

<b>The Central Bank of The Bahamas</b> BANK SUPERVISION DEPARTMENT
<b>Quarterly Letter to All Senior Officials 01/14</b>
Email: Email Address  Licensee: Name

Dear Senior Official,

The opening quarter of 2014 has been very active for the Bank Supervision Department, as we engaged in annual meetings with our licensees, completion of financial analyses and examination reports, reviews and approvals of varied restructuring applications, and advanced work on a number of special initiatives, particularly our Basel Program. In this context, we thank you for providing the names of your Basel Project Coordinator(s) in the lead up to our first Basel Readiness Survey that we launched in Q1. This initial step demonstrates your commitment to ensuring the successful implementation of this important strategic supervisory initiative.

We are also pleased to announce the launch of our supplementary **Basel Newsletter** that accompanies this edition of the quarterly letter. The main focus of the Newsletter is to facilitate more elaborate communication with industry stakeholders on the Central Bank's Basel Program—inclusive of project outcomes and the progress of the Caribbean regional Basel II project, and to update you on any revised international standards relative to Basel III, risk management, governance, etc. The Newsletter also features a "Looking Ahead" section, to apprise you of some of our prospective project milestones.

In our previous Quarterly Letter, we advised that invoices for the annual licence and registration fees had been delayed, as these fees were under review by the Ministry of Finance (the Ministry). Since then, the Ministry, in February 2014, made further revisions to the annual fees payable by **Private Trust Companies (PTCs)**, which we communicated, via a Notice to the Registered Representatives of PTCs during the first quarter of 2014. Importantly, we highlighted that, in cases where registrants had already remitted fees for 2014 to the Treasury and Registrar General, the adjustment for overpayments would be reflected in ensuing annual fee billing invoices (i.e., for the years 2015 and 2016). Nevertheless, having regard to industry representatives' feedback on the matter, and subsequent dialogue between the Central Bank and the Treasury over the past few weeks, we can report that the Treasury has agreed to refund overpayment amounts to registrants, provided certain filing criteria are met. As such, we will communicate directly to all Registered Representatives, detailing the process and the

required supporting documents that should accompany refund applications to the Treasury.

As you are aware, the quarterly submissions of financial information by our licensees figure importantly in our off-site monitoring activities, and, in this regard, we wish to highlight points for clarification on inconsistencies noted in the reporting of market loans in the **Excel Reporting System (“ERS”)** by public trust companies. As a clarification, licensees are reminded that market loans refer to *“the placement(s) of a bank or trust company’s funds with other banks”*, as indicated at page 37 of the Guidance Notes for the Completion of the Excel Reporting System. To ensure consistency of reporting, trust companies are reminded to report their placements with other financial institutions in the Market Loans section of the ERS Statement of Market Loans/Deposits.

In the area of our guidelines/guidance notes, we draw your attention to the following amendments:

1. The ***Guidelines for the Minimum Physical Presence Requirements for Banks and Trust Companies Licensed in The Bahamas*** (15<sup>th</sup> April 2014) were amended to clarify the Central Bank’s requirements regarding back-up storage facilities.
2. The ***Guidelines on the Relationship between External Auditors of Licensees and the Central Bank*** (15<sup>th</sup> April 2014) were amended to remove the requirement for external auditors to meet with the Central Bank during the planning stages of an audit of a licensee.
3. The Guidance Notice on ***the Relationship between External Auditors of Licensees and the Central Bank*** (15<sup>th</sup> April 2014) was revised to coincide with the amendment to the related guideline (see above).

By now, you would be aware that the Central Bank is proposing changes to the laws relating to the administration of ***Dormant Accounts*** held by its licensees. The proposed changes are informed by benchmarking exercises to ascertain the prevailing international practices relating to the administration of unclaimed assets held by licensees, as we seek to bring clarity to issues that have emerged over the years and make the process more efficient. A copy of the Consultation Paper, and related documents, has been published on the Central Bank’s website, and we recently posted, on our website, a Frequently Asked Questions (FAQ) document on dormant accounts to facilitate greater public awareness of the proposed legislative changes. Again, we invite your comments on these proposals, and remind you that the consultation period ends on 20<sup>th</sup> May, 2014

In other legislative initiatives, please note that the draft ***Banks and Trust Companies Regulation (Amendment) Bill, 2014 (the Bill) and the Banks and Trust Companies (Administrative Monetary Penalties) Regulation, 2014***

**(the Regulations)** have now been finalized by the Attorney General's Office, and the Bank awaits the introduction of the Bill in Parliament. We also wish to point out that the Regulations will not take effect until four (4) months after the enactment of the Bill, affording licensees a grace period within which to ensure that appropriate internal arrangements are in place to minimize the incidence of the administrative monetary penalties outlined in the Bill. During this period, the Bank will notify licensees of any contraventions that would have attracted a penalty, but for the grace period.

The last point we wish to bring to your attention is the **Outsourcing Review under the ISAE 3000** framework. Last year, we notified several licensees who had significant outsourcing arrangements to have this review undertaken for such functions, and a number of them and/or their external auditors have sought guidance from the Bank on the scope and nature of such a review. To better inform this process, the Central Bank has decided to conduct a Minimum Physical Presence Examination for each of these licensees, commencing the second quarter of 2014 and extending into the remaining quarters of this year. We will determine how these licensees comply with the requirements of the Minimum Physical Presence Guidelines, given the material functions outsourced, and which areas of the licensees' outsourced functions should be reviewed under ISAE 3000. Upon completion of the Examination, we will then notify the respective licensees of the nature and scope of the ISAE review to be undertaken.

Any questions regarding this letter should be directed to:

**Inspector of Banks & Trust Companies**

Bank Supervision Department

Central Bank of The Bahamas

Market Street

P.O. Box N4868

Nassau, Bahamas

Tel: (242) 302-2638

Fax: (242) 356-3909

Email: [banksupervision@centralbankbahamas.com](mailto:banksupervision@centralbankbahamas.com)

Sincerely,



Abhilash D. Bhachech  
Inspector of Banks & Trust Companies

8<sup>th</sup> May, 2014