



THE INSURANCE COMMISSION
OF THE BAHAMAS



The Compliance Commission
of The Bahamas



AML

**ANTI-MONEY LAUNDERING
COUNTERING THE
FINANCING OF TERRORISM**

CFT

The Bahamas
2019-20 AML/CFT/Report

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MESSAGE FROM THE CHAIRPERSON

Michele C.E. Fields

Chairperson, Group of Financial Services Regulators,
and Superintendent of Insurance

From 2019 into 2020, and despite the substantial challenges arising from Hurricane Dorian and the Covid-19 outbreak, the Bahamian financial sector has made gratifying progress in converting the legislative reforms of 2018 and 2019 into demonstrable success at financial crime suppression.

This progress is reflected in the Financial Action Task Force's late 2020 removal of The Bahamas from its list of jurisdictions under increased monitoring.

Since its foundation in 2002, the Group of Financial Services Regulators (GFSR) has developed a framework to facilitate inter-agency cooperation and information sharing. We are steadily progressing towards establishing uniformity across member agencies to implement AML/CFT/CPF regulation and supervision. The GFSR members are committed to ensuring that all regulated entities remain aware and continue to adhere to both legislative mandate and international best practices concerning AML/CFT/CPF matters. This publication provides our stakeholders with an overview of the current state of financial crime supervision in The Bahamas.

We recognise that as an international financial centre, The Bahamas must manage the actual and perceived risks of money laundering and terrorist financing and proliferation financing. This necessity has led GFSR members to proactively supervise financial crime risks. Our ongoing communication with the industry informs them of both the formal requirements attached to financial crime suppression, and also provides guidance for implementing heightened risk



management measures effectively within their operations.

Protecting the reputation of The Bahamas is paramount to the success of the financial services sector. The Identified Risk Framework Steering Committee (IRF Steering Committee), led by the Office of the Attorney General, has made material progress in reducing the risk profile of our jurisdiction. Since the issuance of the Mutual Evaluation Report by the Caribbean Financial Action Task Force (CFATF) in 2017, the Committee meets regularly to direct and track agency progress in addressing the issues cited in the report. Additionally, progress is tracked on matters such as Conduct of Risk Assessments, onsite and offsite AML/CFT/CPF examinations and monitoring of compliance by licensees with United Nations Security Council Resolutions (UNSCR) Orders. The successful progress of these matters demonstrates our zero-tolerance stance against financial crime and our commitment to our international relationships with jurisdictions seeking to eliminate financial crime.

During 2019 and 2020, financial institutions and other regulated entities expanded the scope of their AML/CFT/CPF risk assessments to comply with the Financial Transactions and Reporting Act, 2018 (FTRA) and other relevant legislation. Further, licensees are required to conduct ongoing checks of their database to ensure that individuals and entities placed on the US and UNSCR Sanctions Listing do not become facility holders within their entity. GFSR members maintain standard processes and procedures that document the results of these assessments so that appropriate responses and recommendations can be generated. This ongoing exchange of information allows the jurisdiction to quantify the areas of risk that materially impact our national risk profile; the result of which strengthens our efforts to mitigate ML/TF/PF risk.

To keep pace with the demanding AML/CFT/CPF requirements, GFSR members, observers and members of the financial services sector must conduct annual training. The Financial Intelligence Unit (FIU) facilitated training for Money Laundering Reporting Officers, Compliance Officers and other appropriate personnel, inclusive of Directors and Senior Management during 2019 and 2020. One of the highlights of this training was the unveiling of the FIU's updated online platform for the submission of suspicious transactions. The Bahamas Chapter of the Association of Certified Anti-Money Laundering Specialists (ACAMS) was established during 2019 and held specific training for GFSR members and Law Enforcement agencies, which afforded participants an opportunity to qualify to sit the examination for the Certified Anti-Money Laundering Specialists designation.

Since our inaugural AML/CFT/CPF Risk Management Conference in 2018, the GFSR sought to strategise innovative ways to increase public communication on AML/CFT/CPF matters. Plans were well underway to host the biennial AML/CFT/CPF Risk Management Conference in

June 2020. Regrettably, this conference had to be cancelled due to the novel Coronavirus COVID-19 pandemic that has adversely impacted global economic activity. The GFSR will continue to communicate our ongoing efforts through this AML/CFT publication.

The dynamics of the AML/CFT/CPF landscape continue to evolve and impact the way in which the financial services sector operates. Despite our tremendous progress in documenting and enhancing our processes and procedures, we must seek to continually improve the platforms for identifying and addressing the material ML/TF/PF risks emanating from the jurisdiction. The contributions of our members within this publication set out their commitment and show that of the jurisdiction as a whole in this regard.



THE INSURANCE COMMISSION
OF THE BAHAMAS



The Compliance Commission
of The Bahamas



ROLE & FUNCTION OF THE GFSR

The GFSR agencies are responsible for ensuring the effective operation of the AML/CFT/CPF regime in the Bahamian financial and corporate services sectors. GFSR agencies are signatories to a Memorandum of Understanding (MOU), which allows information to be shared to effectively supervise the financial services sector. The Financial Intelligence Unit (FIU) is a regular and welcomed observer at GFSR meetings, and participates in many GFSR activities.

The MOU outlines the arrangement for consolidated supervision of financial conglomerate groups in The Bahamas, including, but not limited to regular communication, monitoring capital and inter-group transactions and, where appropriate, mutual decision-making regarding supervisory approvals and reprimands. In an effort to collectively and effectively combat money laundering and terrorist financing (ML/TF), the GFSR in conjunction with the FIU, has proposed increased public communications on ML/TF/PF risk management by the GFSR.

The GFSR and the FIU hosted the inaugural international AML/CFT 2018 Risk Management Conference in Nassau, Bahamas. The Conference is one phase of a larger strategy by the GFSR. Another is the release of this annual AML/CFT/CPF Publication. Such communication strategies will provide engaging content for local and international AML/CFT/CPF organizations and aim to provide an easily accessible and comprehensive database on local money laundering and financial issues.

The role of each regulator and the scope of their regulatory oversight is outlined below.



CENTRAL BANK OF THE BAHAMAS

The Central Bank of The Bahamas' statutory mandate is promote and maintain monetary stability and credit and balance of payments conditions conducive to the orderly development of the economy; to promote and maintain an adequate banking system and high standards of conduct and management therein; and to advise the Minister of Finance on any matter of a financial or monetary nature. This mandate is defined under the Central Bank of The Bahamas Act, 1974 now superseded by the Central Bank of The Bahamas Act, 2020. In so far as the stability and oversight of the financial system are concerned, these are also governed by provisions in the Banks and Trust Companies Regulations Act and updated in 2020, the Cooperative Credit Unions Act [year] and the Payments System Act [year].

The Central Bank's mission is to promote a leading financial services industry within the framework of dynamic monetary policy developments, modernised payment systems, sound management strategies and capacity building.

The Central Bank promotes confidence in the financial system by implementing policies and standards that are in keeping with international best practices for supervision and regulation. One of The Central Bank's key responsibilities is providing anti-money laundering/countering the financing of terrorism (AML/CFT) oversight of its supervised financial institutions. The Bank is responsible for the regulation and supervision of banks and or trust companies, co-operative credit unions and money transmission businesses and the registration of registered representatives.



SECURITIES COMMISSION OF THE BAHAMAS

The Securities Commission of The Bahamas (the Commission), established in 1995, is committed to the growth and development of a vibrant, competitive financial services sector renowned for regulatory excellence. Its Mission is to effectively oversee and regulate the activities of the investment funds, securities and capital markets, to protect the investors while strengthening public and institutional confidence in the integrity of those markets.

The Commission is responsible for the administration of the Securities Industry Act, 2011 (SIA), the Investment Funds Act, 2019 (IFA), and the Digital Assets and Registered Exchanges Act, 2020 (DARE). The Commission functioned as the duly appointed Inspector of Financial and Corporate Services, since 1 January 2008; however, with the promulgation of the Financial and Corporate Service Providers Act, 2020 the Commission was made responsible, in its own right, for the administration of the FCSPA.

These Acts provide the mandate for the Commission to regulate investment funds, securities, the capital markets, non-bank financial services, corporate services, initial token offerings and digital exchanges. This includes responsibility for the licensing or registration and supervision of intermediaries, including brokers, dealers, advisors, investment managers, investment fund administrators and digital assets service providers.

With respect to the SIA and IFA, the Commission's functions are to formulate principles to regulate and govern investment funds, securities and the capital markets; maintain surveillance over the capital markets and ensure orderly, fair and equitable dealings in securities; foster timely, accurate, fair and efficient disclosure of information to the investing public and the capital markets; protect the integrity of the capital markets against any abuses arising from financial crime, market misconduct and other unfair and improper practices; promote an understanding by the public of the capital markets and its participants and the benefits, risks and liabilities associated with investing; create and promote conditions that facilitate the orderly development of capital markets; and to advise the Minister of Finance on all matters relating to capital markets and its participants. The Commission is mandated to carry out similar functions in relation to its administration of the FCSPA, and DARE.



THE INSURANCE COMMISSION
OF THE BAHAMAS

THE INSURANCE COMMISSION OF THE BAHAMAS

The Insurance Commission of The Bahamas (the Commission) was established on 2 July 2009, under the Insurance Act, 2005. It is an independent regulatory agency with responsibility for regulating and control of all insurers and intermediaries activities in and through The Bahamas. The Insurance Commission serves as the prudential and market conduct regulator, and provides ongoing monitoring and control of all domestic insurers (general, long-term), external insurers, agents, brokers, salespersons, adjusters, insurance managers. Its purpose is to ensure a sound and stable insurance marketplace and to ensure consumer confidence is maintained in the insurance industry. The mandate of the Commission includes:

- Administration of the 2005 Insurance Act and the 2009 External Insurance Act
- Surveillance over the insurance market;
- Promotion and encouragement of sound and prudent insurance management and business practices;
- Advising the Minister of Finance on insurance matters regarding the insurance market; and
- Ensuring that licensees comply with:
 - the provisions of the Financial Transactions Reporting Act and
 - other Anti-Money Laundering and Countering the Financing of Terrorism legislation

The Insurance Commission's mission is to protect the interests of the insuring public by:

- Conducting prudential supervision of those registered and licensed insurance entities operating in and from within The Bahamas.
- Ensuring that the solvency of insurers and re-insurers conducting insurance business is maintained in accordance with the Domestic and External Insurance Acts;
- Facilitating the orderly functioning of re-insurers, insurers, and intermediaries; and
- Giving effect to associated matters both domestic and international

The Commission is committed to strengthening the protection given to policyholders under the existing Act and the continuous and consistent review of existing legislation to improve the overall efficiency of the jurisdiction.

The Commission is an active member of other regional and international bodies including the International Association of Insurance Supervisors, Caribbean Association of Insurance Regulators, and the Group of International Insurance Centre Supervisors.



The Compliance Commission
of The Bahamas

THE COMPLIANCE COMMISSION OF THE BAHAMAS

The Compliance Commission of The Bahamas (the Commission) is an Independent Statutory Authority established under section 39 of the Financial Transactions Reporting Act, 2000) and continues in existence under section 31 of the Financial Transactions Reporting Act, 2018 (FTRA, 2018). This Statutory Body exist for the express purpose of ensuring that financial institutions within its remit (as set out in section 32(2) and subsequently in sections 3 and 4 of the FTRA, 2018), comply with the provisions of the FTRA. The Commission commenced its operation on January 1st 2001 as the Anti-Money Laundering Regulatory Authority for Designated Non-Financial Business and Profession specified in section 4 paragraphs (a), (b), (c), (e), (f), (g) (iv), (h), (i), (j), and (k) of the FTRA, 2018, inclusive of real estate agents and brokers, land developers, dealers in precious metals, precious stones and pawn shops, lawyers, accountants, persons acting in the capacity of trustee and designated government agencies. Although it is an independent agency, the Commission falls within the responsibility of the Minister of Finance.

The mission of the Commission is to ensure that Designated Non-Financial Business and Profession (DNFBPs) supervised by The Compliance Commission meet best international standards and practices, consistent with the provisions of Bahamian AML/CFT/CPF legislation, aimed at maintaining the Bahamas' reputation as a leading international business center.

Regulatory oversight and primary functions, as described in section 32 of the Financial Transactions Reporting Act, 2018 (FTRA, 2018), requires the Compliance Commission:

- to maintain a general review of the financial institutions in relation to the conduct of financial transactions and to ensure compliance with the provisions of FTRA, 2018; and
- to conduct on-site examinations of the business of the financial institution, when deemed necessary by the Commission at the expense of the financial institution, for the purpose of ensuring compliance with the provisions of the FTRA, 2018, and in such cases, where the Commission is unable to conduct such examination, to appoint an auditor at the expense of the financial institution to conduct such examination and to report thereon to the Commission.



GAMING BOARD FOR THE BAHAMAS

In 2014, the passage of new gaming legislation namely, the Gaming Act, The Gaming Regulations and the Gaming House Operator Regulations sought to conform to international best-practice standards by putting in place stringent qualification requirements for participation in gaming and related activities.

In 2019, the Gaming Act was amended to provide for the extension of the regulatory jurisdiction of the Gaming Board. Thus, pursuant to the various gaming statutory instruments, the Gaming Board's mandate is to regulate and supervise two distinct gaming sectors: a tourist-based commercial casino sector; and a domestic sector offering a hybrid form of Internet gaming pursuant to which domestic players may engage in an account based, direct online experience or game interactively in an account based, bricks and mortar gaming house.

Gaming Licensees and Gaming House Operator Licensees offer international and domestic players, respectively, a full range of casino, lottery and sports wagering options that are subject to regulatory requirements. Operators in both sectors are subject to probity investigations that meaningfully establish their eligibility from a good character, honesty, integrity, and financial stability perspective to participate in this highly regulated industry. Likewise, all control program components of the games operated in either sector are required to be tested and certified for fairness, accuracy and auditability by world-renowned independent testing laboratories against technical standards that are among the most robust in the world.

The mission of the Gaming Board for The Bahamas (the Gaming Board) is to protect the integrity of the Gaming Industry by keeping it free from the influences of organized crime; by assuring the honesty, good character and integrity of all licensed operators and employees; and to ensure that Gaming is conducted fairly and in accordance with provisions of the aforementioned legislation and regulation.

Agency Reports



OFFICE OF THE ATTORNEY GENERAL AML/CFT REPORT

The Honourable Leo Ryan Pinder
Attorney General, Chairman CFATF

Update on The Bahamas National Identified Risk Framework - Activities since the Publication of the Country's CFATF Mutual Evaluation Report

The Mutual Evaluation Report (MER) of The Bahamas was adopted at the Caribbean Financial Action Task Force (CFATF) Plenary of May 2017. Post review by the Global Financial Action Task Force (FATF) network, the MER was published in July 2017. Attorney General of The Bahamas and the Primary CFATF contact for The Bahamas at that time, the Honourable Carl W. Bethel, following the publication of the MER, summoned the National AML/CFT/CPF Task Force, now known as the Identified Risk Framework (IRF) Steering Committee to begin the work of addressing the deficiencies identified therein. Members of the IRF Steering Committee were directed to formulate action plans, to address gaps and/ or deficiencies in The Bahamas' AML/CFT/CPF regime.

Removal from the FATF "Gray List" of countries with strategic deficiencies

Following a massive plan of work, and an onsite review by the Financial Action Task Force (FATF) International Cooperation Review Group of the Americas in November 2020, The Bahamas was recommended for removal from its list of jurisdictions under increased monitoring. Subsequently, on 18 December 2020, the FATF issued a press release formerly delisting the country from the 'Gray List' and



congratulating The Bahamas for the significant progress, it has made in improving its AML/CFT regime. See <http://www.fatf-gafi.org/countries/a-c/bahamas/documents/bahamas-delisting-2020.html>.

Although this is an important step for The Bahamas, our main priority remains to ensure that The Bahamas effectively suppresses financial crime in our jurisdiction by institutions and persons subject to our National Identified Risk Framework.

Notable Activities

The Bahamas conducted a National AML/CFT Risk Assessment over the period 2015 – 2016. The National Risk Assessment (NRA) Report was submitted to Cabinet and approved in December 2017. The National AML/CFT Task Force utilized the World Bank Risk Assessment Module, surveys, and intelligence to complete the NRA. The NRA covered a review of all sectors of the financial services and Designated Non-Financial Businesses and Professions (DNFBP), law enforcement agencies, prosecutors; and the regulatory resources and structures established to regulate, supervise, and enforce AML/CFT/CPF requirements in

the country. The summary results of the NRA were shared widely with all stakeholders via industry briefings, round tables, and sector meetings. High-risk sectors were found to be money transmission service sector, legal, and real estate sectors.

Post completion of the NRA of 2015/2016, GFSR members have completed several studies on Bahamian AML/CFT risk:

- In 2019, the Central Bank of The Bahamas (the Central Bank) and the Compliance Commission of The Bahamas (the Compliance Commission) completed studies into various sections of the DNFBP category of businesses falling within the ambit of section 4 of the Financial Transactions Reporting Act, 2018 (FTRA 2018). The studies have assisted in confirming that the automobile sector of the country is low ML/TF risk.
- In 2019, the Central Bank assessed the major industries generating domestic bank deposits. This assessment demonstrated that in The Bahamian domestic economy, the only industry segments likely to present material money laundering risk are the real estate sector (including relevant service industries such as lawyers), the gaming sector, and the money transmission service sector.
- The Gaming Board of The Bahamas (the Gaming Board) has conducted an inaugural review of transaction-based money laundering risk in the domestic gaming sector, which demonstrated that very small amounts of money involved (average \$5 account balance and \$30 to \$60 transaction value) make it unlikely that this sector is a material source of money laundering risk.

The Bahamas developed a three year (2017–2020) National Identified Risk Framework Strategy (NIRFS). The NIRFS is designed to address the deficiencies in the country's AML/CFT/CPF regime (legal, supervisory, and regulatory) identified in its CFATF Mutual Evaluation Report (CFATF MER) and the NRA. The NIRFS provided a road map for the strengthening of the existing anti-money laundering,

countering financing of terrorism and countering proliferation financing (AML/CFT/CPF) regimes and National Identified Risk Framework (IRF) over the period 2017 – 2020. The NIRFS was finalized in early 2018 and approved by government in April 2018. The NIRFS contributed significantly to re-hauling of the country's AML/CFT/CPF framework to produce an effective system for the prevention, detection and deterrence of money laundering, terrorist financing, the financing of proliferation of weapons of mass destruction and other identified risks.

The NIRFS was designed around six themes –

- a) enhancing the jurisdiction's identified risks' (inclusive of AML/CFT/CPF) legal and regulatory framework.
- b) implementing a comprehensive risk-based supervisory framework for all sectors of financial services and non-bank financial service sectors.
- c) strengthening of sanctions, intelligence, and enforcement.
- d) enhancing domestic cooperation and coordination.
- e) maintenance of an efficient and effective system for international cooperation; and
- f) raising awareness about identified risks' (inclusive of AML/CFT/CPF) awareness amongst all stakeholders.

The Bahamas has effectively followed its blueprint, the NIRFS, with the enactment of several pieces of legislation. Post 2018, a further compendium of legislation was passed.

Legal Framework – Enactments - 2019

Securities Industry (Anti-Money Laundering and Countering of Terrorism) Rules, 2019 - incorporated the new and enhanced AML/CFT Customer Due Diligence provisions for licensees and registrants supervised by Securities Commission of The Bahamas.

Financial Corporate Services Providers (Anti-Money Laundering and Countering of Terrorism) Rules,

2019 - incorporated the new and enhanced AML/CFT Customer Due Diligence provisions for FCSPs.

Non-Profit Organizations Act, 2019, Non-Profit Organizations (Amendment) Act, 2019 - provided for the regulation and supervision of non-profit organizations in compliance with the requirements of FATF Recommendation 8.

Companies (Amendment) Act, 2019 - provided for enhanced sanctions to enforce statutory requirements and obligations and strengthened powers for the Registrar General in compliance with FATF requirements.

International Obligations (Economic & Ancillary Measures) Orders that domesticated sanctions in accordance with United Nations Security Council Resolutions on terrorists and those involved in proliferation –

- International Obligations (Economic & Ancillary Measures) (Iraq) Order 2018
- International Obligations (Economic & Ancillary Measures) (Afghanistan) Order 2018
- International Obligations (Economic & Ancillary Measures) (Iran) Order, 2019
- International Obligations (Economic & Ancillary Measures) (Democratic People’s Republic of Korea) Order, 2019

Enactments – 2020

The Bahamas has enacted the following legislation in 2020 – 2021 to enhance the AML/CFT/CFP legislative framework–

- a. Digital Assets and Registered Exchanges Act 2020;
- b. Financial and Corporate Service Providers Act, 2020;
- c. Financial and Corporate Providers (Anti-Money Laundering / Countering Financing of Terrorism) (Amendment) Rules 2020;

- d. Financial and Corporate Providers (Fees) Rules 2020;
- e. Financial Transaction Reporting (Amendment) Regulations, 2021;
- f. Insurance (Amendment) Act 2021;
- g. Investment Funds (Prescribed Jurisdictions) Rules 2020
- h. Investment Funds (Amendment) Act, 2020;
- i. Investment Funds Regulations 2020;
- j. Securities Industry (Corporate Governance) (Amendment) Rules 2020;
- k. Securities Industry (Fee) Rules 2020;
- l. Securities Industry (Fees) (Amendment) Rules 2020;
- m. Register of Beneficial Ownership (Amendment) Act 2020;
- n. Securities Industry (Anti-Money Laundering / Countering Financing of Terrorism) (Amendment) Rules 2020

Further, the following Bills are being considered for enactment –

- a. Anti-Terrorism (Amendment) Bill 2021;
- b. Banks and Trust Companies Regulations (Amendment) Bill 2021;
- c. Banks and Trust Companies (PTC & QEE) Regulations 2021;
- d. Executive Entities (Amendment) Bill 2021;
- e. Evidence (Amendment) Bill 2021;
- f. Financial Transactions Reporting (Amendment) Bill 2021;
- g. Proceeds of Crime (Amendment) Bill 2021;

b) Regulatory Framework –

In seeking to address deficiencies and gaps, the Central Bank of The Bahamas, the Compliance Commission of The Bahamas, the Gaming Board of The Bahamas, the

Insurance Commission of The Bahamas and the Securities Commission of The Bahamas:

- a. issued revised and enhanced Anti-Money Laundering/Countering Financing of Terrorism/Countering Financing Proliferation (AML/CFT/CPF guidelines to licensees and registrants.
- b. refreshed, in most cases, or conducted risk assessments of licensees and registrants to ensure regulatory programs captured all emerging and current risks.
- c. developed and implemented risk based supervisory programs by the Securities Commission, the Compliance Commission, the Gaming Board, and the Central Bank (Credit Unions and Money Transmission Service Providers). Note is made that risk based supervisory programs were introduced by the Central Bank of the Bahamas (banks and trust companies), Insurance Commission of The Bahamas and Inspector, Financial and Corporate Service Providers in 2009, 2014, and 2015, respectively.
- d. revised onsite examinations and off-site surveillance programs to capture the monitoring and scrutiny of licensees' compliance with United Nations Security Council Resolutions (UNSCRs) on Terrorism and Proliferation of Weapons of Mass Destruction.
- e. ramped up engagements (over 30 briefings and training programs were conducted in 2018 and 2019) with their constituents to ensure all AML/CFT/CPF obligations and requirements were discussed and understood by Financial Institutions (FI) and DNFBPs - to date where topics regarding AML/CFT/CPF, Sanctions lists and procedures, policies, legislations and IOEAMA Orders (domestication of UNSCR obligations) etc., were discussed. Further, the Group of Financial Service Regulators, which consists of the Regulators, hosted an international AML/CFT/CPF conference in June

2019 which attracted more than 400 local and international delegates to discuss and educate the clients and providers regarding the country's strengthened AML/CFT/CPF regime; and,

- f. collaborated and revised their enforcement regimes in line with section 57 FTRA, 2018 and implemented a coordinated penalty framework capable of deterring violations and breaches of the AML/CFT/CPF legal and supervisory requirements.

c) Enforcement Framework

Proceeds of Crime Act, 2018

Expanded the list of predicate offenses to the Act, *ibid* (Schedule 1) including proliferation offenses and tax crimes.

- a) Monetary Penalties and jail terms were noted at section 15 POCA, 2018 were revised to reflect a more dissuasive penalty to a maximum of \$500,000, imprisonment of 20 years, or both for money laundering offenses, failure to file STRs or tipping off offenses;
- b) Introduction of Non-Conviction Based Civil Forfeiture and Unexplained Wealth Orders – which gave prosecutors new tools to target proceeds of crime for confiscation.
- c) Enhanced investigative powers.
- d) Enhanced search, seizure, forfeiture, freezing and confiscation powers to assist law enforcement and prosecutors; and,
- e) Enhanced provisions governing the confiscation fund.

Anti-Terrorism Act 2018

Significantly increased monetary fines from \$2 million to \$25 million and imprisonment provisions to life sentences, respectively.

Financial Transaction Reporting Act, 2018

Section 57 FTRA provides for an administrative penalty regime that strengthened the regulatory toolkit to enforce compliance with the AML provisions. To facilitate same, the Group of Financial Service Regulators issued penalty regimes applicable to their licensees and registrants.

CFATF Re-Rating Application 2018

The tremendous effort expended over the ten months covering August 2017 – May 2018 post publication of The Bahamas' CFATF MER led to a re-rating application of the country's technical compliance with the FATF Recommendations. The Bahamas requested re-consideration of 23 FATF Compliance ratings. In November 2018, at the CFATF Plenary held in Barbados, The Bahamas was found:-

- a) to have fully addressed the deficiencies in Recommendation 2, 10, 12, 17 and 30 which are re-rated as Compliant (C).
- b) to have addressed most of the technical compliance deficiencies identified on Recommendations 1, 15, 18, 23, 25, 32 and 35, such that only minor shortcomings remain, and these Recommendations are re-rated as Largely Compliant (LC).
- c) to have addressed some of the deficiencies in Recommendation 6 and received a re-rating and upgrade to Partially Compliant (PC) from a previous Non-Compliant (NC) rating.

Recommendations 7, 8, 19, 22, 26, 27, 28 and 33 remained rated PC. Adding Recommendations 24 and 6 to this list results in the country having to address deficiencies identified in ten remaining Recommendations. In light of the above, The Bahamas' progress since its MER was adopted by CFATF Plenary in May 2017; the country's technical compliance with

the FATF Recommendations was boosted to 30 Compliant and Largely Compliant ratings and 10 Partially Compliant ratings. The country's CFATF 3rd Follow-up Report was tabled at the November 2020 CFATF Plenary.

The Financial Intelligence Unit (FIU)

In July 2018, the FIU:

- strengthened its Information Technology Infrastructure by launching its e-STR filing system which to-date has some 200 Money Laundering Reporting Officers registered with the system for electronic filings. The system allows for communications by the FIU with registered officers;
- launched a secured e-communications system with law enforcement agencies. Law enforcement (Financial Crime Unit – LEAS) can file matters of concern electronically;
- acquired Strategic Analysis Analytical Tools and developed strategic analysis procedures for Analysts to ensure consistency of analysis of intelligence being submitted to LEA. Two strategic analysis cases have been completed with matters referred to the Central Bank and Gaming Board for review and necessary action regarding their licensees. The country's first 18 stand-alone cases resulted from analysis of these matters.
- risk rated all backlog STRs and assigned Analysts to address the high-risk backlog filings.
- introduced revised Operational Procedures to assist with reducing the backlog of STRs.
- The FIU has increased its engagement with the financial and non-financial sector stakeholders and conducted a full schedule of training programs during 2018, 2019 and 2020, at times coordinated with the regulators. Over 2000 industry

professionals have been trained over the period. The past 12 months over 1,000 persons have been trained –

DATES	NUMBER OF PARTICIPANTS
10 & 27 November 2020	185
3, 7 & 8 December 2020	422
16 March 2021	93
22 April 2021	198
18 May 2021	91
17 June 2021	94
24 August 2021	130
TOTAL TO DATE	1,213

- The FIU since July 2018 revised its system of collecting feedback from the users of its intelligence and is zealously following up with regulators and LEAs for feedback on the use of intelligence on an ongoing basis. The eighteen (18) stand-alone cases noted above were forwarded to LEAs for review. LEAs advised that all matters are under active review with one case awaiting trial.
- The FIU has greatly increased training for its analysts and where possible have attended training seminars, forensic certifications, and courses with LEAs – thus increasing investigative skills and capacity with the Unit.

e-FILING SOFTWARE

The submission of STRs and IARs continue to be made via the FIU’s e-Filing portal, caseKonnnect®. In addition to these reports, the following reports were received:

SUBMISSION TYPE	DATE ACTIVATED	NO. SUBMITTED (1 November 2020 to 31 August 2021)
Suspicious Transaction Reports (STRs)	June 2019	578
Inter-Agency Reports (IARs)	August 2020	63

SUBMISSION TYPE	DATE ACTIVATED	NO. SUBMITTED (1 November 2020 to 31 August 2021)
Inter-Agency Feedback Forms (IAFs)	August 2020	3
Freeze Order Requests (FORs)	August 2020	1
Production Order Returns (PORs)	January 2020	1,279
Terrorist Property Reports (TPRs)	August 2020	839

The Registrar General’s Department

1. In August 2019, The Companies (Amendment Act) was passed by Parliament. The amendments require all Bahamian Companies to declare in their annual public filings whether any Shareholder is a Nominee Shareholder and, in respect, of any such Nominee, requiring that the Registered Office maintain a Declaration of Trust on its files stating who is the beneficial owner or controller of such Company.
2. Provisions regarding the sanctions for non-compliance with required statutory documentation filings and annual fees – to strengthen the Registrar General’s enforcement tools, were included in the amendments (sections 11, 12, 15 of the Companies (Amendment) Act, amended sections 271 and 271A, and 286 of the principle Act). The Registrar of Companies has been enabled to impose administrative penalties for failure to disclose Nominee Shareholdings or to maintain Declarations of Trust on the Company’s files (Section 3 of the Companies amendment Act, 2019).
3. The Office of the Attorney General established a Compliance Unit in 2020, staffed with three attorneys. The Unit is responsible for monitoring Non-Profit Organizations’ compliance with the

provisions of NPO Act and compliance of companies and international business companies with the obligations stated in the Companies Act, 1992, the Companies (Amendment) Act, 2019 and the Register of Beneficial Ownership Act, 2018 and amendments.

4. Based on the enhanced provisions in the Companies Act over 11,000 companies were struck off the Companies Register in 2018 for failure to comply with statutory requirements – failing to pay appropriate registration fees, failing to comply with requirements to submit annual returns (a document reflecting senior officers, shareholders, and capital, etc.) amongst other violations. In 2020, another 10,000 companies were struck from the Registry due to non-compliance with statutory filing and annual fee obligations.
5. The Chief Compliance Officer and her staff will be responsible for monitoring NPOs – registration and monitoring – and ensuring registered companies comply with the obligations pursuant to the governing statutes. To date over 900 NPOs have been issued registration certificates and the Registrar General’s Departments staff continues to review, with the assistance of the Compliance Unit, applications for registration pursuant to the NPO Act, 2019.

Law Enforcement Agencies (LEA)

The Commissioner of Police merged the Business and Technology Unit and the Terrorist Financing and Money Laundering Unit to form the Financial Crime Unit (the FCU) in mid-2018. This restructuring and consolidating of the LEA resources responsible for investigating Money Laundering and Terrorist Financing and Proliferation Financing has greatly enhanced the output regarding ML cases brought before the courts. Before the 2015 CFATF Mutual Evaluation, The Bahamas had brought one ML case before the courts. The current statistics are noted below.

ONSITE		POST ONSITE	
1	<i>Person charged for money laundering</i>	243	<i>Persons charged for money laundering</i>
1	<i>Money laundering prosecution</i>	118	<i>Money laundering prosecutions</i>
0	<i>Stand-alone ML charges</i>	1	<i>Standalone ML charges</i>
1	<i>Conviction for Money Laundering</i>	62	<i>Convictions for Money Laundering</i>

The FCU over the last 36 months have aggressively sought and found training opportunities for staff to build capacity. These included 24 Police, Customs and FIU Officers who received accredited training in open-source investigations; and 22 officers who completed the investigation certification sponsored by CFATF and the EU 10th EDF. Other courses covered economic crime, asset forfeiture and money laundering, financial enforcement strategies, financial forensic investigation, and public cooperation.

The FCU engaged 5 Stones Intelligence in April 2019 to provide Analytical and Forensic Investigation Support. The analytical and forensic support encompasses providing support in complex money laundering cases, analysis of financial records and transactions, conduct detailed analysis to authenticate net worth and source of funds etc. This agreement boosted resources available to the Unit until a forensic analyst can be employed.

Office of the Attorney General (OAG)

National Confiscation Policy

The Attorney General’s Directive, 2019 was issued to the Director of Public Prosecutions (DPP) in August 2019 containing the National Confiscation Policy of The Bahamas.

The Directive directed the DPP to consider whether:

- any money laundering charges are to be laid, either in association with a predicate offense, or as a stand-alone charge (against a person or entity who facilitated the disguised transmission or enjoyment of illicit money).
- any proceeds of crime, i.e., assets for seizure, restraint, and confiscation, have been identified which may be recoverable.
- there are instrumentalities of crime, and property of equivalent value, involving domestic and foreign predicates, which may be forfeited or confiscated.
- further investigation such as a parallel inquiry should be conducted (for example, to determine the extent to which a financial intermediary may have knowingly facilitated money laundering; or
- tracing, locating and eventually seizing with a view to confiscating the proceeds of crime from foreign / domestic predicates located abroad ought to be considered.

The Directive directed DPP to consider:

- non-conviction based (civil) forfeiture orders where proceeds of crime or funds intended to finance crimes have been identified; but no criminal charges can be or are to be laid in respect of that property (such as, where the offender is unknown, or is not otherwise amenable to apprehension, arrest, service, or process criminal charges within the jurisdiction); and
- to give consideration to the preservation and management of the value of seized / confiscated proceeds of crime, and their deposit into the Confiscation Assets Fund and / or the repatriation or sharing of assets.

International Cooperation Unit

The OAG over the last 24 months added several tools to assist the Unit in effectively managing the government's responses to international requests for exchange of information either through a) Mutual Legal Assistance Treaties, b) Letters Rogatory, c) Court to

Court for criminal matters via the Criminal Justice (International Cooperation) Act, 2000 or d) Court to Court for civil matters via the Evidence (Proceedings in Other Jurisdiction) Act, 2000.

A case management system has been developed by the Department of Information Technology as an IT solution to enhance the Unit's procedures. The IT solution was launched during the week of the 10 December 2018. As of 20 February 2019, all Mutual Legal Assistance and Criminal Justice Requests for Assistance matters (United States of America, Canada, etc.) have been entered into the case management system and updating of matters is ongoing. As of July 2019, all matters relating to outgoing requests were entered into the case management system. Extradition matters were entered into the case management system as of 21 August 2019.

The Protocol for Processing International Requests for International Legal Assistance Matters has been amended to ensure that all members of the Unit are aware that all new matters are to be entered into the case management system upon receipt.

Since the implementation of the case management system, the International Cooperation Unit of the OAG has been able to collate statistics more efficiently and within a timely manner. Further, international partners have continued to be updated monthly on matters outstanding. A review of the outstanding matters allows senior management to ensure that all updates are forwarded to countries with outstanding cases.

The International Unit has added two additional staff, and the Unit's personnel have been trained in the operations of the case management system.

Memorandum of Understanding (MOU)

- **In January 2020**, a memorandum of understanding was signed between the Ministry of Finance (MOF), the OAG and the Office of the Director of Public

Prosecutions (ODPP) for the exchange of information on tax matters.

- **In March 2020**, a memorandum of understanding was signed between the OAG, the ODPP and the FIU for assistance in investigating possible tax crimes where international requests were deficient in pertinent case information.
- The MOU between the MOF, OAG, ODPP, allows for information exchange between the parties where there is a reasonable suspicion of a tax crime, including but not limited to any false declaration by a declarant with respect to the Common Reporting standard requirements, or the Economic Substance requirements, to facilitate review for the determination of whether a criminal charge can be laid in court. One such case is under active review whereby authorities were alerted to a possible evasion scam perpetuated by intermediaries for several foreign owned companies. Authorities are continuing their investigation into same, which will possibly lead to criminal charges being pursued against intermediaries and beneficial owners of the noted companies. This MOU increases the toolkit and measures in enhancing the country's ability to identify, investigate and prosecute ML related to foreign tax crimes.
- Following the signing of the MOU agreement between the OAG, ODPP, and the FIU, a standard procedure has been developed for all incoming requests, to the International Legal Cooperation Unit at the OAG related to tax offenses. Those requests that deem to be lacking sufficient information are forwarded to the FIU, with a request to assist with a system search of its database for any significant related details for the cases, with results forwarded to ODPP for prosecutorial review. To-date two such cases are being reviewed.

Beneficial Ownership Secure Search System

- The Bahamas Parliament passed the Register of Beneficial Ownership Act (BO Act), in December

2018. Section 3 of the BO Act applies to a legal entity which is an entity incorporated, registered, continued, or otherwise established in accordance with the Companies Act and the International Business Companies Act, Chapters 308 and 309, respectively. An amendment to the Act was passed in 2019 to include partnerships.

- Section 4 of the BO Act mandates that the Competent Authority establish a secure search system for the purpose of enabling every registered agent to maintain a database of the required particulars on the beneficial ownership of a legal entity for which it has responsibility. Section 9 of the BO Act imposes a duty on every registered agent to establish and maintain a database that is accessible by the secure search system. Section 18 of the BO Act further requires legal entities and registered agents to comply with the new requirements within one year of the commencement of the Act, which is December 2019.
- The implementation of the decentralized Beneficial Ownership Secure Search system (BOSSs) commenced in June 2019. BOSSs will enable searches of the databases of registered agents of legal entities registered or resident in The Bahamas. BO information will be accessible by the Attorney General, the FIU, and other designated persons, as per the Act.
- The Bahamas completed the on boarding process in September 2019, for one hundred (100) of its top priority Registered Agents of International Business Companies and Companies incorporated under the International Business Companies Act and the Companies Act, respectively. The project involved the following three phases and targeted one hundred (100) of the priority Registered Agents (RA):
 - ✓ Phase 1 - ***A Detailed Analysis and Design Phase:*** This phase was completed in June 2019 and included scoping, solution requirements, and solution architecture and implementation estimate and project plan.

- ✓ Phase 2 - **Implementation and roll out**: This phase has been completed and included the development, testing, and deployment of the application specified in Phase 1.
- ✓ Phase 3 **Onboarding**: This phase was completed in September 2019 and included meeting with each of the RAs, and determining the correct onboarding strategy, training them on use of the system, and ensuring adequate adoption of the BOSS system.
- As of 15 September 2019, all 100 of the targeted large Registered Agents have been fully on boarded and are in production mode with live data already loaded into BOSSs. As such, all initial three phases were completed for the large Registered Agents. In March 2020, phase IV was initiated to on board the remaining small and medium-sized registered agents.

Bahamas Coordination Arrangements

- POCA 2018, specifically sections 4 - 6, which establishes a Ministerial Council, provides for the Appointment of a National Identified Risk Framework Coordinator (NIRFC), and establishes a National Identified Risk Framework Steering Committee, respectively.
- As provided in section 4, the Ministerial Council is comprised of the Attorney General and Ministers responsible for Finance, Financial Services, Foreign Affairs, National Security and the NIRFC as an ex officio member to be appointed by the Attorney General. Although not set out in POCA, the Ministerial Council is headed by the Attorney General. The Council is responsible for policy decisions. The functions of the Council are to define identified risks as under section 2 of the POCA and assess and make such recommendations to the Government as may be necessary from time to time to ensure the effective implementation of the Identified Risk Framework (IRF) to minimize or eliminate identified risks.
- Section 5 sets out the responsibilities of the NIRFC, including chairing the meetings of the Identified Risk Framework Steering Committee (IRF Steering Committee) as established under section 6 of the POCA 2018. Dr. Cassandra Nottage was engaged as the NIRFC in August 2018. Prior to her engagement, Dr. Nottage served as a consultant with the Office of the Attorney General and spearheaded and coordinated efforts to complete the NRA and preparation of the NIRFS. Dr. Nottage is the former Bank Supervision Manager of the Central Bank where she was employed for thirty-six years.
- Section 6 of POCA establishes the IRF Steering Committee (the successor to the former National AML/CFT/CPF Task Force – established in the early 1990’s) and sets out its membership. The IRF Steering Committee was formally established in August 2018 and is successor to the National AML/CFT Task Force, which was initially formed in 1990. Its responsibilities include:
 - to coordinate the national risk assessment periodically and ensure that such assessments are updated and relevant;
 - coordinate the development and regular review and implementation of national policies and activities designed to mitigate identified
 - collect and analyze statistics and other information from competent authorities to assess the effectiveness of the IRF and to report to the Ministerial Council.
- The IRF Steering Committee comprises of the NIRFC and representatives from the OAG, ODPP, FIU, Customs Department, the Royal Bahamas Police Force (RBPF), the Royal Bahamas Defence Force (RBDF), the Department of Immigration, the Ministry of Foreign Affairs, the Ministry of Financial Services the Central Bank of The Bahamas and such other person or representative of a statutory body, that has as a part of its functions a

requirement to regulate financial institutions, as the Attorney General considers would contribute to the objectives of the IRF Steering Committee. The IRF Steering Committee is the operational body and has been meeting weekly since the 2017 published CFATF MER.

United Nations Office on Drugs and Crime (UNODC) E-learning Platform

- Building capacity and skills training of personnel involved in the fight against ML/TF/PF are major objectives of the IRF Steering Committee. Accordingly, in May 2020, when The Bahamas was offered the opportunity, for such personnel engaged in the implementation and maintenance of AML/CFT/CPF framework, to access the United Nations UNODC eLearning Platform –13 Money Laundering modules, were accepted. Currently there are four Supreme Court Justices, two magistrates, the Deputy Registrar of the Supreme Court, and the Assistant Registrar of the Supreme Court accessing the UN e-learning Platform.
- Also taking advantage of this significant training opportunity are ten prosecutors from the Office of Public Prosecutions, six senior lawyers of the International Legal Cooperation Unit of the OAG, nine senior officers of the RBDF, ten senior officers from the Bahamas Customs Department, four senior staff of the Registrar General’s Office - The Registrar General, Assistant Registrar General, Chief Compliance Officer, and Chief Legal Counsel, and 38 personnel from the Regulators.
- The UNODC e-learning opportunities have been welcomed by all agencies and is assisting The Bahamas’ key stakeholders in the fight against ML/TF/PF, to strengthen their skills and knowledge in the tools required to maintain a robust AML/CFT/CPF framework.

The Road Ahead

There have been tremendous efforts made to address all concerns of the CFATF and the FATF. The AML/CFT/CPF legislative, regulatory and enforcement landscapes have been thoroughly reviewed and strengthened as noted above. The IRF Steering Committee is committed to ensuring that the country maintains a high level of readiness in addressing regulatory and best practice challenges in the AML/CFT/CPF space. To assist in this effort and to ensure that there is much vigilance over the primary financial sector – banks and trust companies, The Central Bank established an AML Analytical Unit in 2018, whose sole function is that of continuous monitoring of AML/CFT/CPF requirements by financial institutions, credit unions, non-bank money transmission service providers and registered representatives. The Securities Commission also established AML Analytical Units in 2019 to maintain ongoing vigilance regarding AML/CFT/CPF compliance of the securities licensees and registrants.

The country’s coordination and cooperation arrangements as noted above, avoids silo-regulating, and ensures information sharing between the 13 agencies charged with implementation and maintenance of The Bahamas’ AML/CFT/CPF framework. The National Identified Risk Framework Coordinator and the IRF Steering Committee enjoys the full support of the government.

Appointment of Attorney General as Chair of CFATF

The Honorable Carl W. Bethel, former Attorney General assumed the Chairmanship of CFATF in November 2020. Effective 20th September 2021, the Honorable Leo Ryan Pinder took over as Attorney General and assumed the role of Chair of the CFATF. This strategic posting came at a time when CFATF membership was the recipient of tremendous competitive and political pressure from international

agencies and organizations. The IRF Steering Committee has provided its full support of this Chairmanship.

Future Work Streams

1. Updating of the National Risk Assessment to ensure all emerging risks are captured, analyzed, and mitigated.
2. Initiating and completing the Virtual Assets Risk Assessment.
3. Initiating and completing a comprehensive Legal Persons and Arrangements Risk Assessment.
4. Overseeing the BDO BO project to completion.
5. Reviewing and Updating the National Identified Risk Framework Strategy for the period 2022 - 2024.



CENTRAL BANK OF THE BAHAMAS

AML/CFT/CPF REPORT

John Rolle

Governor, Central Bank of The Bahamas

As the Bahamian regulator for international and domestic banks, trust companies, co-operative credit unions, non-bank money transmission businesses, payment service providers and private trust companies, along with their registered representatives, the Central Bank of The Bahamas continues to work to strengthen its AML/CFT/CPF supervisory framework and oversight of the financial institutions for which it is responsible.

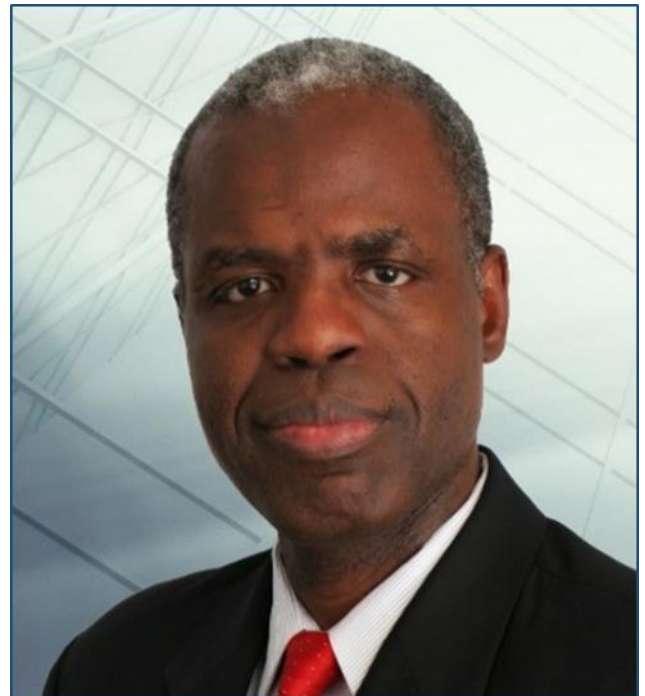
Additionally, the Central Bank continues to improve oversight frameworks for the assessment and suppression of risks related to money laundering, terrorism financing, proliferation and other financial crimes; ensure internationally compliant systems within supervised financial institutions (SFIs); and enhance the Bank's contribution to national initiatives to defend against such risks.

Highlights of AML/CFT Supervision

Supervisory Effectiveness

Since 2019, the Central Bank continued to focus heavily on AML/CFT/CPF and other financial crime areas, along with prudential matters. The Bank has placed itself in a better position to appropriately address such issues, identifying areas for attention faster than the industry's ability to resolve them.

In the past year though, the industry has materially strengthened its approach to AML risk management



This is evident in the number of regulatory Directives and Requirements imposed over this time and the rate at which these have been addressed by industry. Directives impose a more urgent mandatory obligation on the part of SFIs to address identified deficiencies, while requirements identify less urgent but also mandatory actions which SFIs must undertake to remedy deficiencies or concerns raised by the regulator.

Directives

Since 2017, some 26 of 28 identified Directives were successfully closed. Although new deficiencies were discovered in more recent examinations, of the approximately 100 public supervised financial institutions, only four currently have outstanding Directives.

Requirements

For most of the period since 2017, the list of new supervisory Requirements rose faster than closed Requirements, however the industry's proactive stance led to considerable decline in outstanding defects after 2019. In March 2019, there was a peak 136 AML

Requirements in the industry, reducing 63 by March 2020.

In September 2017, there were approximately twice as many non-AML as AML requirements. This proportion has reversed. Supervised financial institutions (SFIs) now display more AML deficiencies than non-AML deficiencies—albeit with demonstrable improvements. Notably, the average requirement clearing time decreased to roughly 12 months, which is the desired benchmark.

Risk Assessments

To enhance the continuous AML/CFT/CPF supervision, the Bank collects money laundering/terrorist financing (ML/TF) risk assessments from its SFIs, which are reviewed against the published Guidelines and the Bank's expectations. Some 98% of the SFIs submitted their risk assessments during 2020 (given limitations posed by the COVID-19 pandemic). These provided an improved understanding of SFIs' views of their ML/TF risks and related control environments. In the meantime the Central Bank provides ongoing commentary to assist SFIs in identifying and addressing residual gaps in their risk assessments.

During 2020, the Central Bank rolled out continuous AML supervision to credit unions and non-bank money transmission businesses.

AML Data Return

In December 2019, the Central Bank issued a set of AML Data Returns with related guidance notes to its SFIs. The Central Bank intends to collect these forms on an annual basis. It is intended that this data collection will provide both industry and SFI level view of the AML landscape.

AML 2.0 Supervision: The Way Forward and Further Reforms

The modes of regular engagement with the industry and industry stakeholders are expected to increase in

the near to medium-term. The enhanced interaction with correspondent banks is illustrative of this approach. In September 2019, the Central Bank issued an inaugural newsletter to Correspondent Banks, to initiate regular updates on the AML work that The Bahamas has done since the 2017 conclusion of the jurisdiction's Mutual Evaluation Report (MER) by the Caribbean Action Task Force (CFATF). Note was also sent to Correspondent Banks regarding The Bahamas' removal from the FATF's list of jurisdictions that required enhanced monitoring in December 2020.

Since November 2019, the Bank has initiated regular interviews with Money Laundering Reporting Officers (MLRO) and Compliance Officers of SFIs, with a view to strengthen surveillance over the industry.

Looking forward, the Central Bank intends to continue improving its AML/CFT/CPF supervisory regime, by, among other methods, deploying automated tools to monitor wire transfers departing or entering The Bahamas every year.

Examination Focus for 2020

The risk areas examined during 2020 focused primarily on money laundering, terrorist and proliferation financing (ML/TF/PF) risk and corporate governance. The Bank will continue to perform on-site examinations based upon its risk-based approach. Such examinations will particularly have a strong focus on SFIs that were licensed and began operations within the last year, domestic systemic important banks (DSIBs) and other systemically important financial institutions (SIFIs) with respect to ML/TF/PF risk, corporate governance, credit risk and fiduciary risk.

Cross Border Payment Automated Tools

The Central Bank will strengthen its surveillance of cross-border payment flows within the banking system, with an automated tool to analyse SWIFT wire transfers. The SWIT analytics tool will assist with

identifying any outliers or anomalies in cross border flows over time and by country and SFI.

Conclusion

Overall, the Bank is reasonably satisfied with the AML risk management capability of its SFIs, which has demonstrated important improvement in recent years. Going forward, this process will have to be sustained on a continuous basis in line with the dynamically evolving financial sector landscape. Our risk management focus is also recognising the importance of oversight for non-banks and payments institutions. Risk-based AML/CFT standards have begun to receive more proportionate attention within the credit union sector.

In the meantime the Central Bank is using the introduction of the digital currency, the Sand Dollar, to accelerate access to retail payment services in ways that address financial inclusion gaps while capitalising on proportionate standards for low-risk users of the payment system. This work also foreshadows imminent deployment of an electronic customer due diligence (e-KYC) database that would enhance national AML safeguards around retail transactions, and further streamline access hurdles to basic financial services.



**SECURITIES COMMISSION
OF THE BAHAMAS
AML/CFT/CPF REPORT**

Christina Rolle
Executive Director

Overview of SCB AML/CFT Initiatives: 2019-2020

The Securities Commission of The Bahamas (SCB) is committed to safeguarding the financial system and markets under its administrative supervision from abuse and the contagion of the proceeds of crime; as well as protecting The Bahamas’ reputation as a leading wealth management jurisdiction.

The SCB administers the Securities Industry Act, 2011 (SIA), the Investment Funds Act, 2019 (IFA), and the Financial and Corporate Service Providers Act, 2020 (FCSPA) and the Digital Assets and Registered Exchanges Act, 2020 (DARE).

At 31 December 2020, the Commission was responsible for the oversight and supervision of (1,264) entities licensed or registered pursuant to the aforementioned pieces of legislation (see Table 1).

Table 1: Entities regulated at 31 December 2020

License/Registration Category	2019	2020
Firms conducting securities business	162	161
Clearing facilities	1	1
Marketplaces	1	1
Investment Fund Administrators	57	48
Investment Funds	742	713
Financial and Corporate Service Providers	349	340
Total Entities Supervised	1,312	1,264



Improving insight into ML/FT/PF Risk

SCB alerted registrants and licensees to the risk areas it would focus its supervisory efforts on in 2019 and 2020 by publishing examination priorities (see Table 2).

Table 2: SCB Examination Priorities

2019	2020
AML/CFT Thematic Reviews of Financial and Corporate Service Providers (FCSP) and other Entities Managing IBCs	AML/CFT Desk-based Thematic Reviews and Follow-ups
Risk Management including Self-Risk Assessment and Client Risk-Rating Framework	Risk Management including Self-Risk Assessment and Client Risk-Rating Framework
Business Conduct and Risk Profiles of Large Entities Potentially Posing Systemic Risk	Common Reporting Standards (CRS) Reporting
Cybersecurity Measures	Business Continuity/ Disaster Recovery Plan

The introduction of desk-based thematic reviews to its supervisory program allowed the SCB to deepen its understanding of industry-wide and operation-specific money laundering (ML), terrorist financing (TF) and proliferation of weapons of mass destruction financing (PF) risk. These reviews along with licensee self-risk assessments served to provide constituents with direct insight into where their practices fell short of regulatory requirements. The self-risk assessments specifically required constituents to develop systems for the ongoing management and mitigation of identified risks, including as they relate to the launch of new products or business practices, before using new or developing technologies, and upon major changes to their management or operations.

The first round of self-risk assessments was launched on 25 March 2019, with the SCB requiring all licensees and registrants to conduct self-risk assessments of their operations inclusive of a specific assessment of their ML/TF/PF risk. The SCB further required that these risk management processes specifically apply:

- (i) to the launch of new products or business practices;
- (ii) prior to the use of new or developing technologies; or
- (iii) when there is a major event or development in the management and operation of the group.

As of publication date, more than 90 percent of FCSP licensees and 100 percent of SIA and IFA licensees and registrants had submitted their self-risk assessments. Where licensees or registrants failed to comply with the SCB's deadline within the required time frame, there was an imposed penalty of \$5,000 for failure to submit.

The 2019 AML/CFT thematic examinations of FCSPs and other registrants who managed IBCs assessed their compliance with applicable AML/CFT requirements including the sufficiency of KYC documentation and other requirements such as their duties with regard to

the maintenance of accounting records. The SCB completed 98 of these AML/CFT/CPF themed examinations. The examinations assessed 94 FCSP licensees, 3 SIA registered firms, and 1 investment fund administrator, and covered 87 percent (12,724) of the IBCs managed by the SCB's licensees and registrants (some 14,626 IBCs in total).

The 2019 AML/CFT/CPF thematic examinations revealed various deficiencies, ranging from failures in the maintenance of client identification to inadequate AML/CFT/CPF training for relevant employees. To address these, the SCB issued deficiency reports with recommendations on best business practices, and provided a 30-day period for the registrant/licensee to respond advising of their remediation plans. The SCB followed this with a remediation letter providing the registrant 90 days to satisfactorily rectify deficiencies, or face disciplinary action.

The combination of providing licensees with insight into their deficiencies, educating them about avenues to mitigate these, requiring them to provide mitigation plans, and providing strong disincentives for noncompliance appear to have had a positive impact. Although the SCB continues its review and monitoring of remediation efforts stemming from the AML/CFT/CPF reviews, to date, it has found no cause to pursue enforcement action in any of the cases reviewed.

The Commission also updated its examinations programs in 2019 to incorporate reviews for compliance with the International Obligations (Economic and Ancillary Measures) Act (IO(EAM)A), the Anti-Terrorism Act, 2018 (ATA) and the Anti-Terrorism Regulations, 2019. These reviews assess licensees' and registrants' compliance with IO(EAM)A and ATA requirements to perform and report the results of searches of their client databases for persons sanctioned by the United Nations Security Council or by individual countries, in the case of unilateral sanctions.

As an ongoing element of the SCB's risk-based regime, the SCB conducted a review of its examination findings, 2019 risk rating of licensees as well as specific areas of risk to inform the development of 2020 examination priorities. The SCB's 2020 examination priorities were published in January 2020, and indicated that the SCB would continue to focus primarily on AML/CFT/CPF related work as noted below and review licensees' CRS reporting and business continuity concerns. Key priorities identified included:

- (i) The introduction of desk based thematic reviews as a part of its supervisory toolkit – Based on the results, the SCB will prioritize high-risk licensees and registrants for examination to ensure proper remediation especially in key areas for operational compliance with international standards and best practices. One of the thematic desk-based reviews developed is the AML/CFT/CPF risk evaluation.
- (ii) Risk Management Including Self-Risk Assessment and Client Risk-Rating Framework – The SCB assessed the effective implementation of self-risk assessment and client risk-rating frameworks for SIA/IFA/FCSP registrants/licensees. The objective was to ensure that AML/CFT/CPF risk-mitigating efforts are effective, that new or emerging areas for concern are properly identified, and controls sufficiently tested and reported.
- (iii) Business Continuity/Disaster Recovery – In the last decade, The Bahamas has endured several catastrophic hurricanes with the most recent being Hurricane Dorian in September 2019. Considering this, the SCB conducted a desk based review to test the robustness of the securities sector in the aftermath of a disaster scenario. All examination programs include a review of disaster recovery plans in terms of testing/reporting, record retention with emphasis on wireless restoration and client access to data during the down time, data management and

accessibility, data protection, as well as proper configuration of network storage devices.

These areas of priority are not exhaustive and are not the only areas of risk the SCB examined.

Impact of Covid-19 Pandemic/Regulatory Relief

The Covid-19 global pandemic reached the shores of The Bahamas in the first quarter of 2020. Following this, the Government of The Bahamas enacted emergency powers orders, which restricted movement and social contact. From an AML/CFT/CPF perspective, the Commission took several measures in direct response to the COVID-19 pandemic and ensuing movement and social restrictions.

- (i) The SCB issued notices to ensure the public was aware that it continued to operate, despite the pandemic, and provided information about how to communicate with the SCB. The first such Notice, issued on 17 March 2020, advised that in-person meetings were suspended.
- (ii) Registrants and licensees were advised of operational changes impacting them as the need arose, such as the suspension of onsite examinations effective 17 March 2020 and focus on desk-based reviews during the period.
- (iii) Registrants and licensees were furnished with guidance with respect to the Emergency Powers (COVID-19) Orders. These addressed, amongst other things, business closure and work-from-home requirements, minimal expectations for how requisite safety-provisions may be addressed at their places of business, as well as circumstances where registered persons may be exempt from certain Covid-19 related restrictions.
- (iv) SCB extended the filing deadline for audited financial statements and annual reports by 45 days where they were due between 1 April and 30 June 2020. Material change reporting was not impacted by this extension with SCB providing instructions for submitting these to the Commission

electronically and advising public issuers they also were required post them to their website.

- (v) SCB advised by notice that, due to pandemic related restrictions, it would not take action against persons failing to comply with the requirement under the IFA, 2019 that all investment funds appoint a registered investment fund manager, effective by 31 August 2020, provided that an application was submitted (initially by 31 August 2020, extended to 31 January 2021). A similar “no action” period was provided for the 25 November effective deadline for application for registration under the Securities Industry (Contracts for Differences) Rules, 2020, so long as the application was made by February 2021.

AML/CFT and BCP Desk Based Reviews and Surveys

During the first week of July 2020, the SCB issued a desk based thematic review on AML/CFT and Business Continuity to all licensees and registrants. The SCB’s approach to this assessment is based on testing the consistency of implementation of the principles presented below, in registrant’s and licensees’ internal policies and procedures:

- (i) The Basel Committee on Banking Supervision’s “High-Level Principles for Business Continuity” (Joint Forum);
- (ii) The National Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) regulatory framework, including the Financial Transactions Reporting Act and Regulations, the Proceeds of Crime Act and the SCB’s AML/CFT guidelines and market conduct requirements.

A report on the findings is expected to be published in 2021. The analysis of the thematic reviews will address each theme by category of registrant or licensee i.e. SIA, IFA or FCSPA. This will allow for a comprehensive assessment and derivation of implications based on each category and clearly

identify best practices and common issues to inform the risk-based supervision process.

Once this analysis is complete, the plan is to issue another desk based thematic review on suitability standards based on the IOSCO’s nine principles on suitability for complex financial products and conduct of business requirements set out under the Securities Industry Regulations, 2012.

Shoring-up the Legal Framework

During 2019, various legislation administered by the SCB was promulgated to enhance or augment securities laws to align relevant provisions with best practices and international standards for AML/CFT/CPF. Amendments were made to the Securities Industry (Anti-Money-Laundering and Countering the Financing of Terrorism) Rules, 2015 to incorporate various international developments in the AML/CFT regulation and ensure compliance with the Financial Transaction Reporting Act, 2019 (FTRA), the Proceeds of Crime Act, 2018 (POCA), and the ATA. The SIA was also amended to, among other things, reflect the updated FTRA. The amendments to the SIA and the Rules impact both SIA and IFA registrants and licensees.

The legislative regime for FCSPs saw the introduction of mandatory standards for licensees with the implementation of the Financial and Corporate Services Providers (Anti-Money Laundering and Countering the Financing of Terrorism) Rules, 2019. Previously, licensees under the FCSPA were guided on AML/CFT conduct by the FCSP AML/CFT Handbook and Code of Practice. These Rules codified requirements for licensees to be in compliance with international standards and Bahamian AML/CFT legislation, including the FTRA, POCA and ATA.

During 2020, amendments were made to the Securities Industry (Anti-Money Laundering and Countering the Financing of Terrorism) Rules and the Financial and Corporate Service Providers (Anti-Money Laundering and Countering the Financing of Terrorism Rules to

require contact details for natural persons, where previously a permanent address was required.

Effective 30 December 2020, the Financial and Corporate Services Providers Act, 2020 (FCSPA), and the Financial and Corporate Service Providers Regulations, 2020, were brought into force. The new legislation modernized the legal framework for FCSPs. The legislation captures, among other things, non-bank financial services activities which are not required to be licensed by the Central Bank of The Bahamas and are not registered pursuant to the SIA. In addition to traditional activities such as money lending, payday and cash advance services, and debt collection, the new legislation has opened new categories of registrable activity including digital wallet services, custody of digital assets as well as trading in commodities and other financial instruments.

The Digital Assets and Registered Exchanges Act, 2020 (DARE) was brought into force on 14 December 2020. DARE regulates the issuance, sale and trade of digital assets, in or from within The Bahamas. Additionally, DARE prescribes the registration process for any person that intends to either be involved in digital asset business (“DABs”) or engage in digital asset service providers (“DASPs”) activities. DABs and DASPs include:

- (i) A digital token exchange;
- (ii) Providing services related to a digital token exchange;
- (iii) Operating as a payment service provider business utilising digital assets;
- (iv) Operating as a digital asset service provider, including providing DLT platforms that facilitates -
 - a) The exchange between digital assets and fiat currencies;
 - b) the exchange between one or more forms of digital assets; and
 - c) the transfer of digital assets;

- (v) Participation in and provision of financial services related to an issuer’s offer or sale of a digital asset.

DARE was developed in line with, and meets the requirements of Recommendation 15 (on Virtual Assets and Virtual Asset Service Providers) of the FATF 40 Recommendations. DARE imposes specific activity-based AML/CFT requirements on DABs and DASPs to ensure compliance with these obligations and includes both remedial and administrative sanctions for non-compliance. DARE also establishes a risk based approach for DABs and DASPs including registration and ongoing supervision requirements.

DARE prescribes risk-based preventative measures such as customer due diligence, record keeping, suspicious transaction reporting, enforcement measures and international cooperation. It also mandates that DAs and DASPs have the same full set of ML/TF obligations as financial institutions or designated non-financial businesses or professions (DNFBPs).

Looking Forward

The Commission is moving toward an increasingly data-driven environment to improve its regulatory effectiveness. In August 2019, the Commission launched a cloud based filings portal, the KPMG (SOFY) Risk Based Supervisory Platform, to automate the process of gathering data to inform risk assessments. This platform requires inputs that determine AML/CFT/CPF risk indicators to allow the SCB to better assess and monitor its licensees and registrants. The SCB has commenced the development of a cloud-based Compliance and Regulatory Interface (CoRI) platform to facilitate automation of regulatory filings and applications in 2020. CoRI is a part of a broader goal of the Commission to improve data collection and analysis for enhanced supervisory and regulatory effectiveness. SCB completed its testing of the new portal at the end of 2020 with its launch imminent for January 2021.

With regard to digital assets and exchanges, having met the minimum AML/CFT/CPF and regulatory thresholds currently required, the SCB intends to monitor developments with a view to determining appropriate regulatory responses as the need arises, and to use these experiences to inform the establishment of a comprehensive regime as the industry develops. There are immediate plans to develop a policy document to provide guidance to industry regarding expectations and compliance requirements of DARE.

The Commission has also embarked on drafting legislation to overhaul and update the Securities Industry Act, 2011.

The SCB has gained practical insight into the positive impact of supporting registrants and licensees with current information and training, along with the application appropriate disincentives for non-compliance. Together, these are powerful tools to foster greater regulatory compliance and support the SCB in its efforts to protect investors, safeguard the markets and mitigate systemic risks.



**THE INSURANCE COMMISSION
OF THE BAHAMAS
AML/CFT/CPF REPORT**

Michele C.E. Fields
Superintendent of Insurance, Chairperson GFSR

Following amendments in 2018 to the suite of AML/CFT legislation, the Insurance Commission of The Bahamas (the Commission) made extensive efforts to enhance its supervisory oversight of money laundering and terrorist financing (ML/TF) risks for both the domestic and international insurance sectors. Accordingly, the Commission's AML/CFT/CPF Guidelines were updated to reflect the heightened obligation for insurers emanating from the amended legislation. One such requirement was for financial institutions to conduct AML risk assessments. While life insurers were obligated by the legislation to conduct ongoing risk assessments, the Commission's supervisory framework extended this requirement to general insurers, as a facet of good risk management. This effort sought to directly address the gap noted for the insurance industry in the Mutual Evaluation Report.

As the Risk Assessment was a new requirement, the Commission issued a notice in December 2018 outlining key components that should be considered, to serve as a baseline guidance for insurers. Insurers were required to:

- Identify and assess the money laundering and terrorist financing (ML/TF) risk associated with facility holders, jurisdictions and geographic areas, products, services, transactions and delivery channels; appropriately assess the level of risk of



the company's business relationships and facility holders as high, medium or low;

- Refer to the most recent National Risk Assessment and any guidelines issued by the Commission;
- Inform senior management of compliance initiatives, identified compliance deficiencies and corrective action taken;
- Enable the timely identification and filing of suspicious transaction reports;
- Include the appropriate measures that the institution will take to manage and mitigate risks identified;
- Provide for adequate supervision of employees and intermediaries who handle onboarding, transactions (including non-financial transactions such as assignments), management reporting, granting exemptions, monitor for suspicious activity or engage in any other activity that forms part of the business AML/CFT/CPF program.

AML/CFT/CPF Industry Survey

The insurance industry, in comparison to other industries in the financial services sector, is generally

considered to have lower risk vulnerability, given the types of products and services offered. However, the mutual evaluation report highlighted gaps in the domestic market that were attributed to the level of oversight of general insurers in relation to ML/TF/CPF risks.

To assess the extent to which an insurer’s risk management framework included adequate mitigation measures for the level of ML/TF/CPF risks to which the insurers were exposed, the Commission issued an industry wide survey in April 2019. Responses were received from approximately 80 percent of the industry. The results revealed that most life insurers maintained a comprehensive AML/CFT/CPF risk management framework and carried out most of the elements of a comprehensive risk assessment, while only a few general insurers maintained a robust AML/CFT/CPF framework. The survey also gave the Commission insight into the nature of information captured by general insurers and whether such information could be used to meet standard CDD and KYC requirements. It also provided information regarding AML/CFT/CPF training communication, monitoring, and auditing. From these submissions, supervision analysts were able to preliminarily assess the level of money laundering and terrorist financing risk in the sector.

AML Review Methodology and Process

The Commission’s AML/CFT/CPF supervisory program followed the principles promoted in its overarching Risk Based Supervisory Framework. The Commission’s AML/CFT/CPF supervisory program is risk-based and proportional, as it considers the size, nature and complexity of the institutions supervised. A holistic approach was taken while conducting a review of the insurer’s AML/CFT/CPF program. The following documents were reviewed for each company:

- AML/CFT/CPF Examination carried out by the Commission
- Risk Assessment
- AML/CFT/CPF Manual

- Suspicious Transaction Policy
- Other related policies

The Commission provided each insurer with a summary of the deficiencies noted industry wide, as well as the issues specific to the individual company. Every insurer was assigned a residual risk rating based on the Commission’s assessment of the insurer ML/TF/CPF risk and the controls and mitigation implemented to manage these risks. The table below summarizes the residual risk rating assigned to insurers:

	Residual Risk		
	Low	Moderate	High
General Insurers	15	-	-
Long-term Insurers	13	4	-

Way Forward

The Commission remains committed to ensuring that all stakeholders within the insurance industry comply with their supervisory and legislative obligation to monitor and mitigate money laundering, terrorist financing and proliferation financing risks.

In strengthening its framework, the Commission plans to accomplish the following goals:

- To develop a baseline AML/CFT/CPF Framework for General Insurers
- To review risk assessments periodically to ensure insurance companies update as necessary
- To continue with annual AML/CFT/CPF examinations for long-term insurers and on a risk basis for general insurers.



The Compliance Commission
of The Bahamas

COMPLIANCE COMMISSION OF THE BAHAMAS AML/CFT/CPF REPORT

Andrew Strachan

Inspector, Compliance Commission of The Bahamas

We have made progress at the Compliance Commission (CC) during the past few years and in 2019 addressed the deficiencies noted in the Financial Action Task Force (FATF) action plan assigned to The Bahamas. These included demonstrating that the implementation of the Risk Based Approach has begun, issuing the pending AML guidelines for Designated Non-Financial Businesses and Professions, (DNFBPs), deterrence through remedial and punitive measures including applying administrative fines as appropriate, demonstrating an understanding of the AML/CFT risks posed by the DNFBPs sector to ensure that the frequency and intensity of supervision is based on risk including by demonstrating that sanctioning mechanisms for failure to register is in place.

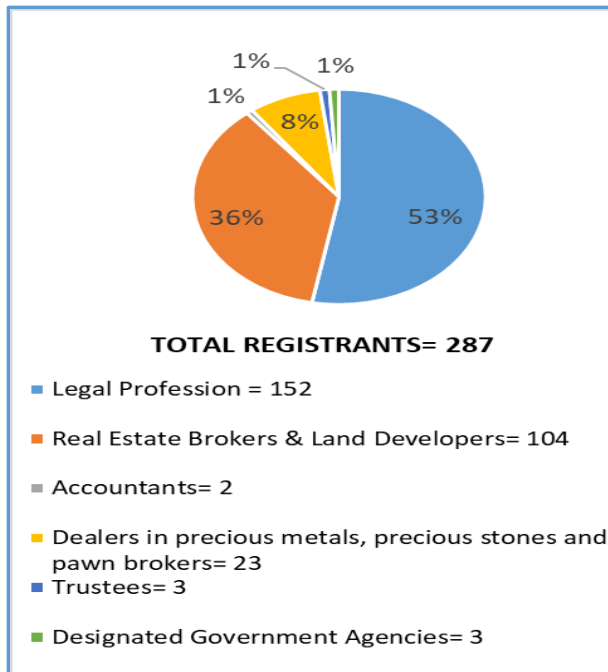
In the September 2019 progress report the supervisory actions implemented by the CC to address these deficiencies was rated largely



compliant by the FATF. The FATF conducted an on-site visit in November 2020 and The Bahamas was removed from the “grey list” in December 2020.

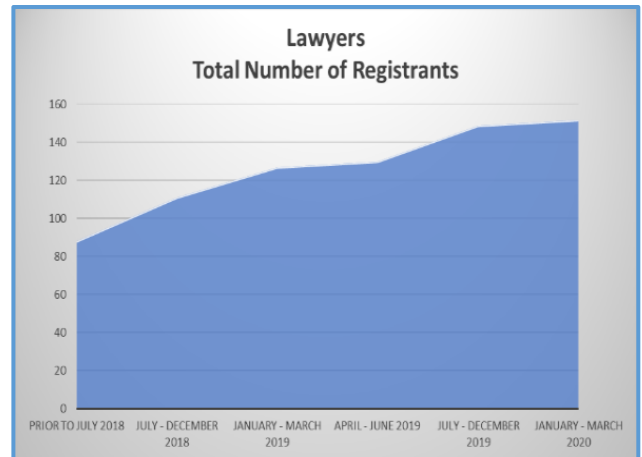
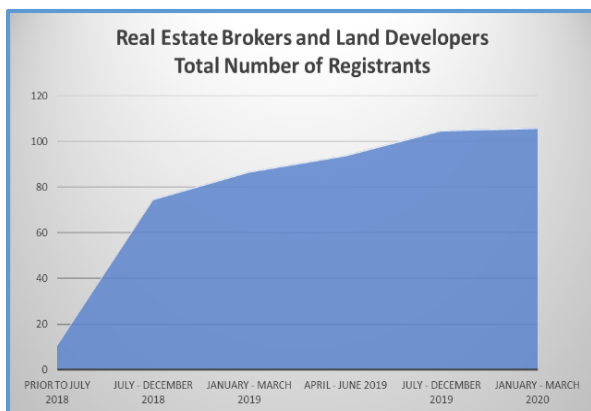
The CC supervisory focus is in compliance with FATF standards which stipulates appropriately supervising, monitoring, and regulating DNFBPs for compliance with AML/CFT/CPF requirements commensurate with their risks and providing adequate feedback and guidance.

The Commission supervises DNFBPs including Accountants, Lawyers, Real Estate Brokers and Land Developers, Dealers in Precious Metals and Stones (DPMS), persons acting in the capacity of Trustees and Designated Government Agencies. The Chart below shows the total registrants by sector led by Law firms.



The CC administrative penalty regime, enforcement program and mandatory registration requirement in law has led to an increase in compliance among all DNFBPs supervised by the CC. DNFBPs are registering with the CC without receiving a warning letter and frequently contacting the CC for guidance on how to meet their AML/CFT/CPF obligations.

The charts below show the increase in registration for Lawyers, and Real Estate Brokers and Land Developers since July 2018.



AML/CFT/CPF Education and Awareness Training, Resources and Innovation

The CC initiated a series of educational and awareness training events in 2019 and 2020 for the DNFBPs sectors supervised including training held in the training room at Poinciana House and by webinar. registrants in the family island and two (2) training events in Grand Bahama. The topics included typologies, requirements of the Policy and Procedure document, legislative updates and obligations, risk assessments, vulnerabilities of the sectors, terrorism financing and proliferation financing, red flags, targeted financial sanctions, and risk based CDD. In addition, guidance notes on CDD with sample KYC forms inclusive of ML/TF indicators and examples of risk control/mitigation measures UN Sanctions, Politically Exposed Persons and eligible introducers was issued to registrants to clarify the requirements. Further guidance notes will be forthcoming and the awareness brochures that summarizes the AML/CFT obligations for the DNFBPs sectors was updated in March 2020.

The DPMS sector was brought under supervision as per the obligations in the FTRA 2018 and the CC issued Codes of Practice for the sector in April 2019. Risk-based examinations will begin in the first quarter of 2021.

The CC launched a new website in April 2020. The features on the website are being introduced in stages beginning with educational content, then on-line registration for registrants; digitalization of the application and approval for Letter of Appointments by auditors to conduct AML/CFT risk-based examinations on behalf of the CC; digitalization of the process for registrants to select and engage an approved auditor to conduct an examination, on-line examination submissions by auditors and data analytics, Additional functions will be digitalized in 2022. The goal is to implement RegTech solutions to enable a more efficient and effective regulatory compliance regime. This process will result in improved management and allocation of resources for all of the CC supervisory functions.

Risk Assessments and Examinations

The risk-based supervision framework is implemented; prioritization of examinations and risk-based supervision has begun. The CC has completed the risk profiling for registrants in DNFBPs supervised and examinations procedures have been updated to meet FATF standards.

In 2019 the CC established an examination cycle informed by the risk assessments and to date have completed 41 examination of Law firms, 13 Real Estate & Land Developers and one accounting firm. The main areas of deficiencies in the Policy & Procedure document included procedures on relying on third parties, ongoing monitoring, complying with UN sanctions, applying EDD for persons from FATF high risk countries and internal compliance effectiveness reviews not conducted. Reviews of the Risk Assessment submitted reveal areas for improvement include more detail on the business operations specific to the firm, clients, delivery channels, geographical regions, rational for ratings and controls. The CC is following up with firms to ensure remedial actions are implemented and the application of sanctions for non-compliance.

The CC Administrative Penalty Regime and Enforcement Program

The CC issued on February 6th, 2019 a policy on administrative penalties for constituents under the Financial Transactions Reporting Act 2018 (FTRA). The CC is applying the policy on administrative penalties and established an enforcement unit charged with implementing the policy on administrative penalties and market intelligence program to detect unregistered companies.

The CC received \$1,000 from a law firm on November 8th, 2019, representing a penalty applied for failure to supply information as required by the CC i.e. risk questionnaire. The CC also penalized another law firm in the amount of \$5,000 for failure to supply information.

The CC's market intelligence and enforcement unit detected 48 law firms, 19 DPMS, and 7 real estate brokers and land developers during the period of 2018-2020 providing the services for registration with the CC and sent letters for failing to register. For the period of 2018-2020, the CC sent letters to 74 law firms, 15 DPMS and 43 real estate brokers & land developers for failing to produce information i.e. risk questionnaire. All of the firms are compliant.

Fit and Proper Guidelines and UN Sanctions and Implementations.

The CC has implemented measures to prevent criminals or their associates from holding (or being the beneficial owner of) a significant or controlling interest or holding a management function in a DNFBPs. In addition, UN Sanction notifications issued by the Identified Risk Framework Coordinator are distributed to registrants for compliance with the Anti-Terrorism Act 2018 (ATA), regulations, and amendments.

Research

The CC assisted The Central Bank of the Bahamas (CBB) in obtaining the relevant data on Bahamian vehicle sales, which were assessed to determine the degree to which vehicles are money-laundering risks in 2019. The study found that The Bahamas displays a low rate of vehicle sales, with expensive sales concentrated on working rather than luxury vehicles and with a quite small proportion of sales directly involving currency. These patterns suggest that ML is not a material risk for the Bahamian vehicle industry. The CC will continue research and collaboration to assess the ML/TF risk exposure and vulnerabilities for sectors supervised.

Conclusion

Our goal is to improve the level of AML/CFT/CPF compliance and discourage attempts by criminals to abuse DNFBPs and in particular, the sectors most exposed to money laundering, proliferation and terrorist financing risks. We will continue with our focus on awareness training to ensure that registrants understand their AML/CFT/CPF obligations and risks. Our role is to ensure that we supervise and monitor registrants to ensure their effective assessment and management of ML/TF risk and compliance with AML/CFT/CPF preventive measures.



**GAMING BOARD
FOR THE BAHAMAS**
AML/CFT/CPF REPORT

Ian Tynes

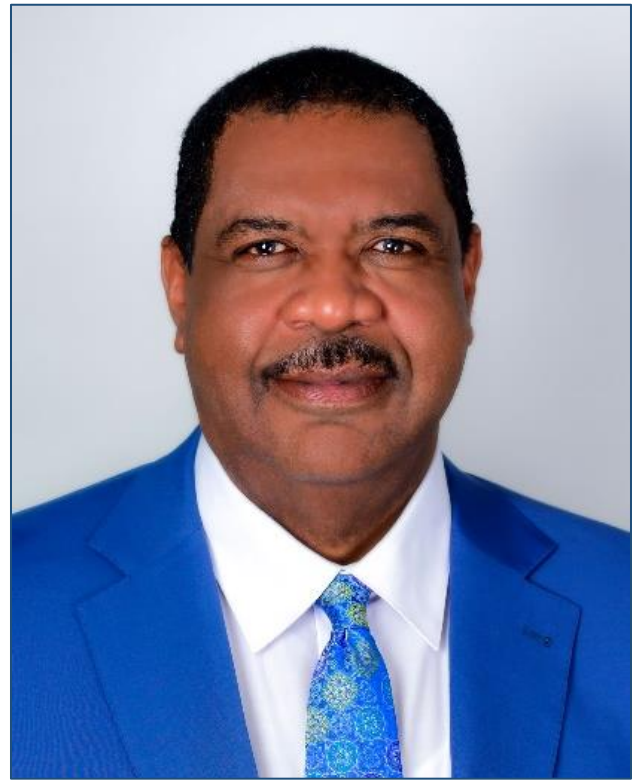
Secretary, Gaming Board for the Bahamas

The Gaming Board for The Bahamas (the Board) regulates two distinct sectors within the Bahamian gaming industry. These sectors consist of a tourist-based commercial casino sector and a domestic sector offering a unique, hybrid form of regulated Internet gaming pursuant to which domestic players may engage in an account based, direct online experience, game interactively in an account based, bricks and mortar Gaming House Premises or purchase for cash over the counter Numbers tickets from a Gaming House Premises or a licensed Gaming House Agent of one of these Gaming House Premises (licensees). In both the commercial and domestic sectors, Licensees are subject to rigorous licensing standards and are required to conduct the authorized form of gaming in accordance with internationally recognized internal controls and operational best practices.

As an element in the oversight of these sectors, the Board is constantly monitoring the AML/CFT/CPF landscape to ensure that all regulatory expectations are met inclusive of identifying, assessing, advising, monitoring and reporting all associated risks relative to gaming in The Bahamas.

Organizationally, the Board has designated two units within its Regulatory Compliance Department to play a pivotal role in the assessment of risk and compliance monitoring; namely:

i) the AML/CFT Supervisory Unit and



ii) the Enforcement Unit (the Units)

These units work collaboratively to ensure effective AML/CFT/CPF supervision are conducted in both the domestic and commercial casino sectors. Throughout 2019, all onsite monitoring and examinations conducted by these units were geared towards ensuring that licensees adhered to the Gaming Act, 2014, as amended, its relevant regulations and the Board's approved system of accounting and internal controls for the purposes of detection, prevention and mitigation ML/TF occurrences.

Moreover, during 2019, supplemental AML/CFT/CPF related statutes were introduced. These statutes included the Anti-Terrorism (Amendment) Act, 2019 and the Anti-Terrorism (Amendment) Regulations, 2019, which established reporting requirement procedures for the United Nations Security Council Resolutions and other international sanctions. Pursuant to the said enactments, both Gaming Licensees and

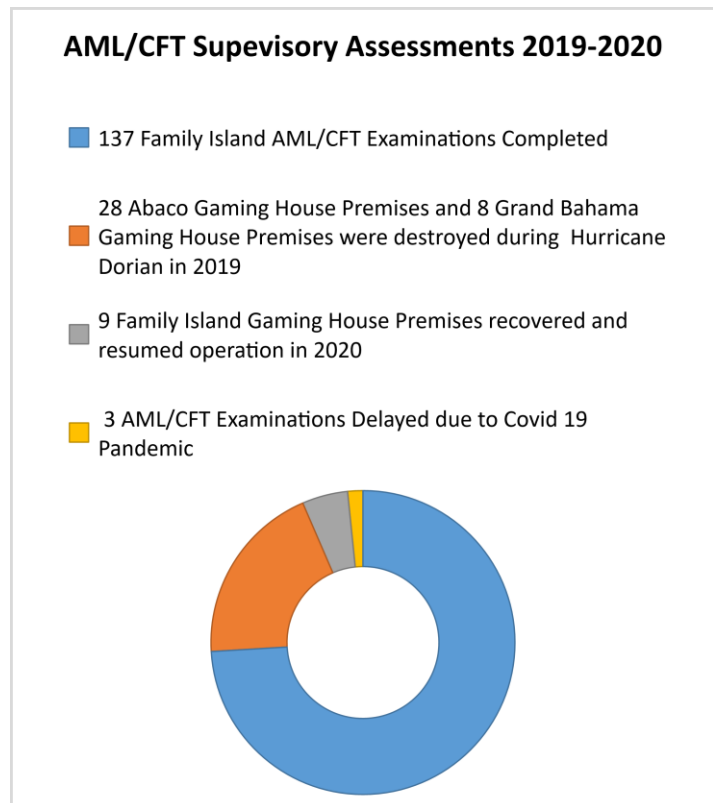
Gaming House Operator Licensees are required to maintain updated lists of designated entities and listed entities in electronic form and must regularly scrutinize their records to verify whether a listed or designated entity has any form of affiliate relationship with a gaming establishment. Though licensees are statutorily required to notify the FIU of any positive database matches, the Board also requires that its licensees report to the Board with respect to their database review findings whether matches have been found or not.

Moreover, in February 2019, the Board in conjunction with the Group of Financial Services Regulators instituted an AML/CFT administrative penalty regime based on the legislative authority inherent in Section 57 of the Financial Transaction Reporting Act, 2018 (“FTRA”). As such, the provisions of the FTRA serve as a complimentary enactment by providing additional and updated sanctions that the Board can apply as appropriate to its licensees for non-compliance with the provisions of the FTRA.

During the period from June to December 2019, the Regulatory Compliance’s AML/CFT Supervisory Unit conducted various onsite AML/CFT/CPF examinations of its Licensees in both sectors. The examinations focused on internal control weaknesses and the assessment of the various elements regarding currently approved and operational AML/CFT/CPF programs.

Onsite visits were made to 11 Family Islands, of which 137 locations were examined as distributed among seven Gaming House Operator Licensees, and one Gaming Licensee in New Providence.

The status of the supervisory assessment is illustrated in the chart following:



A key observation emanating from the onsite examinations was the need for updated training on AML/CFT procedures, particularly within the domestic sector. This finding prompted the Board to take initiative in seeking to provide additional training to its licensees to complement the statutorily required annual AML/CFT training, currently required of its licensees.

In the AML/CFT space, effective risk management is an integral part of a Licensee’s management practices and has the proclivity to accrue numerous benefits once properly implemented. All licensees are statutorily required to conduct both patron risk assessments and business risk assessments. Notably, while licensees in both sectors share numerous commonalities as it relates to risk, the following areas differ materially in the commercial and domestic sectors:- the nature of the gaming conducted, the source of the player, the nature of the permissible financial transactions and in many cases the transaction tracking and aggregating technology. Commercial casinos, for example, are

statutorily permitted to facilitate a more sophisticated payment processing. This method, however, has provided for a greater availability of online AML profiling data, due to the cross border nature of services offered with respect to its tourist-based clientele, which are predominantly international patrons. Additionally, with the impending implementation of the Board's central monitoring system, it is anticipated that it will assist the Board significantly in monitoring each licensee's risk management systems from a virtualized perspective in the near future.

In conclusion, the AML/CFT/CPF supervisory landscape has been challenged by the passage of Hurricane Dorian in 2019 and the Covid-19 Pandemic. However, in the midst of such challenges, there were certainly opportunities that would have arisen. In the pursuit of enhancing its regulatory role and following AML/CFT onsite examinations, the Board will seek to conduct additional industry briefings, trainings and exhibitions, in order to continually assist its licensees with understanding regulatory expectations in accordance with national and international AML/CFT/CPF industry best standards.



FINANCIAL INTELLIGENCE UNIT AML/CFT/CPF REPORT

Quinn W. McCartney, QPM
Director, Financial Intelligence Unit

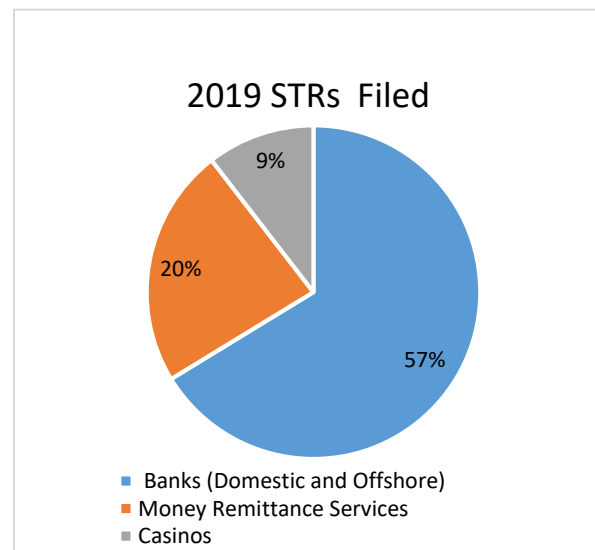
A Financial Intelligence Unit (FIU) is often referred to as the “gatekeeper” of the AML/CFT/CPF regime in a country. It is to this body, where all transactions conducted at financial institutions (FIs) that are deemed suspicious or unusual, are reported. The FIU is responsible for analysing this information to determine if the transaction conducted or attempted to be conducted raises the alarm to warrant further analysis and possible investigation by a law enforcement agency.

FIU Bahamas is one of 164 FIUs worldwide that are part of the Egmont Group. It works in collaboration with the regulators (Supervisory Authorities) to minimise or eliminate any risks in our financial services industry that could pose a threat to the global economy. This collaborative approach provides the framework for ensuring that The Bahamas remains a jurisdiction that is a responsible player in the sector.

In 2019, the FIU received 525 suspicious transaction reports (STRs), which was three percent fewer than in 2018. Of these, 57% percent came from domestic and international banks, 20% from money remittance services and 9% from casinos. See chart following:



FIU – STR 2019 Statistics



The other submissions were from casinos, law firms, and other licensed institutions. Most of the submissions were filed because transactions were being made that were inconsistent with the profile of the subjects involved and adverse media reports.

The major focus of the FIU in 2019 was to:

- (a) Upgrade its infrastructure;

- (b) Continue with the professional development of the staff; and
- (c) Strengthen its relationships with key stakeholders.

Significant upgrades were made to facilitate the submission of STRs and other reports, and to provide analysts with the requisite tools to enhance their analytical capabilities. The IT infrastructure was replaced and upgraded to provide a more secure and user-friendly environment. An e-filing software was purchased that allows for Money Laundering Reporting Officers (MLROs) from FIs and Designated Reporting Officers (DROs) from other agencies, to electronically submit their reports. The platform also allows for the FIU to exchange information with these individuals, and for the receipt of responses to production orders. By the end of the year over 200 MLROs and DROs were registered on the platform.

Several events were held to strengthen relationships with its partners. A MLRO Forum was held in April 2019. This was an opportunity for the FIU to speak directly with the MLROs to update them on the planned changes and to get feedback. At a Public-Public Partnership Forum held in August under the theme *“Breaking Down Silos Building Partnerships”*, the FIU was able to meet with the Heads of the Supervisory Authorities, Government Departments and Agencies to remind them of the significant role the FIU plays in the AML/CFT regime, and to solicit their continued support.

The FIU made significant steps in 2019 to enhance its efficiency and effectiveness. The deficiencies highlighted in The Bahamas’ 2017 CFATF Mutual Evaluation Report (MER) unpinned most of the changes that occurred. Significant steps were made to meet and exceed the standards and expectations of the international bodies and add value to the role it plays in the local AML/CFT/CPF regime.

The administrative and IT upgrades made in 2019 proved to be most beneficial to the operations of the FIU in 2020. The COVID-19 pandemic, while affecting the ability of Analysts and other key personnel to work from its physical location for significant periods of time, did not hinder the FIU’s ability to receive STRs and other reports, including reports from Foreign FIUs.

Preliminary review of the statistics from 2020 actual shows an increase in the number of STRs that were filed by Financial Institutions, compared to 2019. More than 600 STRs were filed, the overwhelming majority of which were received via the e-Filing portal. FIs were also able to submit Production Order Returns (PORs) via the portal, aiding the seamless exchange of information throughout the year. Communication with its counterpart FIUs continued, with the exchange of requests for information and spontaneous disclosures through the Egmont Secure Web (ESW).

The e-Filing portal was also upgraded in 2020 to allow FIs to file their Terrorist Property Reports (TPR) to the FIU, as is required by The Bahamas’ Anti-Terrorism Act (ATA) 2018. The Customs Department is also able to submit reports on the cross-border movement of currency and file Travellers Currency Declaration Reports (TDRs), a requirement of the Travellers Currency Declaration (Amendment) Act 2018.

FIU Bahamas continues to make its presence felt in the AML/CFT/CPF space in The Bahamas, regionally and internationally. It remains an active participant of the Identified Risk Framework (IRF) Steering Committee, an Observer member of the Group of Financial Service Regulators (GFSRs), the Caribbean Financial Action Task Force (CFATF), and the Egmont Group. Its outreach and partnership with the FIs, Regulators, Government Agencies and others will continue through meetings, webinars and its soon to be launched website.

INTER-AGENCY REPORT

During 2019-2020, The Bahamas' GFSR, along with other public and private sector agencies has continued to collaborate on a number of initiatives in the AML/CFT/CPF space over years. Collective work/initiatives undertaken and planned included:

- Ongoing AML/CFT/CPF work by the Bahamas' Identified Risk Framework (IRF) Steering Committee
- Establishment of the GFSR AML External Working Group (AMLWG)
- Virtual Trainings During Covid-19
- Hosting an AML/CFT seminar
- Issuance of the second AML/CFT annual publication

The Identified Risk Framework Steering Committee

The IRF Steering Committee has continued to carry out significant work in the AML/CFT/CPF space over the past years. Representatives from the respective GFSR agencies serve as members of the IRF Steering Committee, along with representatives from the FIU and other public other public sector agencies. The Committee, led by the Office of the Attorney General and Ministry of Legal Affairs, continued to meet on a weekly basis to discuss AML/CFT/CPF work within the jurisdiction. Given COVID-19 social distancing requirements, meetings have been held virtually.

To better, understand ML/TF risk within specialized sectors of Industry, in 2019, the Central Bank and the Compliance Commission collaborated and completed a number of studies with respect to various sectors, inclusive of the Designated Non-Financial Businesses and Professions (DNFBPs) category of businesses that fall within section 4 of the FTRA, 2018. The results suggest that domestic banking, gaming and the

automobile sector of the country present low ML/TF risk.

Additionally, further to previous studies conducted on domestic gaming sector, and with respect to verifying the level of ML/TF risk the international gaming sectors pose, the Gaming Board and the Central Bank commenced a review of these sectors during 2020.

Further, in seeking to address deficiencies and gaps as indicated in the 2017 Mutual Evaluation Report (MER), the GFSR agencies have continued to engage with their respective licensees by hosting briefings and training programs to ensure that they are educated on their AML/CFT/CPF obligations and requirements.

GFSR AML External Working Group

The AMLWG was established in February 2020 and is responsible for the development of AML specific guidance notes, consultative papers, other forms of publication, conferences and other AML initiatives to be undertaken by the GFSR and, where relevant, by the GFSR's members. The working group meets periodically or with such frequency as required by the exigencies of the issues under consideration. The working group comprises of a primary member and an alternate of each member agency of the GFSR. This group leverages the knowledge and exposure of the members and will engage other subject-matter technical experts to lend assistance where needed.

Virtual Webinar Training held during Covid 19

Due to the postponement and cancellation of many in-person local and international seminars and conferences as a result of COVID-19, GFSR agency members participated in a number of AML/CFT/CPF related webinars and courses to continue with training and development in the fight against ML/TF/CPF. Such trainings included:

- 1) FATF Webinars
 - Impact of COVID-19 on ML investigations, prosecutions and international cooperation
 - Impact of COVID-19 on international AML cooperation
 - COVID-19 and the ML/TF/CPF risk landscape
 - COVID-19 and ML/TF/CPF detection
- 2) Money Laundering modules on the United Nations UNODC eLearning platform
- 3) Association of Certified Anti-Money Laundering Specialists (ACAMS)
 - Successful completion of the CAMS Certification
 - ACAMS 24+ Global Virtual Summit
 - Fighting Modern Slavery and Human Trafficking Certificate
 - Virtual Currency and Block Chain Certificate
 - ACAMS Bahamas Chapter Webinar - Strategic Approaches to Financial Crime
- 4) Trade Based Money Laundering (TBML) webinars in the Caribbean (The Bahamas)
- 5) FIU – caseKonnnect Trainings
- 6) Financial Stability Institute (FSI) Connect

AML/CFT Seminar

The GFSR hosted its second AML/CFT Risk Management event at the Melia Nassau Beach Hotel on 26 June 2019 in Nassau, Bahamas, under the theme “The Evolving Landscape of AML/CFT in The Bahamas”. The one-day seminar was very successful and featured a strong domestic and international speaker group that presented on various topics including:- the Bahamian government’s strategy to promote an effective AML/CFT regime, ways to strengthen risk assessments, new developments within The Bahamas suspicious transaction reporting regime, crypto-assets regime; lifting The Bahamas investigative and enforcement measures, de-risking in the Caribbean and updates within The Bahamas

regulatory landscape. More than 400 persons attended the conference.

International AML/CFT Conference

The GFSR, in collaboration with the Caribbean Community (CARICOM) had scheduled to co-host an international AML/CFT conference on 2-3 June 2020 in Nassau, Bahamas. However, due to COVID-19 risks, the conference was postponed to a date to be determined.

AML Publication

This second AML/CFT Publication has amalgamated all the various AML/CFT/CPF work conducted during the past two years by regulatory bodies and public/private agencies. It documents the jurisdiction’s progress on managing ML/FT risks regarding expected achievements in the AML space; ongoing and prospective supervisory and regulatory developments; and summary statistical data on key developments.

Appendices

Appendix I

Currency Notes in The Bahamas

As part of its focus on AML/CFT/CPF risk areas, the Central Bank considers currency note use in The Bahamas. As a practical matter, U.S. Dollar and Bahamian dollar notes trade equivalently in The Bahamas. The Central Bank supplies Bahamian notes as required by the clearing banks, who return or request notes to balance against demand.

Bahamian domestic banks engage The Central Bank¹ to return U.S. dollar notes to the Central Bank, for bundled return to the United States².

This appendix, present information on the stock of Bahamian dollar notes by denomination, and the annual flow of USD notes. However, estimates lack on the stock of USD notes in circulation within The Bahamas are not available.

Currency notes and money laundering

Physical currency can facilitate money laundering in at least two ways:

- 1) A criminal may receive notes as proceeds from a crime, then deposit those notes in the banking (or investment) system, or alternatively make purchases with the notes; and
- 2) A criminal may hold notes as the proceeds of crime outside the banking system, as a way to anonymously retain the proceeds of crime for later use.

¹ Banks may make private arrangements to manage their USD notes, but the Central Bank's understanding is that over 99 per cent of such notes flow through the Central Bank arrangement.

² USD notes are returned in 1,000 note bundles, so relevant statistics will show zeroes for at least three significant digits.

The Bahamian Dollar currency note position

Tables 1 & 2 below outline the Bahamian dollar stock of notes by denomination.

Table 1. B\$ Currency Report—Value of Notes Outstanding (\$000)

Figures as at 31st December

	2012	2013	2014	2015	2016	2017	2018	2019	Avg. Growth rate
\$0.50	653	668	669	676	737	767	773	870	2.48%
\$1	20,656	21,279	22,114	22,702	23,509	24,285	24,667	25,232	2.85%
\$3	1,874	1,903	1,921	1,943	1,972	2,017	2,026	2,119	1.12%
\$5	10,018	10,451	10,731	11,036	11,503	11,918	11,978	12,164	2.72%
\$10	15,218	15,196	15,794	15,997	17,753	18,510	18,872	19,359	3.56%
\$20	51,997	54,189	57,060	57,299	59,900	61,349	54,216	54,402	-0.04%
\$50	93,668	96,746	102,994	108,690	116,723	123,722	141,702	159,240	8.21%
\$100	130,728	132,180	142,783	147,495	167,895	168,470	176,572	184,756	5.33%
Total	324,812	332,612	354,066	365,838	399,992	411,038	430,806	458,142	5.03%

Table 2. B\$ Currency Report – Summary Statistics

	2012	2013	2014	2015	2016	2017	2018	2019
Median Note Value (\$)	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00
Ave. Note Value (\$)	10.18	10.13	10.37	10.45	10.89	10.83	11.20	11.51
Value/GDP (%)	3.0%	3.1%	3.3%	3.4%	3.8%	3.8%	3.9%	4.0%
Value Per Capita (\$)	873	882	926	946	1022	1040	1116	1178
\$100/Total Value	40%	40%	40%	40%	42%	41%	41%	40%

There are a several observations available from the above two tables:

- 1) A substantial majority of the value in Bahamian notes is represented by \$50 and \$100 denominations. Over half the number of notes are represented by the \$1 denomination.
- 2) The growth of the \$50 note relative to the \$20 note may reflect changing Bahamian ATM distributions.
- 3) The B\$ note composition has been stable in recent years, with the Median note by value the \$50 denomination, and the average note value around \$10.
- 4) The value of notes per capita has increased in recent years from around \$900 to nearly \$1,200. The value of notes as a proportion of GDP has increased from approximately 3.0% in 2012 to around 3.9% currently.
- 5) The proportion of \$100 notes by value has remained constant at around forty percent (40%).
- 6) The growth of retail electronic payments is not evident in the above table, as the value of notes per capita and as a proportion of GDP continues to increase. It will be interesting to see how the rapidly accelerating availability of electronic payment channels affects Bahamian currency note outstanding in the future.
- 7) Bahamian currency composition and growth patterns are about average in world terms³.

The Central Bank does not observe any pattern that would suggest large-scale money laundering using Bahamian currency. Due to exchange control restrictions, B\$ notes are also most unlikely to serve as a material vehicle for cross-border money laundering, particularly given the availability of freely convertible USD notes.

³ See for example: <https://cashesentials.org/app/uploads/2018/07/2018-world-cash-report.pdf>

USD currency note flow

Tables 3 and 4 summarize gives the flow of USD denominated notes from the Bahamian domestic⁴ banking system to the Central Bank. This table somewhat understates the amount of domestic expenditure driven by USD notes. Retailers often make change to USD purchasers using whatever USD denominated notes they possess. The data nonetheless gives a sense of the flow of USD denominated notes in in the Bahamas.

Table 3. USD Currency Report—Value of Notes Purchased (000s)

	2012	2013	2014	2015	2016	2017	2018	2019
\$1	5,535	6,054	6,501	6,920	6,601	5,776	6,039	6,980
\$2	20	36	26	10	42	32	24	58
\$5	8,975	9,745	10,030	10,350	9,530	8,455	9,330	10,270
\$10	10,860	11,960	11,970	12,180	10,920	9,240	10,290	11,820
\$20	117,500	133,860	122,820	127,680	125,660	99,540	122,520	111,620
\$50	4,905	5,680	7,100	10,525	6,455	5,450	9,600	5,050
\$100	14,820	13,710	15,400	14,730	13,330	13,400	13,900	9,400
Total	162,615	181,045	173,847	182,395,	172,538	141,893	171,703	155,198

⁴ The much larger Bahamian international banking system takes very few currency deposits and has only minor holdings of currency, so is not considered here.

Table 4. USD Currency Flow Report – Summary Statistics

	2012	2013	2014	2015	2016	2017	2018	2019	2020 (Jan-Jun)
Median Note Value (\$)	20	20	20	20	20	20	20	20	20
Ave. Note Value (\$)	11.18	11.20	10.76	10.76	10.67	10.41	11.15	9.69	10.09
Value/GDP (%)	1.5%	1.7%	1.6%	1.7%	1.6%	1.3%	1.6%	1.4%	N/A
Value Per Capita (\$)	437	480	455	472	441	359	445	399	149
\$100/Total Value	9%	8%	9%	8%	8%	9%	8%	6%	12%

For the data, the median USD note in quantity and value is the \$20 bill, which is consistent with travelers making withdrawals in this denomination from ATMs before arriving in The Bahamas. The average note value is about the same as for Bahamian currency. \$100 denomination notes make up only about 1.0 percent of total notes presented, whereas the \$1 accounts for 40% of notes presented.

As a point of comparison, about 80 percent⁵ of the value of USD currency outstanding globally is in the \$100 denomination; and it estimated that more US\$100 notes circulate than the US\$1 bill. Conversely the Bahamian pattern in 2019 indicated less 1 percent of value in the B\$100 denomination, and seventy times the number of B\$1 notes compared to B\$100 notes.

It is clear from this table that the flow of USD denominated notes through the Bahamian banking system looks very much like tourist expenditure, and very little like money laundering.

There is also the potentially interesting observation that USD currency note flow decreased from 2015 through 2019, despite increases in tourism. This may reflect the fact that American and other offshore tourists are increasing their proportion of payments made electronically rather than in cash.

⁵ <https://fred.stlouisfed.org/release/tables?rid=311&eid=153785>

Inferring COVID-19 effects from USD currency flows

For 2020, Table 5 demonstrates a dramatic falloff USD currency notes in circulation inside the Bahamas, consistent with travel shut-downs. The data 5 compares an unaffected period of 2019 with the first half of 2020, when COVID-19 travel bans commenced. Tables 6 and 7 give the 2019 vs. 2020 monthly comparisons.

In March 2020, there was a burst of USD currency flow, which may reflect urgent travel and other travel ban responses, plus Bahamian “stocking up” purchases heading into lockdowns. The April through June comparisons, remembering that Bahamians also deploy USD notes, indicates the degree to which cross border tourism has decreased due to COVID-19

Table 5. USD Currency Report—Value of Notes Purchased (\$000)

	2019 (Jan-Jun)	2020 (Jan-Jun)
\$1	3,828	2,691
\$2	6	50
\$5	6,045	3,535
\$10	6,950	4,090
\$20	74,820	36,280
\$50	4,300	4,950
\$100	7,900	7,100
Total	103,849	58,696

Table 6. USD currency report—Value of Notes Purchased 2019 (\$000)

	Jan	Feb	Mar	Apr	May	Jun
\$1	718	598	489	460	956	607
\$2	-	-	2	4	-	-
\$5	1,070	910	915	815	1,395	940
\$10	1,250	1,010	1,040	970	1,620	1,060
\$20	12,080	9,840	13,120	10,640	17,600	11,540
\$50	2,200	1,100	600	100	200	100
\$100	5,700	200	1,300	200	400	100
Total	23,018	13,658	17,466	13,189	22,171	14,347

Table 7. USD currency report—Value of Notes Purchased 2020 (\$000)

	Jan	Feb	Mar	Apr	May	Jun
\$1	691	572	790	206	212	220
\$2	6	-	-	22	2	20
\$5	810	620	1,195	240	250	420
\$10	1,050	640	1,400	360	320	320
\$20	9,860	8,740	12,200	1,880	1,800	1,800
\$50	300	-	3,150	500	-	1,000
\$100	2,600	200	3,400	800	-	100
Total	15,317	10,772	22,135	4,008	2,584	3,880

Summary

The Central Bank's currency suggests that:

- a) Reliance upon Bahamian currency notes relative to the economy is slowly growing
- b) There is nothing in the USD data to suggest Bahamian money laundering on any material scale
- c) There is little in the Bahamian dollar data to suggest material money laundering domestically

Appendix II

Summary of AML Empirical Research Conference

Bahamas AML global research conference: Weighing AML costs vs. benefits

On January 22 and 23, 2020, the Central Bank of the Bahamas hosted an inaugural global research conference focusing on empirical approaches to anti-money laundering (AML) and financial crime prevention. This conference's creation was supported by the Caribbean Development Bank, the Inter-American Development Bank and the Association of Supervisors of Banks of the Americas.

At this conference, many of the world's leading AML researchers, both academic and applied, shared their scholarship with experienced AML practitioners and policymakers. Over 30 papers were submitted for consideration to be presented, from 17 were accepted. The accepted came from 31 authors and co-authors, from 17 countries across Europe, North America, South America, Australia and the Caribbean. Meanwhile 75 the conference recorded participants, from 27. Professionally, participant were split evenly between academics, regulators and private-sector executives.

The conference proceedings, including the papers and discussion summaries, are available at <https://www.centralbankbahamas.com/bank-supervision/aml-empirical-research-conference>.

The presentations from the paper authors and the resultant discussions addressed many financial crime questions, including:

- How AML professionals can identify regions, countries, banks or customers that present high financial crime risks
- The economic impacts of the global AML architecture
- The links between AML and financial crime incidences, de-risking and other topical issues, such as financial inclusion

The conference papers and discussions generated a reasonable consensus on two themes:

1. The global AML framework is rendered considerably less effective than it should be by the absence or non-availability of relevant data. This paucity of data contrasts poorly with the data available for, among many examples, prudential supervision, securities regulation and macroeconomic management.
2. The global AML framework has successfully imposed comprehensive and expensive behavioral rules on the world's nations, financial institutions (FIs) and financial customers. However, none of the papers presented at the conference and none of the discussions revealed any persuasive evidence that the current global implementation of these rules demonstrably reduces predicate crime, or facilitates material interception or recovery of illicit fund flows and assets.

Correspondent banking and de-risking

During the conference, the correspondent and respondent bankers plus regulators in the room engaged in a spirited but civil discussion with academic presenters on the current state of de-risking. Some of the key points are outlined below.

1. Until around 2005, correspondent banking was a low-risk, low return, but reasonably attractive business proposition.
2. Broadly, over the past 15 years, there have been four reductions in the net income and return on equity available to correspondent banking:
 - Interest rates have decreased to near-zero, making correspondent balances less valuable.
 - The Basel Committee's liquidity and leverage reforms have had the unintended consequence of requiring correspondent banks to hold more equity against respondent balances.
 - The average operating costs associated with each respondent relationship have increased, with the growth in the Wolfsberg Questionnaire noted as a typical example of this trend.
 - There is some increased risk that illicit business channeled through a respondent will generate regulatory or legal penalties for a correspondent bank.
3. Even before any consideration of AML risk, the correspondent banking line of business had become considerably less profitable and has had a lower return on equity in recent years.
4. On the other hand, nearly all banks in nearly all countries can obtain correspondent banking services. Furthermore, when measured in volumes of aggregate business, rather than by number of respondent relationships, there was less evidence that de-risking was a problem. There was also the consideration that the global banking industry is shrinking in numbers and larger banks are on average shrinking their cross-border presence, which also plays into de-risking.
5. The experienced correspondent bankers in the room considered that the de-risking trend had about run its course. Other participants were not so sure of this, but would welcome that outcome. In addition, these correspondent bankers noted from their experience that a substantial majority of de-risking decisions have been driven by lower income and returns, rather than a focus on financial crime risk.

The FATF MER process

Another broad discussion stream covered how small countries should engage in the Financial Action Task Force (FATF) mutual evaluation report (MER) process. The Caribbean commentary particularly touched upon the need for regional jurisdictions to ensure they contribute their best and brightest AML specialists to become MER examiners.

There was also the question of whether or not the MER process was fair and, in particular, whether larger jurisdictions are favoured over smaller jurisdictions. The room (dominated by non-Group of Ten representatives) agreed that the FATF seems more willing to forgive MER “holes” in larger jurisdictions, and is more eager to find problems in smaller jurisdictions.

The issue of the Organisation for Economic Co-operation and Development and the European Union developing their own blacklists was also raised. There was a general sense that these lists were unhelpful, given both organizations’ propensity to rate other countries, but not their own member states.

The economic cost of AML enforcement

Two papers presented at the conference provided useful empirical insights into the indirect costs of AML enforcement.

Professor Pablo Slutzky from the University of Maryland presented a heavily data-driven paper demonstrating the interfaces between Colombian AML crackdowns leading to suppressed bank deposits, which in turn led to suppressed lending to high-employment small and medium enterprises, which finally led to reduced GDP. The paper deployed, among several data sources, satellite “night light” imagery to demonstrate the fall in GDP. Most thought, “But this is what you would expect when a country cracks down on a major export.” Slutzky pointed out the paper’s punchline: Despite the real economic costs of the AML crackdown, there was no evidence that Colombian cocaine production or illicit funds generation decreased. Other South American participants at the conference noted that one effect of the crackdown was that funds simply moved to other countries—to their economic benefit.

Professor Julia Morse from the University of California, Santa Barbara presented a paper on a similar theme that traced reduced trade finance availability, which led to reduced trade flows in countries subjected to FATF blacklisting. While this was perhaps an intended consequence of FATF procedures, reduced trade flows were persistent well beyond a jurisdiction’s time on the blacklist.

In discussing these papers, the conference’s participants again returned to a central theme—the costs of AML enforcement are very large and increasingly obvious, but the benefits were more difficult to determine and currently impossible to quantify.

Can high-risk AML jurisdictions be identified?

Several European researchers presented papers that empirically examined cross-border fund flows or equity ownership. These papers in aggregate demonstrated that bilateral asset exposures probably say more about potential dirty money locations than general risk ratings on countries. However, the papers drew quite different conclusions as to which country pairs were the most problematic. As with many papers at the conference and in the AML world at large, more data would be a substantial help.

Professor Jason Sharman from the University of Cambridge presented the current iteration of his long-running work⁶ with Professor Mike Findley from the University of Texas at Austin and Professor Dan Nielson from Brigham Young University. In this work, banks and corporate service providers were approached by carefully crafted shadow-shopping exercises. The empirical findings from this work were discouraging. Banks do not seem to show much risk sensitivity and, although many banks and corporate service providers follow the rules, it was possible to find hundreds of FIs that are at least initially receptive to approaches that are deliberately dubious. Furthermore, there was no evidence that developed economy FIs were more robust than FIs in the developing world or international financial centres.

Dr. Kateryna Boguslavska from the Basel Institute on Governance presented on her organization's Basel AML Index.⁷ This presentation demonstrated that even honest, expert and considered national AML risk-rating systems had problems finding determinative data. For example, it was hard to believe that the Basel AML Index, which in recent years ranked Estonia as the lowest-risk AML jurisdiction in the world, was entirely accurate.

Charles Littrell from the Central Bank of the Bahamas presented a paper comparing and contrasting sovereign debt ratings with sovereign AML ratings. In the debt-rating world of Standard & Poor's, Moody's and Fitch, ratings are highly correlated and statistically validated as broadly correct in ordinal terms. However, the various ratings sources are sometimes wildly uncorrelated in the AML rating world, most notably in the case of FATF and the U.S. Department of State's International Narcotics Control Strategy Report ratings, which are negatively correlated. Furthermore, without any clear dependent variable to match the debt-rating agency default rates, it was impossible to assess which, if any, of the current sovereign AML ratings had any predictive value.

In summary

The inaugural research conference achieved its goal of establishing a better foundation for data-driven AML researchers and practitioners to work together.

⁶ See Mike Findley, Daniel Nielson and Jason Sharman, Global Shell Games, <http://www.globalshellgames.com/>

⁷ "Basel AML Index," Basel Institute on Governance, <https://www.baselgovernance.org/basel-aml-index>

Appendix III

AML Special Deposit Data Collection Report

Assessing Material Money Laundering Risk in the Bahamian Domestic Banking System

This note focuses on identifying industry segments that were low money laundering risks, based on 2018 flows. Other documents cover the Bahamian approach to addressing higher risk sectors. Readers are cautioned that the information presented here covers only the domestic retail banks, and not the international banking and trust sectors. This study also does not touch directly upon international business companies (“IBCs”).

The Central Bank of The Bahamas conducted a special survey of domestic banks deposit cash flows for 2018. The survey was intended to better identify industry segments that were potential sources of material money laundering risk. Results were released on 25th June 2019, as detailed below.

The criteria for “potentially material” were: -

- Total deposit volumes. Very small industry segments are unlikely to be material, at least in their engagement with the domestic banking system.
- The split between Bahamian dollar and foreign currency accounts. The former are unlikely to figure in cross border money laundering, given exchange control restrictions.
- The split between cash, and all other deposit forms (cheques, cards, electronic) for both B\$ and foreign currency accounts. Higher levels of currency note deposits indicate more potential for cash-based money laundering.

The Data Collection

The data covered the total deposit inflows into the domestic banks as summarized below

Table 1: Domestic Deposit Inflows (B\$ million)

	B\$	Foreign Currency	Total
Total Deposits Received for 2018	\$ 37,635	\$ 13,944	\$ 51,579
of which			
Retail/Household	\$ 7,594	\$ 672	\$ 8,266
Commercial/Other	\$ 30,041	\$ 13,272	\$ 43,313
of which			
— Notes & Coins	\$ 5,687	\$ 520	\$ 6,207
— Other	\$ 31,176	\$ 13,412	\$ 44,589

The summary table generates several inferences:

- Commercial cash flows dominate household cash flows, particularly in the foreign currency sector.
- Non-cash deposits dominate cash deposits, and again unsurprisingly, particularly in the foreign currency sector.
- Foreign currency denominated accounts are a material minority of the domestic banking system, although several domestic banks have no or very little foreign currency accounts.

Some Data Issues

The Central Bank is satisfied that the data collected for this exercise provides a sound basis for the assessments. Nevertheless, some reporting issues were identified as stated below: -

- o One bank discovered that its data-mapping customers to industry segments was faulty. That Bank's results have been included in the total deposit inflows above, but have been excluded from the industry analysis below. issue.
- o Another Bank's data did not distinguish between currency and cheques deposited. To present a more accurate segment position, we have assumed that this bank's deposit composition for attorneys matches the average for its two closest peers. Otherwise the data has not been adjusted, which means that the proportion of cash reported in the segment results is somewhat higher than would otherwise be the case. In the Central Bank's assessment, this over-statement of the cash position is not material other than in the legal sector, for which the noted adjustment applies, and possibly the insurance sector, in which the proportion of cash deposits to total deposits is overstated by an unknown amount.
- o Some Banks needed to make manual adjustments to some aspects of their reporting. However, there is no reason to consider that any of these adjustments have produced material errors.
- o Some Banks were allowed to exclude segment aggregation for customers depositing under \$25,000 per annum. The Central Bank does not consider that this exclusion materially affected the aggregate results.

The Canadian Angle

Table 2: Canadian banks share of deposit inflows

	Canadian Banks/Total		
	B\$	Foreign Currency	Total
Total Deposits Received for 2018	82%	98%	87%
of which			
— Retail/Household	68%	96%	70%
— Commercial/Other	86%	98%	90%
of which			
— Notes & Coins	85%	96%	86%
— Other	84%	98%	88%

The three Canadian entities account for 90 percent of commercial deposits, and nearly all foreign currency deposits. On the commercial and particularly the cross-border side, the standard of AML/CFT risk management in The Bahamas is essentially the same as in Canada. Based upon international peer group assessments, this is a comfortably high standard.

Bahamian-owned banks are less engaged in commercial banking, but have about 30 percent of deposits from individuals.

Segment results: total deposits

The global AML/CFT community has identified many industries as potentially high risk. For this exercise, the Central Bank received deposit flow data for 17 industry segments, as outlined in the following table.

Table 3: Deposit inflows by segment (B\$ Millions)

Total Deposits, all currencies			
Industry Segments	Total Deposits Received	Notes & Coins	Other Deposits
Auto dealers	\$123	\$24	\$98
Boat and maritime dealers	\$363	\$13	\$349
Real estate Brokers & Agents	\$305	\$16	\$288
Casinos	\$247	\$84	\$163
Non-casino gaming businesses	\$187	\$173	\$13
Money transmission businesses	\$108	\$80	\$28
Jewellery stores	\$116	\$15	\$100
Wholesale jewellers, precious metals, & stone dealers	\$3	\$2	\$1
Pawnshops	\$ -	\$ -	\$ -
Embassies, consulates, and other diplomatic posts	\$17	0	\$17
Attorneys and legal firms	\$2,775	\$21	\$2,754
Crypto-asset promoters or businesses	\$ -	\$ -	\$ -
Churches and religious organisations	\$155	\$77	\$78
Non-religious NGOs	\$127	\$12	\$114
Accountants and accountancy firms	\$115	\$7	\$109
Land and real estate developers	\$509	\$24	\$485
Insurance brokers and agents	\$1,021	\$227	\$794
TOTAL	\$6,170	\$777	\$5,392

The \$6 billion in total deposit inflow for the potentially high-risk industry segments represent only about 15% of the surveyed non-household deposit inflows. The large majority of non-household deposits to the banking sector come from lower risk segments, such as grocery stores, retailers, and government transfers. Attorneys and legal firms are by some distance the largest segment among 17 under consideration, with close to half the deposit inflows. This reflects the legal industry’s engagement in real estate settlements. Other large segments include insurance brokers and agents, land and real estate developers, real estate brokers, gaming operations, and churches. Real estate-related deposits comprise more than half the deposit flow across the classified sectors.

By contrast, some segments are clearly immaterial, notably wholesale jewellers, pawnshops, diplomatic establishments, and (so far) crypto-asset businesses.

In currency note terms, that gaming businesses, money transmission businesses, and churches have large flows.

Table 4: BSD-denominated inflows (rounded B\$ million)

Deposit Breakdown: BSD Accounts			
Industry Segments	Total Deposits	Received Notes & Coins	Other Deposits
Auto dealers	\$122	\$24	\$98
Boat and maritime dealers	\$159	\$13	\$145
Real estate Brokers & Agents	\$256	\$16	\$239
Casinos	\$36	\$6	\$30
Non-casino gaming businesses	\$187	\$174	\$13
Money transmission businesses	\$107	\$79	\$28
Jewellery stores	\$115	\$15	\$100
Wholesale jewellers, precious metals, and loose stone dealers	\$2	\$1	\$1
Pawnshops	\$ -	\$ -	\$ -
Embassies, consulates, and other diplomatic posts	\$15	\$0	\$15
Attorneys and legal firms	902	21	880
Crypto-asset promoters or businesses	\$ -	\$ -	\$ -
Churches and religious organisations	\$155	\$77	\$78
Non-religious NGOs	\$102	\$12	\$90
Accountants and accountancy firms	\$97	\$7	\$97
Land and real estate developers	\$232	\$15	\$216
Insurance brokers and agents	\$870	\$218	\$652
TOTAL	\$3,356	\$680	\$2,676

There are no surprising revelations in the B\$ deposit inflows. Web shop operators are the dominant form of domestic gaming. Some 80 to 95 percent of auto dealer and boat dealer deposits are noncash. In the former case, this suggests that many cars are financed, rather than purchased for cash. Jewellery stores are similarly placed, with about 85 percent of deposits flowing from non-cash payments. The opposite applies to money transmission businesses, which are by and large a cash industry.

Table 5: Foreign Currency account inflows (rounded to nearest B\$ million equivalent)

Industry Segments	Total Deposits	Received Notes & Coins	Other Deposits
Auto dealers	0	0	0
Boat and maritime dealers	204	0	204
Real estate Brokers & Agents	49	0	49
Casinos	212	78	133
Non-casino gaming businesses	0	0	0
Money transmission businesses	1	1	0
Jewelery stores	0	0	0
Wholesale jewellers, precious metals, and loose stone dealers	0	0	0
Pawnshops	0	0	0
Embassies, consulates, and other diplomatic posts	2	0	2
Attorneys and legal firms	1,874	0	1,874
Crypto-asset promoters or businesses	0	0	0
Churches and religious organisations	0	0	0
Non-religious NGOs	24	0	24
Accountants and accountancy firms	18	0	18
Land and real estate developers	277	9	268
Insurance brokers and agents	151	9	142
TOTAL	2,814	98	2,716

In the foreign currency denominated accounts, many segments drop close to zero, as the relevant business is nearly entirely domestic. The substantial deposits flow to real estate-related fields (lawyers, developers, brokers), casinos, and maritime dealers. Excepting casinos, cash makes up less than 1 per cent of total deposit flows.

Implications for Bahamian AML strategies

This exercise has concentrated on identifying industry segments that are, as a practical matter, unlikely to present material money laundering risks. In the Central Bank's assessment the wholesale jewellery, diplomatic, pawnshop, and crypto-asset sectors are simply too small to pose a material financial crime threat to the Bahamian domestic banking industry. On the other hand, the real estate industry, broadly defined, is big enough to constitute at least a potential threat. That threat could arise from either Bahamian dollar or foreign currency flows, but evidently not from cash-based transactions.

The data suggests that cash-based money laundering risks are a more material exposure for gaming and money transmission activities. In this area, however, the Gaming Board has recently published a study demonstrating that although the domestic gaming houses generate a great deal of cash, there is immaterial evidence of money laundering. It is also the case that the Central Bank requires the domestic bank providing deposit services to the gaming houses to conduct special testing of this risk. There is no current evidence that retail gambling in the gaming house sector is a material money laundering risk.

Automobile and maritime dealers have sometimes been suggested as vectors for money laundering via cash purchases of vehicles and boats. The evidence to hand suggests that these sectors are heavily noncash based. In separate work, the Central Bank received data from the Bahamas Customs Department. This data documents few incidences of expensive or exotic car imports to The Bahamas.

Churches and other NGOs have been raised from time to time as money laundering or terrorist financing risks. In The Bahamas, churches are a reasonably large and cash-heavy business, but have essentially zero incoming foreign currency flows. In the absence of any evidence of ML/TF crime in the church sector, the local facts suggest that this segment is not a ML/TF risk. Similar considerations apply to other NGOs, which are about the same size as the church sector, with much less cash, a bit more international funds flow, but zero evidence of support for terrorism.

What should we worry about in the domestic market?

In the domestic financial system, there are three industries that are large enough to sustain material money laundering volumes:

- Real estate and related professional services, where there is a large overlap with the international sector; -
- Gaming; and
- Money transmission businesses.

All three of these areas are subject to supervision by (respectively) the Compliance Commission, the Gaming Board, and the Central bank.

Currency note denominations

In its annual report on Bahamian AML risks, the Central Bank included analysis on Bahamian and USD notes in circulation. That report suggested that there is little evidence of material cash-based money laundering, based upon the mix of currency denominations. The same inference can be drawn from the data in this note. While there are doubtless many cases of self-laundering of cash proceeds, Bahamian authorities

prosecute and secure convictions on several such cases per year. There is little if any evidence, however, of wholesale, third party cash money laundering in the domestic banking industry. It is worth noting that there is no cash money laundering in the international banking and trust sector, which absent rare exceptions does not accept cash deposits or investments.

Summary

The Bahamian authorities have in recent years considered money laundering and terrorist financing risks throughout the Bahamian economy. From this process, the authorities have accumulated sufficient information to increase their focus on areas where the risks are higher, and reduce focus on areas where risks are low or insignificant. In the domestic banking context, the major AML/CFT risks are likely to reside in real estate, gaming, and money transmission, and the risks in the first two of these segments are shared between domestic and international clients. As regards money transmission, the Central Bank is taking steps to lift the intensity of its supervision in this industry.

Aside from above cited exceptions, the Central Bank's view is that domestic money laundering risks in the banking sector are quantitatively small, and in character (excepting small-ticket self-laundering) are qualitatively low risk. This leads to the conclusion that the Central Bank, in conjunction with other Bahamian authorities, should focus its AML/CFT efforts on the relatively few areas of the domestic banking system that may present material risk, while concentrating most of our efforts upon the much larger international financial sector.

Appendix IV

Update on The Bahamas' National Identified Risk Framework and Removal of the FATF's 'Compliance Document'/'Greylist'

The Bahamas has successfully addressed the FATF identified AML/CFT strategic deficiencies; and therefore effective 18 December 2020 was removed from the list of Jurisdictions under increased monitoring by FATF (see <http://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/documents/bahamas-delisting-2020.html>). The Bahamas is committed to ensuring that it maintains a high level of readiness in addressing regulatory and best practice challenges in the AML/CFT/CFP space on an ongoing basis.

Appendix V

Banking Sector's AML Supervisory Effectiveness Report 2017-2020

Supervisory Highlights

Commencing in 2017, the Central Bank elevated its priority for financial crime supervision to equality with prudential soundness supervision. One key metric reflecting this shift in focus is the number of supervisory requirements raised by the Central Bank, and cleared by the industry. Requirements are sufficiently serious matters that the Central Bank is prepared to deploy its statutory powers if need to elicit remediation. The experience has been that SFIs, when receiving requirements, nearly always respond in a cooperative and eventually effective manner.

Table 1 below outlines the half-yearly progress of financial crime related requirements since 2017. There was an initial burst of activity, as the Central Bank's lifted its focus on AML and other financial crime risk management issues. The industry response lagged this initial discovery process by about a year, before resolution of matters accelerated. As a result, the industry's position for AML and related risk management is appreciably stronger than it was in 2017.

Table 1: Progress on AML Requirements Issued to SFIs

AML REQUIREMENTS	Requirements at the Beginning of the Period	Added Requirements (+)	Closed Requirements (-)	Requirements at the End of the Period
31/12/17 to 31/03/18	76	33	17	92
31/03/18 to 30/09/18	92	74	57	109
30/09/18 to 31/03/19	109	74	47	136
31/03/19 to 30/09/19	136	30	88	78
30/09/19 to 31/03/20	78	57	72	63
31/03/20 to 30/09/20	63	27	38	52



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