

General Glossary of Terms

This General Glossary of Terms provides a set of common terms used by Central Bank of The Bahamas (“Central Bank”) in its communications to Supervised Financial Institutions (SFIs) and other parties on matters, including but not limited to Regulations, Guidelines, Notices, Reports of Examination, Requests and other Correspondences. The glossary is intended to assist with the interpretation of the Central Bank’s supervisory communications.

| Term | Glossary Description |
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| Directive (Directed, Direct, or Directs) | <p>These terms are used to convey a mandatory action. A Directive will issue when the Central Bank needs an SFI to quickly remedy a serious deficiency. Directives have legislative backing¹. A Directive must be responded to immediately and completely as prescribed by the Central Bank.</p> <p>Directives will be issued when:-</p> <ul style="list-style-type: none">- severe regulatory breaches have been committed;- there is failure to respond adequately to earlier supervisory and/or regulatory corrective actions; or- there is a potentially material threat to the viability of an SFI or the stability of the financial system. <p>Non-compliance with a Directive will expose the SFI, and its relevant officers and directors, to the Central Bank’s full range of enforcement actions.</p> <p>The Central Bank will seldom need to issue Directives. When the need arises, however, the SFI’s board of directors and executive management must devote every reasonable effort to complying with the Directive within the nominated deadline.</p> |
| Require (requirement) | <p>Requirements also convey a statutorily backed instruction from the Central Bank. A Requirement will be issued by the Central Bank:</p> <ul style="list-style-type: none">- to achieve compliance with laws, regulations, and statutorily binding guidelines;- to remedy material deficiencies in an SFI’s business arrangements or operations; but |

¹ Usually under sections 6(c) and 18(1)(h) of the Banks and Trust Companies Regulation Act (“BTCRA”), but may also rely upon other specific statutory powers the Central Bank possesses.

- when such matters are insufficiently urgent or serious to merit a Directive.

Requirements must be given immediate attention and will have timeframes for resolution. The time allowed by the Central Bank for compliance with a Requirement will be based on the circumstances attached to the relevant issue.

Non-compliance with a Requirement may lead directly to the Central Bank invoking enforcement actions and/or administrative monetary penalties. Non-compliance may also lead to the issuance of Directives. Protracted inability or unwillingness to satisfy a Requirement or Requirements may cause the Central Bank to consider whether the officers and/or directors responsible may not be fit and proper for their positions.

Requirements are a hopefully rare but routine element in supervision. The Central Bank's experience is that some SFIs will from time to time drift away from appropriate compliance with their obligations. The Requirements Framework is a critical element in restoring such SFIs to a sound position.

Expect (Expectation)

"Expect" conveys a *preferred action*. An Expectation will be communicated when:

- an SFI may not have violated any specific legislation or regulation, but it is not operating at expected standards of prudence for an institution of its size and complexity; or
- the Central Bank seeks to bring an SFI into alignment with good practice for a core risk area, in the interest of the SFI and the Bahamian jurisdiction.

No enforcement actions directly apply should a SFI fall short of a supervisory Expectation. Consistent failure to meet supervisory Expectations, however, may lead to additional supervisory interventions. These include Pillar 2 capital adjustments, and in relevant cases, issuing Directives or Requirements.

The Central Bank's experience is that one or more Expectation will more often than not issue from onsite examinations, and will also issue fairly often from ongoing supervision. A well-managed SFI will pay careful attention to its outstanding stock of supervisory Expectations, with a view to meeting the Central Bank's expected improvements in practice over time.

Request

This term conveys a *request for documents and/or information, including face to face meetings*, in the Central Bank's continued

monitoring and oversight of its SFIs. A request for documents and/or information has legislative backing² and must be responded to within the timeframe specified by the Central Bank.

Non-compliance with a request by the Central Bank exposes an SFI and its officers and directors to potential enforcement actions and/or administrative monetary penalties.

“Must”, “Should”, etc.

The Central Bank will deploy imperative words such as “must” only in connection with Directives, Requirements, and other statutorily backed interventions. The Central Bank will use “should” and similar terms in connection with Expectations.

Regulatory vs. Supervisory language

Currently, the Central Bank’s policy infrastructure, including regulations and guidance notes, does not necessarily reflect the more precise use of terms outlined above for supervisory communication. The Central Bank intends to make its policy infrastructure consistent with these terms, as the relevant documents are issued or updated.

Conversion process from current practice

The Central Bank’s past regulatory practice has used “Recommendation” in a manner which sometimes refers to mandatory corrections, and sometimes to non-mandatory items. The new supervisory framework will avoid any use of “recommend” or “recommendation”, given the potential for confusion associated with this term.

The Central Bank’s supervisors have reviewed the outstanding stock of Recommendations and other items. Supervisors will communicate the mapping of past instructions into the “Directive, Requirement, Expectation” framework, for each SFI. SFIs currently subject to mandatory interventions from the Central Bank, however phrased, are not relieved from these obligations during the conversion period.

² Section 9 of the BTCRA