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**BERMUDA MONETARY AUTHORITY**

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***Regulatory Update***  
**August 2006**

*(Incorporating Financial Statistics for the  
Quarter ended March 2006)*



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## **(I) REGULATORY DEVELOPMENTS**

### ***a) Banks and Deposit Companies***

#### ***Amendments to Capital Adequacy Framework for Banks and Deposit Companies***

Following completion of the consultative process for the Authority's proposed revisions to the Capital Adequacy framework for institutions licensed under the Banks and Deposit Companies Act 1999, the Authority will finalise shortly its paper "The Assessment of Measurement of Capital Adequacy" originally circulated in draft form in December 2005. The paper introduces a number of changes in the current methodology for calculating capital adequacy, most notably the introduction of specific provisions for assessing the capital to be held against institutions' traded market risk. The new paper represents an interim stage since further enhancements will be required shortly as part of the implementation of the Basel II framework, on which the Authority is also conducting intensive consultation with institutions.

#### ***Relationship with Auditors and Reporting Accountants of Banks and Deposit Companies***

In January 2006 the Authority published a final version of its paper "Relationship with Auditors and Reporting Accountants of Banks and Deposit Companies". The new version reflects the recent amendments to the Banks and Deposit Companies Act 1999 and the related Regulations with regard to the statutory reporting obligations of auditors and reporting accountants. The paper can be viewed on the Authority's website at [www.bma.bm](http://www.bma.bm).

#### ***Basel II: Pillar I - Operational Risk***

The Authority published, in June 2006, a consultation paper dealing with the new operational risk capital requirements that will be imposed as part of the new Basel II framework. The Authority will be leading bilateral discussions with institutions on this matter during the third quarter of this year (see the Special Feature on page 7.).

## **(II) LEGISLATIVE DEVELOPMENTS**

### ***a) Investment Funds Act 2006***

A revised draft of the Investment Funds Bill 2006 (previously entitled the Collective Investments Schemes Bill) has been circulated to industry for consultation. It is hoped that the Bill will be tabled in Parliament early in the next session. In the meantime, the Authority is preparing related Regulations, which it intends to circulate to industry for consultation in the autumn.

### ***b) BMA Amendment Act 2006***

The Bermuda Monetary Amendment Act has been passed by Parliament and is intended to come into force shortly. In addition to implementing a number of changes in the Authority's internal corporate governance, the Act pro-

vides for the introduction of Regulations for money service businesses. The Authority will be consulting interested parties shortly on the details of the proposed new Regulations.

***c) Insurance Amendment Act 2006***

The Insurance Amendment Act 2006 has also been passed by Parliament and came into effect in July. The Authority is preparing a draft Statement of Principles under the Act, which will be circulated to industry during the summer as a basis for consultation.

**(III) OTHER DEVELOPMENTS**

***a) IAIS Captives Paper***

The IAIS Captives Paper has been forwarded to the IAIS Technical Committee for consideration. This is the final step prior to the paper being tabled at the IAIS's Annual General Meeting in Beijing, China this October.

***b) Seminars, Conferences and Publications***

Cheryl-Ann Lister, Chairman and CEO attended the World Bank Conference "Aligning Financial Supervisory Structures with Country Needs", in Washington D.C. from June 5th - 6th.

Mrs. Lister also attended the 6th Annual International Seminar on Policy Challenges for the Financial Sector hosted jointly by the World Bank, the International Monetary Fund and the United States Federal Government, in Washington D.C. from June 7th - 9th.

D. Munro Sutherland, Superintendent of Banking, Trust and Investment attended the Annual Meeting of the International Organisation of Securities Commissioners (IOSCO) in Hong Kong from June 5th - 9th.

Jeremy Cox, Supervisor of Insurance and Mrs. Lister attended the NAIC Summer National Meeting in Washington D.C. from June 10th - 13th.

Mrs. Lister attended the Bank of England Symposium held in London, England from June 10th - June 13th and the Bank of International Settlements Annual General Meeting in Basel, Switzerland from June 24th - 27th.

Mrs. Lister was the guest speaker at the June meeting of the Sandy's Rotary on June 12th.

Pat Phillip-Bassett, Assistant Director, Policy, Research and Communications attended the joint International Association of Insurance Supervisors - Office of the Superintendent of Financial Institutions Training Seminar held in Ottawa, Canada from May 29th - June 1st.

Marcelo Ramella, Senior Research Officer participated in the one-day "Conference to Review the G30 Report on Reinsurance and the International Financial Markets Study" on May 9th.

D. Munro Sutherland attended a meeting for the Basel Cross-border Banking Group in New York on July 18th.

*c) New Staff and Promotions*

Nicole Caines has joined the Corporate and Financial Services department as Principal, Facilities and Records Management.

Cyralene Benskin-Murray has joined the Legal Services and Enforcement department as Assistant Director, Legal Services and Enforcement.

Fadwa Sahly has joined the Banking, Trust and Investment department as Principal, BTI.

Terry Pitcher was promoted to the vacant position of Assistant Director Corporate Financial Services with effect July 1st 2006. Mrs. Pitcher will retain a number of her Financial Controller responsibilities (including the coordination of the Authority's 2007 budget) until such time as a new Financial Controller is appointed.

## Special Feature - The Introduction of Operational Risk Capital Charges under Basel II

### Introduction

For the first time under the new Basel II framework there will be a specific capital charge deriving from an evaluation of banks' operational risks. As is normal with the Basel II framework, different measurement methodologies are permitted, having regard to the level of sophistication of institutions' risk measure systems and practices, in such a way as to provide tangible encouragement for banks to migrate to the more advanced approaches. However, the relevant provisions are quite complex and the Authority expects to begin working shortly with institutions to enhance its understanding of their operational risk management processes and their arrangements for measuring and reporting operational risk exposures and loss experience.

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, personnel or systems, or from external events.

Essentially, the new rules provide for three methods of calculating the capital charge:

1. **Basic Indicator** - which involves the calculation of a capital charge add-on equivalent to 15% of the three-year rolling average of a bank's annual gross income. At the most basic level, in employing the Basic Indicator approach, banks are expected to comply with the basic tenets of the guidance on Sound Practices for the Management and Supervision of Operational Risk, published by the Basel Committee in February 2003.
2. **Standardised Approach** - which involves the breakdown of gross income by allocating it across various business lines. Risk charges are then set as a percentage of gross income for each business line, with the relevant percentages (between 12% and 18%) set to reflect likely incidence of operational risk within the particular line.
3. **Advanced Measurement Approaches (AMA)** - provide for the regulatory capital requirement to be generated by the institution's own internal operational risk measurement system, using a range of both quantitative and qualitative criteria stipulated for the AMA. A bank's AMA must be subject to a period of initial monitoring by supervisors before it can be used for regulatory purposes in order to determine whether the approach is credible and appropriate.

The expectation is that banks that are internationally active should be using an approach that is more sophisticated than Basic Indicator; and also that banks may be permitted to employ a combination of approaches for different parts of their operations, subject to meeting certain criteria. It is evident that most Bermuda institutions will need to look, at a minimum, to meet the requirements of the Standardised Approach.

It is important to note, however, that various requirements must be met before a bank can be permitted to adopt the Standardised Approach and that the Authority will need to conduct specific reviews of the arrangements in place within institutions before approving the use of the Standardised Approach. The Basel framework also provides for the Authority to be able to require a period of initial monitoring of the results of an institution's opera-

tional risk processes before permitting it to move to the Standardised Approach for regulatory capital purposes. In order to try to avoid delays in institutions being able to move to the Standardised Approach, the Authority intends to work with each institution in the run-up to the implementation of Basel II to conduct a review of its operational risk framework. In this way, the Authority expects to be in a position to determine, upon implementation of Basel II, the methodologies which each institution will be expected to apply.

All institutions seeking to use the Standardised Approach will also be required to develop and document policies and criteria for mapping gross income for their business lines and activities as outlined in the Basel framework. In addition, for banks that are internationally active, various additional criteria must be met.

The Authority appreciates that these new requirements will involve a degree of further development of processes and documentation for most institutions. Accordingly, the Authority intends to hold bilateral discussions with each licensed institution to clarify what they currently have in place and where they may need to focus attention going forward, in order to be in a position to meet the requirements.

## STATISTICAL ANNEXE

### BERMUDA MONEY SUPPLY

(BD\$ millions)	2004-Q4	2005-Q1	2005-Q2	2005-Q3	2005-Q4	2006-Q1
Notes & Coins in Circulation*	100	93	99	98	114	99
Deposit liabilities:						
Banks and Deposit Companies (unconsolidated)	3,558	3,579	3,562	3,510	3,362	3,418
	<b>3,658</b>	<b>3,672</b>	<b>3,662</b>	<b>3,609</b>	<b>3,476</b>	<b>3,517</b>
Less: Cash at Banks and Deposit Companies	27	26	28	25	40	24
BD\$ Money Supply	<b>3,630</b>	<b>3,646</b>	<b>3,634</b>	<b>3,583</b>	<b>3,437</b>	<b>3,493</b>
% Growth on Previous Period	<b>0.51%</b>	<b>0.43%</b>	<b>-0.33%</b>	<b>-1.39%</b>	<b>-4.10%</b>	<b>1.64%</b>
% Growth Year on Year	<b>10.09%</b>	<b>5.63%</b>	<b>2.15%</b>	<b>-0.79%</b>	<b>-5.34%</b>	<b>-4.20%</b>

\* This table includes the supply of Bermuda dollars only. United States currency is also in circulation in Bermuda but the amount has not been quantified.

### BD\$ DEPOSIT PROFILE - COMBINED BANKS AND DEPOSIT COMPANIES (Unconsolidated)

(BD\$ Millions)	2004-Q4	2005-Q1	2005-Q2	2005-Q3	2005-Q4	2006-Q1
Deposit Liabilities	3,558	3,579	3,562	3,510	3,362	3,418
Less:						
Loans, Advances and Mortgages	(2,865)	(2,942)	(3,079)	(3,281)	(3,368)	(3,438)
Surplus deposits	<b>693</b>	<b>637</b>	<b>484</b>	<b>230</b>	<b>(6)</b>	<b>(20)</b>
Percentage of Deposit Liabilities Lent	<b>80.5%</b>	<b>82.2%</b>	<b>86.4%</b>	<b>93.5%</b>	<b>100.2%</b>	<b>100.6%</b>

§ Following recent amalgamations within the sector, separate data for the deposit companies are no longer published.



**COMBINED BANKS AND DEPOSIT COMPANIES FOREIGN CURRENCY  
(Consolidated)**

<b>(BD\$ millions)</b>	<b>2004 - Q4</b>	<b>2005 - Q1</b>	<b>2005 - Q2</b>	<b>2005 - Q3</b>	<b>2005 - Q4</b>	<b>2006 - Q1</b>
Total Foreign Currency Assets	17,221	19,211	15,621	16,109	18,570	18,269
Less: Other Assets	284	285	265	285	392	516
Less: Foreign Currency Loans to Residents	850	917	995	1,086	1,154	1,109
Net Foreign Currency Assets	16,087	18,009	14,361	14,739	17,024	16,644
Foreign Currency Liabilities	15,278	17,253	13,517	14,212	16,748	16,302
Add: BD\$ Deposits of Non-Residents	142	117	124	117	117	120
Net Foreign Currency Liabilities	15,420	17,370	13,641	14,328	16,865	16,421
<b>Net Foreign Currency Position (consolidated)</b>	<b>667</b>	<b>640</b>	<b>720</b>	<b>411</b>	<b>159</b>	<b>223</b>

Totals may not add due to rounding

<b>COMPANIES PARTNERSHIPS &amp; PERMITS STATISTICS</b>
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**APPLICATIONS APPROVED  
SUMMARY Q1-2006**

	<b>2004-Q4</b>	<b>2005-Q1</b>	<b>2005-Q2</b>	<b>2005-Q3</b>	<b>2005-Q4</b>	<b>2006-Q1</b>
<b>Exempted Companies</b> (Bermuda companies exempted from the 60% Bermudian ownership requirement)	288	248	230	249	279	282
<b>Exempted Partnerships</b> (partnerships established in Bermuda to carry on business in or from within Bermuda)	27	21	32	22	36	25
<b>Overseas Partnerships</b> (overseas partnerships applying for permits to carry on business in or from within Bermuda)	2	3	0	1	8	2
<b>Overseas Permit Companies</b> (overseas companies applying for permits to carry on business in or from within Bermuda)	10	16	7	4	16	3
<b>Unit Trusts</b>	19	11	14	10	46	12
<b>Continuation Companies</b> (companies from other jurisdictions continuing into Bermuda as exempted companies)	11	3	5	7	13	6
<b>Unlimited Liability Companies</b>	1	0	0	0	0	0
<b>Local Companies</b>	53	60	56	50	45	56
<b>Total Applications Approved</b> *	<b>411</b>	<b>362</b>	<b>344</b>	<b>343</b>	<b>443</b>	<b>386</b>

\* Quarterly Numbers are amended to reflect more up-to-date consent information

## COLLECTIVE INVESTMENT SCHEMES STATISTICS

	2004-Q4	2005-Q1	2005-Q2	2005-Q3	2005-Q4	2006 Q1
Mutual Funds	809	836	849	836	846	850
Umbrella Funds	70	64	67	60	62	62
Sub-Funds	354	378	405	328	315	293
Segregated Account Companies	29	38	45	49	55	61
Segregated Accounts	159	177	247	290	331	394
<b>Total</b>	<b>1,421</b>	<b>1,493</b>	<b>1,613</b>	<b>1,563</b>	<b>1,609</b>	<b>1,660</b>
Unit Trusts	96	100	105	101	105	107
Umbrella Trusts	72	74	81	71	114	122
Sub-Trusts	166	180	227	211	215	232
<b>Total</b>	<b>334</b>	<b>354</b>	<b>413</b>	<b>383</b>	<b>434</b>	<b>461</b>
<b>TOTAL PORTFOLIOS</b>	<b>1,755</b>	<b>1,847</b>	<b>2,026</b>	<b>1,946</b>	<b>2,043</b>	<b>2,121</b>
<b>TOTAL NUMBER OF SCHEMES</b>	<b>1,076</b>	<b>1,112</b>	<b>1,147</b>	<b>1,117</b>	<b>1,182</b>	<b>1,202</b>
<b>TOTAL NET ASSET VALUE (IN BILLIONS)</b>	<b>\$158.18</b>	<b>\$166.50</b>	<b>\$178.58</b>	<b>\$180.01</b>	<b>\$187.53</b>	<b>\$209.07</b>

*Note: Data reported for the period 2006-Q1 include schemes that have been granted exemption pursuant to Regulation 3A of the Bermuda Monetary Authority (Collective Investment Scheme Classification) Regulations 1998.*

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**ADDITIONS TO THE INSURANCE REGISTER**


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	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4	2006 Q1
<b>Class 1</b> Single-parent captive insuring only risks of its owners or affiliates of the owners	11	2	3	3	4	3
<b>Class 2</b> (a) a multi-owner captive insuring risks of its owners or affiliates of the owners; (b) a single-parent and multi-owner captive: (i) insuring the risks related to or arising out of the business or operations of the owners and affiliates, and/or (ii) deriving up to 20 percent of its net premiums from unrelated risks	4	3	3	3	2	2
<b>Class 3</b> Insurers not included in Class 1, 2 or 4, such as i) Reinsurers writing third party business; ii) Insurers writing direct policies with third party individuals; iii) Single parent, group, association, or joint venture captives where more than 20% of their net premiums written arises from risks which are unrelated to the business of the owners; iv) Finite reinsurers and rent-a-captives	10	6	7	3	15	8
<b>Class 4</b> Insurers and reinsurers capitalised at a minimum of \$100 million underwriting direct excess liability and/or property catastrophe reinsurance risk	0	0	0	0	11	0
<b>Long-Term Insurers</b> Insurers writing long-term (or life) business	5	3	3	1	2	4
<b>Composites</b> Insurers writing combination of long-term (or life) business and Class 1, 2, 3 or 4 business	0	0	0	0	1	0
<b>Total additions during quarter</b>	30	14	16	10	35	17



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