

The Central Bank of The Bahamas

BANK SUPERVISION DEPARTMENT

Quarterly Letter to All Senior Officials 02/12

Senior I: Name Email: Email Address

Licensee: Name

Dear Senior Official,

During the June quarter, the Central Bank continued to progress several important initiatives aimed at strengthening our banking supervision regime. These included further work on various guidance documents and legislative revisions.

As foreshadowed in our last quarterly letter, we piloted the new market risk reporting forms to six firms, to obtain a better understanding of the mix of exposures licensees hold in their trading books and the impact of a capital charge for market risk on capital adequacy ratios. The initial results of this exercise revealed that licensees were mainly exposed to general interest rate risk from US currency denominated investments and specific risk from “Zone A” Country issued debt securities, and that capital levels remained strong, notwithstanding the capital attribution to mitigate market risk. In early August, we intend to issue the revised guidance document (***Guidelines on the Management of Market Risk***) for an abbreviated consultation period. The finalized document, supplemental guidance notes, and the revised version of the ERS to accommodate the reporting of market risk, should be issued by end-August, with the first official reporting to commence for the quarter ending 30th September, 2012. It is important to note that **all licensees** will be required to complete the Trigger Form in the September 2012 ERS reporting, and those licensees that meet the *de minimus* threshold for the market risk capital charge, will be required to complete the suite of market risk forms. Licensees should also be aware that, while the Central Bank is not, at this time, imposing a specific market risk capital, you are required to maintain a minimum Capital Adequacy Ratio (CAR) of 8% (or higher, where imposed) for credit and market risks.

Aside from the various market risk guidance documents, the Central Bank has advanced work on guidelines relating to the management of operational and interest rate risks. We expect to issue these in the current quarter. Also, please note that the consultation period has ended on the proposed revisions to the ***Guidelines on the Prevention of Money Laundering & Countering the Financing of Terrorism***. We will finalize the revised Guidelines for issuance in the coming months. Finally, a small amendment was made to the ***Guidance Notice on the Annual Publication of Audited Financial Statements***. The intent was to clarify the need for locally incorporated licensees, publishing in an abridged format, to explicitly notify the public that a copy of the full set of the audited financial statements may be obtained at their registered office in The Bahamas.

Further, we recently issued a Notice on the “**Reporting of Material Events and Incidents of Fraud**”, dated 20th July, 2012. The Notice advised licensees of the requirement to immediately notify the Inspector of Banks and Trust Companies, if they become aware that a material event (for example, suspicious activities, incidents of fraud, or regulatory enforcement actions) could have a significant adverse impact on the licensee’s safety and soundness or reputation, has, may have occurred or may occur in the foreseeable future. As this is critical to our oversight regime, we expect all licensees to fully comply with this directive.

We also draw your attention to **section 10 of the Banks and Trust Companies Regulation Act, 2000 (‘BTCRA’)**, which empowers the Central Bank to penalize a licensee who fails to publish its audited financial statements within four months following its financial year end, by imposing a penalty of two hundred and fifty dollars for each day of such default. Where a licensee is granted approval for an extension (up to a maximum of sixty days), the default period will commence the day following the extension period granted. As it is the intention of the Central Bank to exercise this power going forward, licensees are advised to adhere to the timeframe provided by section 8 of the BTCRA.

In terms of legislative reforms, we are now well advanced with proposed amendments to the Banks and Trust Companies Regulation Act, 2000 (“the Act”) and new regulations, i.e., the **Banks and Trust Companies Regulation (Amendment) Bill, 2012**, and the draft **Banks and Trust Companies (Administrative Monetary Penalties) Regulations, 2012** (the Regulations). You will recall that the draft amendments to the Act, together with the proposed Regulations, will seek to expand the Central Bank’s powers to impose administrative monetary penalties for breaches of the Act or regulations made under the Act, or non-compliance with any direction, order condition or limitation of the Central Bank. The proposed amendments also include enhanced fit and proper requirements, new provisions relating to controllers of licensees, and those which would empower the Central Bank to impose prohibition orders against persons performing regulated functions, where such persons do not, or no longer, meet the Central Bank’s fit and proper requirements. We are grateful for industry’s comments on these proposals, which will soon be issued for an abbreviated wider public consultation period, and then moved along the legislative process.

The Central Bank is also contemplating amendments to the **Banks and Trust Companies (Private Trust Companies) Regulations, 2007** to: (i) allow for private trust companies to be limited by shares or by guarantee; and (ii) 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. We will update you, in due course, on the progress of these initiatives.

From time to time, all financial jurisdictions undergo various assessments of their regulatory and supervisory practices. During the month of July (9th – 31st), the International Monetary Fund (IMF) led a mission comprising twelve (12) persons, to conduct a Financial Sector Assessment Program (FSAP) of The Bahamas. Essentially, an FSAP is an in-depth assessment of a country’s compliance with international standards for the banking, securities and insurance

sectors, its resilience to shocks and the corresponding effectiveness of financial safety nets. The exercise was extremely intensive, requiring considerable effort on the part of all regulators. For the Central Bank, the focus was on assessing compliance with the Basel Core Principles for Effective Banking Supervision (BCP), via existing legislative framework, guidelines and supervisory toolkits. There was also an in-depth focus on interbank connectivity and the transmission of global economic shocks, as well as stress testing of the domestic banking system to plausible shocks. We wish to convey our special thanks to all firms that responded to the various data calls and meeting requests. Although the results of the FSAP will not be finalized until the latter part of the year, we are generally pleased with the feedback received during the discussions with the IMF. We look forward to informing you on the outcomes of the FSAP, once the IMF's Financial Sector Stability Assessment Report on The Bahamas is concluded.

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: banksupervsion@centralbankbahamas.com

Sincerely,

Abhilash D. Bhachech
Inspector of Banks & Trust Companies