



MOVING FORWARD TOGETHER!

Series 3: Supervisory Powers

Supervisory Powers

As the Bermuda Monetary Authority (BMA) celebrates 50 years in 2019, we take a look back at the last five decades. From providing sound policy advice to pushing Bermuda forward as a reputable place to conduct business, the BMA has had an incredible impact on Bermuda's financial landscape.

1990-1999

Exchange Controls/Anti-Money Laundering Initiatives

Expansion of Duties

The third decade of the Bermuda Monetary Authority (BMA) saw further advances in broadening the BMA's powers. The Bermuda Monetary Authority Act 1969 was amended to enable the BMA to supervise, regulate and inspect specified financial institutions by giving statutory backing to its involvement in processing applications for the incorporation of companies and the formation of partnerships, as well as the issue of permits to foreign companies. Whilst this function had previously been carried out by the BMA voluntarily, the need for permission to be given under the Exchange Control Act 1972 for the issue and/or transfer of shares to non-residents required the BMA to be automatically involved in many of the previous applications.

By 1992, there were 7,022 exempt companies registered in Bermuda, of which 19 percent were insurance companies. The BMA was also physically expanding due to its new responsibilities, and in 1990 the BMA left the Government Administration building and moved into the first floor of Sofia House across from the Cathedral on Church Street. The move symbolically underlined the BMA's constitutional separation from the Government.

By 1991, as the organisation continued to expand its duties, there came a need to reorganise into five divisions and a Policy and Research Unit. The five divisions created were the Administration Division; Domestic Economy Division; Companies, Partnerships and Permits Division; Financial Services Division; and the Exchange Control Division.

Relaxation of Exchange Control

Whether or not to relax Exchange Control was still a predominant conversation throughout the early part of the 1990s. Two of the main concerns regarding relaxing Exchange Controls were (i) accepting international interest rate structures, and (ii) the stability of the Balance of Payments would have to be brought about by the development of other control devices.

The tide had begun to turn and whilst it was noted that Exchange Control had achieved some benefits, including orderly management of the inflows and outflows of currency that had helped with the development of Bermuda, the BMA believed it had clear downsides. One downside was that it had become more challenging to present Bermuda as part of the modern financial community whilst retaining outdated methods like Exchange Control.

According to Mansfield Brock, CBE, who was the BMA's Chairman from 1993 – 1999 and worked closely with former Premier and Finance Minister the late Dr. David Saul to gradually phase out Exchange Control restrictions, a foreign currency regime was bad for Bermudians. "It limited our freedom to invest, and with the rigid interest rate ceiling of 7 percent at the time, Bermudians could not benefit from the worldwide growth by investing in currency and companies worldwide."

He continues: "I knew the regulations very well because I had been Bermuda's Financial Secretary. I knew the Controller [of Foreign Exchange] could get rid of this without any change in legislation and Cabinet approval. We got together with the Minister of Finance and said we want to gradually do away with Exchange Control over a period of time without fanfare and with no announcements. We just gradually eased the restrictions. The Controller would give permission in areas where he felt permission would benefit the country."

Whilst the Exchange Control Act was never repealed and is still written into law today, by 1997, the BMA no longer had involvement in the administration of Exchange Control relating to monetary exchange transactions.

Worldwide Supervision Increases

Whilst Exchange Control went through gradual relaxation, the supervision and regulatory environment worldwide only became more stringent. The groundwork that the BMA had laid in 1989 proved beneficial with an amendment to the Bermuda Monetary Act 1969. The amendment in 1990 intended to build a robust and comprehensive legislative framework covering the supervision of banks, deposit companies, the credit union and collective investment schemes or 'financial institutions' in Bermuda. The amendment was the first step to bring local banks within the internationally accepted and practiced standards of supervision set down under the Basel Accord of 1988.



Marcia Woolridge-Allwood and Malcolm Williams (from left) presented Queen Elizabeth II with the \$100 gold proof coin commemorating her visit to Bermuda.

With the Basel Accord for banks internationally accepted, the BMA was continuing to move to meet international standards for supervising financial institutions locally. Questions directed to the BMA from foreign regulators/institutions regarding Bermuda's system of supervision reflected growing concerns within the global financial sector over the management of risks. Likewise, the formulation of adequate regulatory measures to ensure investor protection locally was also becoming more imperative.

In 1990, Bermuda was formally welcomed as a full member of the Offshore Group of Banking Supervisors, having earlier been accepted into the Caribbean Banking Supervisors' Group. The Offshore Group of Banking Supervisors liaised directly with the Basel Committee and represented a major step for Bermuda towards consolidating status as a stable financial jurisdiction.



Burnaby House. BMA's first owned premises, opened by the late David Saul, former Minister of Finance.

As part of the Basel Agreement, in 1993, Prudential Information Returns were introduced. The forms were completed quarterly for banks to provide a breakdown of the bank's balance sheets. Analysis of the statistical information provided by the banks, combined with regular prudential meetings, provided the basic framework for supervision in Bermuda.

The threat of money laundering had begun to rear its head and in 1990, a representative from the BMA attended the Conference on Economic Crime held in Barbados. Concerns over money laundering were highlighted and attendance proved helpful with assisting in the detection of criminal activities and taking better measures to protect Bermuda from such actions.

In the latter part of the decade, more inroads were made in terms of combating money laundering with the passing of the Proceeds of Crime Act 1997, which encompassed money laundering offences and penalties. In 1998, the National Anti-Money Laundering Committee was established to advise the Government on the development and implementation of policies and activities to combat money laundering. The BMA introduced the Anti-Money Laundering Internal Control Procedures through its Policy, Research and Statistics Division, which was designed to regulate anti-money laundering procedures within the Authority.



Deposit-Taking Division (Left to right (standing): Simon Frew, Tanya Esdaille, Mark Trott, Munro Sutherland. Left to right (seated): Joanne Tucker, Amanda Jackson)

By the early 1990s, the BMA now had authority to supervise further financial institutions with the introduction of the Trust Companies Act 1991. The Act provided the licensing system and the supervisory framework for trust companies and the inclusion of trust companies as financial institutions under the Bermuda Monetary Authority Act 1969.

A Formal Stock Exchange

In 1990, the BMA began discussions with the Bermuda International Business Association (BIBA) on ways to internationalise Bermuda's Stock Exchange. In 1992, the Bermuda Stock Exchange Company Act was passed, with the recognition that the existing local Exchange needed to be transformed into a properly regulated, modern, electronic exchange on which international companies could be listed. By 1993, the Bermuda Stock Exchange (BSX) had attracted listings of over 30 international mutual funds. The Exchange was established as a self-regulatory body, but an amendment was made to the Bermuda Monetary Authority Act 1969 to add the Stock Exchange as a financial institution subject to supervision, regulation and inspection by the BMA.

Peter Souza, who worked for the BMA from 1986 – 1997, adds, "What the Stock Exchange Company Act of 1992 did was put in place a proper structure, proper governance, proper regulatory reporting and responsibility. It took a sleepy trading system, structured it and formalised it in a way that it could be more effective domestically, but also recognised internationally. This was all part of Bermuda being seen as a respected and credible international financial centre."

Later that year, the BMA gained full membership in the International Organization of Securities Commissions (IOSCO). IOSCO's primary goal was to develop the broadest possible international consensus on regulatory matters relating to the integrity of markets, efficiency of cross-border capital formation and protection against fraudulent activity.

New Displays for Bermuda's Notes & Coins Collection

Exciting developments for the numismatic division of the BMA saw a permanent exhibit of Bermuda's history of notes and coins open in 1992 at the Bermuda National Museum, formally the Bermuda Maritime Museum. The opening coincided with the issuance of a new \$50 currency note, which featured a sketch of the Santa Lucia ship that wrecked off the reefs of Bermuda in 1584 on one side and on the other side the Commissioner's House.

A Note & Coin Exhibit to mark the BMA's 25th Anniversary was unveiled by Sir Eddie A. George, former Governor of the Bank of England, at the offices of the Corporation of Hamilton at City Hall. During his time in Bermuda, the Governor also unveiled a commemorative plaque at the BMA office at Sofia House, along with other 25th Anniversary Commemorative items. In March of 1992, the BMA's General Manager, Malcolm Williams and Deputy General Manager Marcia Woolridge-Allwood, presented Queen Elizabeth II number 1 of the \$100 gold proof coins commemorating her visit to Bermuda with the Duke of Edinburgh.

Archaeological Dig Uncovers Hogge Money

During the summer of 1994, employees of the BMA took part in an archaeological dig on Castle Island in Castle Harbour. The dig, co-led by Dr. Edward Harris, former Director of the Maritime Museum, involved visiting university students from Virginia's College of William and Mary. Mr. Souza recalls "Quite a number of pennies, shillings, threepence and sixpence were discovered." But the most exciting discovery that day, recalls, Leona Stovel-Smith, one of the BMA's longest-serving employees, was the moment she uncovered a piece of 'Hogge Money' – some of Bermuda's oldest money that dated back as early as the 1600s. "We were told there was a possibility we might find something, but I was surprised. As I dug and I felt something hard, I said, 'I think I found something.' I couldn't believe it, but it ended up being a piece of Hogge Money" Mrs. Stovel-Smith said.

In 1997, having purchased and moved into its new premises at the former "Shutters Building" on Burnaby Street, the BMA held a reception to honour the occasion. The reception also marked the official opening of the Hogge Money display pieces, which were part of the "Castle Island Collection" and recognised as the most authentic group of Hogge Money coins in existence. Earlier that year, a permanent exhibit of Bermuda's notes and coins had been established at Burnaby House during the official opening of the BMA's new premises.

That same year, the BMA published the book "Coins of Bermuda," edited by Mr. Souza, General Manager Malcolm Williams and Dr. Edward Harris. This reference book was a product of six years' of research, and describes and illustrates Bermuda's vast numismatic heritage.

By the end of the decade, the BMA restructured its departments into five divisions: Administration; Authorisation & Compliance; Deposit-Taking Institutions; Investment; and Policy, Research & Statistics. This organisational change reflected new legislation that was to come into effect in 2000 in regards to the Banks and Deposit Companies Act 1999 and the Investment Business Act 1999.