



QUARTERLY LETTER TO ALL
SENIOR OFFICIALS

04/09

16th December 2009

Dear Senior Official,

We begin our final letter for 2009 with a note on the annual publication of financial statements. First, we wish to remind licensees that only firms that are branches of foreign banks and trust companies have been granted a general waiver from seeking our permission to publish abridged versions of their financial statements (please refer to our September 2009 Quarterly Letter). Second, where firms publish the abridged version of their audited financial statements, with our permission, the publication must include the Auditor's Report, consolidated balance sheet, profit and loss statement and a statement, to the effect, that interested parties may obtain a complete copy of the audited financial statements from the licensee. Where the Auditor's Report refers to a material matter, then the notes to the audited financial statements, which refer to the matter, should be published in full. The address from which a complete copy of the audited financial statements can be obtained must also be clearly indicated. Third, with respect to locally incorporated licensees, we will not grant a general waiver from publishing the complete set of audited financial statements, as a matter of course. However, we are prepared to consider granting a waiver along similar lines outlined above, on a case-by-case basis, if the audited financial statements and accompanying notes comprise more than twenty [20] pages. A licensee falling in this class should submit a copy of the full audited financial statements when seeking such a waiver.

Our second point relates to requirements contained in the *Guidelines on the Minimum Standards for the Outsourcing of Material Function*. All licensees are required to carry out a self-assessment to ensure that all material outsourcing arrangements comply with the enhanced guidance. In instances where you have not received our approval to outsource material functions, we expect that firms will ensure complete compliance by **31 March 2010**. For those functions that have our approval, which may not meet all of the requirements of the enhanced guidance, any deficiencies can be rectified when the agreement is substantially amended, renewed or extended, whichever is earliest. Finally, we also expect you to have a centralised list of all material outsourcing arrangements. At a minimum, the list should contain information pertaining to the name of the service provider, location where the service is provided, the expiry or renewal date of the contract and the value of the contract. We will be contacting a number of firms separately, to verify this information.

While on the subject of Guidelines, you should also note a minor revision to our *Corporate Governance Guidelines*, which clarifies our long-standing policy with respect to the number of directorships that an individual may hold. The revised guidance states that, "...An individual may hold no more than four non-executive directorship positions in licensees of the Central Bank. However, the Bank may make an exception where a licensee is a part of a banking

group that comprises four or more licensees, provided that the individual serves as a non-executive director only for that banking group.” The revised guidance, containing this language, has been posted to the Bank’s website.

On the legislative front, we have issued draft legislation that will provide the legal framework for the Central Bank’s supervision of payment systems in The Bahamas, the operation of those systems and the regulation of payment instruments for public consultation. The consultation period ends on **January 8, 2010**. As is the custom, you can download copies of the draft legislation from our website at <http://www.centralbankbahamas.com/>.

The consultation periods with respect to draft **Guidelines for Assessing the Fitness and Propriety of Money Laundering Reporting Officers in The Bahamas** and proposed amendments to the **Banks and Trust Companies Regulation Act, 2000**, which we issued in the last quarter have closed. With respect to the former, we are reviewing the comments that you submitted and hope to make a determination on the final position early in the New Year. On the latter, the Government has agreed the proposed amendments, and we expect them to be tabled in Parliament soon. We thank you for the invaluable feedback on both documents.

In our previous letter, we indicated that we were likely to release our **Guidelines on the Management of Interest Rate Risk** in the fourth quarter. Unfortunately, we will not be able to meet this self-imposed deadline, and have decided to delay release of this guidance until we have further developed our stress-testing framework. We will inform you of the future release date in a separate communication.

As many of you are aware there are many issues on the agenda of the international standard setting bodies that will have significant implications for The Bahamas. In the first part of the year, we are likely to focus broadly on four (4) areas: capital adequacy and effective liquidity planning, risk management/mitigation, disclosure/accounting requirements and corporate governance arrangements. With respect to the latter, one area that will likely undergo early review is the regional corporate governance arrangements for global banks, i.e. banks and/or trust companies that are domiciled overseas and have a significant presence in The Bahamas or are domiciled in The Bahamas but have significant presences abroad. To be clear, the intent of this review is simply to guide us and industry on the best practices in this area, given the scale and complexity of regional operations of some firms, regulatory requirements being developed by the global standard setters and the potentially high cost of reputational risk both to The Bahamas and firms operating in or from within The Bahamas.

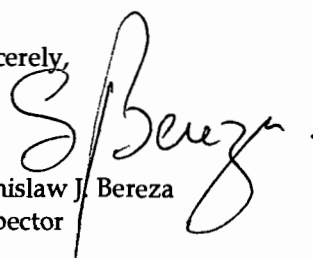
Another area that will likely receive attention early in the New Year is the minimum level of delegated authority that a firm’s Board of Directors (in the case of subsidiaries and stand-alone entities) or parent bank (in the case of branches of foreign banks) grants its officers and employees in The Bahamas to permit them to satisfactorily perform their ongoing management and operating functions to comply with our **Physical Presence Guidelines**. Here too our intent is simply to clarify minimum standards acceptable to the Central Bank, thereby ensuring a level playing field for all firms.

We close by wishing you all a happy Christmas and a peaceful and prosperous New Year. The year ahead promises to present many challenges for our financial services industry; but we believe, that by continuing to work collaboratively to safeguard and build greater resiliency in our financial system, we will be better placed to take advantage of opportunities that will surely present themselves.

Any questions regarding this letter should be directed to:

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Sincerely,


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