



SECURITIES COMMISSION OF THE BAHAMAS

ANNUAL REPORT 2013

Our Mission:

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

Our Mandate:

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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2 May 2014

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

Dear Prime Minister:

In accordance with Section 31(1) of the Securities Industry Act, 2011, I have the honour of submitting to you, on behalf of the Members of the Securities Commission of The Bahamas (the Commission), the Annual Report for the Commission for the year ended 31 December 2013. Included in this Report is the Annual Statement of Accounts of the Commission for the year.

Yours sincerely,

Tonya Bastian Galanis
Chairman

Message From the Chairman



Mrs. Tonya Bastian Galanis
Chairman

Guided by its vision of contributing to the growth and development of a vibrant, competitive financial services sector with sound regulatory practices and policies that promote confidence, the Securities Commission of The Bahamas (the Commission) remains committed to maintaining world-class securities regulation tailored to the Bahamian marketplace.

The remit of the Commission to regulate investment funds, securities and capital markets led it, in 2013, to take greater strides to demonstrate fairness and transparency in its regulatory processes, and to improve its fiscal state in order to meet international standards that require operational independence and accountability. In 2013, the Commission also focused on developing its international profile, increasing its engagement with registrants and stakeholders and developing its human capital. The Commission is convinced that these efforts have contributed to enhanced regulatory effectiveness.

World-Class Regulation

The Commission regards compliance with international standards and involvement with other securities regulatory bodies as critical to achieving its objectives.

The official signing ceremony for new signatories to Appendix A of the International Organization of Securities Commissions' (IOSCO) Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information was held 18 September 2013 in Luxembourg, during IOSCO's 38th Annual Conference. It was my privilege to represent the

Commission at the ceremony. The Commission had attained the 'A Signatory' status in December 2012. The Appendix A Signatory status permits Bahamas-based securities and investment funds businesses access to certain target markets abroad and is therefore crucial to market development.

The Commission also successfully completed the first-phase requirements of the Alternative Investment Fund Managers Directive (AIFMD)—a Directive of the European Parliament and Council of the European Union (EU). Failure to meet the requirements would have precluded Bahamas-based investment fund managers from marketing or performing fund management activities for Alternative Investment Funds, such as hedge funds and private equity funds, in European Economic Area (EEA) jurisdictions.

By July 2013, the Commission had executed 21 Memoranda of Understanding with counterpart regulators. These MOUs ensure continued access for Bahamas-based fund managers to the markets under the supervision of co-signatory regulators. The Commission has since executed an additional two agreements in the last quarter of 2013. The Commission is seeking to conclude arrangements with the remaining EU Member States in 2014.

Such cooperation agreements are geared to improving cross-border securities regulation and supporting the global investor protection effort.

Commission representatives participated in several regional and international fora during 2013. Apart from improving The Bahamas' profile and visibility internationally, direct exposure to regulatory developments resulted in the acquisition of added expertise by the Commission's staff. The application of this attained knowledge, in turn, positively impacts local industries, registrants and stakeholders.

Representatives from the Commission attended Council of Securities Regulators of the Americas/Inter America Regional Committee meetings in Lima, Peru, 6-8 May 2013 and in Quebec, Canada 24-25 October, 2013. The meetings allowed for interaction and relationship building with key decision makers from regional securities regulators. Topics addressed included conflict of interest, regional financial sector developments and emerging risks, capital market financing of small and medium enterprises in emerging markets, and future trends in corporate governance of financial institutions.

The Commission was also represented at the 38th Plenary of the Caribbean Action Task Force (CFATF) held in Freeport, Grand Bahama, November, 2013. The Bahamas is the current Chair of CFATF, an organisation of 29 Caribbean Basin States whose primary focus is on anti-money laundering and combating the financing of terrorism (AML/CFT) among

member states. The Commission intends to increase its involvement with CFATF and shortly plans to identify an assessor to participate in reviews of other member states' compliance with the Task Force's AML/CFT provisions.

Improved Fiscal Management

The advantages of a properly financially resourced Commission are axiomatic. To this end, the Commission sought to improve its financial condition during the year mainly by containing general expenditure and collecting revenue from new licensees. The importance of improved fiscal management must be underscored in light of the forecasted reduction of the Government subvention to the Commission in 2014.

The fee schedule for registrants under the Investment Funds Act, unchanged since 2003, was rationalised in 2013. The Investment Fund (Amendment) Regulations, 2013 brought the new fee regime into effect on 1 January 2014. The fee schedule will enable improved revenues and overall financial performance.

Engagement with Financial and Corporate Service Providers

The goal of creating and embracing opportunities to bridge gaps between itself and its registrants and stakeholders remained a priority for the Commission this past year. In its capacity as the Inspector of Financial and Corporate Services, to which it was appointed effective 1 January 2008, the Commission held a special meeting with legal practitioners operating as financial and corporate service providers (FCSPs). This was the first forum to specifically address attorneys licensed as FCSPs in more than a decade. The discussion focused on the Inspector's offsite examination process and its impact on practicing attorneys licensed as FCSPs.

The importance of collaboration with FCSPs and related stakeholders is highlighted as the Commission prepares to review the FCSPA with a view to implementing amendments or new legislation in 2015.

Human Capital Development

Throughout the year the Commission offered internal and external training courses to staff. These programmes were designed to hone both hard and soft skills for improved operational efficiencies. Of note is the completion by an Inspections Officer of a secondment to a leading accountancy/audit firm in 2013. Secondments such as this augment the Commission's capacity and are welcomed experiences for staff.

Investor Protection

The Commission recognises the importance of a strong investor education programme to protect investors and

simultaneously increase confidence in the capital markets. In 2014, emphasis will be placed on expanding the reach and scope of the Commission's investor education programme.

The Commission looks forward to the implementation of a new disciplinary process under the Securities Industry Act, 2011 (SIA) in 2014. The enforcement of regulations is essential for the protection of investors. The envisioned process is designed to be both efficient and effective, while ensuring that the principles of natural justice are respected. The industry and public should anticipate instalments of several rules and guidelines in 2014 to support full implementation of the SIA.

Board Related Updates

The Commission bade farewell to former Executive Director, Mr. Dave Smith, on 31 July 2013 and welcomed Mr. Hillary Deveaux to the executive director's post on 11 September 2013. I take this opportunity to thank Mr. Smith, for his efforts towards the development of the Commission and securities regulatory regime.

Mr. Deveaux returns to the Commission as Executive Director after having previously held the post from December 2002 to August 2010. He is focused on ensuring the progress and continuity of the Commission's work and will assist the Board in sourcing suitable long-term candidates to lead the day-to-day operations of the Commission in the future.

Conclusion

The Commission extends its condolences to the family of the late Mr. Timothy Baswell Donaldson, CBE, who served as the Commission's first chairman from May 1995 to June 2002. Mr. Donaldson was renowned for his service as the first Governor of the Central Bank of The Bahamas. Amongst his notable accomplishments, he served as Chairman of The Bahamas Monetary Authority, and was the founding chairman of the Bankers Institute of The Bahamas, now The Bahamas Institute of Financial Services. Plans are underway to ensure that Mr. Donaldson's contributions to the advancement of the financial services industry and the development of young Bahamians are fittingly commemorated. Mr. Donaldson passed away on 26 February 2013.

I thank all of my fellow Board Members for their engagement over 2013. I wish to express particular appreciation to the cadre of dedicated employees at the Commission—its management and staff—who have remained focused on the Commission's mission and mandate.

It is my pleasure to present the 2013 Annual Report of the Securities Commission of The Bahamas.

The Members of the Commission



Members of the Commission at 31 December 2013. Back Row, L-R: Mr. Phillip McKenzie, Mrs. Sharmie Austin, Mrs. Wendy Craigg, Mrs. Arinthia S. Komolafe, Mrs. Michele Fields. Front Row, L-R: Mrs. Kimberley Rolle, Mr. Jerry Butler (Deputy Chairman), Mrs. Tonya Bastian Galanis (Chairman), Mr. Hillary Deveaux.
Not Pictured: Ms. Marion Bethel and Ms. Robin Scavella.

Structure and Membership of the Commission

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

The SIA provides for the Chairman to hold office for a period of five years, and for the Deputy Chairman and other Commission Members to hold their offices for a period not to exceed four years. All Commission Members, including the Chairman, are eligible for reappointment.

Members were appointed effective 1 July 2013, with the exception of the Board's ex-officio Members. The ex-officio Members took office as follows: Mrs. Wendy Craigg, Governor of the Central Bank, on 1 June 2004; Mrs. Michelle Fields, Superintendent of Insurance, on 1 January

2012, and the Commission's Executive Director, Mr. Hillary Deveaux, on 11 September 2013.

Role of the Board

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

Membership Changes During 2013

On 31 July 2013, Mr. Dave S. Smith left the Commission. Mr. Smith held the office of Executive Director and served as ex-officio Member of the Board from 1 March 2012 to 31 July 2013. On 11 September 2013 Mr. Hillary Deveaux was appointed Executive Director.

Activities of the Board

The Board held 11 regular meetings, 5 Audit Committee meetings and 5 Human Resources Committee meetings during the year. In addition, Members used a Round Robin process 6 times during 2013 to expedite the approval of matters requiring more immediate action.

Committees of the Board and Panels

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

The Audit Committee

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

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

The Human Resources Committee

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

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

The Legislative Committee

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

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

The Review Committee

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

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

Hearing Panel

Section 33 of the SIA provides for the establishment of panels. Such panels have powers delegated to it by the Commission. The Hearing Panel is empowered to preside over regulatory hearings and determine disciplinary matters of the Commission, and has authority to impose various sanctions, remedies or other relief, as provided for in the SIA and Investment Funds Act.

Executive Director's Remarks



Hillary H. Deveaux
Executive Director

During the fiscal year ended 31 December 2013, the local securities and capital markets showed continued signs of growth. The number of firms registered under the SIA grew from 128 at 31 December 2012 to 136 by year end 2013 (6.3%). The Bahamas International Securities Exchange (BISX) All Share Index closed at 1,468.22, representing a 9.06% increase over 2012, and the first annual increase in the Index since 2008. Capital raising activities expanded significantly in 2013, with two preference share and two bond offerings taking place during the year. Further, there was a significant increase in the number of Bahamas-based investment funds, which grew by 15.5%, from 652 to 753 by year end. This is attributable primarily to increased licensing of Specific Mandate Alternative Regulatory Test (SMART) Funds.

While this report will present all of the notable activities of the Commission in 2013, a few of the Commission's accomplishments are highlighted below:

Quality of Staff

The International Monetary Fund's (IMF's) Financial Sector Stability Assessment Report, published in April 2013, found that the Commission's staff was "well qualified and appear to be well-motivated". This is a marked improvement compared to the IMF's 2002 findings. The Commission's efforts to develop its human capital played an important role in recruiting more qualified personnel. At 31 December, 60% of the Commission's staff held Bachelor's or Master's degrees. In addition, numerous staff members held professional qualifications in law, accounting, the Chartered Financial Analyst (CFA) designation, Series 7 or Canadian Securities

Course. Internal training programmes are also resulting in institutional strengthening of the Commission.

Industry Engagement

The Commission believes that meaningful dialogue with industry participants is integral to striking the right balance between regulation and market development. This becomes imperative in the present environment where change is constant, in terms of new international regulations and financial innovation. With this in mind, frequent engagement with industry took place in 2013. In April, the Commission conducted a survey to gauge the potential impact of the Alternative Investment Fund Managers Directive (AIFMD) on the jurisdiction and the ability of Bahamian investment funds and investment fund managers to access markets in the European Union (EU). A similar survey was conducted to ascertain challenges in meeting the requirements of the United States' Foreign Account Tax Compliance Act (FATCA).

The Commission continued to break ground in its investor education programme, which was expanded to include initiatives targeting tertiary level students in its objective to reach a wider audience.

Other areas of engagement included industry briefings, courtesy calls, special addresses, presentations and meetings with stakeholders, including The Bahamas Association of Compliance Officers, The Bahamas Institute of Chartered Accountants (BICA) and the CFA Society of The Bahamas. Engagement with industry will remain a key focus of the Commission.

Change in surveillance of FCSPs

The Commission, as Inspector of Financial and Corporate Services, responded to the critical need to improve its oversight of financial and corporate service providers (FCSPs) by moving to a risk-based approach to supervision in 2013. Under this approach, the risk inherent in FCSP businesses is assessed to ensure that surveillance is appropriate and balanced to the risk in activities performed.

It is anticipated that this new approach will meet the needs of the industry as it will inform the frequency and depth of onsite examinations and guide the development of FCSP related Rules and Guidelines.

Conclusion

I would like to acknowledge the dedication of the Commission's team: my fellow Members, management and staff. It is through their collective efforts and achievements that the Commission is able to support The Bahamas maintaining its position as a top international financial centre. Finally, I would like to thank all those who contributed and supported the Commission's efforts over the past year.

The Management Team and Departments



Management Team at 31 December 2013. Back Row, L-R: Mr. Gawaine Ward (Manager, Enforcement), Mrs. Monique Sands (Financial Controller), Ms. Sandra Duncombe (Deputy Manager, Authorisations), Ms. Letitia Gibson (Assistant Manager, Office of the Executive Director), Mrs. Peggy Knowles (Deputy Manager, Human Resources), Ms. Tamara Bullard (Deputy Manager, Inspections), Mr. Charles McKenzie (Manager, Information Technology), Mrs. Alysia Archer-Colebrooke (Manager, Administration). Front Row, L-R: Ms. Mechelle Martinborough (Legal Counsel), Mr. Hillary Deveaux (Executive Director), Mrs. Velma Miller (Manager, Market Surveillance). Not Pictured: Mrs. Deborah Burrows (Manager, Human Resources) and Ms. Denise O'Brien (Manager, Inspections).

The Office of the Executive Director is responsible for the day-to-day management of the Commission's operational, technical and financial matters.

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

The Authorisations Department is responsible for the licensing and registration of market participants under the SIA and IFA and licensees under the Financial and Corporate Service Providers Act (FCSPA).

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

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

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

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

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

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

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

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

2013 Achievements

To successfully execute its supervisory and regulatory responsibilities, the Commission's 2013 work programme was guided by a set of goals and underlying projects, which included: increasing the technical capacity of its staff, advancing operational efficiency, enhancing the regulatory framework and modernising the legislative framework.

Efficiency of Operations

During 2013, the Commission continued with several projects aimed at improving its operational capacity. Initiatives included the advancement of the document imaging project that commenced in fourth quarter 2012.

The Docuware document management system, implemented in January 2013, was enhanced with the development of related processes and procedures, and the acquisition of additional software modules and hardware to better facilitate the digitising of the Commission's records.

This initiative has already brought about improved efficiency by enhancing business continuity efforts, centralising information, allowing better management of printer usage and related costs, and facilitating multiple users while restricting their access to sensitive information.

Other initiatives to improve operational efficiency included improving the ease of doing business with the Commission through a streamlined application process, development and implementation of customised database systems and information collection facilities to assist with the Commission's oversight functions. Identification and revision of departmental procedures was another initiative that continued in 2013.

Work Environment

Understanding that a highly skilled human resource pool is at the foundation of achieving its mandate and improving service delivery standards, the Commission continued with its efforts in building the technical and soft skills capacity of staff.

This was achieved through several mechanisms including the adoption of a Balanced Scorecard approach to performance management that allows for individual performance goals to be driven by and objectively measured against the Commission's priorities. The performance management system, introduced in 2012, has improved the appraisal process by tying staff performance more directly to the Commission's strategic goals, reinforcing staff accountability, and enlisting greater engagement from employees through a more transparent and objective assessment process. The system also integrates career development plans and one-on-one coaching and development sessions.

Special Focus: Enhanced Human Capital Capacity

The Commission continued to provide training through internal, local, national and international programmes, and supported staff on achieving professional qualifications and certifications during 2013. Training programmes were aimed at addressing identified skill-gaps on an ongoing basis.

For 2013, training focused on computer network infrastructure and security skills to improve business continuity efforts, enforcement training to improve oversight of registrants, and a series of in-house training sessions targeted at enhancing administrative staff's business applications software skills. These efforts were coupled with training on legislative and regulatory matters for managers and officers of the Commission. A bi-monthly Manager's Training Day was also implemented, aimed at enhancing both the soft and technical skills of managers.

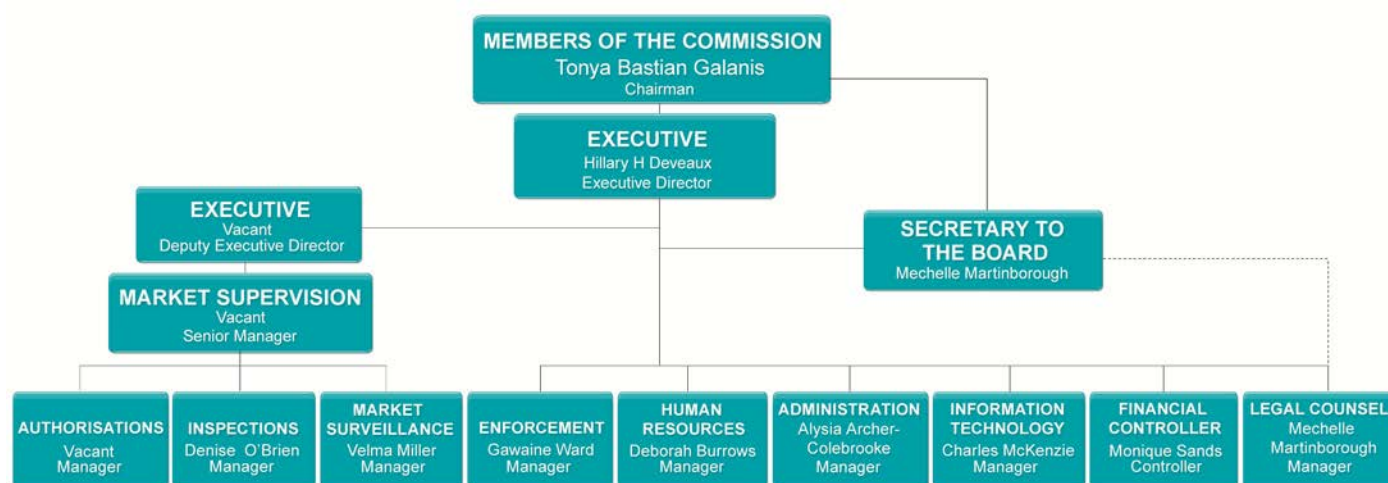
Other notable training activities included the conclusion of a staff member's one-year secondment to a leading local accounting firm to strengthen the audit competency of the Commission. During the year, another staff member concluded a six month Mandarin immersion programme in Nanjing, China. It is envisaged that this will help to position the Commission in the future by strengthening its multi-lingual capacity.

For the first time, an initiative to expand the use of flexible work hours during the summer was introduced. It was well received by staff. In an effort to improve physical and mental health in the workplace, Human Resources also collaborated with some of the Commission's various health care and insurance service providers to speak to staff on wellness and immunisation.

Organisational Structure

As at 31 December 2013, the Commission was comprised of 10 departments. These included 3 supervisory departments (Authorisations, Inspections and Market Surveillance), 2 non-supervisory departments (Enforcement and the Office of Legal Counsel) and 5 operational departments (Administration, Information Technology, Human Resources, the Office of the Executive Director and the Office of the Financial Controller).

Figure 1: Securities Commission of The Bahamas Organisational Chart as at 31 December 2013



Staff Complement

The staff complement began at 63 on 1 January 2013 and ended at 63 at 31 December 2013. Of the 63 staff members, 58 were full-time employees, 3 were on contract, and 2 were temporary. Staff qualifications included 24 Bachelor's degrees, 14 Master's degrees and 7 professional certifications at 31 December 2013. The staff count by department appears in Table 1.

Table 1: Staff Count by Department at 31 December 2013

Department	Number
Administration Department	11
Authorisations Department	5
Enforcement Department	3
Human Resources Department	3
Information Technology Department	4
Inspections Department	9
Office of the Executive Director	8
Office of the Financial Controller	6
Office of Legal Counsel	4
Market Surveillance Department	10
Total	63

The Securities Industry Act, 2011

Firms

2013 Licensing Activity

There was a marked increase in the number of approvals for firms under the Securities Industry Act, 2011 (SIA) in 2013, with 14 approved, representing an increase of 133% over 2012 when 6 firms were approved.

The growth in licensing activity can be attributed mainly to the increase in the number of new licences for firms that manage or manage-and-advise on securities.

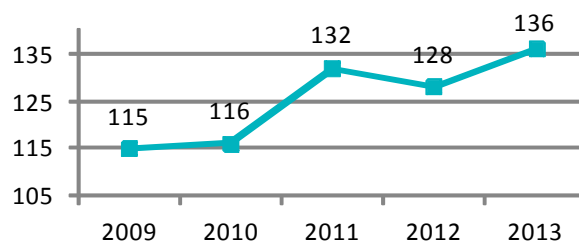
Licensees and Registrants

There was a net increase in the total number of active registered securities firms in the industry. The total number of firms increased by 6.3%, from 128 at 31 December 2012 to 136 at 31 December 2013. A comparison of total registered firms and their respective categories appear in Table 2 and Figure 2.

Table 2: Registered Firms by Category at 31 December 2013

Category	Bank & Trust	Non Bank & Trust	Total
Managing Securities only	0	14	14
Advising on Securities only	0	1	1
Dealing as Principal or Agent, and Arranging Deals in Securities	1	0	1
Dealing as Agent and Arranging Deals in Securities	0	1	1
Arranging Deals in Securities, and Managing in Securities	0	1	1
Managing and Advising on Securities	4	51	55
Dealing as Agent, Managing and Advising on Securities	1	0	1
Arranging Deals in Securities, Managing and Advising on Securities	0	1	1
Dealing as Agent, Arranging Deals in Securities, Managing and Advising on Securities	28	9	37
Dealing as Principal or Agent, Arranging Deals in Securities, Managing and Advising on Securities	11	11	22
Clearing Facilities	1	0	1
Market Places	0	1	1
Total	46	90	136

Figure 2: Total Registered Securities Firms under the SIA at 31 December



Individuals

2013 Licensing Activity

There were 182 individuals registered under the SIA during 2013, up from 48 individuals registered in the previous year. A portion of this increase is attributable to the registration of employees of the 14 firms registered under the SIA in 2013. These firms would have registered employees under the functional categories of the SIA and the Securities Industry Regulations, 2012 (SIR), which include: Chief Executive Officer, Compliance Officer, Trading Representative, Discretionary Management Representative and Advising Representative. Table 3 shows the approvals of individuals and the functions they were approved to perform.

The majority of the increase during 2013, however, was due to firms already on the register at 1 January moving to ensure that their employees were properly registered under the SIA and SIR for all the registrable functions they perform.

The SIA and SIR provided a 'map' to guide the recategorisation of firms and individuals from the title-based regime of the former, repealed legislation (the SIA, 1999 and SIR, 2000) to the function-based categories of the new legislation. The new legislation also provided for 2012 to be a transition period to the new registration categories.

Although the transition period officially concluded at 31 December 2012, applications for registration of employees of already registered firms increased significantly at the end of 2012 and the beginning of 2013. The surge followed a communication to firms near the end of the transition period confirming which employees were registered to perform certain activities, and identifying functions which the firm was approved to perform but for which it had no employees registered with the Commission.

Licensees and Registrants

Table 4 shows the number of registered individuals under the SIA at 31 December 2013.

The Securities Industry Act, 2011

Table 3: Approvals of Individuals by Category during 2013

Registration Category	No. of Approvals
Representative – Trading	12
Representative – Discretionary Management	10
Representative – Advising	49
CEO and Representative – Trading	2
CEO and Representative – Discretionary Management	8
CEO and Representative – Advising	1
Representative - Trading and Discretionary Management	5
Representative - Trading and Advising	3
Representative - Discretionary Management and Advising	26
CEO and Representative – Discretionary Management and Advising	3
Representative - Trading, Discretionary Management and Advising	5
CEO	11
Compliance Officer	47
Total	182

Table 4: Total Number of Individuals by Category at 31 December 2013

Registration Category	Number
Representative – Trading	153
Representative – Discretionary Management	92
Representative – Advising	115
CEO and Representative – Trading	1
CEO and Representative – Discretionary Management	32
CEO and Representative – Advising	4
Representative - Trading and Discretionary Management	5
Representative - Trading and Advising	4
Representative - Discretionary Management and Advising	25
CEO and Representative - Discretionary Management and Advising	5
Representative - Trading, Discretionary Management and Advising	5
CEO	91
Compliance Officer	81
Total	613

Inspections

The types of inspections conducted by the Commission are categorised as routine inspections, inspections ‘for-cause’ and joint inspections. Routine inspections are inspections performed on a three to five year rotational basis. Inspections ‘for-cause’ are based upon credible information coming to the Commission’s attention. Joint inspections are conducted with the Central Bank of The Bahamas, in cases where banks and trust companies fall under the regulation of both the Central Bank and the Commission.

A total of five inspections of SIA licensees were conducted during 2013, down from 20 inspections the previous year. The drop-off was due to the Commission’s efforts to conclude outstanding inspections reports.

Table 5: 2013 Inspections of SIA Firms by Category

Registration Category	Number of Firms Inspected
Dealing as Principal or Agent, Arranging Deals in Securities, Managing and Advising on Securities	1
Dealing as Agent, Arranging Deals in Securities, Managing and Advising on Securities	4
Total	5

The Investment Funds Act

Investment Fund Administrators

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

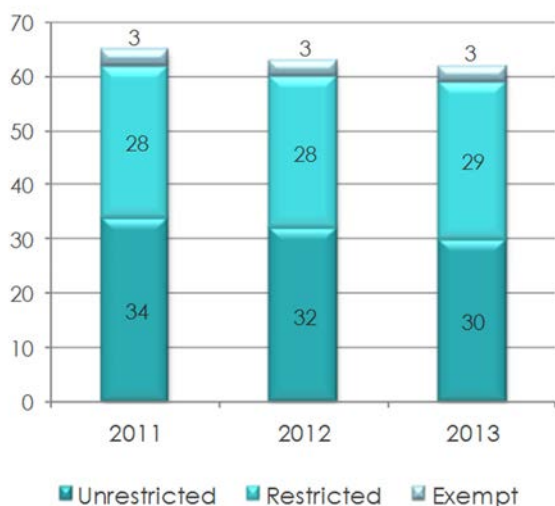
2013 Licensing Activity

During 2013, one UIFA was licensed by the Commission.

Licensees and Exempted Investment Fund Administrators

At 31 December 2013 there were 62 investment fund administrators, a net decrease of 1 year-on-year. Of the total, 30 were licensed as UIFAs, 29 were licensed as RIFAs and 3 were exempted from licensing (see Figure 3).

Figure 3: Investment Fund Administrators by Category at 31 December



Investment Funds

There are three licensing categories for investment funds operating in The Bahamas: the Professional Fund, the Standard Fund, and the Specific Mandate Alternative Regulatory Test (SMART) Fund. The Commission also registers Recognised Foreign Funds, which are investment funds listed on a prescribed securities exchange or licensed or registered in a prescribed jurisdiction.

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

2013 Licensing Activity

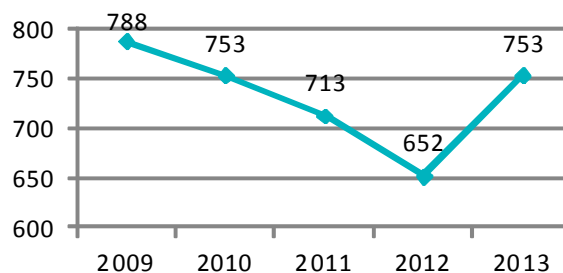
A total of 158 Bahamas-based investment funds were licensed or registered by the Commission, or licensed by UIFAs and filed with the Commission in 2013. UIFAs filed 123 of the total new licenses, while the Commission licensed or registered another 35 funds.

Of the investment funds licensed or registered in 2013, 120 were SMART Funds, 29 were Professional Funds, 6 were Standard Funds and 3 were Recognised Foreign Funds.

Licensees and Registrants

The total number of licensed or registered Bahamas-based investment funds at 31 December 2013 showed a year-on-year increase for the first time since 2008, growing 15.5% from 652 funds at 31 December 2012 to close the year at 753 investment funds (see Figure 4).

Figure 4: Licensed Bahamas-Based Investment Funds at 31 December



The Investment Funds Act

This is largely attributable to increases in the number of registered SMART Funds, with notable year-on-year increases in licensed Model 004 SMART Funds, up by 32.3% or 61 funds. Table 6 shows the total SMART Funds registered with the Commission by category at 31 December 2013. A description of the various SMART Fund models appears on the Commission's website (www.scb.gov.bs).

Table 6: Total Number of SMART Funds at 31 December 2013

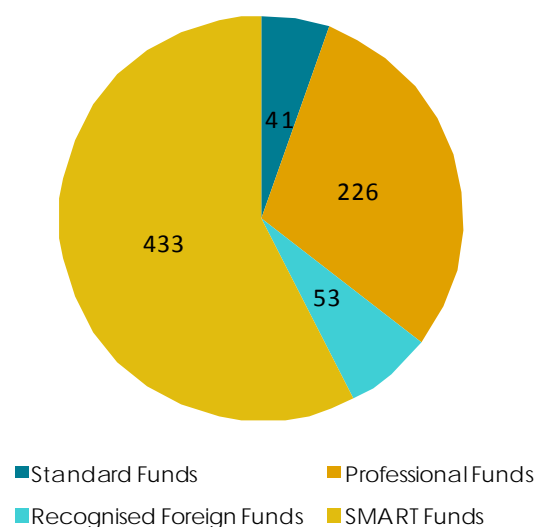
Fund Model	Number
SMART Fund 001	1
SMART Fund 002	132
SMART Fund 003	17
SMART Fund 004	250
SMART Fund 005	3
SMART Fund 006	1
SMART Fund 007	29
Total	433

At 31 December 2013, there were a total of 41 licensed Standard Funds, 226 licensed Professional Funds, and 53 registered Recognised Foreign Funds (see Figure 5). The total number of investment funds at the end of the period reflects changes due to liquidations and transfers to other jurisdictions.

Non-Bahamas-based investment funds have some form of nexus to The Bahamas, such as being sold in or from The

Bahamas or having appointed a custodian, investment manager or investment advisor who is incorporated, registered or operating in the jurisdiction. However, they do not meet the criteria to be categorised as Bahamas-based investment 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 representatives of non-Bahamas-based investment funds registered with the Commission at 31 December 2013, with no net change since 31 December 2012.

Figure 5: Licensed Bahamas-Based Investment Funds at 31 December 2013 by Licensing Category



Examinations

A total of 6 examinations of licensees under the IFA were conducted during 2013, down from 12 examinations the previous year. The drop-off was due to the Commission's efforts to conclude outstanding examinations reports.

Of the examinations, 5 were routine and were conducted jointly with the Central Bank of The Bahamas. The other was an examination 'for-cause' of an investment fund.

Table 7: 2013 Inspections of Licensees under the IFA

Licensing Category	Number of Registrants Examined
Unrestricted Investment Fund Administrator	5
SMART Fund	1
Total	6

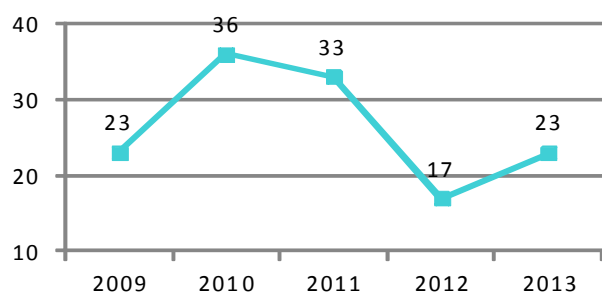
The Financial and Corporate Service Providers Act

Licensing and Registration

2013 Licensing Activity

An applicant under the Financial and Corporate Service Providers Act (FCSPA) may be registered as an individual, unincorporated body, partnership, or company. During 2013, there were 23 applicants approved under the FCSPA, representing an increase of 35.3% from 2012 when there were 17 approvals. A five-year comparison of licensing activity appears in Figure 6.

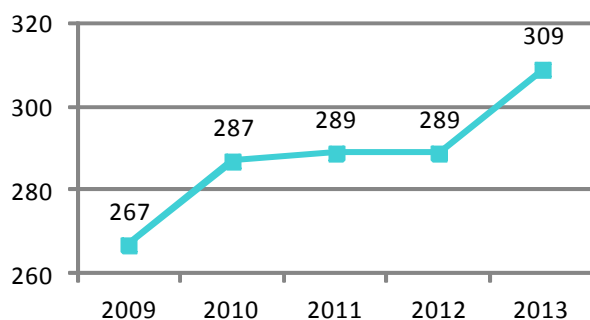
Figure 6: Licensing Activity for FCSPs at 31 December



Active Licensees

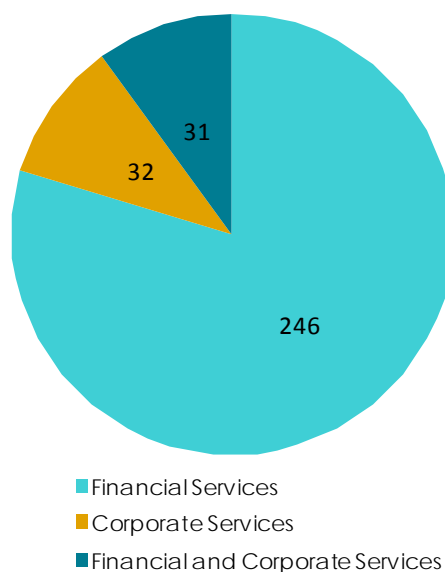
The number of active licensees at 31 December 2013 increased to 309, a net increase of 20 registrants, or 6.9% from 31 December 2012. A comparison of active licensees at 31 December 2009 through 2013 appears in Figure 7. Year end totals reflect new licensees, closures and any revocations during the year. Figure 8 shows which services active Financial and Corporate Service Providers (FCSPs) were licensed to perform at 31 December 2013.

Figure 7: Licensees under the FCSPA at 31 December



At 31 December 2013, 246 of licensees were performing financial and corporate services, 32 financial services only and 31 corporate services only (see Figure 8).

Figure 8: Comparison of Services Provided at 31 December 2013



Examinations

For FCSPs, routine annual examinations are conducted by the 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 in good standing who are appointed by the Inspector to act in that capacity.

During 2013, there were 49 examinations of FCSPs conducted by Agents, compared to 125 conducted in 2012 when there were 125 conducted. The drop off was primarily due to the Commission's efforts to conclude outstanding examinations reports. Of the 49 examinations conducted in 2013, 37 were of companies, 9 of individuals and 3 of partnerships. One follow-up examination of an FCSP licensee categorised as a company was conducted by the Inspector itself.

Legislative and Regulatory Updates

AIFMD

(Impacts registrants under the IFA)

The European Parliament and Council adopted the Alternative Investment Fund Managers Directive (AIFMD) in June 2011. The objective of the Directive is to create a comprehensive regulatory framework for alternative investment fund managers (AIFMs) either operating from the European Union (EU) or marketing alternative investment funds there. Alternative investment funds (AIFs) include hedge funds, private equity funds, real estate funds, and other types of institutional funds. The Directive came into force on 21 July 2011, and is being implemented in a series of phases.

The first phase of the AIFMD required non-EU securities supervisors to have cooperation arrangements with European Economic Area (EEA) securities supervisors in place by 22 July 2013 for AIFMs under their supervision to continue to offer or manage Alternative Investment Funds (AIFs) in the EEA jurisdictions. These Memoranda of Understanding (MoUs) set standards for co-operation and cross-border supervision, strengthening investor protection and making the supervision of alternative funds more consistent across the EEA.

As at 31 December 2013, the Commission signed 23 MOUs with securities supervisors in EEA jurisdictions. The Commission envisages that it will sign MOUs with securities supervisors in the remaining seven jurisdictions in 2014. Copies of the MOUs may be found on the Commission's website (www.scb.gov.bs).

Entities in The Bahamas that would be captured by the AIFMD fall into two main categories:

- (1) Bahamas-based investment funds (i.e. Professional Funds/SMART Funds/Recognised Foreign Funds) which are managed, marketed or licensed in the EEA, and
- (2) Non-Bahamas-based investment funds which are managed, marketed or licensed in the EEA but have an AIFM established in The Bahamas, an AIFM delegate established in The Bahamas; or a depository in The Bahamas.

The second phase of the implementation of the Directive commenced 22 July 2013 and runs through July 2015. For Non-EU AIFMs or Non-EU AIFs, access to EEA markets during this phase would be through private placements regime as long as cooperation agreements with the relevant EU authority are in place, the country is not blacklisted by the Financial Action Task Force, and the AIF complies with regulatory requirements. The third phase, to commence July 2015, may extend a 'passport' regime to non-EU jurisdictions, which if extended would likely be required for the marketing of non-EU AIFs.

FATCA

(Impacts registrants under the SIA, IFA, FCSPA)

The Bahamas Government has determined that The Bahamas would meet the requirements of the United States' Foreign Accounts Tax Compliance Act (FATCA) by negotiating and entering into a Model 1 Intergovernmental Agreement (IGA) without reciprocity with the United States Department of the Treasury.

The Model requires that a reporting infrastructure be developed within the competent authority (in the case of The Bahamas, the Ministry of Finance). Under the proposed IGA and enabling legislation, financial institutions in The Bahamas will be directed to compile specified information with respect to persons deemed to be United States persons according to the US' Internal Revenue Code, and to submit that information to the competent authority in a standardised electronic format on an annual basis. The Government of The Bahamas would then be responsible for securely reporting that data to the United States' Internal Revenue Service.

The Ministry of Financial Services designed a survey to gauge FATCA readiness among the affected Bahamian financial institutions. The Commission distributed this survey to its registrants under the Securities Industry Act, 2011, Investment Funds Act and Financial and Corporate Service Providers Act in February 2013.

Based on the responses to the survey, the Commission has begun to assess and determine the potential impact on the human resources, information technology infrastructure and other systems of the Commission in order to facilitate FATCA readiness.

Legislative and Regulatory Updates

IMPLEMENTATION OF THE SIA

(Impacts registrants under the SIA)

A number of Rules and Guidelines are required to enable the proper application of the Securities Industry Act, 2011. In December 2012, Management concluded White Papers in relation to the various Rules and Guidelines required to be completed and the same were submitted to the public for consultation and comment. Resource constraints did not allow completion of the drafting of the final version of these Papers in 2013. The full implementation of the SIA remains a priority and the Commission is working to have key Papers finalised in 2014.

MANAGEMENT OF ACCOUNTING RECORDS

(Impacts registrants under the FCSPA)

The International Business Companies (Accounting Records) Order, 2013, came into effect on 28 January 2013. It requires that each IBC maintains a Declaration at its registered office stating the reliable accounting records of the company are available through its registered agent, and that the registered agent submit such declaration to the Registrar by 1 January of every year.

The Order followed amendments to various pieces of financial legislation, including the International Business Companies Act, the Exempted Limited Partnership Act, the Partnership (Limited Liability) Act, the Segregated Account Companies Act and the Foundations Act. These amendments require the various entities they relate to to cause reliable accounting records to be kept in relation to the entity's assets and liabilities, all sums of money received and expended and the matter in respect of which such receipt and expenditure takes place, inclusive of all sales, purchases and other transactions.

Under the amendments, accounting records must correctly explain all transactions, enable the entity's financial position to be determined with reasonable accuracy at any time, allow financial statements to be prepared, and include the underlying documentation, such as contracts, receipts and invoices. The amendments require these records to be maintained for a period of five years from the date of the transaction.

In the first half of 2013, the Commission had issued draft Guidelines on the Management of Accounting Records to assist financial and corporate service providers with complying with the amended Acts and the Order. Based on feedback from consultation with other Regulators, the draft Guidelines are being revised with a view of releasing the new draft Guidelines for consultation in the first half of 2014.

PROPOSED AMENDING OF THE IFA

(Impacts registrants under the IFA)

The Commission continued the work of overhauling the Investment Funds Act following an assessment under the International Monetary Fund's (IMF's) Financial Sector Assessment Program (FSAP) in 2012 recommending moving regulation from the existing disclosure based regime to one that is more prudential in nature. The Commission assembled the IFA Technical Team (IFATT) in 2012 to make recommendations for new legislation. The joint team of industry and regulatory experts worked through 2013 and anticipates making recommendations for the new legislation early in 2014.

REVISED IFA FEE REGIME

(Impacts registrants under the IFA)

In December 2013, the revised fee regime for registrants under the IFA was promulgated and becomes effective on 1 January 2014.

International Requests Overview

The SIA allows the Commission to provide assistance to international regulators. Providing assistance for requests for information is done under the authority of the Securities Industry Act, 2011 (SIA). Pursuant to sections 34 and 36 of the SIA, the Commission has authority to not only exchange information for supervision and investigative purposes, but may also exchange information for enforcement purposes, including criminal proceedings. The Commission evaluates every request received to ensure that it meets minimum information sharing requirements, as set out in legislation.

Requests are generally related to the investigation and prosecution of securities offences by an overseas regulatory authority. In 2013, 21 requests were received and 7 requests were brought forward from previous periods. Of the 21 requests received, 9 originated in the United States, 1 from the United Kingdom, 2 from Canada and 9 from other jurisdictions.

During 2013, 11 requests were closed. Four requests were "stayed" during the year because appeals were filed in the Supreme Court against the Commission's directives to provide requested information. Stayed requests are not considered open requests, although the Commission continues to monitor the progress of such requests through to their final disposition.

At the end of 2013, 13 matters remained open.

Enforcement

The disciplinary process under the SIA will be exercised through the Securities Industry Disciplinary Proceedings (Hearings and Settlement) Rules (the Disciplinary Rules) which establishes a Hearing Panel pursuant to Section 33 of the Act.

The Hearing Panel, a body comprising individuals appointed by, but independent of the Commission, will be charged with hearing all administrative disciplinary matters through an envisaged single-stage process, issuing sanctions where appropriate. This approach will facilitate efficient execution of matters.

The sanctioning provisions in the SIA 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; and
- v. appointing a person to assume control of a registrant or advise a market participant on the proper conduct of its business.

During 2013, the draft Disciplinary Rules underwent further changes, including amendments to ensure that the process indeed reflects all principles of natural justice. As a result, no administrative matters were addressed, pending the implementation of the Hearing Panel.

During the year, a total of 7 new matters were opened, of which 6 were litigation matters and 1 was administrative. Also during the year, 1 administrative matter was closed. At 31 December 2013, there were 16 matters remaining open, of which 8 were administrative and 8 were litigation matters.

Affiliations and Memberships

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

International Organization of Securities Commissions (IOSCO)

The Commission attended IOSCO's 38th Annual Conference held from 15 to 19 September in Luxembourg, during which a number of resolutions and measures were adopted. Specifically they included streamlining IOSCO's governance structure and decision-making process, approval of a Committee to further support the needs of jurisdictions identified as emerging markets and reinforcing IOSCO's standards on cross-border cooperation.

The Commission's Chairman, Mrs. Tonya Bastian Galanis, officially signed Appendix A of IOSCO's Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMoU) at the Conference. The Commission became signatory to the MMoU effective 27 December 2012. The MMoU is the global benchmark document on cooperation and information exchange to fight cross-border fraud and securities violations.



Chairman Tonya Bastian Galanis with IOSCO Chairman Greg Medcraft at 38th Annual IOSCO Conference held 15 to 19 September 2013 in Luxembourg.

Council of Securities Regulators of the Americas (COSRA)

The Commission attended both meetings held by COSRA in 2013. The first was held in Lima, Peru from 6 to 8 May and the second was held in Quebec, Canada from 24 to 25 October. The first addressed a number of topics including trends and challenges in supervising securities markets, non-corporate issuers' access to securities markets and the impact of a number of regional developments. The second addressed further topics including issues regarding related party transactions and risk-based supervision.

Caribbean Group of Securities Regulators (CGSR)

The Commission attended the 10th Annual Conference and Workshop of CGSR, held from 6 to 8 November in Jamaica. The theme was "Fostering Innovation, Growth & Financial Stability in the Caribbean Securities Market – A Path to Recovery". Regulators discussed topics including, corporate governance, derivatives trends and regulations, web-based securities trading and capital market developments.

Group of Financial Services Regulators (GFSR)

During 2013, The Bahamas hosted the Caribbean Financial Action Task Force (CFATF), and meetings of GFSR and CFATF were merged and held under the umbrella of CFATF. Activities focused mainly on addressing The Bahamas' sixth Follow-Up CFATF report and the outstanding deficiencies of The Bahamas. The Commission had no outstanding issues to report.

International Capital Markets Review

The year 2012 saw the continuing effects of volatility and fragility, both hallmarks of the past 5 years, due to the global financial crisis which started in 2008. The World Economic Outlook projected a decline in global growth to 3.5%; in reality, 2013 global growth was less than 3% (2.8%), intimating that market volatility remained a problem. There were signs, however, that the acute phase of difficulty may be in the past.

In 2013, after an 18 month long recession, the European Central Bank's (ECB) decision to cut interest rates aided the Euro Zone in recording incremental growth of 0.1%. The prolonged economic crisis affecting some of the Euro Zone countries, most notably Cyprus, continues to raise doubts over the Euro's future and remains a major obstacle to growth. There seems to be optimism in the Zone, however, as the ECB predicted growth of 1.1% in 2014, while cautioning that it remained too early to declare an end to the region's crisis.

Congress' delay in agreeing to a budget resulted in the United States Federal Government shutting down for 16 days, thus momentarily heightening trepidation and increasing volatility in the markets. The Dow, S&P 500 and NASDAQ all responded, however, each posting its highest gains in almost 20 years. Unlike last year, however, where both Fitch and Moody credit rating agencies suggested that the country's credit rating could be reduced in 2013, the US economy is forecasted to grow by 3.1% in 2014, slightly beyond its 2013 levels.

China also experienced its own mini-economic crisis in 2013. Due to a decline in factory output and the Government's measures to regulate the housing and property market, China's 7.7% GDP growth was, almost, the country's lowest in 23 years (7.6%). Analysts, however, forecast growth of 8.6% in 2014.

Domestic Capital Markets Review

Despite constant challenges of an illiquid Bahamian market and the apparent apprehension of certain major companies to list on the Exchange, overall, The Bahamas International Securities Exchange (BISX) had a commendable year.

In September, the first SMART Fund was listed on the Exchange. SMF 007 requires a minimum initial investment of \$500,000 and invests in a diverse portfolio of commercial and residential real estate properties in The Bahamas.

At the end of 2013, there were 20 listed public companies on BISX. There were also 25 mutual funds listed on the exchange.

Overall, market activities increased slightly in comparison to 2012. Though the volume of shares traded on BISX in 2013 remained virtually the same as 2012 (4.1 million); as at December 2013, BISX's All Share Index closed at 1,468.22 (2012: 1,346.26), its highest position since 2010. Additionally, market capitalisation, which had been stagnant for the past 3 years, increased to \$2.998 billion (see Figures 9 and 10).

BISX continued its efforts to solidify its viability as an Exchange. To this end, 2014 could be a breakthrough year for BISX, as it anticipates the possibility of the listing of Government securities, which include registered stock and treasury bills, and the introduction of a market for commercial paper.

Capital Raising

After a 2012 that experienced minimal capital raising, capital initiatives were a highlight of 2013. Sparked by the Grand Bahama Power Company and the Arawak Port Development Company among others, in total, some \$130 million was raised via private placements. Even greater activity is anticipated in 2014, as various companies have indicated their intent to raise capital via private offerings.

Figure 9: BISX Market Capitalisation Trend at 31 December

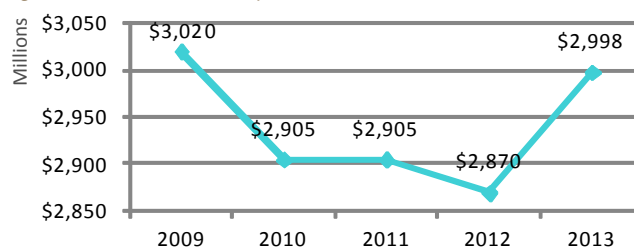
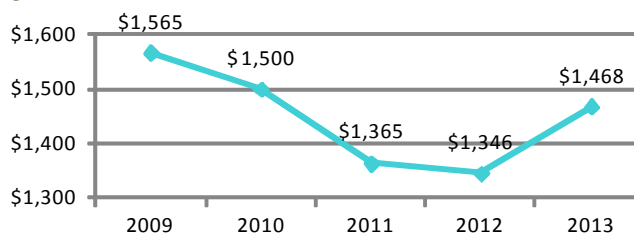


Figure 10: BISX All Share Index at 31 December



Investor Education

Investor Education of the capital markets is recognised by the International Organization of Securities Commissions (IOSCO), the international standard setter for securities regulators, as a core element to maintaining a viable and flourishing capital market. This standard is incorporated into the Commission's mandate. Section 12 (e) of the SIA states that a function of the Commission is to:

"promote an understanding by the public of the capital markets and its participants and the benefits, risks and liabilities associated with investing."

As a result, the Commission remained diligent in its Investor Education efforts during 2013. During the year, the Commission expanded its reach beyond high school students, which in the past has been its primary investor education audience. Focusing on students at the tertiary level, and engaging registrants and industry stakeholders were additional target audiences for the Commission's 2013 Investor Education endeavours.

Investor Education Initiatives for 2013 included:

Colina Financial Advisors Limited's (CFAL) Junior Investor Education Programme: The Commission was pleased to accept the invitation to collaborate once again with CFAL, a registered investment firm, on its Junior Investor Programme. The programme uses a virtual portfolio of securities available in the Bahamian capital markets to teach important investment concepts.

Industry and Stakeholder Initiatives: The Commission participated in many seminars and other speaking opportunities throughout 2013. The goals of these presentations were to increase the level of awareness of industry stakeholders on the impact that various legislative, regulatory and supervisory initiatives have on industry. Moreover, these opportunities were used to remind industry professionals of their obligations to the Commission, which is an additional measure to protect investors. Industry and Stakeholder Engagements in 2013 included speeches, presentations and participation in panel discussions at:

- The Bahamas Bar Association (Information Session with the Commission);
- The Bahamas Institute of Chartered Accountants' Auditing the Auditor Workshop;
- CFA Society of The Bahamas' February 2013 Luncheon;
- The Bahamas Association of Compliance Officers' Northern Conference and MLRO Day;
- The Bahamas Institute of Financial Services' Bankers Week; and
- Association of International Banks & Trust Companies' Nassau Conference.

Other Initiatives: The Commission also filmed a five minute video interview on the regulatory framework of the securities and investment funds industry, with the intention of sensitising international investors of the benefits of the regulatory framework applicable to conducting business in The Bahamas. This video provided international exposure via its hosts The Prospect Group, Reuters and Bloomberg websites.

Additional activities included an appearance on Bahamas at Sunrise, a presentation to second year law students at the Eugene Dupuch Law School and participation in several career fairs, along with the release of the SCB Review (a publication providing legislative, regulatory and administrative updates).



Senior Legal Officer, Omara Bingham speaks at the Bahamas Association of Compliance Officers (BACO) Annual Money Laundering Reporting Officer (MLRO) Day held on 18 September 2013 at the British Colonial Hilton (Photo provided courtesy of Bahamas Information Services).

Financials



Financial Summary (2013)

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 2013, 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 2012.

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

The 2013 fiscal year saw an improvement in the Commission's financial performance. As expected, the increase in fee income resulting from promulgation of the Securities Industry (Fee) Rules, 2012 along with continued funding from the Government enabled the Commission to fully fund its opening deficit and end the year with a surplus. Fees from licencees and registrants under the SIA increased from \$0.6 million to \$1.8 million. Total income for the year increased by \$1.1 million to \$5.4 million from \$4.3 million in 2012, while operating expenses only increased by \$0.1 million to \$4.8 million (2012 - \$4.7 million). This resulted in net income of \$0.5 million (2012 - \$0.4 million net loss) and a net surplus of \$0.1 million (2012 - \$0.5 million net deficit).

IOSCO's third principle of securities regulation states that a regulator should have "proper resources and the capacity to perform its functions". Historically, the expenses were contained by deferring critical expenditure. In the short to medium term, the Commission will incur additional expenditure essential to ensure that it effectively executes its mandate and meets international standards. Future increases in expenditure will be balanced by expanding revenue streams. Fees charged to regulated entities under the IFA have been rationalised in the Investment Fund (Amendment) Regulations, 2013 which takes effect on 1 January 2014. Fees charged to other licencees will also be reviewed.

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 2013, and the statements of comprehensive income, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

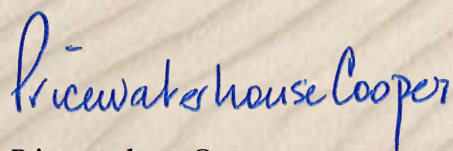
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Securities Commission of The Bahamas as of 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



PricewaterhouseCoopers
Chartered Accountants
Nassau, Bahamas

2 May 2014

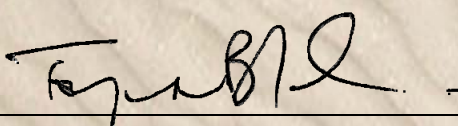
The Securities Commission of The Bahamas

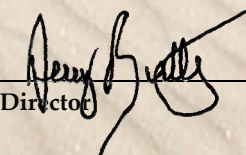
(Established under the laws of the Commonwealth of The Bahamas)

Statement of Financial Position
As of 31 December 2013
(Expressed in Bahamian dollars)

	2013 \$	2012 \$ [Restated Note 14]
ASSETS		
Cash on hand and at banks	580,999	134,950
Accounts receivable (Note 4)	64,447	98,363
Prepaid expenses and other assets	19,760	11,049
Plant and equipment (Note 5)	321,982	295,734
Total assets	987,188	540,096
LIABILITIES		
Accounts payable and accrued expenses	347,373	412,473
Deferred income (Note 6)	429,468	454,763
Advance from the Consolidated Fund	150,000	150,000
Total liabilities	926,841	1,017,236
NET ASSETS/(LIABILITIES)	60,347	(477,140)
REPRESENTED BY:		
Surplus/(Deficit)	60,347	(477,140)
Special purpose reserve (Note 7)	-	-
	60,347	(477,140)

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


Chairman


Director

28 April 2014
Date

The Securities Commission of The Bahamas

Statement of Comprehensive Income For the Year Ended 31 December 2013 (Expressed in Bahamian dollars)

	2013 \$	2012 \$ [Restated Note 14]
INCOME		
Fee income		
Securities industry licensees and registrants	1,760,783	597,539
Investment funds	1,126,270	1,057,982
Financial and corporate service providers	500,179	521,729
Investment fund administrators	473,167	499,083
Penalties	39,209	64,800
Securities exchange	10,000	10,000
Examinations	2,400	1,898
Public offerings	2,000	1,000
Administrative fines (Note 7)	-	55,000
Other	12,500	13,000
Total fee income	3,926,508	2,822,031
Government subvention (Note 6)	1,259,045	1,356,998
Interest income	30,930	17,246
Other income	156,465	112,858
Total income	5,372,948	4,309,133
EXPENSES		
Salaries, wages and employee benefits (Note 8)	3,421,081	3,320,882
Rent	413,286	408,301
Utilities and property charges	170,626	186,089
Training and conferences	166,990	121,109
Depreciation (Note 5)	152,816	136,814
Office	124,033	92,569
Professional fees	109,099	145,341
Legislative initiatives	102,598	56,618
Repairs and maintenance	63,875	55,006
Provision for doubtful accounts (Note 4)	30,915	88,016
Membership fees	27,125	30,317
Advertising	20,308	24,426
Bank charges	11,104	7,205
Interest expense	9,092	2,544
Printing and publications	5,940	12,850
Investor education	1,940	754
Disciplinary committee fees and related costs	-	9,750
Miscellaneous	4,633	10,509
Total expenses	4,835,461	4,709,100
Net income/(loss) and total comprehensive income/(loss)	537,487	(399,967)

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

The Securities Commission of The Bahamas

Statement of Changes in Net Assets For the Year Ended 31 December 2013 (Expressed in Bahamian dollars)

	Surplus/ (Deficit) \$ [Restated Note 14]	Special Purpose Reserve \$	Total \$ [Restated Note 14]
Balance as of 1 January 2012	<u>(77,173)</u>	<u>-</u>	<u>(77,173)</u>
Total comprehensive loss	<u>(399,967)</u>	<u>-</u>	<u>(399,967)</u>
Balance as of 31 December 2012	<u>(477,140)</u>	<u>-</u>	<u>(477,140)</u>
Balance as of 1 January 2013	<u>(477,140)</u>	<u>-</u>	<u>(477,140)</u>
Total comprehensive income	<u>537,487</u>	<u>-</u>	<u>537,487</u>
Balance as of 31 December 2013	<u>60,347</u>	<u>-</u>	<u>60,347</u>

The Securities Commission of The Bahamas

Statement of Cash Flows For the Year Ended 31 December 2013 (Expressed in Bahamian dollars)

	2013 \$	2012 \$ [Restated Note 14]
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income/(loss)	537,487	(399,967)
Adjustments for:		
Interest income	(30,930)	(17,246)
Gain on disposals of plant and equipment	(7,943)	-
Depreciation	152,816	136,814
Provision for doubtful accounts	30,915	88,016
Interest expense	9,092	2,544
Interest received	30,930	17,246
(Increase)/Decrease in operating assets		
Accounts receivable	3,001	(128,749)
Prepaid expenses and other assets	(8,711)	20,634
Increase/(Decrease) in operating liabilities		
Accounts payable and accrued expenses	(65,100)	142,537
Deferred income	(25,295)	224,202
Net cash from operating activities	626,262	86,031
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(174,064)	(231,454)
Proceeds on disposals of plant and equipment	2,943	-
Net cash used in investing activities	(171,121)	(231,454)
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	(9,092)	(2,544)
Net used in financing activities	(9,092)	(2,544)
Net increase/(decrease) in cash and cash equivalents	446,049	(147,967)
Cash and cash equivalents as of beginning of year	134,950	282,917
Cash and cash equivalents as of end of year	580,999	134,950
CASH AND CASH EQUIVALENTS		
Cash on hand and at banks	580,999	134,950

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

The Securities Commission of The Bahamas

Notes to the Financial Statements 31 December 2013

1. General Information

The Securities Commission of The Bahamas (the Commission) is established, as a body corporate, under the Securities Industry Act, 2011 (the Act), of the Commonwealth of The Bahamas (The Bahamas). The Act establishes the structure, governance and funding of the Commission; accordingly, the Commission is not deemed to have a parent. The offices of the Commission are located at Charlotte House, Shirley and Charlotte Streets, Nassau, Bahamas.

The functions of the Commission are to monitor and regulate the securities industry in The Bahamas, the participants of which include: entities and individuals dealing in securities, arranging deals in securities, managing securities and advising on securities; investment funds; and investment fund administrators. The Commission regulates the industry in accordance with the Act; the Investments Funds Act, 2003; and the related rules and regulations.

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

2. 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 and has revised its fee structure, certain of which were effective January 1, 2013, 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 2013

(Continued)

3. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards and amendments and interpretations to published standards that became effective for the Commission's financial year beginning on 1 January 2013 were not relevant to the Commission's operations and accordingly did not impact the Commission's accounting policies or financial statements.

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

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2013

(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 carried at historical cost, less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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.

The Securities Commission of The Bahamas

Notes to the Financial Statements 31 December 2013 (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 financial periods being deferred in the statement of financial position. Licence application fees are recognised upon completion of the application evaluation process. All licence fees are for fixed amounts.

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

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

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2013

(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 2013

(Continued)

4. Accounts Receivable

	2013 \$	2012 \$
Investment funds and investment fund administrators	54,241	55,522
Securities industry licensees and registrants	27,907	31,796
Financial and corporate service providers	14,215	27,532
Other	90,976	105,841
	187,339	220,691
Provision for doubtful accounts	(122,892)	(122,328)
Total	64,447	98,363

Movements in the provision for doubtful accounts comprise:

	2013 \$	2012 \$
Opening balance	122,328	48,311
Provision for doubtful accounts	30,915	88,016
Bad debts written off	(30,351)	(13,999)
Closing balance	122,892	122,328

The Securities Commission of The Bahamas

Notes to the Financial Statements 31 December 2013 (Continued)

5. Plant and Equipment

	Computer Equipment \$	Furniture and Fittings \$	Vehicles \$	Leasehold Improvements \$	Total \$
For the year ended 31 December 2013					
Cost					
1 January 2013	632,877	538,872	65,940	53,830	1,291,519
Additions	137,644	6,711	34,709	-	179,064
Disposals	(90,913)		(20,946)	-	(111,859)
31 December 2013	679,608	545,583	79,703	53,830	1,358,724
Accumulated depreciation					
1 January 2013	443,982	480,450	47,943	23,410	995,785
Depreciation expense	88,522	30,397	15,941	17,956	152,816
Disposals	(90,913)		(20,946)		(111,859)
31 December 2013	441,591	510,847	42,938	41,366	1,036,742
Net book value as of 31 December 2013	238,017	34,736	36,765	12,464	321,982
For the year ended 31 December 2012					
Cost					
1 January 2012	458,603	519,370	65,940	16,441	1,060,354
Additions	174,563	19,502	-	37,389	231,454
Disposals	(289)	-	-	-	(289)
31 December 2012	632,877	538,872	65,940	53,830	1,291,519
Accumulated depreciation					
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	(289)	-	-	-	(289)
31 December 2012	443,982	480,450	47,943	23,410	995,785
Net book value as of 31 December 2012	188,895	58,422	17,997	30,420	295,734

The Securities Commission of The Bahamas

Notes to the Financial Statements 31 December 2013 (Continued)

6. Deferred Income

	2013 \$	2012 \$ [Restated Note 14]
Securities industry licensee and registrant fees	183,500	148,250
Government subvention	89,368	223,413
Investment fund and investment fund administrator fees	88,600	38,350
Financial and corporate service provider fees	68,000	44,750
Total	429,468	454,763

All deferred income is to be recognised in the following year in the statement of comprehensive income, with the exception of \$46,794 (2012: \$70,191) in Government subvention.

Movements in Government subvention comprise:

	2013 \$	2012 \$ [Restated Note 14]
Opening balance	223,413	73,411
Government subvention received	1,125,000	1,507,000
Government subvention utilised – operating expenses	(1,125,000)	(1,280,000)
Government subvention utilised – capital acquisitions	(11,696)	(11,696)
Government subvention utilised – specific projects	(122,349)	(65,302)
Closing balance	89,368	223,413

7. Special Purpose Reserve

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

In the prior 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 2013

(Continued)

8. Employee Benefits

Pension costs recognised in the statement of comprehensive income in the current year total \$224,889 (2012: \$238,268). 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 \$93,441 (2012: \$51,219) 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 2013, the Commission employed 63 (2012: 63) persons.

9. Related Party Balances and Transactions

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

	2013	2012
	\$	\$
<i>Assets</i>		
Cash at banks	580,188	133,766
Accounts receivable	7,876	7,917
Prepaid expenses and other assets	1,770	1,770
<i>Liabilities</i>		
Accounts payable and accrued expenses	15,515	22,648
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	123,327	132,396

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2013

(Continued)

9. Related Party Balances and Transactions (Continued)

Key management personnel comprise 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 2013 comprised \$417,502 (2012: \$418,801) for salaries and other short-term benefits, \$21,864 (2012: \$21,840) for pension benefits and \$44,119 (2012: \$Nil) for termination benefits.

As of 31 December 2013, accounts receivable from key management personnel totalled \$161 (2012: nil).

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	\$27,098

Contingencies

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

11. Financial Risk Management

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

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2013

(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 2013 is set out below:

	2013	2012
	\$	\$
<i>Days outstanding</i>		
0 – 90 days	63,213	74,287
90 – 180 days	100	29,167
> 180 days	124,026	117,237
Total	187,339	220,691

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 2013, 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 2013

(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 assets/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. Prior Period Adjustment

In the prior year, the Commission received Government subvention of \$1,280,000 to subsidise operating expenses of which \$155,000 was recognised as deferred income. The financial statements for the year ended 31 December 2012 have been restated to recognise this amount as income, as conditions attached had been satisfied and the related costs that the Government subvention was intended to compensate had been incurred as of 31 December 2012. The prior period adjustment resulted in a decrease in deferred income and accumulated deficit of \$155,000 as of 31 December 2012, and an increase in Government subvention and a decrease in net loss and total comprehensive loss of an equal amount for the year then ended. The adjustment did not impact the balance sheet as of 31 December 2011, and accordingly, presentation of an opening balance sheet is not applicable.

15. Subsequent Events

Subsequent to 31 December 2013, the Commission has received \$625,000 in Government subvention.



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