



QUARTERLY LETTER ON REGULATORY AND SUPERVISORY DEVELOPMENTS

BANK SUPERVISION DEPARTMENT
28 December, 2022



QUARTERLY LETTER

Introduction

The Central Bank remained actively engaged in progressing some of its strategic work during the fourth quarter 2022. This edition of the Quarterly Letter highlights some of the Bank's activities in the supervisory space and some of the intended focus for 2023.

Operationalizing the Recovery and Resolution Framework

The IMF held its second technical assistance mission with the Central Bank in the recovery and resolution framework in November 2022. The mission focused on operationalizing resolution actions that would address a failed entity. A key component of new work to commence in 2023 will be preparing resolvability assessments of systemically important SFIs. The Bank will also be running periodic scenario testing and simulations of systemic or idiosyncratic risk events that could cause a failure of a systemic SFI. In the context of resolution, the Central Bank is also leading an initiative with other local regulators and the Ministry of Finance to establish a Financial Stability Council (FSC). The FSC would be a non-statutory inter-agency body established to monitor and review emerging risks that might impact financial stability as well as, facilitate regular discussions and system wide analysis on the financial strength of systemically important financial institutions in The Bahamas.

AML Empirical Research Conference

The Fourth Annual International Research Conference on Empirical Approaches to Anti-Money Laundering and Financial Crime has been planned for 26 - 27 January 2023. Once again the conference will be hosted by the Central Bank of The Bahamas in partnership with the Inter-American Development Bank (IADB). It will convene researchers, policy-makers and practitioners from around the globe to explore topical AML issues. In addition, participants again will include the President and Vice President of the Financial Action Task Force (FATF).

Publication of Enforcement Actions

We draw SFIs' attention to section 51 of the Central Bank Act, 2020, which provides for the Bank to publish penalties imposed and a statement of the violation in respect of which the penalty is imposed. In this regard and commencing in 2023, the Central Bank as a part of its supervisory mandate will start to publish sanctions outcomes from serious and very serious enforcement actions. Continued emphasis will be placed on ensuring timely and accurate reporting by SFIs.

Enterprise Application Portal

The Central Bank is transitioning to an Enterprise Applications Portal to improve its interaction and engagement with stakeholders. It is anticipated that this portal will improve the turnaround time and efficiency for processing various applications. It will allow SFIs to electronically submit and upload all

required documents necessary to process applications. The first rollout for Bank Supervision Department will include the Approved Persons application. It is proposed that approximately 30 SFIs be identified to participate in this rollout. These SFIs will soon be notified of their selection. We take this opportunity to thank those SFIs that have participated in the User Acceptance Testing of the portal, and advise that all other SFIs will be enrolled in the portal during the first quarter of 2023.

As the initial rollout will include Approved Persons applications, SFIs should be mindful of the terminology used in applications submitted for the appointment of Directors. We provide the following clarifications with respect to 'Executive Director', 'Independent Non-Executive Director' and 'Resident Non-Executive Director'.

Definitions of Directors:

The term Independent Non-Executive Director (INED) was introduced to the industry via the revised Corporate Governance Guidelines 2008. This title replaced that of Resident Non-Executive Director (RNED), and should accordingly be consistently used in place of RNED.

For the avoidance of doubt, the following definitions of the other various categories of Directors should be noted:

- 1) An Executive Director (ED) is a Director that is employed by the institution, such as the Senior Official I or CFO of the subject SFI;
- 2) A Non-Executive Director (NED) is a Director that is not employed with the subject SFI. For example, Bank A Ltd. is applying to appoint John Doe as a Director however, John Doe is employed with some other non-related institution; and
- 3) An Independent Non-Executive Director (INED) must not be employed by nor related to the subject SFI in any personal, professional/business capacity. Please review Sections 7 and 8 of the Corporate Governance Guidelines.

While persons in the first and second categories may interchangeably be referred to as "Director", the distinction should always be explicit for persons who fall within the third category of "INEDs".

Policy Updates

We were pleased to release, early December, the Guidelines for the Management of [Credit Risk](#) and the [Internal Audit](#) Guidelines.

The new Credit Risk Guidelines provide guidance on the expected credit loss framework, asset classifications, and further clarifications on the Total Debt Service Ratio ("TDSR"). The Guidelines replaces the *Guidelines for the Management of Credit Risk 2003 and The Impaired Assets and Provisioning Guidelines 2005*.

The Internal Audit Guidelines provide Central Bank's expectations with regards to supervisory guidance for assessing the effectiveness of the Internal Audit function in SFIs. Work to include the required Internal Audit Annual Certification into the ORIMS platform is underway. However, until further notice, SFIs are to submit the certification via email to their respective supervisory team.

Annual Industry Briefing in January 2023

Our usual fall Industry Briefing has been postponed to **January 2023, the date to be announced**. The upcoming briefing will lay out Central Bank's planned supervisory focus for 2023 and our external

engagement calendar. Key policy focus areas will include continuation of our Basel III agenda, recovery and resolution rollout, climate risk and prudential supervisory framework for digital assets activities. More details will follow.

In closing, the Central Bank extends a Merry Christmas and best wishes for a prosperous new year to all.

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