

The Central Bank of The Bahamas BANK SUPERVISION DEPARTMENT
Quarterly Letter to All Senior Officials 04/15
Email: Email Address Licensee: Name

Dear Senior Official,

At the onset, on behalf of the Central Bank and my supervisory team, let me wish you all a wonderful start to 2016. We hope that the year progresses on a positive note, bringing new opportunities and commensurate rewards.

All through 2015, change has been the central theme in both domestic and international/offshore banking segments; and will continue to remain so, going ahead. The changes are far-reaching and driven by a mix of legislative initiatives in home jurisdictions of our licensees, the strategic responses by the licensees, the regulatory expectations set by the international standard setters, the evolving economic trends in the developed and the developing economies; and the client's risk appetite for wealth management options.

The transition from 2015 to 2016 has been underscored by significant changes in the Central Bank culminating with Governor Wendy Craigg demitting her office after serving for over ten years as the Governor; and a career spanning more than thirty-seven years in the Central Bank. Effective January 2016, **Mr. John Rolle** returned to the Central Bank to take over the helm as the Governor and build on his prior twenty-two year association with the Bank. In his new leadership role, Governor Rolle joins the select group of Central Bank Governors in The Bahamas; and will oversee the continuing transformation of this apex financial institution and build on the legacy.

Our activities during the last quarter were dominated by the recently completed **Caribbean Financial Action Task Force's (CFATF)** fourth round review of the country's KYC/AML/CFT supervisory framework. We take this opportunity to thank you for your cooperation and participation in the various interviews scheduled during the evaluation period. We await the final report of the CFATF and as previously communicated, look forward to partnering with you in implementing any necessary changes to our legislative framework stemming from this evaluation.

During 2015, we further enhanced the alignment of the onsite examination process with the ongoing risk assessment process. Our onsite examinations are integrated with our ongoing risk assessments, as appropriate. We expect to continue the process in 2016 whereby onsite examinations will continue to be informed by the documented risk mitigation plans as communicated to and implemented by licensees. The regulator in the licensees' home jurisdictions and the licensees own strategic initiatives are factored into the scope of our onsite examinations; and, emerging risks, once identified, are incorporated into the examinations scope as well. Given the importance of having a robust AML/KYC/CFT regime to the sustainability of the jurisdiction as an international financial centre, we will continue to focus our examination efforts on ensuring that all of our licensees have appropriate AML/KYC/CFT controls in place with a greater emphasis on controls around combating the financing of terrorist and human trafficking. It is against this backdrop that our AML/KYC Guidelines were updated in December to ensure its alignment with international standards and practices and in particular, the FATF revised standards.

Towards the end of the quarter, we also focused our attention to the live implementation of our **Basel II/III framework**, effective 1st January, 2016. In the month of December 2015, we posted to our website the latest edition of the Basel Newsletter, the compilation of the comments received on the first round of Basel Consultation Papers, as well as, the results of the first Quantitative Impact Study (QIS) and have advised you of the second QIS study. We also

finalized and released the new and revised Financial Return Template (formerly the ERS Forms). As foreshadowed in our newsletter, the Central Bank will commence the parallel reporting in January, for those licensees that are subject to monthly reporting, and March, for all other public banks with the exception of branches that are subject to quarterly reporting. We wish to highlight that the parallel reporting will result in one singular submission of the revised Financial Return Template. Both Capital Adequacy Statements (i.e. the “Capital Adequacy” and “Capital Composition” sheets), for **Basel I and Basel II/III**, that are included in this package are to be completed by the reporting institutions. As previously advised, the suite of forms has been posted to our website and may be accessed via the ORIMS portal, by selecting: Documents → Portal Documents → Templates; and the Central Bank’s website at www.centralbankbahamas.com under: Bank Supervision → Regulatory Framework → Downloadable Forms → New ORIMS Forms 2015. The finalized versions of our Basel II and III suite of guidelines will be published to our website shortly. The Central Bank will also be hosting training sessions for the industry, to be held during the month of February on the new and revised Capital Adequacy Statements. Information regarding the date and venue will be communicated to you shortly.

The Central Bank will continue with implementing the other phased-in arrangements under the Basel III framework such as, the Leverage Ratio, the Liquidity Coverage Ratio (LCR), the Net Stable Fund Ratio (NSFR) and the D-SIB frameworks over the next two to three years. We will keep you posted with respect to these milestones.

You would recall that in our second quarter letter, we advised that we would provide an update on the results of the **correspondent banking** survey conducted in June, 2015. The survey was issued to all ninety-seven (97) public banks and/or trust companies to obtain a general view of correspondent banking activities within The Bahamas, and the impact of de-risking measures by large internationally active banks. Responses were received from fifty-three (53) licensees. In sum, the survey results indicated ‘de-risking’ of global correspondent banks has mainly impacted local commercial banks and standalone international banks. While the impact does not appear to be systemic, the Bank has observed several instances of scrutiny and/or downsizing of correspondent relationships initiated both locally and internationally. For example, while four (4) banks reported having a correspondent banking relationship terminated, all were able to find replacements. However, the level of difficulty or ease with which they were able to replace their correspondent bank was due in part to the nature of their operations, as well as the foreign correspondent bank’s onboarding requirements.

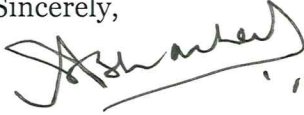
The results also revealed that banks are now subjected to heightened due diligence by correspondent banks. A small number of banks confirmed that de-risking has had an adverse impact on their operations; and an even smaller number has advised that this has had an impact on their remittance services. In the event of withdrawal of a correspondent bank, 15 banks (or 30%) indicated that they had a contingency plan in place for its replacement. Thirty-five (35) banks indicated they had no contingency plan in place. The Central Bank will continue to monitor the industry and provide support for licensees regarding this important subject matter. In the interim, licensees are encouraged to take a risk-based approach, so as to ensure that their anti-money laundering and counter-terrorist financing standards are in line with that of the Financial Action Task Force (FATF).

Finally, with respects to administrative matters, we are pleased to advise that we recently posted to our website, the finalized version of the **Technology Risk Management Guidelines**. However, we have delayed the enforcement of our **Administrative Monetary Penalties** regime to July 2016, to allow for a practical six-month grace period and the testing of our internal framework and operational arrangements. The external protocols governing this framework from your end will be communicated in the coming weeks.

Any questions regarding this letter should be directed to:

Inspector of Banks & Trust Companies
Bank Supervision Department
Central Bank of The Bahamas
P.O. Box N-4868
Nassau, Bahamas
Tel: (242) 302-2638
Fax: (242) 356-3909
Email: banksupervision@centralbankbahamas.com

Sincerely,



Abhilash D. Bhachech
Inspector of Banks & Trust Companies

20th January, 2016