



Securities Commission of The Bahamas: Risk Analytics and Examinations Department - 2019 Examination Priorities

The implementation of risk-based supervision at the Securities Commission of The Bahamas (“the Commission”) represents a distinct shift from a rules-based regulatory regime to a risk-based approach. This shift is an acceptance by the Commission that a pure compliance approach has its limitations. The broad aims of the risk-based approach are to: 1) identify systemic risk in our financial systems; 2) identify the activities of our licensees and registrants that exhibit the greatest amount of risk; and 3) focus the Commission’s resources on the mitigation and/or elimination of high risk concerns. The outcomes of this implementation should serve to strengthen the Commission’s supervisory processes and enhance its overall regulatory effectiveness.

The goal has been to create a framework that is capable of providing an enhanced level of regulation across all sectors within the Commission’s scope, including the monitoring of key risk indicators, as well as to significantly improve upon the data that is collected and reviewed by the Commission. In 2018, the Commission developed a risk framework that is comprised of key risk indications that can be quantified and measured using risk-based metrics that are consistent with the jurisdiction’s risk universe.

In May 2018, the Commission launched its Risk Analytics and Examinations Department comprising of a Risk Analytics Unit and an Examinations Unit. Both units have dedicated staff, which report to a senior manager for the entire department. This is a recognition by the Commission that the work of the Risk Analytics Unit will focus the Examinations Unit’s priorities. This Risk Analytics Unit is tasked with monitoring solvency, operational and conduct risks of the Commission’s licensees and registrants, including continuous AML/CFT monitoring. For each registrant and licensee, the Risk Analytics Unit will conduct annual risk assessments, quarterly trend analyses of the financial position and solvency levels and group trend analyses by categories of registration. The Audited Financial Statements analysis will be conducted on an annual basis with focus on standard risk indicators.

In accordance with the Commission’s mandate to maintain surveillance over, as well as to formulate principles to regulate and govern investment funds, securities and the capital markets, to ensure orderly, fair and equitable dealings, and to protect investors, the Commission has now established its exam priorities for the 2019 calendar year. These efforts are to promote transparency of the examination process and to highlight the top identified areas of risk within the securities sector.

In 2017, the results of The Bahamas’ most recent Caribbean Financial Action Task Force (CFATF) mutual evaluation report provided a summary of the Anti-Money Laundering/Counter Financing of Terrorism and Proliferation Financing (AML/CFT/PF) measures in place, an analysis of the country’s level of compliance with the FATF 40 Recommendations, the level of effectiveness of the AML/CFT regime, and a list of recommendations on how the regime could be strengthened. In efforts to address the deficiencies raised, The Bahamas has committed to implement and maintain an appropriate and effective AML/CFT/PF regime inclusive of implementation of a vigorous AML/CFT legislative framework, a National Risk Assessment framework and AML/CFT Guidance Notes.

Additionally, issues related to the availability of beneficial ownership information are being addressed concurrently with the promulgation of the Commercial Entities (Substance Requirements) Act, 2018

and the Register of Beneficial Ownership Act, 2018 to demonstrate The Bahamas' commitment to the Base Erosion and Profit Shifting (BEPS) project of the European Union.

Along with a preliminary risk rating exercise conducted for all licensees and registrants in 2018, the highlighted initiatives have directed the Commission's focus for this year's on-site examinations in the following areas:

- **AML/CFT Thematic Reviews of Financial and Corporate Service Providers** – examiners will be conducting focused reviews of all FCSPs for compliance with applicable anti-money laundering requirements, sufficiency of KYC documentation and the effective management of IBCs including the maintenance of accounting records.
- **Risk Management Including Self Risk-Assessment and Client Risk-Rating Framework** – the unit will assess the effective implementation of self risk-assessment and client risk-rating frameworks for SIA/IFA/FCSP licensees which are now required by the Financial Transactions Reporting Act, 2018.
- **Business Conduct and Risk Profile** – examinations under this focus will include a review of large entities that potentially pose a systemic risk to the jurisdiction (i.e. employs a large number of staff; manages a large number of client assets) and have operations across multiple industries (i.e. securities, banking, insurance). Additionally, examiners will perform an assessment of other identified risk areas, inclusive of new product lines introduced by its registrants, capital adequacy levels, and corporate governance.
- **Cybersecurity** - all examination programs will include a review of cybersecurity with an emphasis on disaster recovery, data management and accessibility, data protection and retention, as well as proper configuration of network storage devices.

These areas of priority are not exhaustive and are not the sole issues/areas of risk that will be addressed in our examinations. It is important to note that the nature and scope of any on-site examination is determined by a risk-based approach that considers a licensee's operations, products offered, financial position, and other risk factors.

The Risk Analytics and Examinations Department is responsible for conducting examinations of entities registered under the Securities Industry Act, 2011 and the Investment Funds Act, 2003 (the "IFA") and the Financial and Corporate Service Providers Act, 2000 (the "FCSPA"). This comprises of more than 150 registered firms (including a marketplace and clearing facility), nearly 1000 investment funds and fund administrators and over 350 FCSPs. Overall, the examination results serve to enhance the Commission's risk monitoring process as well as improving industry standards, identifying and addressing areas of market misconduct.