

Central Bank of The Bahamas

Industry Briefing on Key Legislative Reforms and Updates

Melia Hotel & Resorts

Monday 28th October, 2019

Time: 2:00p.m. – 5:00p.m.



AGENDA OUTLINE

- Thematic Trends & Examination Focus for 2020
- Our AML/CFT Compass
- New Licence Fee Invoicing Regime & Enhanced Supervisory Initiatives



Thematic Trends and Examination Focus for 2020

Presenter: Mr. Charles Virgill
Senior Examiner
Examination Unit
Bank Supervision Department



2019 Thematic AML/CFT Issues Identified

- Update Policies & Procedures align with 2018 AML legislation;
- Client Transaction Monitoring P & Ps requires enhancements;
- Risk Rating Methodology requires enhancements;
- Source of Wealth/Funds not evident where applicable;
- AML Training required for the Board of Directors;
- Bearer Shares not identified;
- Enterprise and/or AML Risk Assessments not conducted;
- Contribution & assessment of INED not evident



2019 Thematic AML/CFT Issues Identified

- Absence of an independent, 3 Lines of Defense Regime;
- Absence of consistent Business Continuity testing; and
- Absence of a Board review of Outsourcing Arrangements



Examination Focus for 2020

While the Central Bank will continue to perform on-site examinations based upon its Risk-Based approach, 2020 examinations will also include:

- SFIs that were licensed and began operations within the last year - Corporate Governance, ML/TF risk and other key risks within the business (e.g. fiduciary risk, credit risk, outsourcing)
- DSIBs - ML/TF risk, where that risk area has not being examined within the last 2 years, and/or credit risk within the last 2-3 years
- Other Systemically Important Financial Institutions (SIFIs) - ML/TF Risk, Corporate Governance, credit risk, fiduciary risk, if such an examination was not conducted over the past 2-3 years



Our AML/CFT Compass

Presenter: Mrs. Sherrece Saunders
Deputy Manager
Analytics Unit
Bank Supervision Department



Our AML/CFT Compass

Moving forward with AML 2.0 Supervision:

- Guidance on AML Risk Assessments
- Meetings with MLROs/COs
- Engagement with Internal Auditors
- AML Data Return (December 31, 2019)
- AML Supervisory Letters



AML Risk Assessments

Risk Assessments were reviewed against the AML Guidelines and Central Bank's expectations.

Identified Improvements Needed for some SFIs included ensuring:

- All relevant risk and controls are included and assessed
- Residual Risks are assessed
- Risks are specific to SFI's business and not generic
- Realistic Assessments Made (all risks are not normally mitigated to nil or very low)



AML Risk Assessments

Identified Improvements Needed (continued):

- Where very high **residual** risks are assessed, commentary should be supplied to identify gaps and how these are to be addressed
- Explanations provided for coding (if “low” to “high” ratings not used)
- Including the Bahamas’ National Risk Assessment (NRA)

SFIs should be in the position to discuss their assessments, articulate the high risk areas of their business and demonstrate an understanding of all the applicable risks of their businesses.



Meetings with MLROs/COs

- MLRO/CO meetings (November and December 2019)
- MLRO/CO will be expected to speak to their institution's submitted Risk Assessments, AML/CFT Policies and Procedures, Trainings, etc.
- The Central Bank will continue with Exit Interviews for MLROs/COs.



Engagement With Internal Auditors

The Central Bank's current supervisory framework involves engagement with Internal Auditors in several areas:

- The third line of defense within an SFI
- Performing special audits as part of Central Bank's Directives, Requirements, and Expectations
- Verifying remediation of Central Bank's On-site Examination Directives, Requirements and Expectations



Expectations of Internal Auditors

Central Bank's Expectation:

1. As the third line of defense, Internal Audit should provide independent assurance to the board of directors and senior management on the quality and effectiveness of the SFIs governance, internal controls, and risk management regimes. As such, it must be independent of the daily operations with direct reporting to the Board or a Board Committee such as the Audit Committee.
2. Effectiveness of Internal Audit is assessed as part of the ongoing onsite examination process.



Expectations of Internal Auditors

Central Bank's Expectations continued:

3. The Internal Audit (IA) approach should be risk based with higher risk areas being reviewed more frequently.
4. The Internal audit plan should be Board approved and a copy provided to the Central Bank.
5. Once an internal audit is completed, IA should meet with the Central Bank to provide the Supervisory Team with a preliminary summary of their findings



AML Data Return

Effective 31 December 2019, SFIs will be required to submit the first AML Data Return, consisting of five (5) primary forms:

1. Customer Database
2. Account Activity/Transaction Monitoring
3. STR Filing
4. Cash Handling (as applicable)
5. Training

The Attestation must be signed by Director/Senior I/General Manager and the MLRO.



AML Data Return

The annual data collection will be used by Central Bank to provide a macro view of the AML landscape by sector and individual peer groups as well as on a micro level per SFI.

To ensure MLROs/COs receive the relevant notices and updates from the Central Bank on the AML Data Return and other filings, SFIs are to ensure that MLROs/COs are included in their institution's Central Mail Box.



AML Letters

AML Supervisory Letters will be issued to all SFIs, providing the Central Bank's ML/TF Risk Rating and other relevant AML/CFT matters specific to the institution, specifically:

- Overview of the status of AML related supervisory issues
- Risk Score (Inherent Risk, Controls, Governance, Net Risk)
- Scoring rationale and identified AML related gaps requiring action

It is expected that a wavier will be given to allow SFIs to share future letters with Correspondent Bankers



New Licence Fee Invoicing Regime and Enhanced Supervisory Initiatives

Presenter: **Ms. Karen Rolle**
 Deputy Inspector
 Banks and Trust Companies
 Bank Supervision Department



New Annual Licence Fees

Authorized Dealers (Commercial Banks)

Annual License Fees will be composed of three components:

- Base Fee
- Further Charge
- Domestic Systemically Important Institution Levy (DSII)



New Annual Licence Fees

Authorized Dealers (Existing Commercial Banks)

- Base Fee

Asset Tier	Current	New
Domestic Assets not exceeding \$250 million	\$450,000.00	COMBINED \$275,000.00
Domestic Assets exceeding \$250 million but not exceeding \$500 million	\$600,000.00	
Domestic Assets exceeding \$500 million but not exceeding \$1 billion	\$1,200,000.00	\$550,000.00
Domestic Assets exceeding \$1 billion but not exceeding \$1.5 billion	\$1,800,000.00	\$1,000,000.00
Domestic Assets exceeding \$1.5 billion but not exceeding \$2.0 billion AND Assets exceeding \$2.0 billion	\$2,400,000.00 \$3,750,000.00	COMBINED \$1,200,000.00



New Annual Licence Fees

Authorized Dealers (Commercial Banks)

- Further Charge **(NEW)**

Liability Tier	New
Domestic liabilities not exceeding \$100 million	\$50,000.00
Domestic liabilities exceeding \$100 million but not exceeding \$500 million	\$450,000.00
Domestic liabilities exceeding \$500 million but not exceeding \$1 billion	\$1,500,000.00
Domestic liabilities exceeding \$1 billion	\$2,000,000.00



New Annual Licence Fees

Authorized Dealers (Commercial Banks)

Definitions:

- **Domestic Assets** - The consolidated domestic assets of the bank excluding assets of its foreign subsidiary or foreign branch.
- **Domestic Liabilities** - The consolidated domestic liabilities of the bank excluding liabilities of its foreign subsidiary or foreign branch.



New Annual Licence Fees

Authorized Dealers (Commercial Banks)

- Domestic Systemically Important Institution Levy (**NEW**)

Formula to calculate the DSII Levy			
Total Domestic Liabilities	Less Levy Threshold	Add Regulatory capital amount equivalent to 16 percent of RWA	Multiplied by Rate of Assessment per annum (multiplied)

- Rate of Assessment = 0.30%
- Consolidated Domestic Liabilities
- Levy threshold - \$100,000,000
- Regulatory capital = 16% of Risk Weighted Assets



New Annual Licence Fees

Example of the new fees for Authorized Dealers (Commercial Banks)

ABC Bank Limited:

- Domestic Assets = \$826,198,000
- Domestic Liabilities = \$677,000,000
- Threshold = \$100,000,000
- Regulatory capital = \$62,000,000
- Rate of Assessment = 0.30%



New Annual Licence Fees

ABC Bank Limited example contd.:

Levy:

- $\$677,000,000 - \$100,000,000 + \$62,000,000$
- $= \$639,000,000 \times 0.30\%$
- $= \$1,917,000$

Flat Fee based on Domestic Assets = \$550,000

(Less than \$1.0 billion but more than \$500 million)

Further Fee based on Domestic Liabilities = \$1,500,000

(Less than \$1.0 billion but more than \$500 million)

Total Licence Fees = $(\$1,917,000 + \$550,000 + \$1,500,000) = \$3,967,000$



New Annual Licence Fees

Authorized Agents

Asset Tiers	<i>No Change</i>	
	Current	New
Assets not exceeding \$5 million	\$90,000.00	<i>\$90,000.00</i>
Assets exceeding \$5 million but not exceeding \$20 million	\$150,000.00	<i>\$150,000.00</i>
Assets exceeding \$20 million	\$225,000.00	<i>\$225,000.00</i>



New Annual Licence Fees

Other SFIs

Categories	Current	New
Public		
Bank	\$70,000.00	\$80,000.00
Bank & Trust	\$70,000.00	\$80,000.00
Trust	\$52,500.00	\$58,000.00
Restricted		
Bank	\$30,000.00	\$35,000.00
Bank & Trust	\$30,000.00	\$35,000.00
Trust	\$10,000.00	\$11,000.00
Nominee Trust	\$10,000.00	\$11,000.00
Non-Active		
Bank	\$2,000.00	\$2,500.00
Trust	\$2,000.00	\$2,500.00
Bank & Trust	\$2,000.00	\$2,500.00
Nominee Trust	\$2,000.00	\$2,500.00



New Annual Licence Fees

Other SFIs

Categories	Current	New
Private Trust Co. (PTC)*	\$3,750	\$4,000
Money Transmission Service Provider	\$10,000.00	\$11,000.00
Registered Representative	\$2,500.00	\$2,500.00
Qualified Executive Entity**	N/A	\$3,750.00

*The licence fee for the appointment of a new PTC is \$6,000.00

**The licence fee for the appointment of a new Qualified Executive Entity is \$5,250.00



Enhanced Supervisory Initiatives

- The Central Bank is stepping up its internal and external engagement strategy.
 - Periodic meetings with key roles in SFIs
 - Sector meetings with specific SFI groups
 - Periodic meetings with professional industry bodies
 - Ongoing meetings with the GFSR and established working groups on cross-cutting policy themes
 - Building relationships with non-supervisory Government agencies
 - Periodic meetings and teleconferences with foreign regulators
 - Periodic engagement with correspondent banks
 - Hosting international conferences



Enhanced Supervisory Initiatives

- **Credit Bureau**

- Licence is projected to be issued in November 2019 once all application requirements have been satisfactorily addressed.
- There is an expected 12 month implementation roll-out.
- First reporting is expected to commence September 2020 for data going back to March 2018.
- During the implementation period, the Credit Bureau will commence negotiation with data providers on fees.
- The Central Bank will publish a guideline regarding the supervision of the Credit Bureau by end of year.



Enhanced Supervisory Initiatives

- **Application Portal**

- Undergone an RFP Process and a vendor recommendation has been sent to the Selection Committee
- Proposed implementation timeline is the second quarter of 2020
- Key benefits:
 - Enterprise portal for all client facing departments
 - Portal would prompt on the requirements to complete an application and route to the responsible area/person
 - Reduce processing timeframe
 - SFIs/public can check the status of their application by logging on to the portal
 - It will be user friendly and environmental friendly



Q & A

