



Celebrating Our 15th Anniversary

2010

ANNUAL
REPORT



July 14, 2011

The Rt. Hon. Hubert A. Ingraham
Prime Minister and Minister of Finance
Office of the Prime Minister
Cecil Wallace-Whitfield Centre
Cable Beach
Nassau, N.P., Bahamas

Dear Prime Minister:

In accordance with Section 14(1) of the Securities Industry Act, 1999, I have the honour of submitting to you, on behalf of the Members of the Securities Commission of The Bahamas (the Commission), the Annual Report for the Commission for the year ended 31 December 2010. Included in this Report is the Annual Statement of Accounts of the Commission for the year.

Yours Sincerely,

Philip Stubbs
Chairman and Acting Executive Director

CHAIRMAN'S REMARKS	1
THE BOARD	3
BOARD SUMMARY	4
MANAGEMENT TEAM	6
ORGANISATIONAL OVERVIEW	7
ORGANISATIONAL STRUCTURE	8
WHO WE REGULATE	9
ORGANISATIONAL PERFORMANCE	11
STRATEGIC DIRECTION (2010-2012)	11
2010 STATEMENT OF PRIORITIES AND OPERATIONAL PLAN	12
STRATEGIC ACHIEVEMENTS FOR 2010	12
REGULATORY FUNCTIONS	14
AUTHORISATIONS PROCESS	14
AUTHORISATIONS REGULATORY DEVELOPMENTS	14
LICENSING ACTIVITIES	16
MARKET SURVEILLANCE REGULATORY UPDATES	19
REGISTRANTS AND LICENSEES	20
ON-SITE INSPECTIONS PROGRAMME	24
ON-SITE INSPECTIONS ACTIVITIES	24
ON-SITE INSPECTION FINDINGS	24
2010 INSPECTION INITIATIVES	25
LEGISLATIVE DEVELOPMENTS	26
DRAFT SECURITIES INDUSTRY ACT AND REGULATIONS	26
INVESTMENT FUNDS ACT, 2003	26
LEGISLATIVE REVIEWS SLATED FOR 2011	26

ENFORCEMENT	27
ENFORCEMENT MATTERS	27
INVESTIGATIONS	28
COOPERATION	29
INTERNATIONAL, REGIONAL AND LOCAL COOPERATION	29
MEMBERSHIP	30
CAPITAL MARKETS OVERVIEW	32
INTERNATIONAL CAPITAL MARKET ACTIVITIES	32
DOMESTIC CAPITAL MARKET ACTIVITIES	32
INVESTOR EDUCATION	34
JOINT INITIATIVES	34
PUBLIC SERVICE ANNOUNCEMENT CAMPAIGN	35
2011 INVESTOR EDUCATION INITIATIVES	35
EMPLOYEE DEVELOPMENTS	36
MANAGERIAL DEVELOPMENTS	36
EMPLOYEE OF THE QUARTER	36
15 TH ANNIVERSARY CELEBRATIONS	37
FINANCIAL SUMMARY	39
FINANCIAL STATEMENTS	40

It is indeed my pleasure to present the 2010 Annual Report of the Securities Commission of The Bahamas (the Commission). This year marked the 15th year of the Commission's existence, and the celebration of this milestone was one of a number of notable achievements.

STRATEGIC DIRECTION

During 2010, and beyond, the Commission faced, and is continuing to face, enormous challenges in carrying out its regulatory mandate, as a result of the economic climate and the dynamic changes in the capital markets (both local and global). As we focus on these issues, the Commission remains resolute in responding to the challenge of finding the appropriate resources to ensure the needs of all market participants are met. The *Organisational Performance* section of this Report highlights the action plans being carried out to improve efficiency and effectiveness in our mission of providing protection to investors, while strengthening confidence in the integrity of our capital markets.



Our three-year strategic plan responds to these concerns and encompasses the following points:

1. Reviewing the regulatory operations of the Commission to identify areas of risk and required improvements;
2. Improving the efficiency of the Commission;
3. Enhancing internal systems and the work environment to support employee relations;
4. Enhancing the governance of the Commission;
5. Improving the legislative framework of the Commission; and
6. Ensuring consistent, high standards of ongoing operations.

It is through our strategic plan that we endeavour to promote continued efficiency, identify areas of risk within the Commission and also comply with international standards. Initial steps were taken last year to implement the first phase of this strategic plan through the operational plan for 2010.

ACHIEVEMENTS AND DEVELOPMENTS

Achievements during the year include key legislative and regulatory developments; reinforcement of certain licensing and registration requirements; assessment of regulatory operations for compliance with required international practices and principles; and the creation and revision of processes to improve efficiency and effectiveness. There were other internal developments, some continuing to progress in 2011, which will also enhance the Commission's efficacy in fulfilling its mandate, including the following:

- Expansion of the investor education programme;
- Commencement of developing new leadership roles in the regulatory functions;
- Increased and timelier enforcement efforts; and
- Renewed efforts to implement facilitated arrangements and protocols with the Central Bank of The Bahamas (the Central Bank) to culminate a seamless, "one-touch" regulation and supervision of banks and trust companies that are involved in securities and investment business.

INDUSTRY DIALOGUE

The Commission continues to engage market participants and the general public in dialogue as it endeavours to improve its service and its continuing review of the legislative framework, to provide a sound regulatory environment to foster growth in the capital markets and securities business in The Bahamas. Industry briefings, public consultations, use of focus groups and generally fostering an environment of constructive dialogue, will continue to be the tools used to encourage cooperation with constituents that are served by the Commission. This dialogue also includes continuous communications with the policy makers and Government agencies responsible for the functioning and oversight of the securities and investment industries.

REGULATORY INTEGRATION

The Commission remains focused on working with other financial services regulators to eventually achieve the goal of a unified regulatory regime for all financial services businesses. Initiatives include sharing of administrative services and premises with the Insurance Commission of The Bahamas and Compliance Commission of The Bahamas, and active participation in the Group of Financial Services Regulators which deals with issues common to all of the local financial services regulators.

A major initiative has commenced with the Central Bank to further integrate the regulation and supervision of banks and trust companies that are also involved in securities and investment business. The Commission and the Central Bank have established technical teams to review the supervisory and conduct of business/prudential processes of both regulators with a view to developing a seamless approach to the regulation of these entities. This project is expected to be completed by early 2012, resulting in specific recommendations aimed at achieving this goal.

15TH ANNIVERSARY CELEBRATIONS

It is also important to note the celebration of the Commission's 15th anniversary in June 2010, which was marked by a number of events. Although 15 years is a relatively short period, there has been dynamic growth and development in the securities and capital markets, as well as the country's financial services sector. The Commission has responded to these changes as best it could in light of its constrained resources, and while having to deal with its own development of infrastructure and processes. A great deal of appreciation is extended to the various Commission Members, Executive Management teams and professionals who were part of the development and progress of the institution during this critical period of its development.

In addition to my governance role as Chairman, I have been serving as interim Executive Director since 30 September 2010 when the former Executive Director left to take up a regional advisory role in the securities and capital markets. Selection of a new Executive Director is expected before the end of 2011.

I would like to thank my fellow Members, Management team and staff of the Commission for their continued hard work, dedication and support of the goals of the Commission. I would also like to reaffirm our commitment to fulfilling our mandate and effectively overseeing and regulating the activities of the securities and capital markets.

Philip Stubbs

Chairman and Acting Executive Director

THE BOARD

(AS AT 31 DECEMBER 2010)



PHILIP STUBBS – CHAIRMAN AND
ACTING EXECUTIVE DIRECTOR



WENDY CRAIGG – DEPUTY CHAIRMAN
EX-OFFICIO MEMBER
GOVERNOR OF THE CENTRAL BANK



JOHN ARCHER
MEMBER



DEBORAH BASTIAN
MEMBER



MAITLAND CATES
MEMBER



RYAN KNOWLES
MEMBER



LENNOX MCCARTNEY
EX-OFFICIO MEMBER
SUPERINTENDENT OF THE INSURANCE
COMMISSION



STERLING QUANT
MEMBER

ROLE OF THE BOARD

Members of the Commission have the responsibility for the overall direction and governance of the organisation. The duties of the Board include overseeing the strategic focus of the organisation, approving licensees and registrants to operate in the capital, securities and investment funds markets of The Bahamas, as well as establishing rules and guidelines to govern these markets.

MEMBERSHIP

The Securities Industry Act, 1999 requires that the membership of the Commission consist of a Chairman, a Deputy Chairman, and other Members not to exceed seven (7), all of whom are appointed at the discretion of the Minister of Finance. The Chairman holds office for a period of five (5) years. The Deputy Chairman and other Commission Members hold their offices for a period not to exceed four (4) years. All Commission Members, including the Chairman, are eligible for re-appointment.

There are three (3) ex-officio Members of the Commission, the Executive Director of the Commission, the Governor of the Central Bank of The Bahamas and the Superintendent of the Insurance Commission of The Bahamas. Other Members are chosen to serve on the Board based on their experience and expertise in the disciplines of commerce, law, finance, economics and administration.

COMMITTEES OF THE BOARD

Committees were established to assist the Board in carrying out its role. As at 31 December 2010, there were two (2) Board established committees. These committees are as follows:

Audit Committee – This committee advises and makes recommendations to the Commission on all matters relating to corporate governance, including internal financial controls, internal and external audits, and compliance with financial reporting requirements.

Human Resources Committee – This committee assists the Commission in establishing and reviewing remuneration and other policies for all employees of the Commission. The committee is also responsible, by way of policies and packages, for providing employees with appropriate incentives to encourage enhanced performance by rewarding them for their individual contributions to the success of the Commission, and to the extent possible, ensuring that rewards and incentives are competitive with current industry standards.

DISCIPLINARY PROCEEDINGS OF THE BOARD

The Commission, as a part of its function to maintain the integrity of the investment funds, securities and capital markets, has the authority to conduct investigations and hearings. The Board carries out these functions via two (2) standing statutory bodies. These bodies are as follows:

Disciplinary Committee – This committee assists the Executive Director in making recommendations to the Commission, on the appropriate disciplinary action to be taken as a result of an investigation.

Hearing Panel – This panel presides over regulatory hearings and determines disciplinary matters of the Commission. In carrying out its functions, the Hearing Panel is empowered to impose various sanctions, remedies or other relief, as provided for in the Securities Industry Act, 1999 and Investment Funds Act, 2003.

BOARD TERMS

The Membership of the Board remained relatively stable during the year, with the only variation occurring when Mr. Hillary Deveaux, an ex-officio Member of the Commission, resigned as Executive Director on 31 August 2010. Mr. Philip Stubbs (Chairman) was appointed to act in the position of Executive Director. Mechelle Martinborough, Legal Counsel, continued as the Secretary to the Board.

Table 1: Terms of the Board Members as at 31 December 2010

Name	Appointed	Expiration of Term
Philip Stubbs (Chairman)	July/07	July/12
Wendy Craigg (Deputy Chairman)	June/05	Ex-Officio
John Archer	July /07	July/11
Deborah Bastian	March/09	March/11
Maitland Cates	August/08	October/11
Ryan Knowles	July/07	July/11
Lennox McCartney	February/08	Ex-Officio
Sterling Quant	July/07	July/11

BOARD COMMITTEES & MEMBERS

Table 2: Committees and Members of the Board as at 31 December 2010

Audit Committee	Human Resources Committee	Disciplinary Committee	Hearing Panel
Lennox McCartney, Chair	Deborah Bastian, Chair	Philip Stubbs, Chair	Sterling Quant, Chair
John Archer	Maitland Cates	Ryan Knowles	John Archer
Sterling Quant	Philip Stubbs	Cheryl Bazard*	Deborah Bastian
Philip Stubbs		D'arcy Rahming*	Wendy Craigg (Alternate)
		Joseph Strachan*	Lennox McCartney (Alternate)
		Maitland Cates (Alternate)	

*Non-Board Members

ACTIVITIES OF THE BOARD

The Board held 11 regular meetings during the year and one (1) extraordinary meeting. Eleven (11) Audit Committee and seven (7) Human Resources Committee meetings were also held. In addition, Members used the round robin process in lieu of meetings nine (9) times during the year to expedite the approval of matters requiring more immediate action.

PHILIP STUBBS

Executive Director (Acting)

MECHELLE MARTINBOROUGH

Legal Counsel

LAVERNE THOMPSON

Authorisations Department

SANDRA DUNCOMBE

Market Surveillance Department
(Acting)

DENISE O'BRIEN

Inspections Department

JESSIKA SAWYER

Policy and Research Department

DEBORAH BURROWS

Corporate Affairs Department

MONIQUE SANDS

Financial Controller

CHARLES McKENZIE

Information Technology Unit

MANDATE

The Commission's mandate is to formulate principles to regulate and govern investment funds, securities and capital markets; maintain surveillance over investment funds, securities and capital markets ensuring orderly, fair and equitable dealings; create and promote conditions to ensure orderly growth and development of capital markets; and to advise the Minister of Finance regarding investment funds, securities and capital markets.

ENABLING LEGISLATION

The Commission is a statutory body established in 1995 pursuant to the Securities Board Act, 1995, which was repealed and replaced by the Securities Industry Act, 1999. The Commission is responsible for the administration of the Securities Industry Act, 1999 and the Investment Funds Act, 2003 pursuant to which it supervises and regulates the activities of the investment funds, securities and capital markets.

Effective 1 January 2008, the Commission was appointed as the Inspector of Financial and Corporate Service Providers (the Inspector). The role of the Inspector, as set out in the Financial and Corporate Service Providers Act, 2000, provides for the supervision and regulation of financial services providers and financial institutions not otherwise regulated under securities, banking and insurance laws.

STRUCTURE

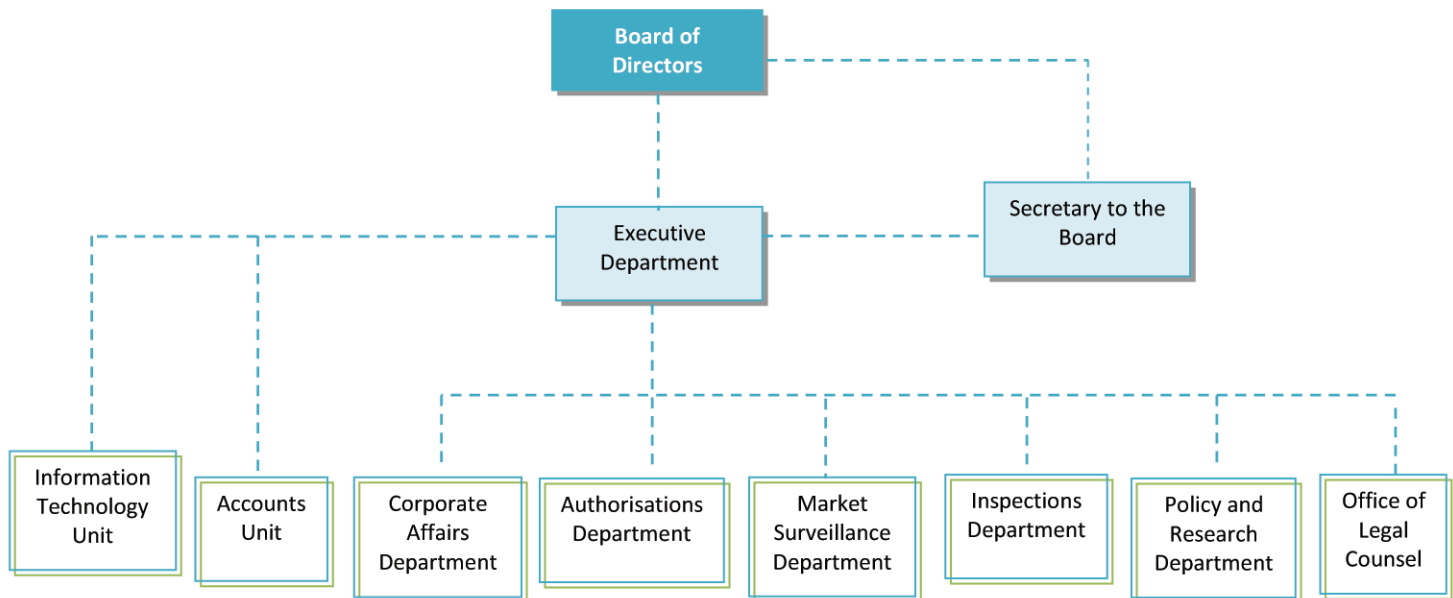
During 2010, the Commission was comprised of seven (7) departments. Three (3) supervisory departments: Authorisations, Market Surveillance and Inspections and two (2) non-supervisory departments: Policy and Research and Office of Legal Counsel. The remaining two (2) departments were operational: Corporate Affairs and Executive (which comprise the Information Technology and Accounts Units). The Commission's organisational chart and a description of each department as at 31 December 2010 are outlined on the following page. Plans for 2011 include the re-allocation of the functions and officers of the Policy and Research Department to Executive and Market Surveillance Departments.

STAFF COMPLEMENT

At the close of 2010, the Commission's staff complement stood at 56.

Table 3: Number of staff as at 31 December 2008, 31 December 2009 and 31 December 2010

Department	Number of Staff as at 31 Dec. 2008	Number of Staff as at 31 Dec. 2009	Number of Staff as at 31 Dec. 2010
Executive Department	9	10	11
Office of Legal Counsel	7	6	7
Authorisations Department	7	6	7
Market Surveillance Department	11	11	10
Inspections Department	7	9	8
Policy and Research Department	3	6	5
Corporate Affairs Department	7	7	8
All Departments	51	55	56



EXECUTIVE DEPARTMENT – This department is responsible for the day-to-day management of operations, technical and financial matters. The Executive Department includes the Information Technology Unit, which is responsible for facilitating the information and communication needs of the Commission and the Accounts Unit, which is responsible for all of the Commission’s financial matters, including annual budgets and the preparation of financial statements.

SECRETARY TO THE BOARD – The Secretary is responsible for managing Board matters and providing technical and administrative support to the Board.

CORPORATE AFFAIRS DEPARTMENT – This department is responsible for the daily management of the human and physical resources of the Commission, which includes, ensuring adequate manpower to facilitate the Commission’s mandate, as well as implementing and enforcing staff regulations.

AUTHORISATIONS DEPARTMENT – This department is responsible for the licensing and registration of market participants, as well as the review and registration of prospectuses for public offerings.

MARKET SURVEILLANCE DEPARTMENT – This department is responsible for the on-going monitoring and supervision of market participants and the local securities exchange, and reviewing proposals from the local securities exchange.

INSPECTIONS DEPARTMENT – This department is responsible for the supervision and on-site monitoring of market participants adherence to the acts, regulations and rules.

POLICY AND RESEARCH DEPARTMENT – This department is responsible for assisting in the development of legislation, rules, policies and guidelines. It is also responsible for statistical reporting, investor education, the content of the Commission’s website, and the oversight of the Commission’s Registry. As indicated earlier, subsequent to year-end these functions were transferred to the Executive and Market Surveillance Departments.

OFFICE OF LEGAL COUNSEL – This department is responsible for providing legal advice to the various departments of the Commission, assisting in the review of financial sector legislation, managing matters of international cooperation and overseeing enforcement and disciplinary matters.

The categories of registration and licensing under the various pieces of legislation administered by the Commission include:

Table 4: Licensees and Registrants under the Securities Industry Act, 1999 (SIA, 1999)

Licensee or Registrant Type	Descriptions
Broker-Dealer	A Broker-Dealer is a company incorporated or registered under the Companies Act, 1992 that provides the services of a broker, a dealer or a broker and a dealer.
	(i) As a Broker, a Broker-Dealer may offer to provide securities or provide investment advice to the public and must be registered as such by the Commission. (ii) As a Dealer, a Broker-Dealer can trade on a Securities Exchange or deal in securities.
	Broker-Dealers are categorised into four (4) classes, however, only Class I and Class II are currently used. A Broker-Dealer Class I can underwrite securities, however, a Broker-Dealer Class II cannot.
Securities Investment Advisor	A Securities Investment Advisor can perform the duty of: (i) An Investment Advisor who provides advice to others on investing in or selling securities and/or primarily engages in giving advice as it pertains to the investment of funds; or (ii) A Portfolio Manager who manages securities portfolios for clients with regard to investments.
Securities Exchange	A company incorporated under the Companies Act, 1992 operating a market or other place in The Bahamas at or on which securities are offered for sale, purchase, or exchange and which is registered by the Commission.
Prospectus	A document that provides details about an offer of securities to the public. The prospectus is required to be lodged with and registered by the Commission before the public is invited to subscribe or is issued an application to subscribe for or to purchase securities.
Principal	A Principal is the Managing Director (or Chief Executive Officer) and/or Compliance Officer/Director of a Broker-Dealer. Pursuant to the Facilitated Requirements, with respect to companies licensed by the Central Bank of The Bahamas, Principals who are Supervisors and Compliance Officers are not required to register as Principals.
Broker	An individual licensed as a Broker is any employee of a Broker-Dealer performing the activities of a Broker.
Associated Person	An individual licensed as an Associated Person is any employee of a Broker-Dealer or of a Facility not performing in the capacity of a Principal or Broker, who performs clerical or non securities-related functions.
Securities Investment Advisor (Individual)	An individual licensed as a Securities Investment Advisor is any employee of a Securities Investment Advisor firm, or Broker-Dealer I or II performing the activities of an Investment Manager or Portfolio Manager.

Table 5: Licensees and Registrants under the Investment Funds Act, 2003 (IFA, 2003)

Licensee or Registrant Type	Descriptions	
Investment Fund Administrator	Unrestricted	A company licensed as an Unrestricted Investment Fund Administrator has delegated authority to license and oversee the administration of an unlimited number of Investment Funds.
	Restricted	A company licensed as a Restricted Investment Fund Administrator can only provide Investment Fund Administrator services <i>to the</i> Investment Funds licensed or registered by the Commission. A restricted licence holder does not have the authority to independently license an investment fund – licensing must be done through the Commission.
	Professional Fund	This Fund is available solely to accredited investors.
	Standard Fund	A Standard Fund can only be licensed by the Commission and is generally for those funds that are not categorised as a Professional, SMART or Recognised Foreign Fund. An example is a retail-type Fund.
Investment Funds	Recognised Foreign Fund	This Fund is one that is listed on a securities exchange which has been prescribed by the Commission or one which is licensed or registered in a prescribed jurisdiction.
	SMART Fund	The 'Specific Mandate Alternative Regulatory Test Fund', or 'SMART Fund', is a flexible asset management fund product designed to cater to the specific needs of investors. In this category of fund, both the operational and regulatory structure of the fund is specifically designed by industry participants, subject to approval from the Commission.

Table 6: Licensees under the Financial and Corporate Service Providers Act, 2000 (FCSPA, 2000)

Licensee or Registrant Type	Descriptions
Financial and Corporate Service Providers	A person (company or individual) licensed to conduct the business of financial and corporate services in or from within The Bahamas.
	Financial services include money broking, lending of all types and related services.
	Corporate services include the registration, management and administration of International Business Companies, under the International Business Companies Act, 2000 and entities incorporated under the Companies Act, 1992.

STRATEGIC DIRECTION (2010-2012)

In planning its strategic direction for 2010 and beyond, the Commission developed a three-year plan which identified programmes and actions required to achieve operational and structural changes relevant to the evolving regulatory and legislative framework. An operational plan was developed for 2010 to implement the first phase of this strategic plan.

The outcome of the strategic planning exercise was a set of priority programmes and projects deemed necessary for achieving success over the three-year horizon. A summary of the strategic programmes and projects for 2010-2012 is presented in Table 7.

Table 7: Commission's 2010-2012 Strategic Programmes and Projects

Strategic Programmes	Projects
1. Review the operations of the Commission to identify areas of risk and required improvements	(1) Carry out integrated risk assessment initiatives – assessment of the external environment (the markets we regulate and associated risks)
	(2) Implement recommendations arising from risk assessment initiatives
2. Enhance internal systems and the work environment to support employee relations	(1) Enhance team work initiatives
	(2) Enhance performance evaluation tools
	(3) Improve communication
3. Enhance the Governance of the Commission	(1) Review code of ethics for staff
	(2) Update internal departmental procedures and other documentation (ongoing)
	(3) Improve transparency through regular reporting and publications
4. Improve Efficiency of the Commission	(1) Improve database systems to support regulatory and statistical functions
	(2) Concentrate on technical skills development
	(3) Enhance network and user support tools within the Commission
	(4) Re-vamp website
5. Improve the Legislative Framework of the Commission	(1) Conclude development of new securities industry act and regulations
	(2) Conduct a comprehensive review of the FCSPA and IFA
6. Ensure consistent, high standards of ongoing operations	(1) New Securities Industry Act implementation
	(2) Pre-Financial Sector Assessment Programme: execution of action plan to eliminate gaps in the regulatory framework.
	(3) Consolidation of the financial services regulators

2010 STATEMENT OF PRIORITIES AND OPERATIONAL PLAN

Having established a three-year strategic plan, the Commission identified several priority areas that dominated its 2010 Operational and Work Plans. The priority areas, articulated in the Commission's 2010 Statement of Priorities, included plans to finalise and implement the new draft securities legislation, the remedial action required as a result of an internal pre-Financial Sector Assessment Programme (FSAP) review, streamlining the licensing process, changes to the database and other systems that support regulation, operations and Executive Management, and improvements to the processes as a result of internal audits.

Three (3) critical success factors were identified as necessary in order to reach our targeted direction. These factors were: **(1) Teamwork; (2) Quality Human Resources; and (3) Efficient and Effective Execution.** Considering these factors, the Commission integrated into its 2010 Operational Plan the need to work more efficiently through coordinated, prioritised work plans that would minimise the difficulties faced in managing special projects and the demands of successful daily operations.

STRATEGIC ACHIEVEMENTS FOR 2010

The focused and deliberate planning process, that produced priority areas identified for action in the 2010 Statement of Priorities and Operation Plan resulted in the following achievements:

- The completion of an internal self assessment using the Financial Sector Assessment Review Programme (FSAP) methodology to assess the Commission's regulatory operations against the International Organisation of Securities Commissions' (IOSCO) Principles. Additionally, an internal audit function was introduced. The outcomes and recommendations stemming from both exercises have been integrated into the Commission's operating framework to enhance the operational processes and surveillance programmes. Both of these initiatives allowed the Commission to identify areas of risk and required improvements, and to ensure high standards of regulatory operations.
- The enhancement of internal systems and the work environment was another goal realised in 2010. This was accomplished, and continues to be enhanced, through the increased use of the Commission's intranet as a resource centre for technical materials, subscriptions, training, industry-related links and human resource policies and forms, and other relevant information.
- The issuance of the 2009 Annual Report and Audited Statements of the Commission within the statutory period facilitated the move towards improved governance through timely reporting and dissemination of information.
- The Commission also produced the first edition of its **Semi-Annual Industry Update and Statistical Digest: The SCB Lighthouse**. This publication provides periodic, statistical information and policy updates to its licensees and registrants, and the general public. These and other reports, including notices, are made available to the public on the Commission's website.
- Improving the efficiency of the Commission's operations through its database system was another achievement of a strategic goal. Specifically, the database was enhanced to assist in the processing of applications, the ongoing monitoring of registrants and licensees, providing relevant information for statistical purposes, and for related administrative and accounting processes. Other initiatives to improve efficiency included technical training and commencement of a project to revamp the Commission's website.
- In an effort to modernise its legislative framework, and to subsequently meet requirements to obtain Signatory A status with IOSCO's Multilateral Memorandum of Understanding, the Securities Industry Bill, 2010 was tabled in

Parliament in December 2010, resulting in the passage by both Houses of Parliament in 2011 with promulgation of the legislation, its regulations and rules to be completed before the end of 2011. In mid-January 2010 the IOSCO Standing Committee 4 advised that it had ceased monitoring the international assistance and exchange of information activities of the Commission. Other legislative initiatives included amendments to the Investment Funds Act and SMART Funds rules.

- Preparing for the promulgation of the new securities legislation, the Commission worked on identifying and beginning to draft the necessary Rules and Guidelines that will be needed to properly facilitate the new securities legislation once it comes on stream. In this regard, an action plan, specifically indentifying the Rules and Guidelines needed at the onset of the new legislation was developed. Additionally, a full implementation plan relating to the provisions of the same began in the second half of 2010 and will be carried over into 2011.

UPDATES ON ONGOING SUPERVISORY ACTIVITIES

The Commission's supervision and oversight responsibilities are discharged through its core functions: the authorisations process; off-site supervision programme and on-site inspections of registered and licensed entities. The goals of the supervisory programme are to: maintain effective oversight; strengthen market confidence; protect investors; and facilitate the orderly growth and development of the markets.

AUTHORISATIONS PROCESS

One of the more critical aspects of capital market regulation is the management of the point of entry into the market. The Authorisations Department has responsibility for the assessment of applications for all registrations and licences under the legislation administered by the Commission. This responsibility includes assessing the fitness and propriety of market participants and associated personnel, at the point of application, through an evaluation of the applicant's financial soundness, educational and professional qualifications, character and operational capacities. The department is also engaged in reviewing the licensing process and the development of related policies, thereby making recommendations for process changes and entry criteria.

AUTHORISATIONS REGULATORY DEVELOPMENTS

During 2010, a number of regulatory developments have taken place within the authorisations process, many of which related specifically to Financial and Corporate Service Providers; Money Laundering and Reporting Officers; and Securities Registrar and Transfer Agents.

Financial and Corporate Service Providers (FCSPs)

The year under review was critical for the regulation of FCSPs in the jurisdiction with the Commission previously noting its intention to fully incorporate them into its regulatory structure. One significant facet of this effort was ensuring that all those persons who needed to be licensed were advised and given an opportunity to do so. In the second half of 2010, a series of Notices were published, sensitising persons operating in the market of the need to be regularised. As part of this process, and in an effort to improve transparency surrounding its actions, the Commission also published additional guidance to assist in the registration process.

Money Laundering Reporting Officer (MLRO)

On 1 November 2010, the Commission posted on its website guidance notes outlining the common set of criteria to be used by all domestic Regulators for assessing the fitness and propriety of an MLRO. Subsequently, a process has been developed to facilitate the assessment and approval of all MLROs appointed to licensees of the Commission, for which we are the primary regulator.

Securities Registrar and Transfer Agents

During the period under review, the Commission took note of recent growth and developments in the Bahamian capital markets, including some capital market participants consolidating their securities registrar and transfer agency services. In this regard, the Commission embarked on a project to review the implications of this growth and the implications for regulatory oversight of this group of service providers.

Authorisations Improving Service Standards

One key focus of the Commission in 2010, which continues into 2011, was improving the delivery of service to applicants and registrants. To this end the Commission codified and improved a number of procedures and requirements aimed at increasing the transparency of its processes whilst improving the service standard to new applicants as well as regulated entities. The key areas of focus in this regard were:

- Detailed licensing requirements for Financial and Corporate Service Providers,
- Tracking of application processing times,
- Improved approval process for Initial Public Offerings (IPOs); and
- Improved process for the issuance of blank licences to Unrestricted Investment Fund Administrators.

Financial and Corporate Service Providers Licensing Requirements

A number of discussions with applicants during the previous periods highlighted the need for the Commission to outline the full set of licensing requirements so as to streamline and improve the application process. These concerns were reviewed and considered in 2010, subsequently the Commission drafted detailed requirements, which were posted to its website in early 2011, thereby making them readily available and reducing the need to request a meeting or courtesy call prior to submitting an application.

Application and Query Response Time

A significant strategic and operational goal for the Commission during the year was to improve the authorisation process through ensuring that all licensing matters are dealt with efficiently and in a timely manner. As part of achieving this goal a tracking mechanism to assess the timeframe within which a normal application is approved was formalised. It was found that where applications were submitted, with all requisite documentation, the timeline for processing of applications was three (3) to four (4) weeks for normal applications under the SIA 1999 and IFA, 2003, and 72 hours for fast tracking of SMART and Professional Funds. Where an application was not fully completed, pertinent information was not disclosed, insufficient documentation was submitted, or additional concerns were raised on review of the documentation, resulting in a delay in the approval process, the timeline was significantly longer.

Enhancing its responsiveness to the needs of its constituents was not only critical to the Commission's functioning but was also identified as a key industry expectation. In keeping with this, in June 2010, the Board expanded the delegated authority of the Executive Director to administer major aspects of both the SIA, 1999 and IFA, 2003 including licensing and other day-to-day matters. Enforcement matters continue to be addressed under the Commission's disciplinary process.

Guidelines for Timely Submission and Approval of an Initial Public Offering (IPO) Prospectus

Another of the processes that was reviewed and codified during 2010 was the process for the timely submission and approval of an IPO prospectus. The process was streamlined for aspirant issuers with the objective of achieving better coordination between the issuer and the Commission for the submission and review of documents.

Guidelines for Issuance of Blank Licences to Unrestricted Investment Fund Administrators

One area that was identified for improvement during 2010 was the licensing process conducted by the Unrestricted Investment Fund Administrators, in order to ensure that there was consistency in the licensing process thereby equalising the treatment of applications submitted to the Commission and those addressed by Unrestricted Investment Fund Administrators. In safeguarding the integrity of the licensing process, the Commission developed guidelines for the Unrestricted Investment Fund Administrators that defined and clarified the application and licensing process and the required submissions.

LICENSING ACTIVITIES

The following section reviews licensing activities of the Commission, between 2008 and 2010, in the midst of the global financial crisis.

Securities Industry Act, 1999 (SIA, 1999)

Firms

2010 saw renewed activity in the market place with the Commission receiving a total of 18 applications from corporate entities seeking licences under the SIA, 1999, twice that received in 2008 and five (5) more than seen in 2009. The level of approvals remained flat, however, as many of the applications were only partially complete as much of the supporting documentation was not submitted with the initial application. In addition, the majority of applications were received in the second half of the year.

One interesting trend noted was the increased number of firms registering as Securities Investment Advisors. This category accounted for 83% of all applicants in 2010, which is a 7% increase when compared to 2009 and a 55% increase when compared to 2008. The structures being licensed in this category also continued to evolve as increasingly these structures were coupled with more complex business models and the use of a Managing Representative. It is expected that this trend will continue into 2011. In contrast there was little movement in the number of firms applying for Broker-Dealer I and II licences. During 2010, three (3) applications for Broker-Dealers were received; two (2) of which were approved and one (1) withdrawn. This was in line with the activity seen in 2009 when three (3) applications for Broker-Dealers were received and four (4) were approved; one (1) of which was carried forward from 2008.

Table 8: Licensing activity during 2008, 2009 and 2010 for corporate entities under the SIA, 1999

Category	Applications 2008		Applications 2009		Applications 2010	
	Received	Approved	Received	Approved	Received	Approved
Broker-Dealer Class I	-	-	2	2	1	-
Broker-Dealer Class II	4	3	1	2	2	2
Securities Investment Advisors	5	5	10	5	15	7
TOTAL	9	8	13	9	18	9

Individuals

With respect to the licensing of individuals, 107 applications were received from persons seeking to be registered in various categories under the SIA, 1999. Of the 87 individuals approved in 2010, 39 were approved as Principals representing the largest category. The second largest category was Associated Persons, with 25 approved applications followed closely by Securities Investment Advisors with 18. Brokers accounted for only 6% of the total persons registered; however, it should be noted that the category of Principal includes persons functioning as Brokers within bank and trust institutions.

Table 9: Licensing activity during 2010 for individuals under the SIA, 1999

Category	Applications 2010	
	Received	Approved
Associated Persons	25	25
Brokers	7	5
Principals	47	39
Securities Investment Advisors	28	18
TOTAL	107	87

Investment Funds Act, 2003 (IFA, 2003)

Administrators

The total number of applications received from Investment Fund Administrators for licensing under the IFA, 2003 remained relatively stable during the period of 2008 to 2010. Of the five (5) applications received in 2010, one (1) was for an unrestricted licence, two (2) for a restricted licence and two (2) for an exemption from the requirement to be licensed.

The total number of firms being approved under the IFA, 2003 decreased for the year under review when compared to the corresponding periods in 2009 and 2008. A total of three (3) applications were approved during the period and one (1) rejected. Applications not finalised in 2010 were stale-dated or carried forward into 2011.

Table 10: Licensing activity during 2008, 2009 and 2010 for Investment Fund Administrators under the IFA, 2003

Administrator Category	Applications 2008*		Applications 2009		Applications 2010	
	Received	Approved	Received	Approved	Received	Approved
Unrestricted	2	3	2	2	1	2
Restricted	2	3	2	2	2	1
Exempt	1	1	-	-	2	-
TOTAL	5	7	4	4	5	3

* In 2008, approvals were higher than applications received due to applications being brought forward from the previous year.

Investment Funds

With respect to Fund categories, the downward trend seen in 2009 in new licensing under the IFA, 2003 continued, declining by a further 3% when compared to 2009. At the end of December 2009 an extraordinarily large group of funds (53 funds) were licensed by one Administrator, however, when this group is excluded, the underlying level of licensing fell by 9% from 2009 to 2010. SMART Funds remained the primary category for registration, although a relatively smaller percentage of the overall base. SMART Funds accounted for 48% of all new funds as compared to 66% in 2009 and 33% in 2008. The Professional Fund was the second preferred fund structure accounting for 30% of funds approved. Recognised Foreign Funds, however, lost ground (both in absolute numbers as well as relative position, accounting for 13% (16 funds) in 2010 relative to 14% (26 funds) in 2009 and 35% (72 funds) in 2008.

Table 11: Licensing activity during 2008, 2009 and 2010 for Investment Funds under the IFA, 2003

Fund Category	Applications 2008		Applications 2009		Applications 2010	
	Received	Approved	Received	Approved	Received	Approved
Standard Funds	7	11	6	1	2	6
Professional Funds	40	55	35	34	36	36
Recognised Foreign Funds	74	72	21	26	19	16
SMART Funds	69	68	120	121	60	58
Non-Bahamas Based Funds	-	-	3	1	11	4
TOTAL	190	206	185	183	128	120

Financial and Corporate Service Providers Act, 2000 (FCSPA, 2000)

2010 was the third year for which the Commission held responsibility for the licensing of Financial and Corporate Service Providers (FCSPs). In an effort to regularise this sector, the Commission issued a Notice in the second half of 2010 indicating the requirements and obligations for licensing by persons providing financial and corporate services as set out in the FCSPA, 2000. Persons not licensed were invited to regularise their positions. As a result there was a significant increase in the number of applications received, increasing from 29 in 2009 to 40 in 2010. Of the 40 applications, 36 were approved and the remainder carried forward to 2011. In general, companies remained the overall largest category of applicants seeking approval for a FCSP licence, accounting for 53% of applications received under the FCSPA, 2000 in 2010. Individuals and Partnerships accounted for 39% and 8% respectively.

Table 12: Licensing activity during 2009 and 2010 under the FCSPA, 2000

FCSP Category	Applications 2009		Applications 2010	
	Received	Approved	Received	Approved
Companies	15	9	22	19
Partnerships	1	1	3	3
Individuals	13	13	15	14
TOTAL	29	23	40	36

Off-Site Supervision

The responsibility for monitoring the activities of registrants and licensees rests with the Market Surveillance Department, and is executed in part through the off-site supervision programme. The surveillance process is continuous, and is based on the registrants' compliance with applicable legislation, codes of conduct and best practices. It involves the review of statutory filings, which include prudential reports and reports on material changes and the assignment of a Market Surveillance Officer who is responsible for managing the day-to-day relationships with constituents and assessing performance and compliance with the legislation. The department is also charged with the responsibility for monitoring the market place, including oversight of the exchange and the over-the-counter market.

MARKET SURVEILLANCE REGULATORY UPDATES

Review of Supervisory Process

One major strategic goal articulated for the on-site surveillance unit was the enhancement of its oversight so as to improve response timelines to industry, strengthen its review of licensees and registrants and prepare the initial basis for a further move to a more risk based system. In addition, the incorporation of Financial and Corporate Service Providers (FCSPs) into the full regulatory processes of the Commission as announced at the beginning of the year necessitated the need for the development of a full off-site programme for the review of these licensees. The programme for the FCSPs was finalised in mid-2010 and the revised programmes for the licensees/ registrants under the IFA, 2003 and SIA, 1999 were drafted. Aspects of the new programmes were implemented during the second half of 2010 and it is expected that the full roll out will occur in the coming year.

Legislation and Policy

Effective 1 May 2010, the Investment Funds Act, 2003 was amended to expand the time required for a licensed investment fund to file its audited financial statements with the Commission from four (4) to six (6) months. This legislative change was made in response to concerns raised by industry participants with respect to the difficulty of meeting the four (4) month timeline, particularly relevant to multi-funds structures. As a result, in the past, a number of funds sought extensions to filing time periods. It is anticipated that the new filing timeline will result in a decrease in the number of extension requests in the future. However, as many of the funds have December year-ends, no significant impact was seen during 2010.

As part of the review of the regulatory structure which occurred in 2009 and 2010, a number of guidance notes aimed at codifying the Commission's position on key matters and enhancing the transparency of the regulatory process, were identified. In addition, it was noted that given the growth in the market, there was a need for additional regulatory structures to be developed to govern the market and improve market behaviour and stability. During the year under review work was carried out on the initial development of these rules and benchmarking the positions of other jurisdictions. Some of the rules under development during the year, and carried over into 2011, include the takeover codes, corporate governance rules, regulatory capital and fees.

During the year the Commission also took the opportunity to remind licensees and registrants of the need to meet their regulatory obligations and the implications should they not meet the requirements of the legislation as prescribed.

Complaints

Another significant initiative taken by the Commission during 2010 was the formalisation of the complaints process by which licensees, registrants and the general public may share their concerns regarding a licensee, registrant or any rogue activities taking place in the market. Licensees or registrants who had a complaint to make were encouraged to submit them to the Commission and were advised that all complaints received would be treated in the strictest of confidence.

REGISTRANTS AND LICENSEES

Securities Industry Act, 1999

At the end of 2010 there were a total of 115 entities registered under the SIA, 1999, a net increase of two (2) registrants or 1.8% from 2009. This is the second consecutive year to show an increase in total registrants since the small decline experienced in 2008, with stand-alone companies (non-bank and/or trusts) representing the largest growth in the 2008 to 2010 period.

During the review period, eight (8) entities (one (1) bank and/or trust and seven (7) stand-alone companies) were registered and six (6) entities (one (1) bank and/or trust and five (5) stand-alone companies) closed. Broker-Dealers comprised 56.5% of the total number of regulated entities under the SIA, 1999 and Securities Investment Advisors represented 43.5% of registrants. The majority of Broker-Dealers continued to be bank and/or trust companies while most Securities Investment Advisors remain stand-alone companies.

Table 13: Number of Registrants under the SIA, 1999

Constitution Type		31 DEC. 08	31 DEC. 09	31 DEC. 10
Broker-Dealer	Class I Bank & Trust Cos.	10	11	11
	Class I Non Bank & Trust Cos.	6	6	6
	Class II Bank & Trust Cos.	35	36	36
	Class II Non Bank & Trust Cos.	10	11	12
Securities Investment Advisors	Bank & Trust Cos.	3	3	3
	Non Bank & Trust Cos.	43	45	46
Securities Exchange		1	1	1
TOTAL		108	113	115

Investment Funds Act, 2003

Administrators

With regard to IFA, 2003 activities, there was no significant change seen in the number of licensed investment fund administrators when comparing 2010 to 2009. The number of licensed Unrestricted Investment Fund Administrators increased by only one (1) in 2010, taking the number of Unrestricted Investment Fund Administrators from 34 to 35. Similarly, Restricted Investment Fund Administrators increased by one (1) new licensed entity, increasing from 27 to 28. The administrators categorised as exempted from the requirement to be licensed decreased by one (1), decreasing to two (2). This small growth is in line with expectations given the fall noted in the applications received.

Table 14: Number of Investment Fund Administrators under the IFA, 2003

Administrator Category	31 DEC. 08	31 DEC. 09	31 DEC. 10
Unrestricted	36	34	35
Restricted	27	27	28
Exempt	3	3	2
TOTAL	66	64	65

Funds

There are four (4) categories of investment funds pursuant to the IFA, namely Standard Funds, Professional Funds, SMART Funds Model and Recognised Foreign Funds. During 2010, in spite of the number of new funds licensed, the total number of licensed or registered investment funds decreased by about 4.4% from 2009, decreasing from 788 to 753. This could be attributed to the loss of a number of funds from the sector due to outright closure, dormancy, the transfer of funds to another jurisdiction, or liquidation. The decrease occurred within the Standard, Professional and Recognised Foreign Fund categories with Standard and Recognised Foreign Funds accounting for the majority of the change. In contrast, the number of SMART Funds continued to grow, increasing by approximately 6.8%.

Table 15: Number of Investment Funds under the IFA, 2003

Fund Category	31 DEC. 08	31 DEC. 09	31 DEC. 10
Standard Funds	97	82	70
Professional Funds	298	259	243
Recognised Foreign Funds	231	183	158
SMART Funds	177	264	282
TOTAL	803	788¹	753

¹ The total number of investment funds for period ending December 31, 2009 has been revised from 735 to 788. As a result of information received through e-filing and the billing cycle at the beginning of 2010, 53 funds (52 SMART Funds and 1 Recognised Foreign Fund) were added to the database ex post facto.

Fund Changes Over the Year

During 2010, 112 funds closed, went into liquidation or dormancy or otherwise left the jurisdiction. There were a total of 78 (70%) investment funds that entered into voluntary liquidation; the majority of which were Professional Funds, which represented approximately 35% of the reduction. This was followed by SMART Funds, which represented the next largest category of investment funds that liquidated during 2010, equalling 32%.

A further reduction was a result of 29 (26%) investment funds transferring out of the jurisdiction or no longer maintaining a nexus with the jurisdiction in 2010. Of the total transferred investment funds, the category most affected were the Recognised Foreign Funds (RFFs), which represented 22 in total or 76% of the 29, having transferred the administration function out of the jurisdiction thus relinquishing the nexus to the jurisdiction and the requirement for registration. Eight (8) of the 22 RFFs were no longer required to be registered with the Commission, following the change in the Investment Funds Act, 2003, which removed the investment manager/advisor as one of the criteria that would create a nexus to the jurisdiction.

Additionally, a group of 45 investment funds closed during 2010. In keeping with the general trend, the most impacted category of funds was the Recognised Foreign Funds, which represented 44%. At the end of 2010 one (1) securities investment firm closed its business, leading to the closure of its Recognised Foreign Funds. Additionally, 14 Professional Funds that matured on various dates during the 2010 annual period closed.

Investment funds, from time to time make the decision to cease trading and to liquidate their assets without formally liquidating their structure, thus becoming dormant. During 2010, 17 investment funds became dormant, 13 (76%) of which were Professional Funds. In this instance, these investment funds maintained their structures pending the results of litigations against a major financial institution, which went into bankruptcy as a result of the subprime mortgage crisis.

Table 16: Change in Status of Authorised Investment Funds in 2010

Fund Category	Entered Liquidation	Transferred to Another Jurisdiction	Closed	Dormant
Standard Funds	15	1	3	1
Professional Funds	27	4	14	13
Recognised Foreign Funds	11	22	20	2
SMART Funds	25	2	8	1
TOTAL	78	29	45	17

Financial and Corporate Service Providers Act, 2000

At the end of 2010, there were 287 active licensees under the FCSPA, 2000. The Companies category continued to be the main category at 46.3%, followed closely by individuals at 40.7%. Partnerships accounted for 12.9% of all licensees.

Table 17: Number of Financial and Corporate Service Providers under the FCSPA, 2000

Category		31 DEC. 08		31 DEC. 09		31 DEC. 10	
Companies	Renewals	103		115		114	
	New	23	126	9	124	19	133
Partnerships	Renewals	29		30		34	
	New	5	34	1	31	3	37
Individuals	Renewals	97		99		103	
	New	9	106	13	112	14	117
TOTAL		266		267		287	

ON-SITE INSPECTIONS PROGRAMME

The Inspections Department is the on-site surveillance unit of the Commission and performs on-site routine inspections, as well as fact-finding and investigative reviews, known as inspections for cause, of licensees and registrants. This unit has an expressed target of reviewing registrants under the SIA, 1999 and IFA, 2003 on a three (3) to five (5) year rotational basis. This includes a review of Broker-Dealers, Investment Fund Administrators, Securities Investment Advisors and the Securities Exchange. These examinations provide a more detailed understanding of the registrant's business activities and operating environment, and afford an assessment of compliance with the relevant legislative requirements and under licences granted. In its role of assisting with on-site inspections for cause matters, the Department engages in a detailed review of specifically identified areas of business within a licensee so as to evaluate the creditability of complaints or concerns about that licensee's actions or business practices.

In 2010, the Commission announced its intention to assume the on-site reviews of the Financial and Corporate Service Providers; however, this initiative was not fully realised and the on-site reviews continued to be outsourced to the Compliance Commission of The Bahamas.

ON-SITE INSPECTIONS ACTIVITIES

A total of 23 institutions were examined during 2010; however, given that seven (7) institutions had multiple licences, this resulted in the review of 30 examinations by licence type; 20 inspections under the SIA, 1999 and 10 inspections under the IFA, 2003. Reviews are conducted using specially designed work programmes for each licensee type or business activity and as such are counted as separate inspections. The number of inspections by the Department remained relatively stable (31 inspections by licence type in 2009) compared to the previous review period mainly due to human resource challenges faced by the Department. In mid-2010, the Department's Manager and one of its Senior Examiners left the Commission.

The Commission maintained its strong working relationship with the Central Bank, as the institutions continued with efforts to coordinate inspections for banks and trust companies that are also involved in the securities business. This reduced the regulatory burden on joint licensees. Of the 23 institutions inspected, six (6) were joint inspections and held a licence under the SIA, 1999 and a licence under the IFA, 2003.

There was one (1) inspection for cause conducted during the review period. Prior to this the last inspection for cause was conducted in 2008 and involved another entity.

ON-SITE INSPECTION FINDINGS

Upon review of inspections conducted in 2010, it was noted that fewer adverse findings in key areas, such as record maintenance, compliance with regulatory filings, other returns and understanding of the powers and duties of Administrators, were reported. Notwithstanding the general improvement in compliance, the Commission continued to identify compliance gaps with respect to record maintenance, timely completion of financials, maintenance of segregated accounts and reporting. In addition, it was noted that there was some lack of clarity by institutions as to the requirements for licensing of individuals.

The following tables summarise the number of inspections, by licence type and by institution, completed from 2008 to 2010.

Table 18: Number of Inspections by Licence Type under the SIA, 1999 and IFA, 2003

Type of Licence		31 DEC. 08	31 DEC. 09	31 DEC. 10
SIA, 1999	Broker-Dealer Class I	4	2	1
	Broker-Dealer Class II	3	7	14
	Securities Investment Advisors	6	11	5
IFA, 2003	Unrestricted Investment Fund Administrator	6	5	9
	Restricted Investment Fund Administrator	2	5	1
	Exempt Investment Fund Administrator	-	1	-
TOTAL		21	31	30

Table 19: Number of Inspections by Inspection Type

Examination Type	31 DEC. 08	31 DEC. 09	31 DEC. 10
Routine examination	8	20	16
Inspections for cause	1	-	1
Joint inspection with the Central Bank	5	3	6
TOTAL	14	23	23

Table 20: Number of Inspections by Single or Multiple Licence Holders

Entities	31 DEC. 10
Single Licence Holder	16
Multiple Licence Holder	7
TOTAL	23

2010 INSPECTION INITIATIVES

Improved training and exposure for examiners was one of the strategic goals for the Department for the year as it was felt that strong technical skills were the base requirements to enable the Department to provide service at the required standard. Comprehensive financial analysis training was provided for all examiners and in mid-2010 and an examiner was sent on United States Securities and Exchange Commission (USSEC) training. In addition, training grants for finance related studies were provided.

To improve process efficiency and accountability, the Commission reviewed and updated its inspections processes during the period. Inspection targets were codified and approved and procedures to improve the management and timely reporting of inspections were instituted. In addition, the Commission sought to improve the technology used by examiners, upgrading some software and security requirements.

DRAFT SECURITIES INDUSTRY ACT AND REGULATIONS

During 2010, the Commission worked diligently on ensuring the completion of the draft Securities Industry Act and Regulations. In this regard, the Commission is pleased to report that the Securities Industry Bill, 2010 was finalised and tabled in Parliament on 15 December 2010, and passed by both Houses of Parliament in 2011. The draft Regulations with final amendments were provided to the Office of the Attorney General, and once they are finalised it is anticipated that the Regulations will be submitted to the Minister of Finance, to be promulgated, with the Act, before the end of 2011.

In getting to this point the Commission launched a comprehensive public consultation initiative. Sector-specific focus groups and media coverage were held as a part of this initiative and contributed towards the Commission's goal of engaging a wide range of industry participants and the general public in the review process.

The development of Rules and Guidelines to support the new legislation are underway, including regulatory capital standards, the fee schedule, and physical presence requirements.

INVESTMENT FUNDS ACT, 2003

Maintaining a commitment to improve the legislative framework of the Commission, there were a number of amendments to the Investment Funds Act, 2003 and Investment Funds Regulations, 2003, which were outlined in the Commission's 2009 Annual Report. During 2010, these amendments were brought into force and include the Investment Funds Amendment Act, 2010 (No. 6 of 2010) which was Gazetted on 19 March 2010 and the Investment Funds Amendment Regulations, 2010 (No. 20 of 2010) which was signed on 12 March 2010 and Extraordinary Gazetted on 19 March 2010.

In summary, the purpose of the amendments was to remove the Investment Advisor/Manager nexus to Investment Funds, and therefore, amending the basis for how a Bahamas Based Fund is defined. Additional amendments include amending the definitions of Professional Fund and Recognised Foreign Fund, and extending the filing period for annual audited financial statements from four (4) to six (6) months. Granting the Commission the authority to issue Rules or Guidelines pursuant to the IFA, 2003 or IFR, 2003 rounded out the 2010 IFA amendments.

The Commission, through industry collaboration by way of the Bahamas Financial Services Board's Funds Working Group, has begun the necessary proceedings to make amendments to the SMART Fund Model Four (SFM 004) as it pertains to the wording of rule 6(1)(b). Currently, the noted provision allows private investment companies, rather than any legal entity, to be eligible as a SFM 004. To allow other legal entities to be licensed as a SFM 004, the Commission is proposing that rule 6(1)(b) be amended to reflect that any legal entity can be eligible to apply as a SFM 004.

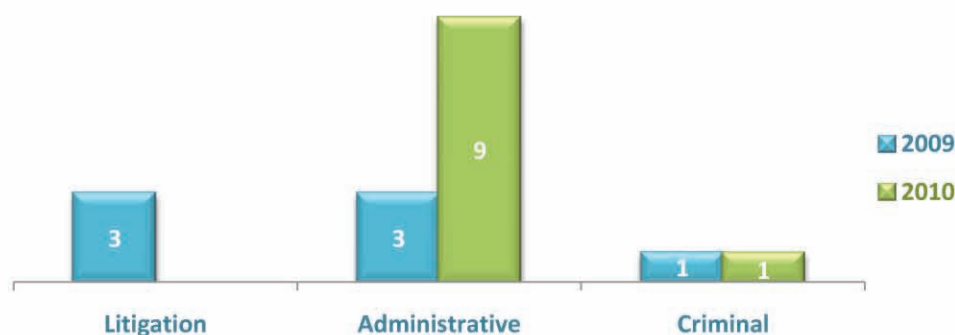
LEGISLATIVE REVIEWS SLATED FOR 2011

In an effort to reduce exposures to regulatory, operational and other systematic risks, the Commission has undertaken to conduct comprehensive reviews of the IFA, 2003 and FCSPA, 2000. These reviews will be done in collaboration with relevant industry segments and by benchmarking the securities and capital markets industry standards as set out in the International Organisation of Securities Commission's Objectives and Principles of Securities Legislation.

ENFORCEMENT MATTERS

In 2010, the Commission addressed 10 enforcement matters, which reflects increased activity for the same review period in 2009. Two (2) matters were carried over from 2009 and there were eight (8) new matters in 2010. Of the 10 enforcement matters addressed in 2010: nine (90%) were administrative matters and one (10%) was a criminal matter.

Graph 1: Enforcement Matters in 2009 and 2010



The one (1) matter for criminal prosecution was transferred to the Business and Technology Unit of the Royal Bahamas Police Force (the Police) pursuant to the FCSPA, 2000. The Commission continues to monitor the progress of this matter, although it no longer remains within its purview. All other matters remained open as at 31 December 2010 and were transferred into 2011.

Historically, most disciplinary matters involve failing to submit annual audited financials within the statutory time period. This trend appears to have continued to the present, given that most of the recent matters involve this particular breach. It is hoped that this trend will change with the recent amendment to the filing period (from four (4) to six (6) months) under the IFA, 2003.

The Commission, acting as the Inspector of Financial and Corporate Service Providers (the Inspector), issued a Notice and Press Release on 10 September 2010, to those entities carrying on financial services without being licensed under the FCSPA, 2000. In the Notice, the Inspector announced that all persons operating as such should cease business immediately and advised that a 'zero tolerance' policy to such activities was adopted. Persons were given 30 days to come into compliance or risk being fined according to the provisions of the FCSPA, 2000.

Subsequent to issuing the Notice a number of persons reported to the Inspector for their businesses to be assessed as to whether they required a licence. In consideration of giving more persons the opportunity to report and become regularised under the Act, the Inspector issued a Notice of Extension on 13 October 2010, to allow persons an additional 30 days to report to the Inspector.

Overall a number of money lenders reported to the Inspector giving some indication that there appeared to be a greater awareness of the need for licensing, particularly by persons wishing to conduct this type of business.

INVESTIGATIONS

In addition to the enforcement matters, the Commission, during the 2010 period, addressed a total of 38 investigations. Twenty-two (22) of the matters were new matters and 15 were closed by year end 2010, two (2) were referred to the Police or the Office of the Attorney General, and the remaining matters were carried over into 2011.

Table 21: Number of Investigations by Type

Year	Matters Brought Forward from 2009	New Matters	Closed Matters	Referrals (to the Police)	Matters Carried Over
2010	16	22	15	2	21

Further, the Commission issued Public Warning Notices concerning four (4) of these matters to protect investors from unfair and inappropriate securities and investment activities. Notices were issued on 8 March 2010 for the following entities:

- Taurus Global Markets;
- The Hastings Capital Group;
- Hi-Tech America Development Company; and
- Stock Exchange of the Caribbean & Solaris Holding International Inc.

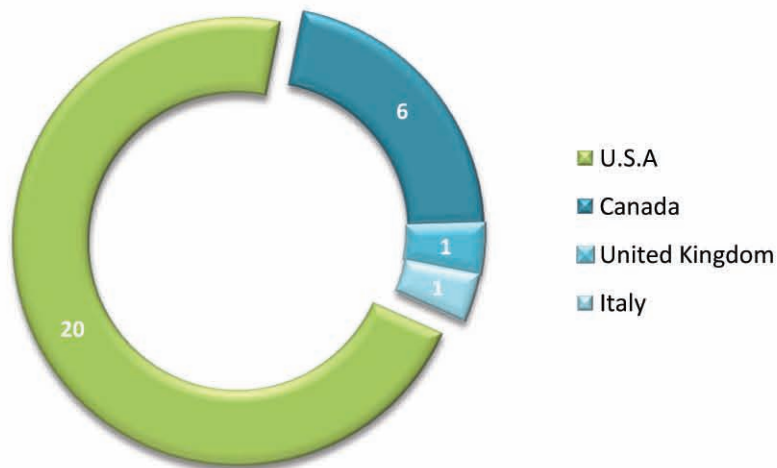
One (1) Public Warning Notice was issued as a general notice to persons with respect to the FCSPA, 2000, as outlined on the previous page.

INTERNATIONAL, REGIONAL AND LOCAL COOPERATION

Requests For Assistance From International Regulatory Authorities

The Commission received and responded to several requests for assistance from international regulatory authorities during the period under review. Such requests are related to the prosecution and investigations of securities offences. The Office of Legal Counsel bears the responsibility for advising on and coordinating responses to requests and the department works, where necessary, with other institutions to procure the necessary information.

The graph below illustrates there were 28 new requests for assistance opened by year end. While 28 requests were carried over from the previous year for a total of 56 open matters, a total of 40 matters were closed by year end, leaving 16 matters that were carried over into 2011.

Chart 2: New International Requests 2010

The Commission reviews every request to ensure that the request meets minimum information sharing requirements, as set out in legislation. While there were no outright refusals of requests made during the period under review, the Commission had some challenges with respect to two (2) requests:

- In one (1) matter, the request was stayed on the basis that the Commission wanted to review the laws of The Bahamas and draft an opinion, which would seek to clarify the parameters for disclosure and establish and confirm whether the law has a test for determining when an international request for assistance may be deemed overly broad.
- In another request, (further to the requirements under the legislation) the Commission denied a request for onward disclosure of information provided, to be used for criminal prosecution purposes. In the same matter, the Commission was able to provide its consent for onward disclosure of information to a related third party; however, this consent was restricted to the sole purpose of use in conducting civil or administrative investigations.

MEMBERSHIP

International Organisation of Securities Commissions (IOSCO)

In September 1996, the Commission was granted membership in IOSCO, the international standards setter for securities and capital markets regulation. Its membership comprises of securities regulators and other similar regulatory agencies from countries throughout the world. The purpose of IOSCO is to enable members to exchange information with a view to developing the securities markets and improving their efficiency, to coordinate the enforcement of securities regulation internationally and to implement common standards. The Commission regularly participates in IOSCO meetings and conferences.

The Commission attended the 35th Annual Conference in June 2010, held in Montreal, Canada, during which the strategic mission of IOSCO was re-formulated, in light of its increased role in the development of global regulatory standards for capital markets. Specifically, eight (8) new Principles were approved to be added to the IOSCO Objectives and Principles of Securities Regulation, addressing international emerging concerns; and IOSCO's initiatives in establishing a common ground for enforcement, cooperation, and the sharing of information among regulators were advanced.

Council of Securities Regulators of the Americas (COSRA)

At COSRA's annual meeting in Santiago, Chile in June 1997, the Commission was confirmed as a member of this group. COSRA, formed in 1992, was created to provide a forum that promoted cooperation and communication amongst its members to enhance the efforts of each country and to develop the growth of sound securities markets that are fair to all investors. Membership to COSRA is open to all securities regulatory authorities of North, South and Central America and the Caribbean. There are 31 members in 26 countries. The Commission is an active participant of this group.

The 7th Annual Meeting, held in Rio de Janeiro, Brazil in October 2010, focused on several key corporate governance priorities including: enhancing the effectiveness of Board of Directors, preventing the abuse of privileged information, and reviewing stock exchange initiatives to develop corporate governance indices and ratings.

Caribbean Group of Securities Regulators (CGSR)

The CGSR is an informal group of securities regulators, which was established to strengthen the regulatory framework for securities within the Caribbean. It gives the region a unified voice on the international stage and allows for greater standardisation and coordination of institutional structures. In addition, it articulates the challenges shared amongst regulators within the region, facilitates the sharing of information and promotes the understanding of these shared challenges to encourage cooperation to reverse the observed deficiencies.

There are four (4) main initiatives currently being addressed by CGSR: (i) a Common Code in Takeovers, which has been developed through the assistance of the Caribbean Regional Technical Assistance Centre (CARTAC), and in early 2011 was expected to receive a final review by the regional regulators before being tailored to fit into each jurisdiction's regulatory regime; (ii) the establishment of a Multilateral Memorandum of Understanding for the exchange of information and cooperation and consultation in the framework of the regulatory regimes; (iii) focus on mutual recognition arrangements; and (iv) the training needs of the regional securities regulators.

In addition to participation in the above-mentioned initiatives, the Commission attended the 7th Annual Conference, held in Ocho Rios, Jamaica in November 2010. The two-day conference addressed a number of regulation issues including, financial stability monitoring and analysis, regional integration initiatives, strengthening corporate governance practices, priorities for the reform of Caribbean securities regulation, and combating securities fraud.

Offshore Group of Collective Investment Scheme Supervisors (OGCISS)

OGCISS meetings are designed to provide a forum for the exchange of ideas and information among persons who regulate and supervise collective investment schemes. The Offshore Group of Collective Investment Scheme Supervisors was established in 1997.

The 13th Annual Meeting of the Offshore Group of Collective Investment Scheme Supervisors, held in Tortola, British Virgin Islands, from 31 May through 2 June 2010, addressed current initiatives, new legislative developments and challenges faced by participating jurisdictions related to collective investment schemes. Specifically, issues related to the recent financial crisis, such as the restructuring and liquidations of hedge funds, addressing fraud, and corporate governance developments were discussed.

Group of Financial Services Regulators (GFSR)

The Commission is a member of the GFSR, which focuses on crosscutting issues that affect the domestic financial services sector. The Chairmanship of the Group rotates between the Securities Commission of The Bahamas and the Central Bank of The Bahamas, the latter being the current chair.

In 2010, efforts continued from the work begun in 2009 and the Group continued to be focused on a number of important initiatives. Among them are a number of legislative reviews and amendments to remedy deficiencies identified by the Caribbean Financial Action Task Force (CFATF) Mutual Evaluation Report on The Bahamas Anti-Money Laundering (AML)/Combating the Financing of Terrorism (CFT) Regime (2007) and to comply with international standards. Also continued from 2009, the Commission, as part of a national effort coordinated by GFSR, remains engaged in the internal self-assessment exercise of its compliance with applicable international standards, including the IOSCO Objectives and Principles of Securities Regulation.

INTERNATIONAL CAPITAL MARKET ACTIVITIES

In early 2010, as the international capital markets showed signs of recovery, the outlook for global asset values, equity and debt markets over the year were positive. Many major international indices posted gains during the first quarter, and commodity prices, such as crude oil and gold prices, also increased. Investor confidence, however, was shaken when fears of a European sovereign debt crisis and a double-dipped recession in the United States developed. Internationally, measures were taken to ease fears of the debt crisis. Such measures included the creation of the European Financial Stability Facility (Facility) to provide financial assistance to European Union (EU) Members states in need. The Facility also plans to rewrite EU treaties to create mechanisms to address future crises. Subsequently, European markets rebounded with this development as fears of the debt crisis subsided. The Euro made its largest gain in more than a year and the European Stoxx 50 had posted gains by the latter part of the year into 2011.

In the United States, increased stimulus measures and improvements in employment levels led to a rise in investor confidence. Stimulus measures that were taken included a multi-billion dollar economic stimulus package and lower mortgage rates to jump-start the housing market. By the end of 2010, the major United States indices, such as the Dow and NASDAQ had experienced gains.

In other international capital market developments, IOSCO revealed its revised Objectives and Principles of Securities Regulation to incorporate eight (8) new principles in mid-2010. The new principles include the regulation of auditors and other service providers, credit rating agencies, and hedge funds (their managers and advisors) and there is also an increased focus on regulators minimising conflicts of interest. Of particular interest is Principle 28: Regulation should ensure that Hedge Funds and/or Hedge Funds Managers/Advisers are subject to appropriate oversight. Hedge Funds, for the most part, have traditionally been subject to very limited regulation globally and this increased focus being placed on Hedge Funds will have potentially major and far-reaching effects in the global market to come.

DOMESTIC CAPITAL MARKET ACTIVITIES

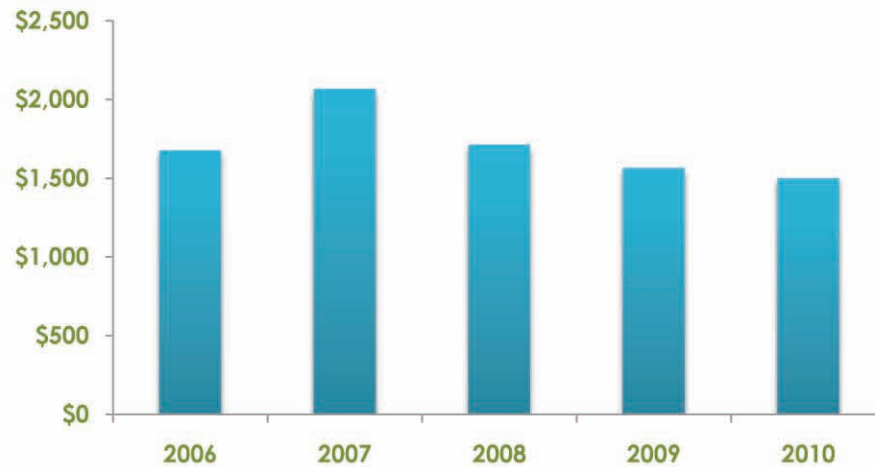
Although 2010 continued to be challenging for the local capital market, indications of recovery was evident. A number of public companies raised capital during the year through private placements. There were also two major ownership changes seen as Associated Bahamian Distillers and Brewers Limited (ABDAB), an over-the-counter public company, sold its shares in Commonwealth Brewery Limited (CBL) and Burns House Limited to Heineken B.V.; and Neal and Massy (a major player in the regional distributive sector) exited the local market selling its shares in Bahamas Supermarkets Limited to Trans Island Traders Limited, a local privately owned company. The ABDAB-Heineken transaction included a condition for a number of shares in CBL to be offered to the local market and the subsequent listing of the company on the Bahamas International Securities Exchange (BISX). This offer was made in early 2011.

Early in 2010, in a joint venture aimed to further enhance the local capital market, including its transparency, BISX, Colina Financial Advisors Ltd. (CFAL) and Royal Fidelity Merchant Bank & Trust Limited (Royal Fidelity) unified their Registrar and Transfer portfolios under one umbrella and formed The Bahamas Central Securities Depository Limited (BCSD). The BCSD provided the registrar and transfer function for these institutions during the year, however, the intent is for the BCSD to become a full fledged securities depository providing a central electronic registration platform for multiple types of securities for all players in the market.

The BISX All Share Index declined 4.2% to close at \$1,499.51 by year end 2010, which is an improvement from the end of 2009 when an 8.6% decline was recorded. The composition of listed securities declined from 24 primary listings to 23 as a company was removed from the roster of BISX listed issuers in July, after experiencing severe short-falls and eventually liquidation. The 23 primary listings include 18 common share listings, one (1) preference share listing and four (4) tranches

of debt. Market capitalisation fell by \$100 million or 3.3% to \$2.9 billion. This decline, however, was not as steep as recorded in 2009 when a decline of 8.5% was observed.

Chart 2: BISX All-Share Index 2006-2010



The volume of shares traded on BISX increased from 4.9 million in 2009 to 10.9 million shares in 2010. The market value of these trades was \$110.2 million. The trading volume and value include two (2) significant share acquisitions for a combined volume and value of 7.02 million shares and \$88 million respectively. After adjusting for both transactions, the underlying movements in trade volume and value for the year were negative and reflected a decline in volume of 22.4% and value of 16.5%.

An area of importance for the Commission is the promotion of investor education and protection. In 2010, the Investor Education Programme (the Programme) grew; both in community involvement through Joint Initiative Programmes and through the successful introduction of unexplored modules. The growth experienced was fuelled by the Commission's commitment to fulfilling the objectives of the Programme and the mandate of the organisation.

Understanding that an informed and educated investor, regardless of their level of sophistication, supports a healthy investment climate, the Programme's objectives include educating both current and potential Bahamian Investors; and providing an authoritative, regulatory source for relevant information on understanding risks, rights, and obligations so that investors can make informed decisions. Under the theme, **Getting My Money Right**, the Programme is comprised of the following modules: online interactive tools; an essay competition and apprenticeship; print media; an investor education week; e-communications and offshore outreach.

Over the years, much of the Programme's focus was geared towards increasing the fiscal literacy of students through joint initiative agreements. However, in 2010, its second year, this focus expanded to include the development of the Public Service Announcement (PSA) Campaign module.

JOINT INITIATIVES

The Commission partnered with several organisations with youth-specific programmes. Such partnerships included: Colina Financial Advisors Ltd's Junior Investor Education Programme; Ministry of Youth, Sports and Culture's Junior Achievement Bahamas Programme and Ministry of Education's National Career Awareness Month. These partnerships included the Commission leading interactive discussions regarding the student's mock involvement in the local capital markets, and how, the activities of their mock companies, environment and individual actions would fall under the regulatory ambit of the Commission.

Colina Financial Advisors Ltd.

In 2010, the Commission increased the level of its participation in Colina Financial Advisor Ltd's (CFAL) Junior Investor Programme, lecturing at 10 high schools in February and six (6) in November, as well as presenting at the opening and close of the Programme's year. The content offered during both lecture series focused on basic steps to investing, the role of the Commission and an overview of the Bahamian economy and the financial services sector.

National Career Awareness Month

Similar to the participation in 2009, the Ministry of Education's National Career Awareness Month's Career Fair was once again supported by the Commission's Investor Education Programme. The Career Fair allows for an interactive environment with primary and secondary students and informs them of the Commission's regulatory ambit and educational requirements for hiring.

In addition, for the first time, the Commission served as a speaker on the National Career Awareness Month's Speakers Circuit. This provided an intimate and interactive environment that allowed Commission representatives to share timely knowledge about working in a regulatory environment and the ethical, professional and educational standards expected.

Junior Achievement Bahamas

Another Joint Initiative Programme explored in 2010 was Junior Achievement Bahamas' Dream Night Event. At Dream Night, Junior Achievers heard a lecture on regulatory entities in The Bahamas, the financial services sector, and the function of the Commission, including its governing legislation.

PUBLIC SERVICE ANNOUNCEMENT CAMPAIGN

In October 2010, the Commission launched a four (4) week **Public Service Announcement Campaign**, which was designed to introduce the Bahamian public to four (4) key topics that built upon each other; reiterating and re-introducing to some, good fiscal habits, irrespective of their previous knowledge on the various topics.

The Programme's topics: Budgeting, Savings, Investments and the Role of the Commission, were broadcast using a wide range of media sources, these included radio, television and news paper advertisements; appearances on radio talk shows, walk-on guests on local news stations and a three (3) hour live remote at the offices of the Commission.

2011 INVESTOR EDUCATION INITIATIVES

It is anticipated, based on the momentum of 2010, that the Investor Education Programme at the Commission will grow even further in 2011. Existing modules such as the Joint Initiative Agreements will be expanded to include the College of The Bahamas, Creative Wealth Management and the Commonwealth Secretariat, and Public Service Announcements, will continue. In addition, the Programme intends to introduce two (2) previously uncultivated modules namely Print Media Module and the E-Communications Module. The production and implementation of each of these modules is viewed as critical to expanding the Programme's reach in the future.

In addition, several students groups have scheduled tours of the Commission and the Programme has received a number of speaking invitations for 2011.

MANAGERIAL DEVELOPMENTS

During 2010 there were notable changes to the Commission's managerial framework.

Resignation of Executive Director

Mr. Hillary Deveaux resigned as Executive Director of the Commission effective 31 August 2010, having served as Executive Director of the Commission since 1 December 2002. Preceding this position, he served as Secretary to the Commission from 1 June 1997.

Pending the successful recruitment of a new Executive Director, Mr. Philip Stubbs, Chairman, was appointed interim Executive Director of the Commission. Mr. Stubbs has over 35 years of experience in accounting, auditing and business advisory services, and a keen understanding of the financial sector.



New Managers of Authorisations and Inspections Departments

In July 2010, Ms. Laverne Thompson was appointed Manager of the Authorisations Department. Ms. Thompson is a 12-year veteran within the financial services sector of The Bahamas and her primary responsibilities include the registration and licensing of constituents.

Another major managerial development was the resignation of Mrs. Addie Winder and the appointment of Ms. Denise O'Brien as Manager of the Inspections Department. Ms. O'Brien, an accountant with work experiences both nationally and internationally within the financial services sector, oversees the Commission's on-site monitoring programme.

The Commission, in an effort to better utilise its existing human resources, conducted a restructuring exercise during the second half of 2010. As a result, Mrs. Peggy Knowles, the former Acting Manager of the Authorisations Department, was appointed the Deputy Manager of the Corporate Affairs Department. In her new role as Deputy Manager, Mrs. Knowles is responsible for training and development, human resource matters and the public relations function of the Commission.

EMPLOYEE OF THE QUARTER

The Employee of the Quarter Programme is one of the employee incentive programmes at the Commission aimed to improve staff performance and decrease turnover. This Programme contributes to higher morale levels, increased organisational productivity, and aids in recruitment and retention. For the year 2010, the contribution of four employees at the Commission was recognised.

Francisca Delva: For the first quarter, Miss Delva was recognised for displaying a professional, positive, and cooperative attitude during the course of performing her duties as a Field Examiner in the Inspections Department. She displayed a willingness to assist, and displayed an attitude of receptiveness to learning and developing skills.

Marcia Cooper: For the quarter ending in June 30, Miss Cooper, a Market Surveillance Officer, was recognised by the Commission for her willingness to take on additional tasks and specifically in assisting with benchmarking and researching best practices for the Commission's Surveillance Programme.

Kaylisa Adderley: A Senior Officer in the Authorisations Department, Miss Adderley received recognition, in the third quarter for exemplary performance in her daily function and for her contribution to the department's work ethics.

Kean Smith: During the fourth quarter Mr. Smith, an Officer in the Office of Legal Counsel, was recognised for an exemplary performance in clearing away outstanding and litigious matters as well as his high level of professionalism, wiliness to work, and an impressive turnaround time for given tasks.

The Commission celebrated its 15th anniversary on 20 June, 2010. The Commission is a statutory body established pursuant to the Securities Board Act, 1995. In November, 1995, the Mutual Funds Act, 1995 came into force providing specific powers in relation to mutual funds, and vesting the Board with responsibility for its administration. The Securities Board Act, 1995 was subsequently repealed and replaced by the Securities Industry Act, 1999. The Securities Industry Act, 1999 changed the name of the Securities Board to The Securities Commission of The Bahamas and further enhanced its authority over the securities and capital markets. The Commission's authority over the investment funds sector was further expanded on December 15, 2003 with the establishment of the Investment Funds Act, 2003, which replaced the Mutual Funds Act, 1995. Most recently, the Commission was appointed Inspector of Financial and Corporate Service Providers and assumed responsibility for the administration of the Financial and Corporate Service Providers Act, 2000 effective January 1, 2008.

The Commission began its early days operating out of the Ministry of Finance, and is now located on the third floor of Charlotte House, Shirley and Charlotte Streets. The Commission has grown in order to keep pace with developments in the local and international capital markets. During this period, and the Commission's scope of activities also expanded to support its mandate and to uphold a sound regulatory framework

The Commission also forms a part of the international securities markets regulatory landscape, through its membership in regional and international regulatory organisations. These include memberships in the Council of Securities Regulators of the Americas (COSRA) since June 1992, and the International Organization of Securities Commissions (IOSCO) since September 1996.

The Commission also co-operates with local regulators and is a member of the Group of Financial Services Regulators, which is comprised of regulators within the financial services sector of The Bahamas.

Staff of the Commission



A week of activities was held to mark the 15th Anniversary of the Commission. The events included:

- 21 June – TV show appearance on Bahamas at Sunrise;
- 23 June – TV show appearance on the Platform;
- 24 June – Radio Show Appearance on Jeffery; and
- 27 June – Church Service and Luncheon honouring staff.

During the luncheon, employees who had been in service with the Commission for five (5) years and more were recognised with long-service awards. Those employees that received awards are presented in the table below.

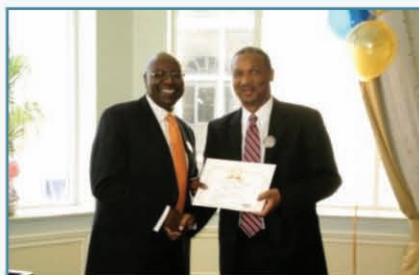
Long-Service Awards

FIVE AND MORE YEARS OF SERVICE

Kaylisa Adderley, Senior Officer, Authorisations Department
Alysia Archer- Colebrooke, Assistant to Executive Director
Sandra Duncombe, Acting Manager, Market Surveillance Department
Kadesha Hanna, Senior Officer, Market Surveillance Department
Christine Lundy, Officer, Corporate Affairs Department
Charles McKenzie, Manager, IT Unit
Shericka Penn, Senior Administrative Assistant, Office of Legal Counsel
Dwynette Roberts, Administrative Assistant, Authorisations Department
Narissa Taylor, Assistant Manager, Market Surveillance Department
Eboney Wright-Wilson, Senior Officer, Authorisations Department

TEN AND MORE YEARS OF SERVICE

Hillary Deveaux, Executive Director
Mechelle Martinborough, Legal Counsel
Peggy Knowles, Deputy Manager, Corporate Affairs Department
Janet Major, Senior Officer, Corporate Affairs Department
Benson Russell, Senior Investigative Officer, Office of Legal Counsel



Mr. Deveaux receives a long service award from the Chairman, Philip Stubbs, for 13 years of service at the Commission.

The audited financial statements that appear on the following pages in this Annual Report represent the financial position of the Commission as at 31 December 2010, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards. Corresponding figures are shown for the year ended 31 December 2009.

The Commission is mainly funded through fees charged to licensees, registrants and applicants under the Securities Industry Act, 1999, the Investment Funds Act, 2003, and the Financial and Corporate Services Providers Act, 2000. Fees charged are set out in legislation. Additional funding is received from the Government of The Bahamas (the Government). Total income of \$3.9 million (2009 - \$4.1 million) comprise fee income of \$2.5 million, Government subvention of \$1.2 million, and interest and other income of \$0.2 million.

Due to stringent fiscal measures undertaken in its 2010/2011 budget, the Government decreased its subvention by \$400,000 resulting in a \$200,000 decrease for the Commission's 2010 fiscal year. This reduction in income and an increase in total expenses of \$169,201 resulted in a total comprehensive loss of \$163,815 compared to total comprehensive income of \$170,681 in 2009. Salaries, wages and benefits of \$2.9 million (2009 - \$2.8 million) represent the largest component of expenses (72%) for both 2010 and 2009.

The Commission ended the year 2010 with \$445,773 in cash and cash equivalents. While total assets changed slightly, from \$797,371 to \$745,344, net assets of \$437,910 in 2009 decreased to \$274,095 in 2010 as a result of the loss for the year of \$163,815.

The development of new fee rules and guidelines to support new securities legislation that will be promulgated in 2011, as well as existing legislation, will incorporate changes in the Commission's fee structure which are expected to result in increased income in efforts to fully meet its operating costs going forward.

Securities Commission of The Bahamas

Audited Financial Statements
For the Year Ended 31 December 2010

INDEPENDENT AUDITORS' REPORT

To the Members of the Securities Commission of The Bahamas

We have audited the accompanying financial statements of the Securities Commission of The Bahamas, which comprise the statement of financial position as of 31 December 2010, and the statements of comprehensive income, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Securities Commission of The Bahamas as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in blue ink that reads "PricewaterhouseCoopers".

**Chartered Accountants
Nassau, Bahamas**

6 June 2011

The Securities Commission of The Bahamas
(Established under the laws of the Commonwealth of The Bahamas)

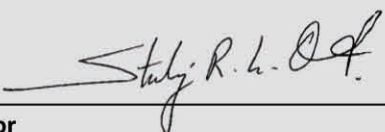
Statement of Financial Position
As of 31 December 2010
(Expressed in Bahamian dollars)

	2010 \$	2009 \$
ASSETS		
Cash on hand and at banks	445,773	444,797
Accounts receivable (Note 4)	31,319	80,113
Prepaid expenses and other assets	66,048	80,964
Plant and equipment (Note 5)	202,204	191,497
Total assets	745,344	797,371
LIABILITIES		
Accounts payable and accrued expenses	185,833	101,930
Deferred income (Note 6)	285,416	257,531
Total liabilities	471,249	359,461
NET ASSETS	274,095	437,910
REPRESENTED BY:		
Surplus	274,095	437,910
	274,095	437,910

APPROVED AND AUTHORISED FOR ISSUE BY THE MEMBERS OF THE SECURITIES COMMISSION OF THE BAHAMAS
AND SIGNED ON THEIR BEHALF BY:



Executive Chairman



Director

23 May 2011

Date

The accompanying notes are an integral part of these financial statements.

The Securities Commission of The Bahamas

Statement of Comprehensive Income

For the Year Ended 31 December 2010

(Expressed in Bahamian dollars)

	2010 \$	2009 \$
INCOME		
Fee income		
Investment funds	1,025,307	1,048,184
Investment fund administrators	496,500	517,667
Broker-dealer fees	422,691	451,073
Financial and corporate service providers	465,896	411,250
Securities investment advisors	62,433	57,458
Associated persons	10,308	8,692
Securities exchange	10,000	10,000
Penalties	7,590	57,300
Examinations	12,145	12,205
Total fee income	2,512,870	2,573,829
Government subvention	1,211,695	1,411,695
Interest income	39,211	38,459
Other income	132,328	37,416
Total income	3,896,104	4,061,399
EXPENSES		
Salaries, wages and employee benefits (Note 7)	2,920,594	2,772,793
Rent	375,797	383,196
Utilities and property charges	156,770	147,032
Professional fees	121,270	90,886
Training and conferences	107,973	142,992
Office	97,043	90,245
Depreciation (Note 5)	85,859	86,892
Repairs and maintenance	61,043	49,961
Membership fees	21,330	21,016
Advertising	21,042	22,462
Disciplinary committee fees and related costs	19,500	19,500
Provision for doubtful accounts	15,412	2,350
Printing and publications	12,999	25,147
Examination costs	11,054	9,965
Investor education	9,166	-
Bank charges	8,592	9,690
Interest expense	-	249
Miscellaneous	14,475	16,342
Total expenses	4,059,919	3,890,718
Total comprehensive income/(loss)	(163,815)	170,681

The accompanying notes are an integral part of these financial statements.

The Securities Commission of The Bahamas

Statement of Changes in Net Assets For the Year Ended 31 December 2010 (Expressed in Bahamian dollars)

	Surplus \$
Balance as of 1 January 2009	267,229
Total comprehensive income	<u>170,681</u>
Balance as of 31 December 2009	<u>437,910</u>
Balance as of 1 January 2010	437,910
Total comprehensive loss	<u>(163,815)</u>
Balance as of 31 December 2010	<u>274,095</u>

The accompanying notes are an integral part of these financial statements.

The Securities Commission of The Bahamas

Statement of Cash Flows

For the Year Ended 31 December 2010

(Expressed in Bahamian dollars)

	2010	2009
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Total comprehensive income/(loss)	(163,815)	170,681
Adjustments for:		
Interest income	(39,211)	(38,459)
Gain on disposal of plant and equipment	(16,100)	(3,865)
Depreciation	85,859	86,892
Provision for doubtful accounts	15,412	2,350
Interest expense	-	249
Interest received	39,211	38,459
Interest paid	-	(249)
(Increase)/Decrease in operating assets		
Accounts receivable	33,382	63,317
Prepaid expenses and other assets	14,916	(64,957)
Increase/(Decrease) in operating liabilities		
Accounts payable and accrued expenses	83,903	(182,183)
Deferred income	27,885	62,806
Net cash from operating activities	81,442	135,041
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(96,566)	(141,862)
Government subvention for purchase of plant and equipment	-	46,781
Proceeds from disposal of plant and equipment	16,100	4,620
Net cash used in investing activities	(80,466)	(90,461)
Net increase in cash and cash equivalents	976	44,580
Cash and cash equivalents as of beginning of year	444,797	400,217
Cash and cash equivalents as of end of year	445,773	444,797
CASH AND CASH EQUIVALENTS		
Cash on hand and at banks	445,773	444,797

The accompanying notes are an integral part of these financial statements.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2010

1. General Information

The Securities Commission of The Bahamas (the Commission) is established, as a body corporate, under the Securities Industry Act, 1999 (the Act) of the Commonwealth of The Bahamas (The Bahamas). The offices of the Commission are located at Charlotte House, Shirley and Charlotte Streets, Nassau, Bahamas.

The functions of the Commission are to monitor and regulate the securities industry in The Bahamas, the participants of which include: investment funds; investment fund administrators; broker-dealers; securities investment advisors; and associated persons. The Commission regulates the industry in accordance with the Act (Note 13); the Investments Funds Act, 2003; and the related rules and regulations.

In addition, the Commission has responsibility for regulating financial and corporate service providers in accordance with Financial Corporate Service Providers Act, 2000 and the related regulations.

2. Going Concern

The Commission's ability to continue as a going concern is dependent on financial support from the Government of the Commonwealth of The Bahamas (the Government) and restructuring of its fee structure in order to meet its operating costs. The Commission expects the continued financial support from the Government while it considers its fee structure options, and accordingly, prepares its financial statements on a going concern basis.

3. Summary of Significant Accounting Policies

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

(a) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and under the historical cost convention.

The preparation of financial statements in accordance with IFRS requires management to exercise its judgment in the process of applying its accounting policies. It also requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Notes 3(d) and 3(g).

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2010

(Continued)

3. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Amendments and interpretations to published standards that became effective for fiscal periods beginning on or after 1 July 2009 were not relevant to the Commission's operations and accordingly did not impact the Commission's accounting policies or financial statements.

The application of new standards and amendments and interpretations to existing standards that have been published but are not yet effective are not expected to have a material impact on the Commission's accounting policies or financial statements in the period of initial application.

(b) Foreign currency translation

The financial statements are presented in Bahamian dollars, which is the Commission's functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from translation of monetary assets and liabilities at year-end exchange rates are recognised in the statement of comprehensive income.

(c) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, demand deposits with banks, and term deposits with banks with maturities of three months or less.

(d) Accounts receivable

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

The Commission assesses at each date of the statement of financial position whether there is objective evidence that an account receivable or group of accounts receivables is impaired. A provision for doubtful accounts is established when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Commission will not be able to collect all amounts due according to the original terms of the receivables.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2010

(Continued)

3. Summary of Significant Accounting Policies (Continued)

(d) Accounts receivable (continued)

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. When an account receivable is uncollectible, it is written off against the related allowance account. 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, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. The amount of the reversal is recognised in the statement of comprehensive income.

(e) Plant and equipment

Plant and equipment are stated at historical cost, less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 Commission and the cost of the item can be measured reliably. Repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, which are estimated as follows:

Computer equipment	3-5 years
Furniture and fittings	3-5 years
Vehicles	3-5 years

A full year's depreciation charge is made in the year of purchase. The assets' useful lives are reviewed, and adjusted if appropriate, at each date of the statement of financial position or when an event has occurred that indicates a need to re-evaluate useful lives.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2010

(Continued)

3. Summary of Significant Accounting Policies (Continued)

(e) Plant and equipment (continued)

Assets subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. 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. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amounts and are included in the statement of comprehensive income.

(f) Accounts payable

Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(g) Income and expense recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when amounts can be reliably measured and it is probable that future economic benefits will flow to the Commission.

Revenue from licensing activities is recognised over the period of the applicable licence, with amounts collected in relation to future periods being deferred in the statement of financial position. Licence application fees are recognised upon completion of the application evaluation process. All licence fees are for fixed amounts.

Appropriations by Parliament (termed Government subvention) received to subsidise operating expenses of the Commission, are recognised as income in the period in which any conditions attached to them have been satisfied. These amounts are presented gross in the statement of comprehensive income. Government subvention, received to subsidise capital acquisitions, is recorded as deferred income and recognised as income over the useful lives of the applicable assets.

Interest income and expense are recognised using the effective interest method. All other income and expenses are recognised on the accrual basis of accounting.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2010

(Continued)

3. Summary of Significant Accounting Policies (Continued)

(h) Employee benefits

The Commission has a defined contribution pension plan for its employees, whereby the employees and the Commission make fixed contributions to a privately administered pension plan. The Commission has no further obligations to pay contributions if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods. The Commission's contributions to the defined contribution pension plan are charged to the statement of comprehensive income in the year to which they relate.

Salaries, wages and other employee benefits are recognised on the accrual basis of accounting.

(i) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under the operating lease are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

(j) Taxation

The Commission is established under the laws of The Bahamas and therefore is not subject to income or capital gains taxes. The Commission's operations do not subject it to taxation in any other jurisdiction.

(k) Corresponding figures

Where necessary, corresponding figures are adjusted to conform with changes in presentation in the current year.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2010

(Continued)

4. Accounts Receivable

	2010	2009
	\$	\$
Investment funds and investment fund administrators	1,934	49,608
Broker-dealers, securities investment advisors and associated persons	150	1,896
Financial and corporate service providers	14,250	6,750
Other	30,297	21,859
	<u>46,631</u>	<u>80,113</u>
Provision for doubtful accounts	(15,312)	-
Total	<u>31,319</u>	<u>80,113</u>

Movements in the provision for doubtful accounts comprise:

	2010	2009
	\$	\$
Opening balance	-	-
Provision for doubtful accounts	15,412	2,350
Bad debts written off	(100)	(2,350)
Closing balance	<u>15,312</u>	<u>-</u>

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2010

(Continued)

5. Plant and equipment

	Computer Equipment \$	Furniture and Fittings \$	Vehicles \$	Total \$
For the year ended 31 December 2010				
Cost				
1 January 2010	387,673	466,471	59,940	914,084
Additions	30,323	21,248	44,995	96,566
Disposals	-	-	(38,995)	(38,995)
31 December 2010	417,996	487,719	65,940	971,655
Accumulated depreciation				
1 January 2010	284,685	377,962	59,940	722,587
Depreciation expense	43,263	33,930	8,666	85,859
Disposals	-	-	(38,995)	(38,995)
31 December 2010	327,948	411,892	29,611	769,451
Net book value as of 31 December 2010	90,048	75,827	36,329	202,204
For the year ended 31 December 2009				
Cost				
1 January 2009	342,379	385,468	59,940	787,787
Additions	60,104	81,758	-	141,862
Disposals	(14,810)	(755)	-	(15,565)
31 December 2009	387,673	466,471	59,940	914,084
Accumulated Depreciation				
1 January 2009	251,435	343,319	55,751	650,505
Depreciation expense	48,060	34,643	4,189	86,892
Disposals	(14,810)	-	-	(14,810)
31 December 2009	284,685	377,962	59,940	722,587
Net book value as of 31 December 2009	102,988	88,509	-	191,497

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2010

(Continued)

6. Deferred Income

	2010	2009
	\$	\$
Investment fund and investment fund administrator fees	126,030	100,800
Broker-dealer, securities investment advisor and associated person fees	78,050	74,700
Financial and corporate service provider fees	46,250	35,250
Government subvention	35,086	46,781
Total	285,416	257,531

All deferred income is to be recognised in the following year in the statement of comprehensive income, with the exception of \$23,391 (2009: \$35,086) in Government subvention.

7. Employee Benefits

Pension costs recognised in the statement of comprehensive income in the current year total \$160,414 (2009: \$178,746). The Commission's contributions to the pension plan vest 50% with employees upon completion of 5 years of employment, and fully vest upon completion of 10 years of service.

During the year, the Commission received reimbursements totalling \$28,417 (2009: \$33,982) representing the unvested portion of pension contributions relating to the former employees of the Commission. The unvested contributions were credited to salaries, wages and employee benefits in the statement of comprehensive income.

As of 31 December 2010, the Commission employed 56 (2009: 55) persons.

8. Balances and Transactions with Related Parties

Related parties comprise: i) Government ministries and departments; ii) Government corporations and agencies; iii) entities controlled by the Government; iv) entities in which the Government has a significant ownership interest; and v) key management personnel. Balances and transactions with related parties, not otherwise disclosed in the financial statements, include:

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2010

(Continued)

8. Balances and Transactions with Related Parties (Continued)

	2010	2009
	\$	\$
<i>Assets</i>		
Cash at banks	445,523	444,547
Accounts receivable	6,544	2,254
Prepaid expenses and other assets	12,058	17,256
<i>Income</i>		
Other income	80,500	-
<i>Liabilities</i>		
Accounts payable and accrued expenses	13,237	10,109
<i>Expenses</i>		
Utilities and property charges	131,103	110,006

Key management personnel is comprised of members of the Commission, the executive director, deputy executive director, secretary to the Commission, manager of corporate affairs and financial controller. Compensation of key management personnel for the year ended 31 December 2010 comprised \$305,622 (2009: \$351,900) for salaries and other short term benefits and \$20,783 (2009: \$20,095) for pension benefits.

9. Commitments and Contingencies

Commitments

The Commission has entered into three year leases, with options to renew for a further three years, relating to office space. Future minimum rental payments required under the operating leases are as follows:

Within one year	\$303,986
-----------------	-----------

Contingencies

The Commission is a defendant in several legal proceedings and would be liable for claims and legal costs in the event of an adverse finding by the courts. However, it is not possible to either predict the decision of the courts or estimate the amount of such awards. Management does not expect that the resolution of these matters will have a material impact on the Commission's financial position and accordingly, no provisions have been made in these financial statements relative to the legal proceedings.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2010

(Continued)

10. Financial Risk Management

The Commission engages in transactions that expose it to credit risk, liquidity risk and interest rate risk in the normal course of business. The Commission's financial performance is affected by its capacity to understand and effectively manage these risks.

(a) Credit risk

Credit risk arises from the potential failure of a counterparty to perform according to the terms of the contract. The Commission's exposure to credit risk is concentrated in its cash at bank and accounts receivable. The Commission mitigates the risk associated with cash at banks by placing its deposits with domestic financial institutions in good standing with the Central Bank of The Bahamas, including a related party. The risk associated with accounts receivable is mitigated by the monitoring of payment history before continuing to extend credit to licensees.

The Commission in its effort to minimise credit risk exposure monitors the accounts receivable balances ensuring that all efforts are expended in order to reduce accounts with long overdue balances. The aged analysis of accounts receivable as of 31 December 2010 is set out below:

	2010 \$	2009 \$
<i>Days outstanding</i>		
0 – 60 days	15,090	59,459
61 – 120 days	11,822	9,835
> 120 days	19,719	10,819
Total	46,631	80,113

Balances greater than 120 days are considered for impairment.

(b) Liquidity risk

The objective of liquidity management is to ensure the availability of sufficient funds to honour all of the Commission's financial commitments as they become due. The Commission maintains a level of liquid assets that mature in the short term or could be redeemed immediately to meet cash requirements for normal operating purposes.

As of 31 December 2010, all of the Commission's payables and accrued expenses are due within one year.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2010

(Continued)

10. Financial Risk Management (Continued)

(c) Interest rate risk

Interest rate risk is the risk that the future cash flows or fair value of a financial instrument will fluctuate because of changes in market interest rates. The Commission's exposure to cash flow interest rate risk is concentrated in cash at banks; the Commission does not hedge this risk as it is not considered significant. The Commission does not have any significant fair value interest rate risk.

11. Fair Value of Financial Instruments

Financial instruments utilised by the Commission include the recorded financial assets and liabilities, and their estimated fair values approximate their carrying values due to the relatively short term nature of these instruments.

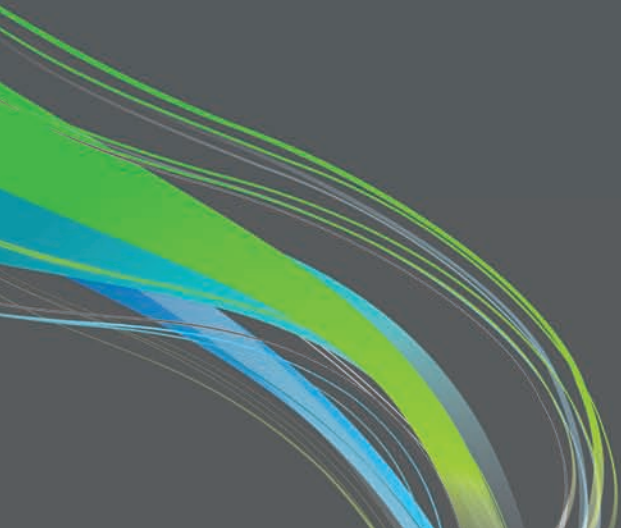
12. Capital Management

The Commission regards the balance of its surplus account and any reserve fund as capital. The Commission's objectives when managing capital are to: i) safeguard its ability to continue as a going concern; and ii) maintain a capital base sufficient to support its regulatory powers and associated operations.

13. Subsequent Events

Subsequent to 31 December 2010, the Commission received \$600,000 in Government subvention.

In addition, the Commission has submitted a new Securities Industry Act to the Parliament of The Bahamas. The revised act amends several aspects of the Commission's regulatory functions, but will not significantly impact the accounting policies and financial statements of the Commission.



3rd Floor Charlotte House
Shirley and Charlotte St.
P.O. Box N-8347
Nassau, Bahamas

www.scb.gov.bs
info@scb.gov.bs

Tel: (242)397-4100
Fax: (242)356-7530