



Turks & Caicos Islands Financial Services Commission (the “Commission”)

Statement of Guidance: Principles for Controlling Large Credit Exposures for Banks

Introduction

1. This guideline sets out prudential considerations relating to Large Credit Exposures for banks. It is issued pursuant to section 43 of the Financial Services Commission Ordinance 2007 (‘the FSC Ordinance’) with a view to advising banks on the procedures and conduct expected of them in the operation of their licensed business. Section 43(4) of the FSC Ordinance provides that the Commission may take into account any failure to follow guidelines in determining whether there has been a contravention of the Ordinance, any financial services Ordinances or of any Code issued under the FSC Ordinance.

Controlling Large Credit Exposures

Diversification of risk is a key precept in banking. A significant proportion of bank failures have been due to credit risk concentration of one kind or another.

A financial institution shall not directly or indirectly, except with the approval of and subject to such terms and conditions as FSC, may by Order prescribe

Grant to any person, or to any group of companies or of persons which group is under the control or influence of one and the same person or body of persons, any advances or credit facilities or make any guarantee so that the total value of the advances credit facilities or guarantee in respect of such person or group of companies or persons, is at any time more than fifteen per cent of the aggregate amount of the financial institution's unimpaired capital and reserves; but the limitation upon the foregoing transactions shall not apply in respect thereof if such transactions are secured by collateral, fully covered by insurance, having an ascertainable market value, or otherwise having such a value as collateral as found in good faith by an officer of such financial institution, of at least twenty per cent more than the amount of obligations secured thereby.



This allows a financial institution to lend several times its capital base. Experience suggests that if advances under this provision are not closely monitored it can result in substantial losses and insolvency of a bank.

In recognition of the importance of credit risk diversification as a key precept in banking and notwithstanding the prevailing laws in various territories throughout the world, the BASLE Committee on Banking Supervision sought some convergence in national approaches to the supervision of large credit exposures. The Committee recommended in 1991 that a sound supervisory system should issue guidelines limiting the credit exposure of commercial banks to a person or group of related persons to not more than 25% of the bank's capital.

FSC supports the limitation on credit exposure as enunciated by the BASLE Committee and, recommends that:

A financial institution shall not grant to any person or group of related persons, any loan, advance or credit facility or give any financial guarantee or incur any other liability on behalf of such person or group of related persons so that the total value of the advances, credit facilities, financial guarantees and other liabilities in the case of a person is at any time more than 25% of the financial institution's capital base.

For the purposes of this Guideline a "group of related persons" means:

"two or more persons, whether natural or legal, holding exposures from the same credit institution and any of its subsidiaries, whether on a joint or separate basis, but who are mutually associated in that:

- (i) one of them holds directly or indirectly power of control over the other ...
or
- (ii) their cumulated exposures represent to the credit institution a single risk in so much as they are so interconnected with the likelihood that if one of them experiences financial problems the other or all of them are likely to encounter repayment difficulties. By way of example of such interconnections the credit institution should take into consideration the following:
 - common ownership;
 - common directors;
 - cross guarantees;
 - direct commercial interdependency which cannot be substituted in the short term"