

# The Central Bank of The Bahamas

## BANK SUPERVISION DEPARTMENT

### Quarterly Letter to All Senior Officials 03/12

Senior I: Name      Email: Email Address

Licensee: Name

Dear Senior Official,

Over the summer months, the Central Bank's (the Bank) activities were dominated by the recently completed Financial Sector Assessment Programme (FSAP) exercise, which we briefed you on in our earlier letter. Again, upon finalization of the report by the International Monetary Fund, we will be in a position to share with you the outcome of the exercise.

As part of our risk management guidance to and surveillance of firms, the market risk reporting framework came into effect for the September reporting period, after a brief consultation period. We appreciate the feedback received from firms, and have taken these into consideration in the final version of the ***Guidelines on the Management of Market Risk***, which will be released shortly. One important point we wish to underscore is that the 8% or higher minimum capital requirement imposed on licensees should cover the capital charge for both credit and market risks, as we have not required an additional or separate capital to be allocated for market risk exposures. Where the Bank considers that the current minimum capital level represents an inadequate cover of a firm's risks, a higher target and trigger ratio may be set.

In August, we also released the finalized version of the ***Guidelines for the Management of Interest Rate Risk***. These guidelines provide high level principles and minimum policies and procedures for managing the interest rate risk present in the licensees' business activities.

The Bank values its ongoing dialogue with the industry on ways to enhance the competitiveness of the financial services sector, while maintaining the robustness of the supervisory and regulatory regime. As an outcome of one of these exchanges, the Bank has reduced the \$2 million minimum capital requirement for pure trust companies that are not subsidiaries of a financial group (i.e. stand alones) to \$1 million. The Bank will however reserve the right to impose a higher minimum capital based on the scale of business and the risk posed by the prospective trust company. Also, in this context, following a benchmarking exercise, the Bank took a decision to establish a higher threshold for public trust companies' Professional Indemnity Insurance ("PII"). The higher threshold for PII has been established at the greater of three (3) times relevant fees and commissions, or US\$3,000,000. Notably, the onus will be placed on licensees to maintain PII that is commensurate with the level of risk associated with their business and that covers all liabilities arising from the negligent discharge of their duties. The ***General Information & Guidelines for Licence Applications*** document will be

amended to reflect this change and to require that licensees submit to the Bank, on an annual basis, evidence of their PII coverage.

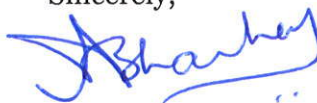
During September, we also had occasion to revise the ***Guidelines for the Corporate Governance of Banks and Trust Companies Licensed to do Business Within and from Within The Bahamas***. Basically, we took the opportunity to incorporate positions earlier advised, by way of guidance notes, on Central Bank's policy on licensees vesting the chair of the Board of Directors and the Chief Executive Officer of a licensee in the same person; and a more flexible posture for senior officials of restricted and certain other licensees to serve as Compliance Officer and Money Laundering Reporting Officer.

We recently issued a Notice on ***Related Party Transactions*** dated, October 17, 2012, which took immediate effect. This requirement is by no means new, but rather emphasizes and clarifies the broad expectations of our Large Exposure Guidelines, the Banks and Trust Companies (Large Exposures) Regulations (as amended) and the Corporate Governance Guidelines in addressing conflicts of interest that may arise regarding the approval, management and oversight of related party exposures and write-offs. Licensees having in place the appropriate policies and procedures to address such conflicts, accord not only with international best practices, but also represent an essential element of an effective risk management and corporate governance regime. We will be looking more closely at these frameworks during future onsite-examinations.

Any questions regarding this letter should be directed to:

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Sincerely,



Abhilash D. Bhachech  
Inspector of Banks & Trust Companies