



# **THE CENTRAL BANK OF THE BAHAMAS**

**QUARTERLY LETTER ON REGULATORY AND SUPERVISORY DEVELOPMENTS**

**BANK SUPERVISION DEPARTMENT**  
**April 21, 2017**



## QUARTERLY LETTER

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At the outset, we note that our interactions with the visiting executive teams from a wide range of domestic and international banks indicate a generally positive outlook on new banking opportunities, strategic operational initiatives and infrastructure investments. Externally generated challenges to the industry remain, one of the most prominent being, the uncertainty underlying the global rollout and impact of the Global Forum of the Organisation for Economic Co-operation and Development's (OECD's) Common Reporting Standards (CRS) on tax cooperation. From a financial performance perspective, banking assets continued to grow; whereas the revenue margins remain stressed due to competitive pressures, emergence of low-cost business models and market volatility. As a result, our licensees continue to seek operational efficiencies through cost reduction, outsourcing, standardization, shared services and value-added automation.

In the regulatory world, in addition to the conventional credit and operational risks including legal and regulatory risks, the cybersecurity risks appear to subsume a significant amount of risk oversight, mitigation and controls. Given the focus on increased digitization of operations; and management of client data, transaction monitoring, analytics and reporting requirements – the data integrity and prevention of internal and external cyberattacks are major imperatives going forward. Bank Supervision Department will continue to enhance its supervisory regime in this context.

Led by the Ministry of Finance and the Office of the Attorney General, the Central Bank and other domestic regulators, have been engaged during the last quarter in preparation for the upcoming **Global Forum Phase 3 Peer Review**. The review team is scheduled to be in The Bahamas in July.

In our continuing efforts to monitor and ensure the safety and soundness of our supervised financial institutions, the Central Bank intensified its efforts to refine its risk-based supervisory framework and as a result, rolled-out the Evergreening Framework. The Framework will refresh the point in time risk view of licensees and allow supervisory oversight to be tailored to the magnitude and direction of risks.

### **Anti-Money Laundering Examination Seminar**

On AML/CFT developments, the Central Bank was pleased to collaborate with the Association of Supervisors of Banks of the Americas ("ASBA") and the Federal Reserve, hosting a regional Anti-Money Laundering Examination Seminar during the week April 3-7, 2017, in Nassau. Attending the seminar were some 32 participants from 10 countries: Belize, Cayman Islands, Haiti, Honduras, Jamaica, Panama, Paraguay, Suriname, Trinidad and Tobago, Turks and Caicos, and St. Kitts and Nevis. Central Bank staff also participated in the Seminar. Topics covered included elements of a sound AML program, international private banking, high risk clients (including politically exposed persons), funds transfers, and emerging technologies. The seminar was well received and timely.

### **Basel II & III: International Regulatory Framework for Banks**

Turning now to our Basel framework, we wish to draw attention to our notice dated March 31, 2017, which advised that given the feedback recently received from licensees, the Central Bank has undertaken a comprehensive review of its **Guidelines on Minimum Disclosures**, released December 1, 2016. The review seeks to clarify our regulatory expectations around the applicability and frequency of disclosures, and to amend the appendices. The amended Guidelines will be reissued within the coming weeks.

We take this opportunity to remind licensees that **ICAAP** submissions to the Central Bank are due within 180 days of this calendar year. In this regard, we expect to receive the submissions by the **June 30, 2017** deadline.

### **On-site Examinations**

As you are aware, in the course of our onsite examinations, we assess the completeness and effectiveness of licensee's resolution measures in addressing our supervisory findings. In this context, we note a significant incidence of repeat findings on matters that have not been satisfactorily resolved, contrary to what was reported to the Central Bank in some responses to the Reports of Examination. Licensees must ensure accurate reporting of resolution measures pertinent to examination findings. In the event that our onsite examination identifies material repeat findings, the Central Bank may impose monetary penalties for the deficiencies.

### **Credit Unions**

During March, the Central Bank held prudential meetings with the management teams of the various credit unions. We also commenced our round of meetings with the Boards of Directors in the lead-up to a proposed industry session on good corporate governance and supervisory expectations. The Bank intends to have more frequent dialogues with the credit unions and has planned a number of initiatives including a dedicated bi-annual newsletter for credit unions. The first issue of the newsletter will be circulated within the coming weeks.

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