QUARTERLY LETTER ON REGULATORY AND SUPERVISORY DEVELOPMENTS

BANK SUPERVISION DEPARTMENT

October 5, 2020

QUARTERLY LETTER

We are now six months into the COVID-19 pandemic and the Central Bank is pleased to observe that our supervised financial institutions (SFIs) successfully addressed and continue to confront the operational challenges associated with the pandemic. Hopefully, you have also found the right balance with respect to remote working and home life.

Throughout this period, Central Bank continued to closely monitor the impact of the pandemic with a view to making any needed adjustment in the guidance provided in March by means of the Supervisory Response and Guidance for the Novel Corona Virus (COVID-19) and subsequent communication. To this end, please note the following:

Covid Loan Accounting and Provisioning

In a letter addressed to domestic systemically important banks, "DSIBs", on July 2, 2020, the Central Bank communicated its prudential accounting minimum standards with respect to COVID-19 affected NPLs, interest accrual and accounting for deferred loans on the balance sheet. We wish to reinforce this guidance, which implies among other things a minimum 10 per cent provision on the portfolio of unsecured deferred loans (net of security held) by 31 December. Feedback from the domestic banking sector is that as a group the banks can afford to provision more conservatively than this, and have started that process.

Loan Deferral Strategy

The domestic banks and credit unions have performed well in offering deferrals to adversely affected borrowers. As we now settle into a substantial but unknown period of economic disruption, it is important that domestic lenders:

a) Return borrowers who have the payment capacity to regular status;
b) Communicate with and understand borrowers who are currently unable to pay;
c) Continue deferrals for borrowers who display the likely ability and willingness to resume payments in 2021; and
d) Resolve, in a sensible and balanced fashion, nonperforming loans that will not be repaid in full.

Filing of Statutory and Other Returns

The Central Bank earlier communicated that forbearance would be exercised with respect to late filings on account of restriction of movements imposed by the Emergency Powers (COVID-19) Orders. Given the likely extended period of the pandemic's effect, and the fact that the industry has had six months to adjust to the new conditions, the Central Bank is now stepping back from this widespread forbearance. Commencing October 31, 2020, we will return to pre-COVID-19 filing deadlines with appropriate responses for non-compliance.

If your institution expects to have difficulties meeting the normal reporting deadlines, please communicate early with the Bank Supervision Department. In appropriate circumstances the Central Bank may grant entity-specific reporting deadline waivers.

Compliance Report Summary

The Central Bank reviewed the timeliness and compliance of reporting by SFIs for the period 1 July 2019 to 31 August 2020. The overall results showed that there is an average on-time reporting rate of seventy six percent (76%) for all documents that are to be submitted. The expectation of the Central Bank is that, absent a specific waiver, SFIs must submit all statutory or regulatory filings on time. Each institution should conduct an internal review to determine whether it has submitted all of its required documents, and immediately upload any discovered omissions through the ORIMS portal. Also, the review should take note of how timely the institution has been in its submission and it should inform a plan of corrective action if there is need for improvement.

Basel II & III Implementation

We are in the process of fine-tuning the draft capital regulations and guidelines and will release these shortly, for a ninety-day consultation period. Implementation timelines have been affected by the pandemic and we now expect the new capital regime to commence from 1 January 2022. You would be aware that as communicated in our Discussion Papers, there will be changes to the Financial Return Forms including the liquidity reporting forms.

New Legislation

We are pleased to advise of the enactment of the **Central Bank of The Bahamas Act, 2020,** the **Banks and Trust Companies Regulation Act, 2020** and the **Protection of Depositors' (Amendment) Act, 2020**, all of which came into force on September 1, 2020. You may recall the industry briefing held in October, 2019 during which we apprised SFIs of the impending reforms within the legislation which form part of the Resolution Framework.

In particular, the Central Bank of The Bahamas Act consolidates and modernizes the law governing the institution and provides for the continuance of the Bank, its functions, powers and duties. The existing provisions are strengthened and clarified relative to the objectives and functions of the Bank, and they provide greater operational flexibility to the Bank in conducting its investment activities.

The Banks and Trust Companies Regulation Act, 2020 consolidates and modernizes the law regulating these SFIs and provides for a special resolution framework for banks.

The Protection of Depositors Act, 2020 enhances the corporate governance framework of the Deposit Insurance Corporation and depositor protection. The legislation reduces the time within which the Corporation must make payouts to depositors following the failure of a member institution; and includes co-operative credit unions in the membership of the Deposit Insurance Fund.

Minimum Standard for the Outsourcing of Material Functions Guidelines

The revised guidelines will be released in the coming days.

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Any questions regarding this letter should be directed to:

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