



QUARTERLY LETTER TO ALL
SENIOR OFFICIALS

03/11

10th October 2011

Dear Senior Official,

This past quarter, our team has achieved important progress on a number of ongoing work initiatives, aimed towards further strengthening of our supervisory and regulatory regime. As has become our custom, we are writing to update you on these matters and to give you an idea of what you might expect to see in the next three months.

Turning first to the implementation of the **Risk-based Supervision Framework (RBSF)**, we are pleased to report the launch of the second round of assessments on 22nd September 2011, and that the full risk assessments of the twenty-four [24] high impact firms selected for the first round are largely complete. The balance of the first-round firms will shortly receive final letters on their risk assessment outcomes, along with the corresponding risk mitigation programmes. In the second round, we have targeted forty-two [42] firms, inclusive of two [2] of the domestic commercial banks and six [6] international firms, for full risk assessments. The remaining thirty-four [34] firms, having been categorized in the low material impact bucket, will be subject to our simplified risk assessment matrix. All firms selected for the second round were formally notified of the process, and it is imperative that the *Risk Assessment & Products and Service and Offering Questionnaires* for these firms are completed and submitted to the Bank Supervision Department, by the specified deadline.

Our goal is to complete risk assessments for all designated firms by the third quarter of 2012. To assist us in meeting this target, we would strongly encourage those firms that have not yet received a formal notification from us on the scheduling of their risk assessments, to complete, nevertheless, the requisite two questionnaires, which can be downloaded from our website, and submitted in advance. As you may imagine, the RBSF exercise requires the management of considerable data sets. During the past two months, we have been testing a new management information system (MIS) module, which will assist our senior supervisory management team in their ongoing review and analysis of individual firm and peer group risk metrics.

On the supervisory front, we continue to make steady progress on developing an appropriate framework for monitoring **market risk** in The Bahamas. As we have previously reported, the aim is to achieve compliance with international standards and, in doing so, to establish a common capital charge for joint licensees of the Central Bank and the Securities Commission of The Bahamas. In June, we had the

opportunity to arrange for a market risk expert to review our approach for consistency with international standards, and during his visit, he would have met with some of you to obtain an understanding of the extent of trading activities in The Bahamas. He has now submitted his Report, which sets out a roadmap for the implementation of the market amendment in The Bahamas. While two previous surveys, of a select number of firms, suggest to us that overall trading activity was not a major risk area for firms in The Bahamas, the recommendation is that we now establish the true size of firms' trading books, using our specified definition of a trading book. Consequently, we intend to launch a follow-up survey of all licensees, in the latter part of October. However, using national discretion allowances established by the Basel Capital Framework, we intend setting a de minimis threshold, which will likely waive and exempt firms without material trading activities from having to comply with eventual reporting requirements for market risk. Given the time that has already elapsed since we commenced this exercise, we have developed a very aggressive implementation timetable, with a targeted completion date of February 2012. We, therefore, encourage your full cooperation in providing a timely response to the revised survey and to providing comments on the revised guidance document.

We have not issued any new **guidelines** this quarter; however, we can report that the revised **Guidelines on the Management Large Exposures and Guidelines on the Management on Liquidity Risk**, along with accompanying Regulations, which have now been finalised, will come into effect shortly. We will send out a separate notice when these are issued.

On the legislative front, we are pleased to inform you that the **Banks and Trust Companies Regulation (Amendment to the Third Schedule) Regulations 2011**, which reduces the application and annual fees payable by Private Trust Companies, from \$5,000 to \$3,500 and \$2,500, respectively, is now in effect. We hope this amendment will bring The Bahamas in line with key competitor jurisdictions, and facilitate growth in these structures.

We are also in the process of finalising a number of proposed amendments to the **Banks and Trust Companies Regulation Act 2000**, and supporting draft regulations, in our continuing effort to ensure that the legislative framework remains flexible, fit for purpose and consistent with international standards. One of the objectives we seek to achieve is an enhancement to the range of enforcement tools available to the Bank, through the imposition of administrative monetary fines. This will allow the Bank to address egregious contraventions of prudential and regulatory norms, tardiness in statutory reporting and support prompt, corrective action by licensees to our supervisory recommendations. We anticipate issuing these proposed amendments, for the customary consultation, in due course.

Amendments to the **Banks and Trust Companies (Private Trust Companies) Regulations, 2007** are also being contemplated to: (i) allow for private trust companies to be limited by shares or by guarantee; (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; and (iii) give the Central Bank the discretion to extend the time, beyond twelve months, for a Registered Representative to certify that a private trust company qualifies for an exemption from the licensing requirements of the Banks and Trust Companies Regulation Act.

We turn next to a set of reminders on several matters covered in prior letters, the first of which relates to your **Group Internal Auditors**. Auditors of firms play an essential role in the regulatory framework, which requires an open, cooperative and constructive relationship with the Central Bank to achieve the desired level of supervisory oversight and monitoring. To this end, we continue to expect that group internal audit will inform us, in writing, **prior to** visiting The Bahamas to conduct an audit of operations here. In writing to us, the Auditor should provide us with a brief overview of the Audit Department, accountabilities, staffing, organization, and the scope of the proposed audit. The Auditors should also arrange a meeting with the Inspector, **at the conclusion** of the visit, for an exchange of views.

The second reminder relates to our expectation that, given the continued volatility in global financial markets, firms will be proactive and contact the Central Bank to inform us of any exposure (direct or indirect) and other development(s) that are likely to materially affect their operations here in The Bahamas.

We also want to take this opportunity to clarify further, our earlier position on the waiver of the prohibition with respect to the Senior Officer I (SOI) or Senior Officer II (SOII) serving as the Compliance Officer (CO) and Money Laundering Reporting Officer (MLRO) of a firm. Firms should be aware that the **automatic waiver only** applies to restricted firms. Other licensees must formally apply to the Central Bank for a waiver, if they believe they meet the criteria specified in the Quarterly Letter (02/11) of 18th July 2011.

Finally, we would like to reiterate the importance of **all** firms submitting comprehensive, accurate and timely statistical returns to the Central Bank, particularly the quarterly data set required in the new **Excel Reporting System (ERS)**. This vital data supports our ongoing analytical assessments of individual firms and the industry as a whole. Please ensure that your reports are submitted within **twenty-one days after the month/quarter end, as applicable**. Firms should advise the Central Bank, **in advance**, should an extension be required. We also wish to underscore that the General Information form, attesting to the accuracy of the data in the ERS file, should accompany each submission and be signed by two authorized individuals, i.e., the SOI, SOII and/or an Authorised Person. As foreshadowed in our last letter, we did organize training sessions for ERS compilers, on 3rd October 2011, and will use the feedback received in producing a FAQ document, which will be available on the Bank's website.

Any questions regarding this letter should be directed to:

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Sincerely,


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