



**QUARTERLY LETTER TO ALL
SENIOR OFFICIALS**

03/08
6th October 2008

Dear Senior Official,

During the last quarter, Mr. Stanislaw Bereza joined the Central Bank team as the new Inspector of Banks and Trust Companies, having served over thirteen years in senior positions in the UK Financial Services Authority (FSA)/Bank of England. In welcoming Mr. Bereza to the Bank, Governor Craig said, "Mr. Bereza brings a wealth of experience and knowledge, which will undoubtedly contribute to our ongoing efforts to effect greater safety and soundness in the banking sector." Mr. Bereza will be meeting with many of you over the next few months as he familiarises himself with the financial sector here in The Bahamas. We know that you join us in welcoming Mr. Bereza to The Bahamas.

The first issue we wish to address in this letter is the ongoing **financial market turbulence**. We recently required all public licensees to quantify and report to us their direct and indirect exposures to Lehman Brothers, AIG and, at the time, the major investment banks. Thank you for your quick responses. The global situation remains volatile and we will continue to monitor this situation very closely and expect that you will do so likewise. In particular, we expect that you will immediately contact the Policy Unit to apprise us if you become aware of any exposures and developments (direct or indirect) that are likely to have a material impact on your operations here in The Bahamas

We turn now to updates on developments that have happened over the last quarter. As we have often indicated, we continuously review our regulatory and supervisory requirements to rationalise these where we can. Our most recent initiative centred on reviewing our **Business Continuity Guidelines**. In this respect, effective immediately you are no longer required to submit your Business Continuity Plans (BCP) for our review and approval. Instead, we simply require that you formally notify the Central Bank that you have a BCP in place, including the name(s) of the senior management responsible for the BCP function. Additionally, we strongly encourage you to seek a legal opinion that your BCPs comply with Bahamian legal requirements, particularly with respect to the preservation of client confidentiality. Also, your Board of Directors is required to include a statement in the Annual Corporate Governance Certificate confirming that it is satisfied that the recovery strategies adopted in the BCP are still valid, and that your BCP management team and/or an independent party has properly tested the BCP during the period. The BCP Guidelines will be amended to reflect this policy shift.

While on the topic of business continuity, we would like to comment briefly on the **temporary business continuity operations regulations**, which we had prepared and put out for consultation earlier this year. Our final proposals are currently under review by the Government and we hope to bring those into effect in the near future. Nevertheless, given the fact that we are in the midst of the hurricane season, we have implemented interim procedures to address any contingencies that might arise until the final regulations are in place. We recommend that you contact us to discuss, as some of you have already done, any issues that you might you have on this matter.

On a related issue, we have also begun to review our **Minimum Standards for the Outsourcing of Material Functions**, an important aspect of the business continuity milieu. Our objective is to see if we cannot incorporate a more risk-focused approach into our consideration of these service level arrangements. We will of course revert once we have completed this review.

The next point we wish to mention is our continuing work to develop a **Risk Based Framework (RBF)** for assessing all banks and trust companies in The Bahamas. As we envision it, the RBF approach will create a single risk assessment process (integrating our current CAMELS off-site review and the on-site examination ratings), which will help to co-ordinate the full range of supervisory activities and support a consistent focus on the highest risks and thus enhance the overall efficiency and effectiveness of our supervisory process. In addition, the framework will support the development of Central Bank supervisors as relationship managers for banks and trust companies in The Bahamas, since they will be key in co-ordinating the risk assessment and the integrated supervisory programmes drawn up to address the risks that have been identified, as well as in communicating the results of the assessment to those institutions. To support this effort, we have established an internal project team dedicated to developing the risk assessment methodology along with the necessary supervisory guidance. We will be contacting you separately over the coming months to outline the framework, brief you on our roll-out plans for the RBF and solicit your views.

Turning to the subject of Guidelines, we have issued the final **General Information and Application Guidelines for Non-Bank Money Transmission Service Providers and Non-Bank Money Transmission Agents**. These Guidelines:

- outline our policy with regard to the licensing of non-bank providers and the registration of money transmission agents;
- specify the major considerations we take into account in assessing applications for licensing providers, registering agents and the information that would normally be required in support of such applications; and

- set out the prudential, reporting and other regulatory requirements for providers and agents incorporated in The Bahamas.

As is customary, the Guidelines are available on our website.

We have also concluded our review of your comments on the draft **Guidelines on the Management of Interest Rate Risk**. We thank you for your valuable feedback, which helped us to improve the document.

Our final point is a reminder to your **Group Internal Audits** that we continue to expect and welcome a visit by Group Internal Audit with the Inspector when they visit The Bahamas to conduct audits of operations here. However, in a minor departure from past practice, instead of a visit with the Inspector occurring pre and post-audit, we expect a visit only at the conclusion of the audit. In lieu of the pre-audit visit, the Auditors are simply required to write to us and provide a brief overview of the Audit Department, its accountabilities, staffing, organization, and the scope of the proposed audit.

Any questions regarding this letter should be directed to:

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