



**QUARTERLY LETTER TO ALL
SENIOR OFFICIALS**

01/08
31st March 2008

Dear Senior Official,

We have had a very busy quarter, so we will cover a wide range of issues in our first letter for the year.

The first matter that we would like to address involves the **Supervision of Nominee Activities of Subsidiaries and Related Companies of Banks and Trust Companies** – on which we believe we have achieved the clarity intended. On 14th March 2008, we issued a guidance notice to clarify further the Bank's policy with respect to several inter-related issues on nominee activities. The most important things for you to note are the following:

- It is Central Bank policy that an IBC can hold a nominee trust license.
- Entities which are incorporated in a foreign jurisdiction as an IBC, and where it is intended that they will be providing nominee services, will have to be continued under the International Business Companies Act, 2000 (IBCA) to be eligible for a nominee trust license.
- The Governor has exempted nominee trust licensees from having to file annual audited financial statements where the financial statements are consolidated into the annual audited financial statements of the Bahamian parents. In cases where the financial statements of a nominee trust licensee are not consolidated into the annual audited financial statements of its parent, the nominee trust licensee will be required to provide an annual Directors' and Auditors' Certificate confirming compliance with its licence mandate.
- Finally, to address licensees' concern regarding timing for implementing the necessary changes to ensure compliance with the policy, the Central Bank has again extended the deadline for compliance to 30th June 2008.

A copy of the full Guidance Notice can be found, as usual, on our website.

On a related matter, you should be aware that the Ministry of Finance has also agreed to amend section 4 of the IBCA to empower the Minister to grant exemptions from the licensing requirements under the Financial and Corporate Service Providers Act, 2000.

A second issue on our agenda this quarter has been the completion of the amendments to the **Banks & Trust Companies (License Application) Regulations, 2002**, which we are pleased to report have almost completed the legislative process and are expected to be gazetted within the next few weeks.

You will recall from a prior letter, the Bank's more proportional approach to documentation requirements. In particular, individuals subscribing to less than 10% of a licensee's share capital, need only submit a statement certifying individual net worth to be at least five times the value of the share capital of the entity. Furthermore, individuals approved by home country regulators in any of the Zone A countries will be allowed to serve as directors in a subsidiary/branch in The Bahamas, without having to provide further character references.

On the issue of **Joint On-site Examinations by the Central Bank and the Securities Commission**, we are pleased to inform you that a protocol has recently been executed that will result in our two organisations carrying out joint on-site examinations of jointly regulated entities—which will help to introduce greater efficiency in our examination activities. So far, we have scheduled four (4) such examinations for 2008.

As for the ever popular topics of **Guidelines, Policies and Regulations**, over the last several months we have issued four (4) consultation papers, covering proposed **temporary business continuity operations regulations, rights and duties of auditors of licensees**, proposed amendments to the **AML/CFT Guidelines**; and a paper on **requirements for funds transfers**, which some of you might know as FATF Special Recommendation VII. Many of you commented on these documents, and we thank you.

By way of new guidelines, the Bank will issue, in the first week of April, a consultation paper on our **draft Guidelines on the Management of Interest Rate Risk**. These Guidelines highlight the key elements of prudent interest rate risk management and are consistent with the Basel Committee on Banking Supervision's paper on the *Principles for the Management and Supervision of Interest Rate Risk*, July 2004. The Guidelines provide the minimum policies and procedures that licensees should have in place, as part of the overall corporate governance process and risk management programme, to manage interest rate risk present in their business activities. As is customary, we invite your comments on the consultation paper. The consultation period ends 2nd June 2008.

In the area of on-site supervision, several banks had requested that the Bank publish a guide that sets out clearly and transparently what a licensee can expect during an on-site examination. In this context, we are pleased to inform you that we published **A Guide to the Central Bank's On-site Examination Process** in early February. We are open to receiving any comments you may have on this document.

Recently, we have completed a review of the **Corporate Governance Guidelines**, with the objective of determining where opportunities exist to employ more risk-focused considerations. One of the areas identified for change relates to the number of board meetings mandated. We intend to use a less prescriptive approach and simply leave it up to the individual banks, based on individual risk circumstances, to determine appropriate governance arrangements in this area. Additionally, we have subsumed the **Guidelines for Independent Non-Executive Directors** into the **Corporate Governance Guidelines** to create a single comprehensive document dealing with the matrix of corporate governance issues. We hope to publish the revamped **Corporate Governance Guidelines** by the first week of April 2008.

Turning to the **Large Exposure Guidelines**, some of you brought to our attention that there was a conflict between Section 4 of the Guidelines and the Banks and Trust Companies (Large Exposures) Regulations, 2005, particularly regulations 7 and 8. Regulation 7 lists several exposures that are exempted **without** pre-notification to the Central Bank as opposed to the Guidelines, which contained a pre-notification requirement for **all** exempt exposures. As Regulation 8 pre-notification requirement applies to a select group of exposures, we have revised the language of Section 4 of the Guidelines to make clear which "exempt exposures" should be pre-notified. Also, the description of several of the exempt exposures was refined in order to mirror the description set out in the Regulations. The revised Guidelines will be posted to our website in the next few days.

With any new system, there is a period of adjustment and we appreciate your patience and cooperation as we continue to fine-tune the interim **BSD Quarterly Reporting System (QRS) and Guidance Notes** to ensure a smoother reporting for the March 2008 quarter. Since your last reporting, we have been running a log of all technical issues reported, which our IT Department is addressing. We will send out an official notice to alert you when the revised QRS forms have been posted to the Central Bank's website.

As we would have previously advised, the Central Bank is seeking to make regulatory reporting more efficient through the implementation of a more comprehensive online reporting system. We have recently short-listed the potential service providers to three, and have developed a rigorous demonstration script for each vendor, to assist the Bank in making a final selection. We believe that such a system will greatly enhance the timeliness

and efficiency with our data collection and dissemination efforts – for both the Bank and you the licensees.

We are continuing our efforts to employ more **risk-based principles of regulation and supervision** in the Central Bank's on-site examination process. In particular, we are making progress towards refining the risk categorization of our licensees, using such factors as home/host designation, the degree to which activities are outsourced, complexity of ownership, market focus, among others, which will assist in determining the scope of the on-site examinations. We intend to publish a framework paper on this risk-based approach by end-April 2008.

The other side of this exercise involves updating our **on-site examination manual** used by the Examiners, so as to ensure consistency in approach and a level playing field on the treatment of issues – such as source of funds and outsourcing – and to ensure that examination findings are considered within the context of our licensees' overall risk profile. Work is progressing well on this project, which we intend to have completed by end-June 2008.

Looking ahead to the next few months, the Central Bank is also engaged in a number of other initiatives aimed at seeking to improve the business friendly nature of our regime. One example is the ongoing review by the Central Bank and other domestic regulators of the **publication requirements for statutory filings**, particularly the extent to which more flexibility could be provided in the medium employed. This includes exploring the possibility of electronic filings and the publication of financials on regulated entities' websites or some centralized website as being sufficient to meet the statutory publication requirement.

Any questions regarding this letter should be directed to:

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31st March 2008