



Securities Commission of The Bahamas

Annual Report **2014**



MISSION

To effectively oversee and regulate the activities of the securities and capital markets, to protect investors while strengthening the public and institutional confidence in the integrity of those markets.

FUNCTIONS

The functions of the Commission are to -

- (a) advise the Minister on all matters relating to the capital markets and its participants;
- (b) maintain surveillance over the capital markets and ensure orderly, fair and equitable dealings in securities;
- (c) foster timely, accurate, fair and efficient disclosure of information to the investing public and the capital markets;
- (d) protect the integrity of the capital markets against any abuses arising from financial crime, market misconduct and other unfair and improper practices;
- (e) promote an understanding by the public of the capital markets and its participants and the benefits, risks, and liabilities associated with investing;
- (f) create and promote conditions that facilitate the orderly development of the capital markets; and
- (g) perform any other function conferred or imposed on it by securities laws or Parliament.

—Section 12, Securities Industry Act, 2011

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29 June 2015

The Rt. Hon. Perry G. Christie
Prime Minister and Minister of Finance
Office of the Prime Minister
Cecil Wallace-Whitfield Centre
Cable Beach
Nassau, N.P., The Bahamas

Dear Prime Minister:

In accordance with Section 31(1) of the Securities Industry Act, 2011, 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 2014. Included in this Report is the Annual Statement of Accounts of the Commission for the year.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Tonya Bastian Galanis", followed by a period.

Tonya Bastian Galanis
Chairman

Chairman's Message

Tonya Bastian Galanis



The Securities Commission of The Bahamas (the Commission) plays a pivotal role in the country's financial services sector as the regulator of the investment funds, securities and capital markets. In its capacity as the Inspector of Financial and Corporate Services (the Inspector), the Commission also has responsibility for the supervision of financial and corporate service providers (FCSPs). In all, the Commission supervised over 2,000 registrants and licensees at the close of 2014.

The role of these registrants and licensees in the development of the capital markets, and the growth and sustainability of the broader financial services sector, underscore the essential nature of the Commission's regulatory function. This report highlights many of the Commission's accomplishments, initiatives and other developments in 2014.

Maintaining International Best Practices

The dynamic nature of the securities industry requires the Commission to maintain a regulatory regime which simultaneously meets international best practices, spurs economic growth and generally facilitates the orderly development of the Bahamian capital markets. In order to give The Bahamas greater international visibility and to position the Commission to be even more effective in balancing local industry needs with international regulatory standards, in 2014 the Commission increased its engagement with international organisations. Among the undertakings to achieve this objective was participation by the Commission on several working groups of the Inter-American Regional Committee (IARC) of the International Organization of Securities Commissions (IOSCO) and the Council of Securities Regulators of the Americas (COSRA). These working groups addressed corporate governance standards, conflicts of interest in self-regulatory organisations, and conflicts relating to the constitutive documents of IARC and COSRA.

In 2014, the Commission signed three additional Memoranda of Understanding (MoUs) under the European Union's (EU) Alternative Investment Fund Managers Directive. MoUs were entered into with the securities regulators of Austria, Cyprus and France, bringing the total number of MoUs concluded to 26 at 31 December. The Commission continues to pursue MoUs with the remaining EU securities regulators.

The Commission continued its engagement with the Caribbean Financial Action Task Force (CFATF) in 2014, participating in its regional anti-money laundering/countering terrorism financing conference hosted by The Bahamas in April and its plenary hosted by El Salvador in November. Engagement with CFATF supports the Commission's efforts to ensure the regulatory regime effectively addresses money laundering and terrorist financing risks in the markets it regulates. The meetings also formed an important aspect of the Commission's preparations for The Bahamas' peer review under the Financial Action Task Force, scheduled for the last quarter of 2015.

Refining the Regulatory Framework

During the year, the Commission furthered several legislative initiatives aimed at improving the regulatory landscape for stakeholders. The Commission's resolution to bring regulation of the investment funds sector in line with the prudential standards espoused in IOSCO's Principles of Securities Regulation, in particular, Principles 24-28 was advanced in 2014. In May 2014, the Investment Funds Act Technical Team that had been constituted by the Commission in 2012 provided the Commission with its report on the adequacy of the investment funds regulatory regime. The Commission's management team is reviewing the report and the recommendations made with a view to addressing deficiencies in the Investment Funds Act in 2016.

With the support of the Commission and various Government agencies, a team of private-sector industry experts led by The Bahamas Financial Services Board developed the Investment Condominium Act, 2014 (ICON Act), which was passed in September. This Act brings an innovative investment structure referred to as the 'ICON' to market. Investment funds structured as ICONs would be licensed and regulated by the Commission. The Commission was therefore pleased to have been involved throughout the development process of the ICON Act to have provided insight into the regulatory considerations for the new structure.

The implementation of the Securities Industry (Anti Money Laundering and Countering the Financing of Terrorism) Rules remains a priority of the Commission. The development of the Rules concluded in 2014 and it is anticipated they will become effective in 2015. These Rules, along with other subsidiary legislation that will be promulgated in 2015, will bolster the effectiveness of the Securities Industry Act, 2011.

Since the implementation of the Financial and Corporate Service Providers Act (FCSPA) in 2000, the industry has developed significantly, creating the need for enhanced regulation. A number of deficiencies in the legislation have been identified for revision to improve the sector's regulatory framework. In 2014, a Working Group to review the FCSPA was established. With input from the Working Group, the Commission, in its capacity as Inspector, is preparing to produce a Bill to substantially amend or to repeal and replace the FCSPA.

The coming into force of the Financial Transactions Reporting (Amendment) Act, 2014 expanded the number of financial institutions within the Inspector's regulatory remit to include persons whose business consists or partially consists of 'trade in previously owned precious metals or precious stones, or money-lending for profit where previously owned precious metals or precious stones are used as security'. The regulatory framework for the supervision and oversight of these persons and activities is being developed.

Protecting Investors, Undergirding Confidence

The protection of investors is a critical objective of the Commission and drives much of its surveillance, enforcement and education initiatives. The Commission continued to urgently press for the promulgation of the Securities Industry Disciplinary Proceedings (Hearing & Settlements) Rules and consequential amendments to the Securities Industry Act, 2011 required to facilitate it. The draft laws continued to work their way through the legislative process to the end of 2014. The enactment of these laws will tangibly enhance the Commission's enforcement regime. The Commission looks forward to their coming into effect in 2015.

The Commission expanded its investor education effort in 2014, reaching new audiences outside of New Providence through the publication of articles and its continued work with educational institutions. Of particular note is the Commission's collaboration with a registrant firm in a project to help prepare high-school students to become investors and to make informed investment decisions. The Commission is investing in training of its staff to provide a robust, strategically driven investor education programme. In this regard, the Commission participated in the global conference on investor education, hosted by the International Forum on Investor Education and IOSCO in Washington DC.

Introspection and Planning

Upon the passing of its inaugural chairman Mr. Timothy Baswell Donaldson, CBE, in 2013, the Commission begun plans to commemorate Mr. Donaldson, who was a trailblazer in the Bahamian financial services industry and renowned for his dedication to the development of young Bahamians. I am pleased to report that in 2014, these plans came to fruition and the Commission successfully launched an apprenticeship programme, in the name of Mr. Donaldson. The first winner of the apprenticeship, Mr. Jarod Fowler, was announced in September 2014. In addition to his employment with the Commission, Mr. Fowler received a four-year scholarship for his matriculation at the College of The Bahamas.

During the second half of 2014, the Commission commenced its strategic planning for the period 2015 to 2017. Key stakeholders including Government ministries and agencies, other financial services regulators, licensees and registrants of the Commission, the Commission's staff and other stakeholders were canvassed to inform the strategic direction for the three-year period. The primary information gathering techniques employed were interviews, focus-group meetings and surveys. The Statement of Priorities and key objectives derived from the strategic planning exercise will be published in 2015.

The Commission realised an improved financial position during the 2014 fiscal year. This was the direct result of reducing expenditure and increasing fees. This rationalisation of fee levels for licensees under the Investment Funds Act, effective 1 January 2014 followed the fee schedule for securities industry registrants that had been in effect since 30 December 2012.

The Board continued its efforts to strengthen the Commission's management team and organisational structure. To this end, a search was conducted to find suitable candidates to nominate to the Minister of Finance to succeed Mr. Hillary Deveaux as executive director. By the close of 2014, the Commission had provided nominees for the Minister's consideration. Simultaneously, the Commission moved to fill the long-vacant position of deputy executive director.

Acknowledgements

Mr. Hillary Deveaux had returned to the Commission as executive director 11 September 2013, to head the day-to-day operations in an interim capacity and assist with the search for suitable candidates for the executive director and deputy executive director positions. He had previously served the Commission for 13 years, holding various positions culminating in the executive director post. On behalf of the Board, I thank Mr. Deveaux for offering his expertise and for the commitment and leadership he provided to the Commission during this period.

I also would like to express deep gratitude to my fellow Members and to the management and staff of the Commission for their dedication and endeavours over 2014.

It is my pleasure to present the 2014 Annual Report of the Securities Commission of The Bahamas.

Members of the Commission



TONYA BASTIAN GALANIS
Chairman



JERRY BUTLER
Deputy Chairman



SHARMIE AUSTIN
Member



MARION BETHEL
Member



WENDY CRAIG
Ex-Officio Member
Governor, Central Bank of The
Bahamas



HILLARY DEVEAUX
Ex-Officio Member
Executive Director



MICHELE FIELDS
Ex-Officio Member
Superintendent, Insurance
Commission of The Bahamas



ARINTHIA KOMOLAFE
Member



PHILLIP MCKENZIE
Member



KIMBERLEY ROLLE
Member



ROBIN SCAVELLA
Member

Structure and Membership of the Commission

Part II of the Securities Industry Act, 2011 (SIA) establishes the Commission as a body corporate and requires that the membership consist of a chairman, a deputy chairman, up to seven members appointed at the discretion of the responsible minister (the Minister of Finance) and three ex-officio members: 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. Members are appointed by the Minister based on their experience or demonstrated capacity in matters relating to industry and the disciplines of commerce, law, finance, economics and administration.

The SIA provides for the chairman to hold office for a period of five years, and for the deputy chairman and other members to hold their offices for a period not to exceed four years. All members, including the chairman, are eligible for reappointment.

The current members were appointed effective 1 July 2013, with the exception of the Board's ex-officio members. The ex-officio members took office as follows: Mrs. Wendy Craig, Governor of the Central Bank, on 1 June 2004; Mrs. Michelle Fields, Superintendent of Insurance Commission of The Bahamas, on 1 January 2012, and the Commission's Executive Director, Mr. Hillary Deveaux, on 11 September 2013.

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, as well as establishing rules and guidelines to govern the investment funds, securities and capital markets.

Activities of the Board

The Board held 11 regular meetings, 1 extraordinary meeting, 10 Legislative Committee meetings, 5 Audit Committee meetings and 4 Human Resources Committee meetings during the year. In addition, Members used a round robin process 6 times during 2014 to expedite the approval of matters requiring more immediate action.

Committees of the Board

The Board has appointed four committees to assist it in the execution of its duties. The Chairman and the Executive Director serve as ex-officio members on all committees.

BOARD COMMITTEES

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.

Members: Mr. Jerry Butler – Chair; Ms. Marion Bethel; Mrs. Michele Fields; Mrs. Arinthia S. Komolafe; Mrs. Kimberley Rolle and the Commission's appointed representative, Mrs. Monique Sands, Financial Controller.



HUMAN RESOURCES COMMITTEE

This committee assists the Commission in establishing and reviewing remuneration and other related policies for employees of the Commission.

Members: Mrs. Arinthia S. Komolafe – Chair, Mrs. Sharmie Austin, Mr. Jerry Butler, and the Commission's appointed representative, Mrs. Deborah Burrows, Manager, Human Resources.



LEGISLATIVE COMMITTEE

This committee reviews existing and proposed legislation pertinent to the industries regulated by the Commission. It also provides input and assistance on other significant legal issues.

Members: Mr. Philip McKenzie – Chair, Mrs. Kimberley Rolle and the Commission's appointed representative, Ms. Mechelle Martinborough, Legal Counsel.



REVIEW COMMITTEE

This committee addresses appeals by the industry against decisions of Management as provided for in the SIA

Members: Mrs. Michele Fields – Chair, Ms. Marion Bethel and Mrs. Arinthia Komolafe.



Executive Director's Remarks

Hillary H. Deveaux

It is a privilege to report to you on the work of the Commission over the fiscal year ended 31 December 2014. Next year will mark the 20th Anniversary of the Commission, originally established as the Securities Board of the Commonwealth of The Bahamas by the Securities Board Act, 1995. Almost two decades later, the Commission has grown its staff from 4 to 70 at 31 December 2014 and has made significant efforts in the modernisation of relevant legislation, enhancements in supervision, improvements in organisational efficiencies and cooperation through memberships in various international, regional and local organisations.

While this Report will present the Commission's activities in greater detail, I would like to highlight some of the Commission's achievements in 2014 below:

Risk-Based Supervision

Momentum continued in 2014 toward implementing a risk-based supervision programme for regulated entities in the investment funds, securities and capital markets. The programme provides a structured approach to assessing and scoring risk elements combined with a new software application to support and derive risk ratings for entities. The Commission also invited the Caribbean Regional Technical Assistance Center (CARTAC) to provide intensive training on instituting a risk-based supervisory framework. This training took place in December and has provided meaningful assistance to the Commission. This programme is envisaged to allow for a more proactive and dynamic assessment and regulation of our registrants and licensees.

Human Capital

The Commission recognises the relationship between its human resources and its ability to effectively regulate a dynamic environment such as the securities and capital markets. The Commission has been focused on procuring and developing the necessary skills and I am proud to report that, during the year, the Commission boosted its management and supervisory-level complement with several appointments in key areas. These areas include Authorisations, Inspections, Information Technology and Human Resources.

Finally, at the end of 2014, the Commission was in the last stages of selecting a permanent executive director and a deputy executive director with a view that these positions will be filled before the end of January 2015. I am confident that these appointments will enable the Commission to properly discharge its mandate.

Industry Consultation and Engagement

As a part of the Commission's ongoing commitment to transparency and open dialogue with industry participants, the Commission held a number of industry briefings and meetings for stakeholders during the year. These meetings have been extremely beneficial in understanding the needs of the industry. The Commission sought feedback from the public on several rules and guidelines needed to strengthen the Commission's capacity in areas such as enforcement, investigations and combating money laundering and the financing of terrorism. These rules and guidelines are in the process of being finalised for enactment in early 2015.

In keeping with the above commitment, the Commission also involved key industry stakeholder groups and organisations in the preparations of its 2015-2017 Strategic Plan. The contributions and support of these groups and organisations played a significant



role in informing the Strategic Plan and will go a long way in assisting the Commission in delivering on its objectives over the next several years.

Industry Statistics

The securities, investment funds, and capital markets continued to grow in 2014. The number of firms and individuals registered under the SIA grew by 6.6% and 13.7% respectively over last year, which also saw increases over 2012. Capital raising by companies also increased slightly with \$158 million in private placements over the year compared to 2013 when \$130 million in private placements was raised. The performance of the investment funds sector was also encouraging. There was a slight increase in the number of investment fund administrators licensed during the year but investment funds experienced an overall growth of 10.2%. This increase was mostly the result of the continued demand for SMART Funds, and in particular SMART Fund Model 007, which saw a net increase of 124.1% over last year.

Additionally, growth in the number of licensed financial and corporate service providers persisted into 2014, with a net increase of 2 corporate service providers over last year.

Operational Efficiency

To execute its responsibilities effectively in an environment of limited resources, the Commission is not only focusing on enhancing its regulatory framework but also on instituting operational efficiencies throughout the organisation. The Docuware Management System, implemented in 2013, has brought about increased efficiency in the organisation. About 70% of registrant information is now digitised. The Commission also implemented additional software modules and hardware for this system to improve work processes, better enhance security of electronic documents and integration with the Commission's other existing software to realise increased efficiencies.

The review of documented departmental procedures was another operational initiative that continued in 2014.

Conclusion

I served as Executive Director of the Commission from 2002 to 2010. In September 2013, I was appointed interim Executive Director with the mandate to administer the day-to-day affairs of the Commission and to assist the Board in identifying suitable candidates for recommendation to the Minister of Finance for the position of executive director. The selection of the executive director has been completed and the appointment is expected to be made before the end of January 2015. I would like to thank the Minister of Finance for his confidence in me to serve as Executive Director for the past 16 months. It was an honour and a privilege.

I also take this opportunity to acknowledge and thank the members of the Board, who have been very supportive of me during my time at the Commission. I also wish to express my sincere appreciation to the management and staff at the Commission who work tirelessly to carry out the Commission's mandate, and to industry stakeholders for their voluntary support, feedback and contributions to the Commission's efforts in 2014. As the Commission continues its work into 2015, it remains steadfast to its pledge of striking the right balance between regulation and growth as The Bahamas maintains its position as a reputable, sovereign jurisdiction for financial services and as a safe and secure place to do business.

Management Team and Departments



Management Team as at 31 December 2014. Standing, L-R: Mr. Stewart Miller—Assistant Manager, Office of the Executive Director; Mrs. Monique Sands—Financial Controller; Mrs. Alysia Archer-Colebrooke—Manager, Administration; Mrs. Velma Miller—Manager, Market Surveillance; Mrs. Omara Bingham—Manager, Authorisations; Ms. Altermize Missick-Stuart—Manager, Inspections; Mr. Reneldo Russell—Manager, Information Technology; Sitting, L-R: Ms. Mechelle Martinborough—Legal Counsel; Mr. Gawaine Ward—Manager, Enforcement; Mr. Hillary Deveaux – Executive Director; Mrs. Peggy Knowles—Deputy Manager, Human Resources.

The Office of the Executive Director is responsible for the day-to-day management of the Commission.

The Administration Department is responsible for planning and overseeing general administrative support and office services. The department is also responsible for general safety requirements within the premises and maintenance of the Commission's equipment and vehicles.

The Authorisations Department is responsible for processing applications for the licensing and registration of market participants under the Securities Industry Act (SIA), Investment Funds Act (IFA) and licensees under the Financial and Corporate Service Providers Act (FCSPA).

The Enforcement Department is primarily responsible for carrying out the Commission's disciplinary actions pursuant to the SIA, IFA and the FCSPA. It is also responsible for investigating products, operations or entities that are operating in The Bahamas without a licence or registration as required by law.

The Human Resources Department is responsible for the daily management of the human resources of the Commission, which includes ensuring adequate human capital

to facilitate the Commission's mandate, as well as implementing and enforcing staff regulations.

The Information Technology Department is responsible for facilitating the information and electronic communication needs of the Commission.

The Inspections Department is responsible for the supervision and on-site monitoring of market participants under the SIA and IFA and licensees under the FCSPA.

The Market Surveillance Department is responsible for the off-site monitoring and supervision of market participants under the SIA and IFA and licensees under the FCSPA. It is also responsible for the review and registration of prospectuses for public offerings and private placements.

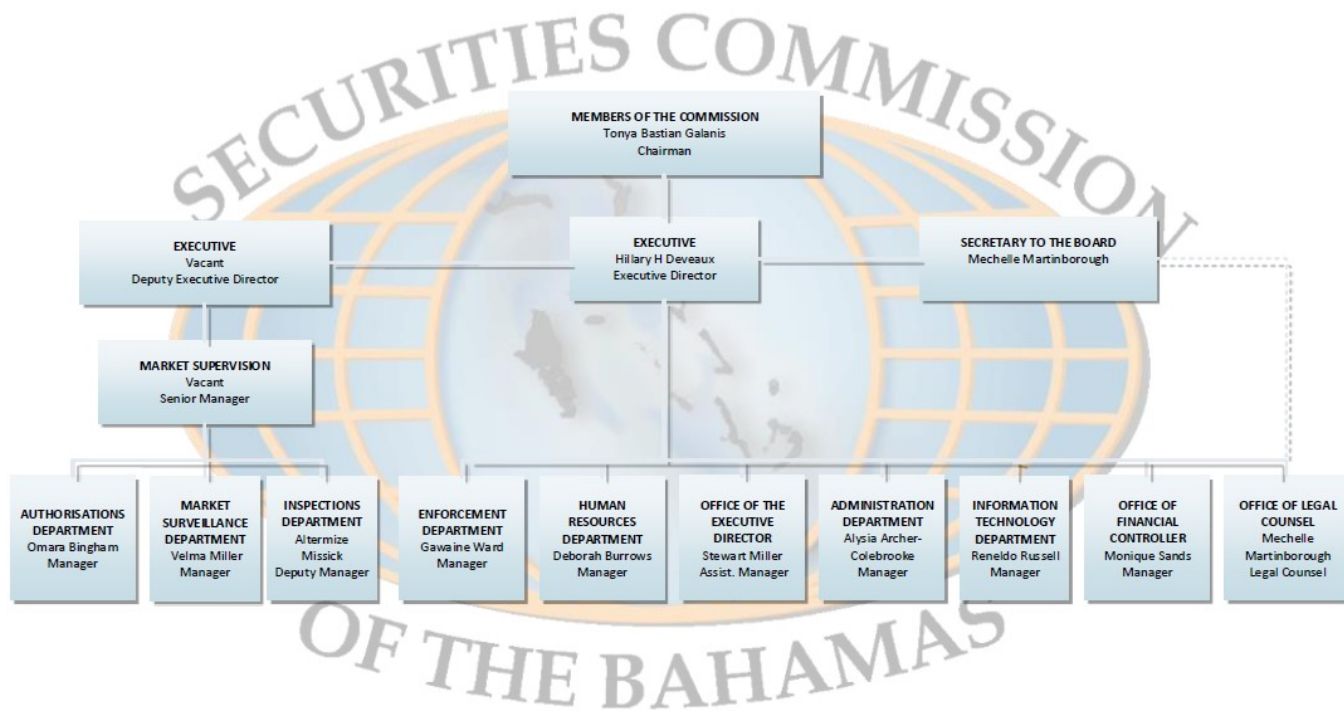
The Office of Legal Counsel is responsible for providing legal advice to the Commission, assisting in the review of financial sector legislation and managing matters of international cooperation.

The Office of the Financial Controller is responsible for all of the Commission's financial matters, including annual budgets and the preparation of financial statements.

Organisational Structure

At 31 December 2014, the Commission was comprised of 10 departments. These included 3 supervisory departments (Authorisations, Inspections and Market Surveillance), 2 non-supervisory departments (Enforcement and the Office of Legal Counsel) and 5 operational departments (Administration, Human Resources, Information Technology, Office of the Executive Director and Office of the Financial Controller).

Figure 1: Securities Commission of The Bahamas organisational chart as at 31 December 2014



Staff Complement

The staff complement rose from 63 at end of 2013 to 70 at the end of 2014, an increase of 11%. Of the 70 staff members, 62 were full-time employees and 8 were temporary/contract employees. Staff qualifications included 32 bachelor's degrees, 8 master's degrees and 9 professional designations at 31 December 2014. The staff count by department appears below.

Figure 2: Staff count by department at 31 December 2014



To successfully execute its supervisory and regulatory responsibilities, the Commission's 2014 work programme was guided by goals and underlying projects, which included improving efficiency, increasing the technical capacity of staff and modernising the regulatory and legislative framework. The Commission also conducted an exercise to develop a strategic plan which will prioritise the Commission's key focus areas for 2015-2017.

Improving Efficiency

The Commission continued to make progress on its project to enhance the management of records utilising Docuware, an electronic data management system. The implementation of Docuware, which is about 70% complete, is set to be fully implemented by 30 September 2015, when all registrant information will be digitised. The Commission has also implemented various modules to further enhance the efficiency and effectiveness of the Docuware platform to the Commission, such as software that captures images and allows for the integration of Docuware and Microsoft Outlook.

Additionally, the E-Filing facility, used to record net asset valuations and other data on investment funds, was updated and tested during the first quarter of 2014 to improve the collection of information.

Enhance Staff Technical Capacity

The Commission continued to provide internal, local and international training opportunities for staff as well as support to staff members undertaking professional designations and certifications during 2014. Training during the year was focused on several areas, including: enforcement and risk-based supervision to improve oversight of registrants; computer network infrastructure to enhance business continuity and other technical and soft skills training to improve professional knowledge and skills.

A number of staff members participated in training programmes with various organisations and agencies including the International Organization of Securities Commissions (IOSCO), the International Forum for Investor Education, the Caribbean Regional Technical Assistance Centre, the Public Company Accounting Oversight Board and the U.S. Securities and Exchange Commission.

Recruitment of the Executive Team

Nearing the end of the year, the Commission was in the final stages of selecting an executive director and deputy executive director. The interim executive director was involved in the recommendation of the two candidates. It is anticipated that the positions of executive director and deputy executive director will be filled in January 2015.

The Timothy B. Donaldson Apprenticeship Programme

In memory of the late Mr. Timothy B. Donaldson, the first chairman of the Commission, an apprenticeship programme was established in August 2014. The programme includes a four-year scholarship to the College of The Bahamas and simultaneous paid job-training with the Commission.

The selection of the apprentice was a four-stage process consisting of a pre-screening review, internal interviews, semi-final interviews, and a Blue Ribbon Panel review of all submitted applications and recommendations and final approval. The Blue Ribbon Panel consisted of:

- Mr. Marko Chea, Deputy Manager, Exchange Control Department, Central Bank of The Bahamas;
- Mrs. Kim Bodie, Executive Director, Bahamas Institute of Financial Services; and
- Ms. Robin Scavella, Member of the Commission.

To meet the requirements for eligibility, candidates had to: be Bahamian, have a minimum high school GPA of 3.00, be a Grade 12 graduate with a High School Diploma, and be accepted into the College's bachelor's degree programme within an area of study aligned with the Commission's needs, including accounting, finance, and economics.

On 15 September 2014, the Commission announced Mr. Jarod Fowler as the apprenticeship recipient.

Strategic Plan 2015-2017

During 2014, the Commission undertook a strategic planning exercise for the period of 1 January 2015 to 31 December 2017, with a view to determining the optimal way forward to realise its Vision, giving consideration to the current regulatory environment, anticipated trends and the Commission's capacity and resource expectations. A strategic planning committee was formed to manage the effort. An environmental scan, which included interviews, questionnaires and surveys of key stakeholders was conducted. The critical success and failure factors of recent planning efforts were reviewed. Further, independent assessments, such as audit reports and financial sector assessments by international bodies were incorporated into the determination of goals and strategic programmes.

The priority areas of the strategic plan and a brief overview of them appear on the following page.

IMPROVE EFFICIENCY THROUGH ENHANCED MANAGEMENT OF SYSTEMS, PROCESSES AND RESOURCES

Effective expansion of the Commission's capacity undergirds the success of its strategic initiatives, and how well positioned it will be to meet the requirements of the ever-evolving financial services regulatory environment over the coming years. To this end, the Commission recognises both the need and opportunity to significantly improve how limited resources are utilised to achieve greater efficiency.

ENSURE THAT THE LEGISLATIVE FRAMEWORK MEETS INTERNATIONAL REGULATORY STANDARDS AND SUPPORTS THE DEVELOPMENT OF THE MARKETS

A priority area for the Commission will be the development of core Rules and Guidelines for the implementation of the SIA. The Commission will focus on concluding outstanding Rules and conduct ongoing technical reviews of the legislation to identify other substantive Rules for development.



Priority Areas 2015-2017

The Commission will continue its industry engagement and strengthen relationships with local, regional and international stakeholders. Locally, the Commission will enhance its schedule of regular meetings with industry stakeholder groups, focus groups of registrants and licensees, and relevant Government agencies. This will allow deeper understanding of the needs and requirements of all parties. From the Commission's perspective, these closer relationships and a greater appreciation for developments and trends will facilitate greater responsiveness to regulatory matters as they arise. Increased participation with regional and international bodies is envisioned to position the Commission to be more agile in its response to international developments, and accommodate better representation of local regulatory concerns at international fora.

IMPROVE THE COMMISSION'S BRAND MANAGEMENT TO ENHANCE ITS LOCAL AND INTERNATIONAL PROFILE

Core to the Commission's purpose is the protection of investors. Ultimately, its efforts to increase efficiency, enhance the legislative framework, manage its brand and educate investors all work to this end. Critically, the Commission must demonstrate that breaches of the legislation are discovered timeously and pursued aggressively, and that violators are duly penalised. The Commission is reviewing investment funds legislation to determine whether to amend or repeal and replace the legislation in order to meet the prudential standards established by IOSCO Principles 24 to 28 of Securities Regulation relating to Collective Investment Schemes. The Commission is also reviewing financial and corporate service providers legislation to enhance and modernise the regulatory regime.

FOSTER AND ENFORCE COMPLIANCE WITH LEGISLATION ADMINISTERED BY THE COMMISSION

The Commission recognises the critical need to expand its current investor education effort and be an active driver and participant in financial literacy programmes. To accomplish this, the investor education programme will expand its target audience, augment existing investor education efforts in the nation, leverage partnership opportunities and social media, address funding requirements, and incorporate performance metrics to measure effectiveness.

INCREASE AND EXPAND THE REACH OF THE COMMISSION'S INVESTOR EDUCATION EFFORT

International Capital Markets Review

At the end of 2013, analysts were cautiously optimistic that, in the ensuing year, the volatility in the markets would subside and that the inconsistent growth experienced by most countries characteristic of the previous 6 year global financial crisis would begin to abate. The World Economic Outlook 2014 forecasted growth of 3.3% exceeded that of 2013 (2.8%), supporting that optimism was justified.

In 2014, the Euro Zone's 0.9% growth was an improvement compared to the 0.6% contraction in 2013. The legacy recession crisis, coupled with high debt and unemployment still, however, posed challenges to robust and substantive growth. The Euro STOXX 50 index price closed at 3,146.43, a slight increase compared to 2013 (3,109.00). As currently several countries, such as Greece and Italy, are still in distress there are worries that 2015 will be another difficult year for the Euro Zone.

The situation was better in the United States of America. The economy increased by 2.4% in 2014 compared with an increase of 2.2% in 2013. Contributing to the increase was the improved housing and labour markets and the S&P 500 that increased by 11.4% in 2014, the third successive year that the Index scored double-digits gains. Unlike last year where there was uncertainty about the economy, analysts predict a strong year for the economy in 2015.

Asia, once the mainstay of growth in the world, had an uneven year. China continued to underperform posting its lowest growth in years (7.4%), and well under the predicted 8.6%. Japan's economy was mired in a recession for half of 2014, mainly caused by the government's decision to increase the country's sales tax. Speculations of a general election in 2015 further hindered any significant growth for the year. However, at the end of 2014, the Nikkei Stock Average (Nikkei 225) climbed 7.1% and stood at 17,450.77 compared to 2013 (16,291.31), perhaps intimating that Japan's recession phase has ended.

Domestic Capital Market Review

The Bahamas International Securities Exchange (BISX) continued to serve as a critical element in the development of the Bahamian capital markets. At the end of 2014, the market was comprised of 29 primary market listings which included 20 common share listings, 5 preference share listings and 4 tranches of debt.

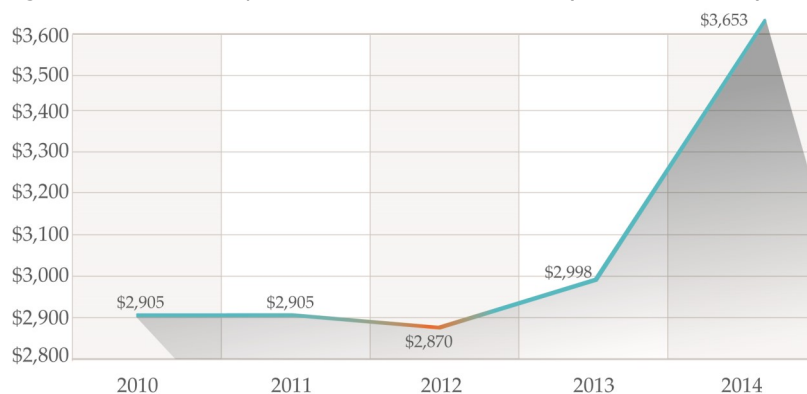
Overall, market activities remained almost in line with 2013. The volume of shares traded on BISX in 2014 was 4.026 million (value at \$17.8 million), a slight decrease compared to 2013 when volume of shares traded was 4.086 million (value at \$17.4 million). However, the all Share Index closed at 1,659.30 (2013: 1,468.22). Additionally, market capitalisation increased to \$3.653 billion (2013: \$2.998 billion)

There was a change in the executive management at BISX as, after 15 years, Mr. Ian Fair resigned as the Chairman of the Exchange. He was replaced by Mr. Andrew Strachan, who previously served as Deputy Chairman. Mr. Strachan indicated that his main objective will be to increase the number of listings on the Exchange.

Capital Raising

Capital initiatives, specifically private placement offerings, conducted by Cable Bahamas Limited and AML Foods Limited among others, increased to \$158 million in 2014, an increase compared to 2013 (\$130 million). The Commission expects this trend to increase in 2015. Though no Initial Public Offerings (IPOs) occurred in 2014, the Commission expects an increase in this segment in 2015.

Figure 2: BISX market capitalisation trend at 31 December (amounts in millions)



Supervisory Developments and Updates

A number of developments took place in 2014 to streamline and improve the licensing and supervision of entities.

LICENSING PROCESS

Licensing Training for Unrestricted Investment Fund Administrators

Under the Investment Funds Act, 2003 (IFA), Unrestricted Investment Fund Administrators (UIFAs) have delegated authority to license Professional and Specific Mandate Alternative Regulatory Test (SMART) Funds. As such, they must submit to the Commission the prescribed information for any investment fund which they license. In 2014, to assist with the submission process, the Commission worked on the development of a training programme for all licensed UIFAs to take place in early 2015. It is anticipated that this training will help to mitigate any deficient filings that may occur from time-to-time.

New Licence Certificates

In 2014, the Commission undertook an exercise to issue new licence certificates to all registered firms and individuals under the Securities Industry Act, 2011 (SIA). The new certificates now display the following:

All categories in which a firm or individual is registered—A single certificate now displays all the categories in which a firm or individual is registered instead of a separate certificate for each category;

Unique registration ID number—A new numbering convention has been established for all registered firms;

References to former registration under the Securities Industry Act, 1999—The new certificates now display the previous category of registration under the Securities Industry Act, 1999 for all firms licensed prior to 30 December 2011; and

Effective date of registration—The date which appears on all new certificates represents the most recent approval date of the registered firm or individual.

In addition to the certificate reissuance exercise, the Commission also notified firms of any required registration categories (i.e. CEO, Compliance Officer, and Representatives) that the Commission's records reflected as vacant. This exercise prompted an increase in applications for individuals, as several firms submitted applications to satisfy registration deficiencies. It is anticipated that this exercise will result in an increase in registered individuals in the first quarter of 2015.

Review of the Application Process

The Commission begun work in the last quarter of 2014 to introduce further efficiencies into the licensing process. It is envisioned that the Commission and applicants will benefit from these improvements which will bring about a more consistent, transparent and streamlined process.

Broadly, the work includes:

- reviewing and making improvements to the internal application process under the SIA, IFA and Financial and Corporate Service Providers Act (FCSPA);
- developing external application checklists under the SIA, IFA and FCSPA;
- reviewing and making amendments to the application forms under the SIA, IFA and FCSPA; and
- finalising guidelines applicable to the authorisations process.

The Commission expects that the guidelines and checklists will be issued to the public by the end of the second quarter of 2015.

Incorporation of The Bahamas Investment Condominium (ICON) into the Investment Fund Application & Licensing Process

The Commission reviewed the requirements and assessed the potential impact of the Investment Condominium Act, 2014, which came into effect 19 September 2014, to ensure the seamless transition of this new structure into the application process. During the

last quarter of 2014, the IFA application process was amended to accommodate the ICON fund structure. A session by the Bahamas Financial Services Board to sensitise the Commission on how the ICON will be used by industry has also been planned for early 2015.

The first ICON was established and duly established with the Registrar General's Office on 23 December 2014. The ICON must be licensed by the Commission or an Unrestricted Investment Fund Administrator (UIFA) within 90 days of the date of establishment.

Application Process for Entities dealing in Precious Metals and Precious Stones

Pursuant to the Financial Transactions Reporting (Amendment) Act, 2014, persons whose business consists of buying or lending money on security of previously owned precious metals or precious stones are now deemed "Financial Institutions" and are required to comply with the provisions of the Financial Transaction Reporting Act and related legislation. The Commission, in its capacity as Inspector, is preparing for the oversight and regulation of such persons and activities which are required to be licensed under the FCSPA.

The Inspector will issue further updates and notifications as it develops a supervision framework for the oversight and regulation of these persons and activities.

SURVEILLANCE

Adoption of Risk-Based Approach

The Commission, in its capacity as Inspector, has implemented this approach for the supervision of financial and corporate service providers and is working to establish a risk-based supervisory framework for the investment funds, securities and capital markets. Under the risk-based supervisory framework being considered, the Commission would generate and maintain risk-profiles of regulated entities and allocate resources according to the risk identified in individual operations.

The Commission underwent training in risk-based supervision facilitated by the Caribbean Regional Technical Assistance Centre (CARTAC). The CARTAC training included the assessment and scoring of various risk elements, and the use of a software application to determine overall risk ratings for supervised entities. Assistance was also provided toward the development and documentation of the risk-based supervisory framework for the Commission which was under development at the close of 2014.

Review of the Inspections Programmes

The Commission initiated a review of all inspections programmes (SIA, IFA and FCSPA) to ensure clarity of objectives, scope, sample size and procedures. The revised programmes are expected to be finalised in 2015.

In its capacity as Inspector, the Commission conducted a risk rating exercise of all licensees under the FCSPA to determine the frequency in which licensees are to submit to on-site examinations. As a result of the exercise, licensees were categorised as either High, Medium, Low, or Not-Rated based. On-site examinations will be conducted on licensees based on their rating, whereas in the past, on-site examinations were conducted annually. This will reduce the cost to some licensees, as examinations are conducted at the expense of the licensee.

Lastly, a software solution will be implemented to improve the effectiveness, timeliness and accuracy of inspections. The software will be able to generate reports to allow for better decision-making.

Securities Industry Act, 2011

FIRMS

Registration Activity in 2014

In 2014, firms were approved for 13 categories under the Securities Industry Act, 2011 (SIA), representing a decrease of 1 from 2013 (see Figure 3). Categories for which firms were approved appear in Table 1.

Figure 3: Total number of approvals

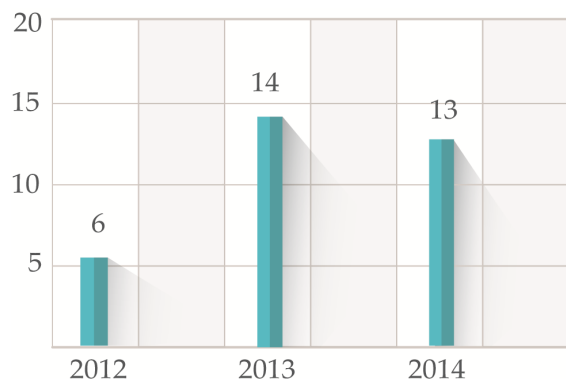


Table 1: Categories for which firms were approved in 2014

Category	Total
Managing Securities only	2
Advising on Securities only	2
Managing and Advising on Securities	9
Total	13

Registrants

There was a net increase in the total number of registered securities firms in the industry. The total number of firms increased by 6.6%, from 136 at 31 December 2013 to 145 at 31 December 2014. A comparison of total registered firms appear in Figure 4. Table 2 shows total registered firms by category as at 31 December 2014.

Figure 4: Total registered securities firms

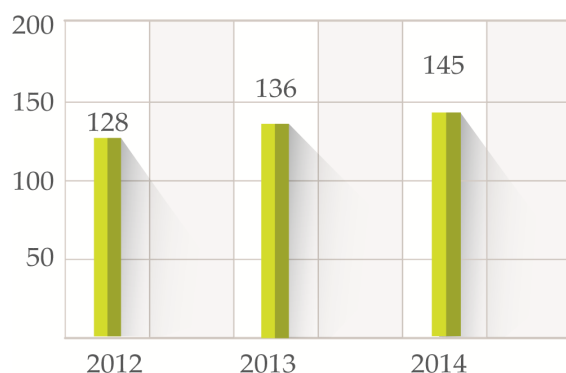


Table 2: Registered securities firms by category at 31 December 2014

Category	Total
Dealing as Agent only	6
Arranging Deals in Securities only	1
Managing Securities only	20
Advising on Securities only	9
Dealing as Agent and Arranging Deals in Securities	4
Arranging Deals in Securities, and Managing in Securities	1
Managing and Advising on Securities	51
Dealing as Agent and Advising	1
Dealing as Agent, Arranging Deals in Securities and Advising on Securities	1
Dealing as Agent, Managing and Advising on Securities	1
Arranging Deals in Securities, Managing and Advising on Securities	2
Dealing as Agent, Arranging Deals in Securities, Managing and Advising on Securities	32
Dealing as Agent or Principal, Arranging Deals in Securities, Managing and Advising on Securities	14
Clearing Facilities	1
Market Places	1
Total	145

INDIVIDUALS

Registration Activity in 2014

In 2014, 145 individuals were approved under the SIA, a decrease of 37 individuals compared to the previous year. This decline was mainly in approvals for the categories of Advising Representative only and Discretionary Management and Advising Representative. Table 3 shows the approvals of individuals by the functions they were approved to perform.

Registrants

As at 31 December 2014, there was a total of 697 registered individuals under the SIA, a net increase of 84 persons (13.7%) compared to the end of 2013 when there were 613 registered individuals. The greatest change took place in the Trading Representative and Compliance Officer categories which saw an increase of 11 individuals (7.2%) and 35 individuals (43.2%) respectively as at 31 December 2014.

A comparison of total registered individuals appears in Figure 5. Table 4 breaks down the number of registered individuals by category as at 31 December 2014.

Table 3: Approvals of individuals by category during 2014

Category	Total
Representative—Discretionary Management	5
Representative—Advising	16
Representative—Trading	21
CEO and Representative—Discretionary Management	5
CEO and Representative—Advising	2
Representative—Trading and Discretionary Management	2
Representative—Discretionary Management and Advising	13
Representative—Trading and Advising	7
CEO and Representative—Discretionary Management and Advising	7
Representative—Trading, Discretionary Management and Advising	5
CEO, Representative—Trading, Discretionary Management and Advising	2
CEO	16
Compliance Officer	44
Total	145

Figure 5: Total registered individuals

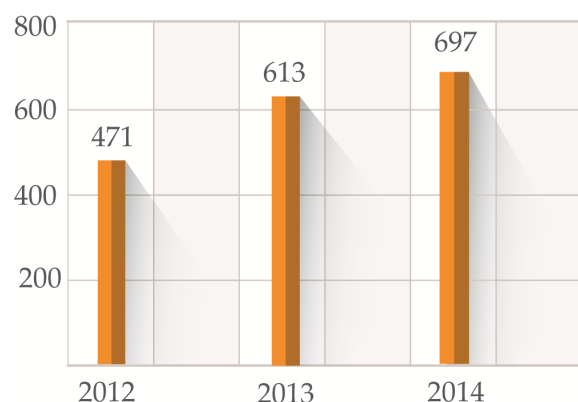


Table 4: Total registered individuals by category at 31 December 2014

Category	Total
Representative—Discretionary Management	90
Representative—Advising	110
Representative—Trading	164
CEO and Representative—Discretionary Management	36
CEO and Representative—Advising	4
CEO and Representative—Trading	7
Representative—Trading and Discretionary Management	8
Representative—Discretionary Management and Advising	25
Representative—Trading and Advising	12
CEO and Representative—Discretionary Management and Advising	13
CEO and Representative—Trading and Advising	1
Representative—Trading, Discretionary Management and Advising	7
CEO and Representative—Trading, Discretionary Management and Advising	4
CEO	100
Compliance Officer	116
Total	697

Securities Industry Act, 2011

INSPECTIONS

The types of inspections conducted by the Commission are categorised as routine inspections, and inspections 'for-cause'. Routine inspections are inspections performed on a regular basis. Inspections 'for-cause' are based upon credible information coming to the Commission's attention and are performed on an 'as needed' basis. In cases where banks and trust companies fall under the regulatory scope of both the Central Bank of The Bahamas (the Central Bank) and the Commission, joint inspections are conducted with the Central Bank.

A total of 12 inspections of registrants under the Securities Industry Act, 2011 (SIA) were conducted during 2014, an increase from 5 inspections the previous year.

Of the inspections, 11 were routine, and 1 was an inspection 'for-cause'.

Table 5: Inspections of registered firms by category during 2014

Category	Total
Arranging Deals in Securities only	1
Advising on Securities only	1
Dealing as Agent and Arranging Deals in Securities	1
Managing and Advising on Securities	5
Dealing as Agent, Arranging Deals in Securities, Managing and Advising on Securities	3
Dealing as Agent or Principal, Arranging Deals in Securities, Managing and Advising on Securities	1
Total	12

LEGISLATIVE AND REGULATORY UPDATES

Foreign Account Tax Compliance Act (FATCA)

On 3 November 2014, The Bahamas signed the Model 1 Intergovernmental Agreement (IGA) without reciprocity with the United States Department of the Treasury. This replaced the previous agreement between The Bahamas and the United States Department of the Treasury, which was due to expire by the end of 2014.

The Bahamas will begin reporting under the IGA in the latter part of 2015.

Caribbean Financial Action Task Force (CFATF)

The Commission is working to conclude its preparations for CFATF's Fourth Round Mutual Evaluation (the Evaluation), which The Bahamas is set to undergo in 2015.

In the fourth round, CFATF member countries will be examined to determine their compliance with the new CFATF methodology. The new assessment process builds on the previous assessments by adding a new element to assess how effectively each country is combating money laundering, the financing of terrorism and the proliferation of weapons of mass destruction.

The Commission is assisting the National Anti-Money Laundering Group as it conducts a National Risk Assessment (NRA) in conjunction with the World Bank in preparation for the Evaluation. The Commission assembled a team comprising persons from its various departments and industry stakeholders to assist with producing and collating information for the NRA.

Implementation of the SIA

The SIA and the Securities Industry Regulations, 2012 (SIR) are structured to allow for the flexibility to tailor the regulatory framework through rules and guidelines. This structure is intended to enable the Commission to respond quickly and effectively to meet the needs of changing financial markets and evolving financial products. The Commission continued work on a number of draft guidelines in 2014.

Significant progress was made to the draft Disciplinary Rules, Securities Industry (Amendment) Bill and the Securities Industry Anti-Money Laundering and Countering the Financing of Terrorism Rules, which are all expected to be approved by the Minister of Finance in early 2015.

The Disciplinary Rules will establish a Hearing Panel and the procedures/processes by which disciplinary matters will be addressed pursuant to the SIA.

The purpose of the Securities Industry (Amendment) Bill is mainly to:

- require members of the Hearing Panel be independent of the Commission;
- allow for a clear separation between the Commission's authority to investigate and to engage in administrative/disciplinary hearings concerning those investigations;
- prohibit final settlement decisions from being subject to appeal;
- allow the Commission to apply to the court for orders to enforce its directives and orders; and
- commence supervisory liquidations under securities laws.

The Securities Industry Anti-Money Laundering and Countering the Financing of Terrorism Rules are expected to align the securities industry with accepted international standards on anti-money laundering and countering financing of terrorism laws.

The Commission will continue to work diligently to finalise all draft Rules and Guidelines required for the full implementation of the SIA.

INDUSTRY ENGAGEMENT

The Commission held an Industry Briefing for all licensees and registrants under the SIA and IFA on 25 June 2014. The briefing covered the application process, improvements to the application forms and common application deficiencies among other topics. Participants were reminded of their ongoing legislative obligations, the examinations process and measures they should adopt to correct compliance problems.

Participants were also apprised of the Commission's activities during the year and future initiatives. Valuable feedback was received from participants for consideration by the Commission. This approach of open dialogue with licensees and registrants has proven useful in fostering communication and interaction between the Commission and the industry.

Further, the Commission sought consultation from the industry in 2014 on its proposed Disciplinary and AML/CFT Rules and the proposed amendments to the SIA to garner comments, concerns and recommendations for consideration.

Finally, licensees and registrants also provided meaningful input via focus groups, surveys and questionnaires arranged by the Commission in 2014, to gather feedback during the Commission's strategic planning process.

Investment Funds Act

INVESTMENT FUND ADMINISTRATORS

Investment Fund Administrators are licensed as either Unrestricted Investment Fund Administrators (UIFAs), or Restricted Investment Fund Administrators (RIFAs). UIFAs have the authority to license Professional and Specific Mandate Alternative Regulatory Test (SMART) Funds and may oversee the administration of an unlimited number of investment funds. RIFAs can only provide administrator services to investment funds licensed or registered by the Commission. The Commission may exempt an investment fund administrator from licensing if it is satisfied that the administrator would otherwise be granted a RIFA licence, will administer no more than one specified investment fund, and comply with prescribed financial requirements.

Licensing Activity in 2014

During 2014, a total of 3 investment fund administrators were licensed by the Commission. Of the 3 investment fund administrators licensed, 2 were UIFAs, and 1 was a RIFA.

Licensees and Exempted Investment Fund Administrators

At 31 December 2014, there were 63 investment fund administrators, a net increase of 1 administrator from 2013. Of the total, 32 were UIFAs, 28 were RIFAs and 3 were exempted from licensing. A comparison of total investment fund administrators appear in Figure 6.

Figure 6: Investment fund administrators by category



INVESTMENT FUNDS

There are three licensing categories for investment funds operating in The Bahamas: the Professional Fund, the SMART Fund and the Standard Fund.

The Professional Fund is available only to accredited investors. The SMART Fund is a flexible asset management product designed to cater to the specific needs of investors. In this category of investment fund, both the operational and regulatory structure of the investment fund are specifically designed by industry participants, subject to approval by the Commission. The Standard Fund can only be licensed by the Commission and is generally for retail investors.

There is also one registration category called Recognised Foreign Fund. Recognised Foreign Funds are investment funds listed on a prescribed securities exchange or licensed or registered in a prescribed jurisdiction.

Licensing Activity in 2014

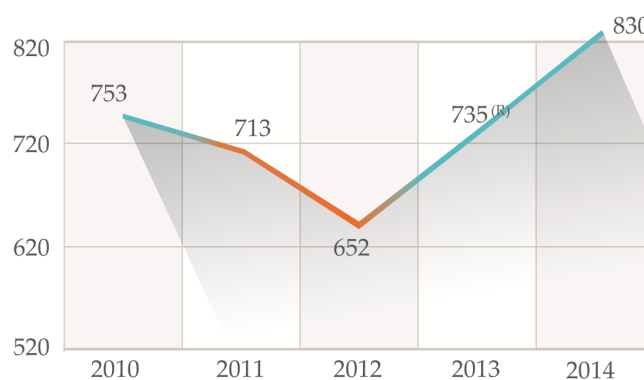
A total of 119 Bahamas-based investment funds were licensed or registered by the Commission, or licensed by UIFAs and filed with the Commission in 2014. UIFAs filed 90 of the total new licenses, while the Commission licensed or registered another 29 Bahamas-based investment funds.

Of the investment funds licensed or registered in 2014, 30 were licensed as Professional Funds, 87 were licensed as SMART Funds, 1 was licensed as a Standard Fund, and 1 was registered as a Recognised Foreign Fund.

Licensees and Registrants

The total number of licensed or registered Bahamas-based investment funds at 31 December 2014 stood at 830, reflecting an increase of 95 funds or 12.9% versus the 735^R funds at the end of 2013 (see Figure 7).

Figure 7: Total number of Bahamas-based investment funds



^R This figure was revised and as such differs from the 2013 Annual Report.

The increase is largely attributed to the growth in the number of registered SMART Funds, with notable gains in the newer Model 007 SMART Funds, an increase of 36 Funds or 124% to total 65 as at 31 December 2014.

A description of the various SMART Fund models appears on the Commission's website (www.scb.gov.bs).

The number of Professional, SMART, Standard and Recognised Foreign Funds as at 31 December 2014 appears in Table 6.

Table 6: Total Bahamas-based investment funds by category

Category	Total
Professional Fund	247
SMART Fund Model 001	3
SMART Fund Model 002	140
SMART Fund Model 003	17
SMART Fund Model 004	273
SMART Fund Model 005	3
SMART Fund Model 006	1
SMART Fund Model 007	65
Standard Fund	36
Recognised Foreign Fund	45
Total	830

Investment funds that do not meet the criteria to be categorised as Bahamas-based investment funds but have some nexus to The Bahamas are referred to as non-Bahamas-based investment funds in the IFA. These investment funds must appoint a representative approved by the Commission. There were 11 representatives of non-Bahamas-based investment funds registered with the Commission at 31 December 2014, a decrease of 3 from year end 2013.

EXAMINATIONS

A total of 6 examinations of licensees under the IFA were conducted during 2014, which remained unchanged from previous year.

Of the examinations, 5 were routine and 1 was conducted jointly with the Central Bank of The Bahamas.

LEGISLATIVE AND REGULATORY UPDATES

Investment Condominium (ICON) Act, 2014

A new product called the ICON was developed by an assembly of industry participants. The ICON is a contractual relationship subsisting between one or more participants pooling assets for the purpose of operating as a Professional Fund, a Standard Fund or any of the existing SMART Fund models under the IFA.

The Commission participated in the Working Group that drafted the ICON Act, which was gazetted in September 2014. This group comprised both public and private sector. The ICON Act can be found on the Commission's website (www.scb.gov.bs).

Amendments to Investment Funds Legislation

The Investment Funds (Amendment) Act, 2014 was promulgated in September to accommodate investment funds structured as ICONs. The Commission is pursuing the promulgation of the draft Investment Funds (Amendment) Regulations, which are required to complete the regulatory amendments needed for the ICON structure. The amended regulations were submitted to the Ministry of Finance at the end of 2014 for promulgation.

The Investment Funds (Amendment) Regulations 2013, which was promulgated in December 2013 and came into operation on 1 January 2014, resulted in changes in fee levels applicable to investment funds and investment fund administrators. Information on these changes can be found on the Commission's website (www.scb.gov.bs).

The Investment Funds Act Technical Team (IFATT) which was assembled by the Commission in 2012, continued to meet regularly for the purpose of presenting to the Commission recommendations needed to develop new investment funds legislation. In May 2014, the IFATT submitted a report to the Commission, which is currently under review. The Commission has also begun the necessary steps to research and source potential consultants to assist in the development of the legislation.

Foreign Account Tax Compliance Act (FATCA)

See update on page 22.

Alternative Investment Fund Managers Directive (AIFMD)

AIFMD is a Directive adopted by the European Parliament and Council to create a comprehensive regulatory framework for alternative investment fund managers (AIFMs) either operating from the European Union or marketing alternative investment funds there. AIFs include hedge funds, private equity funds, real estate funds and other types of institutional funds.

The Commission signed three Memoranda of Understanding (MoUs) with France, Cyprus and Austria in 2014, bringing the total MoUs to 26.

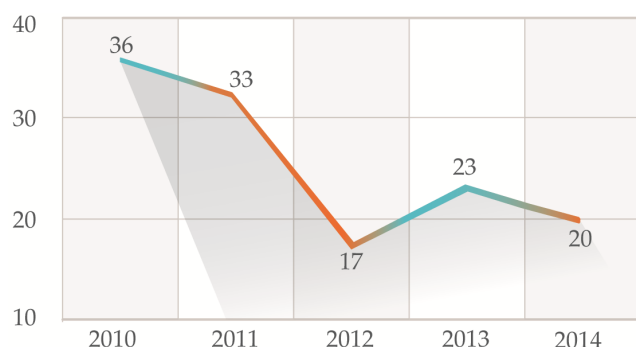
Financial and Corporate Service Providers Act

LICENSING AND REGISTRATION

Licensing Activity in 2014

An applicant under the Financial and Corporate Service Providers Act (FCSPA) may be registered as an individual, unincorporated body, partnership, or company. During 2014, there were 20 applicants approved under the FCSPA, representing a decrease of 13% from the 23 approvals granted in 2013.

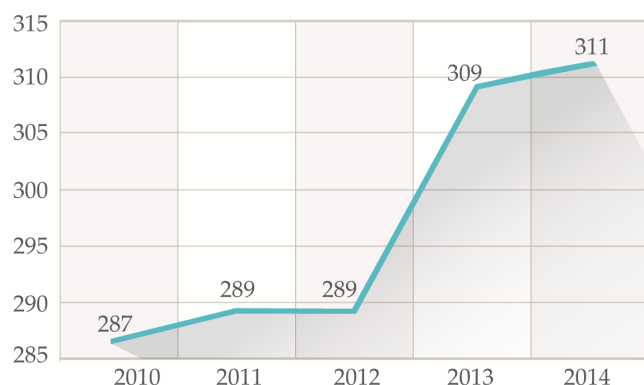
Figure 8: Licensing activity for financial and corporate service providers



Active Licensees

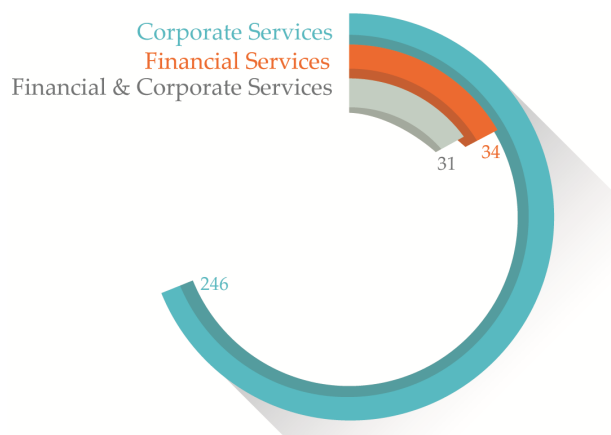
The number of active licensees at 31 December 2014 increased to 311, a net increase of 2 registrants, or 1% from 309 licensees as at 31 December 2013. Yearend totals reflect new licensees, closures and any revocations during the year.

Figure 9: Total licensed FCSPs



At 31 December 2014, 31 licensees were performing financial and corporate services, 34 were performing financial services only and 246 were performing corporate services only (see Figure 10).

Figure 10: Comparison of services provided at 31 December 2014



EXAMINATIONS

For Financial and Corporate Service Providers (FCSPs), routine annual examinations are conducted by the Inspector's Agents—appointed by the Commission in its capacity as the Inspector. Agents are members of The Bahamas Institute of Chartered Accountants (BICA) in good standing who are appointed by the Inspector to act in that capacity.

During 2014, there were 179 examinations of FCSPs. There were 172 examinations conducted by Agents and 7 conducted by the Inspector, compared to 2013 when there were 42^R conducted by Agents only. Of the 179 examinations conducted in 2014, 128 were of companies, 33 were of individuals, 15 were of partnerships and 3 were of unincorporated bodies.

LEGISLATIVE AND REGULATORY UPDATES

Foreign Account Tax Compliance Act (FATCA)

See update on page 22.

INDUSTRY ENGAGEMENT

Industry briefings were held on 3 March in New Providence and 10 March in Grand Bahama to dialogue with financial and corporate service providers on developments and ongoing issues in the industry.

FCSPs also provided meaningful input via focus groups, surveys and questionnaires arranged in 2014 to gather feedback during the Commission's strategic planning process.

^R This figure was revised and as such differs from the 2013 Annual Report.

International Requests Overview

Pursuant to Sections 34 and 36 of the Securities Industry Act, 2011 (SIA), the Commission has authority to not only exchange information for supervision and investigative purposes, but may also exchange information for enforcement purposes, including criminal proceedings. The Commission is also able to exchange information under the terms of the International Organization of Securities Commissions (IOSCO) Multilateral Memorandum of Understanding (MMoU) Concerning Consultation and Cooperation and the Exchange of Information. The Commission evaluates every request received to ensure that it meets minimum information sharing requirements, as set out in legislation or terms of the IOSCO MMoU.

International requests for information must be related to securities laws and are mainly in relation to administrative and supervisory actions of overseas regulatory authorities. In 2014, 16 requests were received and 13 requests were brought forward from previous periods. Of the 16 requests received, 6 originated from the United Kingdom, 2 from the United States, 2 from Canada, 2 from France and 4 from other jurisdictions.

During 2014, 10 requests were closed. One request was "stayed" during the year because the request was deficient in terms of information required under the IOSCO MMoU.

At the end of 2014, 18 matters remained open.

Enforcement

During 2014, the draft Disciplinary Rules underwent further changes and amendments to the SIA were submitted to facilitate those changes. As a result, no administrative matters were addressed, pending the implementation of the Hearing Panel. However, during the year a total of 5 new matters were opened, of which 2 were litigation matters and 3 were administrative. Also during the year, 4 litigation matters were closed. At 31 December 2014, there were 17 matters remaining open, of which 11 were administrative and 6 were litigation matters.

The Commission issued a public notice to inform investors that any subscription of shares in a proposed Initial Public Offering (IPO) of the Bahamas Union of Teachers Holding Company Limited, which appeared in a newspaper article, was in contravention of Section 83 (1) of the SIA as a receipt for the prospectus was not yet given by the Commission. This notice was issued on 19 February 2014.

The Commission also issued a press release on 11 December 2014 to advise the public that the Commission acted and continues to act according to law concerning statements released in the press by Gibraltar Global Securities Inc. asserting that the Commission acted unlawfully involving a court action against Gibraltar by the United States Securities and Exchange Commission. Gibraltar filed an action against the Commission, which is now pending before the courts.

Full text of public notices and press releases issued by the Commission can be found on the Commission's website www.scb.gov.bs.

Investor Education

Investor education is a core element of investor protection. This principal is incorporated into the Commission's mandated function to: "promote an understanding by the public of the capital markets and its participants and the benefits, risks and liabilities associated with investing." - Securities Industry Act, 2011 (SIA) Section 12 (e)

During 2014, the Commission's investor education programme continued under the theme "Getting My Money Right". Investor education initiatives for 2014 included:

Colina Financial Advisors Limited's (CFAL) Junior Investor Education Programme

The Commission was pleased to accept the invitation to collaborate once again with CFAL, a registered investment firm, on its Junior Investor Programme. This programme uses a virtual portfolio of securities available in the Bahamian capital markets to teach important investment concepts. Participation in the programme expanded to include schools from the island of Andros. Through the programme, the Commission hosted participating students from Central Andros High School on its premises. The Commission provides participating students with information and materials to help prepare them to be informed investors, including understanding the Commission's role in protecting investors, some of the risks and rewards associated with investing, and the importance of financial planning.

Industry and Stakeholder Initiatives

The Commission participated in many seminars and other speaking opportunities throughout 2014. The goals of these presentations were to increase the awareness levels of industry stakeholders on the impact that various legislative, regulatory and supervisory initiatives have on the industry. These events also allowed opportunities to remind industry professionals of their legislative obligations, which undergird the protection of investors and the orderly development of the capital markets. Industry and stakeholder engagements in 2014 included speeches, presentations, and participation in panel discussions at fora, including:

- The Bahamas Association of Compliance Officers' Northern Conference and MLRO Day;
- Financial and Corporate Service Providers Industry Briefing;
- SIA and Investment Funds Act, 2003 (IFA) Industry Briefing;
- Bahamas Financial Services Board's (BFSB) Industry Briefing on the proposed ICON Fund Bill.

Other Initiatives

The Commission debuted a quarterly educational article series which appeared in 'Consumer Voices', a publication of the Consumer Welfare Unit of the Ministry of Labour & National Insurance. The publication was distributed through a leading daily newspaper with a national circulation. Two articles were published in the series during the second half of 2014. These articles provided information about the role of the Commission and the capital markets, as well as information about some of the products available in the local markets.

During 2014, the Commission made its annual presentation to second year law students at Eugene Dupuch Law School. The Commission also participated in several career fairs, leveraging the opportunity to increase awareness of the Commission and its role in investor protection.

Training

The Commission facilitated a senior officer participating in the Global Investor Education Conference hosted by the International Forum for Investor Education (IFIE) and the International Organization of Securities Commissions (IOSCO) in Washington, D.C., USA, in May 2014. The conference theme was "Applying Theory to Action: Implementing Financial Capability/Investor Education Best Practices & Lessons Learned." Topics included behavioral economic concepts and its role in developing effective investor education programmes.

Affiliations and Memberships

As a part of its commitment to investor protection and the development of the local securities and capital markets, the Commission is a member of various international, regional and local organisations. In addition to the organisations listed below, the Commission is a member of the Caribbean Group of Securities Regulators (CGSR), the Offshore Group of Collective Investment Scheme Supervisors (OGCISS) and Group of Financial Services Regulators (GFSR).

International Organization of Securities Commissions (IOSCO)

The Commission attended IOSCO's 39th Annual Conference held from 28 September to 2 October in Rio de Janeiro, Brazil. The conference focused on a broad range of topics including corporate governance; enforcement and the role played by the IOSCO Multilateral Memorandum of Understanding (MMoU); and investor protection.

Council of Securities Regulators of the Americas (COSRA)

The Commission attended the COSRA meeting held in Mexico City, Mexico from 8 to 9 May. In addition to discussing regional developments, a number of topics were addressed, including the importance of collaboration among members, challenges being faced implementing corporate governance principals and the relationship between COSRA and the Inter-American Regional Committee of IOSCO. The Commission agreed to participate in working groups established to conduct further work on issues raised relative to each of the above-mentioned topics.

Caribbean Financial Action Task Force (CFATF)

The Commission attended the Caribbean Financial Action Task Force (CFATF) Regional Anti-Money Laundering/Counter the Financing of Terrorism (AML/CFT) conference hosted by The Bahamas from 3-4 April. The two-day conference focused mainly on addressing the Third Round of Mutual Evaluations and planning preparations for the Fourth Round expected to begin in January 2015. The Nassau Declaration was also signed.

During the year, the Commission also attended the CFATF XXXIX Plenary Meeting of the CFATF Task Force held in Miami, Florida from 25-29 May and the CFATF XL Plenary Meeting of the CFATF Task Force held in El Salvador, San Salvador from 23-27 November. Both addressed a number of topics including the rectification of outstanding AML/CFT deficiencies and capacity building by member jurisdictions.



Attendees at the CFATF XL Plenary Meeting of the CFATF Task Force held in El Salvador, San Salvador from 23-27 November 2014.

Financial Summary

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 2014, 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 2013.

Income is mainly generated from fees charged to licensees, registrants and applicants under the Securities Industry Act, 2011 (SIA), the Investment Funds Act, 2003 (IFA), and the Financial and Corporate Services Providers Act, 2000 (FCSP) and funding from the Government of the Commonwealth of The Bahamas (the Government).

The Commission continued to expand its revenue streams via the Investment Fund (Amendment) Regulations, 2013 which took effect on 1 January 2014. Fees earned from investment fund administrators increased by \$0.3 million, from \$0.5 million to \$0.8 million. The amendment of the legislation, coupled with a 12.9% increase in the overall number of investment funds, resulted in an increase in investment fund revenue of \$0.6 million, from \$1.1 million to \$1.7 million. Fees from these licensees and registrants were the main contributing factor to the overall 23.4% increase in fee income from \$3.9 million to \$4.8 million.

The Commission expects to incur increased expenditure in 2015, 2016 and 2017 as it works to achieve its strategic objectives. Certain projects and related expenditure were deferred in previous years due to budgetary restrictions and it is anticipated that these will also be initiated in 2015 and 2016. Deferred projects include recruitment of additional human resources in key areas, needed legislative overhauls as well as information technology projects and upgrades.

Total income for 2014 decreased by \$0.2 million from \$5.4 million to \$5.2 million. Despite this, the Commission was still able to continue positive financial performance with net income and total comprehensive income of \$0.5 million and a net surplus of \$0.5 million.

THE SECURITIES COMMISSION OF THE BAHAMAS

Financial Statements

31 December 2014



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 2014, and the statements of comprehensive income, changes in net assets and cash flows for the year then ended, and notes, comprising 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.

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 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A stylized, handwritten-style signature of 'PricewaterhouseCoopers' in blue ink.

**Chartered Accountants
Nassau, Bahamas**

23 June 2015


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

Statement of Financial Position
As of 31 December 2014
(Expressed in Bahamian dollars)

	2014	2013
	\$	\$
ASSETS		
Cash on hand and at banks	2,048,470	580,999
Term deposits (Note 3)	1,009,006	-
Accounts receivable (Note 4)	28,425	64,447
Prepaid expenses and other assets	44,932	19,760
Plant and equipment (Note 5)	459,138	321,982
Total assets	<u>3,589,971</u>	<u>987,188</u>
LIABILITIES		
Accounts payable and accrued expenses	446,996	347,373
Deferred income (Note 6)	2,471,944	429,468
Advance from the Consolidated Fund	150,000	150,000
Total liabilities	<u>3,068,940</u>	<u>926,841</u>
NET ASSETS	<u>521,031</u>	<u>60,347</u>
REPRESENTED BY:		
Surplus	521,031	60,347
Special purpose reserve (Note 7)	-	-
	<u>521,031</u>	<u>60,347</u>

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


Chairman


Director

8 June 2015
Date

The Securities Commission of The Bahamas

Statement of Comprehensive Income For the Year Ended 31 December 2014 (Expressed in Bahamian dollars)

	2014 \$	2013 \$
INCOME		
Fee income		
Securities industry licensees and registrants	1,808,383	1,760,783
Investment funds	1,718,191	1,126,270
Investment fund administrators	762,700	473,167
Financial and corporate service providers	501,126	500,179
Penalties	28,652	39,209
Securities exchange	10,000	10,000
Examinations	4,090	2,400
Public offerings	2,000	2,000
Other	9,750	12,500
Total fee income	4,844,892	3,926,508
Interest income	61,851	30,930
Government subvention (Note 6)	42,574	1,259,045
Other income	207,083	156,465
Total income	5,156,400	5,372,948
EXPENSES		
Salaries, wages and employee benefits (Note 8)	3,487,630	3,421,081
Rent	407,945	413,286
Utilities and property charges	167,775	170,626
Professional fees	134,176	109,099
Training and conferences	129,646	166,990
Depreciation (Note 5)	128,260	152,816
Office	106,415	124,033
Repairs and maintenance	41,269	63,875
Membership fees	29,957	27,125
Advertising	25,222	20,308
Printing and publications	13,966	5,940
Legislative initiatives	8,896	102,598
Bank charges	8,651	11,104
Provision for doubtful accounts (Note 4)	1,369	30,915
Investor education	138	1,940
Interest expense	30	9,092
Miscellaneous	4,371	4,633
Total expenses	4,695,716	4,835,461
Net income and total comprehensive income	460,684	537,487

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 2014 (Expressed in Bahamian dollars)

	Surplus/ (Deficit) \$	Special Purpose Reserve \$	Total \$
Balance as of 1 January 2013	<u>(477,140)</u>	<u>-</u>	<u>(477,140)</u>
Total comprehensive income	<u>537,487</u>	<u>-</u>	<u>537,487</u>
Balance as of 31 December 2013	<u>60,347</u>	<u>-</u>	<u>60,347</u>
Balance as of 1 January 2014	<u>60,347</u>	<u>-</u>	<u>60,347</u>
Total comprehensive income	<u>460,684</u>	<u>-</u>	<u>460,684</u>
Balance as of 31 December 2014	<u>521,031</u>	<u>-</u>	<u>521,031</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 2014 (Expressed in Bahamian dollars)

	2014 \$	2013 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	460,684	537,487
Adjustments for:		
Interest income	(61,851)	(30,930)
Gain on disposals of plant and equipment	-	(7,943)
Depreciation	128,260	152,816
Provision for doubtful accounts	1,369	30,915
Interest expense	30	9,092
Interest received	52,845	30,930
(Increase)/Decrease in operating assets		
Accounts receivable	34,653	3,001
Prepaid expenses and other assets	(25,172)	(8,711)
Increase/(Decrease) in operating liabilities		
Accounts payable and accrued expenses	99,623	(65,100)
Deferred income	2,042,476	(25,295)
Net cash from operating activities	<u>2,732,917</u>	<u>626,262</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Term deposits	(1,000,000)	-
Purchases of plant and equipment	(265,416)	(174,064)
Proceeds on disposals of plant and equipment	-	2,943
Net cash used in investing activities	<u>(1,265,416)</u>	<u>(171,121)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	(30)	(9,092)
Net cash used in financing activities	<u>(30)</u>	<u>(9,092)</u>
Net increase in cash and cash equivalents	1,467,471	446,049
Cash and cash equivalents as of beginning of year	580,999	134,950
Cash and cash equivalents as of end of year	<u>2,048,470</u>	<u>580,999</u>
CASH AND CASH EQUIVALENTS		
Cash on hand and at banks	<u>2,048,470</u>	<u>580,999</u>

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

The Securities Commission of The Bahamas

Notes to the Financial Statements 31 December 2014

1. General Information

The Securities Commission of The Bahamas (the Commission) is established, as a body corporate, under the Securities Industry Act, 2011 (the Act), of the Commonwealth of The Bahamas (The Bahamas). The Act establishes the structure, governance and funding of the Commission; accordingly, the Commission is not deemed to have a parent. 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: entities and individuals dealing in securities, arranging deals in securities, managing securities and advising on securities; investment funds; and investment fund administrators. The Commission regulates the industry in accordance with the Act; 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 the Financial and Corporate Service Providers Act, 2000, and related regulations.

2. 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 2(d) and 2(g).

New standards, amendments and interpretations adopted by the Commission

Standards and amendments and interpretations to published standards that became effective for the Commission's financial year beginning on 1 January 2014 were not relevant to the Commission's operations and accordingly did not impact the Commission's accounting policies or financial statements.

New standards, amendments and interpretations not yet adopted by the Commission

With the exception of IFRS 15 *Revenue from Contracts with Customers* (IFRS 15), 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 financial period of initial application.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2014

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of Preparation (Continued)

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with its customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard is effective for annual periods beginning on or after 1 January 2017, and replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts* and related interpretations. The Commission has not yet assessed the full impact of adopting IFRS 15.

(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 original contractual 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. A provision for impairment is established when there is objective evidence that the Commission will not be able to collect all amounts due according to the original terms of the receivables.

The amount of the impairment loss is the difference between the asset's carrying amount and the present value of future cash flows, discounted at the 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. 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 by adjusting the allowance account. When an account receivable is uncollectible, it is written off against the related allowance account. Recoveries of amounts previously written off are credited directly to the statement of comprehensive income.

(e) Plant and equipment

Plant and equipment are carried at historical cost, less accumulated 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 are 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.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2014

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(e) Plant and equipment (continued)

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

Computer equipment	3 – 5 years
Furniture and fittings	3 – 5 years
Vehicles	3 – 5 years
Leasehold improvements	Lesser of lease term and 3 – 5 years

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.

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 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 financial 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 and specific projects of the Commission, are deferred and recognised as income in the financial period in which any conditions attached to them have been satisfied and by reference to the financial period in which the Commission recognises as expenses the related costs that the Government subvention is intended to compensate. 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 is 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 2014

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(h) Employee benefits

The Commission has a defined contribution pension plan for all eligible employees, whereby the Commission makes contributions to a privately administered pension plan. The Commission has no legal or constructive obligations to pay further contributions if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior years. The Commission's contributions to the defined contribution pension plan are recognised in the statement of comprehensive income in the financial period 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 operating leases 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, capital gains or other corporate 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.

3. Term Deposits

The term deposits earn interest of 2.25% per annum and mature in March 2015.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2014

(Continued)

4. Accounts Receivable

	2014 \$	2013 \$
Investment funds and investment fund administrators	33,648	54,241
Financial and corporate service providers	20,215	14,215
Securities industry licensees and registrants	19,017	27,907
Other	79,806	90,976
	152,686	187,339
Provision for doubtful accounts	(124,261)	(122,892)
Total	28,425	64,447

Movements in the provision for doubtful accounts comprise:

	2014 \$	2013 \$
Opening balance	122,892	122,328
Provision for doubtful accounts	1,369	30,915
Bad debts written off	-	(30,351)
Closing balance	124,261	122,892

The Securities Commission of The Bahamas

Notes to the Financial Statements 31 December 2014 (Continued)

5. Plant and Equipment

	Computer Equipment \$	Furniture and Fittings \$	Vehicles \$	Leasehold Improvements \$	Total \$
For the year ended 31 December 2014					
Cost					
1 January 2014	679,608	545,583	79,703	53,830	1,358,724
Additions	255,194	10,222	-	-	265,416
31 December 2014	934,802	555,805	79,703	53,830	1,624,140
Accumulated depreciation					
1 January 2014	441,591	510,847	42,938	41,366	1,036,742
Depreciation expense	82,071	17,784	15,941	12,464	128,260
31 December 2014	523,662	528,631	58,879	53,830	1,165,002
Net book value as of 31 December 2014	411,140	27,174	20,824	-	459,138
For the year ended 31 December 2013					
Cost					
1 January 2013	632,877	538,872	65,940	53,830	1,291,519
Additions	137,644	6,711	34,709	-	179,064
Disposals	(90,913)	-	(20,946)	-	(111,859)
31 December 2013	679,608	545,583	79,703	53,830	1,358,724
Accumulated depreciation					
1 January 2013	443,982	480,450	47,943	23,410	995,785
Depreciation expense	88,522	30,397	15,941	17,956	152,816
Disposals	(90,913)	-	(20,946)	-	(111,859)
31 December 2013	441,591	510,847	42,938	41,366	1,036,742
Net book value as of 31 December 2013	238,017	34,736	36,765	12,464	321,982

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2014

(Continued)

6. Deferred Income

	2014	2013
	\$	\$
Government subvention	2,171,794	89,368
Securities industry licensee and registrant fees	231,750	183,500
Financial and corporate service provider fees	50,500	68,000
Investment fund and investment fund administrator fees	17,900	88,600
Total	2,471,944	429,468

All deferred income is eligible to be recognised in the following year in the statement of comprehensive income, with the exception of \$23,397 (2013: \$46,794) in Government subvention.

Movements in Government subvention comprise:

	2014	2013
	\$	\$
Opening balance	89,368	223,413
Government subvention received	2,125,000	1,125,000
Government subvention utilised – operating expenses	-	(1,125,000)
Government subvention utilised – capital acquisitions	-	(11,696)
Government subvention utilised – specific projects	(42,574)	(122,349)
Closing balance	2,171,794	89,368

7. Special Purpose Reserve

Section 22(3) of the Act requires that administrative fines levied by the Commission be used for the sole purpose of promoting public understanding of the financial system. Accordingly, the Commission established a special purpose reserve for this purpose.

The special purpose reserve is comprised of fines totalling \$55,000, however, a provision for doubtful accounts of an equal amount is also required.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2014

(Continued)

8. Employee Benefits

Pension costs recognised in the statement of comprehensive income in the current year total \$208,147 (2013: \$224,889). The Commission's contributions to the pension plan vest 50% with employees upon completion of 5 years of employment, incrementally vesting annually, with full vesting upon completion of 10 years of service.

During the year, the Commission received reimbursements totalling \$85,073 (2013: \$93,441) representing the unvested portion of pension contributions relating to 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 2014, the Commission employed 70 (2013: 63) persons.

9. Related Party Balances and Transactions

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, including members of the Commission. Balances and transactions with related parties, not otherwise disclosed in the financial statements, include:

	2014	2013
	\$	\$
<i>Assets</i>		
Cash at banks	2,047,721	580,188
Term deposits	1,009,006	-
Accounts receivable	17,019	7,876
Prepaid expenses and other assets	1,770	1,770
<i>Liabilities</i>		
Accounts payable and accrued expenses	109,408	93,515
Advance from the Consolidated Fund	150,000	150,000
<i>Income</i>		
Interest income	61,851	30,930
Other income	78,000	78,000
<i>Expenses</i>		
Utilities and property charges	128,263	123,327

Compensation of key management personnel for the year ended 31 December 2014 comprised \$418,966 (2013: \$417,502) for salaries and other short-term benefits, \$21,601 (2013: \$21,864) for pension benefits and \$Nil (2013: \$44,119) for termination benefits.

As of 31 December 2014, accounts receivable from key management personnel totalled \$35 (2013: \$161).

The advance from the Consolidated Fund is interest-free and has no set terms of repayment.

The Securities Commission of The Bahamas

Notes to the Financial Statements 31 December 2014 (Continued)

10. Commitments and Contingencies

Lease Commitments

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

	2014	2013
	\$	\$
Within one year	243,071	324,095
More than one year and less than five years	-	27,098

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.

11. 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 capability 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 banks, term deposits and accounts receivable. The Commission mitigates the risk associated with cash at banks and term deposits 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 2014 is set out below:

	2014	2013
	\$	\$
<i>Days outstanding</i>		
0 – 90 days	21,728	63,213
90 – 180 days	1,314	100
> 180 days	129,644	124,026
Total	152,686	187,339

Balances greater than 90 days are considered for impairment.

The Securities Commission of The Bahamas

Notes to the Financial Statements 31 December 2014 (Continued)

11. Financial Risk Management (Continued)

(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 to meet cash requirements for normal operating purposes.

As of 31 December 2014, all of the Commission's accounts payable and accrued expenses are due within one year.

(c) Interest rate risk

Interest rate risk is the risk that the future cash flows or fair values of financial instruments 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 and term deposits, which is not considered significant as the Bahamian dollar Prime rate has not experienced any changes since the year ended 31 December 2011. Accordingly, the risk is not hedged and considered a profit opportunity.

The Commission does not have any significant fair value interest rate risk.

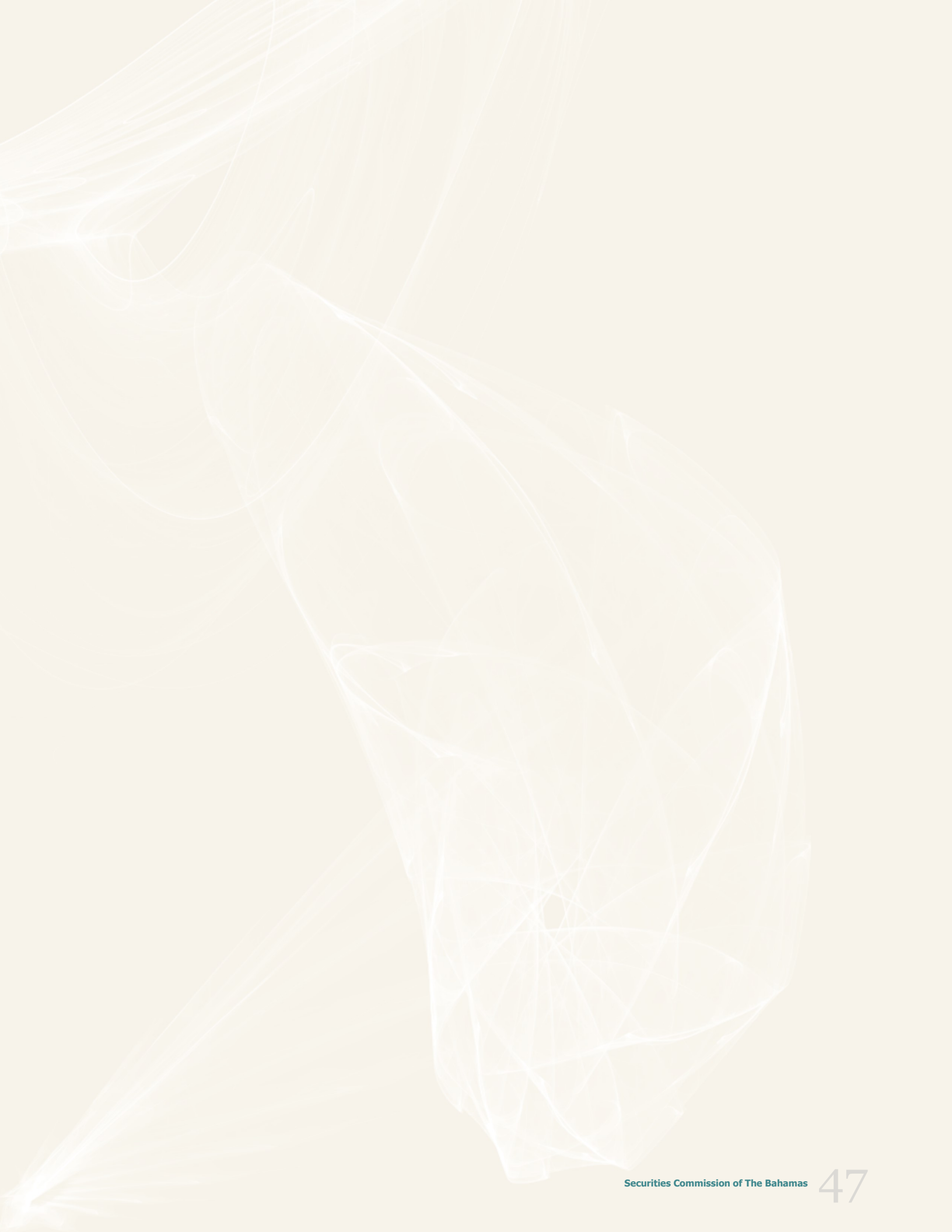
12. Fair Value of Financial Instruments

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.

The fair value hierarchy of financial instruments is principally Level 2.

13. Capital Management

The capital of the Commission is represented by its net assets. The Commission's objectives when managing capital are to safeguard its ability to continue as a going concern in order to support its regulatory powers and associated operations.





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