



Regulatory Update

March 2007

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

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I) REGULATORY DEVELOPMENTS

a) Money Service Business Regulations

On February 6th 2007, the Authority launched the Money Service Business Regulations 2007 under section 20AA of the Bermuda Monetary Authority Act 1969. The new regulations will enable entities that wish to provide money transmission, bureau de change or cheque cashing services to obtain a license to do so from the Authority. Selling or redeeming money orders or traveller's cheques for cash and intermediating or facilitating means of payment over the Internet also come under the scope of the new Regulations. Further to this, all money service businesses can operate independently of banks and can apply to the Authority for a license in their own right.

Under the new Regulations money service businesses would also be regulated institutions under the Proceeds of Crime Act, which means that such businesses will be required to comply with Bermuda's stringent anti-money laundering regulations. Regulation of money service businesses will include regular meetings with the senior management of licensed firms, together with scrutiny of financial and statistical information in connection with the institution's business activities and on site examination visits to the institution's premises. The businesses will also be required to provide a quarterly Statistical Report and an annual Statement of Compliance to the Authority.

b) Banks and Deposit Companies

Updates to Policy Framework for Banks and Deposit Companies

The Authority has implemented a review and update of the various banking policy documents put in place under the Banks and Deposit Companies Act 1999. This review is being conducted to ensure compliance with new Core Principles developed by the Basel Committee that have recently been adopted by banking regulators worldwide as global standards for banks operating internationally. The Authority has issued for industry comment drafts of a revised Statement of Principles and revised policy papers covering the areas of liquidity, large exposures, reporting accountants, consolidated supervision and outsourcing. The amendments to most of the papers have been minimal, however the large exposure paper has been expanded extensively to include new requirements on credit risk in accordance with the new Core Principles.

The Authority continued consultations with the banks on the various new provisions Bermuda will need to introduce into existing regulatory rules as part of Basel II implementation. In particular, the Authority issued a consultation paper on new requirements for the assessment and control of operational risks. These requirements will include new capital charges that will be levied under Basel II.

Two additional consultative papers were also prepared and circulated for comment from industry. One paper deals with the question of institutions' general approach to the management and treatment of their interest rate risks, while the other covers the recognition of individual External Credit Assessment Institutions. The Authority intends

to conduct follow-up meetings with industry as part of continued consultation on these issues.

The Authority also published a feedback report, which outlines its intentions with respect to the assessment of credit risk, following its consideration of the representations made and discussions held following the circulation in January 2006 of the consultation paper titled "Banks & Deposit Companies Act: Revised Capital Adequacy Rules under Basel II Approach".

The framework development and consultation process will continue with a view to enabling the Authority to implement Basel II as from the beginning of 2009.

II) LEGISLATIVE DEVELOPMENTS

a) Bermuda Monetary Authority Act Amendments

The Bermuda Monetary Authority Amendment Act 2006 became effective on December 27th 2006. The Act provides for a restructuring of the Authority's internal structure that includes such measures as separating the roles of Chairman and Chief Executive Officer and re-defining other executive member roles. The Act also facilitated the introduction of Bermuda's new Money Service Business Regulations.

The Bermuda Monetary Authority Amendment Act (No.2) 2006 was brought into force on January 5th 2007. The Act allows internal sub-delegation of certain matters and revises fee categories and levels under relevant legislation related to the regulation of insurance, trust and investment businesses.

b) Insurance Amendment (No. 2) Act 2006

Additional Insurance Act amendments, which came into effect on December 29th 2006, provide for the issue of codes of conduct by the Authority. These codes would set out the duties, requirements and standards that persons registered under the Insurance Act would be expected to comply with, and the procedures and sound principles that must be observed by them in the conduct of their business. The codes will be developed during 2007 and will be based on existing guidance already familiar to the industry.

c) Investment Funds Act 2006

The Investment Funds Act 2006 received assent on December 28th 2006 and was implemented in early March. The Act provides for wider supervision of the investment fund industry, including the licensing of fund administrators. The Fund Rules and Fund Prospectus Rules made under the Act have also been drafted, in consultation with the private sector. A full description of the components of this new legislation is provided in the Special Feature in this Regulatory Update.

d) Proceeds of Crime Amendment Bill, Proceeds of Crime (Money Laundering) Amendment Regulations and Financial Intelligence Agency Bill

The drafting of the Proceeds of Crime Amendment Bill and the related regulations is nearing completion. This legislation will update Bermuda's anti-money laundering legislative framework and will be tabled in Parliament in the spring of 2007. The Financial Intelligence Agency Bill seeks to make provision for a new body that will receive reports of suspicious transactions to support Bermuda's anti-money laundering regime.

III) OTHER DEVELOPMENTS

a) Seminars and Conferences

Jeremy Cox, Supervisor of Insurance attended and presented at the National Association of Insurance Commissioners (NAIC) Symposium in Miami, Florida from January 18th - 19th.

Cheryl-Ann Lister, Chief Executive Officer, attended and was a speaker at the 12th MARHedge European Conference in Geneva from February 5th - 7th.

Mr. Cox made a presentation at the NAIC Conference in San Juan, Puerto Rico on February 6th.

Mr. Cox also attended and was a speaker at the Institutional Investor - Bermuda Risk Management Roundtable in Bermuda at the Fairmont Hamilton Princess on March 6th.

Mr. Cox attended the NAIC spring meeting in New York from March 10th - 13th.

William Kattan, Director, Legal Services & Enforcement, attended and was a speaker at the Society of Trust and Estate Practitioners (STEP) conference in Bermuda at the Fairmont Hamilton Princess on March 16th. **Graeme Dargie**, Director, Banking Trust & Investment also gave the opening remarks at this event.

Mr. Cox attended the Joint G30 and Geneva Association Roundtable in Zurich, Switzerland on March 20th.

D. Munro Sutherland, Superintendent of Banking, Trust & Investment, attended the Offshore Group of Banking Supervisors conference in London from March 22nd - 23rd.

b) New Staff and Promotions

Shelby Weldon has been promoted to Director, Compliance, Insurance.

Suzanne Williams has been promoted to Assistant Director, Compliance, Insurance.

Craig Swan has been promoted to Assistant Director, Compliance, Insurance.

Dianne-Mae Burgess has been promoted to Senior Officer, Compliance, Insurance.

Marcelo Ramella has been promoted to Assistant Director, Research.

Graeme Dargie has joined the Banking, Trust & Investment department as Director.

Nicole Henneberry has joined the Insurance department as Senior Analyst.

Traver Alexander has joined the Policy & Research department as Research Officer.

Wendy King has joined the Policy & Research department as Research Officer.

Special Feature – The Investment Funds Act 2006

The Investment Funds Act 2006 (“the Act”) was passed by Parliament in December 2006. The Authority anticipates that the Minister of Finance will bring the Act into force this spring. This piece of legislation replaces the Bermuda Monetary Authority (Collective Investment Schemes Classification) Regulations 1998 and is the result of a major legislative review intended to modernise the regulation of the investment fund industry.

The key components of the Act include the following:

- New classifications for funds that better reflect the products sold in today’s marketplace.
- Enhanced powers for the Bermuda Monetary Authority for regulation of the fund industry.
- The introduction of a new licensing regime for fund administrators.

New fund classifications

In an effort to reflect the variety of fund structures utilised in the industry, authorised funds may be established as companies, unit trusts or for the first time as partnerships, which may now have legal personality separate from the individual partners if they elect to do so under the Partnership Amendment Act 2006. Companies may be established as segregated accounts and operate individual funds at a cell level. The Act also introduces a new provision confirming the segregation of assets in unit trust funds operating separate and distinct accounts. Funds can apply for authorisation under the following three different classes of funds:

- **Administered Funds** - a concept wholly new to Bermuda and has been introduced to streamline the regulation of funds that have a Bermuda licensed fund administrator. These funds are administered by a fund administrator licensed in Bermuda, and are either listed on a recognised stock exchange or have a minimum investment of \$50,000.
- **Institutional Funds** - such funds must only be open to qualified participants (i.e. sophisticated, high net worth individuals, or certain qualified companies, associations or trusts), making a minimum investment of \$100,000. The fund must also have an officer, trustee or other representative resident in Bermuda with access to the books and records of the fund.
- **Standard Funds** - any fund that does not fall into any other class of fund.

The Minister of Finance has the power to create additional classes of funds to provide for other structures and several new classes have already been proposed.

Funds also may be granted an exemption from authorisation by the Authority. This is a continuation of the exemption introduced in December 2005 to enable funds within the scope of the EU Savings Directive to have the option to remain domiciled in Bermuda

provided that they meet the requisite criteria. Any funds exempted under the old rules have been grandfathered into the new regime and remain exempt.

The operator of an authorised fund must notify the Authority if the fund is to be wound up or amalgamated, if certain material changes are made to the fund's prospectus or if there is a change in service provider, director, trustee or general partner. While the Authority's prior approval is needed for some of these changes, it is no longer necessary for an administered or an institutional fund to obtain consent before winding up the fund or changing a director, trustee or general partner.

Enhanced powers for the Bermuda Monetary Authority

Another innovation found in the Act is that the Authority, rather than the Minister of Finance, has the power to create rules to be followed by authorised funds. The Authority has the power to modify or waive any of the rules in respect of a particular fund if it is satisfied that compliance with the rules as written would be unduly burdensome or not achieve the purpose for which the rules were made. No waiver or modification will be given if the Authority feels that it would result in an undue risk for those whose interests the rules were designed to protect.

The Authority has been given modern powers of investigation and enforcement, similar to those granted under other regulatory legislation. The Authority may investigate suspected cases of funds conducting business without authorisation or operations providing fund administration services without a licence.

Licensing Fund Administrators

The fund administration business has increased rapidly in Bermuda over the last few years and now employs a significant number of people locally. Fund administrators in Bermuda provide services not just to funds registered here, but also to vehicles domiciled in other jurisdictions. Fund administrators will have a period of one year from the date on which the Act comes into force within which to obtain a licence from the Authority. The Act makes it an offence to carry on the business of fund administration in Bermuda without a licence. The Act introduces a list of minimum criteria for licensing which must be fulfilled both at the application stage and on an ongoing basis. The Authority may revoke a fund administrator's licence if it considers that the minimum criteria have not been fulfilled, if the company has not complied with any provision of the Act or has provided the Authority with false, misleading or inaccurate information. As with funds, fund administrators and any affected officers and controllers may appeal a decision of the Authority to the appeals tribunal.

The Authority may issue codes of conduct dealing with the duties, requirements and standards that fund administrators should adhere to. Fund administrators will be expected to comply with these codes of conduct and any failure to do so will be taken into account by the Authority in assessing whether the business is indeed being conducted in a prudent fashion.

Industry consultation was an important part of the development of this new legislation and it has been generally well received by the market. As the Authority continues to enhance

Bermuda's regulatory framework for financial services overall, the new supervisory regime for investment funds and administrators will provide Bermuda with a secure framework for the further development of the fund industry.

STATISTICAL ANNEXE

BERMUDA MONEY SUPPLY

(BD\$ millions)	2005-Q2	2005-Q3	2005-Q4	2006-Q1	2006-Q2	2006-Q3
Notes & Coins in Circulation*	99	98	114	99	106	106
Deposit liabilities:						
Banks and Deposit Companies (unconsolidated)	3,562	3,510	3,362	3,418	3,481	3,480
	3,662	3,609	3,476	3,517	3,588	3,586
Less: Cash at Banks and Deposit Companies	28	25	40	24	31	30
BD\$ Money Supply	3,634	3,583	3,437	3,493	3,557	3,557
% Growth on Previous Period	-0.33%	-1.39%	-4.10%	1.64%	1.84%	-0.02%
% Growth Year on Year	2.15%	-0.79%	-5.34%	-4.20%	-2.11%	-0.75%

* 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)	2005-Q2	2005-Q3	2005-Q4	2006-Q1	2006-Q2	2006-Q3
Deposit Liabilities	3,562	3,510	3,362	3,418	3,481	3,480
Less:						
Loans, Advances and Mortgages	(3,079)	(3,281)	(3,368)	(3,438)	(3,589)	(3,700)
Surplus deposits	484	230	(6)	(20)	(107)	(219)
Percentage of Deposit Liabilities Lent	86.4%	93.5%	100.2%	100.6%	103.1%	106.3%

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

COMBINED BANKS AND DEPOSIT COMPANIES FOREIGN CURRENCY POSITION
(Consolidated)

(BD\$ millions)	2005 - Q2	2005 - Q3	2005 - Q4	2006 - Q1	2006 - Q2	2006 - Q3
Total Foreign Currency Assets	15,621	16,109	18,570	18,269	18,617	18,141
Less: Other Assets	265	285	392	516	495	498
Less: Foreign Currency Loans to Residents	995	1,086	1,154	1,109	1,074	1,085
Net Foreign Currency Assets	14,361	14,739	17,024	16,644	17,048	16,558
Foreign Currency Liabilities	13,517	14,212	16,748	16,302	16,882	16,251
Add: BD\$ Deposits of Non-Residents	124	117	117	120	134	128
Net Foreign Currency Liabilities	13,641	14,328	16,865	16,421	17,016	16,379
Net Foreign Currency Position (consolidated)	720	411	159	223	32	179

Totals may not add due to rounding

COMPANIES PARTNERSHIPS & PERMITS STATISTICS

**APPLICATIONS APPROVED
SUMMARY Q3 2006**

	2005-Q3	2005-Q4	2006-Q1	2006-Q2	2006-Q3
Exempted Companies (Bermuda companies exempted from the 60% Bermudian ownership requirement)	249	280	282	246	230
Exempted Partnerships (partnerships established in Bermuda to carry on business in or from within Bermuda)	22	36	25	73	16
Overseas Partnerships (overseas partnerships applying for permits to carry on business in or from within Bermuda)	1	8	2	1	0
Overseas Permit Companies (overseas companies applying for permits to carry on business in or from within Bermuda)	4	16	4	5	4
Unit Trusts	10	46	12	19	7
Continuation Companies (companies from other jurisdictions continuing into Bermuda as exempted companies)	7	13	6	10	9
Unlimited Liability Companies	0	0	0	1	6
Local Companies	50	45	56	64	56
Total Applications Approved *	343	444	387	419	328

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

COLLECTIVE INVESTMENT SCHEMES STATISTICS

	2005-Q2	2005-Q3	2005-Q4	2006-Q1	2006-Q2	2006-Q3
Mutual Funds	849	836	846	850	869	878
Umbrella Funds	67	60	62	62	62	63
Sub-Funds	405	328	315	293	284	279
Segregated Account Companies	45	49	55	61	64	67
Segregated Accounts	247	290	331	394	394	393
Total	1,613	1,563	1,609	1,660	1,673	1,680
Unit Trusts	105	101	105	107	108	108
Umbrella Trusts	81	71	114	122	139	151
Sub-Trusts	227	211	215	232	232	222
Total	413	383	434	461	479	481
TOTAL PORTFOLIOS	2,026	1,946	2,043	2,121	2,152	2,161
TOTAL NUMBER OF SCHEMES	1,147	1,117	1,182	1,202	1,242	1,267
TOTAL NET ASSET VALUE (IN BILLIONS)	\$178.58	\$180.01	\$187.53	\$209.07	\$207.52	\$210.95

Note: Data reported for the periods after Q4 2005 include schemes that have been granted exemption pursuant to Regulation 3A of the Bermuda Monetary Authority (Collective Investment Scheme Classification) Regulations 1998. Total net asset value for Q2 2006 has been restated to reflect the correction of a computation error.

ADDITIONS TO THE INSURANCE REGISTER

	2005 Q2	2005 Q3	2005 Q4	2006 Q1	2006 Q2	2006 Q3
Class 1 Single-parent captive insuring only risks of its owners or affiliates of the owners	3	3	4	3	6	2
Class 2 (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	3	3	2	2	1	0
Class 3 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	7	3	15	8	12	4
Class 4 Insurers and reinsurers capitalised at a minimum of \$100 million underwriting direct excess liability and/or property catastrophe reinsurance risk	0	0	11	0	1	0
Long-Term Insurers Insurers writing long-term (or life) business	3	1	2	4	0	3
Composites Insurers writing combination of long-term (or life) business and Class 1, 2, 3 or 4 business	0	0	1	0	0	0
Total additions during quarter	16	10	35	17	20	9

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