

The Central Bank of The Bahamas BANK SUPERVISION DEPARTMENT
Quarterly Letter to All Senior Officials 01/15
Email: Email Address Licensee: Name

Dear Senior Official,

This represents the first of our quarterly letters in 2015. International regulatory initiatives and supervisory reforms aimed at securing financial stability and enhancing standards in the areas of regulation, transparency and international cooperation have continued through 2014. The international standard-setters have indicated that, going forward, the focus will be less on new rule making and more on implementation to ensure simplicity, comparability and effectiveness of supervision. As a result, the prudential supervision and regulation strategy in The Bahamas has been, and will continue to be, significantly impacted by these global regulatory outcomes on capital adequacy, liquidity, crisis preparedness and resolution; increased reliance on effective monitoring of licensees' financial metrics and operations, as well as targeted risk assessments.

The Bank Supervision Department will continue to focus on the key objectives of maintaining an effective monitoring and supervisory regime commensurate with the industry risks, as well as remain aligned with industry best practices, international standards and regulatory reforms. Our aim is that our supervisory conduct be timely and measured in response to the risk drivers underlying the systemically important domestic commercial banking segment, and emerging risks and strategic shifts in the offshore private banking and trust sectors.

The Bank continues to make progress on a number of strategic activities important to our ongoing supervision and regulation of licensees. In the area of prudential reporting, we remain on target to have licensees upload regulatory returns, effective March 30, 2015, to the Central Bank's new **Online Reporting Information Management System (ORIMS)** portal. In further preparation for the launch of the ORIMS platform, the Bank will, over the next month, require licensees to submit information—including the names and email addresses of the respective Financial Reporting Officers, and their backups, responsible for ensuring timely and accurate filing of the regulatory returns. Please note that the usual sign-off attestation will be a continuing requirement, and can be emailed, as per the current practice. Licensees will be advised, in due course, regarding the amendments to the Guidance Notes for the Completion of the Excel Reporting System (ERS) and the revised ERS forms.

The implementation of the **Basel II and III frameworks** remains at the forefront of our policy work agenda. As you are aware, at the end of Q4 2014, the Central Bank released four (4) Consultative Papers on the areas of National Discretion, the Calculation of the Capital Charge for Operational Risk, the Definition of Capital and the Minimum Disclosure Requirements under Pillar 3. With the formal comment period now over, we thank those of you who submitted comments; we are also prepared to consider any further comments received during our ongoing review.

Our programme to implement Basel II and III framework remains on track, in the face of evolving regulatory and supervisory reforms presently underway by the Basel Committee. We have successfully rolled-out Phase 1 of our Basel program road map and are now preparing to conduct the final deliverable, our first **Quantitative Impact Study (QIS)** for the Pillar 1 requirements. Our plan is to finalize the arrangements for the QIS in the coming weeks, and we will be contacting several of our licensees, separately, to participate in this initiative. Key elements of the Basel implementation program targeted for 2015 include: (i) Pillar 2 – Supervisory Review requirements, (ii) the parallel run for Pillar 1 reporting, (iii) special focus/benchmarking meetings, and (iv) implementation of the capital framework.

As signaled in one of our earlier letters, we conducted a Minimum Physical Presence Examination of nine (9) licensees who had significant **outsourced functions**—to assess their level of compliance with the Guidelines for the Minimum Physical Presence Requirements for Bank and Trust Companies in The Bahamas (“the Guidelines”). Basically, the findings were to inform us of the control environments in place for the oversight and management of these functions. The review, which took place during the period 2nd June to 10th October 2014, focused on three (3) core areas/criterion within the Guidelines, namely: arrangements for governance and management, records and record keeping; and premises and facilities. Overall, the examination findings indicated no major deficiencies relative to the governance of the outsourced functions on the part of licensees. However, compliance gaps were observed in the areas of engagement by the non-executive director (NED), due diligence (AML/KYC) documentation practices and the ability to monitor suspicious transactions. Our supervisory outcomes and required mitigation measures have been communicated to the respective licensees, and progress on remedial actions now subject to our monitoring regime.

The beginning of the year is the time for payment of annual licensee fees, and we thank all of you who have made these payments **directly to the Central Bank**, using the **Standard Settlement Instructions (SSIs)** attached to each Fee Invoice—in accordance with Act No.25 of 2014, and our payment instructions (issued via Notices dated 13th and 15th August, 2014). We take this opportunity to remind you that remittances are to cover all transfer charges, and payment instructions should contain the **licence code(s)** found on each Fee Invoice (i.e., one of the following prefixes: **LIC, PTC, NLC, MTB or MTB-A**). In this recent exercise, shortfalls in amounts paid and/or the omission of licence codes have resulted in a higher volume of rejected licence fee payments. Please also be reminded that the procedures for direct payments **of the annual registration fees** to the **Registrar General** are unchanged, and licensees are to continue filing a copy of the **registration fee payment receipt** with the Bank Supervision Department.

We have since amended the **General Information and Guidelines for Licence Applications for Banking and/or Trust** to reflect the changes to the annual licence fees, as outlined in the Banks and Trust Companies (Amendment) Regulations, 2014.

Finally, licensees should note that the draft **Banks and Trust Companies Regulation (Amendment) Bill, 2014 and the Banks and Trust Companies (Administrative Monetary Penalties) Regulation, 2014** were introduced in Parliament during Q4, 2014 and, while we await their passage, work on our internal framework to support this regime continues.

Any questions regarding this letter should be directed to:

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Sincerely,



Abhilash D. Bhachech
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2nd March, 2015