



THE CENTRAL BANK OF THE BAHAMAS

QUARTERLY LETTER ON REGULATORY AND SUPERVISORY DEVELOPMENTS

BANK SUPERVISION DEPARTMENT

January 29, 2018



QUARTERLY LETTER

We are commencing 2018 with a growing economy and a strong financial system. 2018 will prove, with the usual caveats about avoiding unexpected adversity, to be a year in which the economy and the financial system will continue to strengthen. The Bank Supervision Department at the Central Bank ('the Bank') looks forward to engaging with supervised financial institutions (SFIs) and other stakeholders, in pursuit of both these objectives.

Pleasing responses on domestic non-performing loans (NPLs)

From mid-2017, the Bank has been encouraging Bahamian banks to lift their focus on reducing the industry's aggregate NPLs. We have been pleased with the proactive response from the domestic banks, and we look forward to seeing the benefits of these efforts reflected in steadily improving asset quality during 2018.

Considerably less pleasing incidences of simple non-compliance

In the most recent period, supervisors have encountered a higher than usual level of noncompliance, across our SFI population, with some of the simpler regulatory requirements. Examples include:

- Commencing the appointment of officers and directors to positions requiring Bank approval, without noting the interim nature of the appointment prior to such approval;
- Extending loans in excess of the large exposure limits, without first securing the Bank's approval;
- Many instances of noncompliance with the requirements regarding outsourcing and service level agreements; and
- Slow and incomplete responses to supervisory information requests.

These lapses, which tend to feature carelessness in execution rather than deliberate rule breaking, are of obvious concern, and in need will attract a supervisory response.

To the extent SFIs are less than fully confident that their institution is complying with the objective standards set out in the Bank's regulations and legislation, our experience is that both internal and external auditors can be relied upon to identify and recommend remediation programs for such breaches. We will soon begin to take more direct action in these areas.

Strengthening AML/CFT supervision

From January 1, the Bank has commenced AML supervision on a similar basis to its continuous supervision of financial and other prudential risks. During the first quarter of 2018 we intend to rate and rank all relevant SFIs on their AML/CFT risks. Supervisors will share these ratings with individual SFIs as appropriate, and will certainly do so when any supervisory Directives, Requirements, or Expectations are issued.

Coming soon: AML/CFT survey deadline

Most of the Bank's SFIs are currently completing our AML/CFT survey, which is due on January 31. Please ensure you deliver your responses on time.

Coming later: AML/CFT consultation paper responses

The deadline for responses on our public consultation paper¹ is March 31, 2018. These responses will help inform our supervision of SFIs for AML/CFT risks, particularly as we refine our approach from the lessons we will doubtless learn in 2018. We look forward to reading your responses.

International Financial Reporting Standards 9 (IFRS 9)

IFRS 9 is effective for annual periods beginning on or after January 1, 2018. This standard changes the method by which loan loss provisions are determined, from an incurred loss model to an expected loss model. IFRS 9 may increase the level of provisions required by credit extending institutions. Over the coming months, the Bank expects that each SFI will make steady progress towards becoming IFRS 9 compliant, if it has not already done so.

In light of the new accounting approach to loan loss provisioning, a review of the current regulatory requirements for provisioning and asset impairment will be undertaken. As a first step, the Bank will shortly issue a notice to industry outlining its approach to IFRS 9, which will highlight key requirements for loan loss provisioning, including the treatment of general provisions.

¹ [AML/CFT Supervisory Strategy Consultation Document](#)

Basel II & III Implementation

In December 2017, the Basel Committee issued its final Basel III standards. We can all agree that over time, the Basel regulatory framework has become increasingly complex. During 2018, the Bank intends to focus on completing, but more importantly, simplifying its Basel II and Basel III regulatory framework, consistent with the proportionality principle set out by the Basel Committee².

Over the next few months, the Bank intends to release Discussion Papers outlining our proposed approaches to banking capital, liquidity, and disclosure requirements. We look forward to engaging with industry on these proposals.

Other Administrative Matters**a. SFI Inspection by a Foreign Supervisory Authority**

The Bank was made aware of an inspection, at the request of a foreign supervisory authority, after it was conducted. SFIs are reminded that a foreign supervisory authority or a body appointed by them should not conduct an inspection of its Bahamian premises, books and records unless that supervisory authority has obtained prior approval from the Inspector, in accordance with Section 14 of the Banks and Trust Companies Regulation Act, 2000 (BTCRA). Further, such inspections are to be conducted under conditions of confidentiality, solely for the purpose of consolidated supervision and in compliance with the provisions of the BTRCA and any condition imposed by the Inspector.

b. Update on response times for approval requests for directors and others

In the second half of 2017, the Bank streamlined its approach to approving regulatory requests from SFIs. This has resulted in a pleasing decrease in average response times, with (for example) the typical director approval request requiring 5 to 7 working days from receipt of final documents.

It has become apparent that both the Bank and SFIs would likely benefit if we were to provide more guidance on the documents and other information necessary for the main approval types. Accordingly, later this year the Bank plans to issue a public manual to assist applicants.

² [FSI: Proportionality in banking regulation: a cross-country comparison](#)

c. Save the date

In conjunction with other agencies and stakeholders, the Bank is planning a major conference on Bahamian AML/CFT regulation. The dates for this conference have tentatively been set for September 17 and 18 in Nassau. We hope to make a definitive announcement on this matter in the near future.

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Inspector of Banks & Trust Companies

Any questions regarding this letter should be directed to:

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