



# **RULE**

## **Domestic Systemically Important Deposit Taking Institutions**

**May 2023**



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## List of Acronyms

<b>CAR</b>	Capital Adequacy Ratio
<b>CIMA</b>	Cayman Islands Monetary Authority
<b>HLA</b>	Higher Loss Absorbency
<b>MAA</b>	Monetary Authority Act
<b>MCR</b>	Minimum Capital Requirement



## **Rule on Domestic Systemically Important Deposit Taking Institutions**

### **1. Introduction**

- 1.1. This document establishes the Cayman Islands Monetary Authority's (the "Authority" or "CIMA") Rule for Domestic Systemically Important Deposit Taking Institutions ("D-SIDTIs") hereinafter referred to as the "Rule".
- 1.2. The Rule should be read in conjunction with the following:
  - (1) Rules, Conditions and Guidelines on Minimum Capital Requirements (Pillar 1);
  - (2) Regulatory Policy on Domestic Systemically Important Deposit Taking Institutions; and
  - (3) Any other relevant Acts and regulatory instruments issued by the Authority from time to time.

### **2. Statement of Objectives**

- 2.1. To set out the Authority's Rule on Domestic Systemically Important Deposit Taking Institutions.

### **3. Statutory Authority**

- 3.1. As applicable, the measure 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.



## 4. Scope of Application

- 4.1. This Rule is applicable to all supervised entities designated by the Authority as Domestic Systemically Important Deposit Taking Institutions.
- 4.2. 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.

## 5. Definitions

- 5.1. The following definitions are provided for the purpose of this Rule:
  - 5.1.1. **“Deposit taking institution”** refers to an institution that is authorised to accept deposits from the public and may include a bank (including a development bank), cooperative society, building society, or other similar institutions.
  - 5.1.2. **“Domestic Systemically Important Deposit Taking Institution”, or “D-SIDTI”**, refers to a deposit taking institution that has been notified by the Authority as being domestic systemically important pursuant to the Regulatory Policy on Domestic Systemically Important Deposit Taking Institutions.
  - 5.1.3. **“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.

## 6. Rules

### ***Higher Loss Absorbency (HLA) Requirement***

- 6.1. A D-SIDTI must hold and maintain a capital buffer to meet the HLA Requirement as communicated by the Authority.
  - 6.1.1. For D-SIDTIs which must comply with minimum capital requirements (“MCR”) mandated by the Authority, the capital buffer for HLA Requirement will be an add-on in determining the minimum Capital Adequacy Ratio (CAR) and must be met through the capital instruments that are eligible for consideration in computation of the minimum CAR.
  - 6.1.2. For D-SIDTIs which do not currently have a stipulated MCR, the capital buffer for the HLA Requirement must be met using Tier 1 capital instruments<sup>1</sup> unless advised otherwise by the Authority.
- 6.2. 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

<sup>1</sup> As stipulated within the Authority’s Rules, Conditions and Guidelines on Minimum Capital Requirements (Pillar 1)



applicable to the deposit taking institution within twelve (12) months upon notification by the Authority unless otherwise indicated by the Authority

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

- (1) migration to a lower bucket (e.g. Bucket 2 to Bucket 1); or
- (2) 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.

6.4. A D-SIDTI must immediately notify the Authority when its capital (including the buffer for the HLA Requirement) is equal to or falls below the required level as communicated by the Authority.

***Restrictions on Discretionary Distributions***

6.5. Unless otherwise specified by the Authority, a D-SIDTI must comply with any restrictions on discretionary distributions as communicated by the Authority pursuant the Regulatory Policy on Domestic Systemically Important Deposit Taking Institutions.

***Reporting and Disclosure Requirements***

6.6. A D-SIDTI must submit any additional reporting as may be requested by the Authority unless an exemption is provided by the Authority.

**7. Enforcement**

7.1. Whenever there has been a breach of these Rules, the Authority’s policies and procedures as contained in its Enforcement Manual will apply in addition to any other powers provided in the regulatory laws and the MAA.

**8. Effective Date**

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



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