



QUARTERLY LETTER TO ALL
SENIOR OFFICIALS

04/10
22nd December 2010

Dear Senior Official,

This is our final letter for 2010 and, as customary, we write to update you on some of the key ongoing work and to give you an indication of the major initiatives planned for the New Year.

The launch of the risk-based supervision framework (RBSF), at the two industry seminars in October, was an important milestone in our continuing efforts to direct supervisory resources towards the most material risks and achieve closer alignment with our on-site examination programme. We are very grateful and encouraged by the valuable feedback from firms to our risk assessment questionnaires and their engagement in our first round of meetings. We will be feeding back the results of our risk assessments to firms in the first quarter of 2011.

In terms of next steps, we hope to complete the risk assessments of the most material firms over the first half of 2011, and to achieve full rollout across all our licensees by the end of the year. To promote greater awareness of the RBSF and enhance transparency of the processes involved, we plan to hold another set of industry seminars next year. We will write to you separately, once we have firmed-up the arrangements.

On the **Guidelines** front, the public comment period on the proposed revisions to *Guidelines for the Management of Large Exposures* closed on December 3rd, although responses will still be considered, if received in the near future. We aim to produce a final version, along with the supporting regulations, fairly soon.

We have completed our review of the *Guidelines for the Management of Liquidity Risk* (the Guidelines), which we undertook, as previously indicated, to bring them in conformance, where appropriate, with the *Principles for Sound Liquidity Risk Management and Supervision* issued by the Basel Committee on Banking Supervision ("BCBS") in September

2008. Our proposals in the revised Guidelines include expanded and detailed guidance in a number of key areas, such as board and senior management accountability; the importance of ensuring robust controls are in place for liquidity risk management; the design and use of stress test scenarios and the need for robust and comprehensive contingency funding plans. An important change to note is that the applicability of the revised Guidelines is also extended to all public banks and/or trust companies, including the domestic commercial banks. We have issued a consultation paper on proposed revisions to the Guidelines, which can be downloaded, as customary, from the website (www.centralbankbahamas.com). The comment period closes on **January 31, 2011**.

You would recall our launch, earlier this year, of the survey on market risk exposure, designed to assist us in developing appropriate market risk requirements for this jurisdiction. We have now completed our analysis of the survey results, which revealed, as we suspected, that firms in The Bahamas have very limited market risk exposures. In fact, interest rate risk in the banking book appears to be the main area of potential exposure. In terms of the way forward, we have developed some preliminary proposals relative to the assessment of a capital charge for market risk, and are also advanced in drafting supervisory guidance, which will now incorporate interest rate risk. For those few firms which hold significant positions, we will be arranging meetings early next year to gain a better understanding of how these risks are being managed.

We are reluctant to forecast, in too much detail, our likely policy output in 2011. However, we will give priority focus to ensuring the full roll-out of the RBSF, the implementation of Basel II, and the ongoing review of regulatory development in light of recent changes in international capital standards. One key issue which we will hope to clarify, is the role of **source of wealth**, both in the risk-rating framework and the due diligence process, which firms must have in place to assess the extent to which their business relationships exposes them to money laundering and terrorist financing risks.

Finally, on the issue of the annual publication of firms' financial statements, many of you have been calling to ask when we will finalise our position on this matter. After full consultation with the industry, we

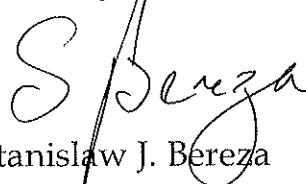
have settled on a final position and will be issuing a separate guidance notice on this shortly.

We close by wishing you all a happy Christmas and a peaceful and prosperous New Year. We anticipate a very active agenda for 2011; however, we remain confident that, by working together, we will be able to achieve success in our efforts.

Any questions regarding this letter should be directed to:

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Sincerely,

A handwritten signature in cursive script, appearing to read "S. Bereza". The signature is written in black ink and is positioned above the printed name and title.

Stanislaw J. Bereza
Inspector