



# ANNUAL REPORT 2012



## Functions of the Commission:

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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26 July 2013

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., 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 2012. Included in this Report is the Annual Statement of Accounts of the Commission for the year.

Yours sincerely,

A handwritten signature in black ink, which appears to read "Tonya Bastian Galanis", is positioned above the printed name and title.

Tonya Bastian Galanis  
**Chairman**

# 2012

Jan 31

Revised protocol for On-Site Examinations for Jointly Regulated Entities signed with Central Bank of The Bahamas

May 24

The Commission heralds increased regulatory vigilance at Investment Funds Industry Briefing

July 1

Tonya Bastian Galanis takes up Chairmanship of newly appointed Board of Directors

March 1

Dave Shannon Smith commences as Executive Director

May 16

The Commission wins \$56,000 appeal judgment against registrant

June 1

Executive Director discusses proposed guidelines for compliance officers during The Bahamas Association of Compliance Officers (BACO) AGM Keynote Address

May 25

Consultation Paper on the Proposed Investment Funds Act (IFA) and Financial and Corporate Service Providers Act (FCSPA) Fee Regime issued for consultation

May 15

Consultation Papers issued on the Proposed Regulatory Capital Framework, Guidelines on the Outsourcing of Material Functions and Guidelines for the Licensing of Compliance Officers

July 19

Consultation Papers issued on the Guidelines for Fitness and Propriety Criteria of Applicants for Regulated Activities and the Proposed Liquidity Risk Guidelines

Jan 9

Securities Industry Regulations, 2012 are gazetted

Jan 30

Securities Industry (Fee) Rules, 2012 and the Securities Industry (Physical Presence) Rules, 2012 are published

March 8

The Securities Commission of The Bahamas (the Commission) participates in the College of The Bahamas' Annual Careers/Job Fair as a part of its social outreach and investor education efforts

August 12

Consultation Papers issued on the proposed Guidelines on Corporate Governance for Regulated Entities and Guidelines for the Management of Large and Related Party Exposures

August 22

Rules for SMART Fund 007 are published

September 12

Executive Director Smith speaks on the modernisation of the securities industry at BACO's "MLRO Day"

September 27

BACO pays Courtesy Call on the Commission.

September 13

The Inspector hosts FCSP Industry Briefings in Grand Bahama and New Providence on 13 and 19 September

September 7

The Inspector issues to FCSP registrants a risk assessment survey

August 7

SCB announces 1980 copies of consultation papers issued to registrants and stakeholders; says New Regulatory Landscape Taking Shape

November 9

Commission representatives review new legislation and consultation process at The Bahamas Institute of Chartered Accountants Accountants Week

November 14

At the Securities Industry Briefing, the Commission summarised feedback on the nine consultation papers issued and reviewed new provisions of the SIA, 2011

December 27

It's Official! The Commission gains 'A' signatory status to the International Organization of Securities Commissions Multilateral Memorandum of Understanding

November 19

Commission representatives begin fall presentations at high schools in New Providence as a part of CFAL's Junior Investor Programme.





## Message from the Chairman

I am pleased to present the 2012 Annual Report of the Securities Commission of The Bahamas (the Commission).

In many aspects, 2012 was a year of transition. The realignments that the Commission experienced included a revised protocol for joint inspections conducted with the Central Bank of The Bahamas, issued 31 January, the implementation of new regulations and rules, the appointment on 1 March of Mr. Dave S. Smith as the new Executive Director and the institution of a new Board of Directors effective 1 July.

Strategic objectives aimed at increasing efficiency, improving the legislative/regulatory framework, strengthening internal systems and augmenting governance structures guided the Commission in striving to meet its vision of contributing to the growth and development of a vibrant and competitive financial services sector.

The Securities Industry Act, 2011 (the Act) introduced new registration categories, provided for greater enforcement authority and enhanced internationally recognised information sharing provisions. The commencement of the Securities Industry Regulations, 2012, the Securities Industry (Fees) Rule

and the Securities Industry (Physical Presence) Rules in January 2012 gave added support to the Act. On the funds side, the creation on 10 August of a seventh SMART Fund model via the Investment Funds (SMART Funds) (SMF 007) Rules, 2012, provided the funds industry with an additional asset management product. Other rules and guidelines are being developed in order to give full effect to the Act. In this regard, the Commission thanks participating stakeholders for the feedback provided on the nine consultation papers that were issued between 15 May and 8 August 2012.

The holding of a number of cross-sector meetings emphasised the priority of this new Board to seek more deliberate and meaningful engagement with industry participants. The exchange from these meetings has proven valuable in fostering shared understanding of the needs of industry and of the Regulator. Such a collaborative approach assists the Commission in reaching and maintaining holistic and balanced regulation. In keeping with the goal of greater engagement with industry, the Commission constituted the Investment Funds Act Technical Team (IFATT) to produce recommendations for new legislation that would establish a more robust and agile regulatory regime for the funds industry and encourage new business while maintaining compliance with international best practices. Comprised of legal and financial experts from within the investment funds and broader financial services industry, the IFATT has begun a review of the adequacy of the current funds regulatory framework for the development of the industry.

The hallmark event for the Commission in 2012 was achieving 'A' Signatory status to the International Organization of Securities Commissions (IOSCO) Multilateral Memorandum of Understanding (MMoU) on 27 December. As the first independent and sovereign Caribbean nation with a securities commission to attain this prestigious status, The Bahamas' position as a leader among Specialist International Financial Centres is reinforced and opportunities for the investment funds industry to access target Latin American markets are expanded. The Bahamas, therefore, is even more effectively positioned to compete internationally and is poised to meet the Commission's statutory objectives as well as IOSCO's standards of regulation which are also aimed at maintaining fair, efficient and transparent markets, reducing global systemic risks, enhancing investor protection and promoting market integrity.

The culmination of a process that started nearly a decade earlier, the 'A' signatory status validates the commitment, professionalism and efforts of many dedicated Commission employees and Boards over those years. The accomplishment was also realised from collaboration and cooperation with The Bahamas' securities and investment funds industries and The Bahamas Financial Services Board.

On behalf of the Members of the Commission, I take this opportunity to acknowledge and thank all persons who have aided the Commission in meeting its statutory mandate. In particular, I wish to express gratitude to the outgoing Board for the strides that they made during their tenure in advancing the work of the Commission. I also wish to sincerely thank the management and staff of the Commission for their industry and for the dedication and commitment to duty exhibited throughout the year.

Tonya Bastian Galanis  
Chairman



# Board of the Securities Commission of The Bahamas

## Role of the Board

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

## 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 consists 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 Commission Members to hold their offices for a period not to exceed four years. All Commission Members, including the Chairman, are eligible for reappointment.

## Committees of the Board

The Board has appointed three Committees to assist it in the execution of its duties. The Chairman serves as an ex-officio member on all committees.

**Legislative Committee** This committee reviews existing and proposed legislation pertinent to the industries regulated by the Commission. *Members: Mr. Philip McKenzie – Chair, Ms. Kimberley Smith and the Commission's appointed representative, Mrs. Mechelle Martinborough, Legal Counsel.*

**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; Mrs. Michele Fields; Ms. Kimberley Smith; Mrs. Marion Bethel-Sears 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 policies for all employees of the Commission. The committee is also responsible, by way of policies and packages, for providing employees with appropriate incentives to encourage enhanced performance by rewarding them for their individual contributions to the success of the Commission, and to the extent possible, ensuring that rewards and incentives are competitive with current industry standards. *Members: Mrs. Marion Bethel-Sears – Chair, Mrs. Sharmie Austin, Mrs. Arinthia Komolafe, Mr. Jerry Butler, and the Commission's appointed representative, Mrs. Deborah Burrows, Manager, Human Resources.*

## Panels of the Commission

**Hearing Panel** Section 33 of the SIA provides for the establishment of panels. Such panels have powers delegated to it by the Commission.

Significant progress was made during 2012 on the establishment of a Hearing Panel. The Hearing Panel will preside over regulatory hearings and determine disciplinary matters of the Commission, with authority to impose various sanctions, remedies or other relief, as provided for in the SIA, 2011 and Investment Funds Act, 2003. *Board Appointees: Ms. Robin Scavella and Mrs. Arinthia Komolafe. The Commission's appointed representative is Mr. Gawaine Ward, Manager, Office of Enforcement. Independent Hearing Panel Members are to be appointed.*



Members of the Commission at 31 December 2012. Seated (L-R): Mrs. Michele Fields, Mrs. Tonya Bastian Galanis (Chairman), Ms. Kimberley Smith. Standing (L-R): Mrs. Sharmie Austin, Mrs. Wendy Craigg, Mr. Phillip McKenzie, Mr. Jerry Butler (Deputy Chairman), Mr. Dave Smith, Ms. Robin Scavella, Mrs. Arinthia Komolafe. Not Pictured: Mrs. Marion Bethel-Sears.

Table 1: Membership of the Board

Name	Appointment
Mrs. Tonya Bastian Galanis (Chairman)	1 July 2012
Mr. Jerry C. Butler (Deputy Chairman)	1 July 2012
Mrs. Sharmie Austin	1 July 2012
Mrs. Marion Bethel-Sears	1 July 2012
Mrs. Arinthia Komolafe	1 July 2012
Mr. Philip McKenzie	1 July 2012
Ms. Robin Scavella	1 July 2012
Ms. Kimberley Smith	1 July 2012
Mr. Dave Smith (Ex-Officio)	1 March 2012
Mrs. Wendy Craigg (Ex-Officio)	1 June 2005
Mrs. Michele Fields (Ex-Officio)	1 January 2012



## Executive Director's Year In Review

**Year In Review** The first of March 2012 marked my inauguration as Executive Director and I am very privileged to have been afforded the opportunity to take up the mantle during a time that requires both intentional and necessary change. My predecessor, Mr. Philip Stubbs, in his last annual letter adequately summarised the circumstances the Securities Commission of The Bahamas (the Commission) experiences when developments and advances in the capital markets sometimes outpace regulation. However, I am pleased to note that the Commission gained measurable ground in relation to critical priorities and other activities undertaken in 2012, including but not limited to the following:

### Signatory "A" Status

The Commission achieved 'A' Signatory status to IOSCO's MMoU on 27 December 2012. It gave me immense pride to see this not only accomplished on my watch but to appreciate the tireless efforts of my predecessors who championed much of the early efforts, namely Mr. Hillary Deveaux (Executive Director 2006-2010) and Mr. Philip Stubbs (Acting Executive Director 2011-2012). These efforts coupled with valuable industry input has allowed The Bahamas to maintain its reputation as a well regulated international financial center with high standards in the area of mutual assistance to detect and deter cross border financial crime.

### Strategic Plan

The three-year strategic plan launched by the Commission culminated in 2012 with several key successes as a result of the diligent work of the management and staff. Successes included significant progress on the implementation of the Securities Industry Act, 2011 (SIA), improvement of internal procedures and processes, developing human capital and the enhancement of the Commission's surveillance programmes.

### Securities Industry Act, 2011 Implementation Plan & Other Regulatory Developments

The Commission's determination to achieve Signatory 'A' status and ensure

progress since the 2002 Financial Sector Assessment Program (FSAP) was evident throughout 2012 activities. This determination necessitated a swift-paced Securities Industry Act implementation plan inclusive of industry consultation on nine guidelines and rules including the Securities Industry (Fee) Rules, 2012 and the Securities Industry (Physical Presence) Rules, 2012. It is anticipated that most guidelines and rules would be finalised and take effect before the end of 2013. The new SIA and the accompanying rules and guidelines addressed deficiencies identified during the 2002 FSAP. The Financial System Stability Assessment Report of the FSAP will be published during 2013.

### Improvement of Internal Procedures and Processes

During 2012, the Commission was very successful in implementing a number of initiatives aimed at improving its supervisory and regulatory effectiveness along with efficiency of day-to-day operations.

New application processing delivery timelines have been introduced and work continues on revising forms to improve utility and registrants' overall experience when interacting with the Commission.

The Market Surveillance and Inspections Departments are being amalgamated to centralise and better manage the Commission's oversight. Other initiatives include the introduction of modern software to allow for improved information management—from primary research tools to internal management of information flows and processing capacity.

### Developing Human Capital

In 2012, amendments were made to the staff Incentive Programme to allow managers to reward staff who advance the strategic direction of the Commission. In addition, an employee satisfaction survey was conducted, of which the results will be used to set targets to improve employee engagement, culture and environment, communication and remuneration. The Commission also provided training through internal, local and international training programmes along with support to staff on achieving professional qualifications and certifications. A Performance Management System with integrated career development plans was also developed and implemented in July 2012.

As at December, the Commission had 63 employees, with approximately 70 percent holding Bachelor's Degrees, Master's Degrees and/or Professional Certifications. Collectively, we recognise and agree that it is important to have a focus of "continuous improvement". This also means continuous development. With this in mind, the Commission has responded to the findings of the 2002 FSAP. The 2002 International Monetary Fund (IMF) mission raised questions not only about the efficiency of the regulatory struc-

ture, but also about the pressure it placed on the pool of skilled resources to staff the various agencies. The report went further to note that "availability of resources to the different agencies varies considerably, although all faced the common challenge of having to compete with private sector institutions for staff with specialist skills that are in short supply". We are developing and procuring the necessary skills to be better prepared for the twenty-first century.

### Enhancement of the Commission's Surveillance Programmes

Work has begun, given observations from the July 2012 FSAP, internal audits and risk assessment initiatives, to enhance the onsite and offsite surveillance programmes of the Commission. The momentum to make significant in-roads in this project will continue into 2013 with a focus on implementing Risk Based Supervision for securities and investment funds registrants. The Commission in its role as Inspector dispatched its first Risk Assessment Survey for all Financial and Corporate Service Providers to increase knowledge of its registrants and inform a newly designed examination template that goes beyond the previous Anti-Money Laundering [AML] focus.

### Forward, Upward, and Onward

In 2012, The Bahamas was number three on the world's Specialised Financial Centres ranking, according to The Banker, a publication of the Financial Times.

A ranking like that on its own does not say much about the impact of political self-determination on the jurisdiction as a financial centre, but it strongly suggests that, just 40 years after Independence, this nation has the will, human capital, and political authority to continue to find and capitalise on opportunities to remain a global competitor, even in the face of an extremely challenging international environment for smaller financial centres and unprecedented competition in the sector.

There is an unsatisfied commitment to press "Forward, Upward, and Onward" as an international financial centre and the Commission will continue to build on this commitment to fulfill its mandate of effective regulation and to achieve an improved regulatory landscape for all stakeholders.

I would like to take this opportunity to thank my fellow Members, the management and staff of the Commission for their continued dedication and hard work during 2012 and last, but not least, all stakeholders who participated in the consultation process and collaborated with the Commission in its aim to achieve a well-regulated market.

Dave Shannon Smith  
Executive Director

## Management Team and Organisational Structure

**Staff Review, 2012** Development of the Commission's human capital resource was a priority for the Commission during 2012, falling under the strategic goal of enhancing internal systems and the work environment to support enhanced employee relations.

To this end, a new Staff Manual was issued in July 2012, which updated employee protection mechanisms, among other things. A new performance management system was introduced during the third quarter of 2012 with the goal of marrying objective management of individual performance directly to strategic goals. An employee satisfaction survey was also conducted in November 2012 to better

understand staff morale, establish a baseline for future comparison, and inform future initiatives designed to improve overall staff satisfaction.

The staff complement rose from 56 at the beginning of 2012 to 63 by the end of the year, an increase of 11 percent. Of the 63 staff members, 56 were full-time employees, 6 were on contract, and one was temporary. Staff qualifications included 23 Bachelor's degrees, 14 Master's Degrees and 6 professional certifications at year-end.

Among the notable training activities, a staff member commenced a one-year secondment to a leading local accountancy/audit firm in August 2012 to

strengthen audit competency. A series of special courses were also conducted internally on the new Securities Industry Act, its supporting regulations and other aspects of its implementation.

Staff incentive programmes, which include the Employee of the Quarter and Employee of the Year awards, were augmented with the Managers Advancing Change (MAC) Award during October 2012. The MAC award recognises the outstanding Manager promoting the strategic objectives of the Commission on a quarterly basis.

**The Office of the Executive Director** is responsible for the day-to-day management of operations, technical and financial matters at the Commission. There were several changes to the Commission's organisational structure in 2012. The Corporate Affairs Department was split into two new departments: Human Resources and Administration. An Information Technology Department and Office of the Financial Controller were also made independent departments during 2012.

All departments report to the Executive Director.

**Authorisations Department** Responsible for the licensing and registration of market participants, as well as the review and registration of prospectuses for public offerings, along with new products and structures including investment funds. *Staff count: 6 at 31 December 2012.*

**Inspections** Responsible for the supervision and on-site monitoring of market participants' adherence to the acts, regulations and rules. *Staff count: 11 at 31 December 2012.*

**Office of Legal Counsel** Responsible for providing legal advice to the various departments of the Commission, assisting in the review of financial sector legislation, and managing matters of international cooperation. During the year, the Office of Legal Counsel essentially split, adding an Office of Enforcement to the Commission's organisational structure. *Staff count: 3 at 31 December 2012.*

**Office of Enforcement** Primarily responsible for carrying out the Commission's disciplinary actions pursuant to securities legislation and investigating 'rogue' operations, or entities that are operating in The Bahamas without a licence or registration as required by law. *Staff count: 4 at 31 December 2012.*

**Market Surveillance** Responsible for the off-site monitoring and supervision of market participants' and the local securities exchange and reviewing proposals from the local securities exchange. *Staff count: 11 at 31 December 2012.*



Front Row (L-R): Mrs. Narissa Gaitor, Acting Manager, Market Surveillance; Ms. Mechelle Martinborough, Legal Counsel and Board Secretary; Mrs. Monique Sands, Financial Controller; Mrs. Alysia Archer-Colebrooke, Manager, Administration. Back Row (L-R): Mr. Charles McKenzie, Manager, Information Technology; Mrs. Deborah Burrows, Manager, Human Resources; Mr. Dave Smith, Executive Director; Ms. Laverne Thompson, Manager, Authorisations; Mr. Gawaine Ward, Manager, Office of Enforcement. Not Pictured: Ms. Denise O'Brien, Manager, Inspections.



## 2012: A Year Of Transition

During 2012, the Commission conducted a re-categorisation exercise to map all registrants previously licensed under the Securities Industry Act, 1999 (SIA, 1999) to their corresponding registration categories under the Securities Industry Act, 2011 (SIA, 2011). The SIA, 2011 moved the registration regime for the securities industry from 'title' based to 'function' based.

Existing active registrant firms and individuals were automatically realigned to the functional categories authorised by the SIA,

2011, according to provisions set out in Part XIV of the Securities Industry Regulations, 2012 (SIR, 2012). Regulation 144 provides for the mapping of firms while Regulation 151 provides for the mapping of individuals. Registrants were invited to review and assess their business operations to ensure both the firm and its representatives were appropriately mapped.

### Mapping of Firms from SIA, 1999 to SIA, 2011

The majority of the 131 re-categorised firms retained their mapped categories. The re-categorisation exercise concluded on 30 November 2012, the results of which appear in Table 2.

Table 2: Mapping of Firms According to Regulation 144, SIR, 2012

Category and Number of Active Firms Registered Under SIA, 1999	SIA, 2011 Registration Category	Number Registered under the SIA, 2011	Licence(s) Surrendered
Broker Dealer Class I, 19 Firms	Dealing as Principal and Agent, Arranging Deals, Managing and Advising	16	1
	Dealing as Principal and Agent and Arranging Deals	2	
	<b>Total:</b>	<b>18</b>	
Broker Dealer Class II, 47 Firms	Dealing as Agent, Arranging, Managing and Advising	37	0
	Dealing as Principal, Arranging, Managing and Advising	5	
	Dealing as Agent, Arranging and Advising	1	
	Dealing as Agent, Managing and Advising	1	
	Dealing as Agent and Arranging	2	
	Managing on Securities	1	
	<b>Total:</b>	<b>47</b>	
Securities Investment Advisors, 65 Firms	Managing and Advising on Securities	50	5
	Managing on Securities	8	
	Advising on Securities	1	
	Dealing as Agent, Arranging Deals, Managing and Advising	1	
	<b>Total:</b>	<b>60</b>	

### Mapping of Individuals from SIA, 1999 to SIA, 2011

A total of 480 individuals were mapped and re-categorised. Thirty-six of the 43 individuals licensed as Brokers under the SIA, 1999 were re-categorised as Representatives, Trading, while 7 resigned or no longer required registration. Of the 72 Associated Persons registered under the SIA, 1999, 47 were categorised as Representatives, Advising, and one was categorised as Representative, Trading.

Additional re-categorisation information for individuals formerly registered under the SIA, 1999 is presented in Figure 1 and Figure 2. Two new categories of registration—the Chief Executive Officer (CEO) and Compliance Officer (CO)—were established under the SIA, 2011.

Figure 1: Re-categorisation of 247 Principals Licensed Under the SIA, 1999

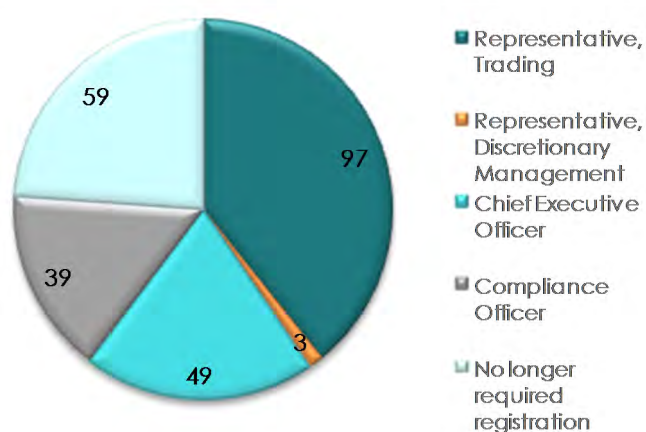
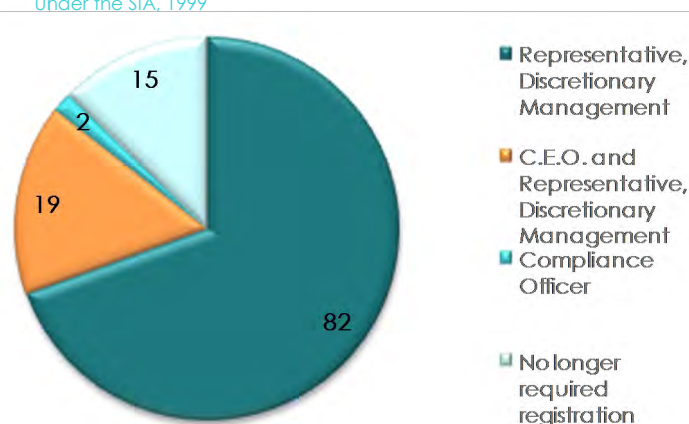


Figure 2: Re-categorisation of 118 Securities Investment Advisors Licensed Under the SIA, 1999



## 2012: A Year Of Consultation

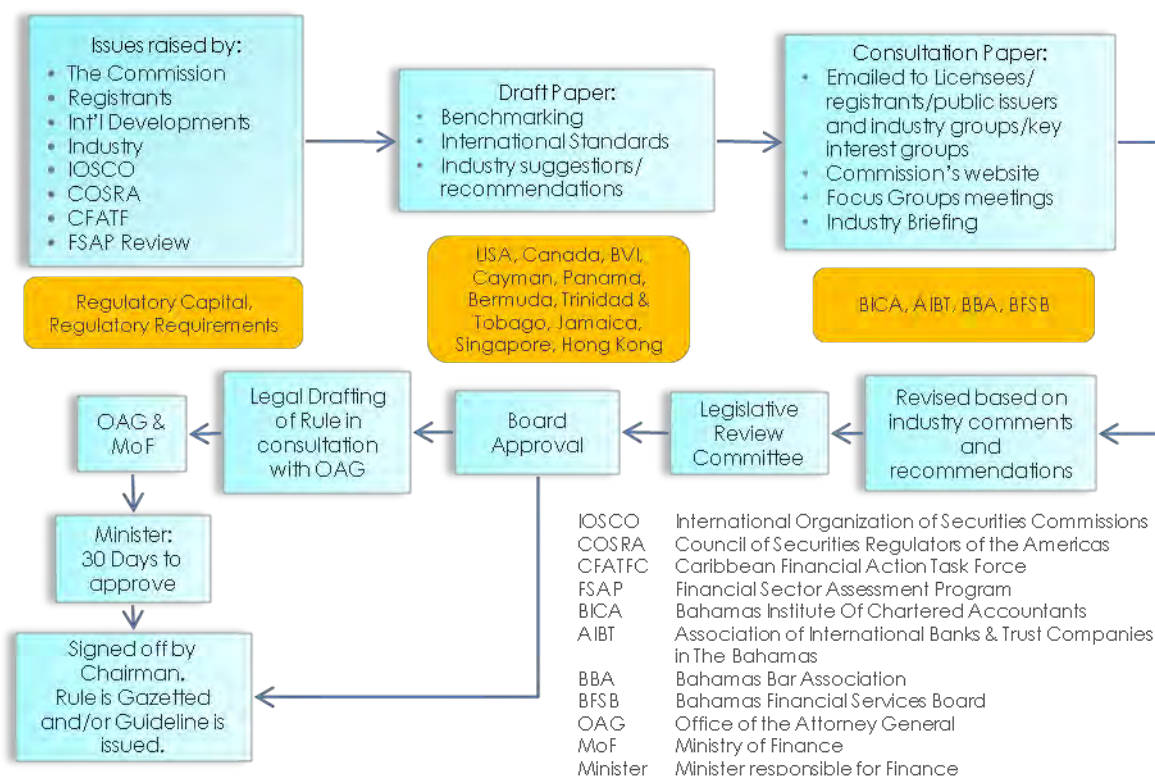
The Commission issued a slate of consultation papers in 2012, many of which were a part of the Commission's SIA implementation plan to formally develop the Rules and Guidelines necessary to fully administer the Securities Industry Act, 2011 (SIA).

The SIA was structured to allow for detailed requirements to be set out through Rules and Guidelines to give the Commission greater flexibility in responding quickly and effectively as financial markets and products change.

The other consultation papers were developed as a result of issues raised by the Commission, its registrants or other national/international developments.

The consultative process adopted by the Commission follows the general framework below:

Figure 3: Framework of the Consultative Process



An integral part of the entire process of consultation is the ongoing communication strategy that the Commission employs to ensure the industry is made aware of developments and has an active role in the formulation of Rules and Guidelines. This is done by involving industry participants and stakeholders in focus groups and industry briefings to share information and to facilitate feedback through the use of the Commission's website, press releases, public notices and other media avenues. The consultation period for Rules and Guidelines will typically be 45 calendar days but may vary depending on the urgency, complexity of the subject matter or other considerations.

These papers are presented in Table 3.

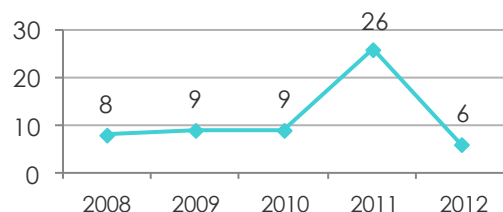
Table 3: Consultation Documents Issued in 2012

Consultative Paper	Issue Date	Revised and Reissued Date
Licensing of Compliance Officers	15 May 2012	31 December 2012
Outsourcing of Material Functions	15 May 2012	31 December 2012
Regulatory Capital Framework	15 May 2012	31 December 2012
Fitness and Propriety Guidelines	19 July 2012	31 December 2012
Liquidity Risk Guidelines	19 July 2012	31 December 2012
Fees - IFA, 2003	25 May 2012	31 December 2012
Bahamas Takeover Code	31 July 2012	31 December 2012
Management of Large Exposures and Related Party Exposures	3 August 2012	31 December 2012
Corporate Governance Guidelines	8 August 2012	31 December 2012

## Registrations of Firms

There was a marked decrease in the number of approvals for firms under the Securities Industry Act, 2011 (SIA, 2011) during 2012. The number of firms approved fell 76.9 percent year-on-year. There were 6 new firms licensed, which was more in-line with trend levels of years prior to 2011, as illustrated in Figure 4.

Figure 4: Licensing Activity During 2008 through 2012 for Securities Firms Under Respective SIA Legislation



The functional categories which the firms were registered to perform appears in Table 4.

Table 4: Approvals of Firms by Licence Category, 2012

Licensing Category	Approvals
Dealing as Principal, as Agent, Arranging, Managing and Advising on Securities	1
Dealing as Principal and Agent	1
Dealing as Agent and Arranging Deals in Securities	1
Managing and Advising on Securities	1
Managing Securities only	1
Clearing Facility	1
<b>Total</b>	<b>6</b>

The decrease in licensing activity corresponds to the drop in new licences for firms that would have been registered as Securities Investment Advisors under the SIA, 1999 to the comparable categories under the SIA, 2011—firms licensed to manage, advise or manage and advise on securities. Only 2 firms were newly licensed for these functions in 2012 (see Figure 5).

Figure 5: Comparison of Securities Investment Advisors and Licensees to Manage and Advise on Securities, 2008—2012



## Engagement, Communication, Collaboration

The Commission placed an emphasis on communication and collaboration with industry participants and stakeholders during 2012, with a view that these tools would inform holistic, balanced regulation and development. This took a number of forms, including courtesy calls, focus group meetings, correspondence, press releases, industry briefings, speeches, special presentations and surveys, for example.

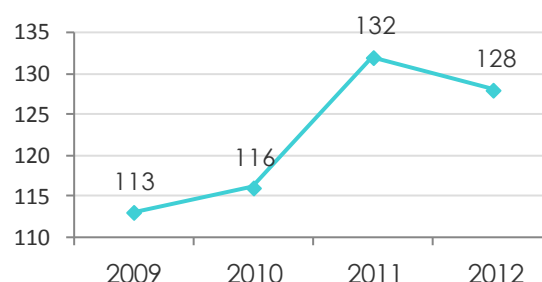
Some of the notable engagement activities for the Securities Industry in 2012 included an Industry Briefing held 14 November 2012, where participants were updated on the Commission's work to enhance the industry's legislative framework through a discussion of some of feedback received on various papers that had been issued for consultation.

Despite the decline in the licensing of firms during the year, the number of active securities firms remained essentially flat. The total number of firms licensed fell by 2.3 percent, from 132 at year-end 2011 to 128 at 31 December 2012. A comparison of total firms registered under their respective Securities Industry Act and categories of 2012 registrations appear in Table 5 and Figure 6, respectively.

Table 5: Firms Licensed Under the SIA, 2011 by Category at 31 December 2012

Category	31 Dec. 2012 Bank & Trust	31 Dec. 2012 Non Bank & Trust	Total
Managing only	0	7	7
Advising only	0	1	1
Dealing as Principal and Arranging Deals	1	0	1
Dealing as Agent and Arranging Deals	0	1	1
Managing and Advising	4	48	52
Dealing as Agent, Managing and Advising	1	0	1
Arranging, Managing and Advising	0	1	1
Dealing as Agent, Arranging, Managing and Advising	29	11	40
Dealing as Principal, as Agent, Arranging, Managing and Advising	11	11	22
Clearing Facilities	1	0	1
Market Places	0	1	1
<b>Total</b>	<b>47</b>	<b>81</b>	<b>128</b>

Figure 6: Total Securities Firms Registered under their Respective Legislation at yearends 2009 through 2012

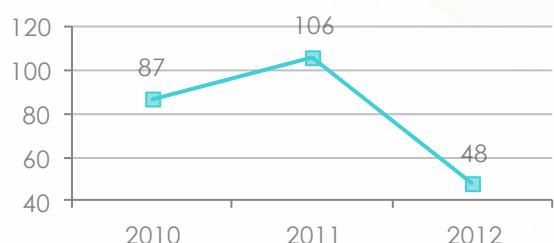




## Registration of Individuals

The SIA, 2011, brought new registration categories for individuals, namely: Chief Executive Officer and Compliance Officer. Despite the addition of the two new categories, the total 48 individuals approved during the year is lower than the number of individuals approved over a three-year comparative period, as shown in Figure 7.

Figure 7: Registration of Individuals under their Respective Securities Industry Legislation, at yearends 2010 through 2012



The reduced number of new approvals for individuals may be attributable in part to the reduced number of approvals for firms to manage and advise on securities in 2012, compared to firms licensed as securities investment advisors approved during 2011. A breakdown of the functions which 2012 registrants were licensed to perform appears in Table 6.

Table 6: Approvals of Individuals by License Category during 2012

Registration Category	No. of Approvals
Representative – Trading	9
Representative – Discretionary Management	4
Representative – Advising	9
CEO and Representative – Trading	1
CEO and Representative – Discretionary Management	3
Representative - Trading, Discretionary Management and Advising	2
Representative - Discretionary Management and Advising	2
CEO and Representative - Discretionary Management and Advising	1
Representative – Trading and Advising	2
CEO	6
Compliance Officer	9
<b>Total</b>	<b>48</b>

There were a number of individuals registered under the previous legislation that did not meet the requirements of the new legislation and, depending on the circumstance, were given conditions to be met within a certain timeframe, or were not permitted registration under the SIA, 2011. The total number of individuals registered is presented by licensing category in Table 7.

Table 7: Individuals Registered under the SIA, 2011 by Category at 31 December 2012

Category	31 Dec 2012
CEO	81
Compliance Officer	52
Representative – Trading	155
Representative – Discretionary Management	84
Representative – Advising	72
CEO and Representative – Discretionary Management	21
Representative - Advising and Discretionary Management	2
Representative - Trading, Advising and Discretionary Management	1
Representative – Discretionary Management, Advising and CEO	3
<b>Total</b>	<b>471</b>

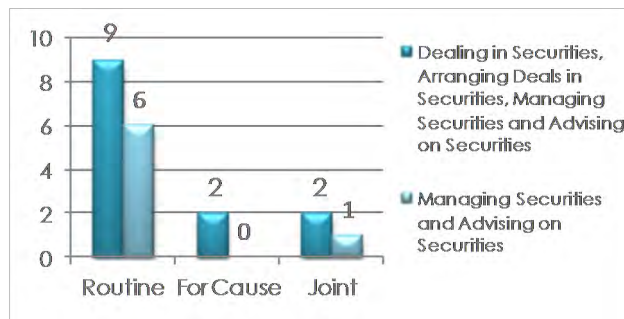
## Inspections

The types of examinations conducted by the Inspections Department may be categorised as Routine Examinations, Inspections-for-Cause and Joint Examinations. Routine Examinations are performed on a periodic basis while Inspections-for-Cause are based upon credible information coming to the Commission's attention. Routine Examinations are conducted on a three to five year rotational basis.

Joint Examinations are examinations conducted with the Central Bank of The Bahamas (the Bank), in cases where banks and trust companies fall under the regulation of both the Bank and the Commission. Joint Examinations are typically routine in nature, rather than 'for cause'. The "Revised Protocol for the On-Site Examinations of Jointly Regulated Financial Institutions" was signed on 31 January 2012. It updated the 2008 Protocol provisions in a move to minimise the regulatory burden on licensees while maintaining the regulatory integrity of the broader financial sector.

The Inspections Programme was updated to facilitate verification of compliance with the SIA, 2011. A total of 20 examinations of SIA licensees were conducted during 2012, as represented in Figure 8. The implementation of the SIA did not affect the number of examinations planned for the year.

Figure 8: 2012 Inspections of SIA Firms by Type of Examination



## Fund Administrators

One Unrestricted Investment Fund Administrator was approved in 2012. Comparison over a three year period shows that this represents a decline in administrators being licensed (Figure 9) and is mostly due to continued global challenges in this market.

In spite of this decline, the number of active Investment Fund Administrators in the jurisdiction remained relatively stable as shown in Figure 10. Holding steady at 65 during 2010 and 2011, the number of registered Investment Fund Administrators fell 3.2 percent to 63 at the close of 2012.

Three Investment Fund Administrators ceased to be licensed during 2012, 2 of which administered no funds and surrendered their licences while the other transferred its funds to other Bahamas based administrators.

**Unrestricted Investment Fund Administrators** have authority to license professional and SMART funds and oversee the administration of an unlimited number of Investment Funds.

**Restricted Investment Fund Administrators** can only provide administration services to investment funds licensed or registered by the Commission.

**Exempted Investment Fund Administrators** administer no more than one specified investment fund and meet prescribed financial requirements.

## Funds

A total of 106 Investment Funds were approved/licensed by the Commission in 2012, down 23.2 percent year-on-year.

There were 71 Specific Mandate Alternative Regulatory Test Fund (SMART Fund) approvals during 2012, an increase over the comparison period of 19 Funds (22.4 percent). This increase can be attributed to more Brazilian Funds entering the jurisdiction.

Recognised Foreign Funds (RFFs) experienced an increase in approvals over the previous year, with 6 RFF approvals in 2012, an increase from 0 in 2011, down from 6 approvals in 2010.

Approvals of Professional Funds, Standard Funds and Non-Bahamas Based Funds all declined over the comparison period, with 2, 0 and 27 funds of each category approved, respectively (see Figure 11).

The number of licensed Bahamas based Investment Funds continued to decline with the total decreasing 8.6 percent from 713 at 31 December 2011 to 652 at yearend 2012. At 31 December 2012 registered Bahamas based funds consisted of 326 SMART Funds, 215 Professional Funds, 72 RFFs and 39 Standard Funds. Sluggish 2011 fund performance carried over into 2012. According to Marketwatch.com, during lean times it is not unusual for funds' assets to be rotated between Fund Managers, and by extension, jurisdictions. This assertion seems to be illustrated in The Bahamas during 2012, where, of the total number of funds that closed during the year, over 50 percent were transferred either to another jurisdiction or to another administrator.

Non-Bahamas Based Investment Funds are investment funds which have a nexus to The Bahamas, such as being sold in or from The Bahamas or having an appointed custodian in the jurisdiction. However, they do not meet the criteria to be considered Bahamas Based Funds, such as being structured in a Bahamian governed unit trust, a Bahamian company or a partnership with one or more of the general partners registered, incorporated or resident in The Bahamas. There were 14 non-Bahamas Based Funds at 31 December 2012.

Despite the decrease in the total number of registered funds, the Commission has a positive outlook for the industry. The Commission commenced the work of overhauling the current Investment Funds legislation—the Investment Funds Act, 2003—following an assessment under the International Monetary Fund's (IMF's) Financial Sector Assessment Program (FSAP) in 2012. As a result, proposed legislation should move the regulation of the industry from the current disclosure-based system to a reporting regime that is more prudential in nature.

Figure 9: Licensing Activity during 2010, 2011 and 2012 for Investment Fund Administrators



Figure 10: Registered Investment Fund Administrators by Category, 2010 through 2012

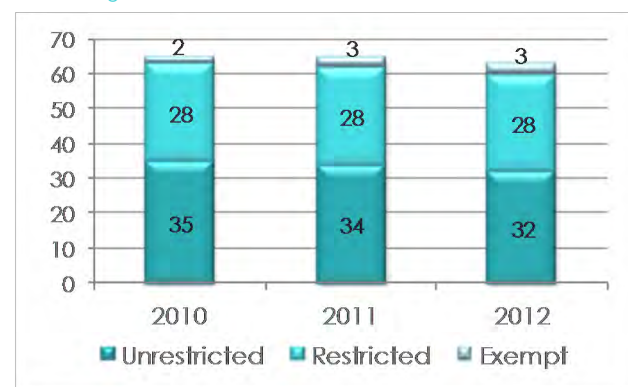


Figure 11: Approvals of Investment Funds by Category, yearends 2010 through 2012

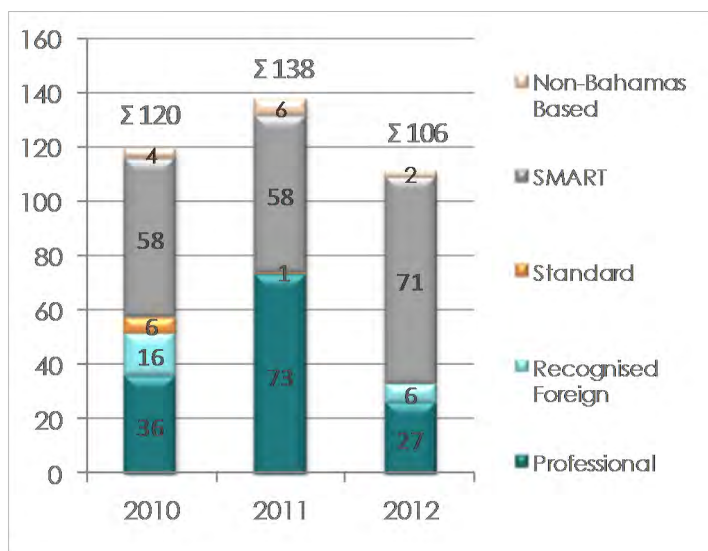
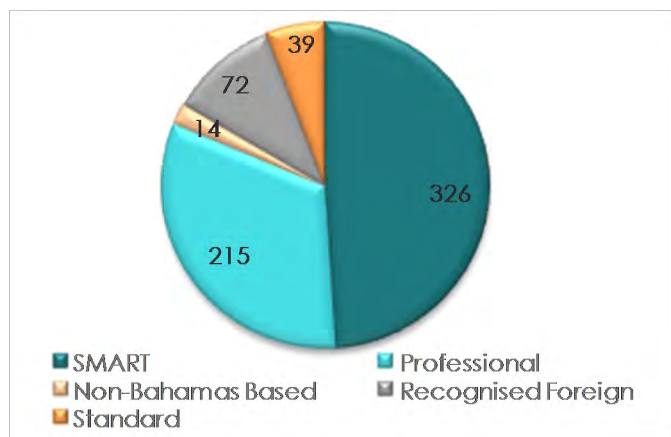


Figure 12: Registered Investment Funds by Category at 31 December 2012



See the Inspections section on page 12 for more information on the type of examinations conducted by the Inspections Department.

A total of 12 examinations were conducted under the Investment Funds Act, 2003 during 2012. All 12 were Routine Examinations of which 2 were Joint Examinations conducted with the Central Bank of The Bahamas. Of the examinations, there were 5 Routine and 2 Joint Examinations of Unrestricted Investment Fund Administrators, 2 Routine Examinations of Restricted Investment Fund Managers, and 3 Routine Examinations of Investment Fund Managers.

### Engagement, Communication, Collaboration

The first of the Commission's 2012 Industry Briefings focused on the Investment Funds Industry, and was held on 24 May 2012 in New Providence. Investment Fund Administrators and other industry participants and stakeholders received insight into key regulatory developments and were told to expect increased regulatory vigilance, particularly of Unrestricted Investment Fund Administrators (UIFAs).

The Investment Funds Act Technical Team (IFATT), a group of legal and financial experts and visionaries from within the investment funds and broader financial services industries, was assembled by the Commission during the fourth quarter of 2012. The IFATT will begin the work of formulating new legislation to govern the funds industry.

On 25 May 2012, the Commission issued a consultation paper on its proposed fee regime for the registrants under the Investment Funds Act, 2003.

The IFA Technical Team and special guests from the Ministry of Finance and the Ministry of Financial Services. Pictured are (L-R): Samantha Knowles-Pratt, Partner, Delaney Partners; Brian Jones, Associate Director, UBS (Bahamas) Ltd.; Dave Smith, Executive Director, Securities Commission of The Bahamas (the "Commission"); Andre Rahming, Partner, King & Co.; the Hon. Michael Halkitis, State Minister in the Ministry of Finance; Antoine Bastian, President, Genesis Fund Services Ltd.; the Hon. Ryan Pinder, Minister of Financial Services; David Thain, General Manager, Arner Bank & Trust (Bahamas); Ehud Cunningham (Deceased, Former Financial Secretary, Ministry of Finance); Dirk Simmons, Managing Director, Citco Fund Services Ltd.; Cassandra Johnson, Project Manager, Ministry of Financial Services; Diveane Bowe, Partner, KPMG and Michelle Neville-Clarke, Partner, Lennox Patton. Members not pictured:



Tonya Bastian Galanis, Chairman, the Commission; Philip McKenzie, Member, the Commission; Aliya Allen, CEO, Bahamas Financial Services Board; LaTonia Symonette-Tinker, Executive, Bahamas Association of Compliance Officers; Nicola Virgil-Rolle, Director, Ministry of Financial Services; Anishka Lockhart, Ministry of Financial Services; Kimberley Smith, Member, the Commission; Mechelle Martinborough, Legal Counsel, the Commission and Omara Bingham, Senior Legal Officer, the Commission.

### SMART Fund 007

There are seven SMART Fund models that now make up the SMART Fund family. SMART Fund Model 7 was introduced in 2012 with the passing of the SMART Fund Model 7 Rule in August 2012. This Fund Model has been dubbed the "Super Qualified Investor Fund", which expands the possibilities for using SMART Funds more generally as private placement funds.

This Smart Fund model is designed to more precisely accommodate professional asset managers, institutional investors and ultra high net worth individuals, all of whom may benefit from the risk-based approach to structuring and operating private placement funds in The Bahamas.

### Types of Investment Funds

The **Professional Fund** is available only to accredited investors.

The **Standard Fund** can only be licensed by the Commission and is generally for those funds that are not categorised as Professional, SMART or Recognised Foreign Fund.

The **Recognised Foreign Fund** is listed on a securities exchange which has been prescribed by the Commission or one which is licensed or registered in a prescribed jurisdiction.

The **SMART** or 'Specific Mandate Alternative Regulatory Test Fund' is a flexible asset management product designed to cater to the specific needs of investors. In this category of fund, both the operational and regulatory structure of the fund is specifically designed by industry participants, subject to approval from the Commission.



## Licensing and Registration under the FCSPA, 2000

An applicant under the Financial and Corporate Service Providers Act, 2000 (FCSPA, 2000) may be registered as an individual, partnership or company. The number of registrants approved during 2012 under the FCSPA, 2000 fell by 48.5 percent from 2011 levels to 17 approvals. The licensing activity since 2010 and the category of applicant appear in Figures 13 and 14, respectively.

Figure 13: Licensing Activity for FCSPs 2010 through 2012

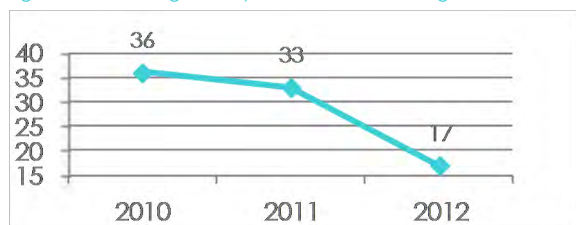
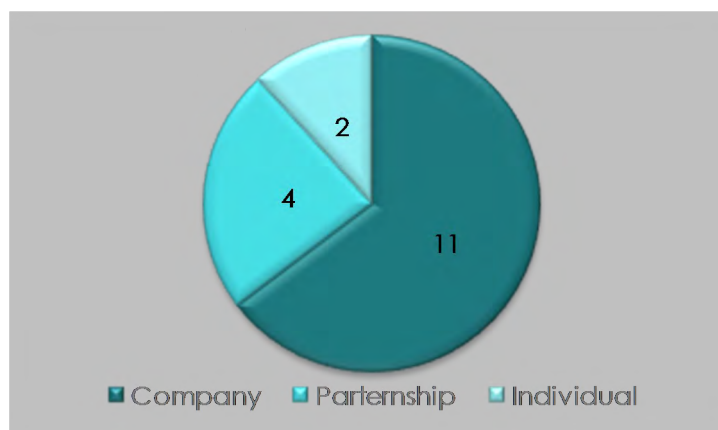
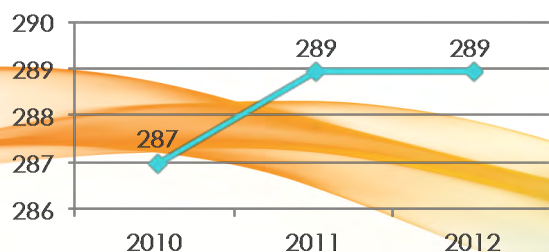


Figure 14: Composition of FCSP Licensees Approved during 2012



Despite the reduced licensing activity, the number of active licensees at yearend 2012 was unchanged, remaining at 289. A comparison of active licensees at yearends 2010 through 2012 appears in Figure 15. Yearend totals reflect new licensees, closures and any revocations during the year.

Figure 15: Licensees Under the FCSPA 2000, at Yearends 2010 through 2012



Since being appointed the Inspector of Financial and Corporate Services on 1 January 2008, the regularisation of the sector—having all of the licensable operators in the industry properly registered—has been a key focus of the Commission. During 2012, the Commission received 29 applications from persons seeking to have their operations regularised.

## Engagement, Communication, Collaboration

The Inspector hosted industry briefings in both Grand Bahama and New Providence on 13 September and 19 September 2012, respectively. The New Providence Briefing attracted around 200 industry participants and stakeholders. Registrants were reminded of the requirement under the Financial Intelligence (Transactions Reporting) Regulations, 2001 to identify and appoint a Money Laundering Reporting Officer (MLRO). Proposed changes to the fees regime for the industry were also discussed, and subsequently a number of suggestions for further rationalisation of the regime have been considered by the Inspector. The Rule is anticipated to be finalised during 2013, with a 2014 implementation target.

The Inspector issued a Public Notice on 28 August 2012 listing the types of services falling under the World Trade Organization's definition of financial services.

## Inspections

For Financial and Corporate Service Providers, Routine Annual Examinations are conducted by Inspector's Agents—public accountants appointed by the Commission in its capacity as the Inspector. Agents are members of the Bahamas Institute of Chartered Accountants (BICA) who have met the Inspector's requirements for appointment.

During 2012, there were 125 inspections of FCSPs conducted by Inspector's Agents. Of them, 87 were of companies, 3 of partnerships, and 35 of Individuals licensed under the FCSPA. The Inspector conducted 6 inspections directly during 2012, each of the inspections being of companies. This was up by one from 2011, the first year the Commission began conducting FCSP examinations itself.

During September 2012, the Inspector issued a survey to assess the risk inherent in the businesses which constitute the FCSP industry, prior to announcing its intention to move to a risk-based approach to surveillance and oversight of the industry. Response rates were lower than anticipated and efforts to attain the data necessary to inform a risk based approach continued into 2013.

### Financial Services Regulated by the Inspector

- Money Lending
- Financial Leasing
- Money Broking
- Payday and Cash Advances
- Credit Extension
- Mortgage Broking
- Escrow Services (excluding attorneys, accountants and real estate agents who are already subject to legislation or oversight by a professional body)
- Financial Advisory/Consultancy Services
- Financial Intermediation

### Corporate Services Regulated by the Inspector

- Registration or management and administration of International Business Companies (IBCs) incorporated or existing under the International Business Companies Act
- Registered Agent and Registered Office services for IBCs
- Provision of directors, officers and nominee shareholders for IBCs
- Provision of partners for partnerships registered and existing under the Exempted Limited Partnership Act
- Provision of registered agent and registered office services for partnerships registered and existing under the Exempted Limited Partnership Act.

## International Requests Overview

The handling of requests for information on registrants is done under the authority of the Securities Industry Act, 2011 (SIA). Pursuant to Sections 34 and 36 of the SIA, 2011, the Commission has authority to not only exchange information for supervision and investigative purposes, but now may exchange information for enforcement purposes, including criminal proceedings.

The Commission received and responded to numerous requests for assistance from overseas regulatory authorities (ORAs) in 2012. Such requests are generally related to the investigation and prosecution of securities offences by the ORA. The Office of Legal Counsel bears the responsibility for advising on and coordinating responses to requests and the department works, where necessary, with other institutions to procure the necessary information. It evaluates every request received to ensure that it meets minimum information sharing requirements, as set out in legislation.

One request for information, was opened and 'stayed' in 2011 pending a decision by the Court on whether or not the registrant was obliged to provide the Commission with the requested information. By the close of 2012 the matter remained stayed, pending the Court's decision.

There was a single request by an ORA denied in 2012, as it was deemed to be outside the scope and permitted use of disclosure of information pursuant to either:

- the Undertaking of Information dated 11 March 2005 between the United States Securities and Exchange Commission and the Securities Commission of The Bahamas, the Central Bank of The Bahamas and the Attorney General of The Bahamas; or
- the International Organization of Securities Commissions (IOSCO) Multilateral Memorandum of Association (MMoU).

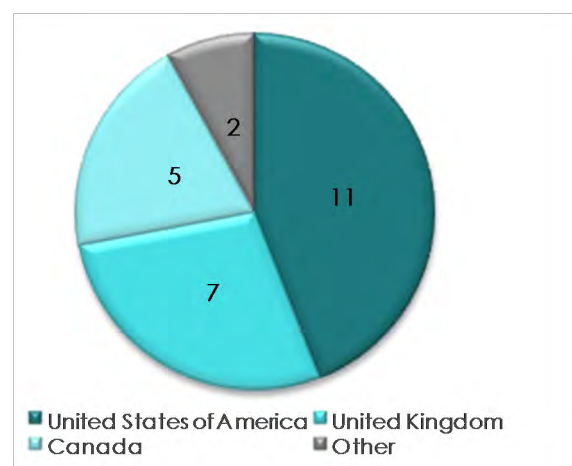
Summaries of requests received during 2012 and the nationality of the ORAs submitting new requests appear in Table 8 and Figure 16.

Table 8: Summary of International Requests Activity, 2012

Open Requests at 31 Dec. 2011	17
Requests Received during 2012	25
Requests Closed during 2012*	35
Open Requests at 31 Dec. 2012	7

\*Stayed requests are not reflected in the Open Requests at 31 December 2012, although the Office of Legal Counsel continues to monitor the progress of such requests through to their final disposition.

Figure 16: Origin of New International Requests, 2012



## Enforcement Matters 2012

The disciplinary process under the Securities Industry Act, 2011 (SIA, 2011) will be exercised through the establishment of a Hearing Panel, under Section 33 of the Act. The Commission continued its work, commenced in 2011, to bring the Disciplinary Proceedings (Hearings and Settlements) Rules (Disciplinary Rules) into effect and establish the Hearing Panel, with these activities anticipated to be concluded in 2013.

The Hearing Panel will be charged with processing and hearing all administrative disciplinary matters through an envisaged single-stage process that will facilitate efficient execution of matters, in accordance with all principles of natural justice.

The sanctioning provisions in the SIA, 2011 have been extended to provide very comprehensive disciplinary tools to the Hearing Panel in the execution of its function. The additions include: (i) issuing compliance orders or cease trade orders against an issuer or any person; (ii) withdrawing exemptions; (iii) prohibiting someone from acting as a Director, Officer, Auditor or Consultant to any market participant; (iv) requiring or prohibiting publication of information; (v) and appointing a person to assume control of a registrant or advise a market participant on the proper conduct of its business. In addition, power has been given to the Commission to appoint a controller for a regulated person.

The SIA, 2011 also provides power for the Commission to impose monetary penalties for breaches of the Act. Of particular note, however, is Section 135(2), which establishes an automatic pen-

Figure 9: Summary of Enforcement Activity during 2012

Status	Litigation	Administrative	Criminal	Total
Open Matters at 31 December 2012	2	9	0	11
+ New Matters Opened	1	2	0	3
- Matters Closed	1	3	0	4
<b>Total</b>	<b>2</b>	<b>8</b>	<b>0</b>	<b>10</b>

alty of up to \$1,000 for each day a person is late providing the Commission with a document required to be filed with or delivered to the Commission under the Act.

During 2012, enforcement matters were addressed through the disciplinary process that existed under the Securities Industry Act, 1999. A summary of enforcement activity during 2012 appears in Figure 9.

The administrative matters involved: failure to file audited financial statements and to obtain a filing extension; failure to maintain proper accounts, books and records; improper use of securities funds; failure to notify the Commission of material changes or material events; failure to comply with requests for information; provision of false statements, failure to file declarations; breach of duty to act in clients' interest; and for marketing an unlicensed fund.

Litigation matters are ongoing; however, an appeal against an administrative decision penalising a licensee under the Investment Funds Act, 2003, was disposed of with judgment in favor of the Commission on 16 May 2012.

## The Journey To IOSCO MMoU 'A' Signatory Status

The International Organization of Securities Commissions' (IOSCO's) Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMoU) is the global benchmark document on cooperation and information exchange to fight cross-border fraud and securities violations. Increasing international activity in the securities and derivatives markets, the need for mutual cooperation and consultation, and the events of 11 September 2001, were catalysts to formulation of the document. The 'A' Signatory status is pursued by securities regulators as proof of their commitment to the principles it enshrines.

Shortly after a review of The Bahamas under the International Monetary Fund and World Bank's Financial Sector Assessment Program (FSAP) in 2002, and in response to some of the findings from the review, the Commission set out on the path to modernising the legislative framework governing the securities industry.

In 2008, the Commission made formal application to IOSCO to be a signatory to Appendix 'A' of the aforementioned MMoU and following a review by IOSCO, a commitment was made to that organisation to address identified shortcomings. With this commitment, the Commission was granted Signatory "B" Status to the MMoU in June 2009, which signalled recognition of the jurisdiction's voluntary commitment to implement the legal framework necessary for compliance with the provisions of the MMoU.



Present at the press conference announcing that the SCB achieved IOSCO MMoU 'A' Signatory Status were (L-R): SCB Senior Legal Officer Omara Bingham, BFSB Chairman Paul Winder, SCB Chairman Tonya Bastian Galanis, Minister of State in the Ministry of Finance the Hon. Michael Halkitis, Minister of Financial Services the Hon. Ryan Pinder, SCB Executive Director Dave S. Smith, and SCB Legal Counsel Mechelle Martinborough.

The new legislative framework would have to meet international standards for information sharing so as not to preclude The Bahamas from being recognised as a full partner in the fight against cross border abuse of the financial system, as well as bringing modern legislation to an industry that was fast outgrowing the prevailing legislation at the time, the Securities Industry Act, 1999.

On 30 December 2011, the Securities Industries Act, 2011 was promulgated, repealing and replacing the 1999 Act. As a new piece of legislation, it necessitated reapplication to IOSCO for the prestigious position on Appendix 'A' of the MMoU, which was completed on 3 June 2012. Review by IOSCO's Verification Team and the work of appropriately addressing any issues raised continued in the ensuing months.

On 12 December 2012, the IOSCO's Screening Group indicated to the Commission that it would recommend that the Commission be invited to become a signatory 'A' to the IOSCO MMoU. The status as MMoU signatory "A" became effective on 27 December 2012.

The Commission became one of only four jurisdictions in the Caribbean including Bermuda, the British Virgin Islands and the Cayman Islands whose securities regulator was signatory to Appendix A of the MMoU, and significantly is the first independent and sovereign Caribbean nation to gain this status.



## International Organization of Securities Commissions (IOSCO)

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

The Commission attended IOSCO's Training Seminar on Corporate Governance Issues related to securities firms and sanctions for market abuse from 23 to 26 October 2012 in Madrid, Spain. The seminar explored various aspects of corporate governance such as the role of the regulator, conflicts of interest, and independence of board directors as well as topics related to sanctions in instances of market abuse.

### Multilateral Memorandum of Understanding (MMOU)

The Commission became a signatory to IOSCO's MMoU effective 27 December 2012. This event was one of the major highlights of the Commission's year and demonstrates the Commission's commitment to mutual assistance in detecting and deterring cross border financial crime, strengthening financial markets and promoting investor confidence. (See previous page for more information).

## Council of Securities Regulators of the Americas (COSRA)

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

The Commission attended the 2012 meeting of COSRA in Port of Spain, Trinidad from 29 to 30 October. The meeting addressed a number of topics including investor education, small and medium enterprises (SMEs), and the impact of a number of developments in the region.

## Caribbean Group of Securities Regulators (CGSR)

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

There are four main initiatives currently being addressed by CGSR: (i) a common Code in Takeovers and the Choice of Law Rules; (ii) amendments that are expected to be made to the draft Multilateral Memorandum of Understanding for the exchange of information and cooperation and consultation in the framework of the regulatory regimes; (iii) focus on mutual recognition arrangements; and (iv) the training needs of the regional securities regulators.

The Commission attended the 2012 meeting of CGSR, held on 31 October, the day following the COSRA meeting in Port of Spain, Trinidad. Regulators discussed issues facing the region in addition to the above-mentioned initiatives.



The Hon. Michael Halkitis, Minister of State in the Ministry of Finance announces the Securities Commission of The Bahamas received IO-SCO 'A' Signatory Status. Also pictured are (L-R) SCB Executive Director Dave S. Smith; Chairman Tonya Bastian Galanis and the Hon. Ryan Pinder, Minister of Financial Services.

## Offshore Group of Collective Investment Scheme Supervisors (OGCISS)

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

The 2012 OGCISS meeting was held in Port of Spain, Trinidad on 1 November following the meetings of COSRA and CGSR. Discussions were held on a number of emerging issues as well as on initiatives and challenges faced by participating jurisdictions related to collective investment schemes.

## Group of Financial Services Regulators (GFSR)

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

GFSR continued work on a number of initiatives in 2012. Among them are a number of legislative reviews and amendments to remedy deficiencies identified by the Caribbean Financial Action Task Force (CFATF) Mutual Evaluation Report on The Bahamas Anti-Money Laundering (AML)/Combating the Financing of Terrorism (CFT) Regime (2007) and to comply with international standards.

In relation to these projects, the Group is continuing its efforts to draft legislation to facilitate the implementation of Cross Border Transportation of Currency, a deficiency identified by CFATF. Additionally, the Financial Action Task Force (FATF) issued revised recommendations in 2012 in which GFSR remains employed to evaluate the jurisdiction's compliance with these recommendations.

Finally, the Group was also active in coordinating and carrying out an internal self-assessment exercise to prepare for an assessment of the Bahamas under the Financial Sector Assessment Program (FSAP) conducted by the International Monetary Fund (IMF) in 2012.

## Domestic Capital Markets Review (2012)

The Bahamas International Securities Exchange (BISX) began the year positively. In January, the Exchange announced relocation of its offices to the Fort Nassau Centre at the British Colonial Hilton Nassau Hotel. Located in the heart of downtown Nassau, the move was expected to provide greater accessibility and convenience.

In late April, the Exchange formally approved the listing application submitted by Arawak Port Development Company Limited (ticker symbol: "APD"). The listing was the culmination of an effort that began in December 2011 with APD offering 1 million shares to the Bahamian investing public. Combined with the 4 million shares already owned by the founding shareholders, the number of APD shares issued and outstanding totaled 5 million. Trading officially commenced on 23 April 2012 at an opening price of \$10.

Midway through the year, the Exchange announced that Colina Holdings Bahamas Limited had successfully completed the listing process for its Class "A" Preference Shares (ticker symbol: "CHLA").

With the addition of both "APD" and "CHLA", at the end of the year the market was comprised of 27 primary listings. The composition of the listings is as follows: 20 common shares, 3 preference shares and 4 tranches of debt (Table 10). Twenty-one mutual funds are also listed on BISX.

Despite the addition of the two listings, overall market activities, in comparison to 2011, remained virtually unchanged. On the positive side, the volume of shares traded on BISX increased in 2012 to 4.1 million (from 2.9m in 2011). May 2012 was particularly active, experiencing BISX's highest monthly trade volume in two years. May's 2012 trade value also rose to BISX's highest amount in two years.

Continuing a six year downward trend, the BISX All Share Index closed at \$1,346.26. Market capitalisation, which had been stagnant for the past two years, was slightly lower at \$2.87 billion (Figure 17).

Figure 17: BISX Market Capitalisation 2008 through 2012 (BSD)

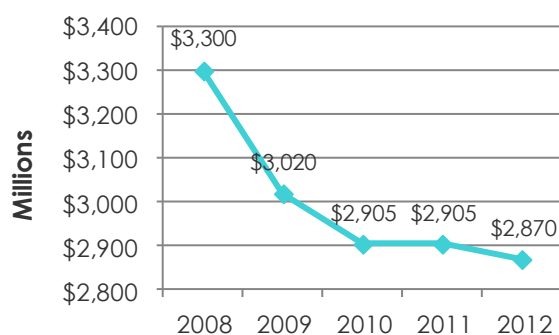
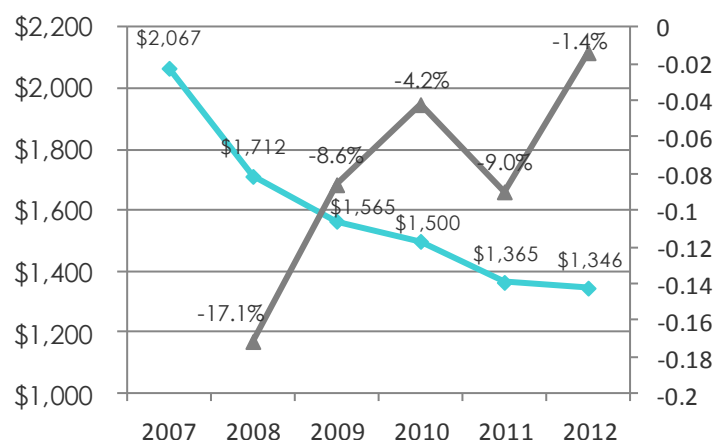


Table 10: Issuers Listed on BISX at 31 December 2012

Common Shares	
Symbol	Issuer Name
BOB	Bank of The Bahamas Limited
AML	AML Foods Limited
APD	APD Limited
BPF	Bahamas Property Fund Limited
BWL	Bahamas Waste Limited
BBL	Benchmark (Bahamas) Limited
CAB	Cable Bahamas Limited
CHL	Colina Holdings Limited
CBL	Commonwealth Bank Limited
CBB	Commonwealth Brewery Limited
CWCB	Consolidated Water Co. Ltd.
DHS	Doctors Hospital Health System Limited
FAM	FAMGUARD Corporation Limited
FBB	Fidelity Bank (Bahamas) Limited
FIN	Finance Corporation of the Bahamas
CIB	FirstCaribbean International Bank
FCC	ICD Utilities Limited
FCL	Freeport Oil Holdings Company Limited
JSJ	JS Johnson and Company Limited
PRE	Premier Commercial Real Estate Investment Company Limited
Preference Shares	
CHLA	Colina Holdings Bahamas Limited Class A Preference Shares
FBBA	Fidelity Bank Class A Preference Shares
FCLB	Freeport Oil Holdings Company Limited Class B Preference Shares
Debt Securities	
FBB13	Fidelity Bank (Bahamas) Limited 2013
FBB15	Fidelity Bank (Bahamas) Limited 2015
FBB17	Fidelity Bank (Bahamas) Limited 2017
FBB22	Fidelity Bank (Bahamas) Limited 2022

Figure 18: BISX All Share index 2007 through 2012 (BSD)



## International Capital Markets Review (2012)

Since the beginning of the global financial crisis more than five years ago, volatility and fragility in the global capital markets have remained constant. The year 2012 was no different. In the first quarter of 2012, the World Economic Outlook projected a decline in global growth from 4 percent in 2011 to 3.5 percent in 2012. In reality, 2012 global growth dropped to less than three percent, intimating that market volatility remained a problem.

The European crisis, paramount of which is the area's payment imbalances, remained the primary source of volatility and uneasiness. In 2012, France, Austria, Spain and others' credit ratings were downgraded by Standard & Poor's.

European policymakers adopted a "do whatever it takes" approach to preserve the Euro and to stimulate growth measures. The European Central Bank's (ECB) liquidity initiatives, at the onset of 2012, eased pressure on banks and partially allayed investor's general lack of confidence in the European markets. Additionally, continuing a process that began in 2011, an emergency financing facility programme, enacted to aid countries in crisis, was formalised.

Lingering concerns over the strength of the recovery, continuing trepidation over financial stability, and ongoing political uncertainty continue to make Europe extremely volatile.

Coming off its credit rating downgrade by Standard & Poor's in 2011, the United States entered 2012 facing looming fiscal uncertainty. Market volatility spurred by the U.S. Congress' delay in raising the country's debt ceiling remained a key issue for the country. Though the Dow, S&P 500 and NASDAQ all posted gains relative to 2011, unemployment and government debt remained high while growth was relatively slow. These factors prompted both Fitch and Moody's credit ratings agencies to not only issue a 2012 negative outlook for the United States, but to also suggest that the country's credit rating could be further reduced in 2013.

The Asian markets were also not immune to fragility. In Japan, political tension with China and the underperforming manufacturing sector caused the country to only grow by two percent. In China, GDP growth was its lowest (7.8 percent) since 1999. Analysts cite the declining demand for Chinese products in Europe as well as property market initiatives taken by the government as the two major factors.



### Tribute to the First Chairman of The Securities Commission of The Bahamas, Mr. Timothy Baswell Donaldson, CBE

The Commission is honoured to pay tribute to the first Chairman, Mr. Timothy Baswell Donaldson.

Mr. Donaldson served as Chairman from May 1995 to June 2002 and today we at the Commission, like countless Bahamians, are the proud beneficiaries of

a man who served his country with great ability and distinction for nearly six decades.

While at the Commission, Chairman Donaldson embarked on a regulatory journey to promote innovation, integrity and transparency in the markets to ensure that investors were protected and that the securities environment was well-regulated and that our jurisdiction was competitive.

Chairman Donaldson worked with the Government of The Bahamas to enhance the jurisdiction's position as a leading financial services sector and was involved in the development of securities legislation to regulate securities and capital markets in The Bahamas. It was during his Chairmanship that The Bahamas International Securities Exchange (BISX) was established. BISX served as a catalyst for capital formation and economic growth, and assisted in the continued advancement of the nation's securities industry.

Chairman Donaldson also worked with international organisations, particularly the International Organization of Securities Commissions (IOSCO) and the Council of Securities Regulators of the Americas (COSRA), to ensure that the views and concerns of The Bahamas were articulated as the international regulatory environment evolved. Under his Chairmanship, the Commission hosted the COSRA conference in The Bahamas.

Mr. Donaldson was no ordinary man. He meant a lot to thousands of people all around the world. He had a unique spirit and vision for The Bahamas, but more particularly for the Banking and Securities Industries. In fact, as an elder statesman of the financial services community, Mr. Donaldson became a major role model for successive generations of Bahamians in the industry. A man of great intellect, he possessed superb organisational and leadership skills. He had a passion for giving the very best of himself at all times and he invariably applied himself with great vigor and efficiency to whatever task he had undertaken to perform. He was a high achiever and an inspiration to those he led.

Mr. Donaldson blazed the trail for thousands of Bahamians everywhere, not only in the financial services industry. He graced the halls and commanded the respect of all those he came in contact with. Because of his passion for community and public service, coupled with his unbridled ambition to achieve, he leaves us with a lasting legacy that will continue on in the hearts and minds of countless Bahamians.

His passing is truly the end of an era, and today the Commission pauses to pay respect and say 'thank you' to its first Chairman, a giant of a man, T. Baswell Donaldson.

May he rest in peace.



## Overview of 2012 Investor Education Activities

Education is a critical tool in the investor protection tool-kit. It is recognised in the International Organization of Securities Commissions' (IOSCO's) 38 Principles of Securities Regulation and intimated in the legislation governing the securities industry. In IOSCO's Principal 3, the global standard setter for the securities regulators calls for regulators to have adequate powers, proper resources, and the capacity to perform their functions and exercise their powers. A key issue underlying this principal is that "Regulators should play an active role in promoting the education of investors and other market participants," as stated in IOSCO's *Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation*, published September 2011.



Senior Investigations Officer Benson Russell interacts with an interested student at the CV Bethel Career's Day Fair

Section 12 (e) of the Securities Industry Act, 2011 (SIA, 2011), states that a function of the Securities Commission of The Bahamas is to "promote an understanding by the public of the capital markets and its participants and the benefits, risks and liabilities associated with investing."

For 2012, the primary target of the Commission's investor education effort was high-school students. The goals of the interaction were educating students about the importance of savings and the risks and benefits associated with investing, and informing students of the role of the Commission, particularly in terms of how it functions to protect investors.

The Commission was pleased to accept the invitation to collaborate once again with registrant Colina Financial Advisors Limited (CFAL) on its Junior Investor Programme. The programme uses a

virtual portfolio of securities available in the Bahamian capital market to teach important investment concepts. The Commission relied on many of its committed professionals to make presentations on its behalf and interact with tomorrow's generation of investors and financial services professionals (Table 11).

The Commission also used opportunities to participate in career fairs to sensitise students preparing for life after high school to the value of savings, issues surrounding investing, and role of the Commission, particularly as concerns investor protection. In this vein, Inspections Manager Denise O'Brien met with around 50 students during South Andros High School's Career Day, held 2 November 2012. Commission representatives also participated in C. V. Bethel High School's Career Fair in October and the College of The Bahamas' Careers & Job Fair held March 2012.

Table 11: Participation in CFAL's Junior Investor Education Programme, 2012

School	Presenter
Aquinas College	Mr. Kean Smith, Sr. Legal Officer, Enforcement Department
Jordan Prince William High School	Mrs. Monique Sands, Financial Controller
St. John's College	Mrs. Omara Bingham, Sr. Legal Officer, Office of Legal Counsel
St. Andrew's High School	Mr. Dominic Archer, Compliance/Control Coordinator
Queen's College	Mr. Stewart Miller, Sr. Officer, Office of the Executive Director
C.I. Gibson High School	Mrs. Kaylisa Adderley, Asst. Manager, Market Surveillance Department
Temple Christian High School	Mr. Kean Smith
St. Augustine's College	Mr. Benson Russell, Sr. Legal Officer, Enforcement Department
Nassau Christian Academy	Mrs. Monique Sands
St. Anne's High School	Mr. Dominic Archer



New Providence High School Students participating in CFAL's Junior Investor Programme at the opening ceremony of the 2012-2013 sessions, held on 4 October 2012. Also pictured are Stewart Miller, Senior Officer, Securities Commission of The Bahamas (second from left) and Richard Pinder, Operations Supervisor and Programme Coordinator, CFAL (far right). CFAL's programme also includes schools in Grand Bahama. Photo provided courtesy of CFAL.

# FINANCIAL SUMMARY

## Financial Summary (2012)

*The audited financial statements that appear on the following pages in this Annual Report represent the financial position of the Commission as of 31 December 2012, 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 2011.*

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

During the 2012 fiscal year, total income increased to \$4.15 million (2011 - \$3.86 million). Income was comprised of fees totalling \$2.82 million (2011 - \$2.70 million), Government subvention of \$1.20 million (2011 - \$1.03 million) and interest and other income of \$0.13 million (2011 - \$0.13 million).

While income increased by \$0.3 million, total operating expenses increased by \$0.50 million, resulting in a total comprehensive loss of \$0.55 million (2011 - \$0.35 million) and an increase in the net deficit position to \$0.63 million (2011 - \$0.08 million). The Commission expects that the deficit will be funded in the short term by an increase in fee income resulting from the promulgation of the Securities Industry (Fee) Rules, 2012 and continued Government subvention. In the medium term, the Commission will amend the fee structures for its other categories of regulated entities to achieve greater financial independence in its operations.



# FINANCIAL STATEMENTS



## 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 2012, 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.



*Auditors' Responsibility (continued)*

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 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

**Chartered Accountants  
Nassau, Bahamas**

**25 July 2013**


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

Statement of Financial Position  
As of 31 December 2012  
(Expressed in Bahamian dollars)

	2012 \$	2011 \$
<b>ASSETS</b>		
Cash on hand and at banks	134,950	282,917
Accounts receivable (Note 4)	98,363	57,630
Prepaid expenses and other assets	11,049	31,683
Plant and equipment (Note 5)	295,734	201,094
<b>Total assets</b>	<b>540,096</b>	<b>573,324</b>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	412,473	269,936
Deferred income (Note 6)	609,763	230,561
Advance from the Consolidated Fund	150,000	150,000
<b>Total liabilities</b>	<b>1,172,236</b>	<b>650,497</b>
<b>NET LIABILITIES</b>	<b>(632,140)</b>	<b>(77,173)</b>
<b>REPRESENTED BY:</b>		
Deficit	(632,140)	(77,173)
Special purpose reserve (Note 7)	-	-
	<b>(632,140)</b>	<b>(77,173)</b>

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

  
Chairman

  
Director

25 June 2013  
Date

# The Securities Commission of The Bahamas

## Statement of Comprehensive Income For the Year Ended 31 December 2012 (Expressed in Bahamian dollars)

	2012 \$	2011 \$
<b>INCOME</b>		
Fee income		
Investment funds	1,057,982	1,047,809
Securities industry licensees and registrants	597,539	544,751
Financial and corporate service providers	521,729	478,563
Investment fund administrators	499,083	501,167
Penalties	64,800	21,500
Administrative fines (Note 7)	55,000	-
Securities exchange	10,000	10,000
Examinations	1,898	2,142
Public offerings	1,000	88,625
Other	13,000	4,500
Total fee income	2,822,031	2,699,057
Government subvention (Note 6)	1,201,998	1,031,675
Interest income	17,246	34,280
Other income	112,858	95,626
<b>Total income</b>	<b>4,154,133</b>	<b>3,860,638</b>
<b>EXPENSES</b>		
Salaries, wages and employee benefits (Note 8)	3,320,882	3,098,044
Rent	408,301	371,414
Utilities and property charges	186,089	162,773
Professional fees	145,341	97,269
Depreciation (Note 5)	136,814	89,809
Training and conferences	121,109	68,051
Office	92,569	83,073
Provision for doubtful accounts (Note 4)	88,016	33,174
Legislative initiatives	56,618	19,980
Repairs and maintenance	55,006	62,046
Membership fees	30,317	24,290
Advertising	24,426	43,671
Printing and publications	12,850	17,652
Disciplinary committee fees and related costs	9,750	19,500
Bank charges	7,205	6,069
Interest expense	2,544	-
Investor education	754	5,028
Miscellaneous	10,509	10,063
<b>Total expenses</b>	<b>4,709,100</b>	<b>4,211,906</b>
<b>Net loss and total comprehensive loss</b>	<b>(554,967)</b>	<b>(351,268)</b>

The Securities Commission of The Bahamas

Statement of Changes in Net Assets  
For the Year Ended 31 December 2012  
(Expressed in Bahamian dollars)

	Surplus/ (Deficit) \$	Special Purpose Reserve \$	Total \$
Balance as of 1 January 2011	<u>274,095</u>	<u>-</u>	<u>274,095</u>
Total comprehensive loss	<u>(351,268)</u>	<u>-</u>	<u>(351,268)</u>
<b>Balance as of 31 December 2011</b>	<b><u>(77,173)</u></b>	<b><u>-</u></b>	<b><u>(77,173)</u></b>
Balance as of 1 January 2012	<u>(77,173)</u>	<u>-</u>	<u>(77,173)</u>
Total comprehensive loss	<u>(554,967)</u>	<u>-</u>	<u>(554,967)</u>
<b>Balance as of 31 December 2012</b>	<b><u>(632,140)</u></b>	<b><u>-</u></b>	<b><u>(632,140)</u></b>



The Securities Commission of The Bahamas

Statement of Cash Flows

For the Year Ended 31 December 2012

(Expressed in Bahamian dollars)

	2012 \$	2011 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	(554,967)	(351,268)
Adjustments for:		
Interest income	(17,246)	(34,280)
Depreciation	136,814	89,809
Provision for doubtful accounts	88,016	33,174
Interest expense	2,544	-
Interest received	17,246	34,280
<b>(Increase)/Decrease in operating assets</b>		
Accounts receivable	(128,749)	(59,485)
Prepaid expenses and other assets	20,634	34,365
<b>Increase/(Decrease) in operating liabilities</b>		
Accounts payable and accrued expenses	142,537	84,103
Deferred income	379,202	(54,855)
<b>Net cash from/(used in) operating activities</b>	<b>86,031</b>	<b>(224,157)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of plant and equipment	(231,454)	(88,699)
<b>Net cash used in investing activities</b>	<b>(231,454)</b>	<b>(88,699)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Interest paid	(2,544)	-
Proceeds from advance from the Consolidated Fund	-	150,000
<b>Net cash from/(used in) financing activities</b>	<b>(2,544)</b>	<b>150,000</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(147,967)</b>	<b>(162,856)</b>
Cash and cash equivalents as of beginning of year	282,917	445,773
<b>Cash and cash equivalents as of end of year</b>	<b>134,950</b>	<b>282,917</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Cash on hand and at banks	134,950	282,917

## **The Securities Commission of The Bahamas**

### **Notes to the Financial Statements 31 December 2012**

#### **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 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. Going Concern**

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

#### **3. Summary of Significant Accounting Policies**

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

##### **(a) Basis of preparation**

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

**The Securities Commission of The Bahamas**

**Notes to the Financial Statements**

**31 December 2012**

**(Continued)**

**3. Summary of Significant Accounting Policies (Continued)**

**(a) Basis of preparation (continued)**

Amendments and interpretations to published standards that became effective for the Commission's financial year beginning on 1 January 2012 were either not relevant or not significant to the Commission's operations and accordingly did not have a material impact on the Commission's accounting policies or financial statements.

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

**(b) Foreign currency translation**

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

**(c) Cash and cash equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, demand deposits with banks, and term deposits with banks with 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.

Notes to the Financial Statements  
31 December 2012  
(Continued)

3. Summary of Significant Accounting Policies (Continued)

(d) Accounts receivable (continued)

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 stated 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 recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Commission and the cost of the item can be measured reliably. Repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred.

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

A full year's depreciation charge is made in the year of acquisition. 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.

Notes to the Financial Statements  
31 December 2012  
(Continued)

3. Summary of Significant Accounting Policies (Continued)

(e) Plant and equipment (continued)

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

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

(f) Accounts payable

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

(g) Income and expense recognition

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

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

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

Interest income 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 2012**

**(Continued)**

**3. Summary of Significant Accounting Policies (Continued)**

**(h) Employee benefits**

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

The Securities Commission of The Bahamas

Notes to the Financial Statements  
31 December 2012  
(Continued)

4. Accounts Receivable

	2012 \$	2011 \$
Investment funds and investment fund administrators	55,522	18,830
Other securities industry registrants and licensees	31,796	4,342
Financial and corporate service providers	27,532	44,383
Other	<u>105,841</u>	<u>38,386</u>
	220,691	105,941
Provision for doubtful accounts	<u>(122,328)</u>	<u>(48,311)</u>
<b>Total</b>	<b><u>98,363</u></b>	<b><u>57,630</u></b>

Movements in the provision for doubtful accounts comprise:

	2012 \$	2011 \$
Opening balance	48,311	15,312
Provision for doubtful accounts	88,016	33,174
Bad debts written off	<u>(13,999)</u>	<u>(175)</u>
<b>Closing balance</b>	<b><u>122,328</u></b>	<b><u>48,311</u></b>

The Securities Commission of The Bahamas

Notes to the Financial Statements  
31 December 2012  
(Continued)

5. Plant and Equipment

	Computer Equipment \$	Furniture and Fittings \$	Vehicles \$	Leasehold Improvements \$	Total \$
<b>For the year ended 31 December 2012</b>					
<b>Cost</b>					
1 January 2012	458,603	519,370	65,940	16,441	1,060,354
Additions	174,563	19,502	-	37,389	231,454
Disposals	<u>(289)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(289)</u>
<b>31 December 2012</b>	<b><u>632,877</u></b>	<b><u>538,872</u></b>	<b><u>65,940</u></b>	<b><u>53,830</u></b>	<b><u>1,291,519</u></b>
<b>Accumulated depreciation</b>					
1 January 2012	373,592	442,518	37,676	5,474	859,260
Depreciation expense	70,679	37,932	10,267	17,936	136,814
Disposals	<u>(289)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(289)</u>
<b>31 December 2012</b>	<b><u>443,982</u></b>	<b><u>480,450</u></b>	<b><u>47,943</u></b>	<b><u>23,410</u></b>	<b><u>995,785</u></b>
<b>Net book value as of 31 December 2012</b>	<b><u>188,895</u></b>	<b><u>58,422</u></b>	<b><u>17,997</u></b>	<b><u>30,420</u></b>	<b><u>295,734</u></b>
<b>For the year ended 31 December 2011</b>					
<b>Cost</b>					
1 January 2011	417,996	487,719	65,940	-	971,655
Additions	<u>40,607</u>	<u>31,651</u>	<u>-</u>	<u>16,441</u>	<u>88,699</u>
<b>31 December 2011</b>	<b><u>458,603</u></b>	<b><u>519,370</u></b>	<b><u>65,940</u></b>	<b><u>16,441</u></b>	<b><u>1,060,354</u></b>
<b>Accumulated depreciation</b>					
1 January 2011	327,948	411,892	29,611	-	769,451
Depreciation expense	<u>45,644</u>	<u>30,626</u>	<u>8,065</u>	<u>5,474</u>	<u>89,809</u>
<b>31 December 2011</b>	<b><u>373,592</u></b>	<b><u>442,518</u></b>	<b><u>37,676</u></b>	<b><u>5,474</u></b>	<b><u>859,260</u></b>
<b>Net book value as of 31 December 2011</b>	<b><u>85,011</u></b>	<b><u>76,852</u></b>	<b><u>28,264</u></b>	<b><u>10,967</u></b>	<b><u>201,094</u></b>

# The Securities Commission of The Bahamas

## Notes to the Financial Statements 31 December 2012 (Continued)

### 6. Deferred Income

	2012 \$	2011 \$
Government subvention	378,413	73,411
Other securities industry registrant and licensee fees	148,250	76,750
Financial and corporate service provider fees	44,750	31,000
Investment fund and investment fund administrator fees	38,350	49,400
<b>Total</b>	<b>609,763</b>	<b>230,561</b>

All deferred income is to be recognised in the following year in the statement of comprehensive income, with the exception of \$70,191 (2011: \$11,696) in Government subvention.

Movements in Government subvention comprise:

	2012 \$	2011 \$
Opening balance	73,411	35,086
Government subvention received	1,507,000	1,070,000
Government subvention utilised – operating expenses	(1,125,000)	(1,000,000)
Government subvention utilised – capital acquisitions	(11,696)	(11,695)
Government subvention utilised – specific projects	(65,302)	(19,980)
<b>Closing balance</b>	<b>378,413</b>	<b>73,411</b>

### 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 financial systems. Accordingly, the Commission established a special purpose reserve for this purpose.

During the year, the Commission levied such fines totalling \$55,000, however, a provision for doubtful accounts of an equal amount was also required.

## The Securities Commission of The Bahamas

### Notes to the Financial Statements 31 December 2012 (Continued)

#### 8. Employee Benefits

Pension costs recognised in the statement of comprehensive income in the current year total \$238,268 (2011: \$230,613). 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 \$51,219 (2011: \$11,053) 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 2012, the Commission employed 63 (2011: 58) 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. Balances and transactions with related parties, not otherwise disclosed in the financial statements, include:

	2012 \$	2011 \$
<i>Assets</i>		
Cash at banks	133,766	282,417
Accounts receivable	7,917	13,734
Prepaid expenses and other assets	1,770	1,350
<i>Liabilities</i>		
Accounts payable and accrued expenses	22,648	32,635
Advance from the Consolidated Fund	150,000	150,000
<i>Income</i>		
Other income	78,000	78,000
<i>Expenses</i>		
Utilities and property charges	132,396	122,316



## The Securities Commission of The Bahamas

### Notes to the Financial Statements 31 December 2012 (Continued)

#### 9. Related Party Balances and Transactions (Continued)

Key management personnel is comprised of members of the Commission, the executive director, deputy executive director, secretary to the Commission, manager of human resources and financial controller. Compensation of key management personnel for the year ended 31 December 2012 comprised \$418,801 (2011: \$370,496) for salaries and other short-term benefits and \$21,840 (2011: \$21,455) for pension benefits.

As of 31 December 2011, accounts receivable from key management personnel totalled \$4,499.

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

#### 10. Commitments and Contingencies

##### *Commitments*

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

Within one year	\$324,095
Within more than one year and less than five years	\$351,103

##### *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 capacity to understand and effectively manage these risks.

## The Securities Commission of The Bahamas

### Notes to the Financial Statements 31 December 2012 (Continued)

#### 11. Financial Risk Management (Continued)

##### (a) Credit risk

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

The Commission in its effort to minimise credit risk exposure monitors the accounts receivable balances ensuring that all efforts are expended in order to reduce accounts with long overdue balances.

The aged analysis of accounts receivable as of 31 December 2012 is set out below:

	2012	2011
	\$	\$
<i>Days outstanding</i>		
0 – 90 days	74,287	48,162
90 – 180 days	29,167	10,798
> 180 days	<u>117,237</u>	<u>46,981</u>
<b>Total</b>	<b><u>220,691</u></b>	<b><u>105,941</u></b>

Balances greater than 90 days are considered for impairment.

##### (b) Liquidity risk

The objective of liquidity management is to ensure the availability of sufficient funds to honour all of the Commission's financial commitments as they become due. The Commission maintains a level of liquid assets that mature in the short term to meet cash requirements for normal operating purposes. As discussed in Note 2, the Commission anticipates the continued financial support from the Government, and that such support will be available to meet any shortfalls in funds as financial obligations become due.

As of 31 December 2012, all of the Commission's accounts payable and accrued expenses are due within one year.

**The Securities Commission of The Bahamas**

**Notes to the Financial Statements**

**31 December 2012**

**(Continued)**

**11. Financial Risk Management (Continued)**

**(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; the Commission does not hedge this risk as it is not considered significant. The Commission does not have any significant fair value interest rate risk.

**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.

**13. Capital Management**

The capital of the Commission is represented by its net liabilities. 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.

**14. Subsequent Events**

Subsequent to 31 December 2012, the Commission has received \$500,000 in Government subvention.









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