



TECHNICAL ASSISTANCE REPORT

BELIZE

Implementation of Prudential Oversight for Securities Firms

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Authoring Departments/Institutions:

**Monetary and Capital Markets
Department**



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Glossary

BZD	Belize Dollar
CARTAC	Caribbean Regional Technical Assistance Centre
CySEC	Cyprus Securities and Exchange Commission
CFD	Contract for Difference
FSC	Financial Services Commission
IOSCO	International Organization of Securities Commissions
KNF	Komisja Nadzoru Finansowego (Polish Financial Supervision Authority)
OTC	Over the Counter
RBS	Risk-Based Supervision
SIA	Belize Securities Industry Act, 2021
TA	Technical Assistance
USD	United States Dollar

Preface

The mission took place over four days in July 2025, at the request of the Belize Financial Services Commission (FSC), to assist in the prudential oversight of securities firms. The mission met with colleagues from the Licensing and Authorisations, and Compliance Department, of the Commission, as well as the Commission's Special Counsel and Director General. Commission staff were engaged, supportive, and focused on delivering the right outcome for the Commission and the markets it oversees. The mission would like to thank the staff, as well as the private sector participants it met, for their support. Particular thanks are extended to Mr. Marlon Kus, Director of Licensing and Authorisations, for his leadership in arranging the mission.

Executive Summary

The Technical Assistance (TA) was initiated at the request of the FSC to assist in the implementation of prudential requirements for securities firms. The mission provided training to FSC staff on the prudential framework, developed supervisory material, and made recommendations around how to implement the framework, which is the focus of this report. The TA follows previous Caribbean Regional Technical Assistance Centre (CARTAC) assistance to develop a law and regulations to regulate the Belize securities sector, including prudential requirements, and to develop a framework for risk-based supervision (RBS).

The mission followed significant institutional, legal, and organizational change for the FSC. The FSC is a new organization whose enabling legislation was passed in 2021, and commenced RBS in 2025. The Belize securities sector is small in terms of the number of firms and characterized by a stark contrast between 3 domestically focused firms carrying out limited activities, and 14 internationally focused firms providing leveraged Over the Counter (OTC) derivative products to international retail clients. This contrast gives rise to challenges in how to regulate and supervise the industry, which RBS is beginning to address.

While there are opportunities for technical amendments and refinement, the prudential framework is conceptually sound. The prudential framework is risk-based, applying higher capital requirements where firms carry out activities that pose higher risks to the firm and their customers. It applies risk-based capital requirements based on firms' counterparty, position and foreign exchange risks, which is particularly relevant where firms provide OTC derivative products. The mission explored the opportunity for a more proportional capital framework, particularly for less complex firms through the use of thresholds. Some potential refinements and technical amendments to the framework were identified, such as allowing total capital requirements to be the higher of different components, relief for United States Dollar (USD) exposures and the use of non-Belize bank accounts, and focusing certain requirements on firms that deal as principal.

Before initiating any adjustments to the prudential framework, it is important to develop further supervisory understanding of the sector, and a risk appetite, particularly over the more complex firms serving international clients. At the time of the mission supervisory understanding of the firms servicing international clients was limited, and RBS was at an early stage. The firms providing services to international clients can be complex in terms of their operations, scale, and activities. The provision of derivative exposures to international retail clients gives rise to complex supervisory considerations, from conduct and financial crime perspectives as well as in respect of prudential standards. Deepening understanding of these activities, training staff on key concepts and risks, and assessing firms' current compliance with prudential rules is important before formal changes to the framework are developed. In developing any policy changes, a full assessment of firms' current compliance would be required, and consultation to ensure proposals are appropriately informed.

There are opportunities to develop conduct requirements for firms providing OTC derivative products to retail investors, informed by International Organization of Securities Commissions

(IOSCO) work. IOSCO's 2018 Report on Retail OTC Leveraged Products¹ sets out measures which securities regulators should consider in regulating these types of business, including leverage limits, minimum margin requirements, and risk disclosures. These have been implemented in some other jurisdictions, and it appeared that some of these concepts are already applied by firms operating in Belize, likely through regulatory requirements applied to other entities in their financial group. In developing its risk appetite for the securities sector, Belize authorities should consider developing such requirements, leveraging the approach taken in other jurisdictions, to improve oversight of the sector and ensure that appropriately tailored protections are afforded to the clients of Belize-regulated securities firms.

¹ [FR17/2018 Report on Retail OTC Leveraged Products](#)

Recommendations

Table 1. Recommendations

Recommendations and Authority Responsible for Implementation	Priority	Timeframe 1/
Develop a risk appetite for the securities sector and embed the risk-based supervision program, in turn increasing understanding of the business models of, and risks carried by, securities firms offering services to international clients. ¶ 23, 24, 33	High	Near Term
Develop bespoke conduct requirements for firms offering OTC derivatives to retail customers, considering the IOSCO Highly Leveraged Retail Products Report. ¶ 29, 30, 31	High	Medium Term
Assess the current compliance with the prudential rules of each firm in the securities sector, initially through desk-based analysis, and where required, discussions with firms. ¶ 22, 27, 28	High	Near Term
Ensure that staff training and development covers technical matters in the securities market, including retail OTC derivatives concepts, business model and financial analysis, and prudential regulation. ¶ 27	High	Medium Term
Based on the risk appetite for the securities sector and assessment of risks posed, determine whether it is appropriate to fully enforce the framework or whether changes can be made to embed proportionality, or strengthen requirements in targeted areas such as liquidity risk management and client asset protection. ¶ 20-28	Medium	Near Term

1/ Near term: < 12 months; Medium term: 12 to 24 months.

I. Regulatory and Market Context

1. The mission aimed to support the Belize FSC in implementing a prudential framework for securities market firms. CARTAC has previously assisted the FSC in developing updated laws and accompanying regulations for securities market oversight. This work included development of a securities market regulatory law which included prudential requirements for securities firms, and establishing a risk-based supervision framework for the FSC. The law, including the prudential requirements, were in force at the time of this mission.

2. The prudential approach in force applies initial capital requirements based on the activities the firm is licensed to undertake, which are proportionate to the activities and risks that firms are undertaking. On top of this initial capital requirement an operations scaler is required, which, subject to deductions, equates to three months of the previous year's expenditure. There are additional requirements where the firm deals as principal, applying to activities involving market and counterparty risk. The approach also incorporates calculations to mitigate FX risk. Moreover, the FSC can conduct Pillar 2 style assessments of firms, applying additional capital requirements subject to the outcome of those assessments. In addition to capital requirements, there are liquidity requirements for a proportion of capital to be held in liquid assets. Before this framework was implemented the prudential requirement was a fixed amount of capital for all firms, which was required to be held in cash in a Belize bank account.

3. Recognizing the complexities involved in implementing and supervising dynamic capital and liquidity requirements for the first time, the FSC requested separate technical assistance on prudential supervision. The mission provided training to FSC staff on the framework, developed a supervisory guide, and a tool which the FSC can develop to estimate, at a high level, firms' current compliance with the framework.

4. The mission intended to assess the current supervisory readiness and suggest proportional and risk-based supervisory approaches. In particular, it intended to:

- Assess the risks associated with the international Contract for Difference (CFD) market, current supervisory practices and how effective prudential supervision can achieve the FSC's objectives;
- Develop proposals for regulatory and supervisory improvements, including templates that could be developed further by the FSC, while providing additional guidance as needed; and
- Train FSC staff on how prudential regulation supports the objectives of securities market regulators.

Supported by three preparatory days and two days post-mission, the mission arranged its activities as:

- Day 1: workshops with FSC staff to understand their challenges in implementing the prudential framework.
- Day 2: Training on the prudential requirements, and an overview of international practices in the regulation of the CFD sector.
- Day 3: Presentation of draft supervisory guides and tools, with workshops to incorporate FSC staff feedback.
- Day 4: Meetings with regulated securities firms and an approved auditor.

5. Before departing, the mission briefed the Director General of the FSC on its findings, the training delivered, and the supervisory material developed.

A. The FSC and Domestically Focused Securities Firms

6. The Belize FSC supervises securities firms in Belize, and has undergone rapid change in recent years. The FSC transitioned from the International Financial Services Commission in 2022, and with assistance from CARTAC, a comprehensive regulatory framework was developed for the securities sector. The Belize Securities Industry Act (SIA) was published in 2021 and regulations were developed. Subsequently, separate technical assistance was delivered, which designed a prudential framework for the securities sector. At the time of that work it was unclear whether the requirements would be applied to firms providing services solely to international clients as well as firms generally servicing the domestic market, but the framework was designed to be forward looking, and broadly suitable to regulate the securities markets as they develop. These requirements are now in force, and apply to all firms registered to provide securities services, including to internationally focused firms. Further assistance was provided in 2023 to provide a gap analysis against IOSCO standards, and a roadmap for implementation. The mission findings should be read in the context of the FSC having experienced significant organizational, legal, and personnel change.

7. The risk framework developed in previous TA is now used to categorize firms, which is positive, and should support future supervisory work. The compliance team started to use the risk framework from January 2025. At the time of the mission this involved developing an understanding of firm-specific risks, but supervisory work in the securities sector remained nascent. Before the SIA was introduced, the International Financial Services Commission focused on financial crime mitigation and tax matters such as economic substance requirements. In the securities sector thematic work has been carried out on complaints handling, and the compliance team carries out analysis of regulatory returns and annual accounts. The FSC also enquires about transaction-level matters where issues have arisen.

8. The domestic Belize securities market is very limited and nascent. There is no domestic stock exchange, no investment funds, and a very small number of bonds. Where secondary market trades take place in non-sovereign bonds (sovereign bonds being brokered by the central bank), this is generally facilitated by a regulated securities firm, and is understood to take long periods to transact. As such, OTC trading in the secondary market is understood to be rare. There are very few traded equities issued in Belize, and corporate bonds are uncommon. As such, the domestically issued securities market is dominated by central government bonds and issuers such as the Tourism Board, municipal Governments, utility companies, and an educational institution.

9. There are three firms that operate in the domestic market. One is licensed to trade and can provide advisory services, one is licensed to manage securities, and one is licensed to provide administration services. Currently these firms operate on a standalone basis and are not owned by banks, although this could change. There has been limited growth in the market, and the introduction of the SIA has brought some optimism, but this has yet to materialize into an uptick in offerings. Firms subject to higher prudential requirements are generally firms with permissions to deal as principal, and deal as agent. Currently, the requirements to calculate position and counterparty risk requirements, and have the necessary capital invested in the company available, apply to firms with these regulatory permissions.

From meetings with one firm and discussions with FSC staff, these businesses appear to have relatively limited operations, generally acting as advisors to bond issuances and carrying out activities that would not ordinarily require regulation (such as consultancy services). As such, their current prudential risk appears relatively low.

B. Internationally Focused Securities Firms

10. Largely unconnected to the domestic market, Belize hosts an active and, based on the firms looked at in the mission, sometimes highly profitable segment of firms providing leveraged OTC derivative products, such as CFDs to international retail clients. These firms provide services in products to international retail investors such as CFDs and binary options on a wide range of exposures including commodities, single name equities, and currency pairs. Beyond being operated from a Belize legal entity and subject to FSC regulation, these firms have limited connections to the domestic market. There are currently 14 firms operating, significantly more firms than currently operating in the domestic market (Figure 1). The customer base is understood to be entirely non-Belize residents, including retail investors. The firms are currently subject to the same prudential requirements as domestically focused firms, and conduct requirements set by the SIA and regulations. Bespoke requirements to address the particular risks posed by these firms' business models have not yet been developed, and supervisory efforts to date have focused on general oversight as the specific risk landscape continues to be assessed.

11. At the time of the mission, supervisory understanding of the business models of internationally focused firms was developing. Supervisory and licensing staff were unsure whether firms in the sector were acting as liquidity provider or acting as agent. Subsequent reading of firms' risk disclosures and meetings with providers confirmed that they act as counterparty to their customers, and the business appeared highly profitable. The FSC had information available on the proportion of firms' customers by different geographical regions, provided through regulatory returns. However, no data was available on the number of customers, and information available through reports was high level, for example information being presented as a percentage of customers located in "Asia", with no sub-regions or absolute numbers. A public investor presentation for one firm suggests the firm brought on 500,000 clients in 2024, bringing the total number of global clients to over 1.3 million. However, it is not clear how many clients relationship is with the Belize entity.

12. Previous TA² recommended targeted work to increase understanding of the international segment, which should be prioritized. It recommended the development of distinct supervisory work to understand the conduct and prudential risks, and the development of a risk appetite for this sector. Initial draft guidelines proposing bespoke conduct of business requirements for these businesses were produced for the FSC. This included a supervisory questionnaire that could be used in the sector, focusing on order execution methods and infrastructure, and procedures for maintaining client accounts, including margin, leverage, and close out procedures.³ These documents remain a strong starting point to develop understanding of firms and develop standards for the sector. While the firms are understood not

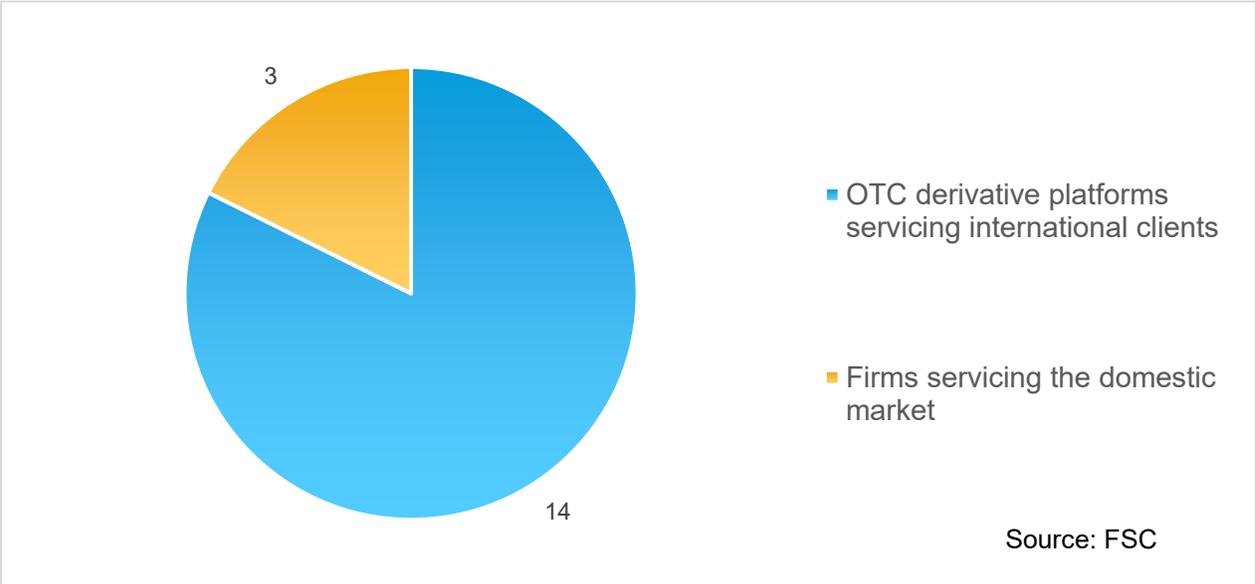
² The 2023 technical assistance on IOSCO gap analysis and roadmap.

³ It should be noted that the FSC is at an early stage of its development, with risk-based supervision commencing in January 2025.

to offer services to Belizean clients (which the FSC advises has been verified), any changes to which would warrant a material shift in supervisory focus, understanding firms' business activities is foundational to supervision. As the FSC moves towards IOSCO ordinary membership, opening discussions with international regulators of the firms such as CySEC in Cyprus and the KNF in Poland could provide a stepping board to increase understanding, and establish relationships with key counterpart regulators. Material information is also available publicly, such as through risk disclosures and investor presentations where firms are publicly listed.

13. The firm information available limited the ability to assess compliance with, and develop supervisory guidance and materials in respect of, prudential requirements. At the time of the mission the FSC had applied supervisory forbearance to allow some firms to hold only the initial capital requirement under the framework. While this reflects a relatively low amount of the overall calculation, given the FSC's challenges in understanding the framework and the framework significantly increasing the capital requirements for most firms, this is understandable. In order to estimate the likely capital requirements of firms, annual accounts and regulatory returns were reviewed by the mission, and a high-level tool was developed based on reported revenue, to estimate the operations scaler and liquidity requirement. While only two firms' data was inputted during the mission, it showed significant increases in capital would be required compared to the previous framework, which required a fixed amount of capital to be held, without applying risk-based capital requirements. At the time of the mission, annual accounts suggested that one firm held cash assets well in excess of this, and the other firm appeared to meet these requirements. However, the calculations were high-level, incomplete, and relied on historical proxies, so this requires verification.

Figure 1. Firms Currently Authorized to carry out Securities Business



II. Implementation Analysis and Recommendations

A. The Prudential Framework

14. While the approach introduced recently is relatively straightforward in the context of prudential frameworks, it is not unusual for knowledge of prudential concepts to be limited in securities regulators whose mandates are focused on investor protection and market conduct, and it marks a significant supervisory shift. The framework is bespoke, designed for Belize, but heavily drawing from approaches and concepts in other jurisdictions, particularly the European Union (EU). It necessitates an initial capital requirement along with an operational risk scaler, and additional requirements for position, counterparty, and FX risk. It also introduces Pillar 2 type requirements, at the FSC's discretion, including ICAAP-style self-risk assessments by firms. For the FSC to evaluate the appropriateness of such requirements, it is essential to develop earlier supervisory monitoring tools, including firm risk assessments and reporting.

15. Prudential frameworks for the securities sector can vary materially, and international standards are significantly less developed than for internationally active banks. A 1989 IOSCO Report sets out standards for prudential regulation, and a peer review took place in 2014. However, in some jurisdictions the approaches can be risk-based, whereas other jurisdictions take a more proxy-based approach. Before the current framework Belize took the latter approach, requiring a fixed amount of capital to be held in liquid assets, in a local bank. Where firms carry out activities that give rise to exposures which can lead to direct balance sheet risks, frameworks in other jurisdictions are generally more risk sensitive. Yet given the significant differences in business models and risks within securities sectors, both domestically and cross-border, the particular approach of countries can vary materially, depending on regulatory objectives, risk appetite, and wider policy objectives for the financial services sector. Whereas prudential requirements for banks take into account economic and financial stability considerations, for the securities sector this often does not apply. As such, the trade-offs are different.

16. The prudential framework under the SIA is risk-based, and will increase capital and liquidity requirements as a firm's operations increase in terms of scale and risks. At the time of the mission, it appeared unlikely that any firm in the securities sector would have systemic impact in Belize were it to fail. This could change, and will require ongoing monitoring, particularly if there were mergers or greater connectedness to the Belize banking sector. In this context, prudential requirements for the sector aim to ensure that firms have appropriate financial resilience to limit the risks of customer harm, clients' assets are safe and accessible, and that the firm can exit the market in an orderly way, including by transferring those assets to another firm. Requiring capital and liquidity commensurate with the scale of the firm's activities also ensures that the firm has financial resilience and loss absorbency, with financial resources available to cover unexpected events and losses, reducing the risk of customer harm when things go wrong.

17. In assessing any regulatory framework, it is important that firms have the capacity to implement, and the supervisor has capacity to supervise, on an ongoing basis. To date, this has

proved challenging. The FSC has undergone major legislative and organizational changes, and risk-based supervision started only seven months before the mission. The prudential framework was developed through previous TA, and public consultation was carried out. However, this consultation period was for two weeks, and FSC staff involved in the development of the framework are not involved today. Further, given the stark difference between the activities of firms generally servicing the domestic market and firms providing services to international clients, and the FSC's understandable treatment of prudential requirements as medium to low priority in the context of its wider responsibilities, consideration of industry and supervisory capacity is of high importance. Since the current prudential framework came into force the FSC has monitored capital ratios through returns submitted by firms. However, in anticipation of the mission, limited additional resource has been assigned to support more in-depth assessments of firms, and the production of supervisory guidance.

18. While regulated firms the mission met with raised interpretative questions and there were more fundamental objections to the framework from one firm,⁴ understanding of the framework appeared to be high, in significant part due to the approach using concepts common in other jurisdictions. Notwithstanding, as the sample⁵ of firms was small this cannot be extrapolated to provide assurance of understanding of, and compliance with, requirements in the wider market. It was apparent that, while two firms appeared to have implemented effectively, and the auditor had developed guidance on the framework for clients, supervisory guidance would be of assistance, e.g. in interpreting concepts such as definitions of capital. One firm advised that further guidance on the eligibility of different aspects of retained earnings would be of assistance. Training to the FSC emphasized the advantages of consistency with interpretations from other prudential regulators, internationally and domestically from the Central Bank of Belize, to ensure consistency for firms who operate cross-border, limit possibility for regulatory arbitrage, and to limit the need for novel policy work where approaches have already been developed internationally.

19. Where firms offer clients exposure and leverage in volatile markets, management of liquidity risk is likely to require particular attention. The firm's particular business model will impact the nature of liquidity risks and how they are managed, in particular how the firm funds client trades, such as through matched principal trading. Firms must maintain sufficient liquidity to cover margin requirements and respond to demands from clients who may need to liquidate positions during volatile market conditions. Adequate liquidity ensures that firms can swiftly address client requests for withdrawals or margin calls, which is critical in leveraged trading where rapid changes in positions can occur. The nature of leveraged products makes them subject to high volatility, necessitating that firms manage price fluctuations effectively. Maintaining liquidity enables firms to meet sudden spikes in trading volume or client activity, especially during market shocks.

⁴ The firm appeared to understand the principles of the framework, noting it had close similarities with the EU approach, however considered it to be disproportionate to Belize. They expressed concerns regarding the impact on competitiveness vs. jurisdictions such as Bahamas, Seychelles and Mauritius, and limitations in supporting infrastructure in Belize such as the accessibility of the Belizean banking system to the international securities sector.

⁵ The mission met with 2 firms servicing international clients, 1 firm generally servicing the domestic market, and an auditor.

B. Options to Implement

20. The mission identified some potential areas for targeted refinement by incorporating specificities of the local securities sector. Given the Belize dollar (BZD) being pegged to USD, from a prudential risk perspective alone,⁶ the treatment of USD versus other currencies with a floating exchange rate to Belize dollar is distinct. Currently, the foreign exchange scaler applies to all currency holdings outside of BZD, including USD. However, as USD is pegged to the BZD, the currency risk, to the extent it exists, is to the peg rather than foreign exchange markets. Further, under Regulation 34(5), the capital requirement must be held in assets denominated in BZD. Given the size of capital requirements for some international CFD providers relative to local Belizean banks, if firms were to put this into a Belize bank, this could pose a significant liquidity risk for the bank. One CFD provider explained that it is difficult to convince their chief risk officer to put \$30 million with a bank that has less assets than the firm. Separately, the position risk and counterparty risk scalars apply to firms that deal as agent, as well as deal as principal. In general, dealing as agent would not give rise to principal risk to the firm, so consideration of disapplying the requirements when firms are dealing as agent could be warranted. However, this would require supervisors to ensure firms are applying this distinction correctly. Some flexibility could also be afforded to the requirement that firms hold assets in banks in Belize or a G7 country, considering the practical challenges this may cause for firms who operate outside of G7 jurisdictions. This would require assessment of the risks of widening the scope, and discussions with the relevant overseas banking supervisors.

21. While capital requirements are significantly higher than the previous approach the mission does not recommend fundamental changes to the design of the framework. The initial capital acts as base level of capital that all participants must meet, the operations scaler acts as a proxy for the scale of the firm's operations, and the position, counterparty and foreign exchange risk scalars are risk sensitive to the exposure the firm has through its business activities. The liquidity requirement ensures that liquid assets are available should the firms encounter stress, and assets are available to correct issues that arise, or to exit the market. As noted, by borrowing heavily from approaches in other jurisdictions, it appears that the sample of firms the mission met with understand the basic operation of the prudential framework. Through training provided during the mission FSC staff have increased their understanding, but ongoing work will be required to ensure that the framework can be confidently applied in supervisory and authorizations work.

22. Given the volatility in certain markets that firms providing services to international clients operate in, liquidity management and client asset protection are likely to be priorities for supervisors. The framework currently requires in-scope firms to hold liquid assets equivalent to a third of the operations scaler, which amounts to one month of expenditure. Conceptually, a more risk-based approach could be taken given that some firms will be more exposed to liquidity risks than others (although this approach broadly aligns with requirements on EU firms). Given the nature of firms providing leveraged derivative exposures to clients, liquidity management would likely be a higher supervisory priority, and while the current liquidity requirement could be made more risk sensitive, qualitative assessment of firms' systems and controls and liquidity risk management framework could yield

⁶ The missions notes that there are other considerations in the balance of holding of assets denominated in local and foreign currencies, and decisions affecting this should be made in consultation with the Central Bank of Belize.

improvements ahead of reassessing quantitative requirements. While the prudential rules do not specifically address client asset protection, it is critical to firms who hold client money, and firms servicing international clients could have material client funds measured by number of accounts and value of assets held. While the mission did not cover client asset protection, it notes its criticality to some securities firms regulated in Belize, and the importance of ensuring appropriate supervision and regulatory standards.

23. Making changes to the structure of the framework is premature before the FSC understands the risks carried by the firms, the current levels of capital and liquidity, and develops its own risk appetite for the sector, however a number of options are apparent. For example, some approaches internationally calculate total capital requirements as the higher of certain components, rather than the sum of them. This recognizes that some components are more risk sensitive, such as position, counterparty and exchange risk scalers, whereas others, such as initial capital requirements and operations scalers based on historical expenditure, take a proxy approach. As such, an approach to take the higher of different components could be considered, such as:

Regulatory capital requirement = The higher of:
Initial Capital;
Operations Scaler;
sum of Position Risk, Counterparty Risk, and Exchange Risk Scalers; or
Applicable Supervisory Adjustment

This approach would, however, reduce the amount of capital held by firms, reducing ability to withstand losses.

24. For the avoidance of doubt, the mission considers it too soon to ascertain whether such an approach would be appropriate, and such a change would merit public consultation. However, it is outlined to highlight a type of options which Authorities may wish to consider, subject to confirming the risk appetite for, and further work to understand the risks in, the securities sector, particularly the international segment.

25. It is also important to consider the operational balance between complexities of business models and the capital framework. As such, there is opportunity to balance complexity with levels of financial resources when determining firms' obligations. However, were further simplification explored, it is critical that it is done in a considered way, aware of the reduced risk mitigation that this could give rise to. For example, if the more risk-sensitive aspects, namely the position, counterparty and FX risk scalers, were disapplied to a firm which then held foreign currency domiciled short positions and the market moved against the firm, there is a risk that the initial capital requirements and operations scaler would be insufficient to cover the firm's losses. As such, removal of the position, counterparty and FX risk add-ons could lift a protection against firm failure, increasing the risks of harm to the firm's customers.

26. The mission discussed other options with FSC staff, such as the use of thresholds. This could be used to help support the development of the domestic market, such as by disappling certain scalers for firms who carry out, for example, the lower of an amount of volume and value of transactions. However, it should be noted that this would create threshold effects, and does not change the inherent risk a firm's activities give rise to. The benefit would more likely come in limiting operational compliance challenges, but this did not appear to currently be an issue for the domestically focused firm the mission

met. Such options were discussed in the training but as above, a clearer understanding of current compliance is required before formal policy change would be proposed.

27. Most importantly, supervisory expertise and understanding is critical to implementing any framework (see Box 1). Staff had a clear understanding of the previous liquid capital approach and required letters of undertaking from the bank to confirm the assets the capital gives rise to is in a Belize bank account. Although the mission delivered training and produced supervisory material, this was to a limited number of staff, and covered the framework over two days. Supervisory questions will arise which the training and supervisory guide do not cover. To become confident in addressing such questions further upskilling would be required, both in prudential concepts but also the key risks in the regulated businesses, in particular the provision of OTC derivative products for retail investors, and financial analysis skills appropriate to such leveraged businesses. A high-level approach to such a supervisory program is outlined in Box 1.

28. In respect of supervisory priorities, it is suggested that the focus be on such upskilling, and the development of a supervisory program, before any Pillar 2 activities are undertaken. Pillar 2 could be a useful tool to ensure that more complex firms are appropriately managing their risks. It could also be integrated into wider business risk assessments, looking at conduct and other risks that are a priority for the FSC. The FSC could use Pillar 2 to apply capital adjustments to cover the risks a firm gives rise to when carrying out activities that could pose higher risks to customers and markets, such as poor controls over client money, persistent errors in order execution, or inappropriate onboarding. Although prudential requirements are unlikely to be the primary mitigant of such issues, they can provide a backstop to ensure investment in firms, and that funds are available to remediate such risks as they crystallize. However, the application of such assessments would require a supervisory manual (as opposed to the supervisory guide developed in the mission, which is descriptive of the framework rather than guiding the supervisory approach) to ensure objectivity and consistency in application. At the time of the mission, the priority was verifying compliance with, and any issues arising from, Pillar 1.

Box 1. Building Deeper Understanding of Firms' Activities and Risks

Increased understanding of firms and risks will result from implementing the RBS program. Given the relative size of the firms providing services to international clients, this segment warrants targeted supervisory attention. This applies to the activities and risks associated with firm more generally than prudential matters. Targeted work would likely commence with desk-based research, aiming to establish foundational knowledge about each firm and their operations. This includes compiling information on the business model and activities in Belize and how they are managed locally and by the firms' group, and the implications for the FSC's objectives and supervisory priorities. This would include public information as well as qualitative and quantitative supervisory or authorizations material held by the FSC.

Working with international counterparts is likely to be fruitful. Through IOSCO and other international forums, meetings with other regulators of firms with presence in Belize, and regulators in the key jurisdictions where clients of Belize securities firms are based, would also help build understanding of firms, leveraging work from international counterparts. This also helps to tackle matters of common interest. This could precede a program of meetings with firms to establish relationships and gather insights on operational practices, including business models and activities in Belize, and identifying challenges firms experience, particularly as they relate to regulatory matters.

Further data collection and analysis would likely be required to obtain relevant data for analyzing the impact of firms' operations. This would likely include data such as trading volumes, any restrictions on products offered, how overseas regulatory requirements are applied locally and to what is booked in Belize, and client demographics. The gathered data would then be analyzed to identify trends and potential regulatory concerns, as well as studying the flow of funds and capital associated with trading activities.

More formal supervisory assessments would evaluate firms' compliance with applicable regulations. This stage involves designing and conducting targeted inspections focusing on risk management practices and internal controls and documenting findings to provide actionable recommendations. A structured approach to file management should be part of this process, ensuring that all supervisory materials, reports, and compliance documentation are well-organized and can be easily handed over to future supervisors. Continuous baseline monitoring and engagement are also essential to maintain oversight and adapt regulatory approaches as needed. This includes developing ongoing communication channels with firms for regular business updates, monitoring international regulatory trends that may impact firms' operations, providing guidance on best practices for compliance, and adjusting regulatory strategies based on the evolving nature of relevant markets.

Throughout such a process, it is essential for supervisors to establish an internal framework of good governance, knowledge transfer, and accountability. This framework should include clear roles and responsibilities for staff involved in knowledge building and analysis, ensuring that there are designated individuals accountable for specific areas of research and oversight. Regular internal reviews should be conducted to assess the effectiveness of the knowledge-gathering processes. In addition, the regulator should define and implement milestones and performance indicators to measure the success of their knowledge-building efforts. These could include metrics such as completion of firm files, the timeliness and accuracy of data collection, and key information and data points being maintained in a standardized format for relevant firms. By tracking these indicators, the regulator can ensure that they are making progress in their understanding of the market and can adjust their strategies accordingly.

C. Bespoke Requirements for the Internationally Focused OTC Derivative Platforms

29. Additional requirements for the international sector should be introduced, considering IOSCO’s report on Highly Leveraged Retail Products.⁷ As discussed above, the prudential framework that is already in place is considered conceptually appropriate for the internationally focused OTC derivative platforms. The IOSCO report primarily focuses on establishing key standards to protect retail users of leveraged financial instruments. It identifies various types of products, including rolling spot forex contracts, CFDs, and binary options, all of which can present significant risks, particularly when marketed to inexperienced investors. The report outlines a regulatory toolkit aimed at enhancing investor protection, which includes licensing requirements, leverage limits, negative balance protection, and improved disclosure of risks and costs. It also highlights the importance of investor education and effective enforcement strategies to combat fraudulent activities in the market. In addition to regulatory frameworks, the report stresses the necessity of international cooperation among regulators to address the challenges posed by unlicensed firms and ensure consistent investor protection across jurisdictions. It notes that, at the time of publication in 2018, some countries have already implemented prohibitions or restrictions on certain products. These have expanded since the report’s publication, with strong suitability requirements, limits and bans being developed particularly in advanced markets, but also in countries such as Nigeria, Philippines, and South Africa, with a focus on investor education campaigns to improve understanding of the products and risks they give rise to. Strong perimeter enforcement of unauthorized platforms has taken place in South Africa and Philippines, and Kenya has set out requirements, including on leverage and disclosure, in The Capital Markets (Online Foreign Exchange Trading) Regulations.

30. Previous TA outlined initial draft guidelines which the FSC could use to develop such standards, with a supervisory questionnaire covering trading execution and the maintenance of client accounts. This mission did not duplicate these guidelines, but for the reasons outlined above, encourages their development and implementation. Similar to prudential requirements, the calibration of such requirements would depend on the jurisdictional risk appetite for the sector. However, the core concepts of disclosure requirements, leverage limits, and margin requirements would strengthen the oversight of the sector. Where firms also operate in jurisdictions that have already applied these standards, and the firms have implemented the regulatory requirements across their group, the compliance uplift may be relatively manageable relative to if the FSC developed bespoke requirements from scratch.

31. As such, in developing such standards further, significant leverage can be taken from the approaches of other jurisdictions. Given the international nature of firms in this segment, there is also conceptual merit in doing so, to ensure that regulation does not unduly disrupt their cross-border business. For example, some other jurisdictions have developed risk disclosures such as warnings to investors and profit-loss disclosures, and some providers with operations in Belize already clearly displayed such warnings on their websites. Developing similar principles in Belize, with the ability for firms to rely on substituted compliance concepts where the marketing of CFDs is to customers in jurisdictions with similar standards, as verified by the FSC or auditors, could be the starting approach. As some

⁷ [FR17/2018 Report on Retail OTC Leveraged Products](#)

jurisdictions limit the offering of these services without local presence, it is likely that the Belize entity contracts with clients in other jurisdictions, which in some way heightens the need for standards, in particular if firms contract with Belizean customers.

III. Conclusion

32. Risks in the domestically focused securities sector appear low, whereas risks in the internationally focused firms appear high.⁸ Such a stark contrast is striking, and poses some unusual challenges for the FSC. If the securities sector was limited to the three firms operating in the domestic market the supervisory focus could justifiably be more limited, given the competing priorities of the FSC outside of securities regulation. However, the international market appears to be large, complex, and highly geographically diverse. In this context, any simplification of the framework based solely on the securities market being nascent and non-complex is not valid.

33. The prudential framework in place is conceptually sound, and any adjustments should stem from a risk appetite and understanding of firms' business models and risks. Internationally, prudential regulation for the securities sector is significantly less developed and consistent than for international banks. The framework in Belize uses concepts and approaches common in other jurisdictions, which is appropriate to ensure consistency, particularly given the majority of securities firms in Belize operate internationally. However, key to any framework is understanding the inherent risk, and developing mitigants that allow for an acceptable residual risk. Developing such understanding and risk appetite is key to calibrating the framework.

34. As the FSC's supervisory approach becomes embedded, and any changes to the prudential framework are considered, the international segment should be considered holistically. Implementing IOSCO standards for highly leveraged retail products, considering previous technical assistance and appropriately calibrated for Belize, should be a priority. The SIA provides a strong foundation for securities regulation, and the FSC's efforts to implement risk-based supervision provide a good start to deliver its benefits. The FSC should consider supervisory attention over firms providing services to international clients as the supervisory framework becomes embedded.

⁸ Higher risks include (but are not restricted to) liquidity management and ability to meet client withdrawal requests, protection of client assets, critical reliance on IT systems, client harm through poor disclosure requirements, conflicts of interest and risks of market abuse, inappropriate onboarding and suitability checks, and aggressive or misleading marketing and client onboarding. The UK Financial Conduct Authority contacted the CEO's of UK based CFD providers in December 2024, setting out their consideration of the risks within the UK market: [Portfolio Letter: FCA strategy for Contracts for Difference](#)

Appendix I. Training Materials and Supervisory Guide left with Financial Services Commission

Training Slides: Prudential Supervision for Securities Firms

Training Slides: Belize SIA, Implementation Options and Prudential Supervision

Supervisory Guide: Belize SIA Prudential Supervisory Guidance