

The Central Bank of The Bahamas
BANK SUPERVISION DEPARTMENT

Quarterly Letter to All Senior Officials 02/13

Senior I: Name Email: Email Address

Licensee: Name

Dear Senior Official,

As you are aware, the global regulatory reform agenda continues to evolve, with key focus on the Basel III package of initiatives and other reforms directed towards addressing systemic financial sector risks and those inherent in the systemically important institutions. The Basel III framework builds upon and enhances the regulatory framework set out under Basel II and Basel 2.5. Timely and consistent implementation of the reforms remains fundamental to building a resilient financial system, maintaining public confidence and providing a level playing field for internationally active banks.

Against this backdrop, the Bank Supervision Department of the Central Bank continued to review and strengthen policy guidance to ensure compliance with international best practices and maintain the robustness of the supervisory and regulatory regime.

Recently, our team concluded discussions with representatives of our Auditors' Advisory Committee, aimed at addressing some of the challenges faced in securing the necessary assurances under the customized controls assessment framework for licensees which have significant outsourced functions. We can now report having reached an agreement that the assessment of the control environment for such outsourced functions will be conducted in accordance with the International Standards on Assurance Engagements (ISAE 3000) (2003)—a recognized international standard, which includes report verification, as well as assurance on environmental performance, corporate governance, internal compliance, stakeholder engagement and other areas of corporate responsibility. Therefore, in the course of our risk-based supervisory assessments, licensees which have significant outsourced functions may be required to engage their external auditors to conduct a review of the relevant controls around the outsourced function, in accordance with the International Standards on

Assurance Engagements ISAE 3000, and in keeping with Part VII, Section 7(A)(i), of the **Guidelines on Minimum Standards for the Outsourcing of Material Functions**.

As we try to ensure proportionality in our approach to regulation, the Internal Audit function within our licensees has been an area of recent focus and, in this regard, we wish to clarify two important policy positions. Firstly, in the case of **restricted licensees**, which deal only with their funds or funds of group companies, there is no requirement to have in place a dedicated internal audit function. Secondly, where a licensee's internal audit function is performed by the parent or a group company, the Central Bank will not insist upon a formal service level agreement for such outsourced arrangements.

Our recent work in the area of guidance documents included the release of the **Consultation Paper on Proposed Revisions to the Guidelines on the Prevention of Money Laundering and Countering the Financing of Terrorism**. The proposed amendments clarify the date when a person ceases to be a facility holder, in a manner that is consistent with the Financial Transactions Reporting Act, 2000. This document was posted on our website under *Bank Supervision - Regulatory Framework – Documents for Consultation*. We welcome your comments.

We are set to release a **Consultation Paper on the Draft Guidelines for the Management of Operational Risk**, which offer a principles-based approach to licensees in implementing an operational risk management program. Licensees are expected to have a risk management regime appropriate to the size and complexity of their operations, and one which incorporates effective operational risk identification and assessment, monitoring and reporting, and control and mitigation to enhance the safety and soundness of licensees. These Guidelines are based on the **Principles for the Sound Management of Operational Risk**, issued by the Basel Committee in 2011.

We take this opportunity to extend our appreciation to all licensees which participated in our **Minimum Disclosure Survey** earlier this year. The response rate was 50%, and we are now utilizing the information to draft guidelines in this area. This work is progressing within the broader context of our formal Basel Implementation Program (i.e., Basel II and III), which will build on existing policies, legislative frameworks and supplementary initiatives. We have now mobilized an in-house Project Team that is currently building out a draft road map for the Program, and will arrange industry information sessions early in the fourth quarter of 2013. We look forward to partnering with the industry on this important initiative.

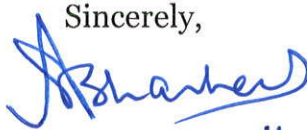
Other than these initiatives, we continue to bring focused attention to our risk-assessment exercise as we work towards the goal of transitioning to an ongoing risk assessment cycle as a key milestone for 2013. To this end, a supervisory plan for some thirty (30) risk-based assessments is under consideration for 2013. The Bank's priority is to focus on the alignment of current on-site examination templates with the off-site supervisory review process, and the risk assessments with the various stages of intervention outlined in our Ladder of Supervisory Intervention.

Finally, we continue to place high priority on the efficient processing of applications, especially for time sensitive approvals which are already included in the published timelines for specific approvals within each phase of the application process. However, please be reminded that our Authorization Unit can commence work only after receipt of **all of the requisite** documentation.

Any questions regarding this letter should be directed to:

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Sincerely,



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