



**QUARTERLY LETTER TO ALL
SENIOR OFFICIALS**

02/08
7th July 2008

Dear Senior Official,

In this letter, as is the custom, we write to update you on developments that have happened over the last quarter and to indicate, where we can, prospective developments.

We turn first to the implementation of the Financial Action Task Force's (FATF) Special Recommendation VII (SR VII) on wire transfers—which requires originator information (name, address and account number) to accompany funds transfers and related messages that are sent and to remain with the transfer or related message through the payment chain. You will recall that we had hoped to have this implemented by end-June 2008, and many of you have been calling to inquire about the status of our implementation plans. Our proposals are currently under review by the Government and have undergone some minor amendments for increased clarity and format changes. You should note also that, one matter under consideration is whether the draft provisions dealing with implementation of SR VII should be issued as amendments to the FTRR or be set out in separate regulations that are dedicated only to AML/CFT standards for funds transfers, under the Financial Transactions Reporting Act, 2000. Many of you were involved in extensive discussions with the Bank on SR VII, prior to the public comment period, and are already familiar with our proposals. In this vein, we are happy to note that many of you have therefore gone ahead and implemented operational changes consistent with our proposals on SR VII. We now expect to implement this initiative formally before end-2008.

Our second point relates to the **Supervision of Nominee Activities of Subsidiaries and Related Companies of Banks and Trust Companies**—on which we issued guidance earlier this year and commented on extensively in our last quarterly letter. Many of you have called to ask about our policy with respect to a foreign company, which is not an IBC, offering nominee services within and from within The Bahamas. As posed, the question is, will such a company similarly have to be continued/registered under the Companies Act, 1992 (CA) to be eligible for a nominee trust license? The simple answer is, yes. An entity incorporated in a foreign jurisdiction as a regular company that intends to offer nominee services within and from within The Bahamas,

will have to be registered under the Foreign Companies provisions of the CA to be eligible for a nominee trust license.

Another issue that recently emerged in our discussions with some of you, particularly during the on-site examination process, has to do with directors' conflict of interest. On this point, we simply wish to remind licensees that this is a matter for the board of directors and as we have clearly stated in our Corporate Governance Guidelines, *"The Board should establish procedures to identify, monitor, and manage potential conflicts of interest of Board members, management and significant shareholders, and abuses in related party transactions, as well as an overall process to monitor adherence to established standards of business conduct and ethical behaviour."*

As we are on the important matter of corporate governance, you will recall that in our last quarterly letter we indicated that we had completed a review of our Corporate Governance Guidelines (CG Guidelines). The revised Guidelines will be issued soon and will be available on our website. The most important changes for you to note are that the revised CG Guidelines will incorporate the **Guidelines for Independent Non-Executive Directors (INED)**, which will now be removed from the website as a standalone document. The second substantive change relates to the frequency of board of directors meetings. We will no longer require that the board meet four times annually. The board can now determine how frequently it will meet based on the complexity, volume and condition of the licensee. We do require, however, that the board document its decision as to frequency of meetings. In addition, the Central Bank may, based on examination findings, request more frequent meetings of a board.

Several legislative initiatives have now been brought to conclusion. The Banks and Trust Companies Regulation (Amendment) Act 2008 and the Central Bank of The Bahamas (Amendment) Act, 2008 were brought into effect on 2nd May 2008 and the Banks and Trust Companies (Money Transmission Business) Regulations, 2008 were brought into effect on 6th May. The net effect of these pieces of legislation is to bring non-bank providers of money transmission services and money transmission agents within the regulatory ambit of the Central Bank. We will shortly issue guidelines that outline the Central Bank's policy and documentary requirements with regard to the licensing of non-bank providers and registration of money transmission agents. As always, you will be able to download a copy of the guidelines from our website.

While on the general subject of legislative initiatives, the Banks and Trust Companies (Licence Application) (Amendment) Regulations 2008, which we mentioned in March, were also finalised and brought into effect on 6th May 2008. To recap, with these amendments, individuals subscribing to less than 10% of a licensee's share capital need only submit a statement certifying individual net worth to be at least five times the value of the share capital of

the entity. In addition, once approved by home country regulators in any of the Zone A countries, individuals will be allowed to serve as directors in a subsidiary/branch in The Bahamas, without having to provide further character references.

We would also like to draw your attention to the passage through Parliament of the Banks and Trust Companies Regulation (Amendment to Third Schedule) Regulations, 2008. These regulations revise the license fee schedule for banks and trust companies. We will be updating our Licence Application Guidelines to reflect this and the changes mentioned in the preceding paragraph.

The public comment period for the **Guidelines on the Management of Interest Rate Risk** is now closed, although responses will still be taken into account if received within the coming week. We will aim to produce a final version fairly soon.

As we have indicated in prior letters, work continues on the online reporting solution. The three short-listed service providers recently made presentations to the management of the Central Bank, based on a rigorous demonstration script provided to them. We hope to make the final selection of our partner in this endeavour, shortly.

Looking further ahead, we only have one “definite” prospective new Guideline in the pipeline, on Operational Risk, which we hope to have ready for public comment before we write to you again. In addition, we remain committed to publishing our Risk-based Supervision Framework; but, before doing so, we need to develop, in consultation with you, a comprehensive implementation and rollout plan, and work to achieve greater synthesis between our off-site surveillance and on-site examination processes.

In terms of revisions to existing guidelines, we have recently begun a review of our **Guidelines for the Minimum Physical Presence of Banks and Trust Companies Licensed in The Bahamas** (PPG). In particular, we are reviewing the Record and Record Keeping Arrangements aspect of the Guidelines to ascertain how we can further rationalize these requirements, while at the same time ensuring that we have adequate access to records in The Bahamas that will enable us to fulfill our regulatory and supervisory responsibilities. Related to this issue is the matter of substance of operations to facilitate on-site testing of the process of control of licensees. We will revert, upon conclusion of our deliberations.

On the subject of **publication requirements for statutory filings**, also mentioned in our March letter, we can say that we are nearing the completion of this review and development of final recommendations on the way

forward. Many of you provided helpful comments in shaping the final recommendations, and we thank you.

A final topic is a reminder—and it is for **Registered Representatives (Non-Central Bank Licensees) of Private Trust Companies** to remember their statutory responsibility to notify the Central Bank within thirty-days (30) of any change(s) in the information or particulars provided at the time of application for recognition as a Registered Representative.

Any questions regarding this letter should be directed to:

The Manager
Bank Supervision Department
The Central Bank of The Bahamas
Market Street
P.O. Box N 4868
Nassau, Bahamas
Tel (242) 302-9897
Fax (242) 356-3909
Email: banksupervision@centralbankbahamas.com