



QUARTERLY LETTER ON REGULATORY AND SUPERVISORY DEVELOPMENTS

BANK SUPERVISION DEPARTMENT
December 30, 2020



QUARTERLY LETTER

We are closing the year 2020 on a hopeful note with the news of effective COVID-19 vaccines commencing deployment. Bahamian vaccination, once achieved, will provide the needed boost to the local economy and assist in an eventual return to what will begin our new normal. Having successfully navigated this year, it is our hope that you are well-positioned to face the yet unknown challenges of 2021.

Removal from FATF “Other Monitored Jurisdictions” List

We welcome the news that the FATF has removed The Bahamas from its list. We thank and congratulate the many Bahamians in the public and private sectors who have been working towards this outcome for several years.

<http://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/documents/bahamas-delisting-2020.html>

Basel II & III Implementation

We were pleased to release the draft Capital Regulations and Guidelines for a second round of industry consultation on November 2, 2020 for a ninety day period. We encourage your feedback on the draft documents on or before the consultation closing date of January 31, 2021.

Minimum Standard for the Outsourcing of Material Functions Guidelines

The captioned Guidelines were also released on November 2, 2020 thus signaling our move from an approval regime to one of notification. The new approach requires robust risk management oversight by both the Board of Directors and Senior Management. We remind you of the requirement to file the Annual Summary of Outsourcing Report, the first of which is due on January 30, 2021. You may access the report via this [link](#) or by visiting the website: www.centralbankbahamas.com and following the path Core Functions → Bank Supervision → Downloadable Forms. Thereafter, the form will be accessible via ORIMS.

AML/CFT/CPF Matters

We take this opportunity to remind SFIs of the following regarding their AML/CFT/CPF frameworks:

AML Training

As per Section 19(2) of the Financial Transactions Reporting Act 2018, in addition to providing annual AML training to all relevant staff, directors inclusive of INEDs, must also receive ongoing AML training.

Instances of Fraud

Further to our Quarterly Letter dated February 17, 2020 under the heading Incidents of Fraud, institutions are reminded that all instances of fraud, whether actual or attempted, involving current or prospective customers should be reported to the Financial Intelligence Unit (FIU) by means of a Suspicious Transaction Report (STR).

AML Data Return

AML Data Return, along with the accompanying guidance notes, have been updated for [banks and trust companies](#), [credit unions](#) and [money transmission businesses](#). The new version of the Return should be used for the 2020 reporting period and is due on February 28, 2021.

Internal Audit Reports

Our work on developing separate Internal Audit Guidelines continues and we take this opportunity to remind SFIs to continue to provide to the Central Bank copies of Internal Audit plans and reports once finalized.

Prudential Norms/Limits Exemptions/Relaxations

The Central Bank recently undertook a review of all existing prudential exemptions, relaxations and waivers granted to SFIs. This exercise led to the issuance of Exemption Review Letters to applicable SFIs, requesting institutions to submit a new application on or before September 30, 2020 that outlined the rationale for the continuation of the exemption, relaxation or waiver. Specifically, SFIs were requested to respond with a business case for continuing any existing exemptions, or alternatively to advise the Central Bank where these were no longer applicable. The great majority of SFIs contacted have responded; many providing applications for the continuation of the existing exemption, relaxation or waiver; and in some instances, advising that it is no longer applicable. Our intent is to cancel outstanding waivers or exemptions where SFIs have not submitted a business case for continuance.

Please note that the Central Bank's current approval of exemptions, relaxations and waivers will be granted for a maximum of five years, on the merits of the case presented. Any further time required will be subject to a renewal application. Further, the Central Bank reserves the right to vary the approval timeframe if it deems necessary.

If SFIs are aware of existing exemptions, relaxations or waivers extended to their institution, and have not received an Exemption Review Letter, please contact your supervisory team to avoid cancellation of same.

Need for Prior Approval on Capital Transactions and (some) Dividends

In the current quarter we have seen one SFI raise new equity from existing shareholders, but without first seeking the Central Bank's approval. SFIs are reminded that such transactions require prior approval from the Central Bank, and penalties can apply when such approval is not secured in advance. Our policy is that capital increases that do not change the shareholder group should be approved routinely and quickly. Capital changes that involve new or departing material shareholders will require approval of the shareholder movements, as well as the capital movements.

As always, capital reductions require prior approval. SFIs reducing capital other than by approved dividends without prior approval should expect a substantial supervisory response from the Central Bank.

Bank and trust company dividends that exceeds the prior financial year's profit require prior approval under the Banks and Trust Companies (Payment of Dividends) Regulations, 2005. The Central Bank's practice is that dividends are automatically approved unless:

- The proposed dividend exceeds the relevant period profit; or
- The SFI's capital position will be less than the required position upon payment of the dividend; or
- The Central Bank has notified the SFI that prior approval is required on dividends.

The domestic commercial banks as a class have been notified that prior approval is required for all dividends. There are no other SFI classes in that position.

Exchange Control Policy on Dividend Repatriation by Commercial Banks

In March 2021, the Central Bank will resume Exchange Control consideration of applications for dividend repatriation by commercial banks. This will lift the suspension that was imposed at the onset of the pandemic-related slowdown in foreign exchange inflows, in March and April, 2020. For dividends approved prior to March 2020, commercial banks will be required to update their repatriation schedules and obtain amended Exchange Control approvals. Otherwise, the prudential assessments mentioned above will continue to affect dividend approvals. This policy shift, nevertheless anticipates continued multi-year schedules for dividend remittances, and lessening uncertainty about when private sector forex inflows are expected to begin to recover.

Policy on Selection of Attorney for Credit Purposes

Domestic commercial banks are reminded of the directive issued in letter dated December 21, 2020 to disclose to the Central Bank their practices around attorney selection in line with the requirement of Section 16(2) of the Homeowners Protection Act, 2017. Commercial banks are further directed to transition by February 28, 2021 to publish their selection criteria for the general public to have access.

Change in Reporting Frequency for the International Banking Statistics (IBS) Return

Effective March 31, 2021, all SFIs (excluding Pure Trust Companies) are being required to submit the International Banking Statistics (IBS) on a quarterly basis rather than on a semi-annual basis. The first in this series will be due not later than April 30, 2021. The medium of submission will remain the ORIMS Portal. SFIs are reminded that all assets and liabilities are to be reported regardless of location, and should equate to the totals reported on the quarterly Financial Returns. Although, the return does not currently fall under the Bank's AMP regime, it will be included at some future point.

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Inspector of Banks & Trust Companies

Any questions regarding this letter should be directed to:

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