



THE CENTRAL BANK OF THE BAHAMAS

QUARTERLY LETTER ON REGULATORY AND SUPERVISORY DEVELOPMENTS

BANK SUPERVISION DEPARTMENT

May 2, 2018



QUARTERLY LETTER

The quarter to March 2018 has proven generally satisfactory. The Central Bank and industry have made good progress on AML/CFT risk management, and the banking and trust industries continue in good financial health.

Strengthening AML/CFT supervision

Much of our effort this quarter focused on strengthening AML/CFT supervision. From 1 January to 31 March, the Central Bank successfully transitioned from examination of AML/CFT risks, to continuous supervision of these risks.

Highlights of this effort included:

- Relevant SFIs provided a 100 per cent response rate on a comprehensive AML/CFT survey. This survey issued in December 2017 for delivery by late January 2018. The Central Bank has publicly released¹ the results from this survey. We extend our thanks to all SFIs that participated in the survey.
- During February and March, our supervisors formally risk-rated all 75 banks and trust companies that exhibit material AML/CFT risk. We have now commenced our annual cycle of information collection, analysis, and assessment.
- We are currently engaged in surveying and risk rating credit unions and money transmission businesses, and we intend to complete risk ratings for this group in the second quarter. At that point, all SFIs with AML/CFT risk will be subject to continuous supervision.
- In late 2017 the Central Bank re-mapped its supervisory interventions into the “Directive, Requirement, Expectation” framework that has been previously discussed with you. Collectively, the industry had about 100 Directives and Requirements relevant to

¹ [Summary Results from AML/CFT Survey of the Banking & Trust Sector](#)

AML/CFT outstanding at 31 December. Feedback from SFIs indicates that a substantial majority of these items will be resolved during 2018.

- In conjunction with three other regulatory agencies, the Central Bank released draft Guidance Notes on financial crime risk management, and on proliferation financing risks². We expect these Guidance Notes to formally issue in May.

Cash in the international banking and trust sectors

The AML/CFT survey results, combined with follow-ups to individual SFIs, indicate that no international SFIs are taking cash for deposits and investments in The Bahamas³. Please inform us immediately if this understanding is incorrect in your case. Our supervisory expectation is that international licensees will not accept cash deposits or investments. We intend to move to a formal rule on this matter over the next several months.

Coming soon: approved persons manual, board engagement practice

The Bank Supervision Department continues in its effort to streamline applications and approvals sought from the Central Bank. We will shortly release detailed guidance material to assist applications for approved person positions (including SO1, SO2, MLRO, directors). We are hopeful that this guidance will reduce the effort and time required to progress these applications.

In the near future, we also intend to issue a note outlining the Central Bank's approach to engaging with SFI boards of directors. Some of this material simply clarifies current practice, but we also intend to increase the routine flow of information from the Central Bank to boards.

Coming later: AML/CFT conference

We again draw your attention to the upcoming national AML/CFT conference scheduled for September 17 and 18, 2018. You can expect to receive information on registering for this conference in the next month.

² [Guidance Notes](#)

³ Some SFIs with retail banking operations in other countries take cash deposits in those countries, which is not problematic from our point of view.

Basel II & III Implementation

Our work in this area continues and we are preparing to commence consultation with industry on completing our Basel III transition.

Reducing Domestic Non-Performing Loans

Our last quarterly letter made note of the pleasing effort by domestic banks to reduce non-performing loans (NPLs) in our banking system. Recent half-yearly reviews of these banks indicate that these efforts are continuing. From late 2018, we are hopeful, as always subject to caveats on avoiding economic shocks, that aggregate NPLs will exhibit a material reduction.

MLRO and other exit interviews

As part of continuous AML/CFT supervision, the Bank Supervision Department will conduct annual discussions with MLROs, without other management being present. We also intend to routinely conduct exit interviews with MLROs who leave their position, including MLROs who are transferring to another position with the same employer.

We also intend to conduct exit interviews more frequently with other approved persons, where the circumstances of departure are other than routine.

Discontinuance of physical acknowledgement of mail

With effect from May 9, 2018 "instant proof of receipt" of hand-delivered documents will no longer be provided. While, traditionally, Bank Supervision Department offered the service of immediately stamping and handing back a copy of our SFI's original document, hand-delivered sealed documents must now be left at our reception desk. Receipt will be officially acknowledged upon review by an assigned officer.

Reporting of "Resident" Deposits

When reporting resident foreign currency deposits, SFIs are reminded to adhere to the definition of "residents" as provided within the Central Bank's Guidance Notes for the Completion of The Financial Returns. Specifically, "residents" for Exchange Control purposes include "Bahamian citizens residing in The Bahamas, Permanent Residents with no restriction on

employment and Naturalized Citizens". Thus, resident foreign currency deposits are not to be reported to the Central Bank based exclusively on domicile.

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Inspector of Banks & Trust Companies

Any questions regarding this letter should be directed to:

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