

The Central Bank of The Bahamas

Bank Supervision Department Quarterly Letter to All Senior Officials

Dear Senior Official,

As is our custom, we are writing to update you on important matters that have happened in the last three months and to give you an idea of what you might expect to see in the next three months.

First, as we are well into the **hurricane season**, we would like to underscore how vitally important it is to be cognizant of your business continuity and disaster preparedness plans. For those of you who have not yet done so, we would like to remind you that your business continuity plans must be approved by the Central Bank. However, prior Central Bank approval is not necessary if, in the hopefully unlikely event, the plan needs to be activated. We simply require that you notify us when a plan has been activated. As with all of our Guidelines, a copy of the **Business Continuity Guidelines** can be downloaded from the Central Bank's website at www.centralbankbahamas.com.

Over the last few weeks, we have issued three notices that should be of particular interest to you. The first is the **Guidance Notice on the Supervision of Nominee Activities of Subsidiaries and Related Companies of Banks and Trust Companies**, which clarifies, updates and formalises existing Central Bank policy with respect to your nominee activities. The important point to note here is that you have until December 31, 2007 to bring yourself into compliance with this policy.

In the process of our work on this Guidance Notice, we realised that our policy necessitated a redefinition of what constitutes **nominee trust activities**. Therefore, we have amended the **License Application Guidelines** to include the revised definition. The important point for you is that the definition of nominee trust activity has been appropriately broadened to include the provision of corporate services, such as providing corporate directors and officers.

We have also recently issued a **Notice on the Group Structures of Licensees**, which is important for us to maintain as a part of our ongoing consolidated supervision efforts. We are simply asking that all licensees submit updated group organisational charts to us by **September 15, 2007**. As communicated, this information becomes an annual requirement beginning **January 1, 2008**, and should therefore be submitted as a part of your annual filings.

Note should be taken of the further revisions to the **Guidelines for Private Trust Companies and Registered Representatives**, originally issued on January 10, 2007 and revised on May 2, 2007. These latest revisions, issued on **June 11, 2007**, provide clarification on the procedures and documentation for application requirements for the two categories of Registered Representatives, i.e. licensees of the Central Bank and Financial and Corporate Service Providers, licensed under the Financial and Corporate Services Providers Act, 2000.

In keeping with section VII of the Guidelines for the Management of Capital and the Calculation of Capital Adequacy (issued in 2005), the Central Bank is set to introduce a new form i.e., **BSD III - Capital Adequacy Statement**, for the purpose of licensees submitting their capital adequacy calculations. Licensees will be required to submit this form, along with the BSD I and II forms, on a quarterly basis. The BSD I, II and III have been formatted into an excel-based application, to facilitate the required calculation. Notably, the excel-based application, which we refer to as the BSD Quarterly Reporting System (QRS) will automatically calculate key performance ratios, assess compliance with prudential norms and calculate the risk-weighted capital adequacy ratio. Submission of the BSD III form is to commence for the quarter-ending 30th September 2007. We have prepared a detailed 'Guidance Note for completing the forms in the QRS. This document replaces the BSD Guidance Note for the Completion of the BSD I and BSD II Forms issued in 1998. Both the Guidance Note and the BSD forms will be posted to the Central Bank's website.

While on the subject of financial reporting, the Central Bank is currently reviewing proposals from different service providers to develop an online reporting and information management system for the Bank. This solution will allow licensees to submit prudential returns and any other data online and be able to receive information from the Bank using a portal. Licensees may also create interfaces between the reporting module and their general ledger and other financial systems. It is envisaged that this solution will reduce the burden of submitting returns to the Central Bank thereby

facilitating efficient processing of the information. The Bank is seeking to implement this online solution in the second half of 2008.

Looking ahead:

- We have finalised our proposals to the Government on the future regulation of **money transmission businesses**. The revamped regime once implemented, will see all “non-bank” participants in this sector brought within the regulatory ambit of the Central Bank.
- We are currently drafting a proposal to govern a joint examination program between the Securities Commission and the Bank in an effort to utilise our scarce resources more effectively and efficiently. More information on the program will be given in the next quarterly letter.
- We intend to arrange a meeting with representatives of licensees during the month of September to discuss issues relating to the examination process. We will post a notice of this meeting on our website shortly.

Finally, we are also in the final stages of preparing a public consultation paper on **Temporary Business Continuity Operations Regulations** for banks and trust companies. These regulations would allow foreign bank and trust companies 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. These new regulations will form an important part of our business continuity preparations in this jurisdiction. It will of course be a few months before these regulations are ready and final, so until such time as we are able to put the framework in place, we are requesting that our licensees who undertake to provide such accommodations in the event of a disaster should immediately notify the Central Bank. When you notify us, you should provide the following supporting details:-

- The length of time envisaged for the temporary accommodation;
- written confirmation from the home regulator that the bank and trust company is licensed, authorized or regulated;
- a list of the persons who in The Bahamas will be providing services to the bank and trust company, including the full name, date of birth, nationality and domicile of these persons; and
- written confirmation that these persons referred to in (bullet point 3 above) have obtained the requisite immigration approval.

This accommodation will be restricted to banks and trust companies that are branches, subsidiaries or affiliates of our licensees.

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*

3rd September 2007