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**BANKS AND TRUST COMPANIES (LIQUIDITY RISK
MANAGEMENT) REGULATIONS, 2012**

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**BANKS AND TRUST COMPANIES REGULATION ACT
(CHAPTER 316)**

**BANKS AND TRUST COMPANIES (LIQUIDITY RISK
MANAGEMENT) REGULATIONS, 2012**

The Governor of the Central Bank of The Bahamas, in exercise of the powers conferred by section 24 of the Banks and Trust Companies Regulation Act, makes the following regulations —

1. Citation.

These Regulations may be cited as the Banks and Trust Companies (Liquidity Risk Management) Regulations, 2012.

2. Interpretation.

(1) In these Regulations —

“Act” means the Banks and Trust Companies Regulation Act (*Ch. 316*);
“freely convertible foreign currency” means any foreign currency which, at the time in question, is in the opinion of the Central Bank freely negotiable and transferable on international exchange markets;

“licensee” means any public bank and or trust company which is incorporated in The Bahamas and holds a licence granted under section 4 of the Act;

“liquid assets” means —

- (a) cash, including notes and coins held together with precious metal coins, which qualify as legal tender;
- (b) gold and silver bullion and other precious metals;
- (c) market loans, and includes —

- (i) balances with, and loans and advances to, Zone A banks including correspondent or clearing balances and committed facilities with residual maturity up to one hundred and eighty days;
- (ii) money at call and demand balances at Zone A banks held in Bahamian dollars and or freely convertible foreign currency;
- (iii) negotiable paper issued by Zone A banks, including negotiable certificates of deposits, promissory notes and other negotiable paper;
- (iv) bills, including —
 - (A) bills accepted by Zone A banks;
 - (B) public sector bills including Treasury bills and notes and other negotiable paper issued by Zone A country central governments, any other bills guaranteed and or underwritten by Zone A country central governments, or any other bills that constitute an obligation of a Zone A country central government;
- (v) marketable Zone A country central government securities; and
- (vi) any other asset designated for the purposes of these Regulations by the Inspector;

“liquidity” means the ability to fund increases in assets or meet collateral obligations at a reasonable cost as they fall due without incurring unacceptable losses;

“liquidity ratio” means the ratio of the sum of a licensee's liquid assets, in all currencies, expressed as a percentage of the sum of its deposit liabilities in all currencies;

“money at call and demand balances at Zone A banks” means money at call and demand balances placed with Zone A banks less money at call and demand balances received from those banks;

“Zone A bank” means a bank located in The Bahamas or in a Zone A country whose credit rating is investment grade and excludes —

- (a) any bank whose credit rating has been downgraded to lower than investment grade in the preceding twelve months; or
- (b) any bank which has no rating;

“Zone A country” means —

- (a) The Bahamas;

(b) a country that is a full member of the Organization for Economic Co-operation and Development;

(c) a country which has concluded special lending arrangements with the International Monetary Fund associated with the General Agreement to Borrow,

and excludes —

(i) a country which has rescheduled its external debt during the preceding five years;

(ii) a country whose rating for long-term liabilities in foreign currencies is lower than investment grade, or which has no rating, and whose yield to maturity and remaining duration are not comparable with those of long-term liabilities with an investment grade rating;

“Zone A country central government” means the central government of a Zone A country.

(2) Words not defined in these Regulations shall, unless the context otherwise requires, have the same meaning ascribed to such words in the Act.

3. Liquidity risk management strategy.

A licensee shall establish and maintain a liquidity risk management strategy appropriate to the nature, scale and complexity of its activities.

4. Review of liquidity risk management strategy.

A licensee shall —

(a) implement and adhere to its liquidity risk management strategy at all times; and

(b) review on a regular basis, and at a minimum annually, its liquidity risk management strategy to take account of changing business objectives, strategic direction and the overall risk tolerance of the licensee.

5. Inspector to receive copy of liquidity risk management strategy.

(1) A licensee shall provide the Inspector with a copy of its liquidity risk management strategy.

(2) A licensee shall, where any change to a licensee's risk management strategy has been approved by its Board of Directors, notify the Inspector of such change within fourteen days of the Board's approval and provide the Inspector with a copy of the revised risk management strategy.

6. Licensee to maintain liquidity ratio.

- (1) Subject to paragraph (2), a licensee shall maintain a liquidity ratio of not less than twenty per centum.
- (2) Paragraph (1) shall not apply to a licensee which is subject to the provisions of sections 19 and 20 of the Central Bank of The Bahamas Act (*Ch. 351*).

7. Calculation of liquidity ratio.

The Inspector may, for the purpose of calculating the liquidity ratio of a licensee, require by notice in writing to the licensee that the liquidity ratio of the licensee be calculated —

- (a) either on a consolidated or unconsolidated basis; or
- (b) on both a consolidated and unconsolidated basis.

8. Central Bank to monitor liquidity position of licensees.

- (1) The Central Bank shall monitor the liquidity position of each licensee on an ongoing basis to satisfy itself that the liquidity risk is being appropriately managed based on the nature, scale and complexity of the licensee's activities.
- (2) The Central Bank shall, with respect to licensees which are subject to sections 19 and 20 of the Central Bank of The Bahamas Act (*Ch. 351*), monitor the liquidity position of such institutions as a whole, both on and off the balance sheet and across all currencies.

9. Provision of Information to the Inspector.

A licensee shall —

- (a) provide the Inspector with such particulars of its liquidity position in such manner, frequency and form as may be specified by the Inspector;
- (b) inform the Inspector forthwith of any concerns it has about its current or future liquidity position as well as plans to address such concerns.

10. Licensees to enter discussions with the Inspector.

A licensee and the Inspector shall, where the licensee is in breach of paragraph (1) of regulation 6, enter into discussions for the purpose of determining what remedial action is required.

11. Remedial action.

The Inspector may issue a written directive requiring a licensee to take such remedial action as the Inspector deems appropriate to ensure compliance with paragraph (1) of regulation 6.

12. Liability for non-compliance.

A licensee which fails to comply with a directive of the Inspector made under regulation 11 shall be liable to a fine.

13. Fines.

The Central Bank may, where a licensee is in breach of regulations 3, 4, 5(1), 5(2), 6(1), 9, and or 11, impose a fine of up to \$5,000 per breach.

14. Exemption.

The Central Bank may, if it thinks fit, exempt a licensee from the provisions of these Regulations.

Made this 2nd day of March, 2012.

Signed

WENDY CRAIGG

Governor of the Central Bank of The Bahamas