2019 ANNUAL REPORT

BMA

BERMUDA MONETARY AUTHORITY

MOVING FORWARD TOGETHER

About Us

The Bermuda Monetary Authority (Authority or BMA) is the sole regulator of the financial services sector in Bermuda. Established by statute in 1969, the Authority supervises, regulates and inspects financial institutions operating within the jurisdiction.

The BMA develops risk-based financial regulations that it applies to the supervision of Bermuda's insurance companies*, banks, trust companies, investment businesses, investment funds, fund administrators, money service businesses, corporate service providers and digital asset businesses. The Authority also regulates the Bermuda Stock Exchange and the Bermuda Credit Union.

In addition, the BMA issues Bermuda's national currency, manages exchange control transactions, assists other authorities in Bermuda with the detection and prevention of financial crime, and advises the Bermuda Government and other public bodies on banking and other financial and monetary matters.

Our Value Proposition

- **Stability:** A stable environment in which financial services can flourish
- **Predictability:** Certainty about the Authority's regulatory philosophy and how we will apply our brand of supervision
- **Reputation:** Recognition that Bermuda-based entities are regulated to an internationally recognised standard
- **Value for money:** Efficient and effective supervision at a reasonable cost proportionate to risk
- **Adaptability:** A framework of regulations that can be adapted to reflect changes in the local and/or global environment
- **Pragmatism:** The ability to make decisions based on what is right for Bermuda while seeking global recognition for our supervisory regime

*For the purpose of this Annual Report, insurer includes reinsurer and insurance includes reinsurance

Our Mission

To protect and enhance Bermuda's reputation and position as a leading international financial centre, utilising a team of highly skilled professionals acting in the public interest to promote financial stability, safeguard our currency and provide effective and efficient supervision and regulation.

Contents

Executive Chair's Report

What would you say the Authority was worth to Bermuda in 2019? Putting it another way, if the BMA was a publicly-traded company, would its stock have commanded a higher price at the end of the year than it did at the beginning?

These are not pointless hypothetical questions. Understanding how customers, shareholders, employees and other stakeholders perceive the value of an enterprise is vital to any organisation's efforts in tracking its relative performance.

For a regulator, though, there is no standard set of technical performance measures. Like most other organisations, we need to know how we are doing and what kind of a year we have had. But unlike many commercial entities, we must demonstrate and measure value without the acid-test guidance of a share price, a stock market index or a quarterly income statement. In 2019, the BMA was able to do just that, ensuring that it was not just a milestone year marking our 50th anniversary.

It was a year in which we reinforced our commitment to the Authority's value proposition by rolling up our sleeves and getting the job done, effectively making good on the promises of our 2019 Business Plan—delivering results.

As you read through this report, it will become clear why I believe 2019 was a standout year, but before you read on, I would like to summarise a few highlights.

(Re)insurance: Our insurance regime earned Reciprocal Jurisdiction status with the National Association of Insurance Commissioners (NAIC), making Bermuda one of only three jurisdictions in which qualifying (re)insurers are not required to post additional collateral when (re)insuring United States' (US) risks. In other words, they are no longer disadvantaged when competing against companies in the European Union (EU) and the United Kingdom (UK).

Banking: On 1 January 2019, marking the completion of a four-year phased implementation programme, the BMA steered Bermuda's banking sector into full compliance with the Basel III accord, an international standard regulating capital adequacy and liquidity. The accord is widely seen as the global standard for bank regulation and risk management.

Anti-Money Laundering/Anti-Terrorist Financing (AML/ATF): In 2019, the Caribbean Financial Action Task Force (CFATF) ranked Bermuda's AML/ATF measures amongst the highest of any peer-reviewed jurisdiction. This assessment, published in early 2020, achieved via extensive collaboration across our economy, distinguished Bermuda as the highest scoring country assessed since the Financial Action Task Force (FATF) adopted its revised framework in 2012.

Economic Substance: The Authority was able to support Bermuda's efforts of addressing international pressure to revise the economic substance requirements. Ultimately, our contribution to the work on investment funds aided in Bermuda's removal from the EU's 'grey list' of non-cooperative tax jurisdictions in 2019. 'White list' status was subsequently confirmed in February 2020. This work will continue in 2020, as we draw up plans to formalise and execute an approach for assisting the Registrar of Companies (ROC) with the next stage of economic substance implementation.

I must stress that these achievements were not the work products of any single department. They were made possible thanks to an outstanding workforce which understands that if we fail to utilise human capital in all areas across the organisation, we will stymie the Authority's growth, and hinder its ability to respond to the often complex supervisory challenges posed by global policymakers and international standard setters.

To cite a working example, the CFATF assessment required full participation and support from the Anti-Money Laundering/Anti-Terrorist Financing, Policy and International Affairs, Legal and Enforcement, Operations, Corporate Authorisations, Licensing and Authorisations, Insurance and Banking, Trust, Corporate Services and Investment Departments. This was nothing short of a truly remarkable effort, demonstrating our ability to work as a seamless, multi-disciplinary team.

Even then, high-level success is not possible without significant effort, considerable expertise and complete engagement.

For us, the ask is so much greater. Unlike regulatory regimes elsewhere, the Authority's reach is inescapably national rather than purely sectoral. Though our primary role as a regulator is to protect the interests of financial services consumers while policing Bermuda-licensed financial institutions, our performance directly impacts the reputation and, ultimately, the brand of our jurisdiction.

A prominent figure in the reinsurance industry perhaps said it best when he described the difference between the Bermuda regulator and a leading onshore regulator. He talked about the core responsibility of protecting consumers as being common to both, but he said the add-on for the BMA team is that we are also one of the most respected champions for Bermuda and our work is seen as a key determinant for why Bermuda continues to thrive as a premier financial services centre.

I have referred to our outstanding workforce and some of their achievements during 2019 but I would be remiss to not mention our Board of Directors. Without their unstinting support and encouragement, I would have found the challenge of the new role I took on in 2019 much tougher. Following the retirement of Chairman the Hon. Gerald Simons, OBE at the end of 2018, I was appointed Executive Chair in January 2019, assuming responsibility for all supervisory activities conducted by the BMA, as well as chairmanship of the Authority's Board of Directors.

One of my first duties as Executive Chair was to welcome the new Deputy Chair, Donald Scott.

A former Secretary to the Bermuda Government's Cabinet, previously Head of the Civil Service and Financial Secretary, Mr. Scott brought a wealth of experience to this important role. Additionally, James Newsome and Francine Mason joined our Board in late 2018. Dr. Newsome is a former Chairman of the US Commodity Futures Trading Commission and was President and CEO of the New York Mercantile Exchange. Ms. Mason is a Certified Public Accountant with two decades' experience working in Bermuda's trust sector. Their blended experience is a valuable addition to the Board.

A number of initiatives were undertaken in 2019 to strengthen the governance framework of the BMA, and the Board and Senior Management placed increased emphasis on furthering the effectiveness of the strategic planning process.

The mandates of the Board committees were reviewed and realigned, and a set of changes developed for implementation in 2020. The BMA also introduced several measures to expand the scope of its enterprise risk management framework. This included increased resources devoted to the risk management function, greater focus on identifying and mitigating key risks to the BMA, and enhanced reporting to senior management and the Audit and Risk Management Committee of the Board.

Indeed, the Audit and Risk Committee (chaired by Tracy Tepper) spent much time on establishing a more effective enterprise risk management culture throughout the Authority and, with the assistance of two new risk officers, integrating it into 2020's Key Strategic Initiatives.

The Corporate Governance and Ethics Committee (chaired by Michael Leverock) focused on advancing changes to the Board's governance procedures and delegating the Board's powers, in particular, in the area of enforcement.

Additionally, during 2019, the Investment Committee (chaired by Robin Masters) revamped its policies for managing the Authority's investments, and the Legislative and Policy Committee (chaired by Sharon Beesley) reviewed all the legislative proposals advanced by the Authority, including those related to economic substance.

On top of its regular responsibilities, the Human Capital Committee (chaired by Donald Scott) directed the search for a Deputy CEO to succeed me when I step down at the end of 2021. This process involved the assessment of a diverse group of high-calibre candidates from Bermuda and overseas. The search resulted in BMA Managing Director, Craig Swan, being appointed to the role of Deputy CEO effective 1 January 2020.

Mr. Swan is a Certified General Accountant, holds a Master of Business Administration and is a Fellow of the Chartered Governance Institute of Canada. He joined the Authority in 2006 and has been a member of the Authority's Executive Team for the last 12 years. His varied responsibilities have afforded him invaluable insight into our organisation, as well as a thorough understanding of the financial industry sectors that we oversee. Mr. Swan's promotion points to the Authority's bench strength, and its ability to develop the requisite pool of talent and skills it needs to move forward.

This ability is not discretionary. It is a must, rather than a nice-to-have option. It has become, and will likely remain, a critical differentiator for the BMA which, like many organisations today, is engaged in a global battle for increasingly scarce human resources.

With five decades of financial services supervision under its belt, the BMA has earned an enviable reputation as an innovative, high-quality regulator. In 2019, we continued to harness technology, implementing measures such as artificial intelligence to keep operating costs down and further developing our Insurance Regulatory Sandbox, Innovation Hub and framework for digital assets.

As part of this programme, the Digital Asset Business (DAB) sector will be reviewed in 2020 as part of a project to benchmark the Authority's regulatory framework against those of other FinTech jurisdictions. And the BMA insurance group will be rolling out two new insurer classes and an insurance marketplace provider category while consulting on segregated accounts companies.

Leveraging Bermuda's standing in the world's digital asset marketplace, the BMA became a member of the newly-formed Global Financial Innovation Network (GFIN) in 2019. GFIN is a group of over 50 international organisations committed to supporting financial innovation. Described as a "global sandbox", GFIN aims to act as a network of regulators to collaborate and share experiences of innovation across jurisdictions, provide a forum for joint regulatory technology (RegTech) work and knowledge sharing, and provide a more efficient way for innovative firms to interact with regulators, helping them navigate between countries as they look to scale new ideas.

Not surprisingly, initiatives marking our 50th anniversary were prevalent throughout the year. Not the least of these was the expansion of our community outreach programme designed to underline our commitment to corporate social responsibility. Announced in March, the scheme involved partnering with a number of the island's philanthropic institutions whose missions address five social categories that include: children and families; arts and culture; the environment; education; and seniors.

Three charities were identified for 'BMA Days of Giving' community service projects in which Authority staff volunteered to carry out specific activities identified by each charity partner. These three organisations, along with 19 other local Bermuda charities, also benefited from monies raised by our staff taking part in the BMA's so-called 'Charitable Fridays'. We recognise that charities in Bermuda often provide essential services and support to those sections of the community where access to public or private resources may not be available. The non-profit sector is vital to supporting and promoting the well-being of all residents, young and old.

In retrospect, I like to think about 2019 not just in terms of what we did or did not accomplish. While that view must be the main operational focus for the Authority, there is another aspect which bears consideration—both where we ended up in the year just concluded and where we will start off in the new one.

I believe our efforts in 2019, combined with our work over the past 50 years, places the BMA and Bermuda in a strong position for the start of 2020. The pages ahead detail these efforts, providing a powerful indicator of how the Authority performed in 2019 and a poignant reminder of how it has been uniquely bound to the story of Bermuda's financial services industry. This track record has set us up to face the unforeseen challenges, such as the global emergency we are currently experiencing in 2020.

Jeremy Cox
Executive Chair

From left: George Pickering, Marcia Woolridge-Allwood, Craig Swan, Shauna MacKenzie, Jeremy Cox, Shanna Lespere, Michael Burns

Executive Team (as at 31 December 2019)

- Jeremy Cox, Executive Chair
- Craig Swan, Managing Director, Supervision (Insurance)
- Marcia Woolridge-Allwood, Senior Advisor, Banking, Trust, Corporate Services & Investment
- Shanna Lespere, Chief Operating Officer
- Michael J. Burns, Director, Legal Services & Enforcement
- George Pickering, Senior Advisor, Financial Stability
- Shauna MacKenzie, Senior Advisor, Legal Services & Enforcement

Board Of Directors

(as at 31 December 2019)

Jeremy Cox
Executive Chair

Sharon A. Beesley
CEO, Beesmont Law Limited

Michael Leverock
President, Leverock Advisors & Associates

Robin Masters
Treasurer & Chief Investment Officer,
ACE Limited (Retired)

Tracy Tepper
Director, Lombard Odier Trust (Bermuda) Limited
(Retired)

Donald Scott
Deputy Chair
Former Secretary to the Cabinet & Head Of Civil Service,
and Financial Secretary

Walter A. Bell
Chairman, Swiss Re America Holdings Corporation (Retired)

Francine Mason
Partner, Rawlinson & Hunter

James Newsome
Founding Partner, Delta Strategy Group

Karel Van Hulle
Professor At KU Leuven and Goethe University Frankfurt,
Member of The Public Interest Oversight Board

From left: Sharon Beesley, Michael Leverock, Tracy Tepper, Donald Scott, Jeremy Cox, Robin Masters
Not pictured: Walter Bell, Francine Mason, James Newsome, Karel Van Hulle

BOARD COMMITTEES 2019

(as at 31 December 2019)

NON-EXECUTIVE DIRECTORS

Donald Scott (Deputy Chair)

Sharon Beesley

Walter Bell

Michael Leverock

Francine Mason

Robin Masters

James Newsome

Tracy Tepper

Karel Van Hulle

- Ensures the Authority is discharging its functions in accordance with the policy objectives and strategy determined by the Board
- Oversees the Authority's internal financial controls
- Determines the remuneration and other terms of service of the Authority's Executive Director

AUDIT & RISK MANAGEMENT

Michael Leverock

Francine Mason

Robin Masters

Tracy Tepper

Jeremy Cox

- Monitors (i) the accounting and financial reporting process of the Authority, including its internal accounting and financial controls, and (ii) the integrity of the Authority's financial statements
- Retains and oversees the independent auditors of the Authority's financial statements and determines their remuneration
- Oversees the Authority's risk management process
- Provides the Board with the results of its monitoring and recommendations, as well as additional information about significant financial matters that require the Board's attention
- Oversees the internal audit function of the Authority

INVESTMENT

Robin Masters

James Newsome

- Responsible for ensuring prudent investment of the Authority's portfolio of assets in accordance with the requirements of the BMA Act and with the investment policy guidelines that are established by the Board

HUMAN CAPITAL

Donald Scott

Walter Bell

Michael Leverock

Tracy Tepper

Jeremy Cox

- Approves the overall compensation framework for the Authority, as well as the individual remuneration levels for Directors and above
- Makes recommendations to the Non-Executive Directors Committee on the terms and conditions of employment of the Chief Executive Officer/Executive Director
- Oversees succession planning
- Oversees the development and implementation of HR policies and programmes

CORPORATE GOVERNANCE & ETHICS

Donald Scott

Sharon Beesley

Walter Bell

Michael Leverock

Jeremy Cox

- Responsible for developing, implementing and monitoring effective corporate governance principles, policies and procedures
- Oversees the policies and programmes to ensure that the Board, management and staff of the Authority carry out their functions in an ethical manner and apply policies that meet best practice standards for corporate governance

LEGISLATIVE & POLICY

Sharon Beesley

Robin Masters

Karel Van Hulle

- Reviews legislative and regulatory priorities and oversees the agenda for development of legislation related to financial services regulation
- Reviews proposed changes to primary and subsidiary legislation administered by the Authority and submitted by management
- Makes recommendations to the Board on regulatory policy

Moving Forward Together

50 Years

Positioning for the Future

The Bermuda Monetary Authority marked its 50th year of service in 2019. During this golden anniversary, the Authority spent time reflecting on the previous five decades as well as laying the foundation for the next five.

1969

BMA Act 1969 and Banks Act come into effect

1970

Bermuda dollar (BMD) introduced

1974

Deposit Companies Act becomes law; BMA moves from Reid Street location to Crawford House

1978

Insurance Act established; BMA relocates to Warner Building

1979

Introduction of IBM Selectric for secretarial tasks

1982

BMA establishes formal numismatic programme

1983

BMA GM, Bob Richards, presents cheques to the designers of Bermuda's new $1 and $5 coins

1984

BMA acquires IBM PC

1985

BMA Act amended to broaden role as banking and monetary matter adviser to Government/public bodies and as investment manager for Government

BMA produces sophisticated analytical profiles of supervised institutions with computerisation; new series of BMD with upgraded security features

1989

1990

BMA Act amendment creates framework for supervision of banks, deposit companies, the Credit Union and collective investment schemes; welcomed as full member of the Offshore Group of Banking Supervisors; BMA moves from Government Administration Building to Sofia House

Banknote exhibit set up at Bermuda National Museum; BMA gains full membership in the International Organization of Securities Commissions (IOSCO); Bermuda Stock Exchange Company Act passed

Trust Companies Act established

1992

1994

BMA GM, Malcolm Williams, inspects newly discovered Hogge Money

BMA celebrates its 25th anniversary

Proceeds of Crime Act legislation established; Exchange Control restrictions successfully eased; BMA purchases and moves into the Burnaby Street Shutters Building

1997

1998

National Anti-Money Laundering Committee established (NAMLC)

Banks and Deposit Companies Act established; Investment Business Act established

1999

2002

BMA begins regulating Bermuda's insurance industry

2003

Investment Business Act established

BMA
BERMUDA MONETARY AUTHORITY

Bank Notes Exhibit at Commissioner's House opened

2006

2007

Official opening of BMA House

2009

Basel II Implementation; BMA launches new family of banknotes

2010

Bermuda $2 banknote wins International Bank Note Society's (IBNS) Bank Note of the Year

2014

NAIC grants Bermuda Qualified Jurisdiction Status

2016

Bermuda's enhanced commercial insurance regime achieves full Solvency II equivalency

2018

BMA launches INTEGRA® portal; Digital Asset Business Act receives assent

2019

NAIC approves Bermuda as Reciprocal Jurisdiction; Bermuda reaches full Basel III implementation

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BMA celebrates its 50th anniversary

Reflecting on the Past

Throughout the year, the BMA shared its storied history. The Authority published five articles in The Royal Gazette and on its website, each chronicling a decade from the BMA's past. These features were a springboard for public awareness about both the BMA and the gravity of its work.

Over the past 50 years, the following individuals have served at the helm of the BMA

CHAIRMAN:

Jeremy Cox
The Hon. Gerald Simons, OBE
Alan C. Cossar
R. Alan F. Richardson
Cheryl-Ann Lister
Mansfield H. Brock Jr., CBE
Charles Z. Mann
The Hon. Sir David Gibbons, KBE
F.W. Yearwood
D. St.g. Butterfield, CMG
C. Winston Kempe

EXECUTIVE CHAIR:

Jeremy Cox

CHAIRMAN AND CEO:

Cheryl-Ann Lister

CEO:

Jeremy Cox
Matthew Elderfield
Cheryl-Ann Lister

GENERAL MANAGER:

D. Munro Sutherland
Malcolm E. Williams
Anthony Goodfellow
Lucelle Cooke

MANAGING DIRECTOR:

Stephen J. Flett
Dr. Merlyn N. Trued
A.J. Humphryes
M. Gough
R. J. Clifford

Article clippings compliments of the Royal Gazette

Building Blocks

As the 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.

One of the BMA guiding principles has always been to create a secure and stable financial environment in Bermuda, whilst ensuring that Bermuda remains an attractive domicile to conduct local and international business. Over the past 50 years, the BMA has met the changing needs of the financial services sector on a local and global scale. It would be an understatement to say that the past five decades have been interesting, but one thing has held true: change is constant. A few recurring indicators of the BMA's stable influence over the past five decades are the Authority's ability to adapt to ever-changing needs; its steadfast application of exemplary standards and consistent regulation; and the organisation's perpetual motion which identifies avenues of regulatory best practices that are beneficial for the Bermuda market and elsewhere.

1969-1979

A time of change and independence.

Bermuda Monetary Authority Act 1969

The formation of the Bermuda Monetary Authority on 20 February 1969, by approval of the Bermuda Monetary Authority Act 1969, came about as a result of the preparations for the wind down of the Sterling Area, a group of countries that either pegged their currency to the pound sterling or issued pounds as their own currency. In 1972, the UK Government decided to abolish the Sterling Area altogether. Because of Bermuda's dependence on the free movement of funds between the island and Great Britain, it became clear that it would be beneficial to make a break completely from sterling. On 31 July 1972, the Bermuda dollar exchange was fixed on par with the United States dollar, which at that time had a fixed value in terms of gold. The Bermuda Monetary Authority Act 1969 had been amended to allow the parity of the Bermuda dollar to be defined not only in terms of sterling, but also 'of any other national or international currency, or of gold'.

The decimalisation of Bermuda's currency meant transitioning the entire island's monetary system from using fractions to decimals. Along with that came the introduction of the Bermuda dollar, which was launched on 6 February 1970. Bermuda's dollar at that time was equivalent to one United States dollar, or eight shillings four pence in the British pound sterling, which remained in circulation on the island for a short period of time afterwards. Once the Bermuda dollar came into effect, one of the BMA's primary responsibilities was printing and issuing Bermuda currency notes and coins.

'Decimalisation Day' was declared and all local banks were closed for three days in order to facilitate the changeover of currency, which the BMA and Government had spent the previous year planning. The former Bermuda currency notes were gradually withdrawn from circulation, and by 30 June 1970, all of the old currency was demonetised, or stripped of its value and status as money.

Independent Exchange Control

Leaving the Sterling Area also meant that Bermuda needed to introduce its own independent exchange control. This form of regulation had been implemented as far back as World War II and was used by countries as a means to oversee the flow of money in and out of certain jurisdictions. Bermuda had maintained such practices as a network of monitoring throughout the Sterling Area and, with the introduction of the Bermuda dollar, independent exchange controls were introduced to continue providing a means of monitoring the movement of funds between Bermuda and the rest of the world. These newly implemented independent regulatory practices assisted in compiling Balance of Payment figures, which would help the BMA in making future policy decisions. It would also provide a more defined idea of how residents were using their money overseas. Bermuda's exchange control regulations also included the identification and vetting of beneficial owners. The bank would collect the Form E of companies wishing to form in Bermuda, which is an important factor in minimising risks and maintaining high regulatory standards.

The Supervisory Role

Throughout the 1970s, a lot of work and forward thought went into developing the financial sector groundwork that would create the financial services landscape we know today. Aside from printing money, another role that was granted to the Bermuda Monetary Authority was to assume responsibility for the supervision of banks. The Banks Act came into effect in 1969, along with the Bermuda Monetary Authority Act 1969. Whilst the Bermuda Monetary Authority Act 1969 gave the BMA wide-reaching powers, more so than its predecessor the Currency Commissioners, it had mainly been focused on its role as the island's issuer of currency.

It was evident with the expansion of banking, a strong financial services regulator and independent exchange control were essential for Bermuda's growing base of international business.

In March 1973, Mr. John Sharpe, then Minister of Finance, said during his budget speech: "In the consideration of Bermuda's future financial requirements, especially in the fields of Banking, Government Finance and Credit Control, it is felt that the present functions of the Bermuda Monetary Authority should be extended to permit it to perform many functions which are normally performed by a Central Bank and which would enable it to take a fuller role as a watchdog in financial affairs."

One of these steps included significant changes that were made to the Bermuda Monetary Authority Board of Directors in 1973, which deemed that Government officials no longer sat on the BMA Board just by virtue of being a member of the Government of Bermuda.

Steps to Becoming an Independent Authority

In 1974, the Authority merged with the Foreign Exchange Control Department, which included the Controller of Foreign Exchange and nine staff. That same year, the BMA relocated from Reid Street to a new location at Crawford House on the corner of Cedar Avenue and Church Street. This merger marked the first steps of becoming an independently run authority and the beginning of consolidating other local organisations tasked with financial oversight.

Two of the nine staff members who were part of the merger included Ms. Maureen Smith and Ms. Brenda Cardoza, who between them served over 60 years with the Bermuda Monetary Authority.

Crawford House

Ms. Smith started at the Foreign Exchange Control Department as a clerk working under the supervision of Ms. Cardoza in 1970 and recalls the Department being like a "big family". The Controller of Foreign Exchange at that time had been brought in from the Bank of England and Ms. Cardoza's mother and aunt, Ms. Lucy Stailey and Ms. Olive Munro, were also part of the small team working in the Department when they would serve customers at its Reid Street premises. During the 1970s and 1980s, customers were required to visit the Foreign Exchange Control Department and seek permission from the Authority to send funds overseas before going to the bank to purchase foreign currency.

The Deposit Companies Act became law on 1 October 1974 and tasked the BMA with responsibility for receiving and examining applications for licences. This meant that no person was allowed to conduct deposit business in Bermuda without such a licence. The following year, in 1975, the BMA was also empowered to exert its influence on the level of interest rates by varying the maximum rates of interest.

The BMA was taking on more responsibilities and it became apparent that the organisation's technology needed to be updated. Former Minister of Finance, Mr. Bob Richards, began working as the Assistant Controller of Foreign Exchange at the BMA in 1978.

Whilst the BMA had taken on exchange control, it had also designated the four local banks, Bank of Bermuda Ltd, Bank of N.T. Butterfield & Son Ltd, Bermuda National Bank and Bermuda Provident Bank Ltd, and local deposit companies to authorise a wide range of transactions for customers wishing to send money out of Bermuda. In those days, residents of Bermuda could only withdraw $2,000 dollars per journey without the need for further approval from the BMA.

The bank would collect the Form E, which customers would complete with details of how the foreign currency would be used. Foreign currency at that time was most commonly being used for travel purposes, but other reasons for expenditure included education, medical needs and to pay for services only available overseas.

Mr. Richards recalls, “The Authority realised that these forms were a good source of data to determine what residents were spending their money on overseas. It was a good place to start to calculate Bermuda’s Balance of Payments, which weren’t being published in those days.”

The challenge was that the information on the forms was recorded by hand, which was an incredibly laborious task.

“The first time I saw how the statistics were being calculated, I said to my boss, who was Mr. Malcolm Williams, Controller of Foreign Exchange, we need a computer. A computer can do this. I’d come from a banking environment where they were already ahead with technology, and I campaigned to get computers.”

Although computerisation of the BMA was still a few years away, an IBM Selectric, the ‘cat’s meow’ of electric typewriters at the time, according to Mr. Richards, was purchased in 1979 and used for secretarial tasks.

Marking Bermuda’s History & Special Occasions

As the BMA was responsible for all currency-related matters, it also began marking Bermuda’s historically significant events and special occasions by issuing commemorative coins. In February 1975, Her Majesty, Queen Elizabeth II and Prince Philip, Duke of Edinburgh, visited the island, for which the BMA issued a special coin celebrating this occasion. The issue was printed at the Franklin Mint in Pennsylvania and consisted of a $100 proof and specimen coin in 900/1,000 fine gold; a $25 proof coin in sterling silver; and a $25 specimen coin in cupronickel. The sale of the coins in Bermuda reached $850,000 dollars and it is estimated that total revenue was even higher due to the successful worldwide sale of these coins, which was administered by the Franklin Mint and to which the BMA received royalties from the global sales.

As the decade drew to a close, the Insurance Act 1978 passed. Whilst the Bermuda Monetary Authority was not yet directly involved in the insurance sector, the Act and the resulting formation of the Insurance Advisory Committee, which provided advice to the Ministry of Finance, would make significant contributions to this growing industry in Bermuda.

In 1978, the Authority relocated its physical operations to the Warner Building at the corner of King and Reid Streets, and by 1979, the number of BMA staff had increased to 25 persons.

Bermuda’s Boom Time

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1980-1989

Establishing ‘Beneficial Ownership’

Vetting Companies Doing Business in Bermuda

As the BMA moved into its second decade, it had become fully responsible for vetting applications to incorporate companies as an agent for the Minister of Finance. This responsibility would see the BMA establish rigorous ‘Beneficial Ownership’ policies that would solidify the Island’s reputation as a prudent international financial services centre. International Business was booming by 1980, ranked second only to the tourism industry in importance to Bermuda’s economy. The number of companies registered in Bermuda increased by 52.8 percent between early 1976 and the end of 1980. The Island also saw a boom in construction projects for the creation of office space in Hamilton. From early on, the BMA had introduced a level of scrutiny for companies wanting to set up and do business from or in Bermuda and was very much a leader in having a ‘know-your-customer’ regime in place in the early 1980s.

Former Finance Minister Bob Richards, who worked at the BMA until 1983, recalls that Bermuda was unique as a jurisdiction because of its company vetting policy.

"Our forbearers in Bermuda wanted to know whom the beneficial owners of companies were going to be. They required disclosure on persons behind companies and whether they were good guys or crooks?"

Appointed in 1984, Ms. Lucelle Cooke was the BMA's first female General Manager and Controller of Foreign Exchange. She had previously worked as Assistant Financial Secretary at the Ministry of Finance under Finance Minister David Gibbons, who quit the post and was named Chairman of the Authority that same year. She recalls there were "rules in place and everything was done according to those rules, so it was fairly straightforward" for incorporating businesses.

"One of our main jobs was monitoring what kind of businesses applied to set up on the island. We had to vet their intended activities and owners to make sure they weren't involved in organised crime, which was our biggest threat at the time," she recalls.

Exchange Control Dominated Operations

During the 1980's, Bermuda still maintained a stringent Exchange Control regime, even though UK Prime Minister Margaret Thatcher had abolished Exchange Control in the UK almost overnight in 1979.

Mr. Richards recalls plans that had been made for him by the Controller of Foreign Exchange, Mr. Malcolm Williams, to travel to the Bank of England as "Bermuda had a mini version of Exchange Control of what they had in London."

However, overnight, "everyone who was working in Exchange Control in the UK, which at that time had to have been hundreds of people, had all been let go," he remembers.

Ms. Marcia Woolridge-Allwood, who joined the Authority in 1986 as Manager, Exchange Control, recalls that the rigid controls "required all residents to secure permission from the BMA, or the banks under the Controller's delegated authority, to purchase foreign currency for current payments or capital payments."

She remembers, "When I joined the Bermuda Monetary Authority, the Authority's Exchange Control activities dominated the operations of the Authority and, in addition, we compiled the balance of payments statistics, conducted vetting and made recommendations for the incorporation of companies and granted permission for the issue and transfer of shares to non-residents for exchange control purposes."

Merlyn N. Trued, BMA Managing Director and Bob Richards, General Manager attending an Annual General Meeting of the Bank for International Settlements in Basel, Switzerland.

Ms. Maureen Smith, who worked at the old Foreign Exchange Control Department which merged with the BMA in 1974, and was one of the BMA's longest-serving employees, recalls that throughout the 80s exchange control allowed the Controller, in consultation with the Minister of Finance, to make changes to foreign currency allowances for residents depending on the financial climate at the time.

In 1981, the annual foreign currency overseas investment allowance of $25,000 was broken down into four quarterly allowances of $6,250, which remained in effect throughout the first half of that year. It was an attempt to spread the impact of capital outflows over the entire year due to increased international interest rates. It was lifted in the second half of 1981, as the rest of the year showed declining international interest rates. Exchange Control would see restrictions placed on allowances throughout the decade to curtail the deterioration of Bermuda's Balance of Payments. By the end of the decade, recommendations had been made to the then Minister of Finance David Saul, to begin a phased relaxation of Exchange Control. However, the deterioration of Bermuda's Balance of Payments persuaded the Minister that the time was not right for relaxation to take place.

Ms. Smith notes that with the tighter restrictions in 1989, the Minister, with backing from the then Controller of Foreign Exchange, Anthony Goodfellow, announced reductions in personal travel and cash gifts allowances from $5,000 to $3,000.

Improved Statistics for Policy Decisions

The BMA realised it needed to develop a better method for calculating the Balance of Payments estimates, as the more accurate statistics would allow for a more meaningful and certain guide to policy decisions. The BMA also noted, in 1982, that the characteristics of a legitimate financial centre were the development of a satisfactory system of reliable and current statistics. The form filled out by customers at banks to purchase foreign currency was the primary source of information at that point. In 1982, the BMA had hired a consultant to undertake the task of determining the organisation's computer requirements, and by 1984, an IBM PC was acquired, which quickly improved the productivity of processing the Form E data coming from the banks.

Improved Statistics for Policy Decisions *continued*

The BMA handled 121,000 Forms E in 1985 – the ability to process such a volume at a greater speed was invaluable. The daily processing of the data from the forms, says Ms. Smith, gave the BMA a better understanding of when restrictions needed to be made because it could "immediately recognise any irregularities or contraventions by individuals or firms of the Exchange Control regulations."

Having more accurate Balance of Payments was also key. In 1985, an amendment to the Bermuda Monetary Authority Act 1969 broadened the role of the BMA to advise the Government and public bodies on banking and monetary matters and also permitted the BMA to act as investment manager for Government.

Mr. Peter Sousa, who joined the Authority as an investment officer in 1986, said being able to "properly track the inflows and outflows in our economy meant that policy decisions being considered wouldn't be made in a vacuum."

The implications of the decisions had knock-on effects whether it be relaxing Exchange Control or amending interest rate policies.

An Important Player in the Global Financial Sector

Relationships were built between the BMA and international institutions during this period, including the International Monetary Fund (IMF), Federal Reserve Bank of New York, as well as major US banks and central banks in other countries. The connections allowed for staff to take part in various international training programmes. Exposed to international monetary, financial and management techniques practised worldwide, staff could better apply the research and recommendations for Bermuda's policies.

As the world became more globally connected, by the latter part of the decade banking supervision began to change rapidly. Interdependence of banks worldwide meant an increasing need for improved supervision and the development of common international standards.

With these expanded changes and the need for a broader supervisory role, further computerisation took place at the BMA. This automation allowed for greater data storage based on the statistical information being passed on by local banks and deposit companies. These enhancements at the end of 1989 gave the BMA's Supervisory Division the ability to produce more sophisticated analytical profiles of those supervised institutions.

In 1988, at the meeting of central bankers in Basel, the Basel Accord was created and provided recommendations for banking regulations in regards to the capital adequacy of financial institutions.

A Rich Numismatic History

Throughout the decade, the BMA issued commemorative coins marking special occasions. A formal numismatic programme was introduced in 1982 to ensure an orderly issue of currency notes, circulation coins and commemorative coins. The programme would also allow for a more reliable source for serious collectors. Numismatic offerings generated revenues for the BMA, and the programme helped to increase support on the island with growing public interest to collect commemorative items significant to Bermuda's history and special occasions.

Mr. Sousa, who eventually moved over to manage the numismatic department and also co-edited 'Coins of Bermuda' in 1997, notes the BMA's pride in its role in "helping to capture those important moments of the history of Bermuda life through its special commemorative notes and coins."

Throughout the decade, commemorative coins were issued to mark the 375th anniversary of the settlement of Bermuda; a five-year commemorative series of crown-size dollar coins featuring Bermuda historical scenes and wildlife; and a Bermuda Coinage Set to mark the first design change to Bermuda coinage since decimal coinage was introduced in 1970.

By 1988, the Authority had formed the Currency Bureau to manage the increasingly active coin and banknote operation. The new structure amalgamated responsibilities for both circulation and numismatic items into one section.

That same year, the first $2 note was issued, as well as one cent through 50 cent coins and a new circulation dollar coin. A new series of currency notes with enhanced colours and upgraded security features was introduced in 1989 to mark the BMA's 20th anniversary.

Supervisory Powers

As the 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 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

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

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.

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.

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, NAMLC was established to advise the Government on the development and implementation of policies and activities to combat money laundering.

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

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.

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 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 Sousa, 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 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. Sousa recalls "Quite a number of pennies, shillings, threepence and sixpence were discovered." But the most exciting discovery that day, recalls, Leanora 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. Sousa, 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.

BMA's first owned premises, opened by the late David Saul, former Premier and Minister of Finance of Bermuda.

Moving Forward Together

SERIES 4: POSITIONING FOR THE FUTURE

BMA's first female Chair and CEO, Cheryl-Ann Lister

Mr. Jeremy Cox, Supervisor of Insurance (2002), currently Executive Chair (2019)

Mr. Matthew Elderfield, BMA's CEO from 2007-2009

Positioning for the Future

As the BMA celebrates 50 years in 2019, we 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.

2000-2009

Internationally Recognised Standards and the Financial Crisis

The BMA entered 2002 with a new Chair – its first female Chair and Chief Executive Officer (CEO) – Cheryl-Ann Lister, and the need for an updated and modern regulatory framework. Ms. Lister made it her mission to align the organisation with international regulatory standards.

Ms. Lister recalls, "The BMA and Bermuda's financial sector were about to go through a complete transformation. Our legislation had been in place for a number of years. Essentially, there had been significant changes in international standards and the Basel Accord core principles had been issued by the Basel Committee on Banking Supervision. We felt it was about time that we update our legislation in Bermuda to ensure that it completely embodied those principles. We upgraded and amended new legislation for the banks, investment businesses and trust companies, and we also put together an amendment to the Bermuda Monetary Authority Act 1969 to address money services businesses."

Strengthening Banking Standards

The first standards to be strengthened came with the successful passing and implementation of the Banks and Deposit Companies Act 1999 and the Investment Business Act 2003. The Banks and Deposit Companies Act gave the BMA full licensing, supervision and enforcement powers, and the same would follow with the Investment Business Act when it was amended in 2003. The BMA, with its ability to grant licences to conduct business on the Island, wanted to ensure they were satisfied that applicants met a number of criteria to protect depositors and investors.

Mr. D. Munro Sutherland, who worked at the BMA as a policy advisor of supervisory matters in 1998, and went on to become the Superintendent of Banking, Trust and Investments in 2002, recalls the strong support from the banking industry during the implementation of the new legislation. "Banks had already come to recognise that without a strong, independent and fully effective licensing and regulatory authority in Bermuda, their ability to continue to operate internationally was likely to be significantly constrained and undermined," Mr. Sutherland says.

He adds, "In time, this recognition spread to other financial services sectors as global standards were defined and refined internationally. The BMA was able to demonstrate the critical importance that Bermuda had a sound regulator, was committed to international standards, and had an international reputation that would enable it to play a role in discussing, reviewing and developing global standards going forward."

In 2003, HSBC announced plans to purchase all outstanding shares of the Bank of Bermuda Ltd., which was approved by shareholders. After discussions with HSBC and the UK Financial Services Authority (FSA), who was the ultimate consolidating supervisor for the HSBC Group, the BMA gave its non-objection to the purchase in February 2004.

The Global Financial Crisis

The foundations the BMA had laid in the earlier part of the decade would be shaken in the wake of the financial crisis of 2008. Whilst Bermuda was not immune to the effects of the crisis, much of the hard work that had been set down in the past allowed Bermuda's financial institutions to weather the challenging environment.

Mr. Matthew Elderfield, who was the BMA's CEO from 2007-2009, recalls the period when the "hurricane of the global financial crisis brushed Bermuda. The BMA and the Government of Bermuda can be proud of the way it managed during the crisis," he says. "The global financial crisis meant that the financial environment was tough for much of the Bermuda financial sector. But generally speaking, the (re)insurance section weathered the storm well, thanks to strong industry management and the robust regulatory framework in place at the BMA."

Whilst all financial firms in Bermuda were affected by the downturn, the BMA maintained active monitoring of the sectors of Bermuda's market that were most significantly impacted, which included intensified supervision of local banks into 2009. The industry remained resilient and maintained compliance with the BMA's capital and liquidity standards. In keeping with the Authority's proactive approach and with the implementation of Pillar 2 of the Basel Accord, the BMA took the precautionary measure of requiring banks to hold an additional capital buffer to withstand the severe economic downturn after undertaking a series of stress tests. The BMA's sound diligence throughout the crisis meant that none of the banks failed in Bermuda during this time.

A New Family of Banknotes

In 2000, the BMA launched an entirely new family of banknotes, making it the first time since 1988 that all denominations of Bermuda's banknotes had been changed simultaneously. Along with an updated portrait of Her Majesty The Queen, the notes also featured enhanced security features. Other notable numismatic offerings from the BMA included a special coin to commemorate the Tall Ships Race of the Century and a special Millennium coin, which depicted a sailing ship against a millennium sunrise and a unique scalloped edge.

In 2006, the BMA designed a new triangle coin series featuring shipwrecks found around Bermuda. The first coin of the six-coin set was issued in June 2006 to coincide with the opening of the BMA's new Bermuda Bank Notes Exhibit at the Commissioner's House.

By the end of the decade, Bermuda had a completely new banknote series with a distinctive, vertically-designed orientation. The banknotes launched into circulation on 9 March 2009. Bermuda's redesigned $2 banknote, featuring the bluebird, was chosen as the 2010 Bank Note of the Year by IBNS.

Along with its expanding responsibilities, the BMA was continuing to expand its employee base and had outgrown its Burnaby House premises, with several divisions working out of separate buildings. The search was on for a new head office to bring the entire BMA team under one roof. The BMA purchased an office building on Victoria Street, which was renamed BMA House. In 2006, renovations and reconfigurations began, and the BMA officially moved into the new premises in 2007.

That same year, an onsite note and coin exhibit was officially opened. The exhibit graphically demonstrated the development of Bermudian currency from the days of UK Sterling to the modern era of Bermuda dollars and cents.

At the close of the decade, the BMA had a new CEO with the appointment of Jeremy Cox in 2010. The BMA had also started seeking mutual recognition of Bermuda's regulatory framework, with a particular focus on (re)insurance regulation and the creation of a roadmap to Solvency II equivalency, which would dominate much of the work in the following decade.

A Unified Financial Services Regulator

Outside of Bermuda, the world was changing rapidly and for Bermuda's financial institutions to meet current international regulatory guidelines, KPMG carried out an assessment, assisted by the UK Government, to gain a better idea of where Bermuda was in comparison to international regulatory standards.

Ms. Lister says that during this review, the BMA became aware that the Authority's corporate governance should be more "modern, up-to-date and consistent with other regulatory authorities." She adds: "We knew it made sense to have a focused, unitary financial services regulatory

BMA House on Victoria Street

authority that could build on the strengths of a much more substantive organisation."

As of 1 January 2002, Bermuda's insurance regulatory function was integrated with the BMA. The Supervisor of Insurance at the time, Mr. Jeremy Cox, together with his regulatory staff from the ROC, transferred to the BMA. This merger made the Authority the independent regulatory body for financial services in Bermuda. "The new structure was created, and it was very important to us that this came across as a merger and not an acquisition," remembers Ms. Lister. "They came in on equal footing and we created new divisions – Banking, Trust and Investment, and Insurance."

Mr. Cox adds, "The move was pivotal for two reasons. One, you now had the BMA as the single regulator for all financial services, so there was no confusion or divided attention. And two, the physical move out of Government was an effective response to some of the dialogue in the international regulatory world around the independence of oversight for financial services from Government. We were now a part of this operationally independent regulator."

Mr. Cox continues, "Throughout that time you saw changes in politics, yet stability in the regulator. This speaks to the whole independence point, that you can have change in the policymaker side, but the BMA was that steady rock that kept moving forward." At the time of the merger, the Bermuda insurance market comprised of over 1,600 licensed insurance and reinsurance companies with total aggregate assets exceeding $170 billion. There was continued high-level interest in Bermuda as a professional insurance and reinsurance sector internationally. During 2001, a total of 109 new insurance companies were added to Bermuda's register, a significant portion coming from large Class 4 insurance companies reflecting the response to the terrorist attacks on 11 September 2001.

By 2004, Bermuda was still the leading jurisdiction for the captive market, with 28 percent of global captives, writing $16.6 billion in gross premiums. Further reviews were conducted into Bermuda's compliance with international regulatory standards throughout the decade, including two by the IMF in 2003 and 2007. Detailed analyses were performed on Bermuda's legislation and regulatory arrangements compared to the requirements of the different international setting bodies – the Basel Committee for banks; International Association of Insurance Supervisors (IAIS); IOSCO; and FATF in relation to AML/ATF.

What the BMA gained from these assessments, says Ms. Lister, was a sound regulatory framework that ensured Bermuda was compliant with international standards. "We wanted the highest standards of integrity and highest standards of compliance, but that were practical at the same time," she recalls. "I expected we would always try to be proactive and create a regime that worked for us and in doing so, we would be less likely to be dictated by others because we had already taken steps to do the work that needed to be done. We assessed ourselves, looked to see where the gaps were and worked to fill them, rather than sitting back and having people come and tell us."

Breaking New Ground

The BMA 50th Anniversary has come to a close. With this fifth and final article, we highlight the most recent decade of the Authority's incredible impact on Bermuda's financial landscape. We hope you have enjoyed this series of retrospective articles, which serve as both a reflection of our enduring service and a testament to our preparedness for the future as we continue moving forward together, as a community and an industry.

One of the BMA guiding principles has always been to create a secure and stable financial environment in Bermuda, whilst ensuring that Bermuda remains an attractive domicile from which to conduct local and international business. Over the past 50 years, the BMA has met the changing needs of the financial services sector on a local and global scale. It would be an understatement to say that the past five decades have been interesting, but one principle has held true: change is constant. A few recurring indicators of the BMA's stable influence over the past five decades are: the Authority's ability to adapt to ever-changing needs; its steadfast application of exemplary standards and consistent regulation; and the organisation's perpetual motion which identifies avenues of regulatory best practices beneficial to the Bermuda market and elsewhere.

Mr. Jeremy Cox, BMA Executive Chair

2010 – 2019

A Regulatory Leader

As the world slowly climbed out of the wake of the global financial crisis, the BMA's work became more complicated. International standards for all financial services sectors were evolving at a high speed. The BMA aligned its regime to these standards by making progressive enhancements to its regulatory frameworks, ensuring a more consistent and efficient supervisory regime.

One of the most involved and essential journeys for the BMA in the earlier part of the last decade was the road to Solvency II equivalency. Over a period of six years and with the expertise of a dedicated core team, Bermuda's enhanced commercial insurance regime reached full equivalence on 24 March 2016. Solvency II, a directive of the EU, allowed for a single set of rules for insurance services to guarantee a company's assets provide for long-term financial stability. Solvency II's overall objective is to protect (re)insurers' policyholders and provide for a stable financial system overall. As many of Bermuda's commercial insurers conduct a significant amount of business in the EU, Solvency II equivalency meant they would not be disadvantaged when doing business in Europe.

Bermuda is one of only two non-EU jurisdictions that have achieved full equivalence. This speaks volumes not only to the expertise within the BMA, but also the calibre of businesses operating in Bermuda. This evolution of meeting international standards, alongside the development of a transparent and relevant regulatory authority, has allowed business to thrive in Bermuda.

The BMA's objective of increased international equivalence extended beyond the EU, though. Over the last decade, the Authority successfully met regulatory standards in the US. Bermuda was approved as a Qualified Jurisdiction by the NAIC in 2014, providing Bermuda's (re)insurers with reduced collateral requirements. In 2019, Bermuda was approved by the NAIC as a Reciprocal Jurisdiction further reducing collateral requirements to zero. These successful equivalence exercises allow Bermuda's (re)insurers to operate on a level playing field with their counterparts in other jurisdictions.

Achieving international standards in this past decade was not limited to the realm of insurance. The Authority implemented, over a phased period commencing 1 January

2015, the international standard for the regulation of the banking sector—Basel III. This phased-in approach saw the introduction of the Basel III capital adequacy and liquidity reporting standards and the discontinuance of the prior Basel II obligations. Over subsequent years, the BMA successfully phased in the various Basel III requirements, reaching full implementation on 1 January 2019. This four-year-long effort has positioned Bermuda as a leader amongst its peer jurisdictions in ushering in the global standard for the regulation, supervision and risk management for banks.

Mr. Jeremy Cox, the BMA's Executive Chair, says, "The role of the Bermuda regulator has become increasingly important as businesses look to broaden the scope of their global operations. One important consideration for any business is the benefit of being domiciled in a jurisdiction where the regulator is respected and trusted by the global regulatory community. We always talk about punching above our weight, but the fact that we managed to implement Basel III, achieve full Solvency II equivalence and earn the Reciprocal Jurisdiction status, speaks to that. At the same time, this organisation has to manage the expectations of many different stakeholder groups, the most important being the customers of Bermuda regulated institutions."

Cooperation with Overseas Counterparts

The signing of Memoranda of Understanding (MOU) with other regulatory bodies is another way in which the BMA continues to foster cooperative and effective supervisory relationships with overseas counterparts. By 2010, the BMA had signed 16 MOUs and was one of only three authorities approved as a signatory for the International Association of Insurance Supervisors' Multilateral Memorandum of Understanding (IAIS MMoU), a formal basis for cooperation and exchange between signatory regulators who supervise insurers with cross-border operations.

Mr. William Kattan, BMA's Legal and Enforcement Director and General Counsel from 2005 – 2012

Mr. William Kattan, who worked as Director of the Legal and Enforcement Department and General Counsel at the BMA from 2005 – 2012, says, "The BMA was able to achieve this because it ensured legislation was in place to enable it to comply with the requirements for admission as a signatory to the MMoU. Because of this, Bermuda was ahead of many other jurisdictions that lacked the necessary legislation."

Combating Bad Business

While the BMA's work on the AML/ATF front had been underway for many years, it was apparent by the beginning of the last decade that a more forceful approach was required. Mr. Mansfield Brock, former BMA Chair, recalls, "We made it clear to all that laundering money had no place in Bermuda. We spent a lot of time and energy to maintain Bermuda's position in this regard, and worked with the authorities globally to crack financial cases and sting operations on people making ill-gotten gains on illegal money."

Because of the continuing complexity of AML/ATF initiatives worldwide, it was important the BMA upgrade its legislative framework. Ms. Cheryl-Ann Lister, former BMA Chair and CEO, says, "While things were being done in this area they did not quite have the force of law behind them. There was guidance in place, but that does not get you points without the law behind it." After stepping down from her role at the BMA in 2006, Ms. Lister went on to chair the NAMLC, which advises Government on matters regarding AML/ATF.

As the BMA began to expand its powers under Bermuda's enhanced AML/ATF legislative regime, it also had to develop the organisation's resources in this area. This required the establishment of a unit dealing with AML/ATF compliance, and Mr. Kattan was responsible for drafting the legislation requiring financial institutions to establish policies and procedures to detect and prevent money laundering and terrorist financing.

He adds, "Procedures were also established within the Authority to take enforcement action against institutions that failed to comply with the legislation. The BMA established internal procedures concerning the taking of enforcement action that led to the imposition of financial penalties. This legislation was the first of its kind. [Before that] the imposition of penalties for breaches of the law had been a matter for the courts and not public authorities." While Mr. Kattan says the move to give the BMA these enforcement responsibilities was somewhat controversial, the supportive argument prevailed and the legislation was passed.

SERIES 5: BREAKING NEW GROUND
CONTINUED

By 2016, the BMA was responsible for supervising over 1,320 firms for AML/ATF purposes. Today, for the Authority to keep up with strengthened international standards, the organisation continues to enhance and refine Bermuda's AML/ATF legislative framework. "Regulation is becoming an even more significant component for countries, and AML/ ATF requirements are becoming so complex, and that has to be a main area of focus," says Ms. Lister. "The BMA has to continue to move with the times and continue to implement and upgrade their supervisory framework."

One of the areas in which Bermuda had always been diligent and would come into the spotlight during this past decade was beneficial ownership – the ultimate owner of a company – and updates necessary to bring legislation in line with international requirements. Mr. Bob Richards, says, "Bermuda was unique in that we have had records of who owned exempt companies. Fast forward to today, this is now called a Register of Beneficial Ownership. The first time I went over to the UK as the Minister, the talk was about wanting to start a register and that they wanted us to do so as well. When I told them we have had one for 70 years, they were astounded."

Following a 2016 agreement between the British and Bermuda governments, the BMA agreed to streamline the process by creating an electronic platform for the revamped register. Enhancements to the regime were proposed in 2017, and enacted in early 2018, to ensure that an updated and accessible register be maintained by all companies formed in Bermuda, as well as filed with the BMA. The intent is that the new legislation will help in continuing to detect any severe financial crimes, enhancing Bermuda's appeal as a jurisdiction of choice for conducting business.

A significant component of the broader role of ensuring Bermuda incorporates quality businesses on the island is Know Your Customer (KYC), which has played a large role in establishing Bermuda as a global financial market leader.

Mr. Cox says, "Part of what Bermuda has always prided itself on is knowing its customer and this organisation has been the one, long before my time, vetting new beneficial owners and making sure those beneficial owners are credible. We have been very selective, we want companies of high quality, and that has helped us to maintain this reputation for doing things right and having the right participants operating in our jurisdiction compared to our peer jurisdictions."

Moving Forward Together

Due to the Authority's commitment to consistent standards and regulations, Bermuda has seen growth in many areas and recognised opportunities for development in future technologies. While the BMA takes a risk-based approach to conducting its supervisory framework, it has always made sure that its standards are appropriate for Bermuda's financial markets, thus enabling future growth. This was evident earlier in the decade within the insurance industry with Bermuda becoming the centre for Special Purpose Insurer (SPI) and Insurance-Linked Securities (ILS) businesses.

Even as businesses change — whether through growth, transformation, mergers or acquisitions — the BMA's work in creating a sound financial environment and making Bermuda an attractive place to do business remains crucial.

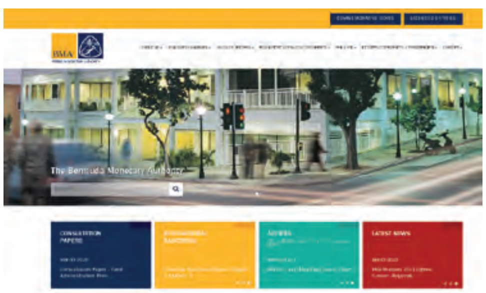
Bottom Picture: BMA Executives 2019 Left to right Craig Swan, Marcia Woolridge-Allwood, George Pickering, Jeremy Cox, Shanna Lespere, Shauna MacKenzie

Celebrating the **Present**

While the Authority spent time remembering and recognising the people and accomplishments that have positioned it as a leading financial services centre, it also wanted to memorialise the present.

A THANK YOU FROM THE BMA

In June, the Authority released a short 50th Anniversary "Thank You" message. The video panned across the City of Hamilton, gliding towards BMA House, where Executive Chair Jeremy Cox and the Executive Team, alongside the entire BMA staff, thanked the financial services industry and the community at large for their numerous contributions and continued commitment to our jurisdiction's success.



WEBSITE UPGRADE

The Authority also took measures to prepare for the future, including various infrastructural improvements. One of the most visible upgrades was to the BMA website. The new website has been built to accommodate the growing trend of mobile access, while still remaining a viable avenue for desktop access. It is user-friendly, intuitive and bespeaks the BMA's ongoing progressive efforts.

COMMEMORATIVE COINS

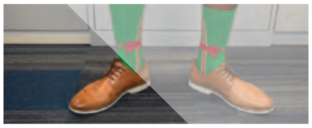
The Authority saw it fitting to release a commemorative coin to mark the momentous occasion. The coin's triangular design features a compass rose and the islands of Bermuda on one side and Her Majesty, Queen Elizabeth II on the other. The $5 gold, $2 silver and $0.25 cupronickel coins preserve this juncture in the BMA narrative for posterity.

JEREMY COX: FRED REISS LIFETIME ACHIEVEMENT AWARD

However, 2019 not only served as a landmark year for the Authority but also for one of its own. In May, Jeremy Cox received the Fred Reiss Lifetime Achievement Award. He received this both for his contribution to Bermuda's insurance industry and his hand in shaping the island's financial services industry and the jurisdiction's economic future.



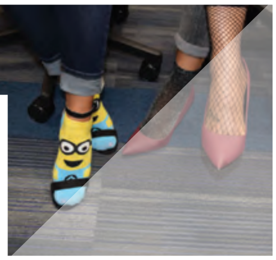


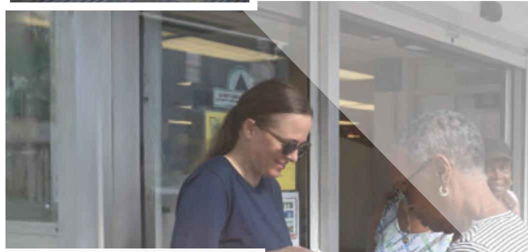










Looking to the Future

To the BMA, a 50th anniversary year also involved peering outward, serving the community of Bermuda and giving back. For this, the Authority looked to the Third Sector and identified five charity categories of focus, including children and families; arts and culture; the environment; education; and seniors. Based on these categories and BMA staff nominations, the Authority was able to contribute to 22 of Bermuda's charities, philanthropic organisations and government social service agencies. These contributions came in different forms.


Family Centre
DONATE TODAY


MEALS ON WHEELS


HEROES

> *"It is this bridge between the community and the BMA, one that the Authority has maintained for years, which keeps the organisation grounded and balanced."*

Charitable Fridays: Denim Days

The Authority continued its tradition of Denim Days where staff are allowed to wear denim to work in exchange for a minimum donation. However, whilst Denim Days had previously taken place on a monthly or quarterly basis, the BMA increased the frequency to twice a month. Internally, this spread awareness of various community organisations—with every Denim Day came an email providing insight into the institution and their work. Externally, this raised significant funds for services critical to Bermuda, nearly $10,000 in total.

BMA Days of Giving

In celebration of its Golden Year, the BMA broadened its charitable initiatives with BMA Days of Giving. In 2019, the Authority selected three charities and designated a community service day for each.

Meals on Wheels: Kitchen Cleaning

In February, a group of BMA staff donated a half-day to Meals on Wheels (MOW). The staff deep cleaned the commercial-grade kitchen, augmenting the charity's daily cleaning practices. This scrub-down of the charity's Paget facility allowed MOW to carry out this necessary, yet labour-intensive activity whilst still fulfilling their mission of providing meals to their beneficiaries. In conjunction with this BMA Day of Giving, the agency fundraised for the charity through a Charitable Friday Denim Day.

Tomorrow's Voices: Tag Day

Before the official BMA Day of Giving for Tomorrow's Voices in May, the staff chose to participate in the charity's "Rocks Socks" day where BMA team members could wear their most colourful pair of socks in exchange for a small donation. This fun twist on Charitable Fridays made it one of the most successful of the year. A week later, for the BMA Day of Giving, staff joined other Tomorrow's Voices volunteers for the charity's island-wide "Autism Tags It!" tag day, raising money for some of the organisation's most essential services.

Family Centre: Tag Day

In July, BMA staff supported Family Centre through sporting denim in exchange for a minimum donation. In addition to hosting this Charitable Friday, BMA staff rang in Cup Match by participating in Family Centre's Cup Match Tag Day. On this unique tag day, staff not only accepted community donations but also handed out Cup Match-themed stickers to spread team spirit and camaraderie across the island. Both the Charitable Friday and the BMA Day of Giving were essential in helping Family Centre fund services critical to community welfare.

The Eliza DoLittle Society Food Drive

The Authority participated in a food drive campaign coupled with a Denim Day in support of the Eliza DoLittle Society. Staff members donated non-perishable food items over several weeks and/or made a minimum donation in August to participate in a Denim Day, both of which supported the organisation's core programmes and services.

BF&M Breast Cancer Walk

The Authority paid the race fee for 35 staff members who chose to participate on Team BMA. These funds went to support Bermuda Cancer and Health Centre's Equal Access Fund, and Prevention and Early Detection Programmes.

Lefroy House Donation Drive

To support this essential organisation, the BMA chose to host a month-long donation drive. The Authority's staff brought in a range of personal care items to help meet the eldercare community's needs.

In 2019, the BMA tied itself to innovative opportunities, championed community organisations and savoured its arrival at the five decade benchmark. The Authority has a past replete with contributions to Bermuda and will continue cultivating its reputation, transforming into the regulator of tomorrow.

REGULATORY DEVELOPMENTS

1 REGULATORY DEVELOPMENTS

Anti-Money Laundering/Anti-Terrorist Financing (AML/ATF)

Overview

The 2019 Business Plan laid out the significant priority to conclude the CFATF fourth-round mutual evaluation of Bermuda's AML/ATF framework. Following the on-site visit in late 2018, the focus in 2019 was the provision of Bermuda's comments on the second draft of the Mutual Evaluation Report (MER), preparing and executing the three-day follow-up visit by the assessors in July, and then preparing for and participating in the November CFATF Plenary review and adoption of our MER. The MER was then sent to the FATF secretariat for a quality and consistency review and no objections were raised. Bermuda's MER report was subsequently released to the public in early January. The BMA as a whole, and in particular the AML/ATF, Corporate Authorisations and Legal & Enforcement Departments, expended significant resources in supporting these critical tasks throughout the year. The outcome, particularly from the BMA perspective, was extremely positive in terms of the level of technical compliance and effectiveness.

While the mutual evaluation process demanded significant resources from the BMA, the Authority continued to deliver its core tasks of risk-based, on-site supervision, support for legislative change, ongoing reviews of licensed applications and outreach.

CFATF Fourth-Round Mutual Evaluation Review

From the AML/ATF perspective, 2019 was a landmark year for the jurisdiction. Bermuda concluded its CFATF fourth-round Mutual Evaluation, with the Authority working closely with the NAMLC throughout the year to achieve all required deliverables and milestones for the MER.

The Mutual Evaluation process required five primary deliverables in 2019. These were:

1. Bermuda's written comments on the second draft of the MER (the first MER draft was only circulated to Bermuda as the assessed country, and the Authority's comments were provided in late December 2018). The second draft was circulated to Bermuda, together with the assessors' responses to our first draft comments, and four designated reviewers on 1 April 2019. The BMA provided substantial input into both the Technical and Effectiveness components of Bermuda's response to the second draft, which was delivered on 7 May 2019.
2. Follow-up in-person meetings with the assessors. Bermuda was permitted three days for these meetings (15 - 17 July 2019), as opposed to the more usual one day. In the run-up to the meetings, a series of teleconferences with the assessors were held from 24 June - 10 July 2019. Considerable work was done in preparation and follow-up from these engagements with the assessors, which were very productive from the BMA standpoint.
3. Bermuda's written comments on the third draft of the MER. The third draft of the Bermuda MER was circulated to all FATF countries globally, including Bermuda, on 20 September 2019. Bermuda's comments incorporating the BMA's input were provided by the deadline of 4 October 2019.
4. Preparations for Plenary. Following the collation of all comments on the third draft of the MER, the sub-working group of the CFATF Working Group for FATF Issues (WGFI) provided the draft "Key Issues Document" on 29 October, together with the consolidated comments on the third draft. These provided the focus for Plenary preparations. The BMA had direct involvement with two of the five Key Issues, involving Supervision and Transparency of Legal Persons and Arrangements. Substantial time and effort went into preparing and refining the talking points to defend the ratings at Plenary.
5. CFATF Plenary participation. The initial review of Bermuda's MER took place in the WGFI meeting on 25 November 2019. The full four hours were used, with successful defence of the ratings of the BMA-specific Key Issues. The Plenary discussion on 28 November 2019 was similarly successful, with key wording agreed on by the assessors during the week incorporated into the final MER approved by Plenary.

Following the Plenary, Bermuda's MER was subject to the standard quality and consistency review undertaken by the FATF Secretariat. No material issues were raised and our final report was published on the CFATF website on 17 January 2020.

Stakeholder Engagement

In addition to actively participating in NAMLC's legislative and policy, supervisory, and operational working group committees, and a new ad hoc committee concerning Proliferation Financing, the Authority continued its collaboration with other competent domestic authorities and agencies through its quarterly meetings with the Financial Intelligence Agency (FIA), Bermuda Police Service and the AML/ATF supervisor for Bermuda's Barristers and Accountants.

During the first quarter of 2019, the Authority hosted nine industry outreach sessions organised by sector at BMA House, that touched on the topics of AML/ATF legislative updates, the Mutual Evaluation, Enforcement, Sanctions and DAB. Some 264 external stakeholders attended these sessions. The Authority participated in a pan-industry outreach question and answer session at Bermuda Underwater Exploration Institute that was held in conjunction with KPMG on 7 March 2019, connecting with 108 external stakeholder attendees. On 24 October 2019, at Rosewood Tuckers Point, the BMA also supported an all-day event sponsored by the Association of Certified Anti-Money Laundering Specialists (ACAMS), catering to 50 plus attendees from various sectors. In anticipation of the TF NRA exercise which kicked off in January 2020, one BMA participant led a panel focused on Terrorist Financing. In addition, a second BMA participant presented on Global Governance Standards for DABs.

Banking, Trust, Corporate Services & Investment (BTCSI)

Banking

In 2019, the Authority further enhanced its Basel III framework, which was introduced for Bermuda banks in 2015 and updated in 2017.

The framework includes five-year transitional arrangements and on 1 January 2019, the following changes took effect:

- The Capital Conservation Buffer (CCB) was increased from 1.88% to 2.50% and is now fully phased in; with this change, the minimum regulatory Common Equity Tier 1 (CET1) plus CCB capital adequacy ratio is now 13.50%
- The Liquidity Coverage Ratio (LCR) increased from 90% to 100% and is now fully phased in

The Authority implemented a new Supervisory Review and Evaluation Process (SREP). The new SREP amalgamates the on-site visit, and Capital Assessment and Risk Profile (CARP) review. Licensed banks are required to submit the full CARP once every two years. Banks, however, are expected to prepare an 'off-cycle' CARP with the half-year regulatory reports during the years when they do not submit a full CARP. The off-cycle CARP is not required to be as comprehensive as the full CARP, and is to be used for capital management and planning purposes. The structure of the document is to be determined by the bank's senior management, and should highlight any material changes and complexity of the overall risk profile.

Banks that report under International Financial Reporting Standards (IFRS) adopted IFRS 9 effective 1 January 2018. IFRS 9 replaced IAS 39 and introduced the Expected Credit Loss (ECL) model, which institutions apply to calculate credit losses and related provisions, and offers a forward-looking credit loss methodology. To prevent any potential cliff-effects on local banks' regulatory capital resources created by the new accounting provisions, the Authority issued transitional arrangements for their treatment. However, of the three Bermuda banks reporting under IFRS, none of them took the option to implement a transitional provision.

Trust and Corporate Service Providers (TCSP)

As a member of the Group of International Finance Centre Supervisors (GIFCS) TCSP working group, the Authority continued to play its role in assessing Bermuda's compliance with the Standard on the Regulation of Trust and Corporate Service Providers (Standard), which was introduced in 2014 and updated in 2018. The new methodology has been used to evaluate member jurisdictions' compliance with the Standard via peer evaluations. Bermuda is scheduled for a peer evaluation in 2020.

The Authority published two Consultation Papers in June 2019 proposing updates to the supervisory regimes for TCSP businesses. Updates covered the Trusts (Regulation of Trust Business) Act 2001 and the Corporate Service Provider Business Act 2012, along with the associated Codes of Practice and Statements of Principles. Parliament approved the legislative amendments in the summer session of the House and the amendments came into effect on 31 December 2019.

A Consultation Paper was also circulated covering proposals for a new tiered fee structure for limited and unlimited Corporate Service Providers (CSPs). The amendments came into effect on 31 December 2019.

Investment

Building on the Discussion Paper circulated on the investment sector in 2018, the BMA issued a Consultation Paper in April 2019 on the New Legislative Framework for Fund Administrators and draft legislation covering the proposed regime. Following extensive discussions with the market "The Fund Administration Provider Business Act 2019" became operative on 31 December 2019.

Outsourcing

On 28 June 2019, the Authority issued outsourcing guidance applicable to Banks, Deposit Companies, the Bermuda Stock Exchange, CSPs, Trust Companies, Money Service Businesses (MSBs), Investment Businesses, Fund Administrators and the Credit Union licensed by the Authority. The guidance requires these Relevant Licensed Entities (RLEs) to have adequate policies and procedures to manage and monitor existing activities that have been outsourced, as well as to assess the risks arising from outsourcing new activities. This guidance will come into force on 1 May 2020.

Under the guidance, RLEs have two options for compliance relating to existing material outsourcing: (i) Prior Approval and (ii) CEO Attestation. The RLE could seek prior approval for existing outsourcing arrangements by submitting an application to the Authority during the period from 1 October 2019 to 3 January 2020. Under CEO Attestation, the CEO of the RLE could write to the Authority, prior to the implementation date, formally attesting that the existing material outsourcing complies with all aspects of the new guidance. This attestation will subsequently be verified through the Authority's ongoing supervisory programme post implementation.

Financial Stability

The Authority's work on financial stability in 2019 encompassed five key categories. The first category was macroprudential surveillance and systemic risk monitoring. It focused on monitoring developments in the various financial sectors under the BMA's mandate, undertaking surveillance of Bermuda's financial economy and real economy, feeding the outcomes of the surveillance activities to BMA's regulatory and supervisory efforts, and providing data and analysis to the public domain.

In relation to publications, the Authority continued to produce quarterly reports on the Bermuda banking sector (*Quarterly Banking Digest*) and contribute data and analysis to the BMA's *Regulatory Update*. In addition, surveillance analysis was published in respect to catastrophe risks exposures (*BMA Catastrophe Risk in Bermuda Report*), portfolio investments of Bermuda's financial sector (*Bermuda Coordinated Portfolio Investment Survey Report*) and the Bermuda International Insurance Sector (*Macroprudential Risk – Annual Statutory Filings Report*).

The second category was international engagement, focusing on the BMA's international commitments related to financial stability matters. BMA staff carried on with its active participation in, and contribution to, the Financial Stability Board's (FSB) Regional Consultative Group for the Americas (RGCA), the FSB RCGA Non-Bank Financial Intermediation Working Group (BMA Co-Chairs this Working Group) and the Bank for International Settlement (BIS) Financial Stability Institute.

Further, the Authority continued to be actively engaged in the IAIS macroprudential work as Vice Chair of the Macroprudential Committee, and as Member of the Macroprudential Monitoring Working Group and Macroprudential Supervision Working Group. Financial Stability staff also continued to contribute to the implementation assessment work underway at the IAIS in relation to the IAIS Holistic Framework for Systemic Risk in the Insurance Sector. Additionally, BMA employees participated in the IAIS Implementation and Assessment Committee and the IAIS Coordination Group, as well as in the Organisation for Economic Co-Operation and Development's (OECD) Insurance and Private Pensions Committee. Finally, the BMA continued its dialogue with credit rating agencies in respect to sovereign and financial firms' ratings developments.

Continued development of Bermuda's recovery and resolution framework constituted the third category. During 2019, the Authority carried out a detailed gaps analysis of the Bermuda's Recovery and Resolution Framework against the FSB Key Attributes of Effective Resolution Regimes, and started work on the design and implementation of an early intervention framework for Bermuda banks. In addition, as a member of the IAIS Resolution Working Group's drafting team, the Authority contributed to the IAIS Application Paper on Resolution Powers and Planning. Lastly, the BMA continued to work on the development of a recovery and resolution framework for Bermuda's insurance sector, drawing on the revised Insurance Core Principles and ComFrame standards adopted by the IAIS, as well as developments from the European Insurance and Occupational Pensions Authority's (EIOPA) Solvency II proposed changes with regards to insurance recovery and resolution requirements.

The Authority's role as Secretariat to the Financial Policy Council (FPC) was the fourth category of work carried out in 2019. The BMA arranged and coordinated all FPC meetings, and was responsible for the preparation/review of all FPC discussion and information papers, including the economic and financial developments papers, risk monitoring papers, and FPC minutes and communiques.

The fifth and final category of Financial Stability's 2019 workstream was to act as a research resource, carrying out a variety of in-house research projects, as well as representing Bermuda in domestic and international research initiatives. This included contributing to the BIS Financial Stability Institute study on resolution-related cross-border cooperative arrangements, providing detailed work for the IMF Balance of Payments and Securities Held as Foreign Exchange Reserves, compiling quarterly Locational Banking Statistics data for the BIS and aggregating the Economic Activity Survey data for the Bermuda Department of Statistics.

Financial Technology (FinTech)

In January 2019, the Authority joined GFIN, a group of 50 international organisations committed to supporting financial innovation in the interests of consumers. GFIN seeks to provide an efficient way for innovative firms to interact with regulators, including a cross-border pilot for firms wishing to test innovative products, services or business models across more than one jurisdiction. GFIN also provides a forum for joint RegTech work and collaborative knowledge sharing.

Over the course of 2019, the Authority continued its development of the regulatory framework for DABs introduced in 2018 (see further details in section 2. Legislative Developments).

In addition, considering the importance of ensuring consistent standards are applied to safeguard client assets, the Authority published a Digital Asset Custody Code of Practice. The Code prescribes business and technical controls applicable to custody safekeeping, transactions handling and operations control.

1 REGULATORY DEVELOPMENTS

Insurance

Continued Implementation of Enhanced Commercial Regime

The Authority continues to ensure Bermuda's regulatory framework keeps pace with evolving international standards. In this regard, in 2019 the BMA engaged with the NAIC, EIOPA and OECD.

The Authority continued to ensure Bermuda's capital requirements were aligned with best practices of similar solvency regimes through measures of robustness, risk-sensitivity, sophistication and comparability. The previously published (July 2018) changes to the Bermuda Solvency Capital Return (BSCR) came into force in January 2019. The BMA made minor changes in 2019, primarily expanding the list of allowed rating agencies for the BSCR calculation.

New Insurance Classes

Bermuda has been at the forefront of providing innovative solutions in the (re)insurance, ILS and captive markets. It is to this end that the Authority, after public consultation, introduced two new Limited Purpose Insurer (LPI) classes—a fully collateralized reinsurer class (Collateralized Insurers) and an innovation class (Class IIGB). The new classes were legislated via amendments to the Insurance Act in August 2019.

The evolving sophistication of ILS capital drove the need to introduce the Collateralized Insurer class; in this regard, this new insurance class is designed to complement the existing SPI class by capturing more complex ILS structures whose risk profiles exceed the SPI class.

The IIGB class will be for innovative business models utilising digital assets.

As LPIs, the new classes meet the international insurance regulatory standards adopted by the IAIS. They do not fall within Bermuda's Solvency II equivalent commercial (re)insurance framework. The BMA also completed public consultations for the new Insurance and Intermediary classes' Supporting Rules, particularly the Annual Return and Accounts and Solvency Rules. The Rules became effective January 2020.

Insurance Intermediaries

An Insurance Brokers and Agents Code of Conduct (Code) issued in early 2019 established duties, requirements and standards to be complied with by registered Insurance Brokers and Insurance Agents.

The Authority introduced a new category of intermediary – Insurance Marketplace Provider – to cater for the growing interest in the establishment of InsurTech-related insurance marketplaces.

In addition, an Insurance Marketplace Code of Conduct was also published with an established deadline for compliance of 1 January 2021. Insurance Marketplace Code will assist the Authority in providing appropriate, effective and efficient supervision, and regulation of Insurance Marketplaces. It establishes duties, requirements and standards to be complied with by the registered Insurance Marketplace, including the procedures and practices to be observed by such persons.

InsurTech Regulatory Regime

In the past year, the Authority maintained its focus on and expanded its understanding of the role disruptive technological innovation plays in the (re)insurance sector.

Having established and issued the related Guidance Note in 2018, the two parallel innovation tracks - Insurance Regulatory Sandbox (Sandbox) and Innovation Hub (Hub) - became the Authority's focus in 2019, and was geared towards training market participants on the Sandbox and Hub framework and supervision.

Until the end of their respective trial periods, supervisory engagement with the two companies in the Sandbox and Hub is ongoing.

Special Purpose Insurers (SPI)

There were two main SPI focuses in 2019. The first was the revision to the Guidance Note issued in October 2009. The second was the simplification of the Annual Returns filing cycle for SPIs, by removing the need for filing requirement modifications in sections 15 through 18 of the Act.

The revised Guidance Note is designed to address and clarify the Authority's expectations of market trends and practices that have evolved since the establishment of the SPI regime 10 years ago. A public consultation of the updated Guidance Note and the Special Purpose Insurer Accounts, Returns and Solvency Rules 2019 (Rules) was made – with the revised Guidance Note and Rules coming into effect on 1 July 2020.

Alternative Capital Schedule

In 2019, the Authority published a Consultation Paper to formally legislate the requirement for general business insurers to submit an Alternative Capital Schedule if they are funded by alternative capital arrangements. The amendments do not represent a fundamental change in the filing requirements for these insurers. Rather, the Schedule collects essential alternative risk transfer data needed to assist the Authority in maintaining a prudent supervisory regime for this rapidly growing sector. In addition, the information provides the Authority with the ability to produce valuable aggregate statistics published for market consumption.

Technology Risk

The frequency and sophistication of cyber threats is increasing, with perpetrators continually refining their efforts to compromise information systems and networks worldwide. The Authority observes that a key driver of this trend is the increasing usage of technology for operational efficiency and improved customer service, and expects this critical risk to be managed as part of (re)insurers' enterprise risk management processes.

2019 saw further headway in the development of a framework to address the supervision of technology risk, including cyber risk. Some of the progress of note includes:

- Further enhancements to the cyber risk reporting schedule in the Commercial Insurer Capital and Solvency Return (CSR) filing
- Development of cyber risk profiles for each registrant in the insurance sector, based on the assessment of the data received from the 2018 year-end returns; the Authority will be utilising developed risk profiles to prioritise high-risk registrants from a technology risk perspective and subject them to deep dive on-site reviews
- An on-site review guide was prepared and will assist the supervisors in assessing cyber and technology risks of regulated insurance entities, including insurance managers
- Building capacity through hiring cyber risk specialists, as well as encouraging IT risk training (e.g. Information Systems Audit and Control Association's entry-level Cyber Security Audit training) of front line supervisors from various departments

The developments noted above are being expanded to cover all financial services that the BMA regulates in Bermuda, which will allow broader market information and thematic assessments of the technology risk posture of licensed entities.

In December 2019, the Authority issued for public consultation an Insurance Sector Operational Cyber Risk Management Code of Practice. The Code establishes duties, requirements, minimum standards, procedures and principles to be complied with regarding operational cyber risk management. The Code will be effective 1 January 2021, with enforcement beginning 1 July 2021. During the first six months, the Authority will provide any guidance required to help registrants comply.

Finally, the Authority proposed an update to the Insurance Act to mandate reporting requirements for material cyber reporting events. This requirement is expected to come into force in June 2020.

Cyber Underwriting

The global (re)insurance market has entered uncharted cyber underwriting territory. Due to rising cyber risks, the market is rapidly expanding. Alongside growth in this new line of business, the Authority continued to enhance its reporting requirements within commercial (re)insurers' CSR filings. In their year-end filing, registrants are required to provide cyber underwriting data and estimated cyber aggregate exposure.

Incorporated Segregated Account Companies (ISAC) and Segregated Account Companies (SAC)

The Authority continued discussions with industry groups regarding the proposed changes to the SAC supervisory regime, considerations for an all-in-one structure that can act as both (re)insurer and ILS fund, as well as the reporting and regulatory framework for ISAC. The Authority analysed the data obtained from the enhanced SAC schedule reported as part of the 31 December 2018 statutory filings for both LPIs and commercial insurers. Based on this data, a consultation paper will be issued in 2020 that will focus on the aforementioned elements, particularly a reporting and capital framework for segregated account companies.

Publications

The Authority published various papers in 2019, such as:

- Review of Bermuda Insurers' Solvency Self-Assessment Report
- Bermuda Insurance Sector Operational Cyber Risk Management Report
- Bermuda Cyber Underwriting Report
- Catastrophe Risk Report
- Macroprudential Risk Report

International Affairs

2019 was a productive year for the BMA as it continued to engage with numerous international bodies and regulators on a myriad of regulatory initiatives. During the year, the Authority both welcomed its overseas regulatory counterparts to the island for various meetings, as well as participated in critical conversations and fora in other jurisdictions.

In May, the BMA attended the IOSCO annual meeting. Discussions were focused on: crypto-assets; FinTech; sustainability; data privacy; market fragmentation; asset management and retail distribution; and digitalisation.

In June, members of the BMA formed part of the Bermuda contingent that attended the OECD Forum on Harmful Tax Practices (FHTP) meeting in Paris to defend Bermuda's economic substance legislative framework.

The BMA also had its annual bilateral meeting with the NAIC Executive Committee at the Summer National Meeting in August 2019. The meeting covered several areas, including the Qualified/Reciprocal Jurisdiction process, technology and innovation. BMA employees worked with NAIC staff and Qualified Jurisdiction Working Group in renewing Bermuda's Qualified Jurisdiction status and approving Bermuda as a Reciprocal Jurisdiction.

In addition, the Authority had its annual bilateral meeting with the Chair of the EIOPA and his team in November 2019. The BMA discussed the review of Solvency II framework, supervisory developments such as cyber resilience and reporting, sustainability and climate change initiatives, and further strengthening supervisory cooperation between the BMA and the EU regulatory authorities.

As a globally prominent supervisor, the BMA continues to actively participate and exercise its leadership role in various committees at the IAIS. The BMA has been involved with significant initiatives such as International Capital Standard (ICS), Capital Solvency and Field Testing, Insurance Core Principles (ICPs) revisions and Macroprudential Policy (Global Insurance Market Report). The Authority also participates in the Group of International Insurance Centre Supervisors (GIICS) and was recently appointed to the IAIS Executive Committee.

In addition to the above, the Authority participated in the following regulatory meetings in 2019:

Insurance:

- IAIS Resolution Working Group, Washington D.C., 23-24 January; Rome, 3-4 April; Basel, 10-11 September
- IAIS Policy Development Committee, Basel, 25 February and 17 September; Buenos Aires, 10 June; Abu Dhabi, 11 November
- IAIS Implementation and Assessment Committee, Basel, 26 February; Buenos Aires, 11 June; Abu Dhabi, 12 November
- IAIS Insurance Capital Standard Task Force, Basel, 27 February; Buenos Aires, 11 June
- IAIS Executive Committee, Basel, 27 February; Buenos Aires, 12 June; Abu Dhabi, 14 November
- EIOPA Bilateral Meetings, Basel, 27 February; Abu Dhabi, 14 November
- IAIS Financial Crime Task Force, Amsterdam, 9-10 March
- IAIS Capital Solvency and Field Test Working Group, China, 12-15 March; Singapore, 14-17 May; Quebec, 10-13 September
- NAIC, Orlando, Florida, 6-9 April; New York, 3-5 August; Austin, Texas, 6-9 December; Bilateral Meeting, New York, 6 August
- Florida Office of Insurance Bilateral Meetings, Orlando, Florida, 7 April and Austin, Texas, 8 December
- IAIS Supervisory Forum, Bermuda, 16-17 April
- IAIS Accounting and Auditing Working Group, Washington D.C., 21-22 May
- IAIS Global Seminar, Buenos Aires, 13-14 June
- Group of International Insurance Centre Supervisors (GIICS), London, 9-10 July
- EIOPA Conference on Global Insurance Supervision, Frankfurt, 4-5 September
- OECD, Insurance and Private Pension Committee, Paris, 4-6 December
- Illinois Department of Insurance Bilateral Meeting, Austin, Texas, 7 December
- IAIS Resolution Working Group, Washington D.C., 23-24 January; Rome, 3-4 April; Basel, 10-11 September

Banking:

- Group of International Finance Centre Supervisors (GIFCS) Plenary Meeting, London, 22-26 April
- World Bank Conference, Washington DC, 5-9 June
- Supervisory College Bank of England, London, 1 July
- GIFCS Plenary Meeting, Cayman Islands, 5-6 November

TCSP

- TCSP Regulatory College, UK, 21 October

Investment:

- TCSP Regulatory College, UK, 21 October
- IOSCO Annual Meeting, Sydney, 13-15 May
- Caribbean Group of Securities Regulators (CGSR) Annual Conference and Workshop, Bahamas, 13–14 June
- Commodity Futures Trading Commission Annual Symposium for International Market Authorities, Washington DC, 22-25 October

AML/ATF:

- FATF Plenary, Paris, 20-22 February

Financial Stability:

- Financial Stability Board (FSB) Regional Consultative Group for the Americas Non-Bank Financial Intermediation Working Group, Mexico City, 10-11 December

FinTech/DAB:

- OECD Global Blockchain Policy Forum, Paris, 12-13 September

LEGISLATIVE DEVELOPMENTS

2 LEGISLATIVE DEVELOPMENTS

Throughout 2019, key legislative amendments were made across most sectors to continue strengthening Bermuda's position in meeting international regulatory standards:

- **AML/ATF** – Compared to the significant changes enacted in 2018, which were the culmination of a programme of legislative enhancements from preceding years to ensure alignment with FATF's 40 recommendations, 2019 was a relatively quiet year for legislative change relating to AML/ATF:
    - Two main areas were addressed – the first was to extend existing disciplinary measures/penalties that can be imposed by supervisors on their supervised entities to include breaches of obligations in relation to international sanctions; the second was to ensure that closed-ended funds were fully incorporated into the AML/ATF regime (see Investment Funds Legislation below)
    - The Authority also initiated a full revision of AML/ATF Guidance Notes, which will be completed in the first half of 2020

- **Insurance (Prudential Standards) (Insurance Managers Annual Return) Amendment Rules 2019 and Insurance (Prudential Standards) (Insurance Brokers and Agents Annual Return) Amendment Rules 2019 (Rules)** – The amendments made provision for or clarified information required to be filed annually by insurance managers, agents and brokers regarding, inter alia, the implementation of processes and procedures relating to cyber risk management, AML/ATF requirements and Bermuda's sanctions regime obligations:
    - Other housekeeping amendments were made to clarify matters on certain information required in Schedule I (Annual Return) of the Rules
    - Technical amendments were also made to existing Schedules II (Cyber Risk Management), III (AML/ATF) and IV (Sanctions) concerning insurance manager filing requirements, ensuring the obligations imposed on this sector were consistent with those imposed on agents and brokers
    - Consultation with industry concluded in 2018 and the Rules became effective on 30 May 2019

- **Fund Administration Provider Business Act 2019 (FAA)** – The FAA, which the Authority committed to enacting in the 2018 Business Plan, was proposed to embed a separate supervisory framework for the regulation and supervision of fund administrators in Bermuda:
    - Previously, matters relating to the requirement for the issuance of a Code of Conduct by the Authority, the issuance of a Statement of Principles, and the manner in which the BMA traditionally oversees and regulates supervised sectors, was not applied to such financial institutions
    - Therefore, the FAA now introduces and imposes on fund administrators, similar supervisory requirements to those already in place for other regulated financial institutions
    - Additionally, it extends the Authority's well-known supervisory and enforcement 'tool kit' to such entities
    - This new regime provides greater clarity and consistency surrounding how the Authority regulates and supervises fund administration business in Bermuda; the FAA was built upon a foundation of provisions from Part III of the existing Investment Funds Act 2006, with new provisions and enhancements to facilitate a supervisory and regulatory approach that is fit for purpose
    - The following key areas were modified:
        - Carrying on fund administration business in or from within Bermuda
        - Safekeeping of client assets
        - Licensing minimum criteria
        - Outsourcing
    - The following new provisions were included:
        - Statement of Principles
        - Reporting Requirements
    - Assent to the FAA was provided on 5 August 2019 and became operative 31 December 2019

- **Money Service Business Order 2019 (Order)** – The Authority requested an Order to be made by the Minister of Finance to amend Schedule 1 "Minimum Criteria for Licensing" to the Money Services Business Act 2016:
  - o The Authority proposed (via the Order) to require all money services businesses to hold insurance cover relevant to the nature and scale of the licensed business to be conducted
  - o The Order was made on 5 August 2019 by the Minister of Finance and became operable on 6 August 2019

- **Trusts (Regulation of Trust Business) Act 2001 (Trust) and Corporate Service Provider Business Act 2012 (CSP)** The Trust and CSP Acts were proposed to be amended to ensure that Bermuda's supervisory frameworks for Trust and CSP business met expected international standards and practices:
  - o In this connection, the Group of International Finance Centre Supervisors (GIFCS), of which the BMA is a "competent authority", issued a Best Practice Statement almost 20 years ago which has been continually updated to ensure that Trusts and CSP sectors worldwide are robustly supervised
  - o Following an internal review of Bermuda's framework vis-a-vis the latest GFICS standards, the CSP and Trust Acts were amended to make provision for: the requirement of a physical presence in Bermuda; the segregation of client monies from operating funds; powers to be exercised by the Authority to restrict a proposed surrender of licence; the making of rules prescribing statutory returns; and the modification of prudential standards for reporting
  - o In addition, specifically to Trusts, the amendment created a requirement to maintain adequate liquidity
  - o Assent was provided on 5 August 2019 and both Acts, alongside their respective Codes of Practice and Statements of Principles, became effective 31 December 2019

- **Insurance Prudential Standard Rules (Rules)** – Bermuda's Attorney General's Chambers assisted the Authority with the review of new technical measures to be implemented via the Rules and applied to Class 3A, 3B, 4 and C, D and E (re)insurers:
  - o Drafts of all such Rules were posted on the Authority's website for a six-month period, as required by the Insurance Act 1978, in order to be implemented and imposed on the applicable commercial insurer classes in 2020

- **Bermuda Monetary Authority Amendment Act 2019 (Fees Bill)** – The Bermuda Monetary Authority Act 1969 was amended to address revision to the Fourth Schedule to:
  - o Introduce a new fee structure (bands) to be imposed on CSPs, which will allow for such entities to pay fees that are aligned with the proportionality of the business risk they undertake
  - o Make provision regarding errors or omissions in the existing licensee fees
  - o Introduce fees for an innovation hub to be administered by the Authority; the Fees Bill became operable on 31 December 2019

- **Corporate Service Provider Business Exemption Amendment Order 2019 and Trust (Regulation of Trust Business) Exemption Amendment Order 2019** – In general, the BMA sought to further confirm persons seeking to utilise the exemptions frameworks arising under the Corporate Service Provider Business Exemption Order 2015 and the Trusts (Regulation of Trust Business) Exemption Order 2002 (Orders):
  - o In line with international standards and practices promulgated by international bodies such as the GIFCS, the Authority proposed to require exempted persons utilising the Orders to annually declare to the Authority that such exemptions continue to apply
  - o This "notification mechanism" shall enable the Authority to make determinations to require licensing or impose penalties where it is of the view that such persons are carrying on business under the Trusts and Corporate Service Provider Business regimes without a licence
  - o The Orders came into force on 31 December 2019; amendments to the Trusts (Regulation of Trust Business) Act 2001 and the Corporate Service Provider Business Act 2012 on 5 August 2019 became operative on 31 December 2019

- **Digital Asset Business Amendment Act 2019** – Over the course of 2019, the Authority continued its development of the regulatory framework for digital asset businesses introduced in 2018 as follows:
  - o The Digital Asset Business Act 2018 (DABA) was amended on 8 October 2019 by Parliament to, amongst other things, close supervisory gaps and ensure the Authority has the ability to appropriately licence persons seeking to carry on DAB in Bermuda
  - o Therefore, proposals were made to expand licensing activities to include persons operating or conducting the activities of a "digital asset benchmark administrator"; "digital asset derivative exchange"; and "digital asset trust services". Amendments also included the insertion of clarifying definitions of "administration and management of a digital asset", "digital asset benchmark" and "digital asset derivative". Enhancements were made to the existing activity of "exchanges" under DABA, which will now be noted as "digital asset exchanges"
  - o The Authority currently publishes information about such licencees; it proposed to increase its transparency by listing additional information on its website concerning the class of licensees approved, the activity to be carried on and the expiration of any licence; further minor technical (housekeeping) measures were also adopted
  - o Relevant fees will be charged for the undertaking of the new activities and the Fourth Schedule to the Bermuda Monetary Authority Act 1969 was consequentially amended accordingly
  - o In addition, considering the importance of ensuring consistent standards are applied to safeguard client assets, the Authority published a Digital Asset Custody Code of Practice; the Code prescribes business and technical controls applicable to custody safekeeping, transactions handling and operations control

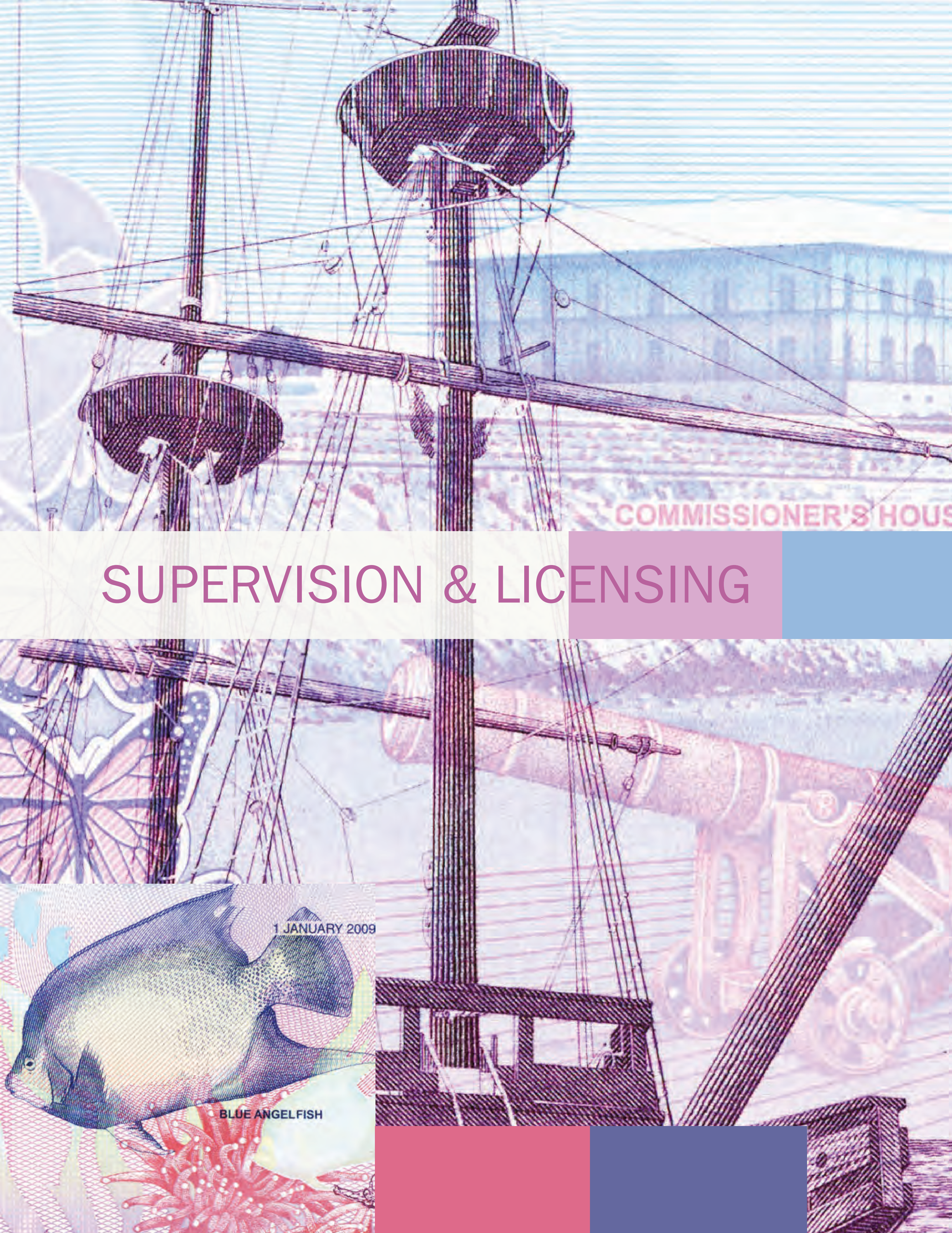
- **Insurance Amendment Act 2019** – Amendments to the Insurance Act 1978 were proposed by the Authority to:
  - o Adjust an insurer's total statutory capital, and for an insurer or designated insurer to apply to adjust its available statutory economic capital and surplus
  - o Grant an insurer the right of appeal to a tribunal if that insurer is aggrieved by a decision of the Authority, to adjust that insurer's total statutory capital and surplus, and available statutory economic capital and surplus
  - o Allow for minor housekeeping amendments to be made, coming into force on of 31 December 2019

- **Insurance Returns and Solvency Regulations 1980 and the Insurance Accounts Regulations 1980 (Regulations)** – The Regulations were amended as of 31 December 2019 by Parliament (except where noted under law) to revoke provisions relating to SPIs and to require information to be filed with the Authority by insurers who are funded by alternative capital arrangements
  - o The Authority proposes to introduce technical Rules to apply to such insurers in 2020

- **Investment Funds Legislation** – The Authority proposed revisions to the Investment Funds Act 2006 (Act), and related regulations and rules, which were passed by Parliament in December 2019; the Investment Funds Amendment Act 2019 proposed the following:
  - o To provide enhanced supervisory and regulatory requirements to apply to registered, authorised or designated investment funds that operate segregated accounts
  - o Designation requirements for overseas investment funds that are managed or carry on promotion in or from within Bermuda
  - o Classification requirements for Professional Closed Funds; enhanced supervisory and regulatory requirements to apply to "closed-ended funds"
  - o To provide for the enhancement of fit and proper requirements, coming into force on 1 January 2020

- **Investment Funds (Definition) Order 2019** – This clarifies when arrangements are not to be defined as "investment funds" under the Act:
  - o The Investment Fund Rules 2019, which replaced the (now repealed) Fund Rules 2007 and the Investment Fund Offering Document Rules 2019, which replaced the (now repealed) Fund Prospectus Rules 2007, were published in the Official Gazette and came into force on 1 January 2020

SUPERVISION & LICENSING



Anti-Money Laundering/Anti-Terrorist Financing (AML/ATF) Supervision

The Authority is responsible for supervising more than 1,300 licensed or registered entities for AML/ATF purposes. The results of the risk modelling concluded in late 2018 led to prioritised supervision of the CSPs, DABs, Banks, Long-Term Insurers and Insurance Manager sectors in 2019.

The Authority conducted 17 on-site supervisory examinations at regulated financial institutions across all financial sectors, including CSPs, Trust Companies, MSBs, Funds and Investment Businesses. Ongoing close and continuous supervision of MSBs and Banks continued through quarterly meetings, and enhanced oversight of these critical sectors. Ongoing monitoring meetings were also conducted with three DABs.

Additionally, the Authority reviewed 31 applications for licensing and authorisations purposes. This is a significant increase from 2018, driven by CSP, Insurance, Investment Business and Trust applicants, supplemented by significant activity in the DAB sector. The recent implementation of the DAB regime coupled with the "new to regulation" experience of applicants, resulted in significant time and effort being expended on reviewing and working with DAB applicants over the course of the year.

The Authority continued in 2019 to refine its financial sector risk assessment framework and further develop its risk-based approach to supervision, which will inform the 2020 supervisory programme.

Banking Supervision

Asset Quality

Industry's Non-Performing Loans (NPLs) closed the year at $639 million, a decline of 1.8% from the $652 million registered at the close of 2018. NPLs represented 4.3% of gross loans at the end of the year (2018: 5.4%). The industry registered a 16.6% growth in gross loans during the year, with the balance growing from $7.6 billion at the end of 2018 to $8.9 billion at the end of 2019. The credit expansion is largely attributed to the growth in deposit liabilities during the year (note: a total of $454.6 million sovereign investments were classified as loans in 2018 and have now been reclassified to investments. Hence, the 2018 comparative is different from the last reported balance).

Balance Sheet

When consolidated, total industry assets increased by $3.4 billion, representing a 16.3% growth in 2019, closing the year at $24 billion. This change is driven by growth in all asset categories. Loans and advances grew by 17.1% to close at $8.7 billion (2018: $7.5 billion), investments grew 20.4% to close at $10.7 billion (2018: $8.9 billion), cash and deposits grew by 5.2% to close at $3.9 billion (2018: $3.7 billion) and other assets grew 15.1% from $0.6 billion in 2018 to $0.7 billion in 2019.

The balance sheet structure illustrates that investments retained the largest share of total assets at 44.5% (2018: 43.0%), followed by loans at 36.4% (2018: 36.2%). The balance comprises cash and deposits at 16.2% (2018: 17.9%), and other assets at 2.8% (2018: 2.9%).

Deposit liabilities grew by approximately $3.2 billion or 17.9% during the year 2019 to close at $21.3 billion (2018: $18 billion). Demand deposits recorded a 23.8% growth from $8.8 billion in 2018 to $10.8 billion in 2019, while time deposits recorded a 36.1% growth from $3.4 billion to $4.6 billion during the same period.

In terms of allocation, demand deposits accounted for 50.9% (2018: 48.5%) of total deposits, while savings deposits made up 27.3% (2018: 32.6%) and time deposits accounted for 21.7% (2018: 18.8%).

At the end of the year, the industry's other liabilities balance was $596 million, showing a 13% increase from the $527 million recorded at the end of 2018.

Earnings and Profitability

Total industry income for the 2019 year was $894 million, a marginal increase of 0.7% from the $889 million registered in 2018. Over the same 12-month period, operating expenses amounted to $555 million, an increase of 1.6% from the $546 million recorded in 2018. Staff costs accounted for 55.7% (2018: 54.1%) of the total operating expenses.

Net-Interest Income (NII) continues to be the largest component of the industry's income streams with a 2019 NII of $585 million (2018: $606 million), representing 65.4% (2018: 68.2%) of total income for the year. Other banking income during the year amounted to $170 million (2018: $149 million), accounting for 19.0% (2018: 16.8%). Non-banking income for the year amounted to $133 million (2018: $129 million) and accounted for 14.9% (2018: 14.5%), while dividends/other income accounted for less than 1% of total income in both 2019 and 2018.

Aggregate sector profitability fell from $345 million in 2018 to $322 million in 2019 (6.6% decline) as a result of the above movements.

Capital Adequacy

The Risk Asset Ratio (RAR), which measures capital adequacy in the Bermuda banking sector, consistently exceeded minimum requirements as prescribed by the Authority on an annual basis. RAR for the sector was 21.5% at the end of the year compared to 24.1% in the prior year. The aggregated Common Equity Tier 1 (CET1) capital was 20.3% (2018: 22.6%), which exceeds the current minimum requirements. The industry aggregate Basel III leverage ratio is 8.9% (2018: 9.9%) versus the 5% minimum standard.

Risk-weighted assets at end-year 2019 amounted to $9.0 billion, representing a $0.7 billion or 8.8% increase.
Risk-weighted assets density at end-year 2019 was 37.7% (2018: 40.3%).

Credit Union Supervision

Presently, the sole credit union in Bermuda is the B.I.U. Members Credit Union. The Authority continued its ongoing supervision of this entity throughout 2019 in accordance with the provisions of the Credit Unions Act 2010.

Bermuda Stock Exchange (BSX)

The BSX ended 2019 with a total market capitalisation of $332 billion (2018: $351 billion). There were a total of 1,004 securities (2018: 988) listed on the Exchange at the end of the year. The domestic trading volume fell to 3.1 million shares (2018: 3.9 million) valued at $30.6 million (2018: $49.7 million).

The most significant highlight for the Exchange was its controlling interest being acquired by Miami International Holdings in November 2019, with the intention of expanding its platforms, international presence and trading opportunities.

The BSX's reappointment to the Board of the World Federation of Exchanges was another noteworthy achievement.

During 2019, the number of new ILS listings increased by 24% to 155 securities (2018: 125), with the final number of listed ILS standing at 401 and combined nominal value of $34.72 billion. Additionally, 84.6% of the total global ILS market size ($41.0 billion as of 31 December 2019) is listed on the BSX.

Although there was market uncertainty in relation to Brexit in the UK, international debt listings remained steady during the year and the nominal value grew to $8.9 billion (up by 17% year-over-year).

There were no changes in the pattern of de-listings in the year, which are a normal part of the business.

Digital Asset Business (DAB) Supervision

The Authority issued two Class M (modified) licences in 2019 for which the BMA conducts monthly supervision. The monthly supervisory activities cover a range of areas based on the nature, scale and complexity of the business and include: Governance, Risk Management, Cybersecurity, AML/ATF, Capital Structure and Customer Protection.

Enforcement

Outreach and Awareness

Following the publication of the revised "Statement of Principles and Guidance on the Exercise of Enforcement Powers" in September 2018, the Authority conducted nine industry outreach sessions during Q1-2019.

From an Enforcement perspective, attendees were provided with an overview of the newly implemented Statement of Principles which highlighted the following:

- Non-compliance matters would largely be addressed as part of the supervisory function that already existed between the Authority and the regulated entity, as the purpose was to proactively supervise and monitor regulated financial institutions, while maintaining an open and cooperative relationship for a positive outcome, without the need to invoke formal powers
- Supervisors have statutory powers that they may exercise without the need for a referral to Enforcement
- Where necessary, matters would also be referred to the Enforcement Committee for action in circumstances of repeated breaches or where there is risk of harm to customers
- The Statement of Principles' civil penalties table was explained by showing the factors that will be taken into consideration on determining the level of breach relative to the level of civil penalty

Enforcement Actions

On 22 February 2019, the Authority imposed a civil penalty on Colonial Pension Services Ltd (Colonial), a local company licensed under the Investment Business Act 2003 in the amount of $200,000 as a result of a breach of its licence under this Act along with committing multiple breaches of the Investment Business (Client Money) Regulations 2004. Colonial breached several of the Regulations, including:

- An investment provider shall pay all client money which it holds or receives into a client bank account
- Client money and money belonging to the investment provider must be kept separate from one another
- Where an investment provider holds client money, it must either pay it as soon as possible, in any event no later than the next business day

In determining the appropriate level of the civil penalty, the Authority took account of the fact that the Company engaged a local accounting firm to conduct an independent compliance review which assisted it to identify operational weaknesses and provide remediation assistance.

On 9 April 2019, the Authority issued a Public Warning with respect to Mangrove Corporate Services Limited (Mangrove). As part of the Authority's "policing the perimeter' activities, it was discovered that Mangrove was providing Corporate Service Business whilst not being licensed to conduct such business under the Corporate Service Provider Act 2012. This Public Warning was issued following Mangrove's breach of a 'cease and desist' letter issued to it by the Authority.

On 14 June 2019, the Authority imposed a civil penalty on Estera Services (Bermuda) Limited (Estera) totalling $500,000 as a result of Estera's failure to adequately comply within a specified time frame with certain requirements of the Proceeds of Crime (Anti-Money Laundering & Anti-Terrorist Financing) Regulations 2008 (the Regulations), and specifically the regulations relating to the application of Customer Due Diligence and Enhanced Due Diligence, Internal Controls, and Risk Assessment. As noted in the Press Release dated 14 June 2019, in determining the appropriate level of the civil penalties, the Authority took account of the following factors:

- The problems identified during the on-site inspection were 'legacy' issues that arose before the Company was acquired
- The Company's full cooperation during the on-site process
- The Company's agreement to continue the implementation of enhanced controls going forward to ensure continued compliance
- The new controls implemented by the Company during 2017 represent an improvement over previous controls and were implemented at significant cost

After a year of proceedings in Bermuda's Supreme Court, the Authority was successful in obtaining a winding-up order against PDV Insurance Company Ltd. in July 2019 as a result of significant breaches of the Insurance Act 1978.

Policing the Perimeter

The Authority's Policing the Perimeter programme continued through 2019, focusing primarily on the CSP sector. In 2019, fewer Cease and Desist letters were issued to CSPs than in 2018. Of the letters that were issued, one recipient refused to comply which resulted in the Authority publishing a Public Warning as noted above.

The Authority also issued three Cease and Desist letters in the insurance, investment and technology sectors, each of which falsely claimed they were in some way regulated by the Authority.

The Authority this year issued a Cease and Desist letter related to the unauthorised use of its logo.

Insurance Supervision

Overview – Market Results

Through its critical role in Bermuda's formation as a preeminent financial services jurisdiction, the Authority's risk-based regulatory approach continues to be a pragmatic domicile for high calibre businesses. The three new (re)insurance groups registering in 2019 is a testament to this. The BMA acts as a group supervisor when primary operations of the company's group structure are controlled and managed from Bermuda.

In 2019, 69 new insurance entities registered with the BMA. Of these, 58 were (re)insurers and 11 were intermediaries. The new (re)insurer registrations were comprised of 22 (37.9%) captives, 20 (34.5%) SPIs, 15 (25.9%) commercial classes and one (1.7%) registrant in the new collateralized insurer class. The bulk (45) of new (re)insurance registrants underwrite general business exposures, with the remainder (13) underwriting long-term business exposure.

Supervision

The Authority continued with its day-to-day supervisory activities, which included effective and efficient on-site inspections, qualitative and quantitative analysis, and supervisory colleges. Having already introduced the Electronic Statutory Financial Return (e-SFR) for LPIs, the focus in 2019 was to utilise the additional information obtained from those filings to enhance the Authority's risk-based supervision.

3 SUPERVISION & LICENSING

Group Supervision

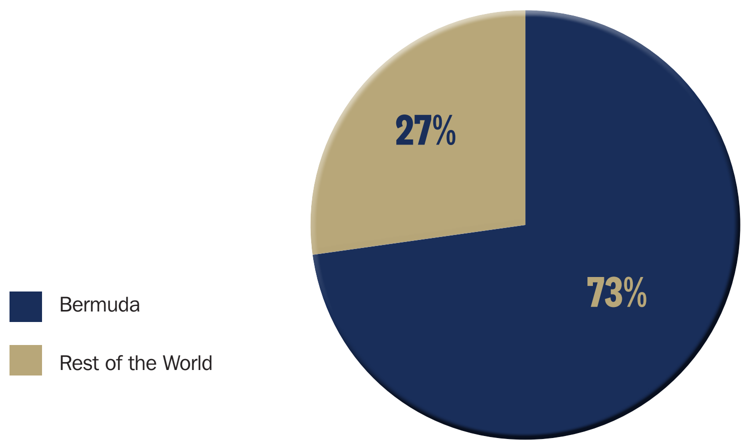
The BMA's 2019 insurance groups supervisory activities included 10 group on-site reviews and 17 supervisory colleges covering groups for which the Authority is group supervisor. Further, the Authority served as host supervisor to an additional 24 colleges. The colleges served as a forum for supervisory plan coordination with overseas regulators for insurance groups with Bermuda-related operations, as well as a setting for the Authority to present and receive detailed analysis. Also in relation to group supervisory colleges, the BMA continued to establish Memoranda of Understanding (MOU) with the pertinent jurisdictions.

Insurance-Linked Securities (ILS)

Since the introduction of the SPI class in 2009, Bermuda has become a significant player in the alternative capital (re)insurance market. Initially, the SPI market was dominated by the catastrophe bond (Cat bond) product. While Cat bond structures continue to represent a significant share of deployed global alternative capital, the market has seen a rise in collateralized (re)insurance structures, which have become the dominant choice of deployment by alternative capital (re)insurers.

Bermuda has continued to see steady growth in its ILS sector, supplementing the significant Cat bond market to become the leading jurisdiction for a complete suite of alternative risk transfer structures.

BERMUDA vs REST OF THE WORLD

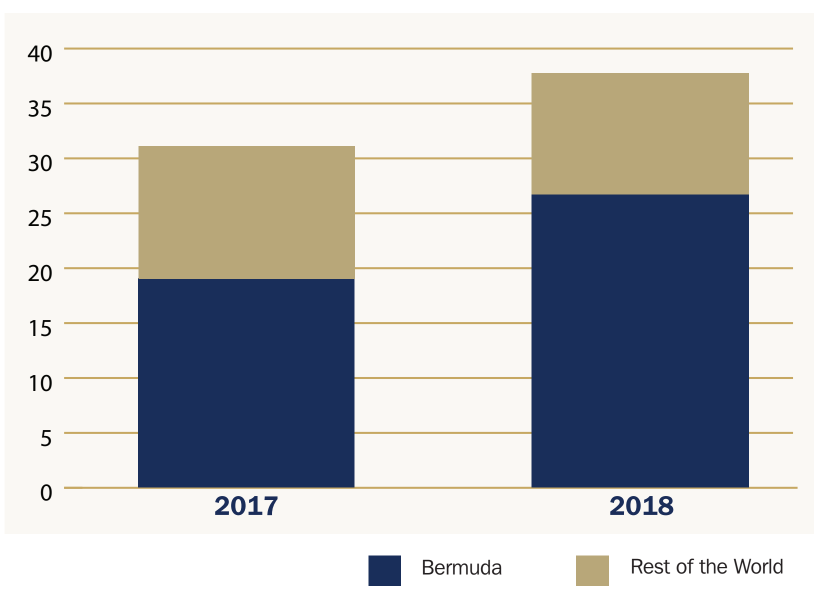


As of year-end 2018, Bermuda alternative capital (re)insurers had an aggregate outstanding exposure of $71 billion, representing approximately 73% of ILS global market share.

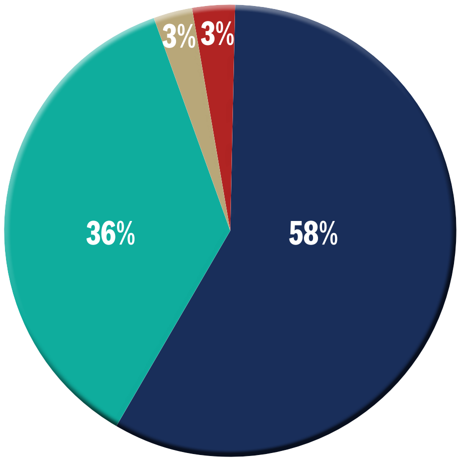
BERMUDA vs REST OF THE WORLD CAT BOND ISSUANCES OUTSTANDING FOR THE YEARS ENDING 2017 & 2018

Market estimates indicate the aggregate Cat bond issuances outstanding at year-end 2018 to be $37.5 billion (2017, $31 billion). Bermuda continues to see steady growth in the Cat bond market and remains the most significant jurisdiction for the issuance of Cat bonds with approximately $26 billion or 70% (2017, $19 billion or 61%) of aggregate exposure outstanding at year-end 2018.

Data sourced by BMA annual alternative capital filings schedules.



BERMUDA ALTERNATIVE CAPITAL STRUCTURES BY AGGREGATE DEPLOYMENT AT YEAR-END 2018



Collateralized (re)insurance structures were the dominant method of deploying capital for Bermuda alternative capital (re)insurers with $41 billion of exposure outstanding at year-end 2018, representing 58% of total Bermuda market exposure.

SUMMARY OF SUPERVISORY ACTIVITY ACROSS SECTORS FOR 2019

Sector	Focus of supervisory activity	Supervisory activity
All sectors: AML/ATF	• Risk-based approach to AML/ATF supervision underpinned by the output of the National Risk Assessment • Compliance of AML/ATF regulated entities assessed under the AML legislation • Regular supervisory meetings including with the banking sector, other financial sectors and industry groups • Ongoing remediation programmes across a number of regulated financial institutions • Ongoing review of licence applications from the AML/ATF perspective • Met with regulated entities regarding AML/ATF legislative updates, the Mutual Evaluation, Enforcement, Sanctions and DABs in February and supported an ACAMS event in October • Further developed Risk-Based Modelling for AML/ATF Supervision • Delivery of the Year Two components of the three-year strategic plan (2017-2020) and refresh of the strategy to address the 2019-2021 years	Examinations guided by the risk-based approach included: • 17 on-site examinations o Two for Fund Administrators o Two for Insurance Managers o Three for Investment Businesses o Two for Long-Term Insurers o Two for Money Service Businesses o One for Trust companies o Five for Corporate Service Providers • Ongoing close and continuous supervision of the MSBs, Banks and DABs • Ongoing remediation of regulated entities

SUMMARY OF SUPERVISORY ACTIVITY ACROSS SECTORS FOR 2019 CONTINUED

Sector	Focus of supervisory activity	Supervisory activity
Insurance	• **Commercial:** On-site inspections focused on risk management, corporate governance and capital adequacy • **Captive:** Supervision continued	• 54 solo on-sites • Nine Insurance Manager on-sites
Banking	• Pillar II supervisory reviews of all licensed banks based on their submission of Capital Assessment and Risk Profile reports • On-site reviews of full banking group operations on a rotational basis	• Two on-site reviews
Trust	• On-site inspections focused on corporate governance, enterprise risk and compliance with the Trusts (Regulation of Trust Business) Act 2001 and the Code of Practice	• Seven on-site reviews • One thematic review – Cybersecurity
Corporate Service Provider Business	• Reviewing all licensing applications for compliance with the Corporate Service Provider Business Act 2012, Code of Practice and Corporate Governance Policy	• 16 on-site reviews • One thematic review - Cybersecurity
Investment Business	• On-site inspections focused on corporate governance, enterprise risk and compliance with the Investment Business Act 2003, General Business Conduct and Practice – Code of Conduct and Advertising Code of Conduct • Assessing the ongoing financial viability of the firms	• 11 On-site reviews • One thematic review - Cybersecurity
Fund Administration	• On-site inspections focused on corporate governance, enterprise risk and compliance with the Investment Funds Act 2006 and the Code of Conduct for Fund Administrators	• Eight on-site reviews • One thematic review – Cyber security
Credit Union	• Off-site review assessing compliance with the requirements of the legislation	• Ongoing
Money Service Business	• Off-site reviews assessing compliance with the requirements of the legislation	• Ongoing
Stock Exchange	• Stock Exchanges are financial institutions within the meaning of the Bermuda Monetary Act 1969 and are subject to supervision, regulation and inspection	• One desk review • One Prudential Meeting

FORMAL USE OF POWERS IN 2019

Banking and Deposit Companies Act 1999

Section	Provision	Use in 2019
35	Notification of change of director, controller or senior executive	35 notifications received; Authority conducted the appropriate vetting
25	Notification of new or increased control	One notification received; pending approval
42	Investigation	Zero notices issued

Trusts (Regulation of Trust Business) Act 2001

Section	Provision	Use in 2019
24	Notification of new or increased control	Two notifications received
34	Notification of change of controller or officer	53 notifications received; Authority conducted the appropriate vetting
28A and 33B	Warning & Decision	One issued

Investment Business Act 2003

Section	Provision	Use in 2019
28	Notification of new or increased control	One notification received; no objections provided
43	Notification of change of controller or officer	66 notifications received; Authority conducted the appropriate vetting
52A (1) and 52B(1)	Warning	Zero issued

Investment Funds Act 2006 – Fund Administrators

Section	Provision	Use in 2019
45A	Notification of new or increased control	Three notifications received; no objections provided
46	Notification of change of director, senior executive and controller	35 notifications received; Authority conducted the appropriate vetting

Corporate Service Provider Business Act 2012

Section	Provision	Use in 2019
22	Notification of new or increased control	Seven notifications received; no objection provided
45	Notification of change of director, senior executive and controller	125 notifications received; Authority conducted the appropriate vetting

LICENSING

The Authority reviewed 94 licensing applications in 2019 - 76 insurance-related applications, 10 BTCSI licensing applications and eight DAB licensing applications.

Insurance licensing applications

Of the 76 insurance-related licensing applications, 67 were approved, five were deferred and four were withdrawn. Of the successful applications, 25 were for general business insurers ranging from Class 1 to Class 4, and one Collateralized Insurer; 10 were for Long-Term business insurers ranging from Class A to Class E; and 22 were for Special Purpose Insurers (SPIs). The remaining 10 insurance-related approvals were for insurance intermediaries, inclusive of managers, brokers and agents, and one Innovative Intermediary.

Banking, trust and investment applications

One Trust Business, one Investment Business and seven limited Corporate Service Provider (CSP) licences were issued in 2019. One CSP application was declined.

Digital Asset Business (DAB) applications

During 2019, the BMA reviewed eight DAB licence applications. Of the eight applications, five were approved and three were deferred.

Summary - Approved Applications

Class 1	6
Class 2	7
Class 3	3
Class 3A	6
Class 3B	1
Class 4	0
Collateralized Insurer	1
Class A	2
Class B	1
Class C	5
Class D	0
Class E	2
Special Purpose Insurer	22
Insurance Manager	2
Insurance Broker	3
Insurance Agent	4
Innovative Intermediary	1
Trust Company	1
Investment Business	1
DAB	5
Limited CSP	7
Total	**80**

SUMMARY OF BTCSI–RELATED LICENSEE STATUS AS AT YEAR END

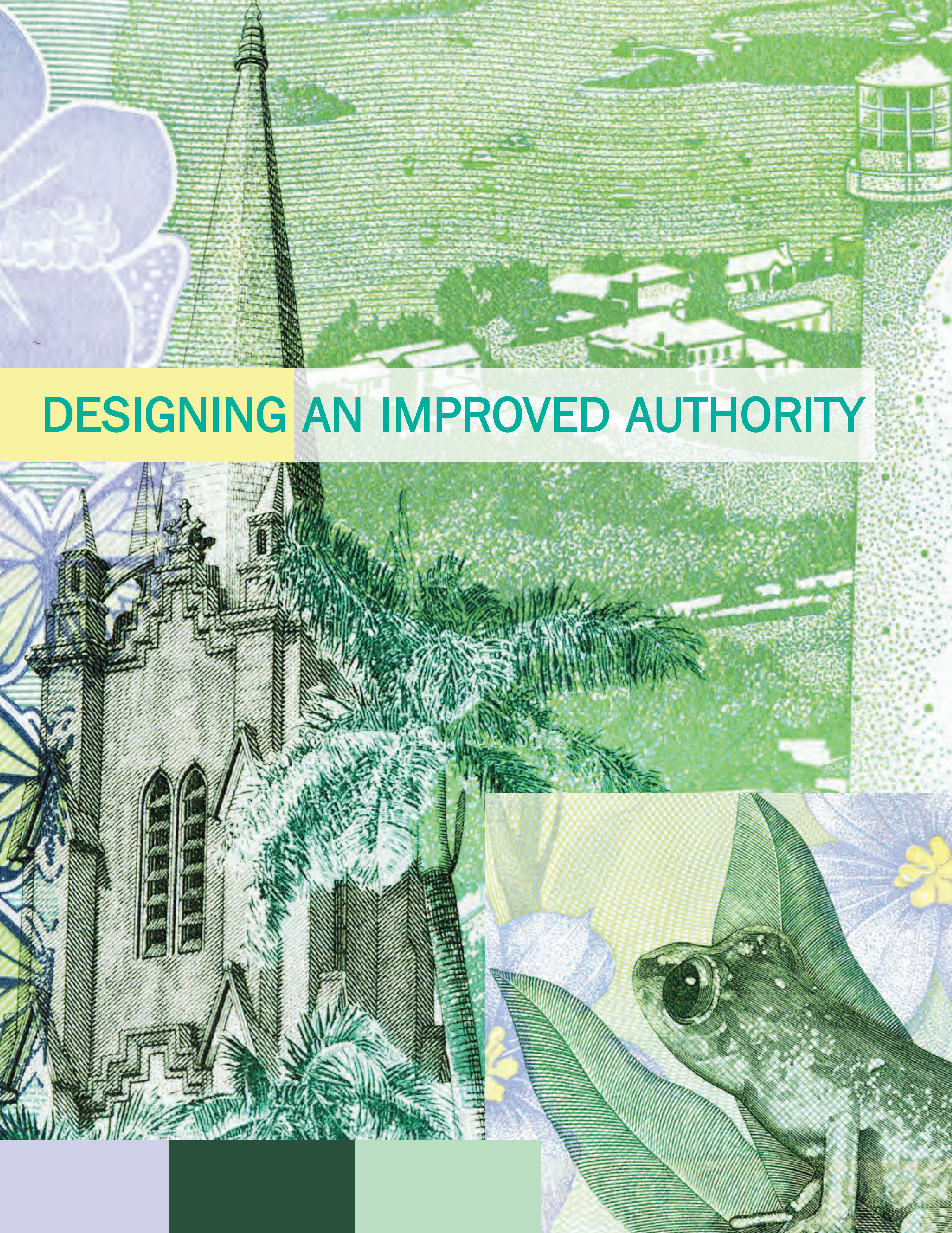
Sector	Licensing Activity
Banking	Total licensees at end of the year: four (No change from 2018)
Trust	Total licensees at end of the year: 28 (27 in 2018) Licences surrendered: Zero (One in 2018) New licences issued: One (Zero in 2018) New Private Trust Companies: 12 (11 in 2018)
Investment Business	Total licensees at end of the year: 52 (55 in 2018) Licences surrendered: Four (Zero in 2018) New licences issued: One (Three in 2018) Declined Licence: Zero (Zero in 2018)
Fund Administration	Total licensees at end of the year: 26 (28 in 2018) Licences surrendered: Two (Two in 2018) New licenses issued: Zero (One in 2018)
Corporate Service Provider Business	Total licensees at end of the year: 95 (92 in 2018) Licences surrendered: Four (Three in 2018) New limited licences issued: Seven (33 in 2018) New unlimited licences issued: Zero (Zero in 2018) Declined Licence: One (Two in 2018)
Credit Union	Total at end of the year: One (No change from 2018)
Money Service Business	Total licensees at end of the year: Three (No change from 2018) New licences issued: Zero (One in 2018)
Stock Exchanges	Total at end of the year: One (No change from 2018)

COMPANIES, PARTNERSHIPS AND PERMITS STATISTICS

	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4
Companies*	213	131	83	130	158	207
Exempted Partnerships (partnerships established in Bermuda to carry on business in or from within Bermuda)	24	87	102	126	27	43
Overseas Partnerships (overseas partnerships applying for permits to carry on business in or from within Bermuda)	0	1	0	0	0	0
Overseas Permit Companies (overseas companies applying for permits to carry on business in or from within Bermuda)	2	8	5	4	1	1
Total Applications Approved	**239**	**227**	**190**	**260**	**186**	**251**

*Companies includes – Continuations into Bermuda, Exempted, Exempted Limited by Guarantee, Local (including 60/40), Local limited by Guarantee and LLCs.

DESIGNING AN IMPROVED AUTHORITY



Information Technology (IT)

IT milestones accomplished in 2019 have positioned the Authority to successfully complete its Vision 20/20 IT Strategy. This strategy, by uniting people, processes and technology, empowers the BMA in its business vision of providing "effective and efficient supervision and regulation."

The 2019 IT achievements included:

Phase II Launch of INTEGRA®

In 2019, the Authority launched Phase II of its multiyear, multiphase project to implement INTEGRA®. The innovative financial regulatory system will strengthen the Authority's entire supervisory lifecycle with effective data collection, data quality controls, reporting and accurate analysis. During the second phase of INTEGRA®, the banking module of the system was deployed, satisfying a requirement to ensure all 2019 submissions were pre-populated in INTEGRA® prior to industry users gaining access at end-November 2019. The BMA is currently reviewing its performance through a 'lessons learned' process, a crucial step in improving performance as the next phase of the project commences.

New BMA Website

The Authority's online presence was improved in 2019 with the launch of a newly-designed website (www.bma.bm). This mobile-optimised platform was well received by industry, providing a user-friendly and intuitive experience through streamlined and simplified features, and functionalities.

Infrastructure Enhancements

To ensure the Authority's infrastructure remains fit-for-purpose, the Authority successfully executed technology enhancements and improvements in the following areas in 2019:

- End-user computing
- Network infrastructure
- Data security infrastructure

Learning and Development

In 2019, the Authority maintained its commitment to the promotion of a culture supporting continual learning and staff development, with a particular focus on its leadership development programmes, succession planning initiatives and technical training curriculum. Using a progressive yet balanced approach, the Authority offered a number of developmental sessions using mixed modalities to ensure key classes were available to staff in formats best suited to their learning style.

The Authority's comprehensive suite of leadership training options are designed to support the ongoing development of middle and senior managers in the areas of coaching, performance management and leadership effectiveness. This past year, the curriculum was extended to the Senior Analyst level to support readiness for progression within the organisation.

Innovation and foresight have also resulted in the curriculum's expansion to offer a number of technical sessions using a virtual classroom. These advances have provided key cost savings, while at the same time allowing the BMA to support its continued need for increased technical learning and development.

Project Management Office (PMO)

As defined in its Charter, the PMO ensures there is one simple, scalable and consistent approach to managing programmes and projects throughout the BMA. It supports the Authority in managing all of its change initiatives, with a focus on those involving multiple business teams. The PMO also provides assurance to the BMA's leadership by tracking all projects and initiatives to safeguard a singular, clear and consistent view of how projects and change initiatives fit together into the overall portfolio.

In 2019, the PMO managed and completed a number of projects, including:

- INTEGRA® - (Phase II - Banking)
- BMA website upgrade
- Microsoft Office 2016 rollout
- Non-Licensed Person (NLP) system implementation
- AML/ATF-related projects

Whilst the Authority's project/programme delivery, work planning and enhancement provisioning remains strong, the PMO is continually looking to enhance its service offering to respond swiftly to new challenges and changing business environments.

BMA MANAGEMENT TEAM *(as at 31 December 2019)*

Jeremy Cox	Executive Chair
Supervision	
Craig Swan	Managing Director, Supervision (Insurance)
Marcia Woolridge-Allwood	Senior Advisor, Banking, Trust, Corporate Services & Investment
Moad Fahmi	Senior Advisor, Supervision (Financial Technology)
Ricardo Garcia	Chief Actuary, Supervision (Actuarial Services)
Chris Brown	Deputy Director, AML/ATF
Mellisa Burgess	Deputy Director, Licensing & Authorisations
Eric Donkoh	Deputy Director, Supervision (Insurance)
Jeferino dos Santos	Deputy Director, Supervision (Actuarial Services)
Gerald Gakundi	Deputy Director, Supervision (Insurance)
Moses Muoki	Deputy Director, Supervision (Insurance)
Gary Thomas	Deputy Director, Supervision (Actuarial Services)
Legal Services & Enforcement	
Shauna MacKenzie	Senior Advisor, Legal Services & Enforcement
Michael Burns	Director, Legal Services & Enforcement
Dina Wilson	Deputy Director, Legal
Sharon Suess	Assistant Director, Corporate Authorisations
Policy & International Affairs	
Yvette Pierre	Director, Policy & International Affairs
Financial Stability	
George Pickering	Senior Advisor, Financial Stability
Marcelo Ramella	Director, Financial Stability
Operations	
Shanna Lespere	Chief Operating Officer
Terry Pitcher	Head of Finance & Currency Operations
Mesheiah Crockwell	Director, Human Resources
Sheridan Smith	Director, Management Services
Marianne Suschak-Matvey	Deputy Director, Communications
Michael Albouy	Assistant Director, Project Management Office

STATISTICS

Financial Highlights 2019

The Authority's net deficit amounted to $2.55 million in 2019, up from $1.76 million net deficit in previous year. Total revenue increased by 14.44% year-on-year to $55.64 million, up from $48.62 million. The increase is mainly due to $6.14 million increase in revenue from contracts with licensees and customers due to increased revenue from supervisory and licensing fees. The $0.69 million increase in revenue from fines, penalties and other income is due to increase in fines levied to licensees. The marginal increase in revenues from investments is due to increased interest from overnight repurchase agreements. The Authority's held-to-maturity portfolio of investments remained at a very high quality with all securities maintaining a rating of AA+ or better.

Expenses increased by 15.52% to $58.20 million, up from $50.38 million in prior year. The increase is mainly due to $4.84 million increased salaries and employee benefits, $1.11 million increased general expenses, $1.02 million increased amortisation of intangible assets and marginal increases in professional fees, depreciation of property and equipment, circulation note and coin expenses, finance costs and provisions for impairment of financial assets.

As at 31 December 2019, the organisation's headcount increased from 196 to 215 year over year. This increase was necessary to support the broadening scope of the Authority's supervisory mandate.

In the coming year headcount is expected to remain relatively flat as staffing levels in most areas are largely aligned with ongoing regulatory and operational needs. The resourcing focus for the coming year will be on the continued development of staff's technical proficiency and ensuring adequate resources and skillsets are available to support key regulatory and supervisory initiatives. This coupled with the increased use of innovative and technology in an ongoing effort to increase capacity across the organisation.

Currency

CURRENCY COINS ISSUED AND REDEEMED (BERMUDA DOLLAR)

Month	Coins Issued	Coins Issued & O/S at End of Month	Net Issues During Month: Change	Net Issues During Month: % Change
January	4	17,061,470	4	0.00%
February	1	17,061,471	1	0.00%
March	4	17,061,475	4	0.00%
April	6	17,061,481	6	0.00%
May	23	17,061,504	23	0.00%
June	88,910	17,150,414	88,910	0.52%
July	101,801	17,252,215	101,801	0.59%
August	14	17,252,229	14	0.00%
September	68,003	17,320,232	68,003	0.39%
October	10	17,320,242	10	0.00%
November	92,202	17,412,444	92,202	0.53%
December	6	17,412,450	6	0.00%
Year				
2019	**350,984**	**17,412,450**	**350,984**	**2.06%**
2018	**315,337**	**17,061,466**	**315,337**	**1.88%**

CURRENCY NOTES ISSUED AND REDEEMED (BERMUDA DOLLAR)

Month	Notes Issued New	Notes Issued Reissued	Notes Issued Total	Notes Redeemed	Notes Issued & O/S at End of Month	Net Issues During Month Change	Net Issues During Month % Change
January	58,306	2,800,000	2,858,306	10,586,000	117,126,171	(7,727,694)	-6.19%
February	202,709	8,533,000	8,735,709	5,374,000	120,487,880	3,361,709	2.87%
March	117,473	8,300,000	8,417,473	7,500,793	121,404,560	916,680	0.76%
April	90,323	6,000,000	6,090,323	2,532,790	124,962,093	3,557,533	2.93%
May	253,396	5,700,000	5,953,396	3,410,000	127,505,489	2,543,396	2.04%
June	3,110,293	4,000,000	7,110,293	6,861,000	127,754,782	249,293	0.20%
July	6,158,087	2,910,000	9,068,087	5,285,000	131,537,869	3,783,087	2.96%
August	1,561,182	4,000,000	5,561,182	10,370,000	126,729,051	(4,808,818)	-3.66%
September	5,030,007	500,000	5,530,007	3,751,000	128,508,058	1,779,007	1.40%
October	4,190,224	3,600,000	7,790,224	9,454,475	126,843,807	(1,664,251)	-1.30%
November	1,596,575	9,410,000	11,006,575	4,600,000	133,250,382	6,406,575	5.05%
December	237	9,140,000	9,140,237	7,750,000	134,640,619	1,390,237	1.04%
Year							
2019	22,368,812	64,893,000	87,261,812	77,475,058	134,640,619	9,786,754	7.84%
2018	**5,599,170**	**64,420,000**	**70,019,170**	**69,153,260**	**124,853,865**	**865,910**	**0.70%**

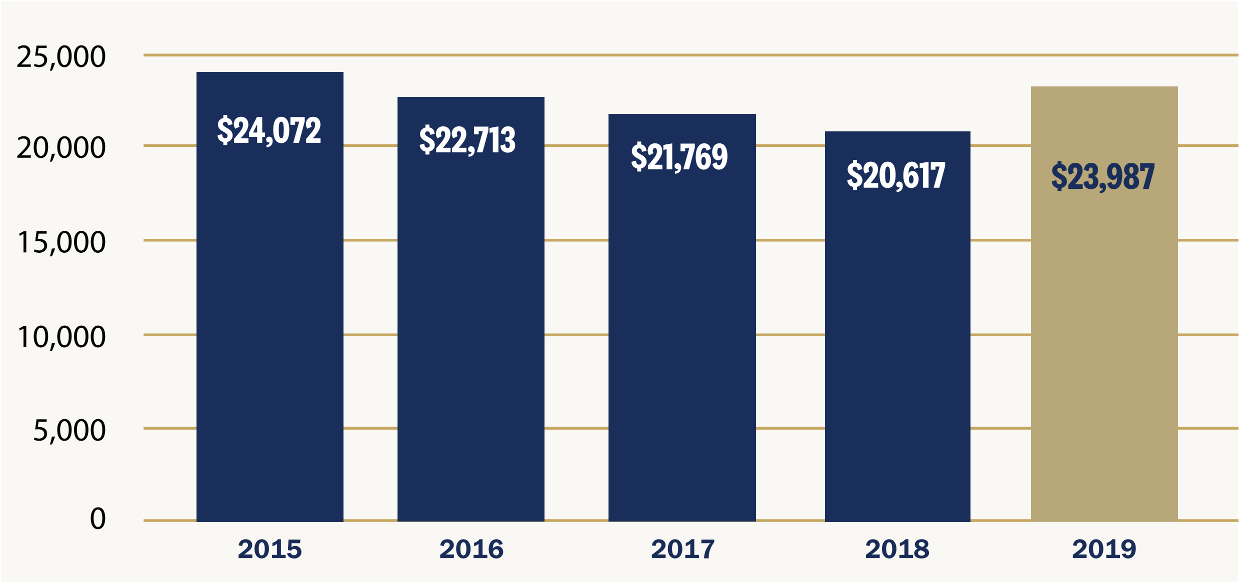
Banking

BERMUDA MONEY SUPPLY

(BD$ millions)	Q4-19	Q3-19	Q2-19	Q1-19	Q4-18
Notes & Coins in Circulation*	152	146	145	138	142
Deposit liabilities:	3,418	3,431	3,408	3,372	3,442
Total	3,570	3,577	3,553	3,510	3,584
Less: Cash at Banks and Deposit Companies	42	43	42	38	43
BD$ Money Supply	**3,528**	**3,534**	**3,511**	**3,472**	**3,541**
% Change on Previous Period	-0.16%	0.65%	1.11%	-1.94%	-0.51%
% Change Year on Year	-0.37%	-0.74%	-1.21%	-1.49%	0.04%

Totals may not add due to rounding.
* 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.

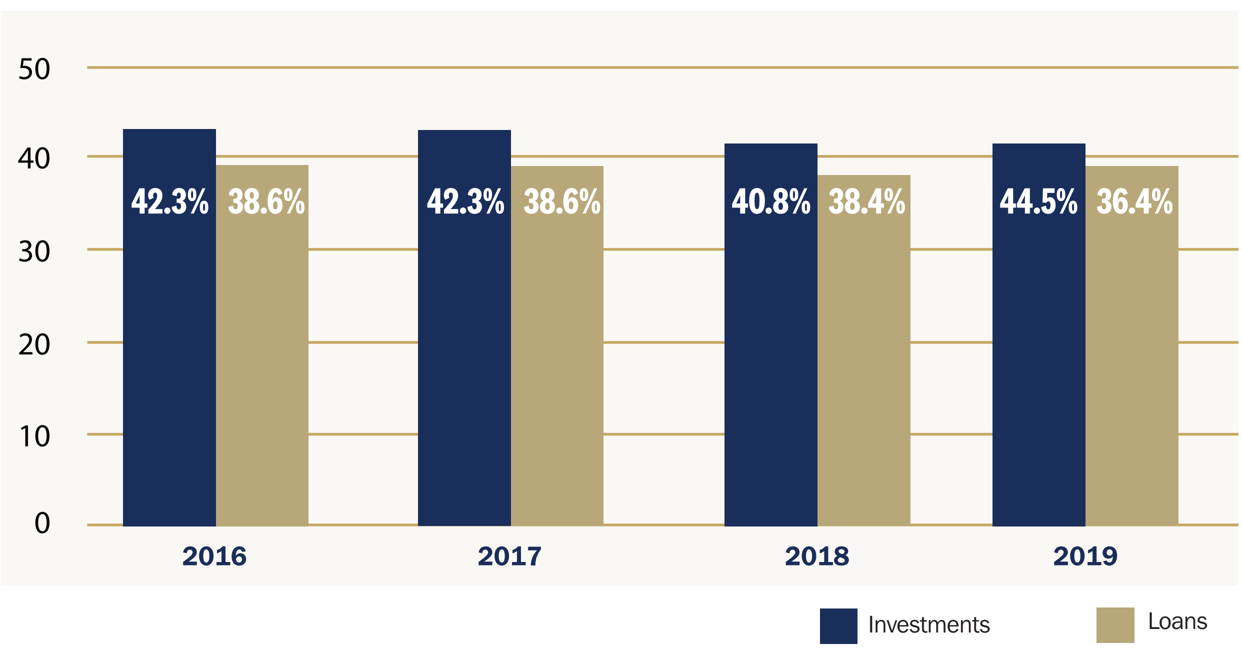
BERMUDA BANK AND DEPOSIT COMPANIES TOTAL ASSETS (BD$ MILLIONS)



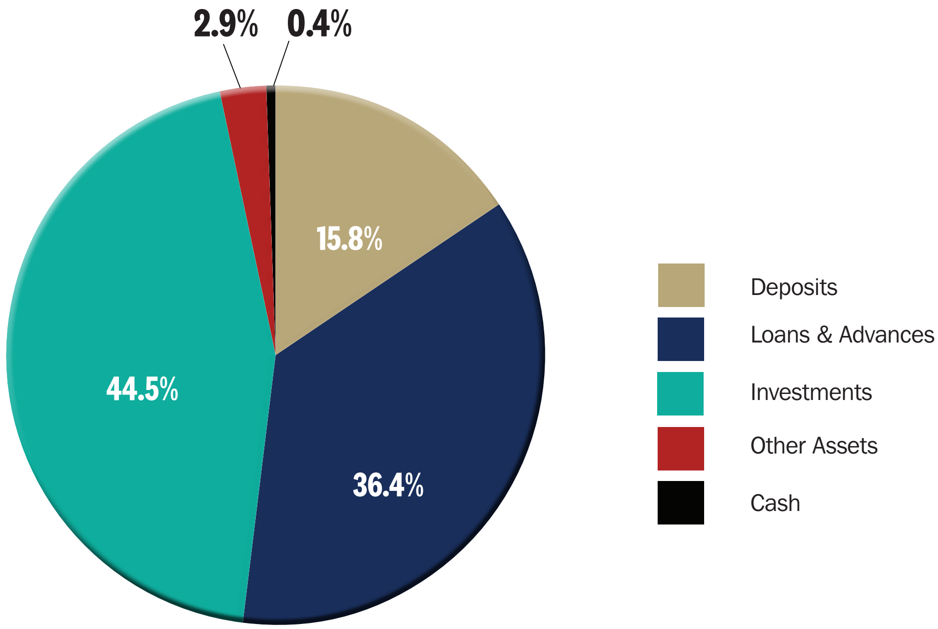
BANKING SECTOR ASSETS AND DEPOSITS (BD$ MILLIONS)

	Q4-19	Q3-19	Q2-19	Q1-19	Q4-18	Q3-18
Total Assets	23,987	23,607	20,926	21,152	20,617	19,905
Quarterly Changes (%)	1.6%	12.8%	-1.1%	2.6%	3.6%	-7.9%
Total Deposits	21,272	20,778	18,256	18,545	18,038	17,506
Quarterly Changes (%)	2.4%	13.8%	-1.6%	2.8%	3.0%	-9.4%

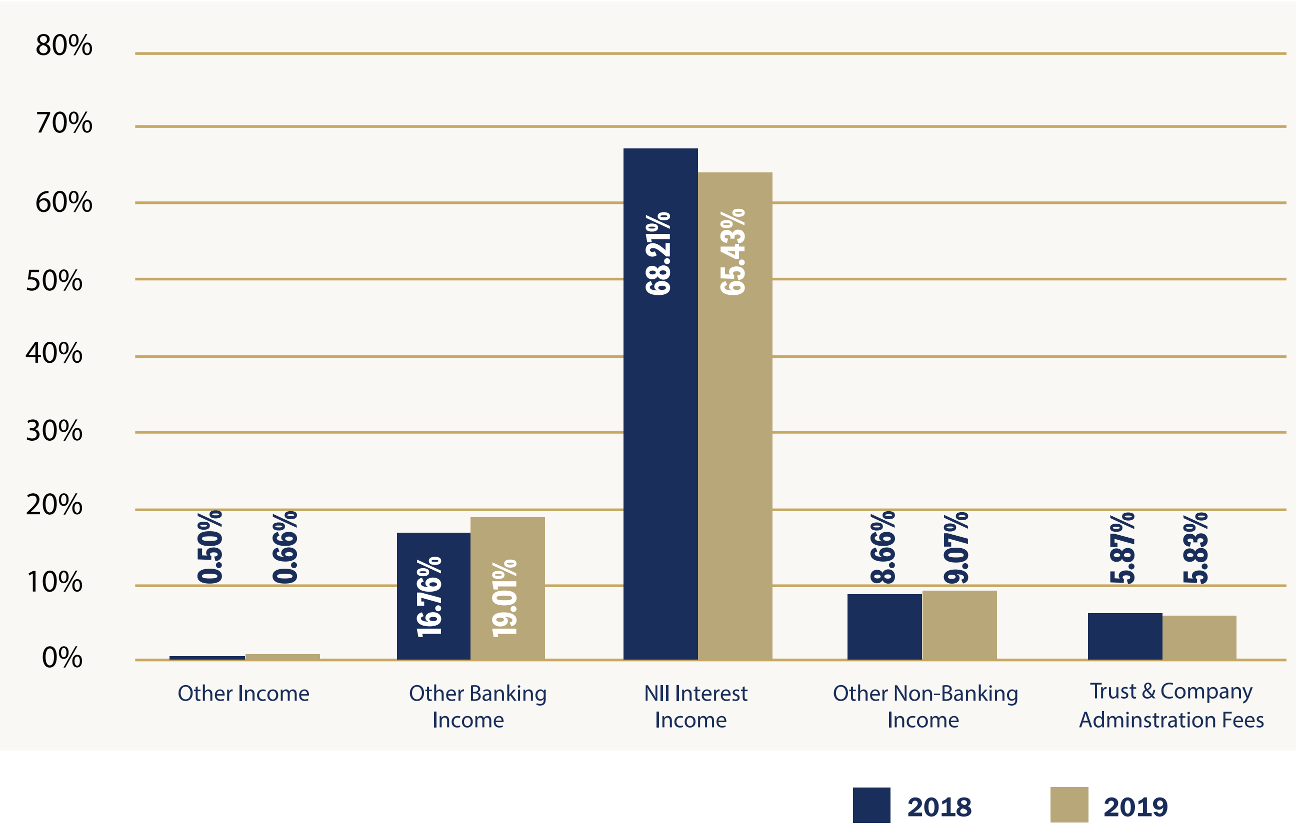
LOANS AND INVESTMENTS AS A PROPORTION OF TOTAL ASSETS



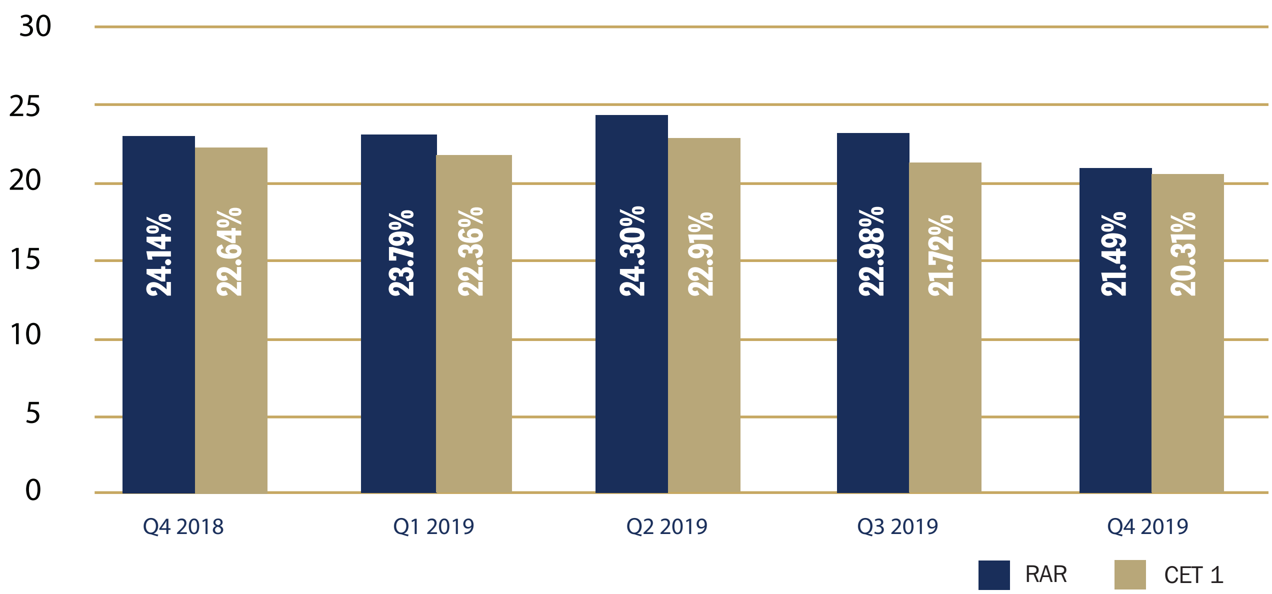
COMPOSITION OF BANKS' ASSETS (AS AT 31 DECEMBER 2019)



BANKS AND DEPOSIT COMPANIES REVENUES (CONSOLIDATED)



BANKING SECTOR CONSOLIDATED RISK ASSET RATIO



COMBINED BANKS AND DEPOSIT COMPANIES FOREIGN CURRENCY POSITION

(BD$ millions)	Q4-19	Q3-19	Q2-19	Q1-19	Q4-18	Q3-18
Total Foreign Currency Assets	20,345	19,974	17,269	17,455	16,847	16,107
Less: Other Assets	346	333	283	294	234	252
Less: Foreign Currency Loans to Residents	1,477	1,380	1,364	1,265	1,215	1,211
Net Foreign Currency Assets	18,522	18,261	15,622	15,896	15,398	14,644
Foreign Currency Liabilities	18,172	17,753	15,106	15,422	14,861	14,381
Add: BD$ Deposits of Non-Residents	93	93	91	94	89	89
Net Foreign Currency Liabilities	18,265	17,846	15,197	15,516	14,950	14,470
Net Foreign Currency Position	257	415	425	380	448	174

Totals may not add due to rounding.

BD$ DEPOSIT AND LOAN PROFILE - COMBINED BANKS AND DEPOSIT COMPANIES (UNCONSOLIDATED)

(BD$ millions)	Q4-19	Q3-19	Q2-19	Q1-19	Q4-18	Q3-18
Deposit Liabilities	3,427	3,444	3,420	3,386	3,451	3,480
Less: Loans, Advances and Mortgages	(3,323)	(3,354)	(3,410)	(3,364)	(3,430)	(3,518)
Surplus/(deficit) deposits	104	90	10	22	21	(38)
Percentage of Deposits Loaned	97.0%	97.4%	99.7%	99.4%	99.4%	101.1%

COMBINED BALANCE SHEET OF BERMUDA BANKS AND DEPOSIT COMPANIES (CONSOLIDATED)

* Other includes USD and other currencies

	2019-Q4			2019-Q3			2019-Q2		
(BD$ millions)	**Total**	**BD$**	**Other***	**Total**	**BD$**	**Other***	**Total**	**BD$**	**Other***
ASSETS									
Cash	107	42	65	97	43	54	94	42	52
Deposits	3,775	12	3,763	3,552	12	3,540	3,023	13	3,010
Investments	10,682	39	10,643	11,105	39	11,066	9,153	39	9,114
Loans & Advances	8,739	3,211	5,528	8,195	3,214	4,981	8,053	3,243	4,810
Premises & Equipment	310	185	125	310	184	126	309	184	125
Other Assets	374	153	221	348	141	207	294	136	158
Total Assets	**23,987**	**3,642**	**20,345**	**23,607**	**3,633**	**19,974**	**20,926**	**3,657**	**17,269**
LIABILITIES									
Demand Deposits	10,836	1,010	9,826	10,524	1,041	9,483	8,307	992	7,315
Savings	5,812	1,559	4,253	5,664	1,547	4,117	5,973	1,554	4,419
Time Deposit	4,624	849	3,775	4,590	843	3,747	3,976	862	3,114
Sub Total Deposits	21,272	3,418	17,854	20,778	3,431	17,347	18,256	3,408	14,848
Other Liabilities	595	277	318	655	249	406	531	273	258
Sub Total Liabilities	21,867	3,695	18,172	21,432	3,679	17,753	18,787	3,681	15,106
Equity & Subordinated Debt	2,120	1,953	167	2,176	2,007	169	2,141	1,985	156
Total Liabilities & Capital	**23,987**	**5,648**	**18,339**	**23,608**	**5,686**	**17,922**	**20,928**	**5,666**	**15,262**

Premises & Equipment, and Other Assets have been restated to reclassify equipment and other fixed assets that were previously recorded under Other Assets

COMBINED BALANCE SHEET OF BERMUDA BANKS AND DEPOSIT COMPANIES (CONSOLIDATED)

* Other includes USD and other currencies

	2019-Q1			2018-Q4			2018-Q3		
(BD$ millions)	**Total**	**BD$**	**Other***	**Total**	**BD$**	**Other***	**Total**	**BD$**	**Other***
ASSETS									
Cash	80	38	42	84	43	41	87	41	46
Deposits	3,115	13	3,102	3,606	27	3,579	2,067	8	2,059
Investments	8,857	39	8,818	8,417	40	8,377	9,018	40	8,978
Loans & Advances	8,467	3,268	5,199	7,919	3,303	4,616	8,122	3,350	4,772
Premises & Equipment	314	188	126	319	218	101	321	222	99
Other Assets	319	151	168	272	139	133	290	137	153
Total Assets	21,152	3,697	17,455	20,617	3,770	16,847	19,905	3,798	16,107
LIABILITIES									
Demand Deposits	8,654	966	7,688	8,757	1,065	7,692	8,438	1,084	7,354
Savings	5,977	1,558	4,419	5,881	1,554	4,327	5,731	1,573	4,158
Time Deposit	3,914	848	3,066	3,400	823	2,577	3,337	805	2,532
Sub Total Deposits	18,545	3,372	15,173	18,038	3,442	14,596	17,506	3,462	14,044
Other Liabilities	512	263	249	603	338	265	609	272	337
Sub Total Liabilities	19,057	3,635	15,422	18,641	3,780	14,861	18,115	3,734	14,381
Equity & Subordinated Debt	2,089	1,967	122	2,053	1,973	80	2,035	1,985	50
Total Liabilities & Capital	**21,146**	**5,602**	**15,544**	**20,694**	**5,753**	**14,941**	**20,150**	**5,719**	**14,431**

Premises & Equipment, and Other Assets have been restated to reclassify equipment and other fixed assets that were previously recorded under Other Assets

INVESTMENT FUNDS

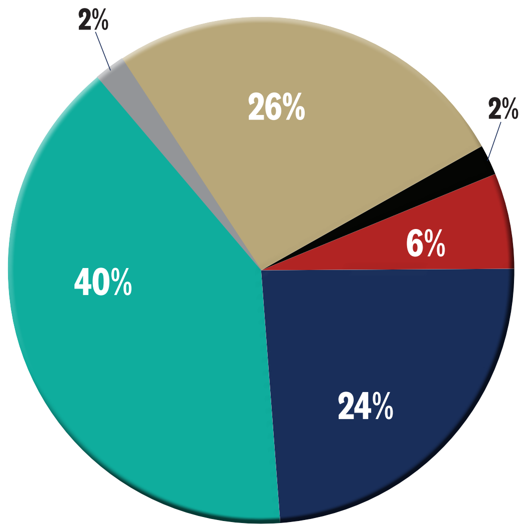
FUND COUNT STATISTICS

	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Administered Funds	5	5	5	5	6	6
Class A Professional Funds	73	70	67	67	67	66
Class B Professional Funds	36	39	39	39	39	41
Exempted Funds	3	4	3	4	5	8
Institutional Funds	239	249	252	254	258	259
*Private Funds	165	159	134	8	0	0
Standard Funds	117	124	126	131	138	145
Total Number of Funds	**638**	**650**	**626**	**508**	**513**	**525**
Net Asset Value (NAV) ($BD billion)	**$175.96**	**$170.87**	**$161.40**	**$160.28**	**$157.24**	**$165.04**

**Q4 2019 NAV results includes Private Funds.*

- **Administered Funds** must appoint a fund administrator licensed under Part III of the IFA and participants are required to invest a minimum amount of $50,000; or the fund must be listed on a Stock Exchange recognised by the Authority. Administered funds are not restricted to qualified participants.
- **Class A Professional Funds** are limited to qualified participants; the fund must have an officer, trustee, or resident representative in Bermuda, being a person who has access to the books and records of the fund; the fund must appoint service providers in accordance with the IFA [Note: the investment manager appointed to the fund must be either licensed in Bermuda; authorised or licensed by a foreign regulator recognised by the Authority; or i) carrying on business in or from Bermuda, or ii) in a jurisdiction recognised by the Authority, being a person who has gross assets under management of an amount that is not less than $100 million, or is a member of an investment management group that has consolidated gross assets under management of an amount that is not less than $100 million]; and the fund must file its audited GAAP/IFRS financial statements on an annual basis.
- **Class B Professional Funds** are limited to qualified participants; the fund must have an officer, trustee, or resident representative in Bermuda, being a person who has access to the books and records of the fund; the fund must appoint fit and proper service providers in accordance with the IFA; and the fund must file its audited GAAP/IFRS financial statements on an annual basis.
- **Institutional Funds** are limited to qualified participants investing at least $100,000; they are required to have an officer, trustee, or resident representative in Bermuda, being a person who has access to the books and records of the fund; the fund must appoint fit and proper service providers in accordance with the IFA; and the fund must have an annual audit.
- **Private Funds** are restricted to 20 participants or less; the operator of the fund cannot market to the public; the fund must appoint a custodian and a service provider licensed in Bermuda; and the fund must file management accounts or audited financial statements on an annual basis.
- **Standard Funds** do not fit within any other class of fund. Such funds are not restricted to qualified participants and may include a significant number of retail investors; the fund must appoint fit and proper service providers in accordance with the IFA; and the fund must have an annual audit. Standard funds are subject to a higher degree of regulatory and supervisory oversight.

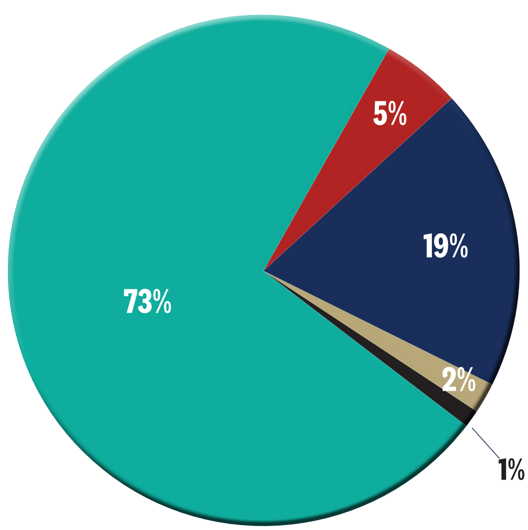
TOTAL FUNDS BY JURISDICTION



An aggregate total of US$192.1 billion in Assets Under Administration (AuA) was reported by Bermuda Fund Administration licensees as at 31 December 2019, down 1.74% from the aggregate total for 2018 of US$195.5 billion.

The total number of funds administered increased by 0.88% to 2,169 from 2,150, of which 512 are local incorporated funds with Bermuda-licensed fund administrators. The graphic shows the jurisdictional breakdown reflects the total fund clients for year-end 2019.

TOTAL ASSETS UNDER MANAGEMENT (AUM) BY JURISDICTION

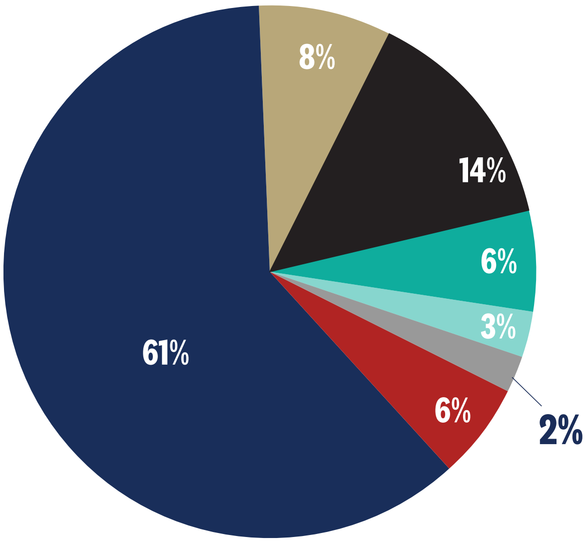


The total aggregate Assets Under Management (AUM) as at 31 December 2019 reported by investment business licensees was US$200.8 billion, compared to US$172.1 billion reported for 2018; an increase of 17%.

A significant proportion of these assets, 73% pertains to European Union clients and 19% are Bermuda-based clients.

This graphic shows the total market share of AUM by jurisdiction for the year 2019.

INVESTMENT BUSINESS LICENSEE AGGREGATE 2019 DATA: ASSETS UNDER ADMINISTRATION (AUA)



Note: For Investment Business Licensees, AUA are classified as assets managed on behalf of investors on a non-discretionary basis.

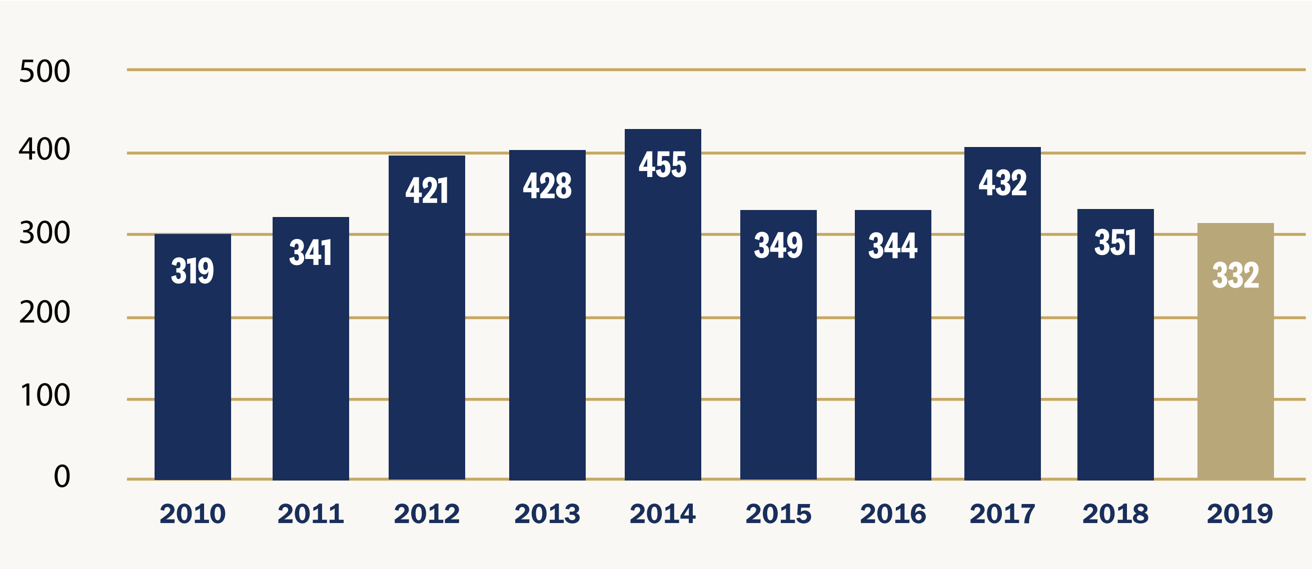
The total aggregate Assets Under Administration (AUA) as at 31 December 2019 reported by investment business licensees was US$41.2 billion, compared to US$42.7 billion reported for 2018; a decrease of 3.4%.

A significant portion of these assets 61% pertains to Bermudian clients, with clients in the Rest of the Americas a distant second at 14%.

The graphic shows the total market share of AUA by jurisdiction for the year 2019.

EU
Rest of Americas
Asia & Oceania
Rest of Europe
Bermuda
Middle East
US & Canada

BERMUDA STOCK EXCHANGE – MARKET CAPITALISATION (BD$ BILLIONS)



5 STATISTICS

Insurance

ANALYSIS OF ALL INSURERS REGISTERED

Class of Insurer by Licence	2019	%	2018	%
Class 1	201	16.7%	215	17.8%
Class 2	274	22.8%	277	22.9%
Class 3	219	18.2%	223	18.4%
Class 3A	127	10.6%	129	10.7%
Class 3B	27	2.2%	26	2.2%
Class 4	42	3.5%	43	3.6%
Class A	9	0.7%	7	0.6%
Class B	12	1.0%	8	0.7%
Class C	89	7.4%	91	7.5%
Class D	10	0.8%	9	0.7%
Class E	42	3.5%	41	3.4%
Special Purpose Insurer	148	12.3%	140	11.6%
Collateralized Insurer	1	0.1%	0	0.0%
Totals:	**1,201**	**100%**	**1,209**	**100%**

ANALYSIS OF ADDITIONS TO THE REGISTER

Class of Insurer by licence	2019 Registrations	%	2018 Registrations	%
Class 1	4	6.9%	8	10.7%
Class 2	7	12.1%	8	10.7%
Class 3	4	6.9%	2	2.7%
Class 3A	7	12.1%	10	13.3%
Class 3B	1	1.7%	1	1.3%
Class 4	1	1.7%	3	4.0%
Class A	3	5.2%	0	0.0%
Class B	4	6.9%	1	1.3%
Class C	4	6.9%	8	10.7%
Class D	1	1.7%	0	0.0%
Class E	1	1.7%	6	8.0%
SPI	20	34.5%	28	37.3%
Collateralized Insurer	1	1.7%	0	0.0%
Totals:	**58**	**100.0%**	**75**	**100.0%**

MARKET STATISTICS BY CLASS OF INSURER

For the year ended 31 December 2018*

Class of Insurer	No. of Licences	Gross Premiums (USD)	Net Premiums (USD)	Total Assets (USD)	Capital & Surplus (USD)
Class 1	225	2,338,242,195	1,890,038,867	18,768,660,859	14,782,324,321
Class 2	277	8,234,395,834	6,964,299,383	54,323,039,334	31,281,266,805
Class 3	229	31,353,546,870	15,322,023,451	102,399,854,600	28,331,207,656
Class 3A	137	18,836,566,727	14,038,356,768	43,418,141,762	22,554,191,844
Class 3B	28	10,384,631,865	7,652,877,316	34,835,858,153	15,403,260,598
Class 4	42	37,699,144,577	29,849,691,187	182,621,994,006	78,480,950,023
Long-term Class A	7	47,929,241	43,699,439	4,076,806,672	1,205,277,143
Long-term Class B	8	153,660,682	153,307,643	299,019,090	100,705,854
Long-term Class C	96	12,668,244,003	12,566,138,313	82,395,870,260	7,533,484,452
Long-term Class D	10	999,320,245	589,438,896	6,327,411,992	657,093,076
Long-term Class E	42	116,549,560,006	105,408,529,976	402,908,358,622	54,669,180,641
Special Purpose Insurer	161	4,188,546,341	3,457,365,802	47,710,979,154	8,448,500,386
Total	**1,262**	**243,453,788,586**	**197,935,767,039**	**980,085,994,503**	**263,447,442,798**

*Underwriting statistics quoted are from insurance company Statutory Financial Returns (SFRs). Companies submit filings on a phased basis throughout the year following the financial year-end. The initial submission deadline for 2018 SFRs was April 2019. Due to this schedule, the most recent complete year-end figures for this overview are from 2018 year-end.

- **Class 1**: Single-parent captive insuring the risks of its owners or affiliates of the owners.
- **Class 2:** (a) A multi-owner captive insuring the risks of its owners or affiliates of the owners; or (b) a single-parent or multi-owner captive: (i) insuring the risks arising out of the business or operations of the owners or affiliates, and/or (ii) deriving up to 20% of its net premiums from unrelated risks.
- **Class 3:** Captive insurers underwriting more than 20% and less than 50% unrelated business.
- **Class 3A**: Small commercial insurers whose percentage of unrelated business represents 50.0% or more of net premiums written, or loss and loss expense provisions and where the unrelated business net premiums are less than $50.0 million.
- **Class 3B:** Large commercial insurers whose percentage of unrelated business represents 50.0% or more of net premiums written, or loss and loss expense provisions and where the unrelated business net premiums are more than $50.0 million.
- **Class 4**: Large commercial insurers and reinsurers underwriting direct excess liability and/or property catastrophe reinsurance risk.

- **Long-Term** (life insurance):
  - **Class A:** A single-parent long-term captive insurance company underwriting only the long-term business risks of the owners of the insurance company and affiliates of the owners.
  - **Class B:** Multi-owner long-term captives owned by unrelated entities, underwriting only the long-term business risks of the owners and affiliates of the owners and/or risks related to or arising out of the business or operations of their owners and affiliates. A Class B licence will also apply to single-parent and multi-owner long-term captives writing no more than 20% of net premiums from unrelated risks.
  - **Class C:** Long-Term insurers and reinsurers with total assets of less than $250.0 million, and not registrable as a Class A or Class B insurer.
  - **Class D:** Long-Term insurers and reinsurers with total assets of $250.0 million or more but less than $500.0 million, and not registrable as a Class A or Class B insurer.
  - **Class E:** Long-Term insurers and reinsurers with total assets of more than $500.0 million, and not registrable as a Class A or Class B insurer.
- **Special Purpose Insurers (SPI):** A SPI assumes insurance or (re)insurance risks and fully collateralizes its exposure to such risks.

MARKET STATISTICS BY REGION OF BENEFICIAL OWNER/S

For the year ended 31 December 2018

Domicile of Owners	No. of licences	Gross Premiums (USD)	Net Premiums (USD)	Total Assets (USD)	Capital & Surplus (USD)
CAPTIVES					
Africa/Middle East	10	100,278,363	18,369,361	212,540,456	165,919,403
Asia	29	1,263,963,674	1,163,445,486	1,339,279,373	849,432,643
Australia/New Zealand	11	60,935,056	16,126,523	317,201,395	237,540,259
Bermuda	70	6,393,113,793	3,923,032,959	37,611,029,662	13,376,013,382
Caribbean/Latin America	39	167,211,589	110,971,626	1,127,868,269	834,491,121
Europe	109	6,161,687,913	5,649,432,471	41,147,892,274	19,249,228,539
North America	478	27,980,584,434	13,491,990,357	98,111,569,126	40,988,156,431
Sub Totals	746	42,127,774,821	24,373,368,783	179,867,380,555	75,700,781,779
COMMERCIAL INSURERS/REINSURERS					
Africa/Middle East	6	1,793,170,375	1,030,755,254	4,105,199,264	1,456,011,796
Asia	18	3,907,631,906	3,610,640,073	23,650,806,192	5,535,451,353
Australia/New Zealand	3	4,175,797,640	3,329,497,557	20,179,574,252	2,535,919,146
Bermuda	203	101,395,472,222	97,051,611,118	308,454,334,158	69,773,986,553
Caribbean/Latin America	31	5,822,889,374	4,928,481,725	35,427,286,412	12,110,387,185
Europe	85	21,813,990,193	16,930,017,241	81,365,393,592	25,096,457,657
North America	170	62,417,062,053	46,681,395,288	327,036,020,077	71,238,447,328
Sub Totals	516	201,326,013,764	173,562,398,256	800,218,613,947	187,746,661,020
Totals	**1,262**	**243,453,788,586**	**197,935,767,039**	**980,085,994,503**	**263,447,442,798**

5 STATISTICS

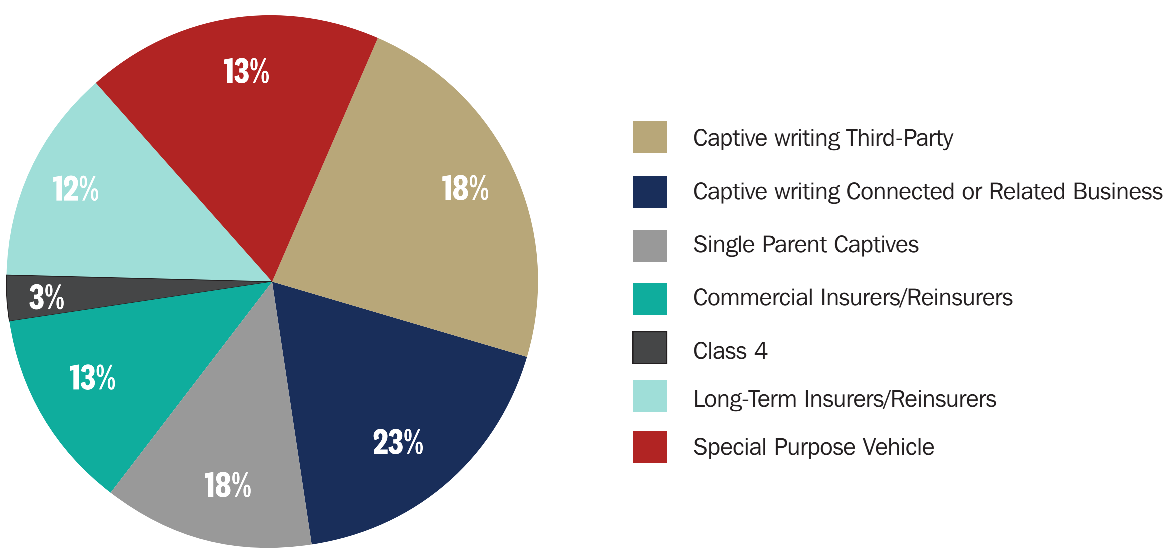
MARKET STATISTICS BY COMPANY TYPE

For the year ended 31 December 2018

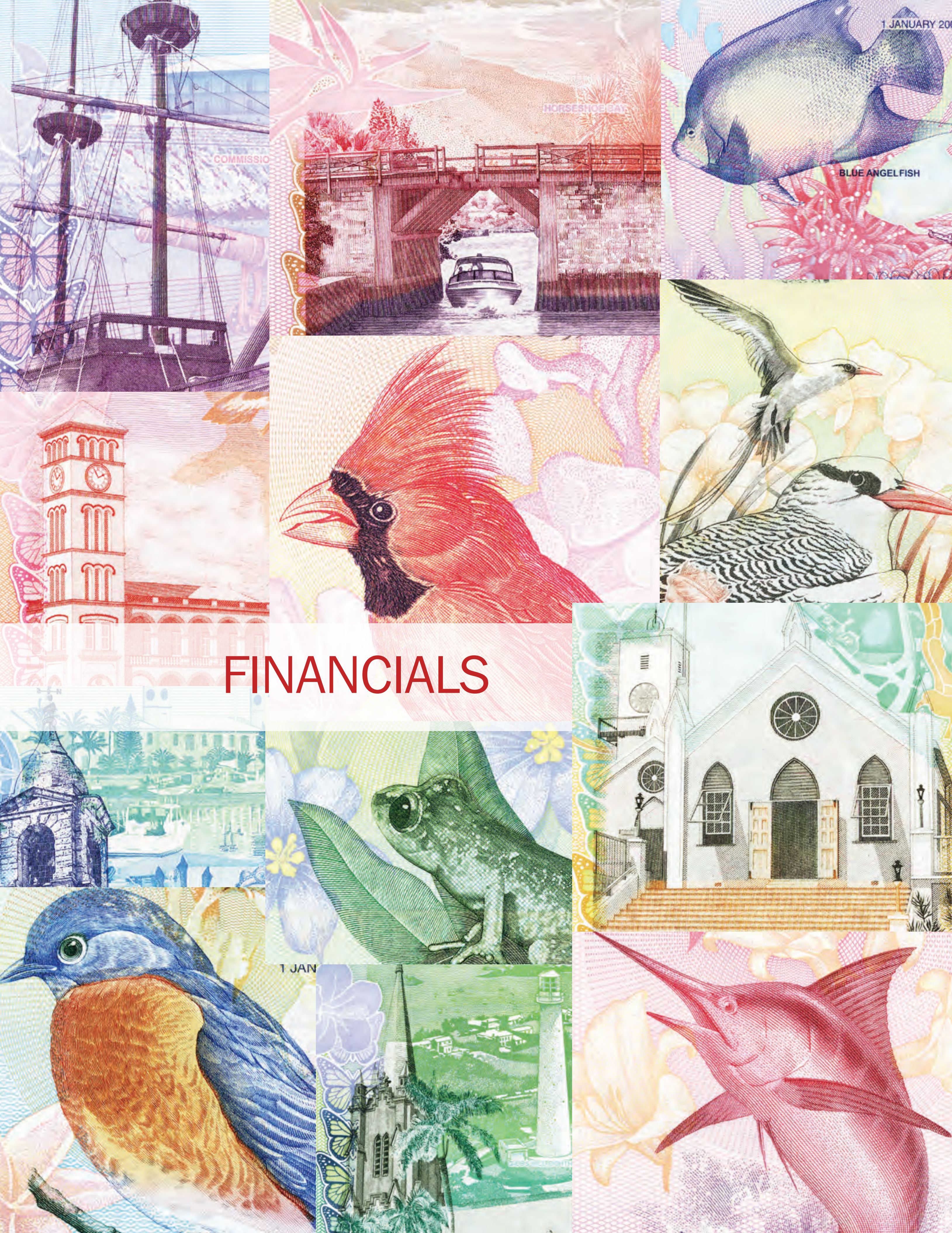
Domicile of Owners	No. Of Licences	Gross Premiums (USD)	Net Premiums (USD)	Total Assets (USD)	Capital & Surplus (USD)
CAPTIVES					
Captive writing Third Party	229	31,353,546,870	15,322,023,451	102,399,854,600	28,331,207,656
Captive writing Connected or Related Business	285	8,388,056,516	7,117,607,026	54,622,058,424	31,381,972,659
Single Parent Captives	232	2,386,171,436	1,933,738,306	22,845,467,530	15,987,601,464
Subtotals	746	42,127,774,821	24,373,368,783	179,867,380,554	75,700,781,779
Professional Insurers/ Reinsurers	165	29,221,198,593	21,691,234,083	78,253,999,915	37,957,452,442
Class 4	42	37,699,144,577	29,849,691,187	182,621,994,006	78,480,950,023
Long-Term Ins./Reinsurers	148	130,217,124,254	118,564,107,184	491,631,640,873	62,859,758,169
Special Purpose Vehicle	161	4,188,546,341	3,457,365,802	47,710,979,154	8,448,500,386
Sub Totals	516	201,326,013,764	173,562,398,256	800,218,613,948	187,746,661,020
Totals	**1,262**	**243,453,788,586**	**197,935,767,039**	**980,085,994,503**	**263,447,442,798**

- **Captive writing Third-Party:** (Re)insurer writing related-party risks but allowed to write up to 49% of its net premiums written arising from risks which are unrelated to the business of its owners and/or affiliates.
- **Captive writing Connected or Related business:** (Re)insurer writing the risks connected or related to, or arising out of, the business or operations of its owners and/or affiliates.
- **Single-Parent Captive:** Single-parent captive writing only the risk of its owners and/or affiliates.
- **Commercial Insurers/Reinsurers:** Insurance company writing unrelated risks as a direct writer and/or reinsurer.

ACTIVELY WRITING INSURERS BY COMPANY TYPE



FINANCIALS



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email: enquiries@bma.bm website: www.bma.bm

20 April 2020

The Hon. Curtis L. Dickinson, JP, MP

Minister of Finance

Ministry of Finance

Hamilton

Dear Minister:

In accordance with section 28(1) of the Bermuda Monetary Authority Act 1969, I have the honour to submit to you a report of the operations of the Authority for the year 2019 together with the annual statement of accounts and the opinion of the Auditor General.

This document also contains the reports for the year 2019 which the Authority is required to make to you pursuant to:

- section 8(3) of the Banks and Deposit Companies Act 1999;
- section 8(3) of the Investment Business Act 2003; and
- section 5 of the Trusts (Regulation of Trust Business) Act 2001.

Yours sincerely,

Jeremy Cox

Executive Chair

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20 April 2020

The accompanying financial statements of the Bermuda Monetary Authority have been prepared by management in accordance with International Financial Reporting Standards. Management is responsible for ensuring the integrity and objectivity of the data contained in these financial statements and that all information in the annual report is consistent with the financial statements.

In support of its responsibility, management maintains financial and management control systems and practices to provide reasonable assurance that the financial information is reliable, that the assets are safeguarded, and that the operations are carried out effectively.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board approves the Authority's financial statements. The Audit and Risk Management Committee of the Board reviews the annual financial statements and recommends their approval to the Board of Directors. In conducting its review, the Audit and Risk Management Committee meets with management and the Authority's external auditor, the Auditor General.

The Auditor General has audited these financial statements and her report is presented herein.

Yours sincerely,

Jeremy Cox
Executive Chair

Donald Scott
Deputy Chair

Office of the Auditor General
Reid Hall, Penthouse
3 Reid Street
Hamilton HM 11, Bermuda

Tel: (441) 296-3148
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Website: www.oagbermuda.bm

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors

Opinion

I have audited the financial statements of the Bermuda Monetary Authority, which comprise the statement of financial position as at December 31, 2019, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bermuda Monetary Authority as at December 31, 2019, and its financial performance and its cash flows for the year then ending in accordance with International Financial Reporting Standards generally accepted in Bermuda and Canada.

Basis for Opinion

I conducted my audit in accordance with auditing standards generally accepted in Bermuda and Canada. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Bermuda Monetary Authority in accordance with the ethical requirements that are relevant to my audit of the financial statements in Bermuda, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards generally accepted in Bermuda and Canada, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bermuda Monetary Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bermuda Monetary Authority or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Bermuda Monetary Authority's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that incudes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Bermuda and Canada will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing standards generally accepted in Bermuda and Canada, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements (whether due to fraud or error), design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than from one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bermuda Monetary Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going-concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bermuda Monetary Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Bermuda Monetary Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements (including the disclosures), and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during the audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, related safeguards.

A further description of the auditor's responsibilities for the audit of the financial statements is located at the Office of the Auditor General website at: www.oagbermuda.bm. This description forms part of my auditor's report.

Heather M.

Hamilton, Bermuda
April 22, 2020

Heather Thomas, CPA, CFE, CGMA
Auditor General

BERMUDA MONETARY AUTHORITY

Statement of Financial Position
As at December 31, 2019

(In thousands of Bermuda dollars)	Note	2019	2018
Assets			
Current assets			
Cash and cash equivalents	3, 5	55,994	44,996
Accounts and other receivables	3, 6	773	1,834
Prepayments	19	805	982
Stock of numismatic items	7	1,202	810
Stock of notes and coins for circulation	8	4,517	4,896
Investments	3	7,022	5,012
		70,313	58,530
Non-current assets			
Investments	3	100,829	103,110
Property and equipment	9	21,874	21,729
Intangible assets	10	5,443	5,574
		128,146	130,413
Total Assets		198,459	188,943
Liabilities			
Current liabilities			
Accounts and other payables	3, 11, 19	8,023	6,783
Deferred income	3, 12	192	488
Lease liabilities	13	214	-
Notes and coins in circulation	3, 14	152,053	141,915
		160,482	149,186
Non-current liabilities			
Lease liabilities	13	774	-
		774	-
Equity			
Capital subscribed	15	20,000	20,000
General reserve	15	17,203	19,757
		37,203	39,757
Total Liabilities and Equity		198,459	188,943

Commitments (Note 22)

Jeremy Cox
Executive Chairman

Donald Scott
Deputy Chairman

The accompanying notes are an integral part of these financial statements

BERMUDA MONETARY AUTHORITY

Statement of Comprehensive Income
For the year ended December 31, 2019

(In thousands of Bermuda dollars)	Note	2019	2018
Revenues			
Revenue from contracts with licensees and customers	16	50,782	44,638
Revenue from fines, penalties and other income	17	1,085	400
Operating revenue		51,867	45,038
Investment income	18	3,777	3,578
Total revenues		55,644	48,616
Expenses			
Salaries and employee benefits	19	43,388	38,552
General expenses	20	8,173	7,067
Professional fees		2,974	2,719
Depreciation of property and equipment	9	1,396	1,267
Circulation note and coin expenses	8	633	390
Amortisation of intangible assets	10	1,651	631
Finance costs	13	29	-
Provision (release of provision) for impairment of accounts receivable	6	18	(210)
Release of provision for impairment of investments and cash and cash equivalents	3	(64)	(36)
Total expenses		58,198	50,380
Total comprehensive loss for the year		(2,554)	(1,764)

All amounts reported above relate to continuing operations. There are no other components of comprehensive income.

BERMUDA MONETARY AUTHORITY

Statement of Changes in Equity
For the year ended December 31, 2019

(In thousands of Bermuda dollars)	2019	2018
Capital	20,000	20,000
General Reserve		
Balance, beginning of year	19,757	21,521
Total comprehensive loss for the year	(2,554)	(1,764)
Balance, end of year	17,203	19,757
Equity	37,203	39,757

The accompanying notes are an integral part of these financial statements

BERMUDA MONETARY AUTHORITY

Statement of Cash Flows
For the year ended December 31, 2019

(In thousands of Bermuda dollars)	Note	2019	2018
Cash flows provided by (used in) operating activities			
Total comprehensive loss for the year		(2,554)	(1,764)
Adjustment for:			
Non-cash items included in total comprehensive income for the year	21	3,300	1,940
Change in operating assets	21	1,201	(1,068)
Change in operating liabilities	21	944	228
Net cash provided by (used in) operating activities		2,891	(664)
Cash flows (used in) provided by investing activities			
Additions of intangible assets	10	(1,520)	(2,026)
Additions of property and equipment	9	(463)	(363)
Purchase of investments		(10,052)	(9,876)
Proceeds from maturity of investments		10,123	10,062
Net cash used in investing activities		(1,912)	(2,203)
Cash flows provided by (used in) financing activities			
Net increase in notes and coins in circulation circulation		10,138	1,181
Payment of lease liabilities	13	(119)	-
Net cash provided by financing activities		10,019	1,181
Net increase (decrease) in cash and cash equivalents		10,998	(1,686)
Cash and cash equivalents at beginning of year		44,996	46,682
Cash and cash equivalents at end of year	5	55,994	44,996
Operational cash flows from interest			
Interest received	18	2,816	2,913

The accompanying notes are an integral part of these financial statements

1. General information

The Bermuda Monetary Authority (the "Authority") was established in Bermuda by an Act of the Legislature with initial capital provided by the Bermuda Government (the "Government"); its objects and powers being set out in the Bermuda Monetary Authority Act 1969 (the "Act"), as amended.

The primary responsibilities of the Authority are:

- acting as issuing authority for Bermuda dollar notes and coins;
- the supervision, regulation and inspection of all financial institutions operating in or from within Bermuda;
- the promotion of the financial stability and soundness of financial institutions;
- the supervision, regulation and approval of the issue of financial instruments by financial institutions or by residents;
- the fostering of close relations between financial institutions and between the financial institutions and the Government of Bermuda (the "Government");
- assisting with the detection and prevention of financial crime;
- the management of exchange control and the regulation of transactions in foreign currency or gold on behalf of the Government;
- the provision of advice and assistance to the Government and public bodies on banking and other financial and monetary matters; and
- the performance of duties conferred on the Authority by Section 5 of the Proceeds of Crime (Anti-Money Laundering and Anti-Terrorist Financing Supervision and Enforcement) Act 2008.

The registered office of the Authority is BMA House, 43 Victoria Street, Hamilton HM 12, Bermuda.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

(a) Statement of compliance

The financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS").

These financial statements were authorised for issue by the Board of Directors (the "Board") on April 20, 2020.

2.1 Basis of preparation (continued)

(b) Basis of measurement

These financial statements have been prepared under the historical cost convention.

(c) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The areas involving a higher degree of complexity, or areas where assumptions and estimates are significant to these financial statements are disclosed in Note 4.

2.2 Foreign currency translation

(a) Functional and presentation currency

These financial statements are presented in Bermuda dollars, which is the Authority's functional and presentation currency. All financial information is rounded to the nearest thousand dollars, except as otherwise indicated.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation dates where items are re-measured. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

2.3 Property and equipment

(a) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses, except for land and museum items. Museum items have been capitalised, but not depreciated, at a nominal amount and are included in property and equipment. Nominal values have been placed on these items with no material commercial value.

2.3 Property and equipment (continued)

(a) Recognition and measurement (continued)

The Authority holds land and buildings as office space. Changes in the expected useful life are accounted for prospectively by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates. Cost includes expenditure that is directly attributable to the acquisition of the items.

(b) Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Authority and the cost of the item can be reliably measured. Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the statement of comprehensive income in the year the asset is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

(c) Depreciation and impairment

Land and museum items are not depreciated. Depreciation is calculated using the straight-line method to allocate the cost of each asset to their residual values over their estimated useful lives as follows:

• Building	40 years
• Building improvements	15 years
• Computer equipment	4 years
• Furniture and fixtures	4 years
• Right-of-use assets – office space (lease term)	5 years
• Rights-of-use assets – IT equipment (lease term)	4 years

The assets' useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.7).

Information about the Authority's accounting policies relating to right-of-use assets are provided in Note 2.6.

2.4 Intangible assets

Intangible assets are identified non-monetary assets without physical substance. The Authority's intangible assets comprise internally developed or externally acquired computer software. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Authority are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in subsequent periods. Research costs are expensed as incurred. Costs associated with maintaining software programmes are recognised as an expense when incurred.

Computer software development costs are recognised as assets and are amortised over their estimated useful lives, which is estimated to be four years. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Gains or losses arising from derecognition of intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indication of impairment arises during the reporting year (see Note 2.7).

The intangible assets' useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

2.5 Financial instruments

2.5.1 Recognition and initial measurement

Accounts and other receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Authority becomes a party to the contractual provisions of the instrument. Financial assets (except accounts and other receivables) and financial liabilities are initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue. Accounts and other receivables are initially measured at the transaction price.

2.5.2 Classification and subsequent measurement

The classification of financial instruments at initial recognition depends on the purpose and management's intention for which the financial assets were acquired.

(a) Financial assets

The Authority classifies its financial assets at amortised cost. The Authority's financial assets classified at amortised cost consist of cash and cash equivalents, accounts and other receivables and investments (Investments in US Government, US Government Agency and Supranational Bank debt securities). The Authority determines the classification at initial recognition and re-evaluates this designation at every reporting date. Financial assets are not reclassified subsequent to their initial recognition unless the Authority changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss, or fair value though other comprehensive income:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

<u>Business model assessment</u>

The Authority makes an assessment of the objective of the business model in which the financial asset is held at a portfolio level because this best reflects how the Authority is managed and the information is provided to management. The information considered includes the stated policies and objectives of the portfolio and the operation of those policies in practice.

2.5.2 Classification and subsequent measurement (continued)

(a) Financial assets (continued)

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Authority considers the contractual terms of the instrument. These include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Authority considers:

- Contingent events that would change the amount or timing of cash flows;
- Terms that may adjust the contractual coupon rate, including variable-rate features;
- Prepayment and extension features; and
- Terms that limit the Authority's claim to cash flows.

A prepayment feature is consistent with solely payment of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest in the principal amount outstanding.

Financial assets – Subsequent measurement and gains and losses

The Authority's financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

(b) Financial liabilities

The Authority classifies accounts and other payables and notes and coins in circulation as other financial liabilities. These are subsequently measured at amortised cost using the effective interest method.

2.5.3 Derecognition of financial assets and liabilities

(a) Financial assets

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired; and
- the Authority has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows and either:
    - (i) the Authority has transferred substantially all the risks and rewards of the asset; or
    - (ii) the Authority has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in the statement of comprehensive income, if any.

2.5.4 Impairment of financial assets

The Authority recognises loss allowances for Expected Credit Losses (“ECLs”) on financial assets measured at amortised cost. The Authority measures loss allowances at an amount equal to 12-month ECLs for all investments and cash and cash equivalents that are determined to have a low credit risk at the reporting date and for which credit risk has not increased significantly since initial recognition.

Loss allowances for accounts and other receivables are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Authority considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Authority’s historical experience and informed credit assessment and including forward-looking information.

The Authority assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due and is in default when the financial asset is more than 90 days past due.

The Authority considers an investment to have a low credit risk when the credit risk rating is equivalent to the globally understood definition of “investment grade”. The Authority considers this to be BBB- or higher per Standard & Poor’s. However, to mitigate credit risk exposure, the Authority only invests in US dollar traded papers which are rated not less than AA by at least one of Fitch, Moody’s or Standard & Poor’s.

2.5.4 Impairment of financial assets (continued)

Lifetime ECLs are the ECLs that result from possible default events over the expected life of a financial asset. 12-month ECLs are the portion of the ECLs that result from default events that are possible within the 12 months after the report date (or shorter period if the expected life of the instrument is less than 12 months).

Measurement of ECLs

ECLs are a probability weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. ECLs are discounted at the effective interest rate of the financial assets.

Credit-impaired financial assets

At each reporting date, the Authority assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial assets have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- fee has not been received 90 days after the statutory due date;
- evidence of impairment on accounts receivable include that the regulated entity is experiencing significant financial difficulty, there is a probability that they will liquidate or deregister or there has been a long-term delinquency in payments;
- significant financial difficulty of the issuer or obligor;
- the disappearance of an active market for that financial asset;
- it becomes probable that the issuer or obligor will enter bankruptcy or other financial reorganisation.

Presentation of allowance for ECLs in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amounts of the assets. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating or an improvement in the ECLs), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

Impairment testing of accounts and other receivables is described in Note 6. The difference between the carrying amount and realised balance is taken to the statement of comprehensive income.

Financial assets, other than accounts and other receivables, are only derecognised when contractual rights to cash flow expire. For accounts and other receivables, the gross carrying amount is written off when the Authority has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof. For individual licensees, the Authority has a policy of writing off the gross carrying amount when

2.5.4 Impairment of financial assets (continued)

the licensee ceases operation and is deregistered by the Authority and the Bermuda Registrar of Companies ("ROC"). The Authority expects no significant recovery from the amount written off.

2.6 Leases

The Authority has applied IFRS 16 using the modified retrospective approach with practical expedients and therefore the comparative information has not been restated and continues to be reported under IAS 17.

2.6.1 Recognition and Initial Measurement - Policy applicable from January 1, 2019

The Authority assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract has an identifiable asset from which the Authority obtains substantially all the economic benefits and conveys to the Authority the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Authority uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after January 1, 2019.

(a) As a lessee

At commencement of a contract that contains a lease component, the Authority allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

The Authority recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Authority by the end of the lease term or the cost of the right-of-use asset reflects that the Authority will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

2.6 Leases (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Authority's incremental borrowing rate. The Authority uses its incremental borrowing rate of 4.75% as the discount rate.

The Authority determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- the exercise price under a purchase option that the Authority is reasonably certain to exercise, lease payments in an optional renewal period if the Authority is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Authority is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if the Authority changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Authority presents right-of-use assets in property and equipment and lease liabilities separately in the statement of financial position.

During 2019, the Authority did not enter into any contract as a lessor.

2.6 Leases (continued)

(b) Short-term leases and leases of low-value assets

The Authority has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including cancellable leases. The Authority recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

2.6.2 Recognition and Initial Measurement - Policy applicable prior to January 1, 2019

For contracts entered into before January 1, 2019, the Authority determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

(c) As a lessee

In the comparative period, as a lessee the Authority had no leases that transferred substantially all of the risks and rewards of ownership as finance leases.

Assets held under other leases were classified as operating leases and were not recognised in the Authority's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

Prior to January 1, 2019, the Authority had not entered into a contract as a lessor.

2.7 Impairment of property, equipment and intangible assets

Property, equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable at each statement of financial position date. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the Authority would, if deprived of the asset, replace its remaining future economic benefits or service potential.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written-down to the recoverable amount. The total impairment loss is recognised in the statement of comprehensive income.

The reversal of an impairment loss is recognised in the statement of comprehensive income to the extent that an impairment loss for that class of asset was previously recognised.

2.8 Stock of notes, coins and numismatic items

2.8.1 Stock of notes and coins for/in circulation

The stock of notes and coins for circulation is stated at the lower of cost and net realisable value. Cost is determined using a "first in, first out" (FIFO) method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

When currency is issued, inventory is reduced and an expense is recorded within "Circulation note and coin expenses" in the statement of comprehensive income for currency issuance costs. The face value of the currency issued is also recognised as a liability within "Notes and coins in circulation" in the statement of financial position.

2.8.2 Stock of numismatic items

Numismatic items consist of commemorative coins, circulation notes and coins for resale. The stock of numismatic items is stated at the lower of cost determined on a FIFO basis, and net realisable value. The proceeds from sales of commemorative coins are included in "Revenue from contracts with licensees and customers" in the statement of comprehensive income.

2.9 Cash and cash equivalents

Cash and cash equivalents includes cash and deposits, unrestricted overnight balances held with the US Federal Reserve and demand deposits with maturity of ninety days or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Authority in the management of its short-term commitments. Cash at banks earns interest at floating rates, based on daily bank deposits. Bank overdrafts that are repayable on demand are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

2.10 Employee benefits

(a) Short-term employee benefits

Employee benefits that are due to be settled within 12 months after the end of the period in which the employee renders the related service are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to the statement of financial position date, annual leave earned but not yet taken at the statement of financial position date, and sick leave.

Sick leave costs do not accumulate or vest and therefore an expense and liability is only recognised when applied for and approved.

A liability and an expense is recognised for bonuses where there is a contractual obligation or where there is a past practice that has created a constructive obligation.

(b) Post-employment benefits

Payments to defined contribution retirement benefit plans are recognised as expenses when employees have rendered service entitling them to the contributions.

(c) Other long-term employee benefits

Employee benefits that are due to be settled beyond 12 months after the end of period in which the employee renders the related service, such as special retirement benefits, have been calculated on an actuarial basis. The calculations are based on:

- likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and contractual entitlement information; and
- the present value of the estimated future cash flows.

2.10 Employee benefits (continued)

Expected future payments are discounted using market yields on Bermuda government bonds at the statement of financial position date with terms to maturity that match, as closely as possible, the estimated future cash outflows for entitlements. The inflation factor is based on the expected long-term increase in remuneration for employees.

2.11 Provisions

Provisions are recognised when the Authority has a present legal or constructive obligation as a result of past events; it is probable that an outflow of economic benefits will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense. The Authority has not recorded a provision in 2019 nor 2018.

2.12 Revenue recognition

Information about the Authority's accounting policies relating to revenue from contracts with licensees and customers are provided in Note 16.

Supervisory fines are recognised as other income once the Authority has determined a regulated entity is not in compliance with the relevant Act and imposes a fine.

Investment income is recognised using the effective interest method.

Realised gains on sale of quoted securities are recorded at the time of sale and are calculated as the excess of proceeds over amortised costs.

2.13 Going concern

Management has assessed that the Authority has the ability to continue as a going concern and has accordingly prepared these financial statements on a going concern basis.

2.14 Events after the year-end reporting period

Events after the reporting period that provide additional information about the Authority's financial position at the year-end (adjusting events) are reflected in these financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to financial statements, when material.

Since December 31, 2019 many countries including Bermuda have experienced an outbreak of the COVID-19 virus and on March 11, 2020 the World Health Organization officially declared the outbreak of COVID-19 a global pandemic. Management is closely monitoring the evolution of this pandemic, including how it may affect the economy and the general population. The Authority considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event which has no impact on its assets and liabilities as at December 31, 2019. Given the inherent uncertainties, it is not practicable at this time to determine the impact of COVID-19 on the future operating and financial performance of Authority or to provide a quantitative estimate of this impact.

2.15 Changes in significant accounting policies

Except for the changes below, the Authority has consistently applied its accounting policies to all periods presented in the financial statements.

The Authority has initially applied IFRS 16 from January 1, 2019. A number of other new standards are also effective from January 1, 2019 but they do not have a material effect on the Authority's financial statements.

The Authority has applied IFRS 16 using the modified retrospective approach with practical expedients and therefore the comparative information has not been restated and continues to be reported under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

(a) Definition of a lease

Previously, the Authority determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Authority now assesses whether a contract is or contains a lease based on the definition of lease, as explained in Note 2.6.

On transition to IFRS 16, the Authority elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Authority applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

2.15 Changes in significant accounting policies (continued)

Leases with a short remaining term which ends or terminated within 12 months of the date of initial application of IFRS 16 were accounted for as short-term leases.

(b) As a lessee

As a lessee, the Authority leases office space and IT equipment. The Authority previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Authority. Under IFRS 16, the Authority recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on the statement of financial position.

At commencement or on modification of a contract that contains a lease component, the Authority allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

(i) *Leases classified as operating leases under IAS 17*

Previously, the Authority classified property leases as operating leases under IAS 17.

The Authority used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Authority:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases that are cancellable;
- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

The Authority did not have leases classified as finance leases prior to date of initial application neither did the Authority have lease contracts as a lessor.

(c) Impact on transition

On transition to IFRS 16, the Authority elected to apply modified retrospective approach with practical expedients. The Authority did not recognise right-of-use assets and liabilities for its existing equipment leases which term ends within 12 months from the date of initial application. The Authority continued to account for these leases with short remaining terms and cancellable lease of museum space at the National Museum of Bermuda as short-term lease expense in 2019 (Note 13).

The Authority has no other lease contracts prior to January 1, 2019 that require restatement of comparative balances and recognition of right-of-use assets and liabilities. New lease contracts entered into during the year 2019 were accounted for under IFRS 16.

(In thousands of Bermuda dollars)

2.16 New and amended standards not yet adopted

The following amended standards and interpretations are not expected to have a significant impact on the Authority's financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- IFRS 17 *Insurance Contracts*

3. Financial risk management

(a) Fair value of financial instruments

(i) Carrying amount and fair value of financial instruments

The carrying amount and fair values of financial assets and liabilities are presented in the following table:

	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
FINANCIAL ASSETS				
Current financial assets				
Cash and cash equivalents	55,994	55,994	44,996	44,996
Accounts and other receivables	773	773	1,834	1,834
Investments	7,022	7,046	5,012	5,061
Non-current financial assets				
Investments	100,829	102,295	103,110	100,761
Total financial assets	164,618	166,108	154,952	152,652
FINANCIAL LIABILITIES				
Current financial liabilities				
Notes and coins in circulation	152,053	152,053	141,915	141,915
Accounts and other payables	8,023	8,023	6,783	6,783
Deferred income	192	192	488	488
Lease liabilities	214	257	-	-
Non-current financial liabilities				
Lease liabilities	774	836	-	-
Total financial liabilities	161,256	161,361	149,186	149,186

(In thousands of Bermuda dollars)

3. Financial risk management (continued)

(ii) Financial instruments at fair value

The fair value of investments, at amortised cost as per Note 3(a) (i) is classified using a fair-value hierarchy that reflects the significance of the inputs disclosed in making the measurements:

Level 1 – quoted prices in active markets
Level 2 – inputs are observable either directly or derived from quoted prices
Level 3 – no observable inputs

The fair-value hierarchy requires the use of observable market inputs wherever such inputs exist. A financial instrument is classified at the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

	Level 1	Level 2	Level 3	Total
Financial instruments at fair value as at December 31, 2019				
Investments, current	7,046	-	-	7,046
Investments, non-current	102,295	-	-	102,295
Total financial instruments	109,341	-	-	109,341
Financial instruments at fair value as at December 31, 2018				
Investments, current	5,061	-	-	5,061
Investments, non-current	100,761	-	-	100,761
Total financial instruments	105,822	-	-	105,822

The Authority is exposed to credit risk, market risk, and liquidity risk as a result of holding financial instruments. The following is a description of those risks and how the Authority manages its exposure to them.

3. Financial risk management (continued)

(b) Credit risk

Credit risk is the risk of loss of principal or interest due to uncertainty in counterparty's ability to meet its obligations. The Authority is exposed to credit risk arising from investments in US Government, US Government Agency and Supranational Banks' debt securities, cash and cash equivalents and accounts and other receivables. The Authority manages credit risk by adhering to the fund management policy guidelines set forth by the Board's Investment Committee. The Authority is exposed to a concentration of credit risk as 65% (2018 – 65%) of its income earning assets are in US Government and US Government Agency securities.

The Authority held no past due investments as at December 31, 2019 and 2018.

The Authority limits its exposure to credit risk from accounts receivables by establishing payment terms as follows:

All annual fees for regulated entities are legislated and due in accordance with the following Acts:

- The Banks and Deposit Companies Act 1999: Annual fees in respect of this Act are due on or before March 31 of the calendar year.
- The Banks and Deposit Companies (Fees) Act 1975: Annual fees in respect of this Act are due on or before January 31 of the calendar year.
- Money Service Business Act 2016: Annual fees in respect of this Act are due on or before March 31 of the calendar year.
- Corporate Service Provider Business Act 2012: Annual fees in respect of this Act are due on or before March 31 of the calendar year.
- Credit Unions Act 2010: Annual fees in respect of this Act are due on or before March 31 of the calendar year.
- Digital Assets Business Act 2018: Annual fees in respect of this Act are due on or before March 31 of the calendar year.
- Fund Administration Provider Business Act 2019: Annual fees in respect of this Act are due on or before March 31 of the calendar year.
- Insurance Act 1978: Application and Registration Fees in respect of this Act are due upon application. Annual fees in respect of this Act are due on or before March 31 of the calendar year.
- Investment Business Act 2003: Annual fees in respect of this Act are due on or before March 31 of the calendar year.
- Investment Funds Act 2006: Annual fees in respect of this Act are due on or before March 31 of the calendar year.
- Trust (Regulation of Trust Business) Act 2001: Annual fees in respect of this Act are due on or before March 31 of the calendar year.
- Proceeds of Crime (Anti-Money Laundering and Anti-Terrorist Financing Supervision and Enforcement) Act 2008: Application fees in respect to this Act are due upon application. The first annual fee is payable upon registration. Succeeding annual fees in respect to this Act are due on or before March 31 of the calendar year.

(In thousands of Bermuda dollars)

3. Financial risk management (continued)

The credit quality of financial assets can be assessed by reference to the external credit rating and default rates published by Standard and Poor's:

	2019	2018
Investments		
AAA **	37,612	37,576
AA+ **	70,239	70,546
** Moody's equivalent grade is Aaa.	107,851	108,122
Cash and cash equivalents		
Cash at bank and in-hand		
AA+	279	338
AA	308	345
A-	827	790
BBB+	656	-
BBB	-	300
Not rated	24	23
	2,094	1,796
Overnight repurchase agreements		
AA+	53,900	43,200
	55,994	44,996

Investments

This account consists of:

	2019	2018
US Government and US Government Agencies	70,239	70,546
Supranational Bank	37,612	37,576
	107,851	108,122

Impairment on cash and cash equivalents and investments held at amortised cost was measured on a 12-month ECL basis. This conclusion was based on the fact that:

- the Authority considers that its cash and cash equivalents and investments have a low credit risk based on the external credit ratings of the counterparties;
- there was no significant change in the credit rating of any of the counterparties over the last 12 months.

The Authority held cash and cash equivalents of $55,994 at December 31, 2019 (2018 - $44,996). The cash and cash equivalents are held with bank and financial institution counterparties, which are rated BBB to AA+, based on Standards and Poor's ratings.

(In thousands of Bermuda dollars)

3. Financial risk management (continued)

Impairment on cash and cash equivalents has been measured on a 12-month ECL basis and reflects the short maturities of the exposures. The Authority considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

The Authority uses a similar approach for assessment of ECLs for cash and cash equivalents to those used for debt securities.

The following table presents an analysis of the credit quality of investments at amortised cost. It indicates whether assets measured at amortised cost were subject to a lifetime ECL allowance.

	2019	2018
Investments		
AAA	37,692	37,689
AA+	70,304	70,642
Gross carrying amount	107,996	108,331
Less allowance for impairment	(145)	(209)
	107,851	108,122

The movement in the allowance for impairment for investments at amortised cost during the year was as follows.

	2019 12-month ECL Credit impaired	2018 12-month ECL Credit impaired
Balance at January 1	209	245
Adjustment on impairment allowance	(64)	(36)
Balance at December 31	145	209

The decline in the loss allowance was mainly due to decrease in credit risk as the lifetime of securities shortens. There was no material movement on the ECL for cash and cash equivalents.

Amortisation or accretion of the premiums/discounts on investments is included in “Investment income” (Note 18) in the statement of comprehensive income.

(c) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk, and price risk.

(In thousands of Bermuda dollars)

3. Financial risk management (continued)

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Authority's exposure to interest rate risk in the form of fluctuations in future cash flows of existing financial instruments is limited to cash and cash equivalents, since these instruments are subject to variable interest rates. The remainder of the Authority's financial assets and liabilities have either fixed interest rates or are non-interest-bearing.

The interest rate risk table below is based on the Authority's contracted portfolio as reported in the Authority's statement of financial position. All financial instruments are shown at their repricing period which is equivalent to the remaining term to maturity.

Sensitivity to interest rate risk

The figures below show the effect on the Authority's comprehensive loss and equity of a movement of +/- 1 percentage point in interest rates, given the level, composition and duration of the Authority's foreign currency and Bermuda dollar financial instruments as at year end. The valuation effects shown are generally reflective of the Authority's exposure over the financial year.

		2019		2018
	+1%	-1%	+1%	-1%
Change in comprehensive (loss)/income/equity due to movement of percentage point across yield curves:				
US dollar overnight repurchase agreement with the US Federal Reserve	577	(577)	541	(541)
US dollar quoted securities	1,074	(1,074)	1,073	(1,073)
Total	1,651	(1,651)	1,614	(1,614)

An increase in interest rates of 1% would result in additional income of $1,651 (2018 - $1,614). A decrease in interest rates of 1% would result in a decrease in income of $1,651 (2018 - $1,614).

3. Financial risk management (continued)

(ii) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

At December 31, 2019 and 2018, the Authority did not hold a significant amount of foreign currency other than US dollars, which are par with Bermuda dollars. Given the small size of the net foreign currency exposure relative to the total assets of the Authority, currency risk is not considered material.

(iii) Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from changes in interest and exchange rates), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar instruments traded in the market.

As the Authority only invests in fixed income securities and term deposits which are held to maturity, the Authority has no significant exposure to price risk.

(d) Liquidity risk

Liquidity risk is the risk that the Authority will encounter difficulty in meeting obligations associated with its financial liabilities.

The Authority's largest liability is notes and coins in circulation. As a counterpart to this non-interest bearing liability with no fixed maturity, the Authority holds a portfolio of highly liquid cash and cash equivalents and investments. In the event of an unexpected redemption of bank notes, the Authority has the ability to settle the obligation by selling its assets.

The table below analyses the Authority's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months are equal to their carrying balances as the impact of discounting is not significant.

(In thousands of Bermuda dollars)

3. Financial risk management (continued)

The fair value of investments presented in the table below are based on year-end quoted market prices.

As at December 31, 2019

	Total	No fixed maturity	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
FINANCIAL ASSETS						
Cash and cash equivalents	55,994	55,994	-	-	-	-
Investments (fair value)	109,341	-	-	7,046	78,726	23,569
Accounts and other receivables	773	773	-	-	-	-
Total financial assets	166,108	56,767	-	7,046	78,726	23,569
FINANCIAL LIABILITIES						
Notes and coins in circulation	152,053	152,053	-	-	-	-
Accounts and other payables	8,023	8,023	-	-	-	-
Deferred income	192	192	-	-	-	-
Lease liabilities	1,093	-	55	202	836	-
Total financial liabilities	161,361	160,268	55	202	836	-
Net maturity difference	4,747	(103,501)	(55)	6,844	77,890	23,569

As at December 31, 2018

	Total	No fixed maturity	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
FINANCIAL ASSETS						
Cash and cash equivalents	44,996	44,996	-	-	-	-
Investments (fair value)	105,822	-	-	5,061	51,183	49,578
Accounts and other receivables	1,834	1,834	-	-	-	-
Total financial assets	152,652	46,830	-	5,061	51,183	49,578
FINANCIAL LIABILITIES						
Notes and coins in circulation	141,915	141,915	-	-	-	-
Accounts and other payables	6,783	6,783	-	-	-	-
Deferred income	488	488	-	-	-	-
Total financial liabilities	149,186	149,186	-	-	-	-
Net maturity difference	3,466	(102,356)	-	5,061	51,183	49,578

3. Financial risk management (continued)

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Authority's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all areas of the Authority's operations.

The Authority's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Authority's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall standards for the management of operational risk.

Compliance with the standards is supported by a programme of periodic reviews undertaken by internal audit. The results of the internal audit reviews are discussed with line management, with summaries submitted to the Board's Audit and Risk Management Committee and senior management.

4. Critical accounting estimates and judgements

4.1 Fair value estimation

Given the short-term nature of the Authority's financial assets and liabilities, the carrying value of cash and cash equivalents, accounts and other receivables/payables, and notes and coins in circulation are assumed to approximate their fair values. The fair value of investments is based on quoted prices in active markets (Note 3(a) (i)).

4.2 Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires the Authority to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimates in these financial statements include:

- provisions for impairment of accounts and other receivables;
- economic use and life of property and equipment and intangible assets;
- provisions for impairment on property and equipment and intangible assets;
- provisions for impairment of stock of numismatic items;
- assumptions made in the determination of the incremental borrowing rate;

(In thousands of Bermuda dollars)

4. Critical accounting estimates and judgements (continued)

- assumptions made in the determination of special retirement benefits; and
- provisions for impairment of investments.

Actual results could differ from these estimates.

The following are the critical judgements, apart from those involving estimation:

- assessment on the ability to continue as a going concern; and
- assessment on the Authority's positive intention and ability to hold investments to maturity.

5. Cash and cash equivalents

This account consists of:

	2019	2018
Cash at bank and in hand	2,094	1,796
Overnight repurchase agreement with the US Federal Reserve	53,900	43,200
Total	55,994	44,996

Cash at bank earns interest at an effective rate of 2.53% (2018 – 2.14%)

Overnight repurchase agreements for terms of one business day are acquired through buyback transactions with the US Federal Reserve to earn an overnight interest rate.

6. Accounts and other receivables

This account consists of:

	2019	2018
Accounts receivable	739	1,729
Less: provision for impairment of receivables	(563)	(545)
Accounts receivable – net	176	1,184
Accrued interest	597	650
Total	773	1,834

The ageing analysis of accounts receivable are as follows:

	2019	2018
Up to 3 months	176	1,184
Total	176	1,184

(In thousands of Bermuda dollars)

6. Accounts and other receivables (continued)

As at December 31, 2019, accounts receivable of $563 (2018 - $545) were impaired and fully provided for. The individually impaired receivables mainly relate to fees charged to regulated entities. The ageing of these receivables is as follows:

	2019	2018
Up to 3 months	24	14
3 to 6 months	46	36
Over 6 months	493	495
Total	563	545

Movements on the provision for impairment of accounts receivable are as follows:

	2019	2018
Balance as at January 1	545	755
Provision (release of provision) for impairment of receivables	18	(210)
Balance as at December 31	563	545

The creation and release of the provision for impairment of receivables has been presented as a separate line in the statement of comprehensive income. The Authority provides 100% for all trade balances that are greater than 90 days past due. Amounts charged to the provision for impairment of accounts receivable are generally written off when there is no expectation of recovery. An ECL of 0.01% was recognised on the balances less than 90 days due. However, a specific provision was made against late penalty fees less than 90 days past due.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Authority does not hold any collateral as security.

7. Stock of numismatic items

This account consists of:

	2019	2018
Commemorative notes and coins	1,229	761
Circulation notes and coins	17	19
Bullion for inventory production	111	179
Provisions	(155)	(149)
	1,202	810

(In thousands of Bermuda dollars)

8. Stock of notes and coins for circulation

This account consists of:

	2019	2018
Notes	4,051	4,458
Coins	466	438
	4,517	4,896

The cost of stocks recognised as expenses and included in “circulation note and coin expenses” amounted to $633 (2018 - $390).

9. Property and equipment

This account consists of:

	Land, building and improvements	Computer equipment	Furniture and fixtures	Museum items	Total
At January 1, 2019					
Cost	31,111	3,247	2,988	72	37,418
Accumulated depreciation	(10,368)	(2,359)	(2,962)	-	(15,689)
Net book amount	20,743	888	26	72	21,729
Additions	-	312	146	5	463
Recognition of right-of-use assets on initial application of IFRS 16	623	455	-	-	1,078
Disposals – cost	-	(243)	-	-	(243)
Disposals - accumulated depreciation	-	243	-	-	243
Depreciation charge	(838)	(521)	(37)	-	(1,396)
Closing net book amount	20,528	1,134	135	77	21,874
At December 31, 2019					
Cost	31,734	3,771	3,134	77	38,716
Accumulated depreciation	(11,206)	(2,637)	(2,999)	-	(16,842)
Net book amount	20,528	1,134	135	77	21,874

(In thousands of Bermuda dollars)

9. Property and equipment (continued)

This account consists of:

	Land, building and improvements	Computer equipment	Furniture and fixtures	Museum items	Total
At January 1, 2018					
Cost	31,111	3,014	2,987	72	37,184
Accumulated depreciation	(9,592)	(2,062)	(2,897)	-	(14,551)
Net book amount	21,519	952	90	72	22,633
Additions	-	362	1	-	363
Disposals – cost	-	(129)	-	-	(129)
Disposals - accumulated depreciation	-	129	-	-	129
Depreciation charge	(776)	(426)	(65)	-	(1,267)
Closing net book amount	20,743	888	26	72	21,729
At December 31, 2018					
Cost	31,111	3,247	2,988	72	37,418
Accumulated depreciation	(10,368)	(2,359)	(2,962)	-	(15,689)
Net book amount	20,743	888	26	72	21,729

Depreciation of $1,396 (2018- $1,267) has been charged in the statement of comprehensive income.

The cost of property and equipment fully depreciated and still in use are:

	2019	2018
Furniture and fixtures	2,944	2,910
Computer equipment	1,462	1,365

(In thousands of Bermuda dollars)

10. Intangible assets

This account consists of:

	Computer software					
	2019			2018		
	Internally developed	Externally acquired	**Total**	Internally developed	Externally acquired	**Total**
At January 1						
Cost	5,674	8,105	**13,779**	5,738	6,373	**12,111**
Accumulated amortisation	(5,674)	(2,531)	**(8,205)**	(5,737)	(2,195)	**(7,932)**
Net book amount	-	5,574	**5,574**	1	4,178	**4,179**
Additions	-	1,520	**1,520**	-	2,026	**2,026**
Disposals – cost	(27)	(170)	**(197)**	(64)	(294)	**(358)**
Disposals - accumulated amortisation	27	170	**197**	64	294	**358**
Amortisation charge	-	(1,651)	**(1,651)**	(1)	(630)	**(631)**
Closing net book amount	-	5,443	**5,443**	-	5,574	**5,574**
At December 31						
Cost	5,647	9,455	**15,102**	5,674	8,105	**13,779**
Accumulated amortisation	(5,647)	(4,012)	**(9,659)**	(5,674)	(2,531)	**(8,205)**
Net book amount	-	5,443	**5,443**	-	5,574	**5,574**

Amortisation of $1,651 (2018 - $631) is included in the statement of comprehensive income.

The cost of software fully amortised and still in use in 2019 is $7,357 (2018 - $6,706).

There were no research and development costs charged to the statement of comprehensive income in 2019 and 2018.

11. Accounts and other payables

This account consists of:

	2019	2018
Accrued expenses	5,737	4,951
Accounts payable	273	240
Amounts due to related parties (Note 23)	2,013	1,592
	8,023	6,783

(In thousands of Bermuda dollars)

12. Deferred income

This account consists of:

	2019	2018
Advances from licensees	143	404
Incorporation and specific application fees	12	47
Jardine property takeover fees	37	37
	192	488

13. Leases

The Authority leases office space and IT equipment. The leases typically run for a period of 4 years for IT equipment and 5 years for office space.

The office space lease was entered into during 2019. The lease expires in 2024 with an option to renew for a further term of 5 years. The Authority has recognised a right-of-use asset and lease liability for this lease.

The Authority did not recognise right-of-use assets and liabilities for its existing equipment leases which term ends during 2019. These IT equipment leases were classified as operating leases under IAS 17 and the Authority continued to account for these leases as short-term lease expenses in 2019. However, for new leases of IT equipment entered into during 2019, the Authority recognised right-of-use assets and liabilities.

The Authority also leases museum space. This lease is cancellable at any time. The Authority elected not to recognise right-of-use assets and liabilities for this lease.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period.

	IT equipment	Office space	Total
Balance at January 1, 2019	-	-	-
Additions to right-of-use assets (Note 9)	455	623	1,078
Depreciation charge for the year (Note 9)	(81)	(62)	(143)
Balance at December 31, 2019	374	561	935

(In thousands of Bermuda dollars)

13. Leases (continued)

Set out below are the carrying amounts of lease liabilities.

	IT equipment	Office space	Total
Balance at January 1, 2019	-	-	-
Additions to lease liabilities	455	623	1,078
Accretion of interest	14	15	29
Payment of lease liabilities	(96)	(23)	(119)
Balance at December 31, 2019	373	615	988

	2019
Lease liabilities, current	214
Lease liabilities, non-current	774
Balance at December 31, 2019	988

The following are the amounts recognised in statement of comprehensive income:

	2019
Depreciation expense on right-of-use assets	143
Expenses relating to short-term leases – IT equipment	38
Expenses relating to short-term leases - Museum space rent	15
Interest on lease liabilities	29
Total amount recognised in the statement of comprehensive income	225

Amounts recognised in statement of cash flows :

	2019
Total cash outflow for leases	119

14. Notes and coins in circulation

In accordance with Part IV, Section 11 of the Act, the Authority has sole authority to issue notes and coins for circulation in Bermuda. Notes and coins issued are a claim on the Authority in favour of the holder. Notes and coins in circulation are recorded at face value as a liability on the statement of financial position. These are non-interest bearing and are due on demand.

Section 19 of the Act requires the Authority to hold a reserve of external assets of an amount in value sufficient to cover 50% of the value of the total amount of notes and coins in circulation. As defined under the Act, the external assets held shall include, inter alia, (a) gold; (b) notes or coins or bank balances in Bermuda; (c) balances and money at call in overseas banks; (d) treasury bills maturing within 184 days, issued by a foreign government whose currency is freely convertible; (e) specified securities; or (f) balances with Crown Agents.

(In thousands of Bermuda dollars)

14. Notes and coins in circulation (continued)

At December 31, 2019, the Authority was required to hold a reserve of external assets of at least $76,027 (2018 - $70,958) and the actual external assets held are set out below:

	2019	2018
Balances and money at call in overseas banks	54,487	43,883
Specified securities - current investments (Note 3[a])	7,022	5,012
Specified securities - non-current investments (Note 3[a])	100,829	103,110
	162,338	152,005

As indicated in Note 3(d), at December 31, 2019, the fair value of the Authority's total financial assets exceeded its financial liabilities by $4,747 (2018 - $3,466).

15. Equity

The Authority manages its equity (capital and general reserve) in compliance with the requirements of the Act.

(a) Capital

The Authority's authorised capital of $30,000 can be subscribed at such times and in such amounts as the Board, with the approval of the Minister of Finance (the "Minister"), may require. As at December 31, 2019 capital of $20,000 (2018 - $20,000) has been subscribed.

The Authority is not in violation of any externally imposed capital requirements at the statement of financial position date (see Note 14 - notes and coins in circulation).

(b) General Reserve

A general reserve of $17,203 (2018 - $19,757) has been established and maintained in accordance with Section 8 of the Act.

(In thousands of Bermuda dollars)

16. Revenue from contracts with licensees and customers

(a) Revenue streams

The Authority generates revenue primarily from supervisory and licensing fees. Other sources of revenue include investment income, vault commission, incorporation fee and sale of numismatic items.

	2019	2018
Revenue from contracts with licensees and customers		
Contracts with licensees	50,658	44,505
Contracts with customers	49	58
Other contracts	75	75
	50,782	44,638
Other revenue		
Investment income (Note 18)	3,777	3,578
Revenue from fines, penalties and other income (Note 17)	1,085	400
	4,862	3,978
Total revenues	55,644	48,616

(b) Disaggregation of revenue from contracts with licensees and customers

In the following tables, revenue from contracts with licensees and customers is disaggregated by type of fees and timing of revenue recognition.

(i) Type of fees

	2019	2018
Licensing fees		
Insurance fees	42,252	36,637
Bank and deposit company fees	4,782	4,558
Investment funds	1,226	987
Investment business licence fees	713	653
Trust company fees	657	557
Corporate Service Provider fees (“CSP fees”)	311	317
Digital Asset Business Act Fees	201	7
Anti-money laundering fees (“AML fees”)	63	336
Credit Union licence fees	3	3
	50,208	44,055
Other revenue		
Vault commission	450	450
Jardine property takeover	75	75
Sale of numismatic items	49	58
	574	583
Total revenues	50,782	44,638

(In thousands of Bermuda dollars)

16. Revenue from contracts with licensees and customers (continued)

(ii) Timing of revenue recognition

	2019	2018
At a point in time		
Incorporation and specific application fees	5,087	3,323
Sale of numismatic items	49	58
	5,136	3,381
Over time		
Supervisory and licensing fees (annual business fees)	45,121	40,732
Vault commission	450	450
Other contracts	75	75
	45,646	41,257
Total revenues	50,782	44,638

(c) Contract balances

	2019	2018
Contract assets		
Receivables which are included in “trade and other receivables” (Note 6)	176	1,184
	176	1,184
Contract liabilities		
Deferred income (Note 12)	192	488
	192	488

16. Revenue from contracts with licensees and customers (continued)

(d) Performance obligations and revenue recognition policies

(i) Contracts with licensees

Revenue stream	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
Supervisory and licensing fees	Supervisory and licensing fees are invoiced for a calendar year or part thereof. The Authority renders the performance obligation throughout the calendar year in form of licensing and provision of supervisory duties. Payment is due by the last working day of January for the banks and due by March 31, for the rest of the licensees.	Revenue is recognised over the calendar year period to which it relates.
Incorporation fees and specific application fees	Incorporation fees and specific application fees relate to applications for incorporations or any other specific applications by the registrants. The performance obligation is satisfied when the applications are completed and approved. Payment is due on demand as soon as the invoice is raised after the performance obligation has been satisfied	Revenue is recognised at the point in time when the Authority's performance obligation has been satisfied.
Currency warehousing contracts (vault commission)	The performance obligation is the warehousing and vault facility services provided by the Authority to the respective Banks throughout the year. The payment is due on the last working day of January of every calendar year.	Revenue is recognised over the calendar year period to which it relates.

(d) Performance obligations and revenue recognition policies

(ii) Contracts with customer

Revenue stream	Nature and timing of satisfaction of Performance obligations, including significant payment terms	Revenue recognition policies
Sale of numismatic items	The performance obligation is the provision of special coins to customers in exchange for a consideration. The payment is due at a point in time when the performance obligation is satisfied.	Revenue is recognised at a point in time when the performance obligation is satisfied.

(In thousands of Bermuda dollars)

17. Revenue from fines, penalties and other income

This account consists of :

	2019	2018
Anti-money laundering fines ("AML fines")	500	-
Late penalty fees	344	229
Investment Business Act fines ("IBA fines")	200	-
Insurance fines	41	154
Miscellaneous income	-	17
	1,085	400

In accordance with Section 24 (5) of the Proceeds of Crime Regulations (AML and ATF Supervision and Enforcement) Act 2008, AML fees in the amount of $64 (2018 - $336) were recognised as revenue and expenses in the amount of $2,450 (2018 - $2,277) were incurred.

AML fines in the amount of $500 (2018 -$nil) were recognised as other income.

18. Investment income

This account consists of:

	2019	2018
Interest on investments	2,763	2,857
Interest earned on overnight repurchase agreement with the US Federal Reserve	1,278	982
Net amortisation/accretion of premiums/discounts on investments	(264)	(261)
	3,777	3,578

19. Salaries and employee benefits

This account consists of:

	2019	2018
Salaries and bonuses	35,189	31,453
Payroll tax	3,919	3,308
Pension costs	1,611	1,302
Health insurance	1,400	1,213
Directors' fees	403	396
Life insurance	391	434
Social insurance costs	385	356
Other benefits	90	90
	43,388	38,552

19. Salaries and employee benefits (continued)

The Authority has 215 employees at December 31, 2019 (2018 – 196).

Employee benefits include the following:

(a) Pension plans

The Authority provides various pension schemes to its eligible employees:

(i) Defined contribution plan

The Authority has a defined contribution plan administered by BF&M Life (the "Plan") for the majority of its eligible employees. A defined contribution plan is a post-employment benefit plan under which the Authority pays fixed contributions. The Authority has no legal or constructive obligations to pay further contributions.

Employee contributions to the Plan are 5% of gross salary matched by the Authority. These contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. The balance of prepaid contributions as at December 31, 2019 amounted to $nil (2018 - $33) and is included in prepayments. The Authority's contributions to the Plan during the year were $1,515 (2018 - $1,297).

(ii) Defined benefit plan

The Authority contributes to the Public Service Superannuation Fund ("PSSF" or the "Fund"), which is a defined benefit plan, administered by the Government and covers the remainder of the Authority's eligible employees, all of whom were previous employees of the Government. Contributions of 8% (2018 – 8%) of gross salary are required from both the employee and the Authority, and have been included in salaries and employee benefits. As part of the agreement to transfer this employee group to the Authority, the Authority is not required to make contributions to the Fund with respect to the quantified actuarial deficiencies. As a result, the current year contributions to the Fund represent the total liability of the Authority. The Authority's contributions to the Fund during the year were $96 (2018 - $93).

(b) Other employee benefits

Other employee benefits include maternity leave, paternity leave, sick leave, vacation days and special retirement benefits. All these benefits are unfunded.

Maternity and paternity leave costs do not accumulate or vest and therefore an expense and liability is only recognised when applied for and approved. There were no maternity and paternity benefits applied for or approved during the current year and therefore, no liabilities have been accrued in the financial statements.

(In thousands of Bermuda dollars)

19. Salaries and employee benefits (continued)

Sick leave does not accumulate or vest, and like maternity and paternity leave, a liability is only recognised when extended leave is applied for and approved. There was no extended sick leave applied for or approved during the current year and therefore, no liabilities have been accrued in the financial statements.

Vacation days accumulate and vest and therefore a liability is accrued each year. The accrued vacation liability as at December 31, 2019 was $697 (2018- $575) and is included in accounts and other payables.

Certain employees are entitled to special retirement benefits based upon their years of service at the time of retirement. The present value of the special retirement benefits obligation depends on a number of factors that are determined on an actuarial basis. Two key assumptions used in calculating this liability include the discount rate and salary inflation. Any changes in these assumptions will affect the carrying amount of the liability. During the year, special retirement benefits of $17 (2018 – $nil) were paid or about to be paid out. The liability as at December 31, 2019 was $310 (2018 - $292) and is included in accounts and other payables.

20. General expenses

This account consists of:

	2019	2018
Premises and office	4,910	4,082
Conferences, seminars, education and training	1,421	1,249
Recruitment and repatriation	568	442
Communication	443	381
Other	362	320
Public relations	181	80
Annual business fees written off	137	331
Advertising	82	73
Net foreign exchange loss	63	82
Provision for impairment on numismatic items	6	27
	8,173	7,067

(In thousands of Bermuda dollars)

21. Cash generated from operations

	2019	2018
Non-cash items included in total comprehensive loss for the year		
Depreciation of property and equipment (Note 9)	1,396	1,267
Amortisation of intangible assets (Note 10)	1,651	631
Amortisation/accretion of premiums/discounts on investments (Note 18)	264	261
Lease interest expense (Note 13)	29	-
Provision for impairment of cash and cash equivalents and investments (Note 3)	(64)	(36)
Provision for impairment of receivables (Note 6)	18	(210)
Provision for impairment on numismatic items (Note 20)	6	27
	3,300	1,940
Change in operating assets		
Stock of notes and coins for circulation	379	119
Stock of numismatic items	(398)	8
Accounts and other receivables	1,043	(731)
Prepayments	177	(464)
	1,201	(1,068)
Change in operating liabilities		
Accounts and other payables	1,240	171
Deferred income	(296)	57
	944	228

22. Commitments

The Authority has some long-term contracts and agreements of various sizes and importance with outside service providers. Any financial obligations resulting from these are recorded as a liability when the terms of these contracts and agreements for the acquisition of goods and services or the provision of transfer payments are met.

Annual contractual commitments are as follows:

	2019	2018
2019	-	1,205
2020	910	768
2021	318	259
2022	169	167
2023	169	-
Thereafter	167	324
	1,733	2,723

(In thousands of Bermuda dollars)

22. Commitments (continued)

Capital commitments (included in contractual commitments), represent expenditure contracted for at the statement of financial position date but not yet incurred and are as follows:

	2019	2018
Intangible assets	76	24
	76	24

23. Related-party transactions

The Authority is related to the Government in that the Act gives the Minister the ability to give the Authority, after consultation with the Authority, such general directions as appear to the Minister to be necessary in the public interest. Additionally, the Minister appoints all members of the Authority's Board of Directors and approves the Authority's annual expenditure budget.

The Authority maintains a position of financial and operational autonomy from the Government through its ability to fund its own operations without government assistance and through its management and corporate governance structures.

In the ordinary course of business, the Authority has transactions with the Government which are settled at the prevailing market prices and consist of the following:

	2019	2018
Staff expenses:		
Payroll tax	3,919	3,308
Social insurance	385	356
Pension costs - PSSF	96	93
Premises expense - land tax	244	225
Professional fees – audit	113	96
Other general expenses - immigration fees	153	135
Office expense - postage	2	3

At December 31, 2019, payroll tax amounting to $2,013 (2018 - $1,592) remains outstanding (Note 11).

Board and key management compensation

The Directors of the Board of the Authority are appointed by the Minister to serve for fixed periods of time. The Board, through its Human Capital Committee, oversees the appointment, performance and compensation of the executive leadership team. Board members are paid an annual fee of $20 (2018 - $20), Board sub-committee Chairmen are paid an annual fee of $25 (2018 - $25) and the Board Chairman receives an annual fee of $75 (2018 - $75). Travel expenses of $119 (2018 - $107) were paid to overseas board members.

(In thousands of Bermuda dollars)

23. Related-party transactions (continued)

In accordance with Section 4E of the Bermuda Monetary Authority Act 1969, the Minister of Finance appointed an Executive Chairman to hold office with effect from January 1, 2019 for a three-year period concluding on December 31, 2021. By virtue of such appointment by the Minister of Finance, the law provides that the Executive Chairman shall be the Chief Executive Officer of the Authority. The Executive Chairman is paid an annual salary of $500 in his capacity as CEO and is eligible for a performance-based bonus of up to 45% of base salary. The Executive Chairman also receives the annual fee associated with his role as Chairman of the Board. With effect from 2015, the Chief Executive Officer is eligible for a retention bonus which accrues annually at the rate of 10% of annual base salary through December 31, 2019.

Salaries of the other seven members of the executive team range from $239 to $375 (2018 - $241 to $373), with a performance-based bonus of up to 30% (2018 – 30%) of salary.

The compensation paid or payable to members of the Board and key management is shown below:

	2019	2018
Directors' fees	403	396
Executive management salaries, bonuses and other short-term employee benefits	5,036	3,500
Retention bonus	50	50
Post-employment benefits	237	175

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