



# **THE CENTRAL BANK OF THE BAHAMAS**

**QUARTERLY LETTER ON REGULATORY AND SUPERVISORY DEVELOPMENTS**

**BANK SUPERVISION DEPARTMENT**

**October 19, 2017**



## **QUARTERLY LETTER**

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Over the past quarter, a significant portion of our resources was focused on further streamlining our internal supervisory and regulatory processes. These changes impact, inter alia, our examination process, communication with industry and AML/CFT supervision. We are now pleased to share with you some of these initiatives and the way forward.

### **Instituting a continuous supervision regime for AML/CFT risks**

Following the release of The Bahamas' Mutual Evaluation Report (MER) by the Caribbean Financial Action Task Force ("CFATF") in July of this year, the Bank Supervision Department has undertaken a major initiative in an effort to enhance its AML/CFT supervision. We have re-organized our supervision teams, within the same resource base, and have created a separate Analytics Unit to focus on AML/CFT Analytics, which should enhance our AML supervisory framework. The Analytics Unit will also focus on Data Analytics, with the goal of improving our prudential surveillance of the industry. Our Supervision Unit has been reorganized into new teams. This reorganization, in some cases, may have resulted in an SFI being assigned to a new Supervisor. Where this is so, the Supervisor will reach out to the SFI to advise of the change and make the necessary introduction.

### **Clarifying supervisory communications**

Another major change is with respect to our communication. The Bank Supervision Department has agreed a taxonomy of words which seeks to reduce any ambiguity as to the actions required by SFIs in all of our correspondence, including Reports of Examination (ROEs), letters, notices and guidelines (see attached General Glossary of Terms for details). With respect to issued ROEs, we have mapped past recommendations into the "Directives, Requirements and Expectations" framework. The listing will be shared with each SFI. New regulations and guidelines will adopt the nomenclature whilst issued guidelines will be retrofitted as they come up for review, to align with the new words.

### **Streamlining onsite examinations**

We have re-engineered our onsite examination process to achieve greater efficiencies for the production of final Reports of Examination within 20 business days after the onsite visit.

This change will be effective from 1 January 2018. The Guide to the Central Bank's On-site Examination Process will be amended to reflect these changes. The attached Work Flow Chart highlights key features of the re-engineered process, which are also delineated below:

- Earlier identification of SFIs targeted to undergo onsite examinations over the next calendar year.
- Earlier engagements with SFIs to request records and information. Notification letters will be sent to SFIs 3-4 months in advance of the onsite visit.
- An expansion of the data requested from SFIs prior to the onsite visit, for example, copies of the minutes of Board of Directors meetings and the related reports.
- Earlier commencement of desktop reviews of records, with a view to completing 70% -80% of the review prior to the actual onsite visit to the SFI.
- Earlier pre-examination meetings, typically 4 - 6 weeks prior to the onsite exercise, to discuss and clarify observations relative to the information received.
- A more targeted onsite visit to SFIs to confirm/validate observations and findings from the desktop reviews, primarily through interviews, walk-throughs of processes and sample testing.
- A replacement of the draft Report of Examination with a written document outlining our findings to be given to the SFI at the Closing Meeting.
- The submission of the final Report of Examination to the SFI within 20 business days of the Closing Meeting.

Further, the onsite examination process will usually include a meeting with external auditors prior to the onsite visit to discuss their audit approach, key audit areas and any concerns that auditors may have with the SFI's management and/or operations.

### **Basel II & III Implementation**

We have continued our review of the Guidelines on Minimum Disclosures and will shortly communicate the way forward for your feedback by means of a Discussion Paper. Our goal with respect to the Guidelines is to obtain the maximum benefit from a compliance standpoint while at the same time minimizing the cost to industry and to our ongoing supervisory efforts. We continue to make progress with our preliminary work on

implementing the remaining elements of Basel III namely, the capital buffers, the Leverage Ratio, the Net Stable Funding Ratio and the Liquidity Coverage Ratio. We plan to provide additional details on these elements in the months to come.

## **IFRS 9**

The Central Bank wishes to advise SFIs that it is currently reviewing its Guidelines for the Management of Credit Risk and the Guidelines for the Measurement, Monitoring and Control of Impaired Assets in order to make the necessary amendments to ensure their compatibility with IFRS 9. As you are aware, the International Accounting Standards Board (IASB) requires that financial reports comply with IFRS 9 on or after January 1, 2018.

## **Industry briefing, 30 November**

The initiatives listed above add up to a considerable change, and hopefully improvement, in the relationship between The Central Bank's supervisory teams and SFIs. We intend to hold an industry briefing on the Central Bank's supervisory strategy, which is scheduled for the morning of 30 November. Invitations will shortly issue for this event. We look forward to seeing you all there.

*Charles Littrell*

**Charles Littrell**

Inspector of Banks & Trust Companies

Any questions regarding this letter should be directed to:

**Inspector of Banks & Trust Companies**

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