BOARD ENGAGEMENT POLICY

FOR

SUPERVISED FINANCIAL INSTITUTIONS (SFIS)

BANK SUPERVISION DEPARTMENT

JULY 24, 2018

General Overview

The Board of any supervised financial institution (SFI) is critical in ensuring that there is good governance and senior management oversight regarding the day-to-day business activities of the SFI. The Board of Directors is responsible for providing direct supervision of senior management, setting strategic direction, and approving policies that support the strategic priorities of the SFI. Ultimately, the Board has responsibility for ensuring that all identified material weaknesses/deficiencies in internal controls are effectively remediated in a timely manner.

This document describes the Central Bank's supervisory framework for engaging with the Boards of SFIs. This framework is operated by the Central Bank's Bank Supervision Department (the Bank). SFIs may also receive communications from other areas of the Central Bank, including the Research, Banking, and Exchange Control Departments.

Consistent with its overall Risk-Based Supervision Framework ("RBSF"), the Bank takes a risk-based approach to engaging with the Boards of SFIs. The Bank focuses more of its supervisory efforts on engaging the Boards of SFIs that present a heightened risk of either unsound finances or reputational damage to the Bahamian financial system.

Broadly, our policy is:

a) the Bank will regularly communicate with all Boards by providing and receiving documents generated from our supervision and examination cycles;
b) the Bank will engage with Boards on a face to face basis if the SFI in question is materially outside comfortable risk parameters;
c) the Bank will also meet face to face at least annually with the boards of home-supervised domestic banks, and the boards of the largest home-supervised international banks and trusts; and
d) In the context of broader Central Bank engagement, the Bank will frequently meet Board chairs and other board members to maintain effective relationships.

Documentary Engagement—Public SFIs

The Bank and the Board of each public SFI (i.e. international and domestic) shall exchange reports four times yearly:

(i) The Bank will provide Boards with copies of our annual letters to senior management on the Bank's assessment of the SFI's AML/CFT risk management framework. This letter will normally issue at end-October.
(ii) the Bank will provide Boards with copies of our summary of the results of the Bank's annual assessment of the SFI's financial soundness, including an update on the status of outstanding Directives and Requirements. This summary will normally issue at end-May.

(iii) Boards will continue to submit to the Bank the Annual Corporate Governance Attestation, within 120 days of the calendar year end, as applicable.

(iv) Boards will receive copies of Reports of Examination (ROEs), which are on an irregular timeline.

Items (i) and (ii) above are new initiatives. Item (iii) is already in place. Item (iv) is partially in place, but will now become a universal supervisory practice.

Currently, SFIs may share the letters mentioned in items (i) and (ii) above with current and prospective professional services providers such as auditors and consultants. The Bank intends to provide a limited waiver of the confidentiality requirement under s16 of the *Banks and Trust Companies Regulation Act* to permit SFIs to also share the letters mentioned in items (i) and (ii) above with current and prospective correspondent banks, where appropriate.

The Bank expects that both letters, plus the ROEs noted in item (iv) above, will be shared with the SFI's auditors.

Important Supervisory Language

In the Bank's communications to SFIs, we will use "Directive" and "Direct" only to describe issues of the greatest concern and urgency, and "Require" or "Requirement" to describe important issues where the Central Bank is prepared to deploy its statutory powers to achieve a sound outcome. Boards should ensure that they are aware of any supervisory Directives or Requirements outstanding for their SFIs. They should further assure themselves that management has these matters in hand, and that they are moving to a satisfactory conclusion.

Other Implications for SFIs

- **<u>Domestic Systemically Important Banks (D-SIBs)</u>**

  The failure of a D-SIB could cause substantial disruption to the banking system. The major domestic banks are ordinarily subject to enhanced supervision. In addition to the regular yearly letters and Board Attestations outlined above, the Bank will routinely collect agendas and finalized minutes of Board proceedings from all D-SIBs.

  This is supplemented with an annual meeting with the Board and in-camera session with the INEDs of home-supervised D-SIBs, which normally will occur in conjunction with the Bank's delivery of its annual assessment of financial soundness and regulatory compliance, noted in item (ii) above.

- **Other Supervised Financial Institutions**

Home-Supervised International Firms: the Bank intends to meet annually with the Boards of Directors of the largest home-supervised international SFIs, in a similar format to meetings with home-supervised D-SIBs. The Bank will inform the relevant SFIs of their status for this purpose.

The Bank may require a meeting with the Board of any SFI whenever the Central Bank finds, or is advised by the licensee(s), that there is a material concern related to the SFI's management, governance, financial soundness, or legal compliance.

Host-Supervised International Firms: the Bank intends to meet with Boards on an as-needed basis.

Public Trust Companies: for trusts, the Bank intends to meet with Boards on an as-needed basis.

Co-operative Credit Unions: Boards of Directors of Credit Unions are not generally required to have an annual meeting with the Bank. The Bank however, may conduct an annual meeting with any Credit Union Board, in the same way that it meets with the boards of home-supervised D-SIBs. This practice may vary for each credit union.

The Bank also holds an annual sector meeting during the fourth quarter of each calendar year for Boards of Directors of all credit unions.

Money Transmission Business (MTBs): Boards of Directors of MTBs are generally not required to have an annual meeting with the Bank supervisors. The intention is to hold an annual collective meeting during each fiscal year with the Chairs and Chief Executive Officers (CEOs) of all MTBs, commencing in 2019.

- **Watch Listed SFIs (Stage 2 & higher)**

The Guidelines to the Central Bank's Ladder of Supervisory Intervention, issued 12th April, 2006 and amended 18th May 2017 ("the Guidelines") set out the procedures that the Bank will generally follow when it has concerns regarding the operations of a SFI, or in the event of non-compliance with applicable legislation, regulations, guidelines, directives and requirements of the Bank. The Guidelines provide a description of the five (5) stages of supervisory intervention, and the potential actions the Bank would take to mitigate the risks to its supervisory objectives.

Accordingly, the extent or level and frequency of the Bank's engagement with the Board of a staged SFI would be influenced by the provisions of the Guidelines, commencing with a SFI that is staged at 2 as follows:

Stage 2/Stage 3 Interventions: Heightened/Severe Risk to Financial Viability or Solvency

- A written notification to senior management and copied to the Board regarding the reasons for the SFI being placed at stage 2/3 supervisory intervention;
- Require the Board to provide a signed Commitment Letter to remediate all material weaknesses along with a detailed plan in this regard;
- Copy the Board on all subsequent quarterly responses to its ROE status updates;
- Conduct meetings, as appropriate, with the Board, and in-camera sessions with INEDs and/or Compliance Officer/Functions (optional); and,
- Where the Bank considers it useful, convene a meeting of the Board to discuss the SFI's difficulties, and the intended course of remediation.

Stage 4 Intervention: Imminent Solvency or Non-viability & Severe Regulatory Breaches

- A written notification to senior management and copied to the Board regarding the reasons for the SFI being placed at stage 4 supervisory intervention;
- Requiring the provision of a recovery plan approved by the Board;
- Copy the Board on all subsequent monthly responses to its updates on recovery efforts;
- Conduct regular meetings with the Board and in-camera sessions with INEDs and/or Compliance Function and/or Internal Audit; and,
- Potentially requiring the substitution or removal of a director(s) or officer(s) of the SFI.