

**The Central Bank of The Bahamas**  
BANK SUPERVISION DEPARTMENT

Quarterly Letter to All Senior Officials 01/16

Email: Email Address

Licensee: Name

Dear Senior Official,

The first quarter of 2016 has seen the continuation of a number of international initiatives or trends that have consequences for both domestic and international/offshore banking segments. These trends are far-reaching and driven by several factors. Key among these has been the pressure applied for global tax transparency from governments around the world to crack down on tax evasion and tax fraud. This has caused a significant strategic shift from offshore to onshore wealth management.

Against the backdrop of market volatility, our interactions with the licensees suggest that clients have become more sensitive to risk and leverage which have resulted in declines in the number of client transactions and increases in cash holdings rather than investments in capital markets. This has ultimately led to reduced profit margins for banks as they maneuver through a low yield environment which has become the new normal.

The global wave of **de-risking** has gained momentum and has put significant stress on establishing and sustaining **correspondent banking relationships**, especially for smaller, domestic or standalone banks in international financial centres. De-risking has led to a severe curtailment of correspondent banking facilities in some jurisdictions around the world, mainly the Caribbean, Pacific and Africa. In response, many of the international agencies such as the World Bank, IMF, Commonwealth Secretariat and FATF have been actively engaged in assessing the scale of de-risking, the impact on the industry and examining options or alternatives to mitigate the negative fallout. It is widely recognized that while low/negative interest rate environment offers miniscule returns on correspondent banking services; maintaining and strengthening correspondent banking relationships is critical for financial depth and stability as well as international clearing, especially for transactions denominated in USD. On the domestic front, the Central Bank continues to monitor this emerging issue, and has been engaged in discussion with both affected licensees and various international agencies. We are also in the process of updating last year's correspondent banking survey with a new survey to be issued to all of our Supervised Financial Institutions for completion in the coming weeks.

The Central Bank, over the past few months, has also been involved in a number of strategic and regulatory matters. You would recall that we advised of the onsite-visit of the **CFATF Mutual Evaluation Team** during 30 November – 11 December, 2015. In March 2016, The Bahamas received the first draft of the Mutual Evaluation Report, and the various agencies are now compiling responses for onward transmission to the CFATF.

For some time now, we have been developing the new administrative penalty regime that will be implemented in a few short months with the enforcement of the **Banks and Trust Companies (Administrative Monetary Penalties) Regulations, 2016** ("AMP Regulations"). In preparation, we have posted on our website, the **Guidelines for the Administration of Monetary Penalties** ("the AMP Guidelines"). The AMP Guidelines set out the procedures that the Central Bank will follow when it has a cause for concern regarding the operations of a Supervised Financial Institution ("SFI"); or in the event of non-compliance by any person or entity with any applicable legislation, orders, directives, conditions or limitations of the Central Bank. By way of further guidance, we have also developed a document entitled **Protocols for Licensees Regarding Administrative Monetary Penalties**, which outline the steps to be followed should you receive a Notice of Contravention or Order imposing a penalty from the Central Bank. By now, some of you are in receipt of pro forma invoices advising of breaches determined dating back to January, 2016 and the applicable

penalty. The intent of issuing the pro forma invoices is to raise awareness in the industry, alert SFIs to the financial impact of the penalties; and identify areas that need attention or adjustments.

SFIs are reminded that as per the AMP Regulations, failure to seek the Central Bank's prior approval for changes in regulated persons, such as the appointment of Directors and Executive Officers is classified as a serious breach and would be subject to a monetary penalty of \$50,000.

Work with respect to our **Basel II/III Implementation** programme continued with the training sessions held in February 2016 on the revised Financial Returns Template. Subsequently, we have made several updates to the ORIMS Portal, and also, posted to the portal the **Financial Returns Template v2.4** for the reporting for the quarter-ended March 2016 (please refer to Notice dated 8<sup>th</sup> April, 2016). We also posted to the website, the slide presentation used during the training session to further assist in your reporting to the Central Bank. You would recall that we advised in our last letter that the parallel reporting will result in one singular submission of the revised Financial Return Template commencing with the April report (for licensees reporting on a monthly basis) or the June report (for those reporting quarterly). Therefore, licensees are no longer required to complete the old Basel I Capital Adequacy form but complete the Basel III capital forms as applicable, i.e. the Summary Schedule of Total Eligible Capital ("CapSum"); Breakdown of Capital Base ("Capital Composition"), Credit Risk – On Balance Sheet ("CR – ON Balance Sheet"), and Operational Risk ("OpRisk").

With respect to the **QIS 2** submissions, we have completed our review of the capital forms and have shared our findings in individual letters to the participating licensees. In the coming weeks, we will share the summarized results of our analysis with industry as was done in the case of the first QIS.

Turning now to our guidelines, we remind licensees of the following amendments:

**The General Information and Application Guidelines for Private Trust Companies and Their Registered Representatives** (March 2016) were revised to include, in lieu of the stated fees, a general statement that licence fees are "as stipulated under the Third Schedule of the Banks and Trust Companies Regulation Act."

**The Guidelines for Assessing the Fitness and Propriety of Applicants for Regulated Functions** (March 2016) were amended to clarify the term "senior executive officer" in the Guidelines.

With respect to **Dormant Accounts**, our work in the area of revising the legislative framework continues, including the proposed administrative changes to the Dormant Accounts regime. Feedback from the consultative process has engendered further discussion with licensees and other local regulatory agencies. Given this additional feedback, the Central Bank has posted revised draft documents to its website, inclusive of the draft Banks and Trust Companies Regulation (Amendment) Bill, 2016 and the Central Bank of The Bahamas (Amendment) Bill, 2016, for a second round of public consultation ending 31 May 2016.

We expect to release in the coming weeks, a consultation paper on Proposals for Amendments to the Banks and Trust Companies Regulation Act, 2000 and the Executive Entities Act, 2011; Introduction of the Banks and Trust Companies (Private Trust Companies and Qualified Executive Entities) Regulations and Inclusion of Services Provided to Foundations in the Banks and Trust Companies Regulation Act, 2000.

Finally, we wish to remind licensees of Central Bank's long standing requirement to meet with **Internal Auditors** during their periodic reviews to discuss the internal audit scope, methodology and findings. These meetings, as you are aware, are to be held exclusively between Internal Audit representatives and the Central Bank. In addition, licensees should continue to provide to the Central Bank copies of Internal Audit plans and reports once finalized.

Any questions regarding this letter should be directed to:

**Inspector of Banks & Trust Companies**  
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Central Bank of The Bahamas  
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Sincerely,

A handwritten signature in black ink, appearing to read 'Abhilash D. Bhachech', with a stylized flourish at the end.

Abhilash D. Bhachech  
Inspector of Banks & Trust Companies

31<sup>st</sup> May, 2016