the pool in the IBA and whether resident[1] exposures only will be considered or a combination of resident and non-resident exposures.

6.4. The Authority will compute an overall score[2] for each institution. The Authority will also determine the aggregate factor weighted score for each institution, which is determined by equally weighting the contribution by each of the five (5) factors at 20%. An institution with a factor score, overall score or aggregate

[1] Resident and Non-Resident defined on the Guidance Notes for the Completion of the Basel II Forms and the Quarterly Prudential Returns
[2] Calculated as the sum of scores in the five (5) factors of systemic importance.

factor weighted score exceeding a pre-determined cut-off threshold[3] will be designated as a D-SIDTI by the Authority, subject to any modifications made through the supervisory overlay process.

6.5. The Authority will conduct an assessment to determine D-SIDTIs on a periodic basis. The Authority may update the list of D-SIDTIs at any time if there are significant structural changes within the banking system e.g. a merger or a substantial take-over.

6.6. The Authority will review the assessment methodology, including the indicators used; the approach for incorporating these indicators into the assessment and identification process; the calibration of scores; and the cut-off threshold for D-SIDTIs as needed. This will ensure that the methodology considers developments in approaches for assessing systemic importance and structural changes in the domestic banking system.

Announcement of D-SIDTIs

6.7. As a result of the assessment process, the deposit taking institutions which the Authority has identified as D-SIDTIs will be informed of the Authority's intention to designate them as D-SIDTI, including the reasons for it, the applicable HLA buffer and other requirements. The designated deposit taking institution may discuss the proposed additional requirements and the timelines with the Authority. The Authority will then finalise its decision and the institutions will be formally advised and designated as a D-SIDTI.

6.8. The Authority will not be publishing a list of D-SIDTIs until there is further guidance on the international approach in this regard.

7. Requirements for D-SIDTIs

7.1. **HLA Requirement**

7.1.1. The HLA Requirement for D-SIDTIs represents an additional going concern capital buffer with the aim of reducing a D-SIDTI's probability of failure. The HLA Requirement is determined based on a deposit taking institution's degree of systemic importance. The Authority will communicate, on a bilateral basis, the HLA Requirement to each institution identified as a D-SIDTI.

7.1.2. At the effective date of this measure, the HLA Requirement is in the form of an increase to a deposit taking institution's total minimum capital requirement ("MCR"). After the Authority's full implementation of Basel III capital requirements, the HLA Requirement will be in the form of Common Equity Tier 1 ("CET1") and this will also be formally communicated to the D-SIDTIs.

7.1.3. For deposit taking institutions which currently must comply with MCRs mandated by the Authority, the HLA Requirement will be an add-on in determining the required minimum capital adequacy ratio (CAR). The HLA Requirement should therefore be met through the capital instruments that are eligible for consideration in computation of the minimum CAR.

[3] The cut-off approach places emphasis on scores for individual factors of systemic importance as well as on the overall score and the aggregate weighted factor score. The cut-off threshold will be communicated to each entity designated as D-SIDTI as part of its notification of such designation.

7.1.4. For other deposit taking institutions which do not currently have a stipulated MCR, the HLA Requirement should be met using Tier 1 capital instruments unless advised otherwise by the Authority.

7.1.5. The Authority may require the HLA Requirement to be applied on a solo or consolidated basis.

7.1.6. When a D-SIDTI's capital is equal to or falls below the required minimum capital (inclusive of the HLA Requirement), a D-SIDTI may become subject to restrictions on discretionary distributions it may want to make in the form of, among others, share buybacks and dividends. The Authority will communicate such restrictions to the D-SIDTI on a bilateral basis.

Allocation to HLA Buckets

7.1.7. Considering the varying degrees of systemic importance of deposit taking institutions in the Cayman Islands, the Authority has developed different buckets outlined in Table 1 below detailing the required increase in MCRs for D-SIDTIs in the Cayman Islands, representing the HLA Requirement, which ranges between 1% and 2%.

7.1.8. The buckets in Table 1 have been developed to ensure that no deposit taking institution currently has a score that fits into the 4th bucket. This has been done to deter the deposit taking institutions from becoming even more systemically important in the future and is consistent with the approach under BCBS G-SIB Framework. Should a deposit taking institution ever fall into the 4th bucket then a 5th bucket will be developed with a higher HLA Requirement.

Table 1: Systemic Score Range and HLA Requirement

Bucket	Average Weighted Factors Score	HLA Requirement
1	Less than 0.1	1.00%
2	Greater than 0.1 – 0.2	1.50%
3	Greater than 0.2 – 0.3	2.00%
4	Greater than 0.3	minimum of 3.00%

7.1.9. Where a deposit taking institution has been newly designated as a D-SIDTI or migrated to a higher HLA bucket, the new HLA Requirement shall become applicable to such a deposit taking institution within twelve (12) months from notification by the Authority unless otherwise indicated by the Authority.

7.1.10. Where a deposit taking institution is required to comply with a lower (or nil) HLA Requirement due to:

a) a migration to a lower bucket (e.g. Bucket 2 to Bucket 1); or
b) cessation of its D-SIDTI status;

the revised HLA Requirement shall become applicable to such deposit taking institution immediately upon notification by the Authority, unless otherwise specified by the Authority.

Interaction with Pillar 2 Requirements

7.1.11. To the extent a D-SIDTI has incorporated its systemic importance in its Internal Capital Adequacy Assessment Process ("ICAAP"); it will not be required to hold capital twice for the same risk during the Supervisory Review and Evaluation Process ("SREP"). Moreover, the HLA Requirement by D-SIDTIs would not be counted towards non-systemic risks (for example, Interest Rate Risk in Banking Book, Credit Concentration Risk, etc.), which are normally captured under Pillar 2.

7.2. Recovery and Resolution Planning

7.2.1. In line with the Key Attributes for Effective Resolution of Financial Institutions issued by the Financial Stability Board ("FSB"), the Authority will put in place a framework for recovery and resolution planning, covering at a minimum deposit taking institutions that could be systemically significant or critical at domestic level, if they fail.

7.2.2. Recovery and resolution planning entails, among other things, development of Recovery and Resolution Plans ("RRP") aimed at improving the prospects for recoverability and resolvability of a D-SIDTI in the event of its distress. The Authority will separately issue guidance and/or rules with respect to the development of RRP. In the interim, entities designated as D-SIDTIs should refer to *Key Attributes for Effective Resolution for Financial Institutions*[4] as a general guide to the development of RRP.

7.3. Reporting and Disclosure Requirements

7.1.1. In consideration of the robust reporting already implemented for deposit taking institutions supervised by the Authority, there are no additional reporting requirements for financial institutions designated as D-SIDTIs above the existing regulatory requirements as of the effective date of this Policy. However, the Authority will assess the information needed for effective supervision of the entities designated as D-SIDTIs on an ongoing basis and may alter the nature and/or timing of the regulatory reports as deemed necessary. The Authority, at its sole discretion, may require a D-SIDTI to submit additional reporting.

7.1.2. A deposit taking institution designated as a D-SIDTI may make disclosure of the MCRs in the audited financial statements.

8. Supervisory Approach for D-SIDTIs

8.1. In conducting the supervision of D-SIDTIs, the Authority considers the probability of failure and secondly, the impact such failure could have on the Cayman Islands financial system and economy.

8.2. Consequently, the Authority considers that enhanced supervisory approach for D-SIDTIs is appropriate. This will include enhanced onsite and offsite inspections, frequent engagement with senior management of the deposit

[4] https://www.fsb.org/2014/10/key-attributes-of-effective-resolution-regimes-for-financial-institutions-2/

taking institution, participation in regulatory colleges, dialogue with the home supervisory authorities and other supervisory tools.

8.3. The Authority expects D-SIDTIs to adhere to high standards of risk culture and risk management; corporate governance; and internal controls. This includes proactiveness in cultivating a sound risk culture and ensuring that an effective risk governance framework is in place, commensurate with the entity's risk profile. D-SIDTIs should undertake regular assessments and evaluations of and generate internal reports on, the effectiveness of their risk governance structure and their risk profiles; and use these assessments, evaluations and reports as a basis for discussion with the board and risk committee for the purpose of identifying any actions required to be taken towards enhancing risk governance practices.

8.4. In strengthening their risk governance practices, D-SIDTIs are encouraged to refer to the *Principles for effective risk data aggregation and risk reporting* issued by the BCBS in January 2013[5].

9. Effective Date

9.1. This Regulatory Policy will come into effect within twelve (12) months of the date that it is published in the Gazette.

[5] See Principles for effective risk data aggregation and risk reporting (bis.org)

Appendix I – Assessment Methodology

Indicator-Based Approach

1. The Authority has adopted a quantitative indicator-based measurement approach that is aligned with the principles set out by the BCBS for identifying deposit taking institutions that are of domestic systemic importance and includes the four (4) suggested factors of size, inter-connectedness, substitutability and complexity. The G-SIB methodology incorporates these four (4) factors and a fifth factor regarding global cross-jurisdictional activity. The Authority has assessed that global cross jurisdictional activity for some categories of deposit-taking institutions may not directly impact the Cayman Islands economy. For deposit taking institutions where there is expectation that distress linked to cross jurisdictional activity could impact the domestic economy, this activity is incorporated into the IBA through consideration of both resident and non-resident assets and liabilities.

2. The Authority took into consideration the unique circumstances of the Cayman Islands as an attractive offshore jurisdiction for employment opportunities which makes household deposits an important source of liquidity for the Cayman Islands' domestic deposit taking institutions. Since these deposit taking institutions are highly concentrated in exposures to domestic households, the Authority has used national discretion to add a fifth factor, households' dependency, to capture the level of systemic importance of any one deposit taking institution to the household sector. As a result, the Authority's D-SIDTI Framework considers the following five systemic importance indicators for determining if a deposit taking institution is a D-SIDTI:

Size

3. The size of a deposit taking institution is a key factor in assessing its systemic importance. The larger the deposit taking institution, the more widespread the effect of a sudden withdrawal of its services and the more difficult it is for its activities to be quickly replaced by other deposit taking institutions. Distress or failure of a deposit taking institution with a large share of domestic banking activity is more likely to negatively impact the broader functioning of the economy, cause disruptions and loss of confidence in the financial system.

4. The D-SIDTI Framework considers total assets as disclosed on the balance sheet as the suitable quantitative indicator to measure the size of a financial institution. In addition, the Authority applies supervisory judgment in assessing the nature and composition of total assets held by a deposit taking institution.

Interconnectedness

5. The degree to which deposit taking institutions have connections to other financial institutions is an important measure because it increases the risk that distress in one institution may lead to another institution being negatively impacted. Financial distress in a deposit taking institution that is highly interconnected, increases the likelihood of distress in other institutions given the network of contractual obligations among these firms.

6. The D-SIDTI Framework uses loans to and deposits from group bank and non-bank entities, other banks or deposit taking institutions and other financial corporations to identify the level of interconnectedness within the financial system.

Substitutability

7. Some deposit taking institutions are more systemically important because customers and other market participants are heavily dependent on them to provide key services. The systemic impact of a deposit taking institution's distress or failure is expected to be negatively related to its degree of substitutability as both a market participant and client service provider. The greater a deposit taking institution's role in a particular business line, or as a service provider in underlying market infrastructure (e.g. a payment system), the larger the disruption to the financial system following its failure. Hence, the higher the score or the share of an institution's relevance to customers, the more difficult and costly it is to swiftly replace that entity and the extent of products and services it offers. This could create a disruption in the domestic economy or financial system.

8. The D-SIDTI Framework uses total loans to the domestic sector, (excluding loans to financial corporations which is used for the interconnectedness factor), as the factor for substitutability which is indicative that if a deposit taking institution that provides significant credit to the domestic economy fails, other deposit taking institutions might not be able to easily fill the gap.

9. Some financial institutions in the Cayman Islands provide products or services that would be difficult to substitute on short notice. Where such functions are deemed critical, the Authority will exercise discretion as appropriate and include them in the assessment through supervisory overlay.

Complexity

10. A deposit taking institution's systemic importance is higher if its business model and operations are complex and difficult to assess with respect to risks. Complex deposit taking institutions require more time and resources to resolve when they are in distress. In addition, the larger a deposit taking institution's portfolio of trading and investment securities is, the higher the likelihood of financial contagion.

11. The D-SIDTI Framework uses the investment portfolio held in the trading book and the banking book as indicative of the complexity of deposit taking institutions. In addition, the Authority applies supervisory judgment in assessing the nature and complexity of positions held by a deposit taking institution to determine if designation as a D-SIDTI is warranted.

Households' Dependency

12. The BCBS allows for the use of national discretion based on structural characteristics of the domestic system. The Authority uses a deposit taking institution's share of deposits by households as a measure of systemic importance. The more important households' deposits are as a source of funding for a financial institution, the more susceptible the deposit taking institution is to public perception and anxiety, which can cause a reduction in savings or even runs on the deposit taking institution.

13. The D-SIDTI Framework uses resident deposits as the indicator to identify deposit taking institutions with a significant reliance on domestic household funding.

14. The Authority's D-SIDTI Framework has assigned an equal weight of 20% to each of the five systemic factors. Where the determination of a factor score incorporates multiple indicators, the indicator values are also equally weighted. Table 2 summarises the quantitative indicators used.

Table 2: Factor / indicator weighting under the Indicator-Based Approach

Factors	Factor Indicators	Factor Weights
1. Size	**Total Assets**	20%
2. Inter-Connectedness	**Loans to and Deposits from** Group Bank, Group Non-Bank Entities, Other Banks or deposit taking institutions, Other Financial Corporations.	20%
3.Substitutability	**Loans to Non-Banks** Sovereign & Central Banks, Non-Central Government & Multilateral Development Banks, Non-Financial Corporations – Private Sector & Non-Financial Corporations – Mortgages, Households – Retail & Consumer Lending & Households – Residential Mortgages, Other Loans & Advances.	20%
4. Complexity	**Investments** Financial Assets at Fair Value, Other Investments.	20%
5. Households' Dependency	**Deposits from Households – Resident**	20%

15. To determine the significance of a deposit taking institution to the domestic economy, the Authority determines each eligible institution's weighted average market share across the five indicators of systemic importance discussed above. The Authority determines each relevant deposit taking institution's score by:

a) grouping the financial institutions into pools based on the nature of their operations as described on paragraph 6.3;
b) dividing the institution's indicator value by the aggregate amount of the indicator value summed across all deposit taking institutions within the pool it belongs;
c) equally weighting the deposit taking institution's indicator scores in cases where two (2) or more indicators are considered for a specific factor;
d) calculating the overall score for each deposit taking institution as the summation of all its scores in the five (5) factors of systemic importance; and

e) calculating the aggregate factor weighted score for each deposit taking institution as equally weighted factor scores in the five (5) factors of systemic importance which can be simplified to simple average of its overall score.

Appendix II provides the formulas used to compute each deposit taking institution's systemic score across the five (5) factors of systemic importance.

16. The activity of foreign branches will be included in the appropriate pool to calculate factor scores per IBA. This enables the Authority to monitor the level of resident activity of these foreign branches alongside other supervised entities and therefore consider if distress or failure of these branches could significantly impact the domestic economy. The supervisory approach for foreign bank branches that meet the criteria to be considered systemically important to the domestic economy is as detailed on paragraphs 5.3 and 5.4.

Cut-off threshold for systemic importance

17. The Authority will, from time to time, determine the factor score and aggregate score thresholds for considering a deposit taking institution as systemically important per the IBA. An institution that meets the systemic significance threshold on an individual factor score and/or on an aggregate score as per IBA will be considered quantitatively significant and therefore considered a D-SIDTI unless the Authority determines otherwise, as per the supervisory overlay. The cut-off threshold will be communicated to each entity designated as D-SIDTI as part of the notification of such designation.

Supervisory Overlay

18. Some of the most effective indicators for assessing systemic importance tend not to be of a quantitative nature, and hence are not captured by a quantitative IBA. The Authority therefore applies supervisory judgement as appropriate across all the five factors of systemic importance to supplement the results of the quantitative assessment under the IBA. The supervisory judgement process will focus on the impact of the distress or failure of the deposit taking institution on the domestic financial system and economy and not the probability of distress or failure. In exceptional circumstances, the Authority may use supervisory judgment to override the indicator-based measurement if there is sufficient information to support this decision. The supervisory overlay should comprise well documented and verifiable quantitative as well as qualitative information. Supervisory overlay will be conducted in an effective and transparent way.

19. The exercise of supervisory judgement considers the individual characteristics of the deposit taking institution and specific market developments. The qualitative factors to be considered include the below non-exhaustive considerations:

a) performance of critical functions not considered in the quantitative analysis;
b) nature, amount and complexity of investments held which are not adequately captured on the quantitative complexity score e.g. OTC or complex derivative instruments;

c) structure of the group e.g. number of subsidiaries, associates, special purpose vehicles;
d) ongoing or anticipated business expansion or contraction, restructuring, merger and acquisition plans;
e) nature and amount of off-balance sheet exposures;
f) number of overseas branches of the institution; and
g) significant employment opportunities created by the institution within the Cayman Islands.

20. In addition, through supervisory overlay, the Authority may also consider other quantitative indicators which are not included in the IBA as summarised in Table 2 above. For example:

a) the significance of the contribution of the deposit taking institution to the Gross Domestic Product ("GDP") of the Cayman Islands as well other information provided in the domestic banking activity ("DBA") return;
b) as applicable, the volume of Electronic Funds Transfers ("EFTs") and Cheque Image Exchange ("CIE") transactions through the Cayman Islands Automated Clearing House ("ACH") for the deposit taking institution;
c) the levels of domestic and cross border cash inflows and outflows reported by the deposit taking institution; and
d) any other appropriate quantitative indicators.

Appendix II –Formulae for the Indicator-Based Approach

The formulae used in the Authority's D-SIDTI Framework, to compute each deposit taking institution's score for each of the five (5) factors are provided below.

Total score (Tij)[6] is the sum of the factor scores.

Size:

$$\left(\frac{ASSETSij}{\sum_i^n ASSETSij}\right) +$$

Interconnectedness:

$$0.5\left(\left(\frac{(DEPOSITSFINCij)}{(\sum_i^n DEPOSITSFINCij)}\right) + \frac{(LOANSFINCij)}{(\sum_i^n LOANSFINCij))}\right)\right) +$$

Substitutability:

$$0.25\left(\left(\frac{LOANSGGOVij}{\sum_i^n LOANSGGOVij}\right) + \left(\frac{LOANSNONFINCij}{\sum_i^n LOANSNONFINCij}\right) + \left(\frac{LOANSHHij}{\sum_i^n LOANSHHij}\right) + \left(\frac{LOANSOLij}{\sum_i^n LOANSOLij}\right)\right) +$$

Complexity:

$$0.5\left(\left(\frac{TRADSij}{\sum_i^n TRADSij}\right) + \left(\frac{INVSij}{\sum_i^n INVSij}\right)\right) +$$

Households' Dependency:

$$\left(\frac{DEPOSITSHHij}{\sum_i^n DEPOSITSHHij}\right)$$

Where,

i denotes each individual deposit taking institution and

n denotes the total number of deposit taking institutions in the particular pool/group during the period *j*.

ASSETS = represents total assets,

LOANSFINC = represents loans to financial corporations,

DEPOSITSFINC = represents deposits from financial corporations,

LOANSHH = represents loans to households,

LOANSNONFINC = represents loans to non-financial corporations,

LOANSGGOV = represents loans to general government,

LOANSOL = represents other loans & advances,

TRADS = represents trading securities (financial assets at fair value),

INVS = represents investment securities held to maturity and available for sale and other investments,

DEPOSITSHH = represents deposits from Resident Households.

[6] The total score is divided by five to derive the average weighted factors score.

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