



THE CENTRAL BANK OF THE BAHAMAS

QUARTERLY LETTER ON REGULATORY AND SUPERVISORY DEVELOPMENTS

BANK SUPERVISION DEPARTMENT
November 25, 2016



QUARTERLY LETTER

Dear Senior Official,

Business Continuity Plans

In the aftermath of Hurricane Matthew, we are pleased to note that many of you sustained minimal damages and in most cases, were able to restore normal operations within a week or less. Notwithstanding the successful execution of licensees' **Business Continuity Plans ("BCPs")** and the return of banking operations to normalcy, the rehabilitation was not without its challenges. Disruption in lives of licensee staff and their families, the damage to their homes and personal effects, loss of power and communications, flooding, the unanticipated need for day-care due to school closures and above all, the financial stress of repairs have been very significant.

Undoubtedly, the hurricane provided an opportunity, albeit unwelcome, to test the robustness of the BCPs of licensees, identify "lessons learnt" and determine aspects of the BCP that need enhancement. The Central Bank is keenly interested in the lessons learnt by licensees and to this end, has reached out to many of you over the past weeks to gather your experiences. We greatly appreciate your co-operation and sharing of information with us in this regard. Your lessons learnt will go a long way in helping all to be better prepared for any future natural disaster. Once collated, we would share the summary results with the industry.

Basel II & III: International Regulatory Framework for Banks

You may recall that on 19th October 2016, we posted on our website a detailed summary of the [QIS 2](#) findings in reference to the post-implementation impact of our **Basel II & III framework**. Going forward, we will be posting very shortly, the updated versions of the guidelines on Capital Adequacy; Minimum Disclosure Requirements and the revised Interest Rate Risk in the Banking Book.

Correspondent Banking Survey

On the subject of **Correspondent Banking**, you will find on our website the summary results of the second Correspondent Banking Survey that was conducted in August 2016. Also, in this regard, we have posted several documents: a [Press Release](#), a [Frequently Asked Questions on De-Risking](#) and a [Statement on the Threat of De-Risking in The Bahamas](#) recommending a range of measures that licensees can take to manage and mitigate the risk of de-risking. You will

note that the Statement adopts the guidance provided by the Financial Action Task Force (FATF) and the Financial Stability Board (FSB) in the report entitled *FATF Guidance: Correspondent Banking Services (October 2016)*. The aforementioned guidance have also been endorsed by the Caribbean Development Bank at the conclusion of the **Global Conference on Correspondent Banking, de-risking and the labeling of the Caribbean as a tax haven** held in Antigua and Barbuda on 27-28 October, 2016. On our part, the Central Bank remains vigilant in its surveillance of any emerging risk affecting correspondent banking relationships in the jurisdiction and to better assist us going forward, all licensees are expected to co-operate fully by responding to information requests including future surveys, as issued by the Central Bank. We request your assistance in timely assessment of the impact of de-risking and threats, if any, to the correspondent banking services to our jurisdiction.

Schedule to the Banks and Trust Companies (Licence Application) Regulations (S.I No. 37 of 2002)

Turning to regulatory matters, as licensees would be aware, the **Schedule to the Banks and Trust Companies (Licence Application) Regulations (S.I No. 37 of 2002)** set out the information and documents, which the applicants for a bank or trust company licence must provide to the Central Bank in support of their applications. The Central Bank proposes to amend the Regulations to include a new regulation 3A to allow the Bank to request of applicants, information and documents which may not be specifically mentioned in the Schedule to the principal Regulations, but which may, nonetheless, be relevant to the Bank's determination of an application. The text of the proposed new regulation 3A is set out below:

“3A Applicants to provide additional information

Notwithstanding the provisions of regulation 3, the Central Bank may, for the purpose of determining an application to carry on banking business or trust business, require an applicant to provide, in addition to the information and documents set out in the Schedule, such other information or documents as it thinks fit.”

The Bank is seeking to have the amendment brought into effect in January 2017.

On-site Examinations

We take this opportunity to also share with you some observations from the **on-site examinations** conducted during the year and to provide some insight into the work planned for 2017. A significant amount of our on-site examinations were to validate the effectiveness of licensees' remediation of issues around AML/CFT and focused, modular examinations of AML/CFT and outsourcing arrangements. While some licensees had successfully remediated all deficiencies, others needed further enhancements to fully address the gaps previously identified. We note below several recurring AML/CFT themes, some of which were cited in previous quarterly letters:-

- Failure to adequately confirm source of wealth for high risk clients;

- Absence of annual reviews for high risk accounts;
- Lack of independence in the Compliance function reporting lines and appraisal process;
- Client risk rating methodologies that fail to ensure that risk ratings are replicable; and
- Inadequate management information to assess the nature and level of AML deficiencies as a basis to ensuring that all accounts are compliant with the legislative requirements.

The thematic findings arising from our reviews of licensees' outsourced arrangements were:-

- Material outsourced functions had not been formally approved by the Central Bank; and
- Lack of a framework in place to demonstrate adequate management oversight of the material outsourced functions.

Licensees are reminded that Section IV of the [Guidelines on Minimum Standards for the Outsourcing of Material Functions](#) requires a licensee to seek the approval of the Central Bank before entering into such arrangements. Additionally, under Section VII, it is expected that licensees would implement an effective risk management program with regular reporting to the Board of Directors on such arrangements.

Given the global mandate for tax transparency, as part of our ongoing examinations for 2017, we will review licensees' preparedness for the information gathering that may be required for automatic exchange of information.

ORIMS Financial Return Form 7R

Lastly, on administrative matters, international banks are reminded that when completing the **ORIMS Financial Return Form 7R**, all entities with B\$ Operating Accounts (used to cover local expenses) must ensure that the applicable expenses are reported as B\$. The licensees must also complete **Section V: Memorandum Items 1 and 2** on the referenced form.

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Any questions regarding this letter should be directed to:

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