



# **INDUSTRY MEETING 2017**

## **Supervisory Enhancements – A Renewed Focus**

The Central Bank of The Bahamas  
Thursday, 30<sup>th</sup> November, 2017



# Meeting Agenda

|            |            |                                                  |                                                 |
|------------|------------|--------------------------------------------------|-------------------------------------------------|
| 9:00 a.m.  | 9:10 a.m.  | Welcome & Opening Remarks                        | Charles W. Littrell,<br>Inspector               |
| 9:10 a.m.  | 9:30 a.m.  | Re-engineering of the Onsite Examination Process | Anita Bain,<br>Chief Examiner                   |
| 9:30 a.m.  | 9:50 a.m.  | New Supervisory Language                         | Ruth Johnson,<br>Examiner V, IFU                |
| 9:50 a.m.  | 10:30 a.m. | Enhancements to AML Supervision & Data Analytics | Sherrece Saunders<br>Examiner V, Analytics Unit |
| 10:30 a.m. | 11:00 a.m. | Coffee Break                                     |                                                 |
| 11:00 a.m. | 11:45 a.m. | Q & A                                            |                                                 |
| 11:45 a.m. |            | Closing Remarks                                  | Karen V. Rolle,<br>Manager                      |



# ON-SITE EXAMINATIONS



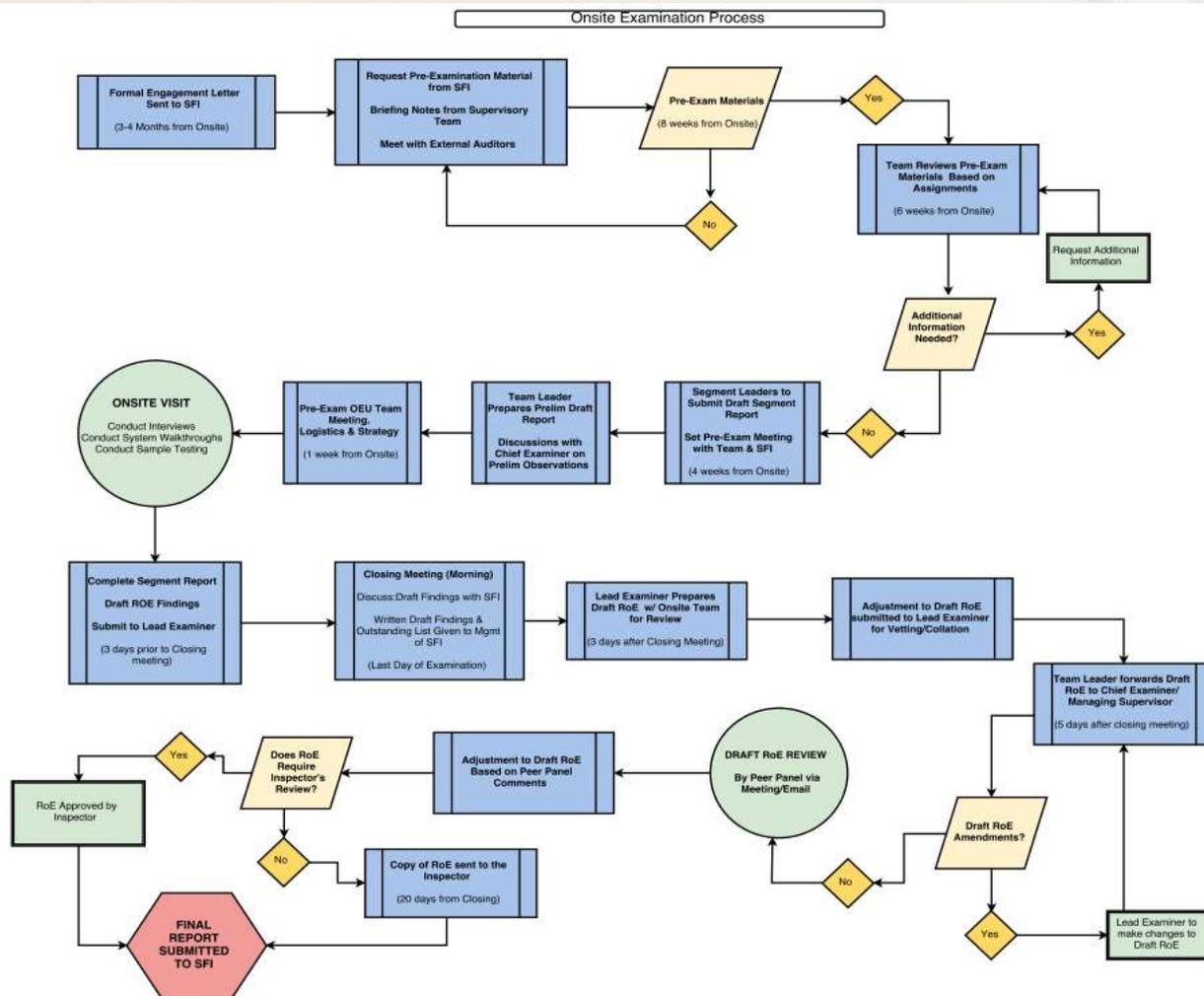
# ON-SITE EXAMINATION

## CONTENT

- **Re-engineered Onsite Examination Process**



# Examination Flowchart





## Re-engineered Examination Process

- **Examination notification letter issued 3-4 months prior to onsite visit**
- **An expansion of data requested from SFIs prior to onsite visit**
- **Examiners to meet with External Auditors**



## Re-engineered Examination Process

- **Increased levels of engagement of OEU with SFIs prior to visit**
- **Written report of observations provided to SFIs on last day of onsite visit**
- **No draft Report of Examination to be issued**



## Re-engineered Examination Process

- **Final report to be issued by the 20<sup>th</sup> working day after Closing Meeting with SFIs**
- **Recommendations → Directive, Requirements and Expectations**



# **NEW SUPERVISORY LANGUAGE**



The General Glossary of Terms includes words such as:

- Directive (Directed, Direct or Directs),
- Require (Requirement),
- Expect (Expectation),
- Request, and lastly
- Must, Should, etc.



## DIRECTIVES

It is important to note that Directives will usually be issued under one or more of the following circumstances:

- Severe regulatory breaches have been committed;
- SFIs have failed to adequately respond to earlier supervisory and/or regulatory corrective actions; or
- A potentially material threat arises that could possibly impact the viability/stability of a SFI or, even more widely and seriously, the stability of the financial system.



# REQUIREMENTS

Requirements, as with Directives, also have statutorily backed instructions from the Central Bank and are issued when the Central Bank wants to:

- achieve compliance with laws, regulations, and statutorily binding guidelines;
- remedy material deficiencies in a SFI's business arrangements or operations; and
- when such matters are insufficiently urgent or serious to be issued as a Directive.



## EXPECT (EXPECTATIONS)

The word “Expect” conveys a preferred action and will be communicated to a SFI in such instances:

- When a SFI is not adhering to its expected operating standards of prudence in line with its size and complexity; or
- When the Central Bank wishes a SFI to align itself with good practice for a core risk area for the good of itself as well as the Bahamian jurisdiction; but
- Where the matter is insufficiently serious to require the use of the Central Bank’s statutory powers.



## EXPECT (EXPECTATIONS) continued

In such instances, there is no need for enforcement actions. However, SFIs could bring supervisory responses on themselves if the Central Bank considers that there is consistent failure to meet supervisory Expectations. Candidate responses include Pillar 2 capital adjustments, or the issuance of Directives or Requirements. As you will note, “Expectations” are issued, more frequently as a result of onsite examinations.



# REQUESTS

As a somewhat separate matter:

**“Request”** is used in terms of a request for documents and/or information, including face to face meetings, as it relates to the Central Bank’s continued monitoring and its oversight of its SFIs. I would like to bring to your attention that requests for documents and/or information are also backed by legislation and requires responses within a timeframe specified by the Central Bank.



## “MUST”, “SHOULD”, etc.

Please take note that the Central Bank will use imperative words such as “**must**” only in connection with Directives, Requirements and other statutorily backed interventions. The Central Bank will use “**should**” and similar terms in connection with the word “Expectations”.



# **ENHANCED AML/CFT SUPERVISION**



## ENHANCED AML/CFT SUPERVISION

The Bahamas recently received the results of its CFATF assessment, which rated the jurisdiction on eleven (11) effectiveness areas and forty (40) areas of technical competence, and indicated that there is much improvement needed in our AML/CFT space.



# ENHANCED AML/CFT SUPERVISION

## Overall comments indicated:

- The Bahamas was still completing its National Risk Assessment (NRA) at the time of the assessment;
- The Financial Intelligence Unit (FIU) is well-structured; however, no money laundering convictions have occurred for the last four years; only one case brought to the court as at December 2015;
- No Terrorist Financing investigations, prosecutions, confiscations or convictions have been made. Deficient legislation exist in relation to Targeted Financing Sanctions and Proliferation financing;



# ENHANCED AML/CFT SUPERVISION

## Overall comments indicated (continued):

- A large number of unverified facilities remain in the domestic sector;
- Not sufficient awareness is demonstrated by FIs that are not part of a large international group; no institutional ML/TF risk assessments are performed by this group of institutions;
- Limited number of STRs are filed;
- No sanctions are imposed on legal persons;
- Time to respond to International Cooperation requests can be improved



# ENHANCED AML/CFT SUPERVISION

**In response, the Central Bank's Overall Action Plan includes:**

- ❖ Updates/Amendments to appropriate legislation
- ❖ Consultation with Industry and Relevant Stakeholders
- ❖ Participation in the Bahamas' Action Task Force to ensure coordinated efforts
- ❖ Creation of a more coordinated monitoring and tracking of international requests for ML/TF issues
- ❖ Development of a Risk Based Supervisory Framework for Credit Unions
- ❖ Clarifying the Central Bank's language to be used in supervisory communications including ROEs, letters and guidelines (which we have just discussed)
- ❖ **Implementing a dedicated/enhanced monitoring regime for AML/CFT**



# ENHANCED AML/CFT SUPERVISION

**The Central Bank currently does not continuously supervise AML/CFT risks. However, effective January 2018, the Central Bank will augment its supervision for continuous and enhanced review of AML/CFT.**

## **Measures taken to date:**

- Introduction of an Analytic Unit, with focus on AML Risk Surveillance (responsible for the development of the new AML/CFT framework), as well as, Data Analytics
- Meetings with Industry Stakeholders

## **Immediately upcoming:**

- Industry wide AML Survey



# ENHANCED AML/CFT SUPERVISION

## **Additional Initiatives Expected Over the Upcoming Calendar Quarters:**

- Development of an AML Monetary Penalty Regime
- Updates/Amendments to the AML/CFT Guidelines
- Increased AML-focused On-Site Examinations
- Introduction of an AML/CFT hub on the Central Bank website for news, typologies, newly released guidance, etc.



# ENHANCED AML/CFT SUPERVISION

**Annual 3<sup>rd</sup> Quarter AML Qualitative and Quantitative Reporting to be Implemented, with consideration for:**

- Internal Audit Attestations
- Compliance Officer/MLRO Attestations
- Compliance Report Filings
- Reporting of Unverified Accounts (continued quarterly reporting by Commercial Banks)
- Quantitative Data on Accounts based upon Customer Jurisdiction/Risk Ratings



# ENHANCED AML/CFT SUPERVISION

## Further Considerations:

- Annual meetings with Compliance Officers/MLROs
- Commissioning of thematic AML industry reviews
- Issuance of annual reports to individual institutions detailing the Central Bank's view of the institution's AML/CFT position
- Publication of an annual "State of AML/CFT in The Bahamas"



# ENHANCED AML/CFT SUPERVISION

## **The Central Bank's Expectations:**

- Continued collaboration with Industry Stakeholders
- Stronger Compliance by SFIs
- Timely Remediation and Response
- Timely Reporting of Self-Identified Issues



# DATA ANALYTICS



## NEW DATA ANALYTICS UNIT

The objectives of the Data Analytics Unit is to aggregate and analyze data, while simultaneously simplifying and automating regulatory processes to manage costs and reduce the regulatory burden, for both regulated entities as well as the Central Bank (as Regulator).



## Expectations Over the Next Months:

- Requirement for Electronic Filing of all Bank Supervision Returns within ORIMS (in an effort to move to a paperless environment and provide automatic time stamp)
- Consolidation of Certain Returns/Forms
- Streamlining/Updating of Reporting Forms
- Update to the Risk Based Supervisory Framework to separate the net assessment of AML Risk and Net Fiduciary Risk
- Continued Consultation with Industry



# THANK YOU!



## ANY QUESTIONS?