



THE CENTRAL BANK OF THE BAHAMAS

QUARTERLY LETTER ON REGULATORY AND SUPERVISORY DEVELOPMENTS

BANK SUPERVISION DEPARTMENT

July 30, 2018



QUARTERLY LETTER

During the second quarter of 2018, the Central Bank has made steady progress on the AML/CFT supervision front. We have also proactively engaged with industry on matters of financial soundness and compliance.

Concerns arising from onsite examinations

As a result of revisions to our examination process, which took effect from 1 January, pre-examination records and information are required to ensure a more targeted, efficient onsite visit. The new process is resulting in Reports of Examination (RoEs) reliably delivered within 20 business days of the examination closing meeting, which is a better outcome for all concerned. We are finding that pre-visit meetings with external auditors are also a useful innovation.

Most SFIs have demonstrated the ability to provide the pre-visit information necessary to support the new process; however this cooperation is still needed in rare instances.

In recent months, there have been three deficiencies commonly observed during onsite examination visits:

- *Incompletely developed and documented institutional analysis of ML/TF risk:* Supervised financial institutions (SFIs) are required to complete an institutional risk analysis of their ML/TF risks, which is a requirement of the Central Bank's AML/CFT Guidelines. In too many cases, we are seeing documented but insufficiently developed risk analyses. The Central Bank's expectations are outlined in the Guidance Note on the sound management of risks related to financial crime in The Bahamas.¹ Our examiners and supervisors will likely engage more proactively on this point over the next year.

¹ The Guidance Note was issued for consultation from 16th April to 1st May, 2018 at <http://www.centralbankbahamas.com/download/042722300.pdf>. The finalized version will soon be released on the Central Bank's website.

- *Insufficient independence of the compliance function:* SFIs' compliance officers and money laundering reporting officers are required to maintain transparent reporting lines and to enjoy unfettered discretion to report non-compliance and suspicious transactions to the Board and the Financial Intelligence Unit, as required by the corporate governance guidelines and AML/CFT Guidelines. We intend to strengthen and clarify this requirement in a shortly to be released update to the Guidelines for supervised financial institutions on the prevention of money laundering, countering the financing of terrorism and proliferation financing.
- *Absence of active engagement by independent non-executive directors (INEDs):* SFIs are required to appoint an INED who assists in setting strategic direction for firms. INEDs provide independent challenge to the ideas being presented at board meetings, and serve on board committees as specified in the corporate governance guidelines. Practice in this area is not yet as robust as we would like for all SFIs, so more supervisory focus will be attached to this issue.

Sharing onsite examination reports

SFIs are permitted to share finalized RoEs and other supervisory communications with their external auditors and other persons listed in Section 16(1) of the Banks and Trust Companies Regulation Act, 2000 (BTCRA). This exchange of information ensures broader engagement of appropriate stakeholders in order to achieve effective risk mitigation strategies. To this end, the standard language in the preamble to our RoE has been updated to explicitly state that an SFI may give the aforementioned persons access to the RoE. However, once in receipt of such report, these persons are not allowed to disclose this information to third parties without the prior written permission of the Inspector of Banks and Trust Companies.

New Register of Supervisory Issues

The Bank Supervision Department is compiling a list of all outstanding supervisory matters for each SFI. This list is called the "Register of Supervisory Issues" (register). Each SFI will receive its own register, which will include a template of all its outstanding directives, requirements, expectations and requests. This register may also be shared with external auditors and other persons listed in Section 16(1) of the BTCRA.

AML/CFT Conference coming soon

The Bahamas' first annual international conference on AML/CFT risk management will be held on September 17th and 18th, 2018 at the Baha Mar Resort, Cable Beach, Nassau, Bahamas. It is hosted by the Group of Financial Services Regulators (GFSR), in conjunction with the Bahamas

Financial Services Board (BFSB) and the Association of International Banks & Trusts Companies in The Bahamas (AIBT). All SFIs are encouraged to send their MLRO and ideally at least one senior executive or board member to this conference, which is part of a larger effort by the Bahamian public and private sectors to improve our national capacity to manage financial crime risks. Further details on the conference and registration are now available on the conference website www.bahamasamlcft.com.

Internal Capital Adequacy Assessment Process (ICAAP)

As per Section 7.4 of the Guidelines for the Internal Capital Adequacy Assessment Process for Licensees (ICAAP Guidelines), a copy of the ICAAP report must be submitted to the Central Bank within 180 days of the calendar year-end or upon any significant change(s) in risk exposure. The Central Bank recognizes that annual submissions are unnecessary for SFIs that consistently update their risk profile. As such, each SFI has been put on a specific submission cycle. If you have not already received a letter indicating your timeline for submission of the ICAAP report, you should be receiving one soon.

International Financial Reporting Standard 9 (IFRS 9)

IFRS 9 implementation became effective on or after January 1, 2018. SFI quarterly Excel Reporting System forms (ERS forms) should be updated to reflect the elimination of the Central Bank's general provision requirement. SFIs should inform the Central Bank on whether there are any issues in applying this standard.

Digital ID verification

Given trends in financial technology and digital innovations such as remote identity verification, the Central Bank considers an identification document (ID) to be an original if it is received electronically, provided that the SFI has sound arrangements in place to give confidence that the document is valid and unmodified. The Central Bank is aware that some SFIs may be using or considering Digital ID verification providers to certify that documents are true copies of the original documents. In such instances, the onus is on the SFI to conduct its due diligence and to satisfy itself that the identification processes used by the provider are adequate.

Industry Consultation on proposed legislation

The Central Bank invites feedback from the industry on two consultation papers that were issued at the beginning of June. The first is a public consultation paper on proposals to repeal

and replace the Central Bank of The Bahamas Act, 2000, in order to consolidate and modernize the law governing the Central Bank and to provide for the continuance of the Central Bank, its functions, powers and duties.² The second consultation paper details proposals for amendments to (i) the Banks and Trust Companies Regulation Act, 2000, (ii) the Protection of Depositors Act, 1999 and (iii) the Protection of Depositors Bye-Laws, 1999, to establish a bank resolution framework in The Bahamas.³ The Central Bank invites comments on both consultation papers on or before July 31st, 2018.

Administrative Matters

a. Board Engagement Policy

The Central Bank has now issued its “Board Engagement Policy” for SFIs at http://www.centralbankbahamas.com/legal_policies.php?cmd=view&id=16895. The policy outlines the Central Bank’s approach to regularly engaging with SFIs’ boards of directors, through face-to-face meetings and sharing information/documents generated during our supervision and examination cycles.

b. Interim Appointments

The Central Bank is aware that in some instances it may be necessary for SFIs to appoint Approved Persons on an interim basis. When submitting such applications, SFIs are reminded that the interim time period (for example, three or six months) should be specified. Please note that interim appointments for Approved Person positions should not exceed 12 months.

c. SFI Contact Information

To increase its engagement and communication with SFIs, the Central Bank has recently requested contact information for certain key persons at SFIs. In addition to Senior Officials/Officers, the Central Bank requests that up-to-date contact information be provided for Money Laundering Reporting Officers (“MLROs”)/Compliance Officers (“COs”), Chief Financial Officers (“CFOs”), Board Chairpersons, as well as Resident Independent Non-Executive Directors (“INEDs”).

² <http://www.centralbankbahamas.com/news.php?cmd=view&id=16407>

³ <http://www.centralbankbahamas.com/news.php?cmd=view&id=16408>

d. ORIMS Reporting by Cooperative Credit Unions

In its continuing effort to enhance and streamline the data compilation and regulatory surveillance processes, the Central Bank has updated the reporting suite of forms for co-operative credit unions. Guidance Notes highlighting these changes were issued on 9th July, 2018 for review and feedback.

In addition, effective 30th September, 2018, the Central Bank will no longer accept submissions via e-mail. Thereafter, all submissions by co-operative credit unions must be submitted through the Online Reporting Information Management System (ORIMS) and in the new template format.

e. ORIMS Reporting on large exposures to Central Governments

SFIs are reminded that when reporting data (which includes holdings with Central Governments) in section 3(b) "Other Government Securities" of Form 2 – Assets & Contingent Liabilities of the ORIMS Financial Returns, the "Statement of Large Exposures" form must also be completed to provide (by country) the ten largest exposures to Central Governments.

f. Discontinuance of hand delivery and postage of physical documents

Effective Monday, 2nd July, 2018, the Bank Supervision Department discontinued the hand delivery and postage of physical documents, in an effort to encourage the use of electronic means of corresponding (as was communicated to SFIs in Notice issued on 29th June, 2018). Where the hard copy of a physical document is the only option, we will continue to take physical delivery at the Bank Supervision building's Reception Desk, but this should be rare. When physical correspondence must be dispatched to SFIs, the Central Bank will arrange for the collection of such correspondence by those SFIs.

Charles Littrell

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Inspector of Banks & Trust Companies

Any questions regarding this letter should be directed to:

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