

The Central Bank of The Bahamas

BANK SUPERVISION DEPARTMENT

Quarterly Letter to All Senior Officials 01/13

Senior I: Name Email: Email Address

Licensee: Name

Dear Senior Official,

During this past quarter, the Central Bank remained focused on enhancing the policy framework for our licensed institutions, particularly in the area of capital adequacy. Like most of our peers, the journey continues towards implementation of Basel II and Basel III approaches, as appropriate to our jurisdiction. In any comprehensive Basel program, the key elements, structured as the three “Pillars”, include policy frameworks, capital measurement approaches, prudential risk management guidelines, supervisory processes, internal capital adequacy assessment, training and reporting, and market disclosure requirements.

Coincident with this works stream, we continued to build out the Risk Based Supervisory Framework, which established the foundation for our approach to Pillar 2 requirements under the Basel II regime. Following on the implementation of its Market Risk capital and reporting regime, this year the Bank is seeking to include enhancements to its credit and operational risk management and oversight frameworks. A significant step in this regard will be the initiation of the Basel II- Internal Capital Adequacy Assessment Program (ICAAP). The Bank has also released a Minimum Disclosure Survey for completion by all public licensees, which has a submission deadline of May 8th, 2013. The responses to the survey will assist us in assessing the appropriateness of these requirements for firms in The Bahamas and determining our approach to the areas of national discretion permissible under Pillar 3.

To further enhance the risk assessment program and improve our understanding of the business activities, risk profiles or control processes of licensees, the Bank plans to engage some of its licensees in a “discovery review” program, commencing the second quarter of 2013. Consistent with the supervisory practices in many international jurisdictions, this exercise is really a pro-active form of on-site information gathering and monitoring—typically conducted on-

site over 1-3 days, depending on the materiality, size, nature and complexity of the subject matter being reviewed by the Examiners. In such cases, the Examiners rely primarily on discussions and interviews held with the licensees, as well as information they provide. Importantly, the Bank intends to utilize this intelligence in planning its risk assessments, onsite examinations and, in general, to deploy its resources more effectively.

We would like to draw your attention to several legislative developments taking place during the period. Firstly, there was the passage, through Parliament, of the **Banks and Trust Companies (Private Trust Companies) (Amendment) Regulations, 2012**. You may recall that these amendments were made to, inter alia,:

1. allow for private trust companies to be limited by shares or by guarantee;
2. remove the requirement for registered representatives to obtain the approval of the Bank, on an annual basis, in order to continue to provide the services of a registered representative; and
3. require Registered Representatives to notify the Inspector of a change in its principal address and if it ceases to act as a Registered Representative for a Private Trust Company.

The amended **General Information and Application Guidelines for Private Trust Companies and their Registered Representatives** will be posted to our website. However, the amendments to the Regulation (ibid.) can be currently viewed on our website.

Next, on March 26, 2013, the Bank released a consultation paper on draft legislation aimed at implementing an administrative monetary penalties regime, i.e., the **Banks and Trust Companies Regulation (Amendment) Bill, 2012**, and the **Banks and Trust Companies (Administrative Monetary Penalties) Regulations, 2012**. To provide an understanding of the proposed regime, the Bank also issued draft guidelines (the **Central Bank Guidelines on the Administration of Monetary Penalties**). These releases follow on extensive closed consultation with key industry stakeholders, whose comments, questions and recommendations were invaluable in the production of the final draft documents. The wider public consultative period ends on the April, 29, 2013, after which we intend to progress the documents along the legislative process.

You may recall that, in November 2010, the Central Bank published on its website the **Guidelines for Assessing the Fitness and Propriety of Money Laundering Reporting Officers (MLRO) in The Bahamas**, with section 5 outlining documents required in support of a Nominated Person for the MLRO Function. Having reviewed this matter, and using the regulatory scope provided under subsection 8 of section 5 of the Guidelines, the Central Bank has implemented an additional document requirement of a notarized Confidential Statement (the Statement) for each Nominated MLRO. As you are aware, the Statement is already widely used in our assessment of persons who are proposing to hold regulated functions in a bank or trust company. Our due diligence review of a nominated MLRO will be conducted on the basis that the position should be held by an individual whose level of seniority is sufficient to be deemed as an executive officer within the licensee.

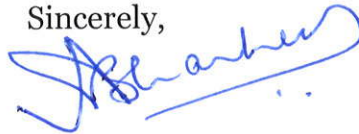
In other operational matters, the Bank continued to enhance its data reporting arrangements for licensees and other registrants. Recently, we augmented our published listing of licensees to include, along with banks and trust companies, the non-bank licensees and registrants. In addition, the Bank commenced the quarterly publication of the aggregate balance sheet for all public banks and trust companies; the latest position posted to the website is for the quarter ended September 30, 2012.

Over the coming months, we will continue to implement other initiatives which will ensure that The Bahamas regulatory and legislative regime for banking and trust activities are appropriately aligned with international best practices and standards.

Any questions regarding this letter should be directed to:

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Sincerely,



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