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**COMPILATION OF SUPERVISORY GUIDANCE FROM CENTRAL BANK'S
PAST QUARTERLY LETTERS**

BANK SUPERVISION DEPARTMENT

The Central Bank of The Bahamas commenced its issuance of a Quarterly Letter from 2005. These letters often include guidance, which typically is later incorporated into and superseded by legislation, regulation, or formal guidelines. With the passage of time, it may become difficult for the industry to keep track of what remains “live” from the quarterly letters. This document will cover all the past issues that remain outstanding, which means that Supervised Financial Institutions (SFIs) need not refer to any quarterly letters prior to December 2021 for supervisory guidance. Furthermore, to the extent the Central Bank wishes to issue new supervisory guidance in future quarterly letters, this document will be immediately updated.

The outstanding guidance list follows in alphabetical order. We anticipate closing these items off over time as we review the Central Bank’s document infrastructure.

Administrative Matters

Interim Appointments

The Central Bank accepts that in some instances, it may be necessary for SFIs to appoint Approved Persons on an interim basis. When submitting such applications, SFIs are reminded that the interim period (for example, three or six months) should be specified. Interim appointments for Approved Persons must not exceed 12 months, absent specific Central Bank approval.

Senior Officials: Role and Numbers

We expect the Senior Official I (SOI) to be the firm’s Chief Executive Officer in The Bahamas. Moreover, SFIs are not limited to appointing a single Senior Official II (SOII).

SOI comprise the pinnacle of each SFI’s first line of defence as business managers. Senior Officials should not operate as second line (compliance officer, money laundering reporting officer) or third line (internal audit) staff, absent specific approval from the Central Bank. The Central Bank’s practice is to grant “mixed line” SO approvals only for limited purposes, such as regional treasury operations or booking centres, that do not make the primary onboarding decision. We emphasize that MLROs in such an arrangement, who are often the SOII, must ensure that Bahamian legislation and regulation are observed for clients and their activities.

SOIIs are often the Chief Financial Officer, who should operate in the first line of defence similarly to SOIs, or the Chief Compliance Officer/MLRO, who should operate in the second line, and not mix into the first or third lines.

Such appointments depend upon the size, nature, and scope of the SFI’s operations. SFIs are required to submit proof that they have assessed the necessity for the second post. The Central Bank is unlikely to approve the appointment of more than two SOIIs.

Digital ID verification

Given trends in financial technology and digital innovations such as remote identity verification, the Central Bank considers an identification document (ID) to be an original if it is received electronically, provided the SFI have robust arrangements in place to give confidence that the document is valid and unmodified. The Central Bank is aware that some SFIs may be using or considering Digital ID verification providers to certify that documents are true copies of the original. Therefore, the onus is on the SFI to conduct its due diligence and to satisfy itself that the identification processes used by the provider are adequate.

Dividend Approval

It is Central Bank's policy that an SFI's dividend requests for less than the relevant period's earnings, where the SFI is well capitalized, will be approved quickly and near-automatically. Dividend approvals for more than the period's earnings, or when the SFI is less than well-capitalized, will be subject to considerably more analysis. SFIs are reminded that the Central Bank should be notified of all dividend payments whether they exceed or do not exceed the prior year's net profits. In addition, all dividends should be recorded on the Profit and Loss Statement of the ORIMS Report for the applicable month/quarter in which the dividend(s) is declared.

The Central Bank may inform some SFIs that they must seek prior approval on all dividends, and such SFIs should expect more scrutiny and less than automatic approval of dividend requests.

Large Exposures

SFIs are allowed to use the respective country credit ratings, rather than the Zone A / Zone B classifications in relation to capital adequacy, liquidity and large exposures. The necessary amendments will be made to the Capital Adequacy Guidelines as well as the Liquidity and Large Exposure Regulations.

Existing guidance requires pre-notification to the Central Bank of any loan where the aggregate amount placed with a counterparty exceeds 25% of capital, except where the counterparty is a prime rated bank in a Zone A country and total exposure falls within the following limits:

- i. Where the recipient bank is rated AA or better – 100% of capital;
- ii. Where the recipient bank is rated A or better – 50% of capital; and
- iii. Where the bank is rated below A, the 25% limit still applies.

There seems to have been some confusion as to whether the Central Bank prefers a particular credit rating agency and whether the long-term or short-term credit rating is applied. The Central Bank does not have a particular preference in either case; however, we require that licensees be consistent over reporting periods with the rating applied, whether it is long-term or short-term, for the same exposure.

Making the Application Process Simpler for Jointly Regulated SFIs

SFIs that are jointly regulated by the Central Bank and the Securities Commission of The Bahamas (Securities Commission) typically submit two sets of documents in support of applications for

Approved Persons. The Central Bank accepts the Securities Commission's documents and formats in support of Approved Person applications.

Jointly regulated SFIs may submit the same application package to the Central Bank and the Securities Commission, which must include the following:

1. Board of Director's Resolution or Secretarial Certificate with the extract of the Board of Director's Meeting sanctioning the appointment of the applicant;
2. Detailed Curriculum Vitae;
3. Two Character References;
4. One Financial Reference;
5. Job Description (as applicable);
6. Passport copy which must include full name, photograph, date of birth, nationality, signature and expiry date;
7. Work Permit (as applicable); and
8. Evidence of professional qualifications (copies of degrees, certificates, etc.).

Jointly regulated SFIs should note the following:

1. The Central Bank does not currently require an application fee;
2. The Central Bank does not require the Securities Commission's application form;
3. The Central Bank will continue to require two character references in cases where these are not required by the Securities Commission;
4. The Central Bank will continue to require, in addition to the Securities Commission material, a completed Confidential Statement that is initialed on each page by the applicant and notarized by a Justice of the Peace or a Notary Public (The Confidential Statement may be found on the Central Bank's website);
5. In the case of CEOs/SOIs, the Central Bank will require the job description for the role;
6. In the case of MLROs, the Central Bank will continue to require the organizational chart demonstrating the independence of the MLRO role, and certified copies of the applicant's relevant diplomas;
7. The Central Bank will continue to require jointly regulated SFIs to notify us of the Compliance Officer, once approval is granted by the Securities Commission;
8. Approvals/rejections from either regulator will remain independent. Regulators will continue to grant separate approvals/rejections;
9. Submission of the same application package is optional. Jointly regulated SFIs may continue to file differing submissions;
10. The Central Bank will continue to have the authority to request any document necessary to complete the application process.

As a practical matter, the above arrangements mean that SFIs choosing to do so may prepare an Approved Persons application using the Securities Commission forms, plus the Central Bank Confidential Statement and any other Central Bank-specific material, and that will constitute a conforming application package for Central Bank purposes.

SFIs are also reminded that the Central Bank is digital with effect from 2018. Documents must be submitted in electronic form.

Whistle Blowing

Some board members and others have characterized engagement by SFI staff with the Central Bank as “whistle-blowing” or in some cases a breach of confidentiality. Such characterizations are quite wrong. Where an employee, auditor or other interested party of a SFI reports to the Central Bank on any matter relevant to the SFI, they are in most cases simply fulfilling their statutory obligation to ensure that full and accurate information is provided to the Central Bank. This does not constitute a breach of confidentiality to the SFI. Furthermore, any person who attempts to impede the proper flow of information from SFI staff or other persons to the Central Bank is operating at best in an improper manner which reflects poorly on their fitness to continue in the industry, and at worst in a criminal manner.

The bottom line: do not impede, by contract, policy, or otherwise, information flow between the Central Bank and SFI staff members or other persons.