



# AML CFT

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

The Bahamas  
2018 AML/CFT Report

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# MESSAGE FROM THE CHAIRMAN

## John Rolle

Chairman, Group of Financial Services Regulators and Governor, Central Bank of The Bahamas

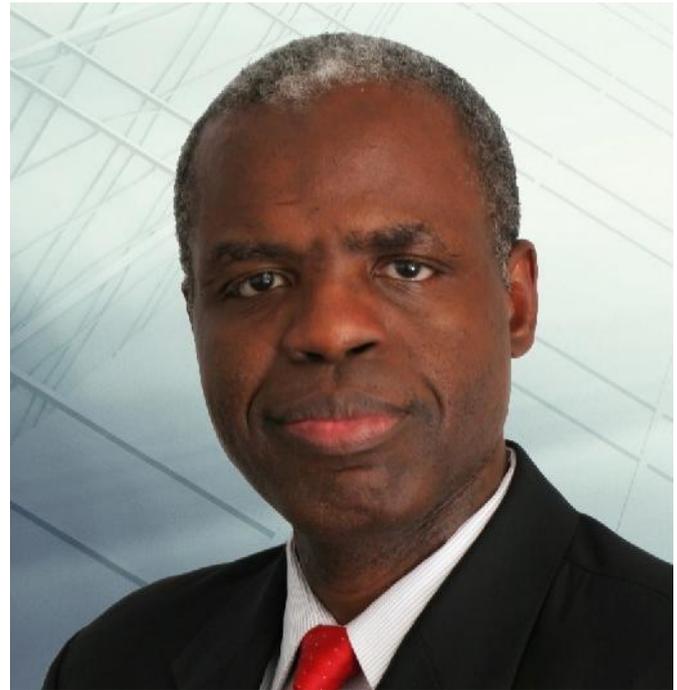
On behalf of the Group of Financial Services Regulators (GFSR), comprising the Central Bank of The Bahamas, the Compliance Commission of The Bahamas, the Gaming Board for The Bahamas, the Insurance Commission of the Bahamas and the Securities Commission of The Bahamas, it is an honor to officially recognize the inaugural launch of our annual AML/CFT Publication. We also welcome the valued contributions from the Office of the Attorney General and the Financial Intelligence Unit to this document.

This publication provides a single touchpoint that highlights the milestones achieved by the GFSR in our continued strengthening of the supervisory and regulatory regime for ML/TF risks. Since its foundation in 2002, the GFSR has continued to fine-tune its supervisory cooperation, information sharing and regulatory harmonization.

We recognize that as an international financial centre, The Bahamas is vulnerable both to actual ML/TF risks, and perceived risks from international observers. GFSR members maintain a zero-tolerance stance against any criminal activity that might impair the reputation of this jurisdiction. We are custodians of a pillar of our economy that accounts for 15% - 20% of GDP and provides more than 4,000 jobs<sup>1</sup>.

This publication highlights some key measures undertaken by the GFSR members in the last 12 months to support our ML/TF risk reduction strategy.

Notably, we have been deeply involved in the initiatives undertaken by the Bahamian national AML/CFT Taskforce, now designated as the Identified



Risk Framework Steering Committee (IRF Steering Committee), which is led by the Office of the Attorney General (OAG). One of the main tasks of the Steering Committee has been to address shortcomings cited in The Bahamas' 2017 Mutual Evaluation Report (MER) issued by the Caribbean Financial Action Taskforce. In addition to regulatory strengthening, the GFSR provided a legal working group that assisted the OAG in drafting many of the legislative reforms in response to the MER.

Joint examinations, regulatory colleges and information sharing have always been a staple of the coordinated work of the GFSR. In 2018 the GFSR lifted its coordination of regulatory guidance material, by releasing two new guidance notes. The first notes are:

- 1) *Guidance Note on the Sound Management of Risks Related to Financial Crimes in The Bahamas*
- 2) *Guidance Note on Proliferation and Proliferation Financing*

We were pleased to host our inaugural national AML/CFT Risk Management Conference, on 17<sup>th</sup> - 18<sup>th</sup> September, 2018. The GFSR collaborated with the Bahamas Financial Services Board and the Association of International Banks and Trust Companies. The

<sup>1</sup> Central Bank of the Bahamas, Quarterly Economic Review, March, 2018 (Vol. 27, No. 1) pg. 39

Financial Intelligence Unit also participated in this event. The success of the conference represents a major accomplishment for the GFSSR and the Bahamian financial sector. The two-day conference, which attracted some 400 international and local attendees, brought together all of the relevant government agencies, regulators, financial institutions and industry practitioners and professionals, particularly Compliance Officers and Money Laundering Reporting Officers. The conference also featured several international and domestic speakers who tackled various topics under the umbrella of AML/CFT.

The national AML conference is one part of a larger strategy to increased public communication on

AML/CFT risk management by the GFSSR. Other initiatives include developing an AML/CFT national reference website, and increased communication to the domestic industry and international stakeholders including correspondent banks.

Our work to suppress money laundering and other financial crimes is by no means complete, though we have made excellent progress during 2018. The GFSSR remains committed to its coordinated fight against money laundering and terrorist financing. “Dirty money” is not welcomed in this jurisdiction, and we will take whatever steps are necessary to ensure that this is clear to all, and that all efforts in this regard are effective.



The Compliance Commission  
of The Bahamas



THE INSURANCE COMMISSION  
OF THE BAHAMAS



# GFSR

## Roles and Functions of the GFSR

The GFSR agencies are responsible for ensuring the effective operation of the AML/CFT regime in The Bahamas. Such agencies are signatories to a Memorandum of Understanding (MoU), which allows information to be shared as a need 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 the single conglomerate /group 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 reprimand.

The regulators of the GFSR are also responsible for ensuring that institutions under their supervision

comply with AML/CFT laws, regulations and guidelines through a combination of registration, on-site and off-site examination, education, training and awareness and directives, notices and guidelines when necessary.

The GFSR, in conjunction with the FIU, also intends to increase communication with its constituents on AML/CFT matters. The recently held inaugural AML/CFT Risk Management Conference was one phase of this larger strategy. Other proposals include the release of this annual AML/CFT Publication and the development of an AML/CFT related website. Such communication strategies will provide engaging content for local and international AML/CFT organizations and aim to provide an easy comprehensive database on local money laundering and financial issues.

The scope of each regulator is outlined below.



The Central Bank of The Bahamas is responsible for the regulation and supervision of banks and/or trust companies, co-operative credit unions, money transmission businesses and the registration of registered representatives.



The Securities Commission of The Bahamas is responsible for regulating broker/dealers and securities investment advisors and for the licensing and registration of the investment fund administrators, investment funds and financial and corporate service providers.



THE INSURANCE COMMISSION  
OF THE BAHAMAS

The Insurance Commission of The Bahamas is responsible for regulating insurance companies.



The Compliance Commission  
of The Bahamas

The Compliance Commission of The Bahamas supervises Designated Non-Financial Businesses and Professions (DNFBPs) including accountants, lawyers, real estate brokers & developers, dealers in precious metals and pawn brokers. In addition, the Compliance Commission supervises Designated Government Agencies.



The Gaming Board for The Bahamas regulates 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.

# agency reports



# Reforming the Bahamian AML/CFT Framework

By: Cassandra Nottage  
National Identified Risk Coordinator  
Office of the Attorney General

## History of the Bahamian Financial Centre

The Caribbean island nations and territories are, without exception, former or current colonies of Great Britain, Spain, France or the Netherlands. The Bahamas' history as a former colony of The United Kingdom is rich in farming (cash crops, sugar cane, bananas and cotton), sponging and fishing. The Bahamas' path to finding its way in the world of economics differed from its Caribbean neighbours as the struggle to deepen the economic activity in our country and provide a better way of life for our people were foremost goals. Some Caribbean nations were encouraged to establish international financial centres by the esteemed body – International Monetary Fund (IMF), as a growth pillar for the emerging economies. While other nations gravitated towards this opportunity, others developed natural resources such as oil, natural gas, aluminum or developed their agricultural base. The Bahamas, long before the IMF advised of the financial services industry, had organically developed its international financial centre with roots as far back as early 1900s when Canadian Banks began to establish a presence in the islands. Today, The Bahamas has emerged, after 80 plus years in the financial services business, as a premier international financial services centre in a global financial network. Financial service providers hailing from Europe, North and South America offer a diverse set of products to international clientele.

Beginning with a United Nations Conventions of the late 1980s and the emergence of the Financial Action Task Force 40 Recommendations, The Bahamas – much like other countries, endeavoured to enshrine in the local law, the requirements to prohibit money laundering. The first emphasis was on drug trafficking proceeds, and in the second instance was on broadening the scope to capture all

illicit proceeds originating from human trafficking, cybercrime and other identified risks. The development of the legal, regulatory, supervisory and enforcement frameworks to monitor, identify, deprive and prosecute illicit proceeds has been costly for island nations like The Bahamas, which are required to provide the basic necessities for their populace. However, The Bahamas has done a creditable job in implementing measures to comply with international best practices and standards for supervision, regulation, enforcement and prosecution of money laundering, terrorist financing and other identified risks.

Initial initiatives began to roll out fast and furiously in the late 1990s beginning with the Organization for Economic Cooperation and Development's (OECD) corporate governance principles and its work on Non-Cooperative Jurisdictions in Tax Matters and have not stopped since. The problem and frustration facing the country and many others evolve around the never ending pushing of the envelope with more and more initiatives being rolled out by the international agencies. Most topical is the initiative developed around availability and accessibility of beneficial ownership information of legal persons being pursued by the OECD's Global Forum on Tax Matters using the Multilateral Convention on Mutual Administrative Assistance in Tax Matters. Over the last 20 years the goal post has been moving with the cost / benefit analysis tilting into a negative posture. The financial services industry of The Bahamas has had to be creative in controlling compliance costs with the assistance of technological tools. The country's stakeholders have seen compliance costs increased disproportionately to the risk posed by this jurisdiction.

The Bahamas' 2012 International Monetary Fund (IMF) Financial Sector Assessment Program (FSAP) results verified the progress to address gaps in its AML/CFT regime and reflected the substantial enhancements to its legal framework, supervisory, regulatory and enforcement regimes. The IMF FSAP Report noted that "since the 2004 Offshore Financial Centre assessment, there has been clear and material progress in key areas of financial sector oversight. Most importantly, the approach to regulation and supervision, including with respect to AML/CFT supervision, has been shifting to risk-based approaches, with some agencies already having implemented risk sensitive global best practices".

The Bahamas was found to be "Largely Compliant" in the Global Forum's Phase 2 and Phase 3 Peer Review Reports published in 2013 and 2018. These Peer Reviews focused on availability of beneficial ownership information, access to beneficial ownership information and information exchange.

The Global Forum Report (GFR) reflected the examiners' statements that the ownership and identity information requirements in The Bahamas to retain relevant information in respect of companies, partnerships, trusts, foundations, etc., were sufficiently robust to meet international standards.

Over the last 20 years the regulatory, supervisory and legal frameworks in The Bahamas have been greatly enhanced and strengthened:-

1. In 2000 several existing laws were repealed and replaced with several new laws being enacted in a compendium of regulatory and financial sector legislation:

The Banks and Trust Companies Regulation Act, 2000  
 The Central Bank of The Bahamas Act, 2000  
 The Financial Intelligence Unit Act, 2000  
 The Proceeds of Crime Act, 2000  
 The Financial and Corporate Service Providers Act, 2000  
 The Financial Transactions Reporting Act, 2000  
 The International Business Companies Act, 2000  
 The Evidence (Proceedings in other Jurisdictions) Act, 2000  
 Criminal Justice (International Cooperation) Act, 2000

2. Bearer shares were eliminated, and International Business Companies (IBCs) were prohibited from issuing same with those companies having already issued such shares mandated to recall and cancel them.
3. The financial institutions were mandated to Know their Clients and to carry out effective due diligence procedures, instituting counter financing of terrorism processes.
4. Regulators have issued AML/CFT guidelines, codes of practice and rules to industry stakeholders outlining best practices for verifying customer identity and for developing anti-money laundering procedures and measures to prevent terrorist financing.
5. The Financial Intelligence Unit (FIU) was established by statute enacted in 2000 and is charged to collect reports of suspicious transactions and to investigate them.
6. Regulators developed independent inspections and regulatory examination programs and have been conducting onsite reviews of financial service providers including corporate service providers for

compliance with AML/CFT laws/best practices and prudential requirements.

7. The financial sector governing laws created avenues for international cooperation by the Bahamian financial sector regulators with their foreign counter-parts.
8. The introduction of the Evidence (Proceedings in Other Jurisdictions) Act and the Criminal Justice (International Cooperation) Act created avenues for international cooperation by Bahamian courts in civil matters while the latter regulates such cooperation in criminal matters.
9. In 2003, amendments to financial sector laws allowed for risk-based supervision by regulators nine years before the Financial Action Task Force (FATF) Recommendations regarding AML/CFT regimes recognized the benefits of such a system and incorporated it into its standards.

## Recent Developments

In December 2017, The Bahamas joined more than 108 countries in the OECD's Global Forum in formally acceding to the Multilateral Convention on the Mutual Administrative Assistance in Tax Matters. The Bahamas has since implemented the Common Reporting Standard (CRS) using the "wider approach" with financial institutions required to collect and retain the CRS information for all account holders – ready to report, in relation to all non-residents with international partners of Convention.

To stay ahead of the curve and remain agile in addressing international pressures, the Government developed an aggressive legislative agenda to enhance the financial sector's legal, supervisory, regulatory and enforcement regimes. The agenda primarily addressed the legal, regulatory, supervisory and enforcement framework gaps identified in the Caribbean Financial Action Task Force (CFATF) Recommendations of the 2017 MER, the National AML/CFT Risk Assessment, OECD Global Forum on Tax Matters and the European Union Code of Conduct Group's concerns. Legislation was enacted to establish the Independent Office of the Director of Public Prosecutions; and amendments made to the a) Automatic Exchange of Financial Account Information Act, 2016, b) Automatic Exchange of Financial Account Information Regulations, 2017, and the c) International Tax Cooperation Act, 2010 in the last quarter of 2017.

A further compendium of legislation was passed in 2018 which included:

- J) *Proceeds of Crime Act, 2018*: The Act (the POCA) replaces and repeals the Proceeds of Crime Act, 2000 and seeks to consolidate, strengthen and modernize the provisions relating to prevention, prosecution and cross-border cooperation of money laundering, terrorist financing, corruption, human trafficking and proliferation of weapons of mass destruction. Further, POCA 2018 established the coordination and cooperation mechanisms – the Ministerial Council (policymaking body), the national Identified Risk Framework Coordinator and the national IRF Steering Committee (the inter-agency coordination body). The Ministerial Council met in July 2018 with the first meeting of the IRF Steering Committee held in August 2018 and the Coordinator being contracted on August 15<sup>th</sup> 2018.
- J) *Financial Transactions Reporting Act, 2018*: This Act (the FTRA) replaced and repealed the Financial Transactions Reporting Act, 2000 and introduced an administrative fine regime and additional requirements consistent with The Bahamas’ obligations under the FATF Recommendations. This includes obligations requiring: (a) financial institutions and designated non-financial businesses and professions (DNFBPs) to carry out risk assessments, (b) financial institutions and DNFBPs to ensure that all subsidiaries, branches or representative offices adhere to AML/CFT/CPF requirements on par or higher than that of the parent entities, and (c) group entities of Bahamian financial institutions to ensure that internal control procedures are implemented.
- J) *Anti-Terrorism Act, 2018* : This Act (the ATA) replaces and repeals the Anti-Terrorism Act, 2004 and introduced provisions covering (a) proliferation offences, (b) domestic listing of terrorist individuals or entities, (c) implementation of United Nations Security Council Resolutions (UNSCR) 1373 and 1267 and successor UNSCRs, expanding terrorist offences, and (d) international cooperation.
- J) *Travellers’ Currency Declaration (Amendment) Act, 2018*: This Act amends the Travellers’ Currency Declaration Act, 2015 regarding offences and penalties, seizure and forfeiture of negotiable instruments, precious metals and stones. The amendments further introduced the revised Customs Declaration Form that will be required to be completed by the head of each household when entering or leaving The Bahamas for a foreign port except for those travelling through the United States of America.
- Several regulations were also approved and issued to the financial sector and non-financial sector constituents:
- J) *Financial Transactions Reporting Regulations, 2018*: These Regulations replaced and repealed the Financial Transaction Reporting Regulations, 2000 and advise of thresholds for:
- o occasional transactions;
  - o gambling patrons; and
  - o jewelers and other dealers in precious stones or metals. The Regulations also enhanced the customer due diligence obligations of financial institutions and DNFBPs and introduced obligations on the General Insurers.
- J) *Financial Transactions (Wire Transfers) Regulations, 2018*: These Regulations replaced and repealed the Financial Transaction (Wire Transfer) Regulations, 2015, and maintained the original provisions for wire transfers while increasing the penalties for offences to two hundred thousand dollars and introducing an administrative fine regime to bolster the enforcement tool kits of the supervisory and regulatory agencies.
- J) *Multinational Entities Financial Reporting Act, 2018*: This Act enabled The Bahamas to partially meet its obligations under the Base Erosion and Profit Shifting (BEPS) Project to discourage non-resident entities from holding profits which do not reflect real economic activity that occurred in The Bahamas. The Act provides for the reporting of entities in this jurisdiction that are a part of an MNE Group to the Authority where such entity is the ultimate parent entity or the surrogate parent entity of that group. That entity is required to file a country-by-country report which contains aggregate accounting information for the group and the identification of each constituent entity of the MNE Group and the jurisdiction of its tax residence and related information.
- J) *International Obligations (Economic Ancillary Measures) Afghanistan Order, 2018*: This Order pertaining to Al-Qaida, ISIL and affiliated persons or entities, enshrined in Bahamian legislation, the obligations on financial institutions and

DNFBPs to report to the FIU suspected clients that are terrorist designated entities by the UN Security Council Resolutions and subject to sanction. Obligations also include freezing without delay such suspected clients' funds and reporting same to the FIU, and the granting of exemptions to access funds by UN Security Council. The Order also provides for levying penalties on financial institutions and DNFBPs for non-compliance.

J) *International Obligations (Economic & Ancillary Measures) Iraq Order, 2018*: This Order pertaining to Al-Qaida, ISIL and affiliated persons or entities, enshrined in Bahamian legislation, the obligations on financial institutions and DNFBPs to report to the FIU suspected clients that are terrorist designated entities by the UN Security Council Resolutions and subject to sanction. Obligations also include freezing without delay such suspected clients' funds and reporting same to the FIU, and the granting of exemptions to access funds by UN Security Council. The order also provides for levying of penalties on financial institutions and DNFBPs for non-compliance.

**Other legislation being considered include:**

The Non-Profit Bill, 2018

The Register of Beneficial Ownership Bill, 2018

The Financial and Corporate Service Providers Bill, 2018

Commercial Entities (Substance Requirements) Bill 2018

Removal of Preferential Exemptions Bill, 2018

The Integrity Commission Bill, 2018

Anti-Terrorism Regulations, 2018

International Obligations (Economic & Ancillary Measures) Democratic Republic of Korea, Order 2018

## Conclusion

The strengthening of The Bahamas' legal, regulatory and supervisory framework is of paramount importance, evident from the Government's robust legislative agenda. The financial sector regulatory fraternity has been meeting weekly over the last 12 months to keep the pressure on to accomplish this critical deed of ensuring that the country is complying on all levels with AML/CFT/CPF international best practices (implementation, and enforcement). Regulatory, supervisory, and enforcement agencies are completing their review and amendments to their supervisory frameworks - inclusive of monitoring (onsite and offsite surveillance), enforcement (administrative penalty regimes), and guidance – AML/CFT/CPF for issuance. These amendments address the gaps and deficiencies identified by CFATF and the National Risk Assessment (NRA). The Bahamas has placed great emphasis and importance on and remains committed to maintaining a suitable and progressive legal, regulatory and supervisory framework ensuring that the country meets and complies with international standards and practices regarding financial and prudential supervision, and combatting money laundering, terrorist financing, proliferation financing and other identified risks.

Notwithstanding the continual program of enhancements being carried out, The Bahamas has noted that the goal post continues to shift. However, the jurisdiction is determined to stay on the cutting edge in addressing any deficiencies that emerge. Staying a step ahead of international initiatives and evolving international best practices and standards is crucial to the country's survival in the global financial framework. The Bahamas remains committed to international best practices, cooperation in the administration of justice, international tax transparency, anti-money laundering and the countering of financial terrorism and proliferation initiatives including satisfying recommendations coming out of the Financial Action Task Force. In these undertakings, the Government will ensure that effective collaboration is maintained with private sector stakeholders to guarantee that The Bahamas remains a well-regulated, blue chip international financial centre.



# Bahamian Gaming Houses

## *Anti-Money Laundering Myths & Realities*

By: Crystal Knowles  
Chief Counsel  
Gaming Board for The Bahamas

### Introduction

In recent years, The Bahamas has enacted a new suite of gaming legislation, completely transforming the regulatory landscape of the sector by:

- paving the way for the introduction of various technological advancements;
- requiring licensees to implement more robust measures and procedures to combat money laundering and terrorist financing risks; and
- bringing previously unregulated gaming houses, commonly referred to as “web shops,” under a comprehensive statutory framework.

Following the reforms, the Gaming Board for The Bahamas implemented additional measures to safeguard the integrity of the gaming industry and protect it from the threats of money laundering and terrorist financing.<sup>2</sup>

Accordingly, outlined below is an overview of:

- the unprecedented process which led to the regularization of the gaming houses;
- the impact of the new legislation on gaming house operations;
- the level of AML and compliance oversight that the Gaming Board has established for gaming houses, including regulatory objectives that have been achieved to date;
- financial data which serves to dispel common misconceptions about gaming activities conducted

within gaming houses and the volume of transactions that flow through patron accounts; and

- the Board’s proposed AML and compliance objectives.

### Legislative History of The Gaming Act, No. 40 of 2014

The Bahamas, like many nations, has a long and colourful history with gambling, ranging from the open availability of the traditional “numbers” game to the well-documented operation in days past of elite, seasonal casinos reserved for affluent tourists.

On 4<sup>th</sup> March, 1967, a Commission of Inquiry into casino gambling was appointed by the then Governor. Out of the Commission’s proceedings came a number of recommendations, the most notable of which ultimately resulted in the adoption of The Lotteries and Gaming Act, 1969 (LGA). The LGA repealed a plethora of inconsistent laws and provisions. It replaced them, initially and through amendment, with a more comprehensive regulatory scheme governing casino financial transactions, the conduct of casino games, the equipment utilized in casinos and the use and importation of slot machines. The LGA also established the Gaming Board, charged with varying levels of responsibility for licensing casinos, supervising their operations and contracting with reputable accounting firms for audit purposes.

In recent years, it became apparent that the LGA and related Regulations were out of step, most notably from a gaming technology perspective, with international regulatory best practices. Additionally, domestic and international scrutiny intensified on unregulated “web shops”, viewed as potential conduits for money laundering and terrorist financing. For the local banking sector, the gaming sector’s risk profile helped fuel the pressures placed on international correspondent banking relationships.

This environment motivated the Government to enact the Gaming Act, No. 40 of 2014 (Gaming Act) on 24<sup>th</sup> November, 2014. The Gaming Act, together with the Gaming Regulations, 2014, Gaming House Operator Regulations, 2014, Financial Transactions Reporting (Gaming) Regulations, 2014 and Gaming Rules, 2015, (collectively, New Legislation), represented a suite of

<sup>2</sup> In implementing these measures, the Board gave due consideration to The Bahamas’ ML/TF National Risk Assessment that was conducted in 2015 and 2016.

countermeasures against money laundering and terrorist financing risks.

Distilled to its essence, the New Legislation incorporates a full range of new regulatory requirements related to eligibility for licensure, an operator's system of accounting and internal control, responsible gaming, know your customer/source of funds/anti-money laundering countermeasures and independent certification of gaming technology. These are all comparable to requirements imposed in the most robust North American gaming jurisdictions and are capable of signaling to international observers and banking institutions that the Government had the will to, and more importantly the ability to, impose licensing and operational requirements in its gaming sectors that are consistent with FATF recommendations and protocols. Most notably, the framework demonstrated The Bahamas' success at the international level in regularizing Internet-based domestic gaming.

Today, the Gaming Act authorizes and permits oversight of two distinct sectors:

- ) a tourist-based commercial casino sector and,
- ) a domestic sector offering a hybrid form of Internet gaming. In this local sector players may engage in an account based, direct online experience or game interactively in an account based, bricks and mortar gaming house (previously referred to as a web shop)<sup>3</sup>.

Gaming Licensees and Gaming House Operator Licensees offer both international and domestic players a full range of casino, lottery and sports wagering options that are subject to nearly identical 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.

As at 31<sup>st</sup> December, 2018, there were three licensed commercial casino operators in The Bahamas: The Baha Mar

Casino, operated by Sky Warrior Bahamas Limited; the Atlantis Casino, operated by Paradise Enterprises Limited; and the Resorts World Bimini Bay Casino, operated by RWBB Management Limited.

There were also seven licensed Gaming House Operators: A Sure Win, operated by GLK Limited; Ultra Games, operated by Bahama Dreams Web Café Ltd.; Chances Games, operated by Jarol Investments Limited; Island Luck, operated by Playtech Systems Limited; Nassau Games, operated by FML Group of Companies Ltd.; Percy's at the Island Game, operated by T. I. G. Investments Ltd.; and Paradise Games, operated by Paradise Games Bahamas Limited.

## Regularizing the Gaming Houses | Impact of the New Legislation

### *The Request for Proposal Process*

For the Board, it was no small task to superimpose a radically new and comprehensive regulatory scheme over an existing industry while preserving jobs and the sector's taxable revenue stream. Immediately after the legislative reforms were made effective, the Board initiated the transitional period contemplated by the Gaming Act<sup>4</sup>. Gaming houses were informed by notice in the Gazette that pursuant to Section 85(16) of the Gaming Act it was now lawful to carry on their business during the transitional period, provided that the owners of these businesses:

- made full and frank disclosure of all turnover and gross profits generated over a six- year period preceding the effective date;
- served onto the Secretary of the Board sworn Affidavits, confirming which premises and agents they choose to remain open, and which were to remain closed, during the transitional period; and
- made payment in full within the period specified, of the following:
  - fees payable under the Business Licence Act; and
  - gaming taxes, inclusive of:
    - a. arrears of gaming taxes for the period 1<sup>st</sup> July to 24<sup>th</sup> November, 2014;

could continue to remain operational provided they participated in the process enumerated in Section 85(16) of the Gaming Act. By design, the end date for the transitional period was a date to be announced by the Minister in the Gazette for the closure of all web shops not eligible to remain open under Section 85 of the Gaming Act.

<sup>3</sup> The Act includes an exception to the account-based requirement for over the counter cash wagering on the Numbers Game.

<sup>4</sup> The transitional period was the period commencing with the effective date of the Act (November 24th, 2014) during which then existing web shops

- b. monthly gaming taxes during the transitional period; and
- c. penalties.

In December 2014, a notice of the Board's intention to formally commence the Request for Proposal (RFP) process, for formal licensing of operators contemplated by the Gaming Act was placed in the Gazette. This notice outlined the RFP process and invited interested parties to register for, and be issued RFP documents. In order to remain open, web shop operators were required to submit Affidavits and Full and Frank Disclosure documents to the Gaming Board. During January 2015, some of the operators registered for and received RFP documents. By the deadline of March 2015, nine web shop operators submitted responses to the RFP.

In accordance with Section 27(2) of the Gaming Act, the Board placed mandatory advertisements in newspapers. These informed the public of the specific Gaming House Operator, Gaming House Premises and Gaming House Agent licence applications received and invited comments and/or objections.

A response to the RFP effectively constituted an application for a Gaming House Operator licence under Section 44 of the Gaming Act, including a request for authorization of Gaming House Premises licences under Section 45 of the Gaming Act and Gaming House Agent licences under Section 46 of the Gaming Act.

Following internationally best practices, the RFP required that an applicant entity, as well as each corporate entity holding a financial interest of 5% or more in an applicant, file a Multi-Jurisdictional Business Entity Disclosure Form. Natural persons holding an interest of 5% or more in an applicant, as well as executive directors, officers and executive level key employees were similarly required to file a Multi-Jurisdictional Personal History Disclosure as an element of the RFP Response.

Upon receipt of the responses to the RFP, the Board immediately commenced the required probity investigations following internationally recognized investigative methodologies in the gaming industry. In early October 2015, at the conclusion of the probity investigation process, the Board recommended to the Minister responsible for gaming that eight applicants be awarded licences. The Minister concurred, and awarded the licenses, subject to execution of a Statement of Conditions by each applicant.

The Statement of Conditions represented a standardized approach that was essential to the Board's ability to regulate the gaming house industry. It encapsulated the full gamut of all the legislative requirements, reaffirmed the obligations placed on the gaming house operator licensees and ensured that they acknowledged what was expected of them as licence holders. It also provided that failure to fully comply with any of the Conditions, at any time, constituted a violation for which the Board and/or Minister could take action up to and including revocation of the licence and/or any certificate of suitability awarded in connection with the licence.

## Operational Considerations

### *Statement of Conditions*

The Statement of Conditions, which the Board continues to utilize to date, outlines some key anti-money laundering and compliance requirements for each gaming house operator, which include the following:

- an acknowledgement that procedures designed to detect and prevent transactions, which may be associated with money laundering, fraud and other criminal activities, would be implemented;
- an acknowledgement that internal controls would be established with specific emphasis on the obligation to ensure that suspicious transactions reports would be filed, regardless of the amount, if the operator believed it was relevant to the possible violation of any law or regulation;
- the obligation to establish a plan addressing the archival storage of books and records including:
  - the identity of all current and prior registered patrons
  - all information used to register a patron
  - a record of any changes made to a patron account
  - a complete game history for every game played including the identification of all registered patrons who participate in a game, the date and time a game begins and ends, the outcome of every game, the amounts wagered, and the amounts won or lost by each registered patron; and
  - disputes arising.

### *Technical Operational Requirements*

Concurrent with the probity investigations and RFP process, and continuing afterwards, the Board has worked with the

gaming houses to implement the highly technical operational requirements contained in the Gaming Act. These include:

- testing and certification of gaming devices, including all systems and software associated with the wagering transaction, by internationally recognized independent testing and certification laboratories;
- implementation of server location in The Bahamas requirements, and companion geo-fencing requirements for The Bahamas, that are fully consistent and equivalent to North American (New Jersey, Nevada) best practices in internet gaming; and
- implementation of Board approved accounting and internal controls, security and surveillance protocols consistent with the Bahamian legal framework and international regulatory best practices.

In September 2016, all of the gaming house operator licensees were converted to fully tested and certified components and platforms. The systems and games previously operated by Bahamian web shops or acquired subsequent to licensure have been radically overhauled via the testing and certification process. These systems and games now ensure the integrity, accuracy and auditability demanded by the Gaming Act and incorporate the consumer protection, responsible gaming, server location in The Bahamas and geo-fencing functionalities that are the hallmark of top tier interactive gaming jurisdictions. Matched requirement by requirement, the systems operated by gaming house operators comply with technical standards far exceeding any applied to other Bahamian financial institutions.

The Board has the ability to verify taxable revenue, confirm the propriety of tax payments and/or monitor gaming transactions. Even before the award of gaming house operator licences, the Board established remote access over secure communication lines to the numbers, sport book and games platforms of each Applicant for a licence. This capability, which requires continuous refinement as new components come online and passwords and other access controls change, facilitates real time access to financial data relevant to the payment of taxes and the conduct of operations and has proven of significant assistance in connection with the audit of tax payments. Further information regarding how a review of this financial data has essentially proven to dispel common misconceptions surrounding the gaming activities conducted within gaming houses and the volume of transactions that flow through patron accounts is addressed with greater specificity below.

## Anti-Money Laundering and Compliance Oversight Measures

### *Regulatory Objectives Achieved to Date*

The Board has established a realistic level of oversight over the gaming houses. As an experienced and well-respected gaming regulatory agency, it has been more than equal to the task of imposing risk-based oversight procedures via its physical presence in the gaming houses and via its remote access to the interactive gaming systems of its licensees.

A good deal of the Board's oversight efforts to date have involved the integrity of the player account and the "Know Your Customer" requirements applicable to licensees. Such licensees have likewise spent considerable resources to guide Bahamian players through the new patron account requirements, notably those limiting them to one account and prohibiting anonymous accounts or the use of fictitious names.

The Board is also making good progress toward reviewing and approving revised, fully compliant internal controls,

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*"At the outset, it is important to note that gaming houses cannot be used to facilitate international transfers. There are no funds flowing from outside The Bahamas into patron accounts. Neither are there any funds flowing from patron accounts outside The Bahamas."*

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security and surveillance protocols. All of these areas are interdependent and, now that it is working with tested and certified systems, the Board has been tackling them in accordance with a timeline that is both efficient and cost effective for its licensees. By and through its Regulatory Compliance Department, the Board has been, and remains fully engaged in compliance monitoring designed to ensure the sufficiency of core regulatory statutory requirements related to:

- patron identification/registration process
- patron accounting
- integrity of the patron account
- age verification; sales to minors
- revenue reporting
- confidentiality of the patron account
- designation of a senior company official with primary responsibility for the design, implementation and on-going evaluation of the system of internal control

- account closure procedures
- employee training
- the AML plan/risk assessment and designation of a Compliance Officer and MLRO

### *Money Laundering Myths Debunked*

At the outset, it is important to note that gaming houses cannot be used to facilitate international transfers. There are no funds flowing from outside The Bahamas into patron accounts neither are there any funds flowing from patron accounts outside The Bahamas.

As earlier indicated, prior to regularization, it was feared that the then unregulated “web shops” were conduits for money laundering and terrorist financing. Despite the promulgation of the New Legislation and the strides that have been made over the past three and a half years to enforce the same, discussions in both domestic and international circles still focus on those previous fears.

However, these discussions have proven to be largely unfounded, particularly following a study that was recently conducted by the Board. The main focus of the study was to examine the financial data of the Board’s licensees, over a one-month period, in order to determine the range of patron account balances and the volume of transactions that flow through the said patron accounts. The findings do not support any assertion that gaming houses are conduits for material money laundering. The average patron account balance was \$5.00 and the average transaction amount was \$60.00. These sums are far too small to support any pattern of substantial money laundering.

### *Implementation of Anti-Money Laundering Guidelines*

The Board’s Anti-Money Laundering Guidelines set out factors that casinos and gaming houses should consider when assessing the money laundering risk associated with a business relationship or occasional transactions. The Anti-Money Laundering Guidelines explore basic anti-money laundering measures such as risk-based approach and internal controls; customer due diligence; record keeping and retention; politically exposed persons; employee training and screening; and suspicious transaction reporting. The formulation of these Guidelines is thus geared toward assisting gaming licensees and gaming house operator licensees with garnering a better understanding of their roles in seeking to combat money laundering and terrorist financing risks.

### *Risk Rating of Gaming House Operator Licensees*

The Board recently conducted a risk assessment of its gaming house operators. By virtue of the risk assessment, the Board gathered information relative to operators’ organizational structure, patron base, patron onboarding and monitoring procedures, suspicious transaction reporting procedures and the gaming services offered. The information collected is being utilized to assist the Board in assessing the size, growth, operations, products, services as well as any attendant money laundering or terrorist financing risk in the domestic gaming services industry. Additionally, such information is further positioning the Board to adequately advise gaming houses on the inclusion of appropriate measures within their internal control procedures for the purposes of preventing and forestalling money laundering or terrorist financing threats.

### *Implementation of Audit Program and Revised AML and Compliance Monitoring Checklist*

In an effort to enhance the level of investigations that are currently being conducted as a part of its onsite monitoring exercises, the Board intends to implement a comprehensive anti-money laundering audit program, designed specifically for its gaming house operator licensees. It is envisioned that the program will incorporate a revised checklist and will test all aspects of each operators’ anti-money laundering programs, including the training of its employees concerning the same.

### *Implementation of Compliance Monitoring System*

The Board has embarked on a process to establish countermeasures to combat money laundering and terrorist financing threats through the implementation of a Compliance Monitoring System, with an Anti-Money Laundering Framework (Compliance Monitoring System). The compliance monitoring system will provide a solution that meets the requirements of the FATF guidelines and will be utilized to monitor the gaming transactions of all gaming licensees and gaming house operator licensees.

### *What Remains to be Done?*

The Board is actively taking additional measures to ensure compliance with the new legislation. Of particular note, such additional measures will include, but not be limited to the development of enhanced protocols that effectively prohibit operators from allowing any person other than the registered patron from conducting transactions on that registered patron’s account.

## Conclusion

In adopting the new legislation, The Bahamas and by extension the Board has demonstrated its commitment to effectively balancing the competing interests of interactive gaming with very robust anti-money laundering and terrorist financing controls. Given its expanded regulatory mandate, the Board has also taken steps to quantify the potential abuse in the sector, with resulting data that point to very low transactional risk. The Board will continue to enhance its monitoring oversight of the industry, with further enhanced monitoring and controls as international best practices evolve.



The Bahamian international bank and trust sector is the largest segment of The Bahamas' financial services industry, with close to \$400 billion in assets and funds under administration. On the other hand, the domestic banking sector is by far the most transaction-intensive segment of the financial services industry. Domestic banks in aggregate generate several million transactions per month, compared with fewer than 100,000 per month for the international bank and trust sector.

In comparison to banks and trust companies in both the domestic and international sectors, the credit unions and money transmission businesses operate on a much smaller scale, less than 1% of the total banking sector.

## AML/CFT Supervisory Landscape

In August 2017, following the release of The Bahamas' MER by the CFATF in July 2017, the Bank undertook a major initiative to enhance its AML/CFT supervision. As part of this enhancement, the Bank changed its strategy on ML/TF risk from periodic to continuous supervision of these risks. Supervision of ML/TF risks is now conducted on an equivalent basis to supervision of financial failure risks.

In addition to reforming its AML/CFT strategy, the Bank upgraded its general approach to supervision, which focused on the following goals to:

- ) become more supervision-led, rather than regulation-led; and
- ) focus more upon proactive intervention, rather than passive observation and analysis.

The major elements in this reform have also sought to address the notable deficiencies from the MER, which include:

- ) insufficient awareness demonstrated by SFIs that are not a part of a large international group of their ML/TF risks, with few institutional ML/TF risk assessments being performed by this group of institutions;
- ) a large number (but small dollar value) of unverified facilities remained in the domestic banking sector;
- ) no sanctions were imposed on legal persons; and
- ) no risk-based supervision of credit unions.

## Actions Taken to Address the Deficiencies

### *Bank Supervision Department Re-organization*

To align with the new strategic focus, the Bank slightly re-organized its supervisory teams to support the balanced approach to financial soundness and financial crime supervision. The prior split between domestic and international SFI teams was further specialized into Home and Host supervised groups. This allows for additional supervisory specialization, which includes oversight on AML/CFT matters. Additionally, an AML Analytics Team was created to focus on ML/TF risks and the enhancement of the AML supervisory framework.

### *Unverified Facilities*

During 2017 and 2018, supervisory emphasis was placed on remediating unverified accounts within the domestic banking sector. As a result, there are no longer any unblocked unverified accounts in the system. It should be noted that international banks and trusts have long operated with zero unverified active accounts.

### *Release of AML Survey and Consultation Paper on AML/CFT Supervisory Strategy*

In December 2017, the Bank issued a mandatory and comprehensive survey to banks and trust companies to inform the improved the risk rating assessment of the industry. A survey was also issued to credit unions and money transmission businesses in March 2018. A 100% response rate was achieved. The results have given the Central Bank an appreciably improved perspective on different areas of AML/CFT, including governance, MLRO/CO functions, training, policies and procedures, cash transactions, clientele, and composition of transactions.

In December 2017, the Central Bank issued a discussion paper on its AML/CFT supervisory approach, and invited submissions on the Version 2.0 of this approach.

### *AML Supervisory Framework 1.0*

In January 2018, the Central Bank's AML Analytics team created the version 1.0 approach to AML supervision, which revolves around an annual cycle of information gathering and analysis. The team also developed and implemented an internal risk model for assessing SFIs' ML/TF risk. This risk model was used to risk rate banks and trust companies, as well as credit unions, allowing for appropriate and targeted supervision of the ML/TF risks within these sectors.

Moreover, SFIs are required to conduct ML/TF risk assessments and keep these up-to-date through conducting

periodic reviews. These risk assessments are required to be submitted to the Central Bank at least annually.

### *AML/CFT Guidelines and CDD Guidance*

In June 2018, the Bank issued binding guidance material on a simplified approach to customer due diligence (CDD) for Bahamian domestic accounts. This approach encourages more financial inclusion for low risk customers, and greater focus on source of wealth documentation for high-risk customers. Additionally, in August 2018, the Bank released the revised version of its AML/CFT Guidelines. These Guidelines, to which the aforementioned CDD guidance is now appended, was amended to align with the compendium of new legislation passed in 2018.

### *Proactive and Effective Engagement with the Industry*

The Bank has been more proactive in its engagement with industry. The Bank held industry briefings with SFIs on the changes in the supervisory approach, including the integration of the credit unions into the Risk-Based Supervisory Framework and the enhanced supervision of ML/TF risks. These briefings were attended by compliance officers, money laundering reporting officers and the senior officials of SFIs. Further, the Bank implemented a new SFI board communication policy. This policy, among other things, aims to provide each relevant SFI with an annual statement of AML/CFT risk management and compliance. This annual statement will not be subject to statutory confidentiality requirements, and will therefore be available for sharing with relevant parties, such as correspondent banks. The Bank has also clarified its communications with SFIs, particularly concerning supervisory interventions.

## **The Way Forward and Further Reforms**

### *AML Supervisory Framework 2.0*

In 2019, the Bank intends to launch version 2.0 of its approach to ML/TF risk supervision, which is likely to feature:

- ) more explicit and more regular engagement with internal and external auditors;
- ) more commonality of approach on documentary and policy expectations; and
- ) earlier and more effective identification and remediation of SFIs exhibiting negative outlier behavior on ML/TF risk.

The Bank has received submissions and informal feedback on its discussion paper regarding the next generation of ML/TF risk supervision. In this vein, responses are being reviewed and considered. This work will include developing an internal risk model for money transmission businesses<sup>5</sup>, as well as their integration into the current risk-based supervisory framework.

### *AML/CFT Penalty Regime*

The Bank issued a guidance note on AML penalties in December 2018, leveraging off its existing Administrative Monetary Penalty framework; and aligning with the 2018 legislation.

### *Cashless Transaction System*

The Bank is also in the early stages of building and testing a cashless transaction system, as part of a long-term strategy to move most Bahamian payments away from cash to electronic delivery.

## **Conclusion**

Over the past year, the Bank has successfully converted to continuous supervision of ML/TF risks, for both domestic and international banks and trust companies. These SFIs comprise the majority of the transactions in the Bahamian financial sector. The Bank's enhanced AML/CFT supervision will be extended to all sectors under its remit under Version 2.0 of its AML/CFT Supervisory Framework.

Over the next several months, and in conjunction with other agencies, the Bank expects to build a more effective infrastructure for public communication of ML/TF risk management issues in The Bahamas. The intended effect of these initiatives is to improve AML/CFT risk management in the jurisdiction, and have global perceptions of Bahamian ML/TF risks more accurately reflect the reality of these risks.

Overall, the Bank is highly satisfied with the progress made to date, although it recognizes that there is more to be accomplished.

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<sup>5</sup> In this context, money transmission extends beyond specialist businesses to the wire transfer and similar products of all SFIs.



Over the past two decades, Bahamian lawmakers, regulators and industry professionals have been engaged in an unrelenting effort to change the realities and perceptions of the jurisdiction's effectiveness and intent to advance global AML/CFT best practices and standards. Most recently, the CFATF's peer review process and subsequent MER have been invaluable as we contemplate the strides made and prioritise actions necessary to further this goal.

In the case of the Securities Commission of The Bahamas, which oversees the capital markets and regulates investment funds, securities as well as financial and corporate service providers, addressing deficiencies to AML/CFT compliance has been a priority. To this end, the Commission has been diligently focused on developing and implementing a suitable risk-based approach to supervision for the sub-sectors it oversees, shoring-up identified technical deficiencies in the legal framework, and reviewing other elements of the regulatory framework to improve its communications, practices and procedures with regard to managing money laundering and terrorist financing risk.

## Risk Based Supervision

Highlighted in the recent MER was the need for the Commission to develop and implement a risk-based approach to the supervision of all of its registrants and licensees. The Commission prioritised this deficiency as critical to its overall supervisory framework acknowledging that an effective risk-based approach takes several years to fully realise its impact. A global expert in regulatory and supervisory strategies and systems, including risk-based systems, was engaged to assist the Commission with the design and implementation of a risk-based supervisory framework. The developed framework, which includes continuous ML/TF/PF risk identification and monitoring, along with supporting templates, was delivered in March 2018 and comprehensive training of supervisory staff commenced in April 2018.

In preparation for this transition from a compliance-based approach to supervision to a risk-based approach, the Commission also developed a risk assessment survey to gather pertinent information on the activities of all of its registrants and licensees. The risk assessment survey, which focussed on

governance and strategy, business conduct, prudential matters, and AML and other requirements, was distributed on 7<sup>th</sup> March 2018, with a deadline of 18<sup>th</sup> April 2018 for completion.

The Commission additionally underwent an internal restructuring exercise aimed at creating synergies to maximize the effectiveness of the implemented risk-based supervisory framework. As part of this restructuring exercise, the separate departments for applications and offsite surveillance (i.e. Authorisations and Market Surveillance) were combined to create one "Supervision" department. Internally, the Supervision Department is sub-divided into units, reflecting the three pieces of legislation currently administered by the Securities Commission, the Securities Industry Act 2011 (SIA), the Investment Funds Act 2003 (FIA) and the Financial and Corporate Service Providers Act 2000 (FCSPA). Each unit within Supervision is responsible for both licensing as well as offsite surveillance with respect to registrants/licensees under their respective legislation. As a result, each unit will be responsible for the supervision of the entire life cycle of an active licensee/registrant, which is intended to facilitate a more holistic approach to ongoing supervision and risk management.

Additionally, the Commission created a Risk Analytics unit with primary focus being the ongoing monitoring of key risk indicators of its registrants and licensees as well as continuous AML/CFT monitoring. The Risk Analytics unit has conducted initial processing, review and analysis of data collected from the risk assessment questionnaire with a view to identifying and weighting key indicators, which will assist with the rating of all registrants and licensees. It is anticipated that final weightings will be both quantitative (based on the inherent risks of failure of the entities) and qualitative (based on the controls in place in conjunction with the actual review of the licensee's processes, including how well they follow their own policies as well as best practices/global standards). The development of a risk report will be a key output for the Commission once the risk-based framework is fully implemented.

## Tightening the AML/CFT Legislative Framework

There were a number of technical deficiencies persisting in the AML/CFT legislative regime for the Commission's constituents. These were primarily addressed through changes to the Financial Transactions Reporting Act, 2018 (FTRA), which is one of the key pieces of legislation establishing AML/CFT standards for financial institutions operating in or from within The Bahamas. The Commission has also been

focused on reviewing the legislation under its direct administrative charge to address AML/CFT deficiencies. The FTRA revisions and other AML/CFT legislative initiatives are summarised below.

### *Politically Exposed Persons (PEPs)*

New provisions of the FTRA, specifically Section 14(1), now require financial institutions to employ a risk management system to determine whether a facility holder or its beneficial owner is a PEP. Further, approval from senior management must be obtained prior to establishing a business relationship with a PEP. Financial institutions are also required under these provisions to take reasonable measures to identify the source of wealth and source of funds of the facility holder and conduct enhanced ongoing monitoring of the business relationship.

### *New Technologies*

The provisions of the FTRA 2018 at Sections 5(2)(a) and (b) obligate financial institutions to carry out risk assessments prior to launching a new product or business practice and prior to the use of new and developing technologies, in order to identify and assess the identified risks that may arise in relation to the new product, practice or technology.

### *Reliance on Third Parties*

Under the new provisions of the FTRA, particularly Section 9(4), financial institutions which choose to rely on the due diligence requirements fulfilled by a third-party retain responsibility for compliance with customer due diligence and record keeping requirements.

### *Internal Controls and Foreign Branches and Subsidiaries*

The new provisions of the FTRA, particularly at Sections 19-23, deal with the required internal control provisions for financial institutions. All financial institutions, including those regulated by the Commission, are obligated to comply with these provisions, which mandate that financial institutions implement procedures for the prevention of activities related to their identified risks. The procedures must be approved by senior management and include, for example, internal policies and controls used to fulfil the statutory obligation, screening procedures, ongoing training for statutory directors, officers and employees, and independent audit arrangements.

Financial institutions are also mandated, under the new provisions of the FTRA, to require their foreign branches and subsidiaries over which they have control to comply with statutory obligations under the Act, where permitted, and

where not permitted, to apply additional measures to manage their risks.

### *Powers of Supervisors*

The Commission is now permitted, subsequent to a written warning, to issue administrative penalties where the financial institutions fail to comply with, or their directors, senior managers or officers knowingly concur in a failure to comply with the new provisions of both the FTRA and the Proceeds of Crime Act (POCA). Under the new provisions, the maximum penalty that may be levied is \$200,000 in the case of a financial institution and \$50,000 in the case of a director, senior manager or officer.

### *Customer Due Diligence (CDD)*

The Commission has drafted proposed amendments to its AML/CFT Rules, which apply to registrants and licensees pursuant to securities laws (SIA and IFA), to address customer due diligence at all deficient levels. The proposed amendments intend to require financial institutions to scrutinize customers' business risk profiles including their source of funds. Financial institutions will also be required to ensure the documentation and information obtained during the CDD process are current and relevant by conducting mandatory reviews and updating of existing records, particularly but not limited to higher risk categories of customers. The Rules will also include a requirement for financial institutions to report suspicious transactions to the FIU, and provisions for them to be exempted from CDD requirements where compliance with the same is likely to tip-off customers that are involved in transactions where money laundering/terrorist financing are suspected. The Commission anticipates the Rules coming into effect in early 2019.

### *Improved Financial and Corporate Service Providers (FCSP) Legal Framework*

In its capacity as the Inspector of FCSPs, the Commission has also developed and proposed an overhauled, modern piece of legislation to repeal and replace the prevailing Financial and Corporate Services Providers Act, 2000. With regard to AML/CFT requirements, the proposed legislation complies with best practices and standards, and reflects changes and additions to the statutory obligations of financial and corporate service providers under the new provisions of the FTRA, Proceeds of Crime Act and Anti-Terrorism Act (ATA). The Commission anticipates promulgation of the Act in early 2019.

## Improving Communications, Processes and Procedures

### *Industry Communications*

The Commission has determined to enhance the effectiveness of its communications regarding ML/TF risk and related issues with the industries it oversees. In addition to developing guidance where applicable, the Commission has also determined to use each of its annual industry briefings to bring focus to AML/CFT issues. In April 2018, the Securities hosted its annual FCSP Industry Briefing and used the occasion to engage with the industry for a discussion about their requirements when identifying and documenting all the key beneficial owners of an entity, particularly in cases where the entity has a complex ownership structure. As indicated earlier, the Commission also plans to publish risk reports, first on an annual basis, to help inform relevant industries about the Commission's observations regarding risks to those industries.

### *Rating the Quality of International Legal Assistance Requests*

The Securities Commission has amended its internal procedures to include a system for rating the standard of assistance received from foreign regulators on international requests for information made by the Securities Commission.

### *Guidance and Feedback*

Historically, the Commission had adopted the Compliance Commission of The Bahamas' *Handbook and Code of Conduct* for FCSPs. However, the Commission has developed new AML/CFT Rules specifically for financial and corporate service providers under its regulatory remit to reflect changes and additions to the statutory obligations of financial and corporate service providers under the new provisions of the FTRA, POCA and ATA. The Commission anticipates their issuance around the promulgation of the new FCSPA, in early 2019.

### *Fit and Proper Assessment for FCSP Beneficial Owners and Shareholders*

As with other financial institutions, FCSPs must provide information and documentation evidencing the identities and fitness and propriety of their shareholders and beneficial owners. However, as indicated above, the Commission has developed comprehensive AML/CFT guidance specifically written for financial and corporate service providers under its regulatory remit to explain these requirements, and to affirm them explicitly.

## Conclusion

The Commission continues its efforts to ensure that deficiencies are addressed with regard to sub-sectors under its remit. The Commission is committed to ensuring that its AML/CFT focus is evidenced through the guidance it issues, how it communicates with registrants and licensees regarding money laundering and terrorist financing risk and regulatory requirements, as well as the review and updating of attending policies, procedures and practices.



Following The Bahamas' National Risk Assessment and the CFATF 4<sup>th</sup> Round Mutual Evaluation, it was evident that it was necessary to strengthen the anti-money laundering, countering terrorist financing and proliferation financing (AML/CFT/CPF) regime in the country. This resulted in amendments to a compendium of financial services legislation coupled with an aggressive education and awareness campaign to sensitize the financial services sector across the board.

Although life insurance companies have always been obligated to adhere to AML/CFT/CPF laws and regulations, there are several additional requirements that they must now fulfill as a financial institution. However, the newly enacted FTRA and accompanying Regulations, introduced new obligations for the general insurance sector. This sector is now mandated to report suspicious transactions. In light of these developments, the Insurance Commission of The Bahamas joined the national campaign to sensitize its licensees about the money laundering, terrorist financing and proliferation financing risks in the insurance industry.

## Industry Briefings

In January 2018, the Commission participated in a National Industry Briefing, hosted by the Office of the Attorney General to educate and sensitize the financial services industry about the ML/TF/PF risks identified in the NRA. Licensees from a cross section of the insurance industry including long term and general insurance companies and intermediaries also attended the briefing.

In February 2018, the Commission, hosted an Industry Briefing specifically tailored for insurance companies and intermediaries to discuss the risks identified in the NRA in relation to the insurance industry. The objective of the briefing was to ensure that participants gain a better understanding of the risks that were identified during the risk assessment. Thirty representatives of long term and general insurance companies and intermediaries attended the briefing.

## Training and Development of a Risk Matrix

In May 2018, the Board of Commissioners and employees of the Commission participated in separate training sessions to learn more about identifying and understanding ML/TF/PF risks. Additionally, the Commission began its one-on-one prudential meetings with licensees, and incorporated AML/CFT/CPF as a part of the meeting agenda to ensure that licensees are aware of recent legislative changes and their obligations thereto. The Commission discussed with licensees' details about their internal controls and procedures to ensure that there was a culture of compliance in relation to the AML/CFT/CPF laws and obligations.

Understanding the importance of AML/CFT/CPF training for employees of the Commission, in August 2018, twenty employees of the Supervision and Intermediaries and Market Conduct Unit received AML/CFT/CPF training facilitated by the FIU.

The Commission has developed a new ML/TF/PF risk matrix separate from the current prudential risk-based matrix. The results of the ML/TF/PF risk matrix will allow the Insurance Commission to create a risk profile for each licensee. Once completed, the Commission will determine how to effectively and efficiently focus its resources regarding AML/CFT/CPF supervision. All licensees will be subject to an annual AML/CFT/CPF exam or review. The requirement for an annual review is new to the general insurance industry, whereas the long-term industry is accustomed to an annual AML exam. As a part of its supervisory oversight, the Commission will conduct on-site examinations to specifically focus on AML/CFT/CPF for each licensee within a three-year cycle. However, institutions that are considered to have a higher ML/TF/PF risk in accordance with the outcome of the risk matrix, may be subject to more frequent exams, special reporting and/or other supervisory and regulatory measures.

## Revised AML/CFT Guidelines

As part of the Commission's review of its supervision programme, the AML/CFT Guidelines were amended to incorporate the new requirements under the FTRA and accompanying Regulations, 2018 and the POCA 2018. Subsequently, an industry notice was also issued to the industry informing them of their new obligations pursuant to recent legislative changes.

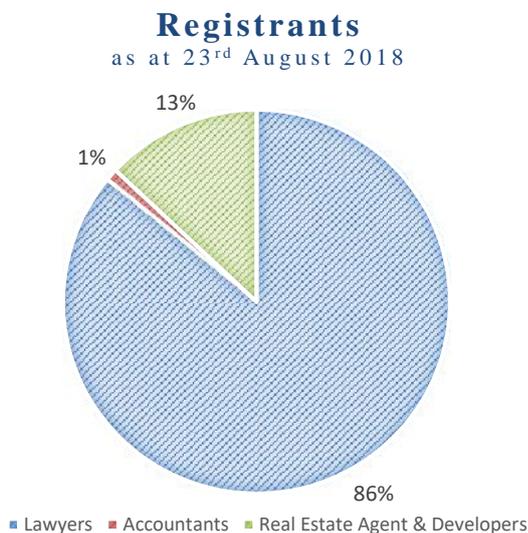
## Conclusion

The Commission remains committed to ensuring that the insurance industry stays vigilant in the fight against money laundering, terrorist financing and proliferation financing.



## The Compliance Commission of The Bahamas

The compliance landscape today in The Bahamas is dominated by the results of the MER conducted by the CFATF in 2015 and published in July 2017. The Bahamas' goal is to remain compliant with new agreements including Base Erosion and Profit Shifting Framework (BEPS) and Automatic Exchange of Information, FATCA & CRS and FATF standards.



### Actions Taken to Address Deficiencies

The deficiencies noted in the MER have been addressed by a compendium of new legislation including the enactment of the FTRA 2018, the POCA 2018, the Travellers Currency Declaration (Amendment) Act, 2018 and the Anti-Terrorism Act. In addition, the on-going upgrading of financial regulators' policies, procedures, obligations, industry guidelines and notes.

The key deficiencies to be addressed by the Commission from the MER of The Bahamas are:

1. The registration of financial institutions (FIs) is challenging and needs improvement;
2. The implementation of the risk-based approach to supervision is required;
3. Incidences of sanctions are low;

4. Updated AML/CFT guidance, Codes of Practice, to financial institutions based on updated FATF standards and obligations are required;
5. More training and guidance are necessary to enable constituents to better understand ML/TF risk, inherent risks, risk assessments and risk of products, services, geography, transactions or delivery channels. In addition, increased training and communication is needed with respect to typologies and the updated FATF standards;
6. There is insufficient awareness of financial institutions' obligations regarding terrorist financing and proliferation of weapons (PF) of mass destruction; and
7. An increase in resources is required to facilitate the supervision of financial institutions and the application of enforcement actions is required. It was also highlighted that the Commission lacks administrative penalties for violations.

### Legislative Reforms

There are several crucial changes in the FTRA 2018 that impact the Commission and mitigate a number of the deficiencies from the MER. In particular, Section 33 of the FTRA requires mandatory registration for the relevant financial institutions with a penalty of \$5,000 for each day that the financial institution remains unregistered. Further, when a financial institution has a change in registered office or principal place of business or has a change in beneficial ownership, director, partner, compliance officer or money laundering reporting officer the financial institution shall within three months notify the Commission. There is a penalty of \$5,000 for each day the firm fails to notify the Compliance Commission. This provision along with effective enforcement will lead to increase registration and compliance.

Section 57 of the FTRA 2018 gives the Commission the power to impose administrative penalties under the Act for financial institutions that fail to comply with any provision of the Act and any employee, director or senior manager. (In the case of a company, to a maximum penalty of two hundred thousand dollars and in the case of an employee, director or a senior manager of a FI, to a maximum penalty of fifty thousand dollars).

The implementation of the risk-based supervisory framework is ongoing. The Commission has developed a risk-based framework inclusive of a risk matrix to assess and rate financial institutions. The Commission distributed a Risk Assessment Questionnaire to all relevant constituents to gather pertinent information to help the Commission determine the frequency and intensity of the examinations going forward. This assessment is expected to be completed by January/February 2019.

### *Industry Communication*

The Commission held briefings with key stakeholders regarding the NRA of The Bahamas and distributed a brochure to constituents that identified the key risks and vulnerabilities for the sectors supervised. The Commission also intends to conduct further training to raise awareness including topics such as typologies, ML/TF/PF risks, best practices, legislative updates and educating constituents regarding their obligations.

Also, by way of reforms, the Commission has revised the Codes of Practice to include the updated FATF standards and obligations. The Codes of Practice was distributed for industry consultation in September 2018.

### *New Technologies*

The Commission is upgrading its technology to improve operational capabilities and more effectively utilize resources. This upgrade will allow mandatory on-line registration, examination submissions, the creation of various reports required to discharge our duties, automatic notifications to registrants, and data analytics. The Commission's website will also be upgraded and include more training and educational materials.

### *Risk Assessments*

A risk assessment of the dealers of precious metals and stones, as well as pawn brokers is underway. Guidelines for the sector will follow.

### *Enforcement*

The Commission has established an enforcement unit with the capability to apply relevant penalties and utilize market intelligence and detection methods to identify entities that are not complying with AML/CFT obligations. The Commission has also undertaken training on the updated FATF standards and obligations and plans to hire additional staff.

Notably, in the MER of The Bahamas the assessors stated that “DNFBPs are overall well aware of their regulatory AML/CFT obligations. As a result, they apply quite strong customer due diligence (CDD) procedures as well as other mitigating measures” and “the FIs and DNFBPs supervisory regimes are comprehensive and well developed. Supervisory powers are, in general, adequate and co-ordination among supervisory regulators works well”. The Commission intends to build on these strengths and address the deficiencies identified in 2018 to attain the high-level objective of the FATF and defend the jurisdiction from the threats of money laundering, financing of terrorism and proliferation.



The Financial Intelligence Unit is a member of the Egmont Group of Financial Intelligence Units (the Egmont Group), an anti-money laundering and combating the financing of terrorism organization. The Unit is fully committed to the Egmont Group's "Statement of Purpose" which incorporates "Principles for Information Exchange between Financial Intelligence Units for Money Laundering and Terrorism Financing Cases." The Unit, which was established by an Act of Parliament in December 2000, became the 54<sup>th</sup> member of Egmont in June 2001. It is the national authority that is responsible for receiving, analyzing, obtaining, and disseminating information which relates to, or may relate to the proceeds of offences specified in the schedule of the Proceeds of Crime Act of The Bahamas, 2018.

For 2017, the Unit received a total of 446 Suspicious Transaction Reports (STRs) for analysis from financial institutions in The Bahamas, inclusive of domestic and international banks and trust companies, casinos, stockbrokers, money remittance services, financial advisors, corporate services providers, credit unions, gaming houses, fund managers, and lawyers. This represented a 45.75% increase in STRs over the same period in 2016. A number of these reports after analysis were forwarded to the Commissioner of Police for investigation.

The Unit took particular note of the increased numbers of STRs received in 2017, which relates to fraudulent activities perpetuated by criminals using email and social media to target unsuspecting victims. An increase in fraud matters against online account holders has also been reported to the FIU for the period under review.

The Unit is cognizant of the new trends that have, and continue to develop as transnational criminals seek more ingenious ways to commit their acts. The Unit is aware of the prevalence of "hacking" and the many cyber-crimes,

inclusive of identity theft, advance fee fraud schemes, Nigerian Letters or 419 frauds, ponzi schemes, phishing and other sophisticated fraudulent activities. In 2017, the Unit placed greater focus on the issue of illicit trafficking of firearms and ammunition and the proceeds derived from these activities. This is an ever-present threat.

During the same period, a number of requests for assistance were received from the Royal Bahamas Police Force, foreign financial intelligence units, and regulatory agencies in The Bahamas. These assisted such agencies in the continuous fight against criminal conduct, inclusive of money laundering and terrorist financing.

Training of management and staff of financial institutions continues to be a top priority. In 2017, the FIU provided AML/CFT training to 1,196 persons from 36 different financial institutions. These entities included the Gaming Board for The Bahamas, insurance companies, trust companies, banking and corporate service providers, lawyers and DNFBBPs.

For the year under review, the staff of the Unit also attended a number of local and international plenaries, conferences, courses and seminars. These included courses facilitated by the Egmont Group, the CFATF and other expert organizations both locally and internationally.

The fight against transnational criminals requires recommitment by all and a redoubling of collective efforts. The Unit seeks to work with all stakeholders to protect the financial services industry and the good reputation of The Bahamas. All financial institutions, as defined in the Financial Transactions Reporting Act, Chapter 368, Statute Law of The Bahamas (amended) have an obligation to duly appoint a money laundering reporting officer for their respective institution, and to ensure that person is registered with the Unit. Financial institutions are also encouraged to fulfil their obligation to continue reporting all suspicious transactions to the FIU. Any individuals concerned with combatting proceeds of crime as dictated by the Proceeds of Crime Act, while detecting criminal activity relating to money laundering and terrorist financing can approach the Unit. In these regards, the general public is also encouraged to stay vigilant and to also report suspicious financial transactions to the Unit.

## Inter-Agency Cooperation

During 2018, the GFSR, along with other public and private sector agencies, collaborated on a number of initiatives in the AML/CFT space. This cooperation demonstrates the commitment by the various agencies to improve AML/CFT awareness and industry practice, as the jurisdiction strengthens its ability to suppress financial crime. Collective initiatives undertaken and planned include:

- ) ongoing AML/CFT work by the IRF Steering Committee;
- ) issuing cross-agency AML/CFT/CPF Guidance Notes;
- ) hosting an AML/CFT Conference;
- ) developing this AML/CFT Annual Publication; and
- ) developing (still in progress) a national AML/CFT reference website.

### Identified Risk Framework Steering Committee

In response to the 2017 CFATF Mutual Evaluation Report, significant AML/CFT work has been undertaken by the IRF Steering Committee (formerly the National Task Force) under the leadership of the Office of the Attorney General, and comprising members of the GFSR and other public sector agencies such as the FIU, Royal Bahamas Police Force, Royal Bahamas Defense Force, Bahamas Customs Department, Ministry of Finance and the Registrar General's Department.

Pursuant to Part II, Section 6(3) of The Bahamas' Proceeds of Crime Act, 2018, the IRF Steering Committee will, among other responsibilities, (a) coordinate a national risk assessment periodically to identify, assess and understand the identified risks and ensure that such assessments are updated and relevant; (b) coordinate the development, regular review and implementation of national policies and activities designed to mitigate identified risks; and (c) collect and analyze statistics and other information from competent authorities to assess the effectiveness of the Identified Risk Framework. The IRF Steering Committee meets on a weekly basis to discuss AML/CFT work within the jurisdiction.

### Guidance Notes

Collectively, the Central Bank, the Insurance Commission, the Compliance Commission and the Securities

Commission developed the following AML/CFT related Guidance Notes:

*Guidance Note on the Sound Management of Risks Related to Financial Crime in The Bahamas:* This guidance covers risk management approaches for AML/CFT and other financial crimes and guides Bahamian financial entities to improve industry practices and supports supervisors as they provide additional impetus to industry to mitigate identifiable risks.

*Guidance Note on Proliferation and Proliferation Financing:* This note provides guidance to Bahamian financial entities on proliferation risks. The note is intended to raise awareness of the risks and vulnerabilities in regards to proliferation and proliferation financing.

Issued in final form on 21<sup>st</sup> August 2018, the Guidance Notes provide direction to regulated entities on the identification, assessment, management and mitigation of financial crime risk and seek to raise awareness of the risks and vulnerabilities in regards to proliferation and proliferation financing. The completion and issuance of these new Guidance Notes ensure that the AML/CFT/CPF regime is consistent with relevant international standards and best practices.

### AML/CFT Conference

The Bahamas' inaugural AML/CFT Risk Management Conference was a two-day event focused on strengthening the management of financial crime risk within the jurisdiction. The first day provided a strategic overview of the Bahamian financial services industry and the way forward with respect to exploring international best practices. The second day covered tactical implementation of the next steps to meet international expectations for combatting ML/TF. With more than 400 persons in attendance at the conference, the majority of registrants were from The Bahamas (96%), with a few persons representing the United States of America, Canada, the United Kingdom, and other Caribbean nations. All sub-sectors of the industry were in attendance, with the majority representation from banks and trust companies.

Overall, the conference was deemed a world-class event and was described as the AML/CFT flagship conference for the industry. By hosting the conference, The Bahamas has reaffirmed its commitment to manage financial crime while promoting integrity in the financial markets. Additionally, it equipped persons in the industry with the

necessary knowledge and tools to better understand the national risk-based approach to ML/TF risk management. The execution of this inaugural conference demonstrated a successful collaborative effort by the GFSR.

### AML Publication

This first annual AML/CFT Publication seeks to amalgamate all the various AML/CFT work conducted during the year by regulatory bodies and public/private agencies; and to share the jurisdiction's progress on managing ML/TF risks. The articles and reports from each of the GFSR agencies, the Financial Intelligence Unit and the Office of the Attorney General are expected, over time, to grow into a useful time series of ML/TF data.

### AML/CFT Website

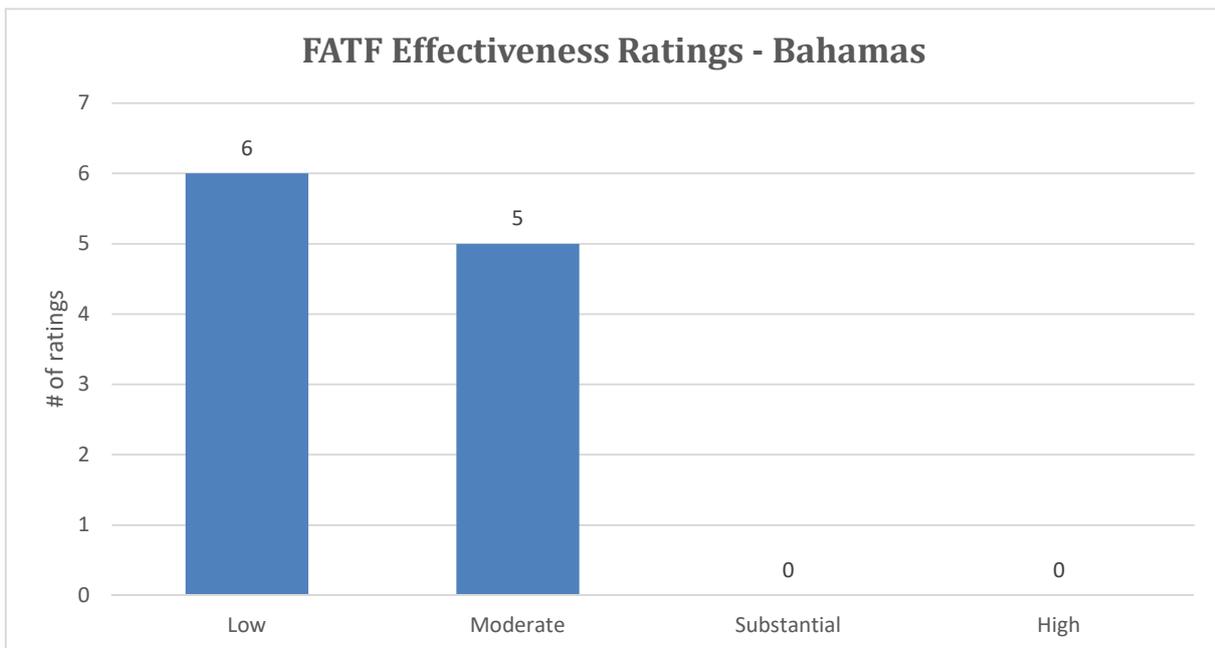
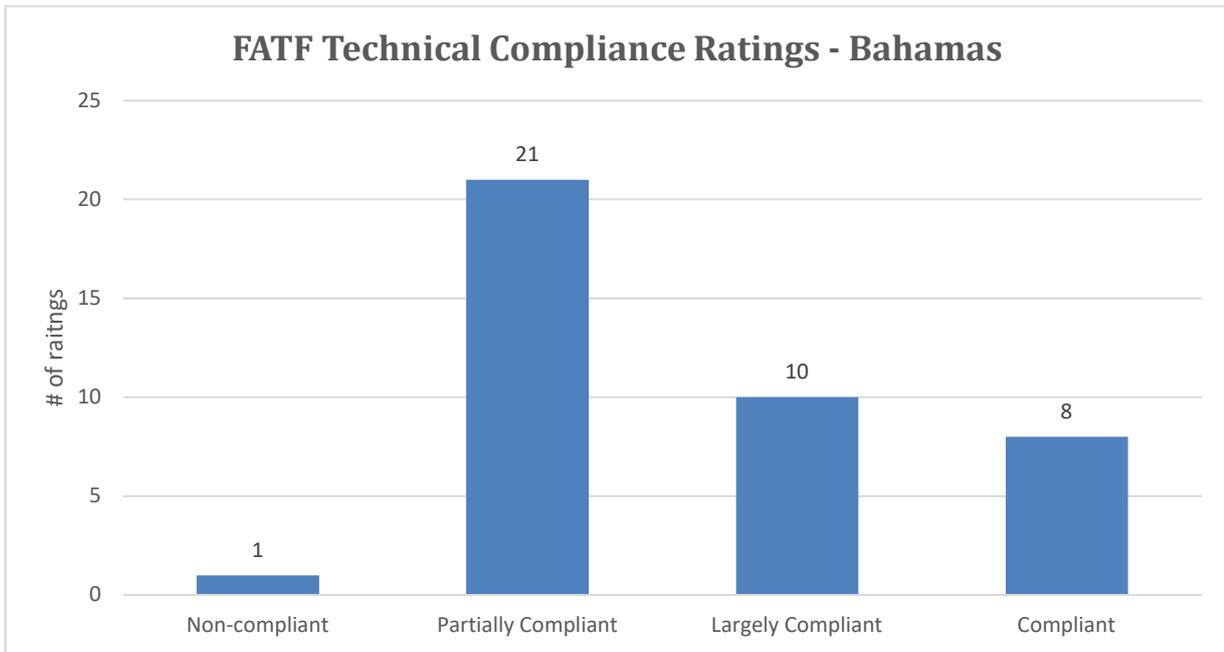
Plans for the development of an AML/CFT national website are underway. The website will feature data and documents relevant to all regulators, government agencies and professional organizations with a stake in the AML/CFT perception of the country. Although hosted and administered by the Central Bank, the website will include material from all the GFSR agencies, as well as other public and private sector parties. Similar to the AML/CFT conference, the development and launch of the website provides a platform to increase inter-agency co-operation and industry participation regarding financial crime risk management.

# appendices

# Appendix I

## Financial Action Task Force (FATF) Ratings

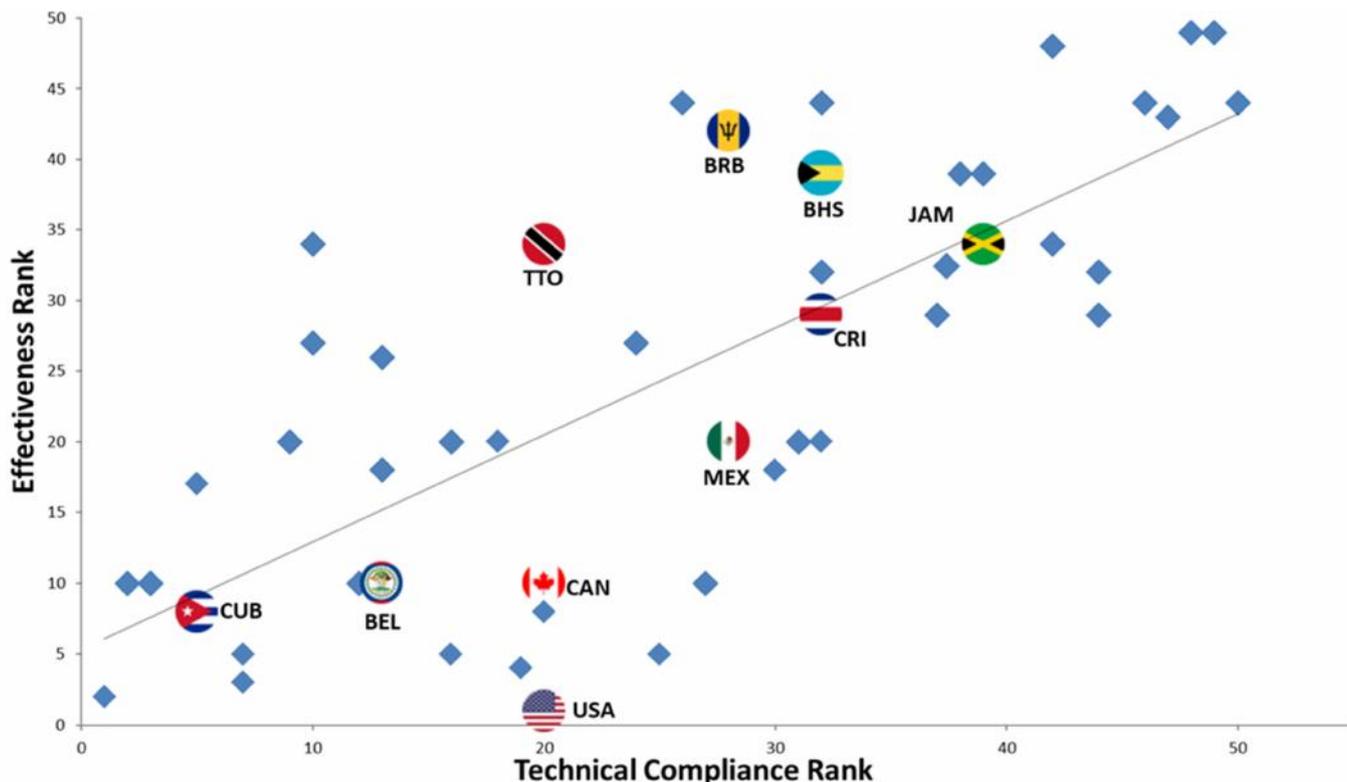
The distribution of The Bahamas' ratings<sup>6</sup> for Technical Compliance and Effectiveness from the July 2017 Mutual Evaluation Report is shown below.



<sup>6</sup> In November 2018, as a result of The Bahamas' progress in strengthening its framework to address money laundering and terrorist financing since the 2017 mutual evaluation, the Caribbean Financial Action Task Force (CFATF) re-rated the country on 13 of the 40 Technical Compliance Recommendations, resulting in 30 Recommendations rated as compliant or largely compliant, 10 rated as partially compliant and 0 rated as non-compliant.

### FATF 4<sup>th</sup> Round Evaluation Comparison

The initial position of The Bahamas against about 50 other recently FATF-rated countries is shown on the graph below. The horizontal axis gives our position on technical compliance, and the vertical axis our position on effectiveness. In this ranking, the lower the number, the more favourable the effectiveness or technical compliance of the sovereigns. The Bahamas was positioned at the middle grouping, but at the lower end of that group, particularly on the effectiveness rating.



## Appendix II

### *Comparison of Money Laundering Investigations, Prosecutions and Convictions*

	2015	2016	2017	2018	TOTALS
<b>Number of Persons Charged</b>	1	0	5	54	<b>60</b>
<b>Number of Prosecutions</b>	1	0	4	36	<b>41</b>
<b>Number of Convictions</b>	1	0	3	10	<b>14</b>

## Appendix III

### *Currency Notes in The Bahamas*

As part of its focus on AML risk areas, the Central Bank intends to increase its consideration of currency note use in The Bahamas. Our expectation is that future issues of this publication will extend the analysis to other relevant countries. 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. The Bank also consolidates collection of U.S. dollar (USD) notes from clearing banks, for bundled return to the United States<sup>7</sup>.

This appendix, present information on the stock of Bahamian Dollar notes by denomination, and the annual flow of US dollar notes. We lack information as to the stock of USD notes held in The Bahamas at any one time.

#### **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 financial 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.

A national currency used for money laundering will tend to be biased towards large denomination notes. Furthermore, these large denomination notes are likely to turn over less frequently than smaller denomination notes.

#### **The Bahamian Dollar currency note position**

The following table outlines the Bahamian dollar stock of notes by denomination<sup>8</sup>.

**Table 1.** B\$ Currency Report—Value of Notes Outstanding (in B\$ Thousands)

	2012	2013	2014	2015	2016	2017	2018 (Jan-Jun)
<b>\$0.50</b>	653	668	669	676	737	767	770
<b>\$1</b>	20,656	21,279	22,114	22,702	23,509	24,285	24,069
<b>\$3</b>	1,874	1,903	1,921	1,943	1,972	2,017	2,022
<b>\$5</b>	10,018	10,451	10,731	11,036	11,503	11,918	11,459
<b>\$10</b>	15,218	15,196	15,794	15,997	17,753	18,510	17,064
<b>\$20</b>	51,997	54,189	57,060	57,299	59,900	61,349	48,472
<b>\$50</b>	93,668	96,746	102,994	108,690	116,723	123,722	121,923
<b>\$100</b>	130,728	132,180	142,783	147,495	167,895	168,470	153,848
<b>Total</b>	324,812	332,612	354,066	365,838	399,992	411,038	379,627

<sup>7</sup> USD notes are returned in 1,000 note bundles, so the following USD statistics will all show zeroes for at least three significant digits.

<sup>8</sup> Bahamian currency outstanding are seasonal, so the June 2018 results are not directly comparable to the previous years' December results.

**Table 2.** B\$ Currency Report – Summary Statistics

	2012	2013	2014	2015	2016	2017	2018 (Jan-Jun)
<b>Median Note Value</b>	50.00	50.00	50.00	50.00	50.00	50.00	50.00
<b>Ave. Note Value</b>	10.18	10.13	10.37	10.45	10.89	10.83	10.35
<b>Value/GDP (%)</b>	3.0%	3.1%	3.3%	3.4%	3.8%	3.8%	N/A
<b>Value Per Capita (\$)</b>	873.06	881.70	926.46	945.71	1022.39	1039.65	950.77
<b>\$100/Total Value</b>	40%	40%	40%	40%	42%	41%	41%

There are a number of observations available from this table:

- 1) Just over half the value in Bahamian notes are represented by \$50 and \$100 denominations, while over half the number of notes are represented by the \$1 denomination.
- 2) The Bahamian note composition has been stable in recent years, with the median note by value the \$50 denomination, and the average note value around \$10.
- 3) The value of notes per capita has increased slightly in recent years, from around \$800 to around \$1,000. The value of notes as a proportion of GDP has also increased slightly, from 3.0% in 2012 to around 3.8% currently.
- 4) The proportion of \$100 notes by value has remained constant at around 40 per cent.

The Central Bank does not observe any pattern here that would suggest large scale money laundering using Bahamian currency. We intend to conduct further research in this area over time.

Due to exchange control restrictions, Bahamian Dollar notes are most unlikely to serve as a material vehicle for cross border money laundering, particularly given the ready international availability of freely convertible USD notes.

## USD currency note flow

Table 3 gives the flow to the Central Bank from the Bahamian domestic<sup>9</sup> banking system of USD denominated notes. The data understates the amount of Bahamian expenditure driven by USD denominated notes, given that retailers often make change to USD purchasers using whatever USD denominated notes happen to be in their tills at the time. The data nonetheless gives a sense for the flow of USD denominated notes in the jurisdiction.

**Table 3. USD Currency Report—Value of Notes Purchased (US\$ Thousands)**

	2012	2013	2014	2015	2016	2017	2018 (Jan-Jun)
<b>\$1</b>	5,535	6,054	6,501	6,920	6,601	5,776	3,365
<b>\$2</b>	20	36	26	10	42	32	12
<b>\$5</b>	8,975	9,745	10,030	10,350	9,530	8,455	5,100
<b>\$10</b>	10,860	11,960	11,970	12,180	10,920	9,240	5,880
<b>\$20</b>	117,500	133,860	122,820	127,680	125,660	99,540	74,040
<b>\$50</b>	4,905	5,680	7,100	10,525	6,455	5,450	7,300
<b>\$100</b>	14,820	13,710	15,400	14,730	13,330	13,400	9,100
<b>Total</b>	162,615	181,045	173,847	182,395	172,538	141,893	104,797

**Table 4. USD Currency Report – Summary Statistics**

	2012	2013	2014	2015	2016	2017	2018 (Jan-Jun)
<b>Median Note Value</b>	20	20	20	20	20	20	20
<b>Ave. Note Value</b>	11.18	11.20	10.76	10.76	10.67	10.41	11.75
<b>Value/GDP (%)</b>	1.5%	1.7%	1.6%	1.7%	1.6%	1.3%	N/A
<b>Value Per Capita</b>	437.09	479.92	454.90	471.50	441.01	358.89	262.46
<b>\$100/Total Value</b>	9%	8%	9%	8%	8%	9%	9%

The median note in number and dominant note by value is the \$20 denomination, which is consistent with travelers making withdrawals in this denomination from ATMs before arriving in The Bahamas. The value of the average note purchased value is about the same as for Bahamian currency, from \$10 to \$11. \$100 denomination notes make up only 1 per cent of total notes presented, whereas \$1 notes make up about 40 per cent of notes presented.

As a point of comparison, about 80 per cent<sup>10</sup> of the value of USD currency outstanding globally is in the \$100 denomination, which has more notes on issue than the \$1 denomination. The Bahamian pattern shows 10 per cent of value in the \$100 denomination, and forty times the number of \$1 notes compared to \$100 notes.

<sup>9</sup> The much larger Bahamian international banking system does not take currency deposits and has only minor holdings of currency, so is not considered here.

<sup>10</sup> <https://fred.stlouisfed.org/release/tables?rid=311&eid=153785>

The data suggest the flow of USD denominated notes through the Bahamian financial system looks very much like tourist expenditure, and very little like money laundering.

The USD values per capita are based on annual sales to the Central Bank. On a monthly basis, the data suggest an average per capital turnover to the Bank of less than \$40.

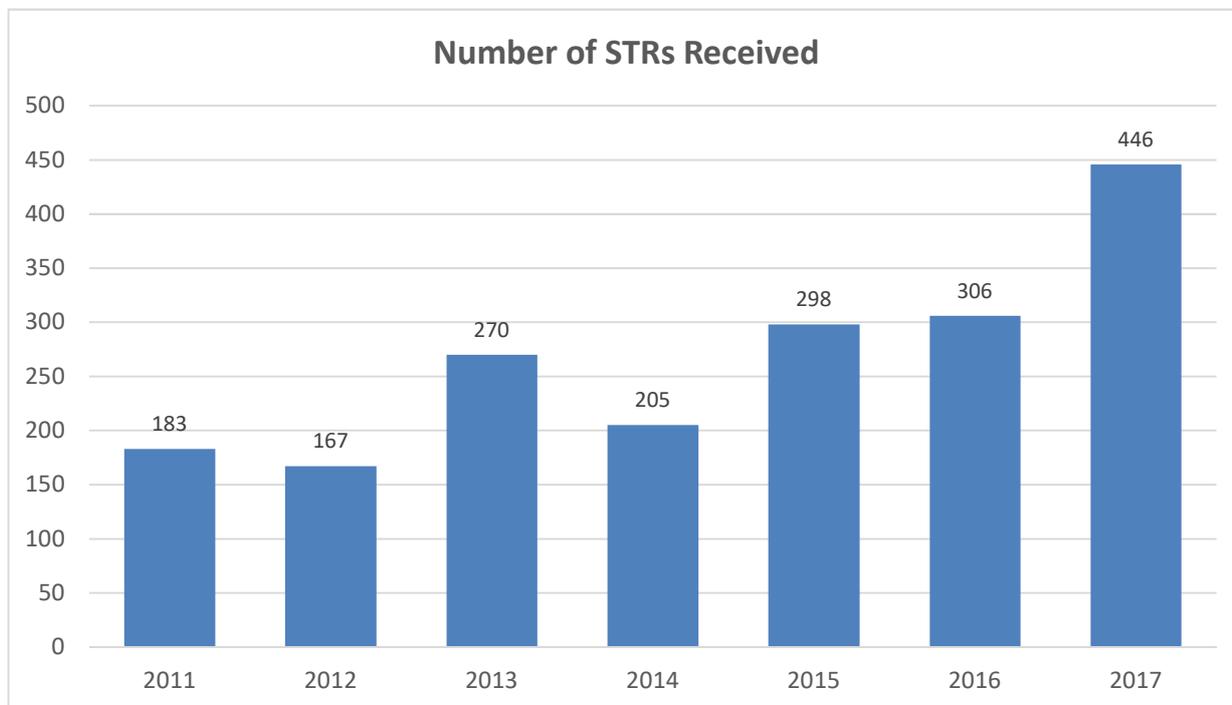
## **Summary**

There is considerably more work to undertake on the interface between currency notes and money laundering in The Bahamas, but the data at hand suggests that:

- a) Patterns of currency use are reasonably stable over time;
- b) There is nothing in the USD data to suggest Bahamian money laundering on any scale;
- c) There is little in the Bahamian Dollar data to suggest material money laundering domestically, and this trend will continue to be monitored.

## Appendix IV

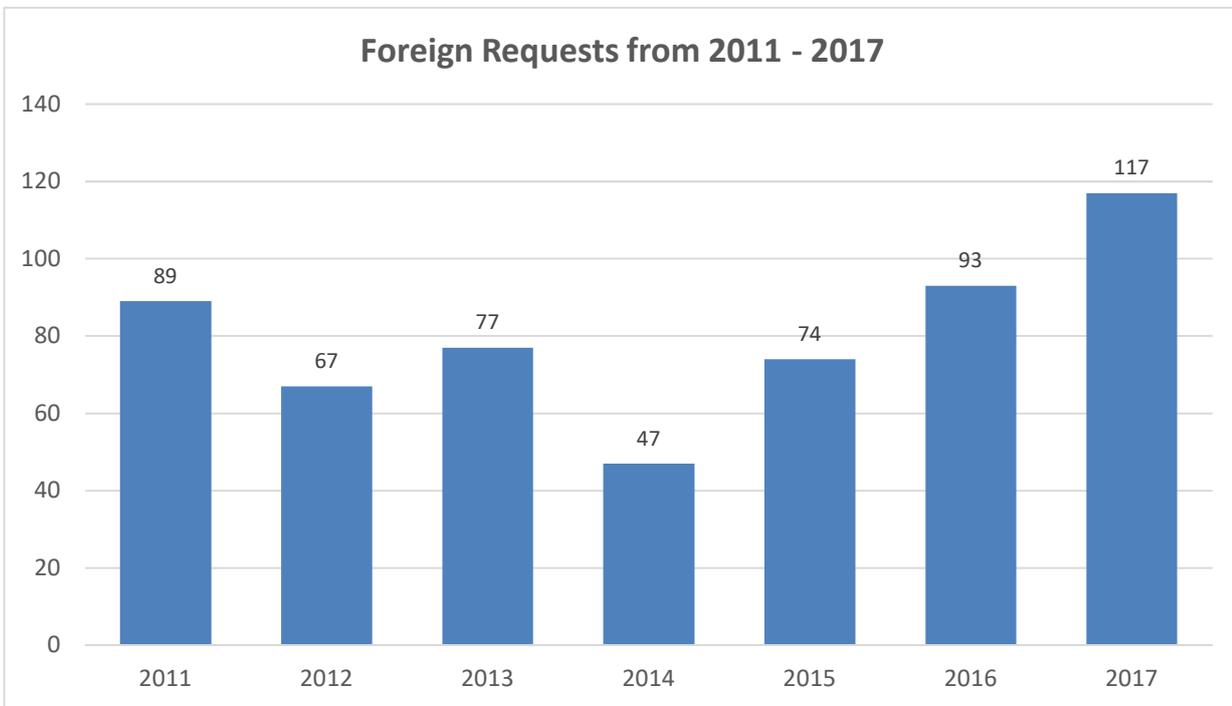
### *FIU Statistics*



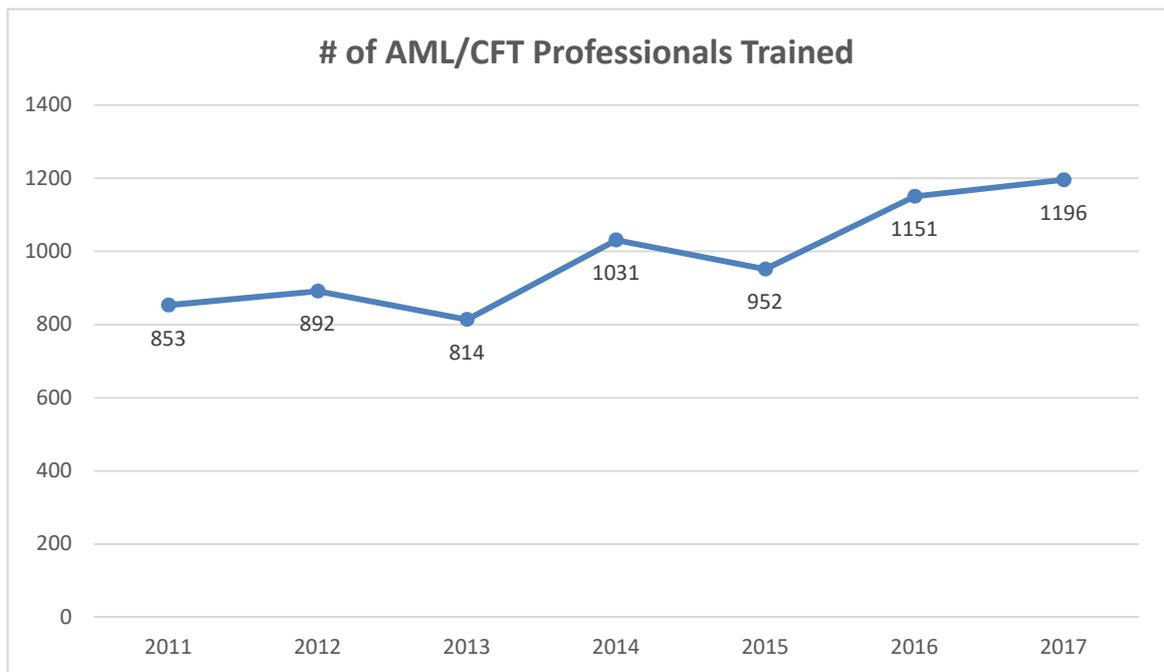
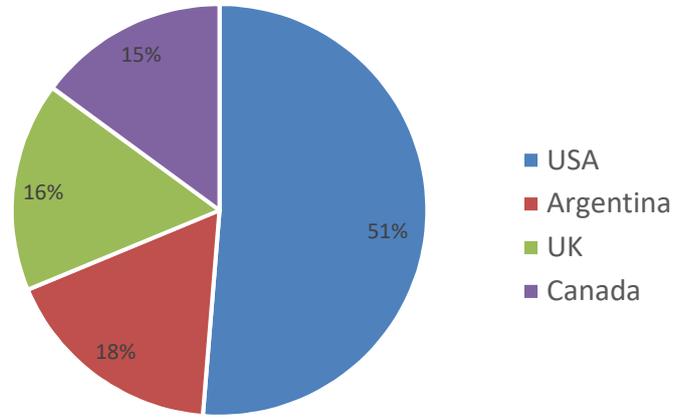
<b>STRs Received &amp; Actioned</b>								
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Totals</b>
<b>STRs Received</b>	183	167	270	205	298	306	446	1875
<i>Passed to Police</i>	97	46	67	30	45	51	81	417
<i>Closed</i>	86	111	169	113	169	149	127	924
<i>Pending</i>	0	10	34	62	84	106	238	534
<b>Funds Frozen</b>	\$0	\$105.2k	\$4.4m	\$56.7k	\$50.8m	\$27.2m	\$14.3m	\$96.9m

### 2017 STRs Filing by Institution

Type of Institutions	Absolute	Relative
Casino	36	8.07%
Company Service Provider	4	.90%
Credit Union	3	.67%
Domestic Banks	21	4.71%
Domestic/Offshore Banks	263	58.97%
Offshore Banks	73	16.37%
Gaming House	1	.22%
Fund Manager	1	.22%
Lawyer	2	.45%
Money Remittance Service	7	1.57%
Stockbroker	2	.45%
Trust Company	30	6.73%
Wealth Management Company	3	.67%



### Top 4 Requesting Foreign FIUs (2011 - 2017)



## Appendix V

### *Summary of AML/CFT Risk Rating Reviews*

The Central Bank conducted AML/CFT risk assessments for seventy-five public bank and/or trust companies and nine credit unions during 2018. For the purpose of this analysis, SFIs have been assigned to four peer groups:

#### **Peer Groups**

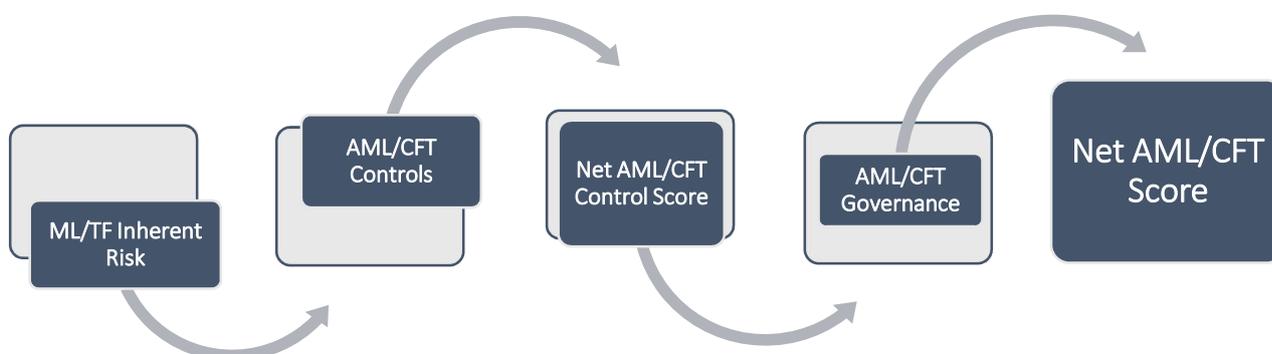
- i) **Domestic**– 8 commercial banks making loans and taking deposits within the Bahamian economy;
- ii) **Home**– 18 international banks and/or trusts conducting business on an international level and with their home country as The Bahamas;
- iii) **Host** – 49 international banks and/or trusts conducting business on an international level and with their home countries in jurisdictions other than The Bahamas; and
- iv) **Credit unions** – 9 co-operative credit unions making loans and taking deposits within the Bahamian economy

#### **AML/CFT Supervisory Risk Assessment Process**

The Bank’s AML/CFT risk assessment assigns numeric scores to SFIs’ exposure to financial crime risk and the adequacy of their mitigating controls. Risk scores are determined by examining both qualitative and quantitative data along with the review of SFIs’ internal frameworks, as well as their policies and procedures. Information obtained via onsite supervision and other offsite assessments is an important input to the ratings.

A five-point scale is used to rate the various inherent risks and controls; 1 represents the most favourable rating with 5 representing the least favourable.

The assessed rating for each inherent risk/control element is aggregated to quantify the ML/TF inherent risk score and AML/CFT control score. In applying AML/CFT controls to the inherent risks, the Net AML/CFT control score is calculated. The AML/CFT governance’s mitigation is then factored to the Net AML/CFT control score to determine the Net AML/CFT score or residual risk level. A graphical depiction is provided below.



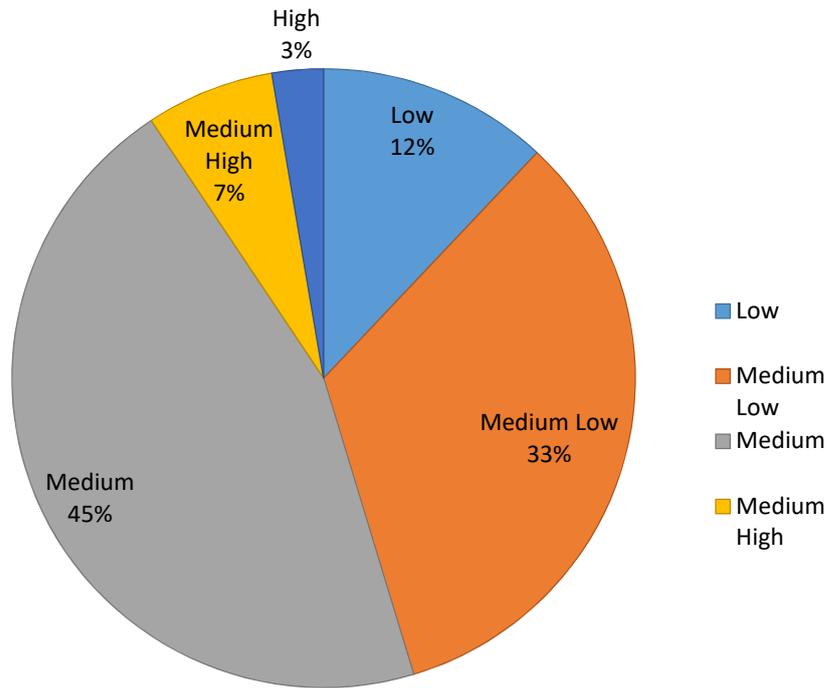
## Overview of Findings

### *Banks and Trust Companies*

The overall ML/TF risk for all bank and trust companies has been assessed as **Medium**. The distribution for the ratings across banks and trust companies by peer group is displayed below.

#### Net ML/TF Risk Distribution

##### *Banks and Trusts*



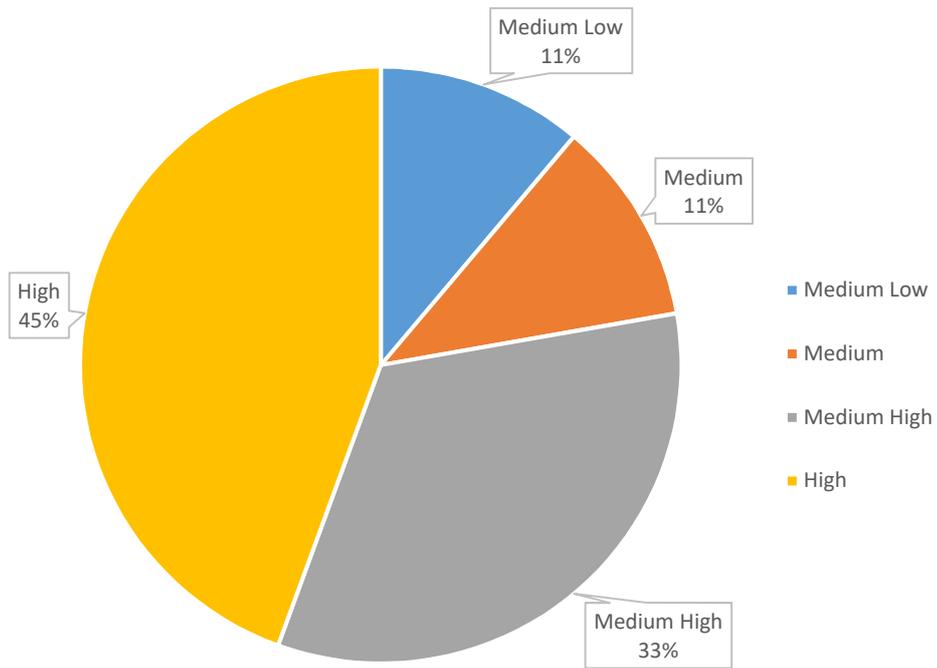
Risk Score Count	Risk Score				
	Low	Medium Low	Medium	Medium High	High
<b>Total</b>	<b>9</b>	<b>25</b>	<b>34</b>	<b>5</b>	<b>2</b>

*Co-operative Credit Unions*

The overall ML/TF risk for all co-operative credit unions has been assessed as **Medium High**. The distribution for the ratings across credit unions is displayed below.

**Net ML/TF Risk Distribution**

*Credit Unions*



Risk Score Count	Risk Score				
	Low	Medium Low	Medium	Medium High	High
# of Credit Unions	<b>0</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>4</b>



This publication was produced by the Group of Financial Services Regulators, the Financial Intelligence Unit of The Bahamas, and the Office of the Attorney General. Any comments or concerns regarding the document can be made to the below address:

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