



QUARTERLY LETTER ON REGULATORY AND SUPERVISORY DEVELOPMENTS

**BANK SUPERVISION DEPARTMENT
30 March, 2022**



QUARTERLY LETTER

Introduction

Mr. Charles Littrell will complete his term as Inspector on 30 June, 2022. Acting Inspector Karen Rolle will then assume the role. We are currently transitioning the Inspector's duties to Ms. Rolle, while Mr. Littrell functions in a senior advisory capacity. We congratulate Karen for becoming the first Bahamian to hold the Inspector's position, since it was created in the year 2001.

Removal from EU's AML Blacklist

Early this year, the Central Bank welcomed the news that The Bahamas was deleted from the list of Delegated Regulations (EU) 2016/1675, the European Union's AML blacklist of countries with strategic deficiencies in their AML/CFT regime. The EU Commission concluded that the jurisdiction had addressed the strategic deficiencies in its regime, having been removed from the FATF's enhanced monitoring process in the fall of 2021.

CFATF Mutual Evaluation Follow-Up Report

The CFATF has re-rated and upgraded The Bahamas AML/CFT assessment in relation to four of FATF Recommendations (numbers 6, 7, 24 and 33) from Partially Compliant to Largely Compliant and on five Recommendations (19, 22, 26, 27 and 28) from Partially Compliant to Compliant. To this end, out of 40 Recommendations in total, The Bahamas is now Compliant with 18 and Largely Compliant with 20.

A Successful AML/CFT 3rd Empirical Research Conference

The Central Bank successfully hosted the 3rd International Research Conference on Empirical approaches to Anti-Money Laundering and Financial Crime Suppression on 20 – 21 January, 2022. The Conference was strongly supported by the Financial Action Task Force, with President, Dr. Marcus Pleyer, Vice President, Elisa de Anda and immediate past head of the Secretariat, David Lewis all in attendance. We were pleased yet again with the support of the Inter-American Development Bank, which sponsored a number of attendees and the Spanish/English translation services. The conference attracted over 400 participants both in-person and virtually.

We are pleased to announce that the fourth conference in the series will be held on 19 - 20 January, 2023. We expect that it will build on the successes of the first three editions, and offer

a good mix of academic and practitioner papers. Bahamians interested in submitting a practitioner or applied research paper for consideration are encouraged to enquire at amlconferences@centralbankbahamas.com.

Annual AML Data Return

The annual AML Data Returns were collected at the end of February from Banks & Trust Companies, Credit Unions and Money Transmission Businesses. AML Data Returns from the Electronic Money Service Providers are due to be submitted by 31 March, 2022. The Bank Supervision Department will publish a summary analysis of the consolidated findings later in the year.

Industry Briefing

The PowerPoint slides of the [Industry Briefing](#) held on Thursday, 9 November, 2021 have been posted to the Central Bank's website and are accessible via the path:- Core Functions → Bank Supervision → Notes and Notices → Speeches and Presentations.

Basel II & III Implementation

We extend our thanks to Supervised Financial Institutions ("SFIs") who participated in the pilot programme to test new and amended reporting forms and provided feedback. By way of Notice dated 23 March, 2022 to all public SFIs, we provided an update on our implementation timelines and next steps. Below are key highlights from the Notice:

Phase 1 - Testing has been completed and the revised Excel template (**Financial Return Template v2.9**) provided for your reference.

Phase 2 – Parallel Reporting has been re-scheduled to begin with the 30 June 2022 return submission, at which time, the new financial return will be available in the Online Reporting and Information Management System (ORIMS). SFIs (excluding public trusts and foreign branches) will be required to provide parallel reporting on both the new and existing forms as at 30 June, 2022 through 30 September, 2022, as applicable.

The updated Guidance Notes and further details on the parallel reporting will be provided within the coming weeks. In addition, training sessions on the new forms will be held in May 2022, on a date to be announced.

Phase 3 – Implementation: Subsequent to the parallel reporting, and barring any unforeseen technical or other challenges, the new financial return will be implemented on 31 October, 2022.

Liquidity Framework

We are pleased to share with the industry that revision of the liquidity framework has begun, the first draft of which is undergoing internal review. The Central Bank anticipates issuing the draft Liquidity Regulations and Guidelines for industry's consultation by the beginning of the third quarter, 2022.

Consultation Papers

We extend our thanks to all who submitted their comments on the draft Credit Risk, Internal Audit and Recovery Planning Guidelines. SFIs can look forward to receiving our responses along with the finalized documents during the second quarter, 2022. We take this opportunity to provide the following brief overview of the areas in each guideline that were of the most interest to industry:

Credit Risk Guidelines:

The majority of the feedback received focused on Section 7 - credit risk management framework and Section 9 - impairment recognition. Queries on these two areas were with respect to the total debt service ratio (TDSR), definition, and clarity on the treatment of non-performing exposures as they relate to group facilities.

Internal Audit Guidelines:

The feedback focused on Section 5, which speaks to the audit committee; Section 6 - composition and powers of the audit committee and Sections 13 and 14, which speak to the requirements for SFIs and the relationship with the Central Bank, respectively.

Recovery Planning Guidelines

Substantive comments were largely on Section 6.2, which speaks to main features of the recovery plan. Queries mainly concern the range of scenarios acceptable to the Central Bank.

Section 43 of the Banks and Trust Companies Regulation Act, 2020 ("BTCRA")

It has come to our attention that the moratorium provision under section 43 of the BTCRA is of concern to some SFIs with respect to the netting and set off of derivative transactions, where an entity is under statutory administration. It should be noted that the BTCRA expressly provides that the terms of eligible financial contracts would not be affected by a liquidation. The BTCRA protects such agreements from unwinding and preserves rights of set off and netting for such contracts. The Central Bank has a discretion under Section 43(1) of the Act as to what types of payments should be subject to a moratorium and may exercise the discretion to exclude eligible financial contracts. In this regard, the Central Bank is considering making regulations to include in the definition of "eligible financial contracts" other types of widely used financial contracts.

Timely Reporting of Documents and Data

SFIs as a group have lifted timely reporting from around 72 to around 85 percent in the last 18 months. We intend to encourage improvements to above 98 percent on time reporting, with the next phase focusing supervisory attention and in need, sanctions on negative outlier entities.

Charles Littrell

Charles Littrell

Inspector of Banks & Trust Companies

Any questions regarding this letter should be directed to:

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