

The Central Bank of The Bahamas

BANK SUPERVISION DEPARTMENT

Quarterly Letter to All Senior Officials

Dear Senior Official,

This is our final letter for 2007 and, as usual, we write to update you on and to bring a number of points to your attention.

In our last letter, we foreshadowed the release of our new BSD Quarterly Reporting System (QRS), which automatically calculates key performance ratios, assesses compliance with prudential norms and calculates the risk-weighted capital adequacy ratio. We officially launched this in October. However, we fully realised that, as with any new system, there will be growing pains and many of you have written in or called us to point out certain inconsistencies in the new format. Based on these comments, we have made some minor revisions to the QRS to fix these bugs. The most current version has been posted on our website. Thank you for your many useful comments.

We continue to make good progress on our online reporting solution, and are now in the process of reviewing proposals from the leading service providers in this area and hope to make a final selection imminently. We expect to make significant progress with this project during 2008.

The last few weeks have seen a flurry of activity on the **Guidelines, Policies and Regulations** front. First, we issued a public consultation paper on **The Banks and Trust Companies (Temporary Business Continuity Operations) Regulations**. These regulations would exempt foreign banks and trust companies from the licensing requirements of the Banks and Trust Companies Regulation Act, 2000 (BTCRA) and allow them to establish operations on a temporary basis in The Bahamas where a natural disaster or other serious event in their home country disrupts their business operations. To avail itself of this exemption, a foreign bank or trust company must, inter alia, enter into a written agreement with a licensee of the Central Bank for the use of the licensee's equipment (by or on behalf of the foreign licensee) while operating temporarily in The Bahamas, and must be registered with the Central Bank. Once the legislative framework is in place, we intend to share it with other jurisdictions, with a view to establishing reciprocal protocols for our licensees. The consultation period for this paper ends on **January 11, 2008**.

We have also published, for public consultation, a paper on the **Rights and Duties of Auditors of Licensees**. We are proposing a few draft amendments to the Banks and Trust Companies Regulations Act, 2000 (BTCRA), with accompanying draft Regulations. The objective is to impose certain disclosure requirements on current and former external auditors of our licensees (to the Inspector of Banks and Trust Companies) and provide protection from liability where disclosure is made pursuant to these new provisions. This initiative will bring the BTCRA provisions relating to the auditors of our licensees in line

with comparable provisions that have been in place in many other countries for some time now. The comment period for this paper ends on **February 7, 2008**.

Additionally, we have issued for public comment, proposed amendments to the **AML/CFT Guidelines**. As many of you know, The Bahamas underwent a mutual evaluation of its AML/CFT regime by the Caribbean Financial Action Task Force (CFATF) in 2006. The Report of the CFATF examination was considered and approved at the CFATF Plenary in November 2007 and the proposed changes to our Guidelines seek to achieve greater convergence with international best practices. We invite your comments on these proposed changes by **January 31, 2008**.

The next point we wish to mention is the issue of the **Supervision of Nominee Activities of Subsidiaries and Related Companies of Banks and Trust Companies**. Many of you have called or written to indicate that this was a significant undertaking on which to achieve compliance by our original deadline of December 31, 2007. We have taken account of your concerns, and the deadline has now been extended to **March 31, 2008**. In the meantime, we are also reviewing your concerns with respect to our policy vis-à-vis the use of international business companies to provide nominee services and in this regard, we will shortly publish a guidance notice, which will clarify our policy with respect to this issue.

In terms of new initiatives, the Bank continues to review processes and procedures internally to ensure that systems are in place to facilitate effective operations. Therefore, in an attempt to better coordinate supervisory efforts and minimize overlaps in regulatory practices, we are in the process of agreeing a programme for the co-ordination of joint examinations of licensees regulated by both the Central Bank and the Securities Commission. The key objectives of this programme are to streamline the examination activities by coordinating:

- the planning, timing and scope of examinations of these institutions;
- the reporting of examination findings and recommendations; and
- follow-up and enforcement actions, if any.

We are in active discussions with the Securities Commission on this programme and hope to implement it early in the New Year.

In addition, in the next few weeks, the Department plans to issue a **Guide to the Central Bank's On-Site Examination Process** and a **Risk-Based Supervision Framework**, through which we seek to promote awareness and enhance the transparency of the examination process for licensees and other interested parties.

Finally, many of you are by now familiar with the Financial Action Task Force's (FATF) nine Special Recommendations on terrorist financing, which set out the basic framework to detect, prevent and suppress the financing of terrorism and terrorist acts. Included among these recommendations is 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 the information should

remain with the transfer or related message through the payment chain. Over the last few months, we have engaged industry representatives in discussions on considerations related to The Bahamas' implementation of this recommendation. We have now finalised our proposals on this and will issue them in the coming weeks for the customary public consultation.

We close by wishing you all a Happy Christmas and a peaceful and prosperous New Year. We anticipate a very active agenda for 2008 as we move closer to the implementation of Market Risk and Basel II. However, we remain confident that, by working together, we will be able to achieve success in our efforts.

Any questions regarding this letter should be directed to:

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