



QUARTERLY LETTER ON REGULATORY AND SUPERVISORY DEVELOPMENTS

BANK SUPERVISION DEPARTMENT
2 July, 2024



QUARTERLY LETTER

Introduction

We extend warm greetings to all of our industry stakeholders on the occasion of the Golden Anniversary of The Central Bank of The Bahamas ('the Central Bank'). We also take this opportunity to wish happy independence to the Commonwealth of The Bahamas with the 51st anniversary of independence being just days away.

While this edition of the quarterly report features various supervisory topics and updates, we wish to place particular emphasis on hurricane preparedness, as The Bahamas braces for a very active storm season. SFIs are encouraged to ensure the readiness of their Business Continuity and Disaster Recovery Plans.

Recovery Plans for SFIs

In keeping with the theme of resilience, the Central Bank has completed a review of the recovery plans submitted by SFIs over the period 2023-2024. Recovery plans serve as living documents to address an events that might have a material impact on the financial, operational, and reputational soundness of an institution.

The Central Bank reviewed and provided feedback for 23 of the recovery plans submitted by SFIs (9 of the domestic banks and 14 of the international banks and trust companies). Our general impressions were that most plans observed the main requirements outlined within the Recovery Planning Guidelines, although there were some submissions that had notable areas for improvement.

A summary of some of our more material observations included:

- Some plans incorporated the types of scenarios required by the Guidelines, but the scenarios were not thoroughly explained, nor were applicable assumptions included.
- Recovery options did not always correlate with the scenarios presented and in some cases did not fully explore feasibility, timing, impact and objectives of the options as per the Guidelines;
- Indicator frameworks (triggers, restoration points, and early warning indicators) were not always adequate. To add depth, some plans could be improved with quantifiable data or indicators correlated to the scenarios to add depth to the plans.
- Some plans could benefit from a robust definition of the governance framework, outlining the role of Senior Management and the Chief Risk Officer in the planning process; more clarity on the board's role in the final approval and sign-off on the plan; and clarity on the owner of the plan (and their corresponding responsibilities and accountability).

As a general note, SFIs are reminded that the recovery plan should be actionable. All information should be presented in a format that enables the board and senior management to navigate a crisis event and

make informed decisions to restore the SFI to financial soundness. To ensure clarity within recovery plans, SFIs should consider conforming the plans around the scenarios: presenting recovery options, structuring the indicators, communications and stress testing framework stress testing within the context of the scenarios presented.

Sanctions Thematic Review Update

Following our March quarterly newsletter and subsequent Notice to applicable SFIs of 29 May 2024, the Central Bank has initiated the sanctions thematic review as part of our ongoing efforts to enhance the effectiveness of sanctions screening systems used by SFIs.

The purpose of the review is to:

1. Analyse the adequacy of SFIs' automated screening sanctions screening solutions; and
2. Provide the basis against which SFIs may be required to improve the effectiveness of their respective sanctions screening mechanisms.

The Central Bank has engaged AML Analytics Limited ("AML Analytics") to conduct the review using independent testing technology. In this regard, the Central Bank hosted two remote workshops for SFIs on 17 and 18 June 2024 to explain the review process.

The timeline and milestones governing the thematic review process are as follows:

- The Central Bank provided an outline of the sanctions thematic review process: 29 May 2024
- SFIs submitted Project Leader and Team Information: 29 May - 10 June 2024
- A virtual workshop convened for all applicable SFIs: 17 – 18 June 2024
- On-boarding of SFIs on AML Analytics online portal and Format Verification Testing: 24 June - 12 July 2024
- AML Analytics uploading of Sanctions Screening Test Files: 16 July 2024
- Live Sanctions Screening Test: 16 - 18 July 2024
- Oral Feedback Sessions with SFIs (tentative): 19 - 30 August 2024
- Written Feedback to SFIs: 15 September - 15 October 2024

Changes to Processing of Applications

To improve the regulatory applications process, the Central Bank will begin to impose a submission date on any additional or amended documents, requested in support of an application. Should the SFI miss the follow-up deadline for submission, the application will be held in abeyance, and lose its place in the processing queue. This could result in a delay in the Central Bank providing a final decision. Therefore, SFIs are encouraged to submit completed applications and respond to follow-up requests relating to applications promptly. The documents required for each application type can be found in the BSD SFI Applications Guide: <https://www.centralbankbahamas.com/viewPDF/documents/2020-08-12-22-34-45-BSD-SFI-Applications-Guide.pdf>.

Data Update Form

For more streamline tracking of indicators on SFI operations, the Bank Supervision Department has deployed the data update form referred to in the Quarter 1 2024 Quarterly Letter. SFIs are encouraged to complete the appropriate fields as indicated within the form and file the submissions to BSD@centralbankbahamas.com within the prescribed period. Following the update to the form, in

regards to the number of branches and agents for the relevant SFIs, SFIs will no longer be required to submit quarterly listings of branch locations. Instead, this will be an annual submission, through the ORIMs portal. However, notifications of new or closed branches are required to be made to the Central Bank as they occur.

Confidential Statement

In light of the recent updates to the Confidential Statement and the queries that have been received, we wish to clarify that the declaration page on the Confidential Statement should be included in the number of pages. In addition, a response to question 36 is required from both prospective directors in support of an application and existing directors upon renewal.

Policy Updates

During the industry briefing held in February 2024, the Central Bank advised of its intent to establish a Regulatory Sandbox Framework in the near-term. In the coming weeks the Central Bank will issue a consultation paper outlining a proposed framework, with various considerations for its eventual adoption. SFIs are encouraged to provide feedback on the proposals.

We are now at the halfway point in 2024, with several notable advancements to this year's strategic objectives. We look forward to our continued engagement with SFIs during the second half of the year.

Karen Rolle

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Inspector of Banks & Trust Companies

Any questions regarding this letter should be directed to:

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