



# ANNUAL REPORT

SECURITIES COMMISSION OF THE BAHAMAS

# 2001

## **MISSION STATEMENT**

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



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# CHAIRMAN'S LETTER OF TRANSMITTAL

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

December 19, 2003

Dear Prime Minister:

Pursuant to Section 14(1) of the Securities Industry Act, 1999 I have the honour of submitting to you, on behalf of the Members of the Board of the Securities Commission, the Annual Report of the Securities Commission of the Bahamas for the year 2001. Included with this report is the Annual Statement of Accounts of the Securities Commission for the year.

Yours Sincerely,

Calvin B. Knowles  
Chairman





# MEMBERS OF THE COMMISSION

**T. Baswell Donaldson**  
Chairman

**Julian W. Francis**  
Deputy Chairman

**Sandra J. Knowles**  
Executive Director

**Roger G. Brown**  
Member

**Sharon E. Brown**  
Member

**Ruth Bowe-Darville**  
Member

**Trevor D. A. Sunderland**  
Member

**Raymond L. Winder**  
Member

**E. M. Burrows-Poitier**  
Member



# CHAIRMAN'S MESSAGE

During the year under review, the Commission was faced with a number of challenges arising from global events inclusive of the assault on the United States of America.

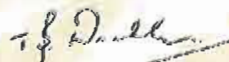
The financial sector of The Bahamas, as a whole, continued to be faced with challenges of the international initiatives, which had resulted in a compendium of financial legislation being promulgated at the end of 2000. Our immediate concern for 2001 was to ensure that the necessary systems were in place to enable the effective implementation of the new legislation. To compound an already burdensome state of affairs, the Commission was keenly aware that the international initiatives would require continued focus on the industry and the Bahamian financial system as a whole throughout the year. Moreover, it was clear that the Commission would be required to contribute heavily to the processes that would result from these actions. During the year the Commission was able to increase its human resource base, however the needs of the Commission continue to exceed the resources available to it. In spite of its limited resources, the Commission was nonetheless able to meet the challenges presented to it admirably.

As the world is aware, the critical event of the year was the assault on the World Trade Centre and the Pentagon in the United States of America. The shockwaves reverberated across all economic and geograph-

ic borders with potentially catastrophic impact. All of this at a time when regulators were already challenged to respond in a nationally appropriate manner to the major changes taking place in the industry resulting from technological innovation and liberalization.

In The Bahamas, these developments served only to heighten the challenges for continued growth and development facing the capital markets as a result of fears of negative fallout from the sweeping changes effected to the domestic legislative financial landscape at the end of 2000.

Being aware that confidence in the capital markets stem in large measure from confidence in the securities regulatory system, the Commission has taken steps to adapt to the needs of the new business environment where the traditional frontiers between banking, securities and insurance are becoming increasingly blurred. This is an ongoing process which will eventually result in a Commission that, while being firm in its regulatory practices, is more responsive and transparent in addressing the needs of the industry. We expect success.



T. B. Donaldson  
Chairman



# MANAGEMENT

**Sandra J. Knowles**  
Executive Director

**Hillary H. Deveaux**  
Secretary

**Peggy E. Knowles**  
Manager  
Mutual Funds Department

**Mechelle P. A. Albury**  
Manager  
Compliance Department

**Carolyn E. L. Ferguson**  
Manager  
Administration & Operations

**L. Alexander Roberts**  
Manager  
Securities Department





# REVIEW OF CAPITAL MARKETS

The Bahamas was faced with great challenges and change in the year 2001. The Financial Services Sector was in the process of an internal financial review due to nine new laws which enacted at the end of 2000. Additionally, international events, such as the slow down of the US economy, and the September 11, 2001 terrorist attacks in New York and Washington D.C. had far reaching effects on The Bahamas.

The year 2001 found the financial services sector of the country in a critical stage of development due to the required implementation of the following pieces of legislation:

- The Banks and Trust Companies Regulation Act, 2000
- The Central Bank of The Bahamas Act, 2000
- The Financial Intelligence Unit Act, 2000
- The Proceeds of Crime Act, 2000
- The Financial and Corporate Service Providers Act, 2000
- The Financial Transactions Reporting Act, 2000
- The International Business Companies Act, 2000
- The Evidence (Proceedings in other Jurisdictions) Act, 2000 and
- Criminal Justice (International Cooperation) Act, 2000

the promulgation of the new legislation was a part of the Bahamas' response to initiatives launched by the Organization for Economic Cooperation and Development (OECD), the Financial Action Task Force (FATF) and the Financial Stability Forum (FSF), as well

as the US Treasury led Qualified Jurisdiction (QJ) initiative and were instrumental in the removal of The Bahamas from the FATF's non-compliant jurisdictions blacklist in June 2001.

Events in the United States also affected the capital markets and the economy of The Bahamas. Securities Markets in the United States saw their worst year in almost a decade. The unsettling feeling in the markets continued until a drastic collapse was seen in September 2001, after the terrorists attack in New York City and Washington D.C., resulting in the Dow Jones experiencing its worst week since the Great Depression. These attacks affected most sectors in the US economy, which was already depressed. The Federal Reserve implemented a number of interest rate reductions in efforts to re-energize the economy.

This reduction in activity in the United States economy translated into curbed spending and reduced travel, both negatively impacting the Bahamian economy which derives some 75% of its revenue from the tourism sector. In The Bahamas, in the wake of the decline of the US markets, the Central Bank also took actions to moderate the economy, by encouraging Bahamians to save more of their income and also encouraging commercial banks to decrease their consumer lending. Furthermore, the Straw Market fire in New Providence led to a decrease in income for many Bahamian families. Up until the end of 2001, in The Bahamas, as in the United States, capital markets experienced little growth, as the focus remained on stabilizing the local economy.



# REVIEW OF OPERATIONS

## 1. The Securities Department

The Securities Department is charged with the responsibility of processing applications submitted by individuals and entities to be registered or licensed to participate in the securities market as required by the Securities Industry Act, 1999. The Act also provides for the registration and monitoring of securities exchanges in the country. The Bahamas International Securities Exchange (BISX) is registered with the Commission and is monitored by the Securities Department.

The processing of applications involves stringent due diligence aimed at ensuring that all persons permitted to operate in The Bahamas are considered fit and proper. This process gained momentum in 2001 as the Securities Department was strengthened through the addition of staff. With the additional resources, the Securities Department intensified its efforts to ensure that all persons engaging in securities activities came under the regulation of the Commission.

There are seven categories in which firms and individuals were registered or licensed. Firms were registered as Broker-Dealer Class I, Broker-Dealer Class II or Securities Investment Advisors, the majority of whom were banks and trust companies. Individuals were registered or licensed as Associated Persons, Brokers, Principals or Securities Investment Advisors. During the year, applications were processed as displayed in Table 1 top right:

**Table 1: Processing of Securities' Applications**

Category	Number of applications approved	Number of applications pending
<b>FIRMS</b>		
Broker - Dealers: Class I	5	4
Broker - Dealers: Class II	32	15
Securities Investment Advisors	13	8
<b>INDIVIDUALS</b>		
Associated Persons	1	14
Brokers	2	6
Principals	148	35
Securities Investment Advisors	21	18

*Source: Securities Department, Securities Commission of The Bahamas*

Having successfully undergone the registration or licensing process, market participants are registered or granted licences, which authorize them to carry on securities business in the jurisdiction. The registration or licensing of market participants are renewable annually once the Commission is satisfied that the participants are continuing to operate in the manner prescribed by law, and upon payment of the prescribed fees.

Monitoring of the exchange includes the daily review of trades, and the review and approval of any rules intended for the exchange before they are implemented.



At the end of December 2001, 17 public companies were listed on the exchange with total market capitalization of B\$1,675,897,242. Two additional companies, Bank of the Bahamas Ltd. and Bahamas Supermarkets Limited, traded their shares over-the-counter and had a combined market capitalization of B\$175,744,505 at December 31, 2001.

**Table 2: Companies Listed on The Bahamas International Securities Exchange**

Name of Issuing Company	Total Shares Outstanding as at Dec 31st, 2001	Market Capitalization as at Dec 31st, 2001
Abaco Markets Limited	10,249,417	40,997,668
Bahamas Property Fund Limited	2,407,000	15,404,800
Bahamas Waste Ltd.	4,200,000	11,256,000
Benchmark (Bahamas) Limited	4,959,111	2,479,556
British American Bank (1993) Ltd.	16,666,670	25,000,005
Cable Bahamas Ltd.	20,000,000	141,800,000
CIBC (Bahamas) Limited	55,000,000	643,500,000
Commonwealth Bank Limited	31,153,332	225,861,657
Doctor's Hospital (Bahamas) Limited	9,949,411	13,332,211
FAMGUARD Corporation Limited	8,500,000	34,000,000
Finance Corporation of The Bahamas Ltd.	26,666,670	245,066,697
Freeport Concrete Company Limited	4,500,000	13,500,000
Freeport Oil Holdings Company Limited	8,400,000	56,700,000
Global Bahamas Holdings Ltd.	13,000,000	20,800,000
ICD Utilities Limited	10,000,000	117,400,000
J. S. Johnson & Company Limited	8,000,000	62,000,000
RND Holdings Ltd.	8,716,216	6,798,648
<b>TOTAL</b>		<b>1,675,897,242</b>

Source: Securities Department, Securities Commission of The Bahamas

Pursuant to Section 54 of the Securities Industry Act, 1999 any company wishing to invite the public to subscribe to a public offering of securities in The Bahamas is required to register with the Commission, a prospectus of the offering that sets out the details of the offering. Only after being registered with the Commission can such prospectuses be circulated to the public. Two Initial Public Offerings (IPOs) were made in The Bahamas during 2001.

**Table 3: Public Offerings in 2001**

NAME OF COMPANY	SHARES OFFERED	TYPES OF SHARES	PRICE PER SHARE
Caribbean Crossings Limited	2,500,000	Series A Preferred Shares	\$10.00
Freeport Concrete Limited	1,500,000	New Common Shares	\$3.00
	1,000,000	Issued Common Shares	\$3.00

Source: Securities Department, Securities Commission of The Bahamas

While inspections of Mutual Fund Administrators began in 1999, the Commission extended on-site inspections to include registrants and licencees under the Securities Industry Act, 1999 in 2001 with the employment of three field examiners for that purpose. These individuals were attached to the Securities Department and directly supervised by the Consulting Accountant. A schedule of inspections was prepared, designed to ensure that all market participants be inspected over a period of two years. Inspections are conducted on a routine basis to ensure that participants are compliant with the legislation and may also be conducted for cause.

Other major projects of the Department included:

- Development of a proxy statement template for public companies;
- Issuance of guidelines pertaining to quarterly financial reporting for public companies;
- Development of prospectus filing guidelines;
- Development of capital requirements for registrants;
- Revision of Application Forms, which were also made available on the Commission's website.

# REVIEW OF OPERATIONS

## 2. Mutual Funds Department

Pursuant to Section 32 of the Mutual Funds Act, 1995 (The Act) the Commission is mandated by to administer the Act. Under the Act, mutual fund administrators and mutual funds are required to be registered or licensed, unless otherwise exempted. While only the Commission can license mutual fund administrators, mutual fund administrators are empowered by the Act to license mutual funds, which they will administer. Funds licensed by an administrator are then required to file certain information with the Commission. The mutual funds department processes all applications for registration or licensing by the Commission and reviews documents submitted for filing by funds, which have been licensed by administrators. Additionally, the mutual funds department is responsible for monitoring the ongoing operations of mutual fund administrators and mutual funds under the Act.

The Mutual Funds Act, 1995 provides that no entity may perform the duties of a mutual fund administrator, unless they hold a Mutual Fund Administrator's Licence, which is granted through the Commission. The Commission issues two categories of licences: an unrestricted licence, which allows the licensee to administer an unlimited number of mutual funds, and a restricted licence which allows the licensee to administer a limited number of mutual funds. The Commission may also exempt entities from obtaining a Mutual Fund Administrator's Licence if they will only be administer-

ing one mutual fund.

The licensing and registration procedures applied for mutual funds and administrators require in-depth due diligence processes. All persons related to mutual funds and those with vested interest in administrators are examined by the Mutual Funds Department to ensure their fit and proper status. Applications for mutual fund administrators are only approved after the Commission is satisfied that the applicant is of sound reputation, qualified and capable of administering a fund in the prescribed manner. The Mutual Funds Department performs the monitoring of all entities licensed/registered with the Commission as mutual funds or mutual fund administrators, through various methods including site inspections and strict reporting requirements.

The Commission processed applications for mutual funds in the year 2001 as follows:

**Table 4: Mutual Fund Applications**

TYPE OF APPLICATION	NUMBER	ACTION TAKEN
Licensing	52	Approved
Authorization	5	Approved
Licensing/Authorization	51	Pending
Licensing/Authorization	1	Deferred

Source: Mutual Funds Department, Securities Commission of The Bahamas

In 2001 the number of Bahamas-based mutual funds



decreased from 757 with a net asset value (NAV) of US\$95.03 billion at December 31, 2000 to 673 mutual funds with a net asset value (NAV) of US\$89.43 billion at December 31, 2001, as seen in Table 5, below:

**Table 5: Mutual Funds Comparative Table  
2000 & 2001**

TYPE OF FUND	December 31, 2001		December 31, 2000	
	Total Number of Funds	Total NAV (US\$ Billions)	Total Number of Funds	Total NAV (US\$ Billions)
Licences	325	\$26.26	314	\$25.33
Registration	173	\$11.99	216	\$13.54
Exempt	175	\$51.18	227	\$56.16
<b>Totals</b>	<b>673</b>	<b>\$89.43</b>	<b>757</b>	<b>\$95.03</b>

Source: Mutual Funds Department, Securities Commission of The Bahamas

At December 31, 2001 there were a total of 58 licensed Mutual Fund Administrators, as compared to 57 in 2000. Table 6, top right, provides a breakdown of mutual fund administrators, as at the December 31, 2001. It should be noted that it is the Commission's policy to only grant 'restricted' mutual fund administrators' licenses to foreign based mutual fund administrators.

**Table 6: Approved Mutual Fund Administrators**

	Year					
	1996	1997	1998	1999	2000	2001
Unrestricted Administrators	35	38	41	42	42	41
Restricted Administrators	6	6	7	10	11	13
Exempt Administrators	1	3	1	2	3	3
Self Administered Funds	0	3	2	2	1	1
<b>Total Administrators</b>	<b>42</b>	<b>50</b>	<b>51</b>	<b>56</b>	<b>57</b>	<b>58</b>
Foreign Based Administrators	1	0	6	7	8	9

Source: Mutual Funds Department, Securities Commission of The Bahamas

In addition to the licensing/registering of market participants and the monitoring of these entities, the Mutual Funds Department has been involved inter alia in the following matters:

- Identifying and preparing amendments to the Mutual Funds Act and Regulations, 1995
- Providing information necessary to the Financial Sector Assessment Program.



# REVIEW OF OPERATIONS

## 3. Compliance Department

The Compliance Department plays an integral part in the interpretation and implementation of laws governing the Commission and its registrants and licencees.

The Department plays a key role in ensuring that market participants are in compliance with the securities laws and policies established by the Commission. During the processing of applications for licensing and registration under the Mutual Funds Act, 1995 and the Securities Industry Act, 1999 the Compliance Department ensures that all applicants are compliant with relevant legislation. The Department also deals with complaints and queries from the investing public and industry participants.

The investigations function of the Commission is also carried out by the Compliance Department. Investigations conducted by the Commission relate to investor complaints, due diligence information and 'rogue' operations i.e. entities that are operating in the Bahamas, not having been licensed or registered as required by the legislation. These inquiries also include, investigations of potentially fraudulent activities and other breaches of the legislation which carry criminal sanctions, as well as providing direction and assistance to the various departments when market participants are found with compliance deficiencies.

This year, the Department dealt with the following liti-

gious matters:

- (i) Securities Commission of The Bahamas and Alistair Prescott Limited et al – Supreme Court Action #585/2000.

This matter is the ongoing litigation originally brought by the Commission to appoint a receiver to the Tenesheles Trust, which managed a group of 36 unregulated mutual funds.

As noted in our Annual Report for 2000, the Commission applied to the Court for the appointment of a receiver to the said trust. In January 2001, the Commission made further applications to the Court for the winding up of the said funds. On March 31, 2001 the Supreme Court issued an Order striking out the Commission's Petitions to wind up these funds on the ground that the Commission did not have locus standi to bring such a cause of action. The Court simultaneously denied an application by the Commission to extend the receivership.

An appeal against the decision of the Court was heard by the Court of Appeal, May 8, 2001. As a result of this hearing the Commission determined on the advice of counsel that it was not in its best interest to



pursue the appeal and the appeal was withdrawn.

The matter was revived before the Courts by various applications of the Defendants at the end of 2001 which if granted would invalidate the original appointment of the Receiver to the trust and secure the release of the funds' assets which were then, still in the receivers' custody. No further action on this matter was taken during 2001.

- (ii) In the Matter of The Oracle Fund Ltd. – Mutual Fund No. 303 and In the Matter of Fortis Fund Services (Bahamas) Ltd. Unrestricted Mutual Fund Administrator No. 38 SCB/MF – Action No: 001/2000

As a result of certain complaints lodged with the Commission with regard to the Oracle Fund Ltd. and its administrator Fortis Fund Services (Bahamas) Ltd. by various shareholders, the Commission conducted an investigation of the administration of the fund and after holding various hearings in that regard made an Order dated October 30, 2000 by which certain conditions were attached to the licence of Fortis Fund Services (Bahamas) Ltd.

After monitoring Fortis' compliance with the conditions and conducting a on-site inspection of the licensee, the conditions attached to Fortis' licence were lifted in September 2001.

In dealing with the legal interests of the Securities Commission, the Compliance Department continues to assist in the preparation of the Commission's self assessment template for the IMF Self Assessment programme and other FATF initiatives.

Additionally, the Compliance Department conducted reviews of new Labour Legislation passed in the Bahamas to ensure the Commission's compliance thereto.

During 2001 the Department advised the Commission on the following matters:

- Registration of BISX;
- Registration and licensing of applications under the Securities Industry Act, 1999 and Mutual Funds Act, 1995;
- Development of Policy Matters;
- Site-Inspections of the Commission's registrants and licensees;
- Approval of Prospectuses for various IPOs during 2001; and
- Preparation of legal opinions regarding the interpretation of Securities Industry Act, 1999 and Mutual Funds Act, 1995.



# REVIEW OF OPERATIONS

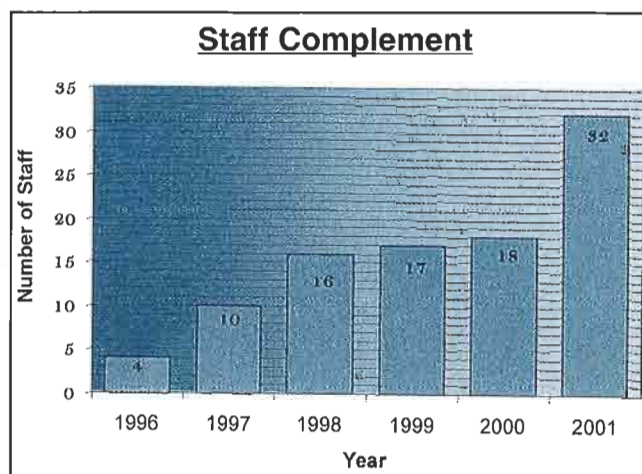
## 4. Administration & Operations Department

The Administration & Operations Department is primarily responsible for the development and coordination of the Commission's programmes for personnel and operations management. The Department also assists the Executive Director in formulating budget and authorization requests, maintains the Commission's payment systems, oversees the computer network administration and executes programmes for office services, such as telecommunications, property management and contract administration.

This Department is responsible for all human resource matters as well as the general administration of the Commission, including staff training, vacation scheduling, and the handling of grievances. It is also responsible for the finances of the Commission.

The Securities Commission was originally located in a small office in the Ministry of Finance. In February 1996, the Commission relocated to its current Charlotte House premises. Initially the Commission rented 2,144 square ft. which was gradually increased to 12,376 square ft. by July 2000. This increase in space was due to the growth of staff at the Commission. This growth was particularly extensive in 2001 as the staff grew to a total of 32 persons, from 18 persons in 2000. The growth of the Commission's staff from inception to the present is presented in Chart 1 below.

*Chart 1: Staff Complement*



*Source: Administration & Operations Department,  
Securities Commission of The Bahamas*

## STAFF TRAINING

The Commission allocates a large portion of its resources in the quest for continued knowledge in order to keep abreast of the developments within the securities and capital markets. This involves not only training, but also participation in seminars and workshops, both locally and internationally. The following is a list of Seminars, Conferences and Workshops that Members of the Securities Commission and Senior Officials attended during 2001:

- Bahamas Human Resources Development Annual Conference – Nassau, Bahamas, October 2001
- Bahamas Institute of Bankers Banker's Week – Nassau, Bahamas, May 2001
- Bahamas Institute of Bankers Mutual Funds Seminar – Nassau, Bahamas, November 2001
- Caribbean Regulators of International Business Meeting – Barbados, February 2001
- College of The Bahamas Information Resource Management Workshop – Nassau, Bahamas, June 2001
- COSRA Annual Conference – Montreal, Canada, October 2001
- COSRA Bi-annual Roundtable Meeting – Nassau, Bahamas, March 2001
- Workshop on Developing Bond Markets in Latin America – Rio de Janeiro, Brazil, June 2001
- International Association of Administrative Professionals Annual Seminar - Nassau, Bahamas, April 2001
- IOSCO Annual Conference – Stockholm, Sweden, June 2001
- MAR 8th International Hedge Fund Conference – Hamilton, Bermuda, October 2001
- McHarr Institute Anti-Money Laundering Course – Nassau, Bahamas, May 2001
- MDR Global Leadership & Innovation Network Seminar – Nassau, Bahamas, July 2001
- NASAA Broker-Dealer Training Seminar – Fort Lauderdale, Florida, USA, June 2001
- OGCISS 4th Annual Conference – B.V.I., January 2001
- World Bank 3rd Annual Financial Markets & Development Conference – New York, USA, April 2001
- S.E.C. Market Regulation Programme and Internship – Washington D.C., USA, April 2001
- Ontario Securities Commission - Securities Investigators Training Course – Ontario, Canada, June 2001
- The CEO Network 5th Annual Conference 'Leadership without Boundaries' – Nassau, Bahamas, June 2001
- The Counsellors Ltd. Third Annual 'Bahamas Investment Conference' – October 2001





# INVESTOR EDUCATION CAMPAIGN

The Securities Commission realizes that an important component in the growth of securities markets is the continued education of investors and the general public.

Over the years the Commission has held numerous campaigns and seminars, mostly geared to students, to inform them of the importance of saving and investing, and to encourage interest in the financial markets. The Commission has provided information and held presentations for students, focusing on those preparing for graduation from high school. This interaction is on-going.

During 2001, the Executive Director visited schools in Cat Island, Bahamas to speak to young students about the value of saving, investing and planning for their future. In addition, the Commission participated in 'Career Fest 2001' held by the Bahamas Financial Services Board (BFSB). This two-day seminar was geared toward high school students that are interested in pursuing careers in the financial services sector. The Commission provided literature on saving and investing, as well as general information about the Commission and some of the positions and responsibilities held by staff members.





# INTERNATIONAL ORGANIZATIONS

A top priority of the Commission is the development and growth of the securities industry in The Bahamas. Our representation at annual meetings hosted by international organizations of which we are members is important, as The Bahamas is given a voice in the global development of regulations for the securities markets.

In September 1996, the Commission became a member of the International Organization of Securities Commissions (IOSCO). IOSCO's membership comprises securities regulators and similar regulatory agencies from over 150 countries throughout the world. The organization has through its by-laws, resolved:

- To cooperate together to ensure a better regulation of the markets, on the domestic as well as on the international level, in order to maintain just, efficient and sound markets;
- To exchange information on their respective experiences in order to promote the development of domestic markets;
- To unite their efforts to establish standards and an effective surveillance of international securities transactions; and
- To provide mutual assistance to ensure the integrity of the markets by a vigorous application of the standards and by effective enforcement against offences.

The Securities Commission became a member of the Council of Securities Regulators of the Americas (COSRA), in June 1997. Established in 1992, this regional arm of IOSCO comprises 31 members of securities regulatory authorities from 26 countries located in North, South and Central America, and the Caribbean. COSRA provides a forum for mutual cooperation and communication to enhance the efforts of each country in the region to develop and foster the growth of sound securities markets that are fair to all investors. Its objectives include maintaining market integrity through the development of high quality regulatory structures.

Membership in these associations, as well as our positive interaction with other regulatory agencies, is a demonstration by the Commission of its efforts to enhance its effectiveness as a regulatory body. It also demonstrates our determination to ensure a Bahamian contribution toward improving the efficiency of international markets and coordinating standards of market conduct worldwide.

The Bahamas hosted the COSRA Roundtable Meeting in February 2001.

The seal of the Securities Commission of The Bahamas is centered in the background of the header. It features a circular design with the words "SECURITIES COMMISSION" at the top and "OF THE BAHAMAS" at the bottom. In the center of the seal is a stylized sun or starburst.

# FINANCIAL SUMMARY

The Commission's operating deficit for the year 2001 increased to \$975,526 from \$152,802 in the year 2000. This is attributed to a decrease in revenue of \$57,131 and an increase in expenses of \$765,503. The decline in revenue reflects certain one time revenues booked in 2000, and the increase in expenses reflects a \$399,559 increase in staff costs plus a \$200,378 increase in professional fees.

The current year deficit was partially financed by government funding in the amount of \$334,443 with the balance being reflected in a net reduction of reserves in the amount of \$641,083. At December 31, 2001 the surplus and reserve funds stood at \$51,208 down from \$692,291 the prior year.

The Commission generated significant internal funding through the reduction of accounts receivable in the amount of \$196,353. This came about as the Commission moved from a cash basis accounting system to an accrual basis one, thereby facilitating a more prompt recognition of outstanding billings.

The net cash impact for the year after adding back non-cash charges in the income statement was a decrease in cash equivalents of \$305,487.



# APPENDICES

## Appendix I

### Listing of Registrants & Licencees of the Commission as at December 31, 2001

**BROKER-DEALERS (Class I)** – Companies that recommend, solicit or effect transactions in securities for the account of others, buys and sells securities either on its own behalf or in a fiduciary capacity, manages securities portfolios for others, advises others as to the purchasing, selling or exchanging of securities and underwriting or distributing issues of securities, or purchasing and offering such securities for sale as a dealer, are required to register with the Commission as a Broker-Dealer (class I).

#### Companies registered as Broker-Dealers (Class I) –

- Banca del Gottardo
- Credit Suisse First Boston (Bahamas) Ltd.
- LOM Securities (Bahamas) Limited
- Oceanic Bank & Trust Limited
- Royal Bank of Canada Trust Company (Bahamas) Limited

**BROKER-DEALERS (Class II)** – Companies that recommend, solicit or effect transactions in securities for the account of others, buys and sells securities either on its own behalf or in a fiduciary capacity, manages securities portfolios for others, advises others as to the purchasing, selling or exchanging of securities are required

to register with the Commission as a Broker-Dealer (class II).

#### Companies registered as Broker-Dealers (Class II) –

- Alliance Investment Management Ltd.
- Ansbacher (Bahamas) Limited
- Arner Bank & Trust (Bahamas) Ltd.
- Banc Agricol (Bahamas) Limited
- Banca del Sempione (Overseas) Ltd.
- Banque Privee Edmond de Rothschild Ltd.
- Banque SCS Alliance (Nassau) Ltd.
- BNP Paribas Private Bank & Trust Bahamas Ltd.
- BSI AG
- BSI Overseas (Bahamas) Ltd.
- BSI Trust Corporation (Bahamas) Limited
- CIBC Trust Company (Bahamas) Limited
- Credit Agricole Indosuez (Bahamas) Limited
- Credit Suisse (Bahamas) Ltd.
- Darier Hentsch Private Bank & Trust Ltd.
- Deltec Bank & Trust Ltd.
- Dominion Investments (Nassau) Ltd.
- Euro-Dutch Trust Company (Bahamas) Limited
- Ferrier Lullin Bank & Trust (Bahamas) Limited
- Hottinger Bank & Trust Limited
- J. Safra Bank (Bahamas) Ltd.
- MeesPierson (Bahamas) Limited
- National Bank of Canada (International) Limited



- RMF Investment Products (Bahamas) Limited
- Safra International Bank & Trust Ltd.
- SG Hambros Bank & Trust (Bahamas) Ltd.
- Syz & Co. Bank & Trust Limited
- The Private Trust Corporation Limited
- Thorand Bank & Trust Ltd.
- UBS (Bahamas) Ltd.
- Union Bancaire Privee (Bahamas) Limited
- Union Bancaire Privee (Nassau Branch)

**SECURITIES INVESTMENT ADVISORS** – Any person providing investment management services to clients for a fee is required to register with the Commission as a Securities Investment Advisor.

Companies registered as Securities Investment Advisors

- Bahamas Securities (1987) Limited
- Benchmark Advisors (Bahamas) Ltd.
- Black & Associates Limited
- Braun & CIE Ltd.
- FTC Asset Management (Bahamas) Limited
- Hang Seng Bank Trustee (Bahamas) Limited
- Holdun Investment Management Limited
- Mr. Shayne Davis
- Nordica Investment Management Limited
- Oceanic Investment Management Limited
- Octogone Fund Management Limited
- Sentinel International Asset Management Ltd.
- Van Daalen International Ltd.

#### **UNRESTRICTED MUTUAL FUND ADMINISTRATORS**

– Persons carrying on the business of mutual fund administration in respect of an unlimited number of funds that they are also able to license, are required to be licensed as unrestricted mutual fund administrators.

Companies licensed as Unrestricted Mutual Fund Administrators –

- Ansbacher (Bahamas) Limited

- Arner Bank & Trust
- Banca del Sempione (Overseas) Limited
- Bank of Nova Scotia Trust Company Limited
- Banque SCS Alliance (Nassau) Ltd.
- BBA Creditanstalt Bank Limited
- BBM Bank Limited
- BSI Overseas (Bahamas) Limited
- Cardinal International Corp. Ltd.
- CIBC Trust Company (Bahamas) Limited
- Citco Bank & Trust Company (Bahamas) Limited
- Citco Fund Services (Bahamas) Limited
- Cititrust (Bahamas) Limited
- Credit Suisse (Bahamas) Limited
- Credit Suisse First Boston (Bahamas) Ltd.
- Deltec Bank & Trust Ltd.
- Derivatives Portfolio Management Limited
- Dominion Management Services Limited
- Fidelity Merchant Bank & Trust Limited
- Finter Bank & Trust (Bahamas) Limited
- Fortis Fund Services (Bahamas) Limited
- Guaranty Trust Bank Limited
- Hottinger Bank & Trust Ltd.
- HSBC Private Banking (Bahamas) Limited
- JP Morgan Chase
- Leopold Joseph (Bahamas) Limited
- Oceanic Bank & Trust (Bahamas) Limited
- Lloyds TSB Bank & Trust (Bahamas) Limited
- Gottardo Trust Co. Ltd.
- Olympia Capital International Inc.
- Safra International Bank & Trust Ltd.
- Sentinel Bank & Trust Co. Limited
- SG Hambros Bank & Trust (Bahamas) Limited
- Swiss Financial Services (Bahamas) Limited
- Templeton Global Advisors Limited
- Thorand Bank & Trust Limited
- The Private Trust Corporation Ltd.
- The Winterbotham Trust Company Limited
- The Royal Bank of Scotland
- Trident Corporate Services (Bahamas) Limited
- United European Bank & Trust (Nassau)

Limited

- W & P Fund Services Limited

#### **RESTRICTED MUTUAL FUND ADMINISTRATORS -**

Persons carrying on the business of mutual fund administration in respect of a limited number of funds identified in the license of the administrator are required to be licensed as a restricted mutual fund administrator.

Companies licensed as Restricted Mutual Fund Administrators –

- Amicorp Fund Services N.V.
- Ansbacher Investment Management (C.I.) Limited
- Custom House Administration & Corporate Services Limited
- Fortis Fund Services (Ireland) Limited
- Fortis Fund Services (IOM) Limited
- Goldman Sachs (Cayman) Trust Limited
- Lion Corporate Services Limited
- Lombard Odier Darier Hentsch Private Bank & Trust Limited
- Orbitex Management Limited
- Royal Bank of Canada Trust Company (Bahamas) Limited
- Security Fund Administration Limited
- SEI Investments Mutual Fund Services Ltd.
- Strategic Resources Corporation Limited

#### **MUTUAL FUND ADMINISTRATORS EXEMPTED**

**FROM OBTAINING A LICENCE** – Persons carrying on the business of mutual fund administration in respect of one mutual fund only are able may be exempted from obtaining a mutual fund administrator's license.

Companies exempted from having to obtain a mutual fund administrators license -

- Colina Financial Advisors Limited
- Montague Securities International Ltd.

- Votorantim Bank Limited

#### **ADDITIONAL CATEGORIES OF LICENSING AND REGISTRATION FOR INDIVIDUALS**

The Commission also registers persons under the following categories:

**Securities Investment Advisor** – An individual that advises others as to the investing in or selling of securities or who is primarily engaged in giving advice regarding the investment of funds and/or manages securities portfolios for clients on a discretionary or non-discretionary basis is required to register as a Securities Investment Advisor.

**Principal** – The Chief Executive Officer/Managing Director and Compliance Director of a registered Broker-Dealer are required to be licensed as principals. Other senior officials can also be so licensed.

**Broker/Stockbroker** – Any individual who deals and trades in securities and/or supervises the activities of a Broker-Dealer firm must register as a Broker/Stockbroker.

**Associated Persons** – Any person who is an employee of a Broker-Dealer who performs securities related functions except those specifically reserved for Brokers/Stockbrokers as well as purely clerical staff must be registered as an associated person.

*\* A list of individuals registered with the Commission in the above categories can be found on the Commission's website at [www.scb.gov.bs](http://www.scb.gov.bs).*

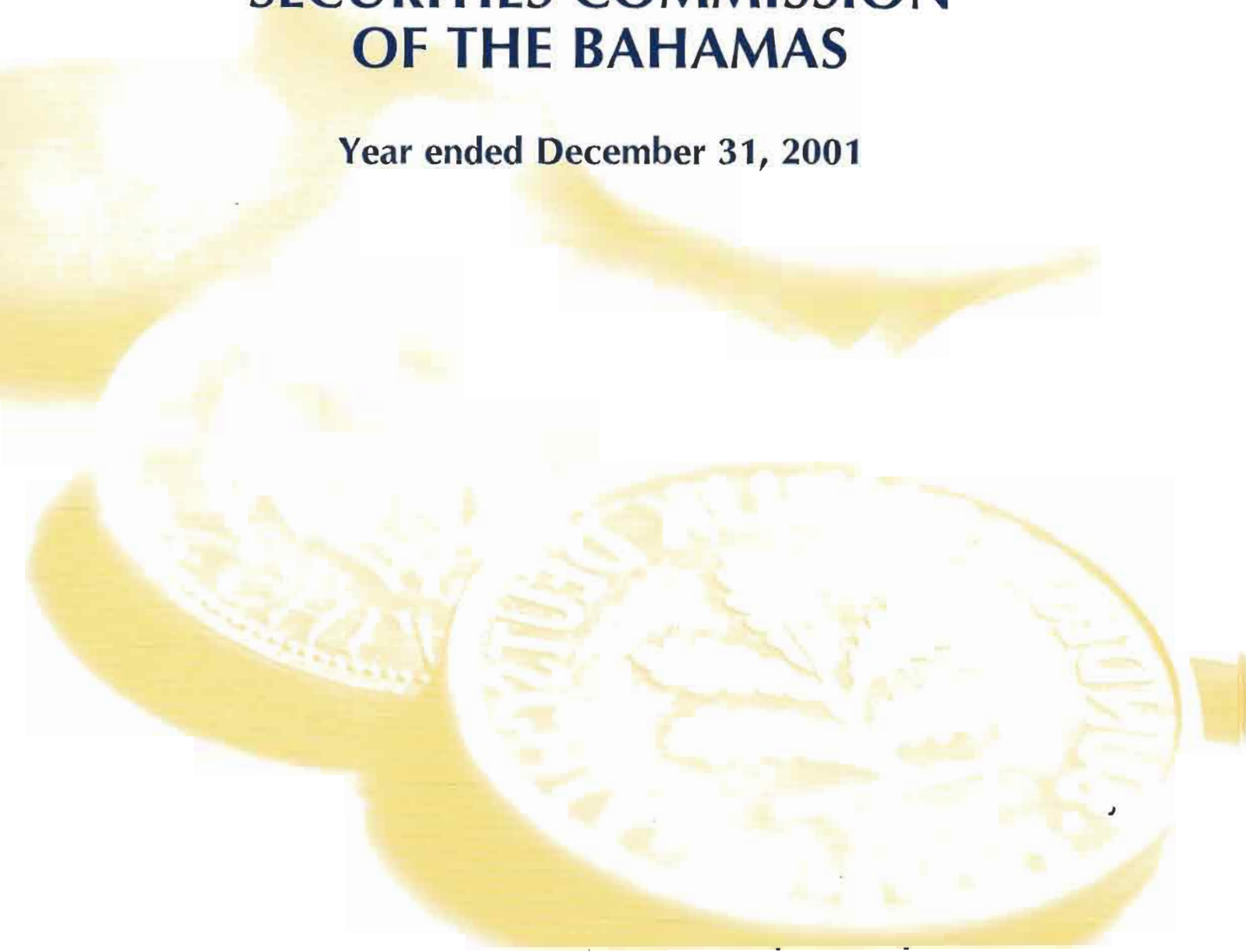




Chartered Accountants

Financial Statements of  
**SECURITIES COMMISSION  
OF THE BAHAMAS**

Year ended December 31, 2001



# SECURITIES COMMISSION OF THE BAHAMAS

## Financial Statements

Year Ended December 31, 2001

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## Chartered Accountants

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Nassau, Bahamas

Telephone (242) 393-2007  
Fax (242) 393-1772

### AUDITOR'S REPORT TO THE MEMBERS

We have audited the accompanying balance sheet of the Securities Commission of The Bahamas ("the Commission") as of December 31, 2001 and the related statements of operations, surplus and reserve funds and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. 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 as promulgated by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by arrangement, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Commission as of December 31, 2001 and the results of its operations and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards promulgated by the International Accounting Standards Board.

Without qualifying our opinion, we draw attention to note 10 to the financial statements. The Commission incurred an operating deficit for the year of \$975,526 (2000 - \$152,892) before Government funding of \$334,443 (2000 - \$475,000). The Commission will only be able to continue as a going concern by attaining profitable operations and/or with continued financial support from the Government.

Chartered Accountants

Nassau, Bahamas  
January 22, 2003

# SECURITIES COMMISSION OF THE BAHAMAS

## Balance Sheet

December 31, 2001, with comparative figures for 2000  
(Expressed in Bahamian dollars)

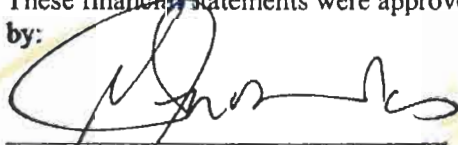
	2001	2000
		(As restated)
<b>Assets</b>		
Current assets:		
Petty cash	\$ 200	200
Cash at bank (note 3)	30,229	190,106
Accounts receivable	140,630	336,983
Deposits and prepaid expenses	13,492	16,033
Receivable from the Government (note 4)	—	25,557
	184,551	568,879
Equipment (note 5)	159,753	206,004
	\$ 344,304	774,883

## Liabilities and Surplus Funds

Current liabilities:		
Bank overdraft (note 3)	\$ 145,610	—
Accounts payable and accrued expenses	147,486	82,592
	293,096	82,592
Surplus and reserve funds (note 6)	51,208	692,291
Commitments (note 7)		
	\$ 344,304	774,883

See accompanying notes to financial statements.

These financial statements were approved on behalf of the Members of the Board on January 22, 2003  
by:



Chairman



Executive Director



# SECURITIES COMMISSION OF THE BAHAMAS

## Statement of Operations

Year ended December 31, 2001, with comparative figures for 2000  
(Expressed in Bahamian dollars)

	2001	2000
		(As restated)
Operating income:		
Mutual fund registration and licence fees	\$ 296,250	294,000
Mutual fund principal office fees	296,250	294,000
Mutual fund application fees	46,200	58,500
Mutual fund administrator licence fees	72,800	76,800
Mutual fund administrator application fees	13,000	4,200
Broker - dealer registration and licence fees	268,165	306,784
Broker - dealer application fees	11,500	111,167
Securities investment advisor registration and licence fees	93,623	69,892
Securities investment advisor application fees	10,000	24,959
Associated person registration and licence fees	4,484	3,150
Associated person application fees	350	900
Security exchange registration and licence fees	25,000	30,000
Security exchange application fees	-	8,300
Fees from public offerings	58,500	-
Penalty fees	37,000	7,000
Examination fees	5,750	5,850
Bank interest	5,254	4,147
Miscellaneous income	7,299	8,907
	1,251,425	1,308,556
Operating expenses:		
Salaries, wages and benefits (note 8)	1,098,244	698,685
Rent for office and parking	312,536	211,570
Professional fees (note 4)	259,995	59,617
Depreciation (note 5)	105,947	101,157
Travel and entertainment	68,044	97,027
Members' honoraria	59,500	57,875
Utility and property charges	58,756	48,485
Seminars	56,505	9,481
Office expenses	52,268	80,400
Computer expenses	43,634	6,521
Telephone	41,727	29,764
Sundry	25,303	27,010
Membership and publications fees	19,074	16,605
Advertising	15,936	8,894
Examination expenses	4,799	4,802
Investor education costs	2,353	-
Printing	2,330	1,723
Loss on disposal of equipment	-	1,832
	2,226,951	1,461,448
Operating deficit for the year	\$ (975,526)	(152,892)

See accompanying notes to financial statements.

## SECURITIES COMMISSION OF THE BAHAMAS

### Statement of Surplus and Reserve Funds

Year ended December 31, 2001, with comparative figures for 2000  
(Expressed in Bahamian dollars)

	Government Funding	Accumulated Operating Deficit	Total Surplus and Reserve Funds
Balance at December 31, 1999, as previously reported	\$ 1,200,000	(927,817)	272,183
Prior year adjustment (note 12)	—	98,000	98,000
Balance at December 31, 1999, as restated	1,200,000	(829,817)	370,183
Government funding	475,000	—	475,000
Operating deficit for the year, as previously reported	—	(374,321)	(374,321)
Prior year adjustment (note 12)	—	221,429	221,429
Balance at December 31, 2000, as restated	1,675,000	(982,709)	692,291
Government funding	334,443	—	334,443
Operating deficit for the year	—	(975,526)	(975,526)
Balance at December 31, 2001	\$ 2,009,443	(1,958,235)	51,208

See accompanying notes to financial statements.



## SECURITIES COMMISSION OF THE BAHAMAS

### Statement of Cash Flows

Year ended December 31, 2001, with comparative figures for 2000  
(Expressed in Bahamian dollars)

	2001	2000
Cash flows from operating activities:		
Operating deficit for the year	\$ (975,526)	(152,892)
Adjustments for:		
Depreciation	105,947	101,157
Loss on disposal of equipment	—	1,832
Cash used in operations before changes in operating assets and liabilities	(869,579)	(49,903)
Decrease/(increase) in deposits and prepaid expenses	2,541	(2,022)
Decrease/(increase) in accounts receivable	196,353	(231,983)
Decrease/(increase) in receivable from the Government	25,557	(25,557)
Increase in accounts payable and accrued expenses	64,894	42,728
Net cash used in operating activities	(580,234)	(266,737)
Cash flows from investing activities:		
Purchases of equipment	(59,696)	(98,875)
Proceeds from disposal of equipment	—	200
Net cash used in investing activities	(59,696)	(98,675)
Cash flows from financing activities:		
Government funding	334,443	475,000
Net cash provided by financing activities	334,443	475,000
Net (decrease)/increase in cash and cash equivalents	(305,487)	109,588
Cash and cash equivalents, beginning of year	190,306	80,718
Cash and cash equivalents, end of year	\$ (115,181)	190,306

Cash and cash equivalents are comprised of petty cash, cash at bank and bank overdraft.

See accompanying notes to financial statements.

# SECURITIES COMMISSION OF THE BAHAMAS

## Notes to Financial Statements

Year ended December 31, 2001  
(Expressed in Bahamian dollars)

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### 1. General information

The Securities Commission of the Bahamas ("the Commission") was established on June 20, 1995 under The Securities Board Act, 1995 of The Commonwealth of The Bahamas. The principal place of business is located on the Third Floor, Charlotte House, Shirley and Charlotte Streets, P.O. Box N-8347, Nassau, Bahamas.

The primary function of the Commission is to monitor and regulate the securities market and the mutual funds industry in The Bahamas.

Effective November 2000, licenced banks, trust companies and individuals that are engaged in various aspects of the securities business and that are in good standing with The Central Bank of The Bahamas, must also register with the Commission. As a result, the Commission earns fee income from broker-dealers, security investment advisors and associated persons.

The Commission is a body corporate having perpetual succession and a common seal, with the power to purchase, lease or otherwise acquire and hold and dispose of land and other property of whatever kind. The Commission may also sue or be sued in its corporate name.

### 2. Summary of significant accounting policies

The financial statements have been prepared under the historical cost convention in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board. The significant accounting policies are as follows:

#### a) *Income*

Fees receivable from mutual funds, mutual fund administrators, broker-dealers, security investment advisors and associated persons are accounted for when they become due.

#### b) *Equipment*

Equipment is stated at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets as follows:

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

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

#### c) *Defined contribution pension plan*

Contributions to the Commission's defined contribution pension plan are recognised as an expense in the statement of operations as incurred.

#### d) *Government grants*

Government funding is accounted for when received and credited directly to the statement of surplus and reserve funds.



# SECURITIES COMMISSION OF THE BAHAMAS

## Notes to Financial Statements

Year ended December 31, 2001  
(Expressed in Bahamian dollars)

### 3. Cash at bank and bank overdraft

Cash at bank includes demand and deposit accounts. The bank overdraft facility of \$100,000 bears interest at Bahamian Dollar Prime plus 1% (2001 and 2000).

### 4. Receivable from the Government

During the year 2000 the Government of The Bahamas ("the Government") entered into an 18 month contract for consulting services to be administered by the Commission. The Consultant assisted in all areas of administration and regulation of the securities industry. The Commission paid the salary, transportation, housing and utilities expenses and was reimbursed by the Government. During the year, the Commission paid \$112,245 (2000 - \$153,557) to the Consultant and was reimbursed \$87,577 (2000 - \$127,980) by the Government. The project was completed during the year and the balance of \$50,225 was borne by the Commission and is included in professional fees in the statement of operations.

### 5. Equipment

	Computer equipment	Furniture & fittings	Vehicles	Total
Cost, December 31, 2000	\$ 230,023	215,424	59,200	504,647
Additions	40,686	19,010	—	59,696
Cost, December 31, 2001	\$ 270,709	234,434	59,200	564,343
Accumulated depreciation, December 31, 2000	\$ 116,551	142,712	39,380	298,643
Charge for the year	50,277	43,830	11,840	105,947
Accumulated depreciation, December 31, 2001	\$ 166,828	186,542	51,220	404,590
Net book value, December 31, 2001	\$ 103,881	47,892	7,980	159,753
Net book value, December 31, 2000	\$ 113,472	72,712	19,820	206,004

### 6. Surplus and reserve funds

The Commission, may from time to time carry surplus funds to a reserve fund, or invest these funds in securities approved by the Minister of Finance ("the Minister"). Any such treatment must be with the prior consent of the Minister.

# SECURITIES COMMISSION OF THE BAHAMAS

## Notes to Financial Statements

Year ended December 31, 2001  
(Expressed in Bahamian dollars)

The reserve fund shall be established by the Commission, and the funds applied only for purposes of the Commission. The Minister, however, may direct the Commission on any matters concerning the establishment and management of the fund and movements to and from the fund. The Minister may also direct surplus or reserve funds to be paid into the Consolidated Fund of The Bahamas Public Treasury.

As the Commission incurred an operating deficit for the year, surplus funds available at the end of the year (as a result of Government funding) have not been transferred to a reserve fund since they will be required for continuing operations.

### 7. Commitments

The Commission leases office space under two existing lease agreements. The future minimum lease payments are as follows:

Fiscal year end	Minimum lease payments
2002	\$ 308,466
2003	309,400
2004	309,400
2005	309,400
2006	25,783
	<b>\$ 1,262,449</b>

Under the lease agreement which commenced February 1, 1999 for a period of 7 years, the Commission has the option to renew the lease for a further 7 years. The annual lease payments will be determined at the time of renewal.

Under the lease agreement which commenced July 1, 2000 for a period of 5 years and 7 months, the annual lease payments, after the first 3 years, will be increased by multiplying the base amount by a factor to be determined during that period. This factor increase has not been reflected in the above minimum lease payments.

### 8. Defined contribution pension plan

The Commission implemented a defined contribution pension plan on January 1, 1999 for all members of staff. Participation in the plan is mandatory and contributions by the Commission and the employees are 10% and 5% of employee salaries, respectively. The pension plan is administered by Colina Financial Advisors. Contributions to the plan by the Commission during the year amounted to \$80,219 (2000 - \$59,498) and is included in salaries, wages and benefits in the statement of operations.

### 9. Employees

The number of employees at December 31, 2001 was 32 (2000 - 18).



# **SECURITIES COMMISSION OF THE BAHAMAS**

## **Notes to Financial Statements**

Year ended December 31, 2001  
(Expressed in Bahamian dollars)

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### **10. Going concern**

The Commission will only be able to continue as a going concern by attaining profitable operations and/or with continued financial support from the Government. These financial statements are prepared on the assumption that the Commission will continue as a going concern.

### **11. Fair value**

Management estimates that the fair values of financial assets and liabilities do not differ materially from their carrying values due to their short-term and liquid nature.

### **12. Change in accounting policy**

During the year the Commission changed the method of accounting for operating income from a cash basis to an accruals basis in order to comply with International Financial Reporting Standards. The change in accounting policy has been applied retrospectively and operating deficit and accumulated operating deficit for 2000 have been adjusted by \$221,429 and \$98,000, respectively.