



QUARTERLY LETTER TO ALL
SENIOR OFFICIALS

01/10
19th April 2010

Dear Senior Official,

We begin with a clarification of the Bank's policy on the number of directorships that an individual may hold. It appears that some of you may have interpreted our restating of the Bank's long-standing policy in our final letter of 2009 to mean that the policy had changed, precluding an individual from serving as a director outside of a group, should the group comprise two or more licensees; and if an individual were to sit on the boards of all of the connected entities, then that individual would have to relinquish directorships held outside the group. We wish to emphasise that the Bank's policy has not changed. For clarity, we have amended *Section III (The Process of Corporate Governance)* in the ***Guidelines for the Corporate Governance of Banks and Trust Companies Licensed to do Business Within and From Within The Bahamas*** (the Corporate Governance Guidelines) to state:

"Where an individual serves as non-executive director for various entities within a banking group, comprising two or more entities, such appointment will be counted as one of the four permitted by the Central Bank."

The annual certification process plays a critical role in demonstrating the Board of Directors' understanding of and involvement in assessing and managing the key risks facing the institution. We have amended *Appendix 3 (Board of Directors' Annual Certification to the Central Bank of The Bahamas)* the Corporate Governance Guidelines to include the annual certification requirements with respect to business continuity and the outsourcing arrangements. You may download a copy of the revised Corporate Governance Guidelines from our website.

Also on the matter of corporate governance, we emphasise that the Board is required to "report any material deficiencies and problems that are identified within the licensee, along with action plans and timetables for consideration", including **credible actions and timetables** to address any material deficiencies identified in a Report of Examination or other direction given by the Bank. We intend to discuss these "action plans" during our annual meetings with firms.

Some of you have also written in to seek clarification on the Bank's policy vis-à-vis the appointment of more than one Senior Official II. Firms are not limited to appointing a single Senior Official II. Each firm, depending on its size, nature, scope of its operations and complexity of its business, may choose to appoint more than one Senior Official II. All such appointments require our prior approval. In addition to the customary documents in support of the application, as set out in the Fit and Proper Guidelines, we also require that a firm submit proof that it has assessed the necessity for the second post.

Many of you have been calling to inquire about the status of the **Guidelines for Assessing the Fitness and Propriety of Money Laundering Reporting Officers (MLRO) in The Bahamas** (the MLRO Guidelines)—which, as you already know, contain a common set of criteria against which all the financial sector regulators will assess the fitness and propriety of individuals nominated to serve as MLROs in financial institutions operating within and from within The Bahamas. The draft MLRO Guidelines is in its final stage of review by the Group of Financial Sector Regulators and we expect to issue it early in the second quarter. One issue that came-up during the consultations on the draft had to do with the applicability of the Guidelines to existing MLROs. Specifically, many of you asked if existing MLROs would have to comply with the Guidelines once it is brought into effect or would it be applicable only to new MLROs. The simple answer is that only MLROs appointed after the Guidelines are brought into effect will require approval by the relevant regulator. The guidance will not be applicable to existing MLROs ex post-facto, i.e. they will not have to go through the approval process again; however, financial institutions will have to self-assess them against the guidance and ensure that any deficiencies indentified are corrected within one year from the effective date of the Guidelines. You should also be aware that we will check for compliance, i.e., that a self-assessment has taken place and that deficiencies have been rectified, during an on-site examination. If we find non-compliance, we can and may require replacement of the MLRO.

We wish to remind licensees that the deadline for ensuring compliance with the *Guidelines on the Minimum Standards for Outsourcing of Material Functions* was the **31 March 2010**. The outsourcing of material functions is a potential source of significant risk for the operations of firms and we take a very serious view of a firm's non-compliance with this guidance.

Since your last reports using the new **Schedule K in the Quarterly Reporting System I (QRS I)** and **Schedule L in the Quarterly Reporting System II (QRS II)**, a number of technical issues surfaced, which likely affected your reporting of the required data in these two new schedules. We appreciated your patience and cooperation as we corrected these technical issues. We also wish to remind firms that have not yet resubmitted their end-December 2009 revised Schedule K or L, as required by our 8 February 2010 Notice, to do so immediately.

Still on the subject of the QRS, you should be aware of some additional changes to **Schedule 2A: Maturity Analysis Summary** and **Schedule 2B: Interest Rate Sensitivity Analysis**, which are to be introduced for the end-June 2010 reporting period. These changes are intended to streamline the number of reporting buckets in these schedules, by **eliminating the overdue maturity bucket in Schedule 2A and combining the buckets for '1 year to less than 3 years' and '3 years to less than 5 years' into one bucket for '1 year to less than 5 years' in both Schedules**. We have issued Revised QRS I & II ver. 5.4, along with revised guidance notes, which reflect these changes and may be downloaded from our website.

You are aware of the organisational changes in the structure of the Bank Supervision Department, as foreshadowed many months ago. Joining the Commercial Bank Unit—established in July last year—the **Authorisations Unit** became operational in December 2009. This new Unit will help us to achieve greater operational efficiency and consistency in the processing of authorisation for both firms and individuals. The Unit will oversee the supervision of non-bank Money Transmission Businesses, Private Trust Companies (PTCs)

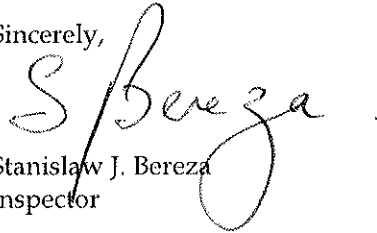
and Registered Representatives of PTCs, and the non-supervisory functions of the Department. We have also made considerable progress in reviewing and redesigning the on-site examination process, with the establishment of an Examination Unit, to better align it with the risk-based supervision framework and to integrate fully the on-site and off-site supervision processes. A more transparent review process of examination findings is now in place to ensure a consistent approach to identifying and mitigating material risk in licensees.

Finally, in our ongoing efforts to ensure that we deliver quality customer service, we appeal to you to **ensure timely, accurate and complete submission of all required documents when making various applications for our approval.**

Any questions regarding this letter should be directed to:

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Bank Supervision Department
The Central Bank of The Bahamas
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Nassau, Bahamas
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Sincerely,

A handwritten signature in black ink, appearing to read "S. Bereza". The signature is written in a cursive style with a large, looping initial "S".

Stanislaw J. Bereza
Inspector