



# FEEDBACK FROM THE INDUSTRY CONSULTATION

DIGITAL ASSETS GUIDELINES, 2023

**POLICY UNIT**

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## Feedback from the Industry Consultation: Digital Assets Guidelines, 2023

Section	Questions/Comments Received	Central Bank's Response
General	While it appears the intention and spirit of the guidelines are centred on prudential treatment for digital asset exposures, in several cases conduct and practice elements seem to be included. This may impede on efficiency as it relates to compliance expectations between the Securities Commission of The Bahamas (SCB) and CBB.	It is not the intention of the Central Bank to impede on the efficiency as it relates to compliance between the Securities Commission of The Bahamas ("SCB") and the Central Bank. Your point will be taken into consideration in our review. The Bank has reviewed the draft Digital Assets Guidelines and where there seem to be conflicts, amendments were made.
General	It is suggested that elements such as client risk disclosures, cyber risk management, ITOs and other overlapping conduct requirements remain under the remit of SCB and current coordination as it relates to joint licensees continues or is enhanced in this regard.	Your comment is duly noted.
General	It is recommended that joint conduct guidelines be issued to avoid overlap, duplication of efforts or inefficiency in regulatory requirements. In this regard, CBB may look to issuing a prudential treatment of digital asset exposure guidelines (or 'management of prudential risks guidelines'), focusing only on prudential requirements and removing 'conduct' elements or aligning overlapping elements with SCB requirements.	The Central Bank notes your comments.
General	The guidelines should be clearer in scope and applicability, expressly noting the responsibility of SCB and responsibility of CBB.	The Central Bank notes your comments.
General	As the focus of digital assets shifts away from virtual currency tokens to tokenized traditional assets in the coming months [my prediction], I hope the level of expectations can be reduced.	The Central Bank will continue to monitor and review the implementation and developments of digital assets.



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General	We note that the Basel Committee on Banking Supervision ("BCBS") has set a target implementation of its draft prudential framework (Chapter SCO60 Cryptoasset Exposures) for January 1 2025 and that no equivalent date has been established for local adoption.	The Central Bank anticipates implementation by the end of fourth quarter 2023.
General	We recommend that the Central Bank considers a target implementation date for local adoption. Appropriate length of time for transitional arrangements should also be considered.	See comment above.
General	We seek clarity on the application of these guidelines to SFIs engaged in digital asset business activities prior to these guidelines coming into force. What would be the expectations concerning risk assessments and prior regulatory notification for doing business as a digital asset service provider?	The Central Bank advises SFIs to be mindful of the provisions set out in the DARE Act until the Digital Assets Guidelines are finalised. As it relates to risk assessments and regulatory notification, where applicable, SFIs should provide these after the issuance of the Guidelines and be guided going forward.
General	We note that there were not any clear delineations on KYC/CFT/AML obligations for digital assets activities in the guidelines. It is our view that there should be some reference to digital assets and KYC in these guidelines or the current CBOB AML/CFT/CPF Guidelines should be amended to reference this subject matter.	Your comments are duly noted. SFIs are encouraged to comply with the provisions set out in the Central Bank's <a href="#">AML/CFT Guidelines</a> , <a href="#">Proceeds of Crime Act 2018</a> , <a href="#">Anti-Terrorism Act 2018</a> , and the <a href="#">Financial Transactions Reporting Act 2018</a> .
General	CBOB should give consideration to the concept of outsourcing crypto specific functions. Please provide clarity as to the note that reference SFI's can be "authorized to hold directly or indirectly a customer's access keys".	Directly or indirectly means either holding it solely or jointly.
General	Would CBOB be doing any training on the expectations, as it relates to Digital Assets?	Yes, the Central Bank intends to have trainings for its SFIs on how to report digital assets exposures on the ERS Forms.
Paragraph 3	For coherence, in regard to item 3 under 'Purpose', the purpose or intention of the guidelines should be made clear i.e. is it intended to be the main guidance as it relates to both conduct and prudential regulatory expectations for CBB SFIs? Is it intended to only introduce prudential requirements or prudential risk management for CBB SFIs? Is it intended to address risk management in general?	The Central Bank notes your comments.



## Feedback from the Industry Consultation: Digital Assets Guidelines, 2023

Section	Questions/Comments Received	Central Bank's Response
Paragraph 4	Sets out other legislative and regulatory publications that should be read along with the guidance, however the Digital Assets and Registered Exchanges Act is not included. For coherence and understanding, this may need to be added. Further the Digital Assets and Registered Exchanges (AML, CFT, CFP) Rules, 2022 should also be added (this is one of the FATF items that allowed for a scoring of 'compliant' for The Bahamas' 5 <sup>th</sup> round mutual evaluation).	Please note that the legislative and regulatory publications identified in this paragraph are all under the Central Bank's purview and offers guidance to SFIs regulated by the Central Bank.
Paragraph 5	Under this section the SCB is mentioned as a supervisor, the guidelines would benefit from a clear indication of responsibilities. The guidelines may benefit from a definition of CBDCs as they are mentioned under item 5 (albeit to indicate non-application).	A definition was included in the footnotes "CBDCs are digitalised versions of fiat currency governed by <a href="#">Bahamian Dollar Digital Currency Regulations, 2021</a> ".
Paragraph 8	May benefit from adding that Board approval for engaging in digital asset activities be documented. Adding the requirement for a self-risk assessment and product risk assessment in accordance with current AML legislation, including the Digital Assets and Registered Exchanges (AML, CFT, CFP) Rules, 2022.	The Central Bank notes your comments.  Please see Paragraph 17 which states that <i>SFIs are required to perform a risk assessment in addition to notifying the Central Bank, before establishing such operations</i> "; and  Paragraph 35 states that <i>"following an assessment of the risks involved in these assets, the Central Bank expects SFIs to incorporate best practices and maintain high standards including instances where digital assets have similar characteristics as traditional assets."</i>
	The prudential treatment of central bank digital currencies (CBDCs) is not described within the Basel Framework. The Guidelines are supposedly related to the digital asset exposure of SFIs. Electronic money is generally not defined as "digital assets" (see DARE Act). This paragraph should be eliminated from the guidelines or an explanation given as to why the treatment of "electronic money" exposure is different to fiat exposure.	Your comments are duly noted and the paragraphs were removed from the Guidelines.



## Feedback from the Industry Consultation: Digital Assets Guidelines, 2023

Section	Questions/Comments Received	Central Bank's Response
Paragraph 11	<p>Reflects a conduct provision regarding risk disclosure that is included in the Digital Assets and Registered Exchanges, Act. If this is to remain, it is suggested that this item be enhanced to require documented product and risk information delivered to customers on a timely basis. The guidance note that “this could take the form of a brief notice” could be problematic. In conduct regulation, customers should have clear and fair disclosure delivered in a timely basis so that informed decisions could be made. Additionally, the intention of disclosure is not to ‘ensure that risks are aligned to clients’ documented goals and risk tolerances.’ This item seems to be introducing a suitability element, which is another conduct provision. If this is to be kept it should be aligned with current suitability requirements.</p>	The Central Bank notes your comments.
Paragraph 12	<p>Appears to be aiming to address several risk-types together. It appears to introduce DLT specific risks, as well as other risks inherent to digital assets and the digital asset space. As a result, it does not read coherently. It is suggested that language remain technology-neutral and a general guideline to ensure that the technology used in the conduct of business is continually reviewed for operability and security.</p> <p>The guidelines seem to get involved with the different types of DLT functions and players (for e.g. nodes and validators are a function of blockchain transactions and ownership) and CBB is not a technology regulator. Other risks seemed compiled into this one paragraph as well, which removes coherence. This item may benefit from a general requirement on maintaining, monitoring and reviewing technology used in the conduct of business; understanding inherent risks, including cybersecurity and other technology risks (valuation challenges are inherent to certain digital assets and so disclosing valuation methodology may be a separate requirement connected to calculation of exposures).</p>	The Central Bank notes your comments.
Paragraph 14	Seems to introduce a duplicate compliance measure for joint licensees as ITOs are regulated by SCB. Perhaps this is an area to seek regulatory coordination.	The Central Bank notes your comments.
Paragraph 19	May benefit (in light of recent events) from a requirement to review and verify governance and controls of digital asset service providers who are seeking to do business with the SFI.	Paragraphs 47 and 48 speaks to the Central Bank's reporting requirements. Your comments are noted and have reviewed to provide clarity on our expectations.



## Feedback from the Industry Consultation: Digital Assets Guidelines, 2023

Section	Questions/Comments Received	Central Bank's Response
Paragraph 20	Introduces 'cryptographic keys' to the guidelines; these should then be defined under definitions. Item 19 should speak to expectations around custody of assets including segregation of assets, customer disclosure regarding custody arrangements, customer access, and custody controls. This section should also make known the nexus to cybersecurity or data privacy requirements. Such requirements are largely set out in the Digital Assets and Registered Exchanges Act and should be aligned.	The Central Bank added a definition to the term "cryptographic keys" is <i>a unique Identifier that allows the transfer of digital assets from one party to another.</i> " See: Basel 60.125 (c)
Paragraph 7	Suggest combining the terms "custodian" and "custody of digital assets".	Thank you for your comments. The Guidelines have been amended accordingly.
Paragraph 7	Include a definition for the term "cryptographic keys".	See comment above.
Paragraph 7	Exposures - has the meaning assigned to it in the Banks and Trust Companies (Large Exposures) (Amendment) Regulations, 2012. The distinction needs to be made here. The definition in the Large Exposure Regulations and Guidelines speak to exposures in terms of credit risk, but since this paper extends beyond the scope of credit risk (ie. operational, liquidity, market, etc.) we should create a definition in line with the Basel framework.	The definition was amended – <i>"Exposures includes on- and off balance sheet items that give rise to credit, market, operational and/or liquidity risks."</i>
Paragraph 9	Consider adding: Senior Management should be actively involved in reviewing and signing off on the risk assessment framework for any planned business direct exposure to digital assets and/or entities heavily exposed to cryptoassets; (i) conduct due diligence and complete a comprehensive risk assessment before engaging with digital assets; (ii) ensure that there is a thorough understanding of the risks associated with the activities proposed to be undertaken, and take have processes in place to mitigate those risks; (iii) not just limit risk assessments to new risks only, but also include assessments of how new activities will impact existing operational risk assessments and whether existing internal controls should be modified to accommodate any changes; and (iv) apply the appropriate risk management controls with clear accountability and reporting processes.	The Central Bank notes your comments and amendments were made.



## Feedback from the Industry Consultation: Digital Assets Guidelines, 2023

Section	Questions/Comments Received	Central Bank's Response
Paragraph 5	<p>Section seems to be limited to banks rather than all SFIs under regulatory purview.</p> <p>Primary concern is the omission of payment providers which are Fintech in nature and inherently and by market perception more open to engage in digital asset activities. Particularly since their primary customers are retail participants which have been the most vulnerable in digital asset fraud. (No expectation here from me to have the Central Bank to overstep their regulatory range and prescribe to outside institutions.)</p>	<p>Paragraph 5 states that <i>“these Guidelines apply, as appropriate, to all SFIs that are or seek to be engaged in digital asset business activities...”</i> It is not the intent of the Central Bank to limit these Guidelines to only banks. The Central Bank's Supervised Financial Institutions (SFIs) include banks, bank and/or trust companies, private trust companies (PTCs), money transmission businesses (MTBs), electronic money service providers, and co-operative credit unions. The listing of all active SFIs can be found <a href="#">here</a> on the Central Bank's website.</p>
Paragraph 43	<p>5% CET1 limit (pretty conservative) – provisional limit could be higher on Group 2 (riskier digital assets). Entities already have a 100% credit risk capital charge to ensure capital adequacy and regulatory comfort.</p>	<p>The Central Bank notes your comments and amendments were made to this paragraph.</p>



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Paragraph 37	DLT (from a pure technology perspective) not inherently riskier than payment and banking systems currently in use. Case by case Pillar 2 decision by regulator with ICAAP assessment and incorporation for entities probably more digestible.	<p>In Basel's second consultation the add-on for infrastructure risk was proposed as a fixed add-on to risk weighted assets ("RWA") set at 2.5% of the exposure value for all Group 1 cryptoassets.</p> <p>The Committee agreed to replace this with a more flexible approach that allows authorities to initiate and increase an add-on based on any observed weaknesses in the infrastructure that underlies specific cryptoassets. Such an approach should incentivise banks to actively address infrastructure risks to avoid the imposition of an add-on at a future point. The infrastructure risk add-on has been set to zero and the paragraph has been amended to align with Basel's final framework.</p>
Paragraph 21	Expectations comparable to prudential risks and requirements for custody/investment management service providers. What happens when digital assets vested in a trust?	The Central Bank notes your comment.
Paragraph 2	<p><i>"SFIs are also expected to conduct their affairs in conformity with all other Bahamian legal requirements."</i></p> <p>We recommend cross-consultation between the CBoB and the SCB on how these Guidelines match against the new version of DARE so as to ensure consistency for dually registered SFIs.</p>	Your comments are duly noted.
Paragraph 7	<p>Custody of digital assets definition implies that SFIs act as wallets technology providers, or that customers store their access keys, i.e. their Ledger (or private keys written on a piece of paper) in a safe deposit box.</p> <p>We believe the definition misses the base case custody scenario for SFIs, which is for SFIs to create their own wallets onto which clients transfer their Digital Assets. There are two possible, non-mutually exclusive, set-ups: 1) an omnibus wallet that comingles DA from different customers, 2) for the SFI to create segregate wallets for each customer. In both cases, the SFI creates and owns the wallet keys, i.e. the SFI controls the DA which are held on</p>	The Central Bank notes your comment.





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	<p>clients' behalf. Despite the fact that the SFI controls the keys, the assets are held on trust on behalf of the clients, off balance sheet, and do not form part of the SFI estate.</p> <ul style="list-style-type: none"> <li>i. We understand this to primarily cover the Trading of travel DA, or the receiving/sending of DA (fiat on ramp and off ramp)</li> <li>ii. Which services is this intended to cover? Primarily the investment management of DA within a discretionary mandate? Does this also cover rights over DA collateral in the context of a loan agreement, or other situations, such as staking DA on client's behalf (the concept of DA staking is not covered in the Guidelines and we advise should be).</li> </ul> <p>Is it intentional to omit the Custody of Digital Assets from the definition, or should it be added as a) iii</p>	
Paragraph 7	Definition for non-fungible is not accurate since most of today's popular NFTs can be sold in a secondary market (e.g. BAYC, Cryptopunks).	Your comments are duly noted. The Central Bank has amended the definition.
Paragraph 7	Operators - Redeeming (exchanging a DA for cash or another asset), withdrawing from circulation (keeping a treasury stock of DA) and burning (reducing the DA supply) are three different concepts. We would suggest to list all three.	Thank you for your comments. The Guidelines have been amended accordingly.
Paragraph 7	<p>"digital asset businesses" is not a defined term. Is this meant to cover a broader set of businesses than Digital Asset Service Providers? See also clause 18. We note there is no reference to dealing with "VASPs" in the Guidelines, which is now a common industry term (as defined in FATF recommendations).</p> <p>We suggest to capitalize the term "Digital Asset Service Provider". As per our note in section 7, we believe that Custody of DA should be included in the definition.</p>	Thank you for your comments. The Guidelines have been amended accordingly.



## Feedback from the Industry Consultation: Digital Assets Guidelines, 2023

Section	Questions/Comments Received	Central Bank's Response
Paragraph 16	<p>Where ITOs have the potential to create an ownership interest within the SFI, the SFIs must first apply to the Central Bank for approval before issuance. Where three percent or more of the issued share capital of a publicly traded SFI is held or acquired through tokens, SFIs shall, within 28 days of the acquisition, notify the Central Bank.</p> <p>Does the Central Bank need to approve the underlying investors to the ITOs as well, to the extent any individual investor would own more than X% of the SFI? What is the threshold for privately held SFI?</p>	Yes, the Central Bank must be notified and approve where 5% or more of the share capital is owned or held.
Paragraph 19	<p>Doing Business with Digital Assets Service Providers - We suggest clarifying the wording “doing business” and “onboarding relationships” and consider replacing it with “Outsourcing Business to Digital Assets Service Provider”. We understand CB notification would be required prior to a SFI outsourcing any activity to a DAP. However we believe CB notification should not be required prior to 1) onboarding DAP as clients (eg open a bank account for DAP), 2) contracting services from DAP that do not qualify as outsourcing (eg brokerage agreement, cooperation agreement, purchase of products/services), 3) providing services to a DAP.</p>	The Central Bank notes your comment and has amended the paragraph.
Paragraph 20	<p>The term “exchange” is unclear, i.e. whether it relates to receiving/sending DA (fiat on ramp and off ramp) or a trading/brokerage concept. Please refer to our comments on the “Custody of Digital Assets” definition. We are of the view that SFIs should not accept private keys from clients (any shared private key is considered compromised). In a typical DA custody situation SFI should hold client digital assets in wallets created and owned by the SFI. The SFI should carefully manage the keys of these wallets (eg through doing a proper Key Ceremony and using adequate technology).</p>	<p>The term “exchange” includes the activities where clients can receive, send and trade. Exchange in digital assets work is similar to the brokerage concept.</p> <p>The Central Bank notes your comment and has amended the paragraph.</p>



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Paragraph 23	<p>There are several concepts addressed in the same clause, which we suggest be expanded in several clauses: a) receiving and sending DA, b) BO identification, c) client due diligence.</p> <p>Receiving/sending DA: when clients transfer digital assets in or out of their account with a SFI, blockchain analytics tool should be used to ensure that the originating/destination wallets are not tainted. There are two scenarios: DA transferred from a self-hosted wallet or DA transferred from a VASP (exchange). In this context, we note that the Guidelines do not address anywhere the important AML concept of "Travel Rule".</p> <p>BO identification: we are of the view that clients should never be asked to share their private keys. They should provide their wallet address and the SFI should follow any accepted Proof of Control Procedure to identify the BO (such as a satoshi test or a challenge response).</p> <p>Client due diligence: when existing clients start trading Digital Assets, the source of funds are the assets already deposited with the SFI, so no EDD should be required. When DA are transferred into the SFI from an external wallet, blockchain analytics should be performed. If the originating wallet is high risk, EDD on the client/wallet should be performed.</p>	<p>Your comments are duly noted. The Central Bank has made the necessary amendments.</p> <p>In the case of on boarding new clients for digital asset custodial services should undergo EDD. Does not speak to existing clients.</p>
Paragraph 25	<p>If SFI issue electronic money that is fiat backed, we believe that the issued tokens would have to show as deposit liabilities on the balance sheet. Is the intended wording rather not "against digital assets collateral" (what clients purchase with the proceeds of the loan is not relevant to the SFI).</p> <p>Are there any assets that SFIs are not permitted to hold on their balance sheet? We understand that all assets can be held, but the prudential treatment and effect on eligible collateral will differ based on the asset (as per clauses 28-34 below).</p>	<p>The Central Bank notes your comments and advises that this paragraph does not apply to electronic money backed by fiat currency.</p>



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Footnote 7	An exemption from what? Getting each individual investor approved?	An exemption from applying to the Central Bank for approval in the case of publicly traded SFIs, where the issued share capital of a publicly traded SFI is to be acquired by a single person or a group of persons acting together, and the aggregate holdings of such person or persons does not exceed five per cent of the issued share capital of the publicly traded SFI.
Paragraph 27	<p>We suggest adding an introductory clause clarifying in which instances these prudential conditions apply to a SFI (clauses 32-34). Do they apply to each or any of the following capacity:</p> <ol style="list-style-type: none"> <li>1) Holding DA as balance sheet assets</li> <li>2) Custody of DA on behalf of customers</li> <li>3) Issuance of DA</li> </ol> <p>Please refer to our comments in the respective clauses. We would also recommend to better clarify which categories of digital assets SFIs are allowed to issue, and under what conditions.</p>	Your comments are duly noted.
Paragraph 31	<p>We understand this requirement to only be relevant when SFIs act as DA issuer, and possibly when investing DA on balance sheet.</p> <p>We believe SFIs should not be responsible to have a monitor framework in place when holding stablecoins in custody on behalf of clients, or when holding reserves of a third party stablecoin issuer.</p>	The Central Bank notes your comments and will maintain the position that SFIs must have a monitoring framework in place which is aligned with Basel's framework.
Paragraph 32	Same as previous comment.	See previous response.



## Feedback from the Industry Consultation: Digital Assets Guidelines, 2023

Section	Questions/Comments Received	Central Bank's Response
Paragraph 33	As per above, based on what capacity in relation to a digital asset is a SFI expected to have such due diligence responsibilities.	The Central Bank notes your comment and has made amendments to the paragraph to provide further clarity.
Paragraph 35	<p>We do not understand how the calculation in relation to the 2.5 per cent would work. A footnote would be desirable. Also and as per above, does this only apply to instances where SFIs hold Group 1 DA on balance sheet?</p> <p>We also query what rule/percentage applies to Group 2 digital assets.</p>	<p>The Basel Committee in their final framework agreed to replace the infrastructure add-on to RWA of 2.5% with a more flexible approach that allows authorities to initiate and increase an add-on based on any observed weaknesses in the infrastructure that underlies specific cryptoassets. Such an approach should incentivise banks to actively address infrastructure risks to avoid the imposition of an add-on at a future point.</p> <p>The Central Bank has amended this paragraph. The infrastructure risk add-on is set to zero based on any observed weakness.</p>
Paragraph 37	Is it for the SFI to decide in which instance there is a direct deduction vs. a risk weight of 100%?	Yes, SFIs must take the more conservative approach.
Paragraph 39	Is it for the SFI to decide in which instance there is a direct deduction vs. a risk weight of 100%?	Yes, SFIs must take the more conservative approach.



## Feedback from the Industry Consultation: Digital Assets Guidelines, 2023

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Paragraph 46	We do not understand what scenario is described by this wording, notably what being involved in "the digital asset network" means, and how a SFI would be deemed or not to be a member of such network.	<p>Network refers to the network on which the digital asset operates, including the distributed ledger or similar technology on which it is based, designed, and operated to sufficiently mitigate and manage any material risks.</p> <p>All key elements of the network must be well-defined such that all transactions and participants are traceable. Key elements include: (i) the operational structure (i.e. whether there is one or multiple entities that perform core function(s) of the network); (ii) degree of access (i.e. whether the network is restricted or un-restricted); (iii) technical roles of the nodes (including whether there is a differential role and responsibility among nodes); and (iv) the validation and consensus mechanism of the network (i.e. whether validation of a transaction is conducted with single or multiple entities).</p> <p>Group 1b digital assets may be structured such that only a subset of holders, referred to as "<b>members</b>" are allowed to transact directly with the redeemer to redeem the digital asset. Holders that cannot transact directly with the redeemer ("non-member holders") are therefore reliant on the members for the digital assets to maintain their value relative to the reference asset. (See Basel 60.36 and 60.37)</p>
Paragraph 47	Will there be a specific CB issued report for SFIs to complete?	The Central Bank will be updating the Financial Return Template for SFIs to report their exposures to digital assets.



## Feedback from the Industry Consultation: Digital Assets Guidelines, 2023

Section	Questions/Comments Received	Central Bank's Response
Paragraph 7	We recommend that the Central Bank considers defining the term “traditional assets” or indicate reference source to avoid possible misinterpretation.	Traditional assets are those assets (e.g. money market instruments, stocks, and bonds) that are not classified as digital assets and can be converted into cash quickly.
Paragraph 5	We note the statement that “these Guidelines do not apply to central bank digital currencies (CBDC); however the referenced explanatory footnote only speaks to local CBDCs (via Bahamian Dollar Currency Regulations, 2021). We seek clarity as to whether foreign CBDCs are also exempted from these guidelines (or only Bahamian CBDCs issued by Central Bank of The Bahamas).	Please note that central bank digital currencies (CBDCs) are not cryptocurrency. The prudential treatment of CBDCs is not described within the Basel framework and further consideration would be given as they surface. Therefore, foreign CBDCs are also exempted from the Guidelines.
Paragraph 8	We note the governance and risk management guidelines outlined in this paragraph. We suggest that Central Bank considers expanding regulatory expectations on the overall governance and internal control of digital asset activities to address concerns such as: <ul style="list-style-type: none"> <li>• Digital assets and distributed ledger technology experience and expertise requirements of the Board and Senior Management; and</li> </ul> Recordkeeping and information management systems related to the digital asset storage and transfers.	The Central Bank notes your comment and made amendments.
Paragraph 18	We note that “SFIs are expected to perform a risk assessment in addition to notifying the Central Bank, before establishing such operations.” We seek clarity on the following: <ul style="list-style-type: none"> <li>• The length of time Central Bank would consider as appropriate prior notice; and</li> <li>• Whether the performed risk assessment is required to be submitted to Central Bank.</li> </ul> Additionally, we suggest that the Central Bank considers independent third-party audits on the operational and security risk frameworks (similar to those required by wallet providers <sup>2</sup> ) of SFIs doing business as a Digital Assets Service Provider to provide assurance on the effectiveness of their digital asset risk management frameworks.	(i) SFIs must notify the Central Bank at least 10 days prior to establishing such operations.  (ii) Yes, the risk assessment should be submitted to the Central Bank.  (iii) SFIs must refer to the <a href="#">Guidelines on Minimum Standards for the Outsourcing of Material Functions</a> when seeking to outsource business functions.



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Section	Questions/Comments Received	Central Bank's Response
Paragraph 19	<p>Doing Business with Digital Assets Service Providers - There is no specified notification period established or expectations regarding specific details expected to be reported.</p> <p>We recommend that the Central Bank considers defining a notification period and the relationship details required to be reported when onboarding relationships with Digital Assets Service Providers. For regulatory consistency purposes, the Central Bank may consider that the same notification period and reporting mechanism outlined in the Minimum Standards for Outsourcing Guidelines.</p>	See comment above.
Paragraph 20	<p>We note this paragraph and believe that additional details be provided on regulatory expectations.</p> <p>We suggest that the Central Bank considers expanding regulatory expectations surrounding the segregation and control of client digital assets to address matters such as:</p> <ul style="list-style-type: none"> <li>• Segregation of client assets from their own assets;</li> <li>• Pledging and re-hypothecating digital assets held in custody for the client; and</li> <li>• Storage and transfer records being documented and validated.</li> </ul>	Your comments are duly noted.
Paragraph 25	<p>It is noted that "SFIs must not accept virtual currency tokens or other digital assets as deposit liabilities on their balance sheets." We seek clarity as to whether this statement:</p> <ul style="list-style-type: none"> <li>• prescribes accounting treatment for digital asset custody arrangements as off-balance sheet obligations; and/or</li> <li>• prohibits SFIs from tokenizing traditional customer deposit liabilities.</li> </ul>	Correct, it should be treated as an off-balance sheet item. Digital assets are considered intangible assets under the IFRS 9 Standards and do not appear on the balance sheet.
Paragraph 25	<p>The Central Bank's comments regarding extending credit to clients for the purchase of digital assets are noted. We seek clarity on the following:</p> <ul style="list-style-type: none"> <li>• whether loan collateral may only be backed by traditional assets for the purpose of hypothecation;</li> <li>• whether any limitations on the level or type of digital asset that a SFI is permitted to hold for the purpose of loan collateral; and</li> <li>• forms of assets or securities that may not be considered acceptable to be directly held on a SFI's balance sheet.</li> </ul>	Only tokenized traditional assets (Group 1a) are recognised as collateral. Before such assets are recognised as collateral for the purposes of credit risk mitigation, SFIs must separately assess whether they comply with the relevant eligibility requirements for collateral recognition, such as whether the collateral can be liquidated promptly and legal certainty requirements. In addition to assessing whether tokenised assets held as collateral are eligible to be recognised as credit risk mitigation, SFIs must analyse the period of time over which they can be liquidated and the depth of market liquidity during a period of downturn.





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Section	Questions/Comments Received	Central Bank's Response
Paragraph 32	<p>It is noted that SFIs may elect to use the assessments of independent third parties to verify ownership rights of digital assets.</p> <p>We seek additional clarity surrounding the standards and expectations pertaining to:</p> <ul style="list-style-type: none"> <li>• independence determination; and</li> <li>• reliability verification.</li> </ul>	<p>This is an internal decision to be taken by the Board. The Central Bank will not prescribe how SFIs should determine the independence of the third party.</p>
Paragraph 47 and 48	<p>We note the reporting requirements outlined in paragraphs 47 and 48. We are seeking clarity regarding:</p> <ul style="list-style-type: none"> <li>• the form and frequency the quantitative and qualitative information outlined; and</li> <li>• the expectation for this information to be reflected in the audited financial statements</li> </ul>	<p>Thank you for your comments. The Guidelines have been amended accordingly.</p>
Paragraph 50	<p>Central Bank's statement that "SFIs must include exposures to Group 1 digital assets in the relevant existing ERS forms" is noted. We are seeking clarity on Central Bank's expectation for the reporting of digital assets using the current version of the existing ERS forms.</p> <p>Specifically, we are seeking clarity regarding:</p> <ul style="list-style-type: none"> <li>• how digital asset reserves are expected to be reported;</li> <li>• whether digital assets held by SFIs under custody arrangements are expected to be reported on Quarterly Statement of Fiduciary Assets; and</li> <li>• Central Bank's intent to issue an updated ERS reporting template to reflect digital asset exposures, liabilities, and custody arrangements in the future.</li> </ul>	<p>The Central Bank will make amendments to the ERS Forms for SFIs to report their digital assets activities. It is also the Bank's intention to continue to monitor developments in the digital assets space.</p>
Paragraph 19	<p>SFIs are also required to notify the Central Bank Prior to onboarding relationships with Digital Assets Service Providers. CBOB should provide clarity on how this is envisioned to function, giving the dynamic pace of onboarding, e.g., who to contact, what documents are required, what is the time line for a response etc.</p>	<p>Please see previous response.</p>
Paragraph 21	<p>Does this mean that any Bahamian resident/company/FI can apply for approval from exchange control to transact and custody crypto on behalf of local companies, funds and FIs?</p>	<p>These Guidelines refer to SFIs under Central Bank's regulatory ambit.</p>



## Feedback from the Industry Consultation: Digital Assets Guidelines, 2023

Section	Questions/Comments Received	Central Bank's Response
Paragraphs 28	We note that the classification conditions for prudential treatment does not take into consideration tokenized assets classes beyond fiat and gold such as real estate, funds, carbon credits, and NFTs.	Please see Paragraph 7 which provides a definition for digital tokens.
Paragraph 32	CBOB should provide detailed standards and specifications that these independent audits must cover to be considered honest and reliable.	The Central Bank issued on the 6 December, 2022 <a href="#">Guidelines for Internal Auditors and Audit Committees</a> .
Paragraph 39	Requiring SFIs to hold 12.5x the amount of capital to basically back for all trade positions outside of stablecoins seem excessive.	Group 2 digital assets are considered highly volatile, thus exposing investors and digital trading platforms to material market risk. The application of the 1,250% risk weight set out in the Guidelines will ensure that SFIs are required to hold minimum risk-based capital at least equal in value to their Group 2 digital asset exposures (Basel 60.86).
Paragraph 47	Will guidelines be published providing clarity on how reporting will happen, i.e., Format, systems, frequency.	Yes, the Central Bank will update the ERS Forms and provide the necessary guidance for reporting.