

The Central Bank of The Bahamas

GUIDANCE NOTICE

Re: Exchange Control Framework on Inward Investment Financing

The Central Bank wishes to clarify and provide context for existing Exchange Control guidelines governing the treatment of capital investment inflows by non-Bahamian (non-resident) investors. These flows, whether by equity or loan, contribute importantly to foreign capital formation which, historically, has supported developments within the local economy. Bank policy on capital financing in the economy has long required such investors to capitalize and fund the activities of their domestic enterprises in foreign currency, with access to Bahamian dollars possible, only to the extent of any local ownership and, to a more limited degree, for working capital purposes.

Because these capital flows create potential claims on the foreign reserves, and the role which the Bank is required to perform as manager of the external reserves and compiler of the Balance of Payments, the Central Bank, in accordance with Exchange Control Regulations, mandates that they be approved, evidenced and recorded. These actions enable the Bank to formally recognize the investment by granting "approved investment status", thereby assuring investors that the Central Bank will make available the facilities of Exchange Control to enable repayment of loans or the transfer of income or capital arising from such investments.

The Bank's policy framework conforms with The Bahamas' obligations under its Article VIII membership in the International Monetary Fund (IMF), which prohibits the imposition of restrictions on current payments (e.g., dividends, loan repayments) and only permits restrictions on capital transfers in the interest of protecting the balance of payments.

Applications for Approval

Applications for approval of foreign currency borrowings by residents from non-residents are required to be made, by letter, to the Central Bank under the lending, borrowing and repayment provisions of the Exchange Control Regulations [see Regulations 1(1) and 5(a)]. Such applications must be accompanied by a copy of the loan agreement, which must be drawn up, subject to these requirements. Further, these are to be supported by a financial reference, where individual lender(s) are concerned, and audited financial statements or the latest annual report, where the lender is a corporate entity.

Central Bank Approval

The Central Bank, once satisfied with the bona fides of the parties to the arrangement, and the merit of the funding proposal, will grant approval, in accordance with the provisions of its policy. Such approval will grant authorization to lend, to borrow and to repay. As the Bank requires satisfactory documentary evidence confirming the disposition of the proceeds of the loan, the initial approval for repayment will be an approval in principle only.

Normally, the expectation is that this evidence would be submitted by the borrower or his representative. However, the Bank will accept such evidence from the lender or his representative and

issue final approval to repay the loan, provided they are able to satisfy the documentary requirements relative to the grant and draw down of the loan.

Any questions regarding this guidance note should be directed to:

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