



2007

Securities Commission of The Bahamas

Annual Report



## **VISION**

*Facilitating the development of the financial services sector through sound regulatory practices.*



## **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.*

## CONTENTS

1	CHAIRMAN'S MESSAGE
3	EXECUTIVE DIRECTOR'S REMARKS
6	ORGANISATIONAL OVERVIEW
7	THE BOARD
9	AN OVERVIEW OF THE BAHAMIAN CAPITAL MARKETS
10	STATISTICAL SUMMARY OF OUR AUTHORISATIONS & ONGOING SUPERVISION
16	LEGISLATIVE UPDATES AND POLICY DEVELOPMENTS
17	INTERNATIONAL AND DOMESTIC COOPERATION
18	FINANCIAL SUMMARY
19	FINANCIAL STATEMENTS

## **BOARD MEMBERS AS AT DECEMBER 31, 2007**

**Philip Stubbs**

Chairman

**Wendy Craig**

Deputy Chairman

Ex-Officio Member

Governor of the Central Bank

**John Archer**

Member

**Kendrick Christie**

Member

**Joy Jibrilu**

Member

**Ryan Knowles**

Member

**Sterling Quant**

Member

**Pauline Sherman**

Ex-Officio Member

Acting Registrar of Insurance Companies

**Hillary Deveaux**

Ex-Officio Member

Executive Director

**Mechelle Martinborough**

Secretary to the Board

It gives me great pleasure to present the 2007 Annual Report of the Securities Commission of The Bahamas (the Commission) which includes the financial statements for the year ended December 31, 2007. I was appointed Chairman of the Commission during the review period, and along with newly-appointed Members of the Commission (the Board) and its predecessor Board, addressed all matters within our regulatory ambit. The new Board focused on understanding its role and mandate in relation to regulation in the securities and capital markets, including best practices of governance to ensure that markets were fair, efficient and transparent.

An effective, well run, Commission is important for The Bahamas given the significance of financial services to the Bahamian economy, and the need for sustained growth in this sector. A properly regulated environment following best practices, with legislation and regulations that are world-class, are key to achieving this.

By the end of the period, the Board had commenced development of strategic goals for management to use in the strategic planning for 2008. More details on this, and other initiatives to enhance the Commission's regulatory framework, will be set out in the 2008 Annual Report.

The Government of The Bahamas has committed to integrating the financial services regulators. This would improve the regulatory coordination and oversight of the financial sector by reducing regulatory overlap and the duplication of reporting obligations of industry participants. The first step towards this integration was the Commission's appointment as Inspector of Financial and Corporate Service Providers, effective January 1, 2008. As Inspector, the Commission assumed responsibility for the supervision and regulation of Financial and Corporate Service Providers.

During the latter part of 2007, global financial markets deteriorated giving rise to serious concerns of market stability. It was anticipated that the ensuing global crisis would have the potential to adversely impact the Bahamian capital markets. Consequently, the Commission prepared to heighten its monitoring of all market participants through an enhanced supervisory surveillance programme.

It is impossible to maintain a vibrant, competitive financial sector with sound regulatory practices and policies, without the assistance of experienced, knowledgeable and committed persons. I wish to take this opportunity to thank the Management and Staff of the Commission for their dedication to service in 2007.

*Philip Stubbs*  
**Chairman**

## **MANAGEMENT TEAM AS AT DECEMBER 31, 2007**

**Hillary Deveau**  
Executive Director

**Mechelle Martinborough**  
Legal Counsel

**L. Alexander Roberts**  
Authorisations Department

**Sally Moss**  
Market Surveillance Department

**Addie Winder**  
Inspections Department

**Jessika Sawyer**  
Policy and Research Department

**Deborah Burrows**  
Corporate Affairs Department

**Monique Sands**  
Accounts Unit

**Charles McKenzie**  
Information Technology Unit

The phrase “balancing growth and regulation of the capital markets” summarises the approach to supervision taken by the Securities Commission of The Bahamas in 2007. During that period we sought to perform our core functions, while seeking to identify the principle areas, both legislative and administrative, where improvements would facilitate the advancement of the sector.

The Commission’s primary responsibility is the protection of the interest of the investing public. The year 2007 was challenging, nevertheless, the Commission remained focused on maintaining a sound regulatory regime that promotes investor confidence and seeks to ensure compliance with the legislation by market participants. Protecting the investing public is based on the simple premise; *if investors have confidence that they will be treated fairly in the capital markets, they will be willing to invest their money*. Therefore, the preservation of confidence by the investing public in the regulatory oversight of the Commission was emphasised as a vital component of the strategy for the Commission. I wish to take this opportunity to highlight some of the activities and achievements of the Commission during 2007.

Despite external factors, such as concerns about the sub-prime debt crisis in international markets, which became more prominent in the second half of the year, and the need to develop a consolidated regulatory structure, the Commission was able to make several notable achievements. Key accomplishments for the Commission over the year ranged from the successful transition to a new Chairman and Board, to the introduction of legislative changes and the creation of opportunities to engage in discussion with industry participants on matters of mutual interest.

### **Legislative Developments**

In keeping with international standards of securities regulation, amendments to the Securities Industry Act, 1999 and the Investment Funds Act, 2003 took effect in January 2007. The amendments gave the Commission much broader access to information than had previously been provided. In effect, the Commission now has the power, inter alia, to directly compel the production of documents from institutions outside of the Commission’s regulatory purview. The amendment also placed the Commission a step closer to becoming a signatory to the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMoU).

Further, the Commission completed its internal review of the draft Securities Industry Act, which is expected to replace the current legislation governing the securities industry; the Securities Industry Act, 1999. The draft was distributed to a select group of industry participants at the end of 2007, with the intent to have it circulated for wider industry consultation in early May 2008. One major change to the new legislation is the adoption of a more flexible form where key legal obligations are specified in the Act, and the detailed requirements are prescribed in the regulations and rules. Additionally, the draft Act sought to cover gaps in the current legislation and meet international standards of securities regulation.

### **Communication with the Industry**

The Commission hosted its first semi-annual briefing on June 25, 2007 with members of the securities and capital markets to discuss matters of mutual interest. The briefing was designed to bring together capital markets stakeholders with senior management of the Commission to exchange ideas on developments and challenges within the markets, with a view to enhancing relationships for improved effectiveness and productivity. Participants included all of the major investment fund administrators and securities firms. The session took the form of a round-table discussion and it was suggested that the briefing continue on a regular schedule as participants found it to be valuable. As a result, a subsequent industry meeting was held in October, 2007.

### **Improving Efficiency and Internal Processes**

A web-based electronic filing system was launched in an effort to facilitate the statistical submission and dissemination of investment fund data for the mutual benefit of all. The e-filing system is intended to provide for increased accuracy and the timelier submission of investment fund industry statistics. Moreover, the system allows for a greater historical overview of industry trends and the production of more meaningful statistical summaries.

### **Participation in International and Regional Events**

The Commission hosted a meeting of the Offshore Group of Collective Investment Schemes Supervisors in May, 2007. The meeting was designed to provide a forum for the exchange of ideas and information among the jurisdictions that regulate and supervise investment schemes.

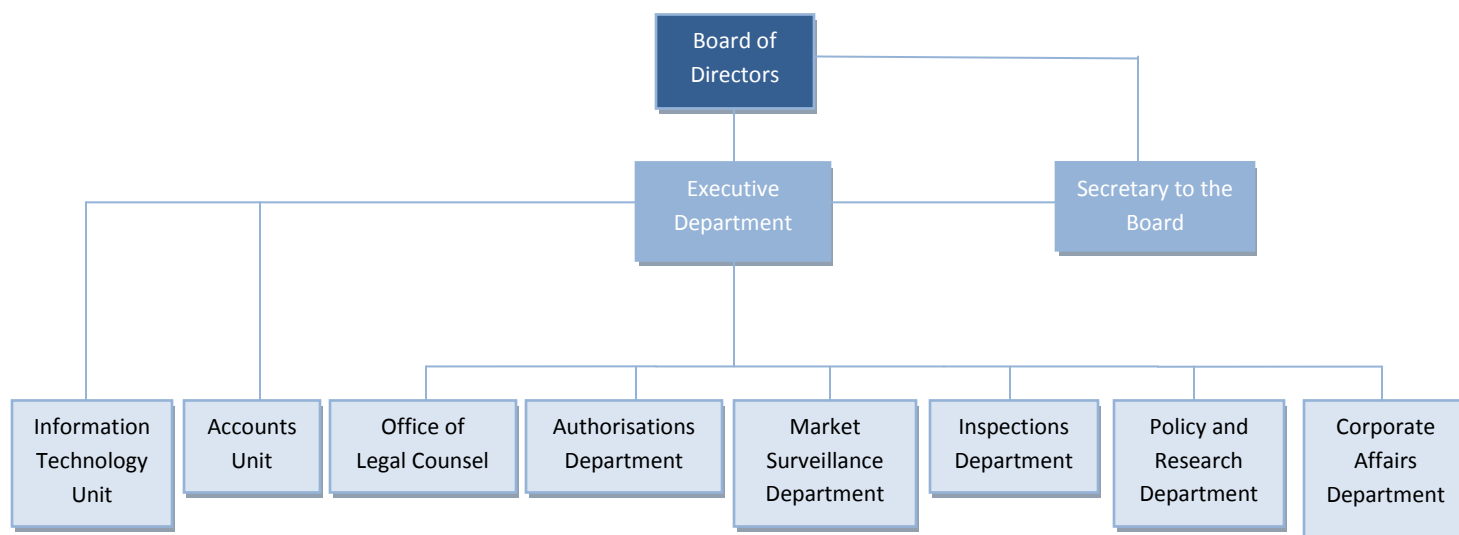
The Commission also participated in the annual meeting of the Caribbean Group of Securities Regulators (CGSR), an informal association of securities regulators from the English speaking Caribbean, in St. Kitts in October, 2007. The Commission relinquished the chairmanship of the CGSR, a position held from October, 2006 when the Commission hosted the annual meeting here in The Bahamas.

Planning ahead, the Commission is in the process of developing systems to meet its obligations when it assumes administration of the Financial and Corporate Service Providers Act effective January 1, 2008. Moreover, we stand ready to move forward with the continued development of new securities legislation and to augment our capacity to supervise the capital markets.

*Hillary Deveaux*  
**Executive Director**



## STRUCTURE OF THE COMMISSION



**Executive Department** – This department is responsible for the day-to-day management of operations, technical and financial matters. The Executive Department also comprises the Accounts Unit and the Information Technology Unit.

**Secretary to the Board** – The Secretary is responsible for managing Board matters and provides technical and administrative support to the Board.

**Office of Legal Counsel** – This department is responsible for providing legal advice to various departments of the Commission, assisting in the review of financial sector legislation, managing matters of international cooperation and overseeing enforcement and disciplinary matters.

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

**Market Surveillance Department** – This department is responsible for the on-going monitoring and supervision of market participants and the local stock exchange, and reviewing proposals from the local stock exchange.

**Inspections Department** – This department is responsible for the supervision and on-site monitoring of market participants' adherence to the rules and regulations.

**Policy and Research Department** – This department is responsible for assisting in the development of legislation, rules, policies and guidelines. It is also responsible for statistical reporting, investor education, content of the Commission's website, public relations and oversight of the Commission's registry.

**Corporate Affairs Department** – This department is responsible for the daily management of the human and physical resources of the Commission by ensuring adequate manpower to facilitate the Commission's mandate, as well as implementing and enforcing staff regulations.

## ORGANISATIONAL OVERVIEW



**VISION** A vibrant, competitive financial services sector that has sound regulatory practices and policies that promote confidence.

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

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

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

**PURPOSE** To contribute to the growth and development of a financial services sector that is vibrant and competitive.

**GOVERNANCE** The Securities Industry Act, 1999 requires that the membership of the Commission consist of a Chairman, a Deputy Chairman and other members not to exceed seven, all of whose appointments are discretionary to the Minister of Finance. The Chairman holds office for a period of five years. The Deputy Chairman and other Commission members hold their offices for a period not to exceed four years. All Commission members including the Chairman are eligible for reappointment.

Members are chosen to serve on the Commission based on their experience and expertise in the disciplines of commerce, law, finance, economics and administration.

**STAFF COMPLEMENT** 51 full-time staff members:

- Executive Department 12 staff members
- Office of Legal Counsel 6 staff members
- Authorisations Department 6 staff members
- Market Surveillance Department 10 staff members
- Inspections Department 6 staff members
- Policy and Research Department 4 staff members
- Corporate Affairs Department 7 staff members

### Role of the Board

Board Members of the Commission serve as Directors with the responsibility for the overall direction of the organization. Guided by principles of good governance, the duties of the Board include overseeing strategic planning.

### Board Committees

There are three committees of the Board. As at December 31, 2007, the Committees were as follows:

**Audit & Administrative 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.

**Legislative Committee** – This Committee assists the Commission and the Executive Director in the review of existing and proposed legislation as it pertains to the continued development of the securities and capital markets and the investment funds industry.

**Compensation Committee (Human Resources)** – This Committee was created to assist in the development of the Commission's Interim Bonus Programme. In addition, the Compensation Committee was also charged with overseeing a review of the Commission's Salary Structure. This Committee then became the Human Resources Committee, which assists the Commission in establishing and reviewing remuneration and other policies for all employees of the Commission.

### Disciplinary Proceedings of the Board

The Commission, as part of its function to maintain the integrity of the capital markets, has the authority to conduct investigations and hearings. The Board carries out these functions via two statutory, standing bodies. As at December 31, 2007, the bodies were as follows:

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

**Disciplinary Committee** – This Committee assists the Commission and Executive Director in making recommendations, to the Commission, on the appropriate action to be taken as a result of an investigation or regulatory hearing.

### Activities of the Board

The Board met a total of nine times to discuss matters of the Commission. An extraordinary meeting was held to discuss the structure, functions and challenges of the various departments. Three of the four sub-committees, namely, the Legislative Committee, Hearing Panel and the Audit and Administrative Committee met during the year to discuss various issues and make recommendations to the Board. The round robin process was used ten times during the year to expedite approval of those matters requiring more immediate action.

The Legislative Committee was dissolved and the Compensation Committee's name was changed to the Human Resources Committee as at December 31, 2007.

## TERMS OF BOARD MEMBERS AND COMMITTEES OF THE BOARD

Calvin Knowles resigned as Chairman on March 26, 2007. He was succeeded by Harold Longley. Philip Stubbs was appointed Chairman on July 1, 2007 replacing Longley. Pauline Sherman became Acting Registrar of Insurance Companies, replacing Dr. Roger Brown, on September 29, 2007.

**Table 1 – Board Terms**

Board Composition before July 1, 2007			Board Composition as at December 31, 2007		
Name	Appointed	Expiration of Term	Name	Appointed	Expiration of Term
Harold Longley (Chairman)	March 26/07	June 30/07	Philip Stubbs (Chairman)	July 1/07	June 30/12
Alexander Reckley (Deputy Chairman)	February 9/03	June 30/07	Wendy Craigg (Deputy Chairman, Governor of the Central Bank)	June 1/05	Ex-Officio
Bernard K. Bonamy	August 29/02	June 30/07	John Archer	July 1/07	June 30/09
Tyrone Fitzgerald	October 10/06	June 30/07	Joy Jibrilu	July 1/07	June 30/09
James Gomez	November 9/04	June 30/07	Ryan Knowles	July 1/07	June 30/09
Eve Poitier	June 20/95	June 30/07	Sterling Quant	July 1/07	June 30/09
Wendy Craigg (Governor of Central Bank)	June 1/05	Ex-Officio	Kendrick Christie	October 1/07	September 30/09
Hillary Deveaux (Executive Director)	December 1/02	Ex-Officio	Hillary Deveaux (Executive Director)	December 1/02	Ex-Officio
Roger Brown (Registrar of Insurance Companies)	November 6/00	Ex-Officio	Pauline Sherman (Acting Registrar of Insurance Companies)	September 29/07	Ex-Officio

**Table 2 – Committees of the Board before July 1, 2007**

Audit & Administrative Committee	Compensation Committee	Legislative Committee	Disciplinary Committee	Hearing Panel
James Gomez, Chair	Alexander Reckley, Chair	Tonya Bastian Galanis, Chair	Alexander Reckley, Chair	Calvin Knowles, Chair
Alexander Reckley	Calvin Knowles	Calvin Knowles	James Gomez	Bernard Bonamy
Calvin Knowles	Bernard Bonamy	Alexander Reckley	Cheryl Bazard	Roger Brown
Roger Brown	Wendy Craigg	Bernard K. Bonamy	D'arcy Rahming	James Gomez
			Joseph Strachan	

**Table 3 – Committees of the Board as at December 31, 2007<sup>1</sup>**

Audit & Administrative Committee	Human Resources Committee	Disciplinary Committee <sup>2</sup>	Hearing Panel
Kendrick Christie, Chair	Joy Jibrilu, Chair	Philip Stubbs, Chair	Sterling Quant, Chair
Sterling Quant	Wendy Craigg	Ryan Knowles	John Archer
John Archer	Ryan Knowles	Cheryl Bazard	Kendrick Christie
	Pauline Sherman	D'arcy Rahming	Joy Jibrilu
		Joseph Strachan	

<sup>1</sup> The Legislative committee was discontinued.

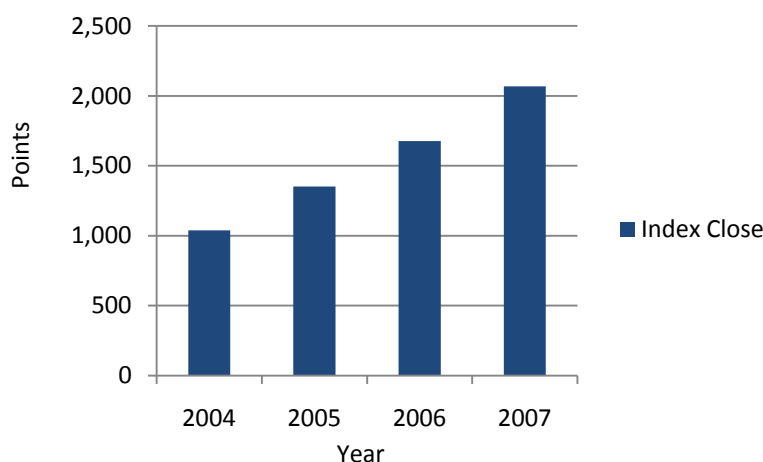
<sup>2</sup> Cheryl Bazard, D'arcy Rahming and Joseph Strachan are not Members of the Board

## AN OVERVIEW OF THE BAHAMIAN CAPITAL MARKETS

The Bahamian capital markets consist of both local and offshore (international) financial activities. The **local capital markets** consist primarily of traditional capital market products, such as equities traded on the Bahamas International Securities Exchange (BISX) or over-the-counter; corporate debt of listed companies; government treasury bills and registered stock administered by the Central Bank; and investment funds. Derivatives and asset backed securities are virtually non-existent in the local market. The **offshore capital market** is dominated by investment fund administration and management, and asset management activities that engage in the international financial market.

The 24.3% gain in market capitalisation on BISX to \$3.9 billion exceeded the year earlier advance of 20.8%. As at December 31, 2007, the market comprised of 19 equity listings. Inclusive of over-the-counter instruments and mutual funds, the total number of over-the-counter securities was unchanged at four. During 2007, domestic capital market activity registered declined in both trading volumes and values from 2006. The volume and value of securities traded on the Bahamas International Securities Exchange (BISX) fell by 9.2% to \$4.8 million and by 1.6% to \$28.3 million, respectively.

Chart 1: BISX All-Share Index 2004-2007



The BISX All Share Index increased by 325.48 points or 24.09%, closing at 2,066.75 points, a significant increase from that of the previous year where the BISX All Share Index had an increase of 390.56 points or 23.30% to close at 1,676.19 points, which, however, was slightly below the previous year growth of 24.1%. Valuation represented in the broader Fidelity Capital Market Limited's Index (FINDEX), which captures over-the-counter trading, grew by 26.4% to 938.3 points.

The investment funds industry grew in number from 723 to 782 funds (8.16%) from the previous year, the highest it has been in three years. As at December 31, 2007, there were 723 funds with a net asset value of \$297.59 billion. Domestic investment funds increased by three to nine as at the end of 2007, benefiting from the foreign exchange liberalisation effort initiated by the Central Bank in 2006. For the first time, Bahamians were allowed limited access to foreign capital markets through the purchase of foreign securities backed instruments: Bahamas Depository Receipts (BDRs). During the first quarter of 2007, two domestic licensed Broker-Dealers received an allotment of foreign exchange from the Central Bank to facilitate the introduction of the Programme.

## Categories of Registration

The Commission, as part of its mandate to maintain the integrity of the securities and capital markets and the investment funds industry, is charged with the licensing and registration of market participants. The categories of registration and licensing under the various pieces of legislation administered by the Commission are noted in table four and five:

**Table 4 – Licensees and Registrants under the Securities Industry Act, 1999**

Constitution Type	Descriptions
<b>Broker-Dealer</b>	<p>A Broker-Dealer is a company incorporated or registered under the Companies Act, 2000 that provides the services of a broker, a dealer or a broker and a dealer.</p> <p>(i) As a Broker, a Broker-Dealer may provide securities investment advice to the public and must be registered as such by the Commission.</p> <p>(ii) As a Dealer, a Broker-Dealer can trade on a Securities Exchange or deal in securities.</p> <p>Broker-Dealers are categorised into four classes, however, only Class I and Class II are currently used. A Broker-Dealer Class I can underwrite securities, however, a Broker-Dealer Class II cannot.</p>
<b>Securities Investment Advisor</b>	<p>A Securities Investment Advisor can perform the duty of:</p> <p>(i) An Investment Advisor who provides advice to others on investing in or selling securities and/or primarily engages in giving advice as it pertains to the investment of funds or</p> <p>(ii) A Portfolio Manager who manages securities portfolios for clients with regard to investments.</p>
<b>Securities Exchange</b>	A company incorporated under the Companies Act, 2000 operating in a market or other place in The Bahamas at or on which securities are offered for sale, purchase or exchange and which is registered by the Commission.
<b>Offers of Securities to the Public</b>	A prospectus is required to be lodged with and registered by the Commission before the public is invited to subscribe or is issued an application to subscribe for or to purchase securities.

**Table 5 – Licensees and Registrants under the Investment Funds Act, 2003**

Constitution Type	Descriptions
<b>Investment Fund Administrator</b>	<b>Unrestricted</b> A company licensed as an <i>Unrestricted Investment Fund Administrator</i> has the authority to licence and oversee the operations of an unlimited number of investment funds.
	<b>Restricted</b> A company licensed as a <i>Restricted Investment Fund Administrator</i> can provide Investment Fund Administrator services <b>only to</b> the investment funds licensed or registered by the Commission. A restricted licence holder <b>does not</b> have the authority to independently licence an investment fund – licensing must be from the Commission.
<b>Investment Fund</b>	<b>Professional Fund</b> This fund is available solely to accredited investors.
	<b>Standard Fund</b> This fund is generally for those that are not categorised as a Professional, SMART or Recognised Foreign Fund. An example is a retail-type fund. Standard funds can only be licensed by the Commission.
	<b>Recognised Foreign Fund</b> This fund is licensed or registered in a recognised jurisdiction or listed on a recognised foreign exchange as prescribed.
	<b>SMART Fund</b> The Specific Mandate Alternative Regulatory Test Fund (SMART Fund) is an investment fund that satisfies the parameters and requirements of a category, class or type of investment fund previously approved by the Commission.

## Supervision

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

## Authorisations

The licensing and registration of market participants entails ensuring the fitness and propriety of market participants and their associated personnel. In its evaluation of an applicant's fitness and propriety, the Commission, inter alia, confirms and assesses the applicant's financial soundness, educational and professional qualifications, character and operational capacity.

In 2007, the Commission approved a total of 183 applications out of 222 applications that were submitted. The number of applications received decreased from the previous year (265 in 2006). However, the number remained higher than those received in 2005 (197). It should be noted that some applications may be considered in a period following the initial application date. For example, an application may have been pending, or under review by the Commission in 2007, which may have been carried over from 2006.

**Table 6 – Applications of Market Participants (2005 – 2007)**

Category	Applications 2005		Applications 2006		Applications 2007	
	Received	Approved	Received	Approved	Received	Approved
Broker-Dealer Class I	3	1	4	4	4	3
Broker-Dealer Class II	4	2	3	3	1	1
Securities Investment Advisors	9	7	9	7	6	2
Unrestricted Investment Fund Administrators	1	1	1	0	3	2
Restricted Investment Fund Administrators	4	3	7	6	6	3
Professional Funds	68	66	73	65	60	46
SMART Funds	32	22	39	31	45	42
Standard Funds	11	6	15	12	15	11
Recognised Foreign Funds	65	59	114	76	74	65
Non-Bahamas Based Funds	-	-	-	-	8	8
<b>Total</b>	<b>197</b>	<b>167</b>	<b>265</b>	<b>204</b>	<b>222</b>	<b>183</b>

## Monitoring & Oversight

Off-site Supervision is the primary function of the Market Surveillance Department. In conducting this function, the Market Surveillance Department engages in a sound monitoring process that seeks to ensure registrants meet their on-going obligations under the securities legislation.

## The Securities Industry

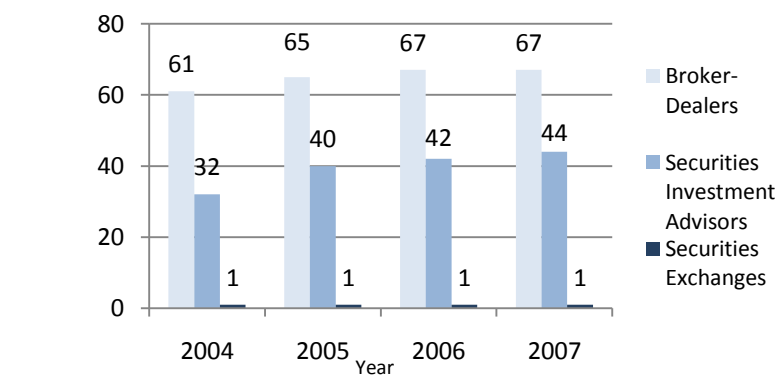
As at December 31, 2007, there were 112 registrants under the Securities Industry Act, 1999, an increase of two from that of the previous year. There were 67 Broker Dealers, 44 Securities Investment Advisors and one Securities Exchange. Despite the increase in the number of registrants in 2007, the number of Broker-Dealers remained unchanged at 67 due to a decline in the number of Broker-Dealers Class II from 51 to 49. There was an increase in the number of Securities Investment Advisors by two from 2006 to 2007.

Between year end 2004 and year end 2007, the number of Securities Investment Advisors steadily increased from 32 to 44. Broker Dealers increased from 61 to 67 during that period and the Securities Exchange remained unchanged at one as indicated in Table 7.

**Table 7 – Registrants under the Securities Industry Act, 1999- Comparative Figures**

Registrants under the Securities Industry Act, 1999						
Constitution Type			Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2007
Broker Dealer	Class I	Bank & Trust Cos.	9	10	12	11
		Non Bank & Trust Cos	3	3	4	7
	Class II	Bank & Trust Cos.	40	42	41	38
		Non Bank & Trust Cos.	9	10	10	11
	<b>Total</b>		<b>61</b>	<b>65</b>	<b>67</b>	<b>67</b>
Securities Investment Advisors		Bank & Trust Cos.	1	1	1	3
		Non Bank & Trust Cos.	31	39	41	41
		<b>Total</b>	<b>32</b>	<b>40</b>	<b>42</b>	<b>44</b>
Securities Exchanges		<b>Total</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>

**Chart 1 - Registrants under the Securities Industry Act, 1999 - Comparative Figures**





## The Investment Funds

In June 2007, the Commission launched its web based E-filing Initiative. This facility is an upgraded method of filing, which allows constituents to use an application to complete the statistical information return online rather than the excel spreadsheet that was used historically. E-Filing is intended to provide for an easier and timelier submission of industry statistics. In so doing, it also facilitates the aggregation and dissemination of this data for the mutual benefit of all.

Administrators are required to file with the Commission on a semi-annual basis (periods ending June 30 and December 31) statistical data in regard to all licensed and registered funds under their administration.

### Investment Funds Statistical Overview

The Investment Funds Industry experienced a series of growth and declines in the number of active Investment Funds between year end 2004 and year end 2007. In 2007, the number of funds in all investment fund categories, with the exception of the Professional Fund, increased from the previous year.

**Standard Funds:** The number of Standard Funds licensed with the Commission increased in 2004 and 2005. However, this number decreased to 132 funds (54% decline) in 2006. At December 31, 2007, the number of Standard Funds totalled 144.

**Professional Funds:** The number of Professional Funds in 2004 stood at 337, however, by the end of 2007 that number declined to 286.

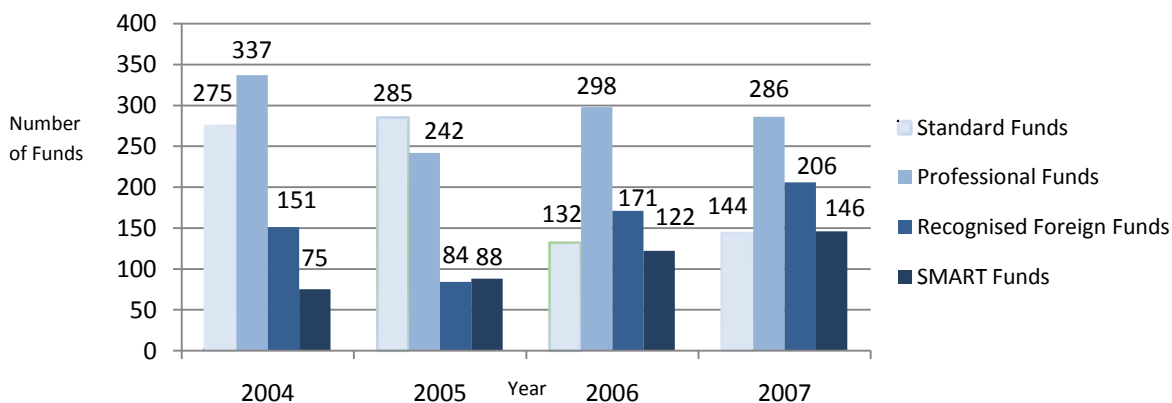
**SMART Funds:** The SMART Fund is the only type of fund that did not experience a decline between 2004 and 2007. SMART Funds steadily increased from 75 to 146.

**Table 8 – Number of Investment Funds as at December 31, 2007**

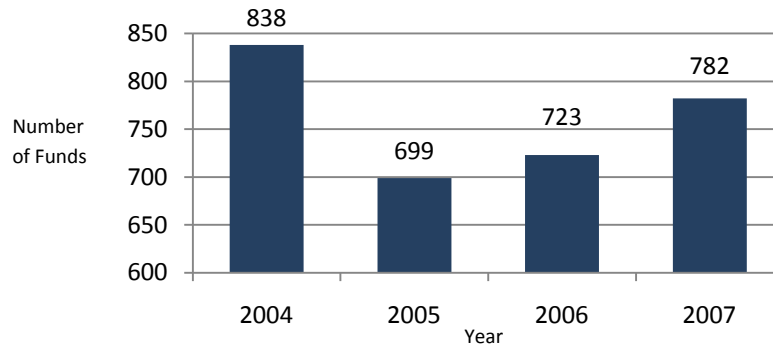
Classification	Number of Funds
Standard Funds	144
Professional Funds	286
Recognised Foreign Funds	206
SMART Funds	146
<b>Total</b>	<b>782</b>
<b>Total Net Asset Value (Billions)</b>	<b>\$297.59</b>

**Recognised Foreign Funds:** The total number of Recognised Foreign Funds declined from 151 to 84 in 2004 and 2005. However, the number of funds increased from 171 in 2006 to 206 in 2007.

**Chart 2 – Number of Investment Funds by category as at December 31, 2007**



**Chart 3 – Number of all Investment Funds as at December 31, 2007**



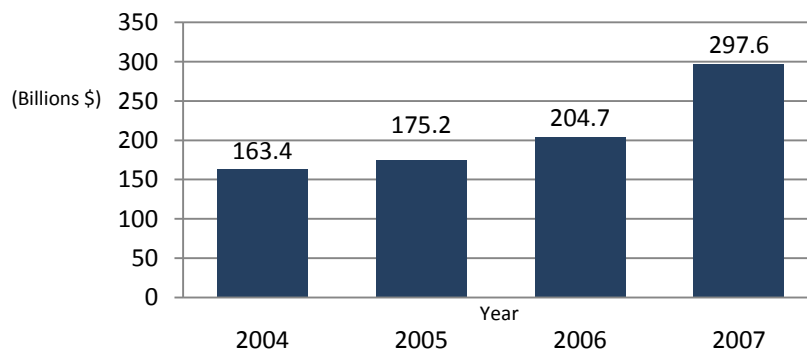
As at December 31, 2007, there were a total of 64 Investment Fund Administrators authorised under the Investment Funds Act, 2003; an increase of three from that of the previous year. The number of Unrestricted Investment Fund Administrators declined by two in 2007, however, the number of Exempt Investment Fund Administrators, exempted from licensing, remained unchanged at two and the number of Restricted Investment Fund Administrators increased by five.

**Table 9 - Administrators under the Investment Funds Act, 2003  
Comparative Figures**

Licensed Administrators under the Investment Funds Act, 2003				
Administrator Category	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2007
Unrestricted	38	38	37	35
Restricted	18	19	22	27
Exempt	3	2	2	2
<b>Total</b>	<b>59</b>	<b>59</b>	<b>61</b>	<b>64</b>

The investment funds industry of The Bahamas has continued to grow – not only by the steady increase of funds licensed and registered in the jurisdiction, but also by the increase in total net asset value of funds. The chart below depicts this increase.

**Chart 4 - Growth of Investment Funds (Net Asset Values) as at December 31, 2007.**



## On-site Inspections

On-site supervision is the primary function of the Inspections Department. On-site supervision takes the form of a Routine Examination or an Inspection for Cause. A Routine Examination is scheduled based on the Commission's assessment of risk. An Inspection for Cause is conducted based upon some underlying reason such as a customer complaint or some credible information.

The table below shows the number of inspections conducted between 2005 and 2007.

**Table 10 – On-site Inspections as at December 31, 2007**

Registrant Type	2005		2006		2007	
	Routine	Inspections for Cause	Routine	Inspections for Cause	Routine	Inspections for Cause
Broker-Dealer Class I	2	-	-	-	1	-
Broker-Dealer Class II	3	1	3	-	4	-
Securities Investment Advisors	5	-	5	-	6	-
Investment Fund Administrators	2	-	1	-	5	-
<b>Total</b>	<b>13</b>		<b>9</b>		<b>16</b>	

## Enforcement

In 2007, the Commission worked diligently to ensure that the investing public was adequately advised of information that may be pertinent to their investment decision-making process. With the assistance of the Market Surveillance Department, the Inspections Department and the Office of Legal Counsel, the Commission sought to ensure that market participants were compliant with all applicable legislation.

Within the Commission's disciplinary process, four matters were forwarded to the Hearing Panel from the Disciplinary Committee, all of which were resolved. These four matters were carried over from the Disciplinary Committee proceedings in 2006.

### LEGISLATIVE UPDATES

For the period under review, the Commission made several legislative amendments and updates to assist in the continued enhancement and growth of the investment funds, securities and capital markets. The legislative updates include:

#### ***Securities Industry Act, 1999***

##### *Cooperation with Other Financial Regulators*

In January 2007, Section 34 of the Securities Industry Act, 1999 was amended to extend the Commission's authority to require that any Financial Institution under the Financial Transactions Reporting Act, 2000 or any person regulated under the Securities Industry Act, 1999 supply the Commission with any requested document or other information.

##### *Draft Securities Industry Act*

Based on internal and external reviews of the jurisdiction's regulatory standards, it was determined that the development of a more comprehensive securities legislation would be necessary – the draft Securities Industry Act, 2008 (draft Act).

The draft Act brings about a more flexible legislative structure that will allow the Commission to respond quickly and effectively to changes within the industry. The approach to the draft Legislation was to include key legal obligations in the draft Act itself and detailed requirements prescribed in the Regulations and Rules.

Specifically, the draft legislation focuses on: establishing a system of registration by function rather than by title; enhancing investigative and enforcement powers; clarifying the regime for information sharing; and addressing general issues aimed at ensuring that the Commission's activities keep pace with international regulatory developments and standards. The draft Securities Industry Regulations, are expected to be drafted for public consultation by the end of 2008 or early 2009.

#### ***Investment Funds Act, 2003***

##### *Cooperation with other Financial Regulators*

In addition to the changes to the Securities Industry Act, 1999 an amendment was made to Sub-Section 59(8) of the Investment Funds Act, 2003. This amendment allows the Commission to cooperate with any other regulatory authority in The Bahamas as it pertains to the sharing of information.

### POLICY DEVELOPMENTS

#### ***BISX Fee Schedule***

The Bahamas International Securities Exchange (BISX), pursuant to Section 93(d) of the Securities Industry Act, 1999 solicited a reduction in the annual fee for securities exchanges from twenty-five thousand dollars per annum to ten-thousand dollars per annum, which was approved by the Minister of Finance in 2007.

Continued dialogue has been maintained with our international partners through the International Organizations of Securities Commissions (IOSCO) and the Inter-American Regional Committee (IARC) of IOSCO more commonly referred to as the Council of Securities Regulators of the Americas (COSRA). In addition, the Commission is also a member of the Group of Financial Services Regulators (GFSR).

### **IOSCO/COSRA**

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

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

### **Group of Financial Services Regulators**

Since 2001, the Commission has been a member of the Group of Financial Services Regulators, a domestic body comprised of the five regulators responsible for the regulation of the financial services sector. Members comprise: The Central Bank of The Bahamas; The Securities Commission of The Bahamas; The Registrar of Insurance Companies; The Compliance Commission; and The Inspector of the Financial and Corporate Service Providers. This Group was established to focus on the harmonisation of the regulatory regime in the country. In October 2002, the GFSR executed a Memorandum of Understanding (MoU), which formally provides for information sharing, inter-regulatory cooperation and harmonisation of policies and practices between the listed regulators.

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

OGCISS meetings are designed to provide a forum for the exchange of ideas and information among persons who regulate and supervise collective investment schemes. The Commission hosted the 2007 annual meeting and will participate in the 2008 meeting, which will be held in Panama.

The Commission recorded an operating deficit of \$1.395 million for 2007, representing a 17% increase of \$199,183 from \$1,196,007 in the previous year. Operating income decreased by 4% to \$2.049 million from \$2.140 million in 2006, while operating expenses increased by 3% to \$3.444 million from \$3.336 million over the prior year. In 2007, there were no initial public offerings registered with the commission, resulting in the decrease in operating income. The increase in operating expenses was due mainly to a 17% increase in salaries and benefits of \$318,149 netted against an 81% decrease in professional fees of \$237,596 when compared to 2006.

Despite the increase in the operating deficit of \$199,183, the accumulated fund deficit position improved by \$104,810, from a deficit of \$118,221 in 2006 to a deficit of \$13,411 in 2007. The operating deficit was offset by an increase in government funding of \$500,000 from the \$1 million injected during 2006.

The Auditor's report again emphasised that 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.

**SECURITIES COMMISSION  
OF THE BAHAMAS**

Financial Statements

Year ended December 31, 2007



**KPMG**  
PO Box N 123  
Montague Sterling Centre  
East Bay Street  
Nassau, Bahamas

Telephone 242 393 2007  
Fax 242 393 1772  
Internet [www.kpmg.com.bs](http://www.kpmg.com.bs)

## **INDEPENDENT AUDITORS' REPORT**

To The Members of Securities Commission of The Bahamas

We have audited the accompanying financial statements of the Securities Commission of The Bahamas ("the Commission") which comprise the balance sheet as at December 31, 2007, and the related statements of operations, accumulated operating deficit and reserve funds and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *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 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 our 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, we consider internal control relevant to the Commission'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 Commission'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 Securities Commission of The Bahamas as of December 31, 2007, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Emphasis of matter*

Without qualifying our opinion, we draw attention to note 11 to the financial statements. The Commission incurred an operating deficit for the year of \$1,395,190 (2006 – \$1,196,007) before Government funding of \$1,500,000 (2006 – \$1,000,000) and current liabilities exceeded current assets. As at December 31, 2007, the accumulated operating deficit and reserve funds had a net deficit of \$13,411 (2006 – net deficit of \$118,221). 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.

A handwritten signature in black ink, appearing to read 'KPMG' followed by a stylized flourish or signature mark.

Nassau, Bahamas  
June 19, 2009

## SECURITIES COMMISSION OF THE BAHAMAS

### Balance Sheet

December 31, 2007, with corresponding figures for 2006  
(Expressed in Bahamian dollars)

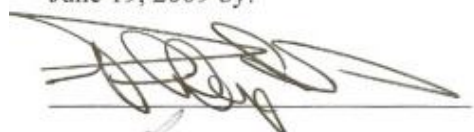
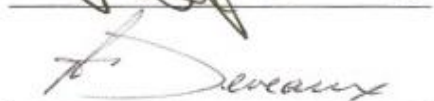
	2007	2006
<b>Assets</b>		
Current assets:		
Cash at bank and on hand	\$ 18,022	7,520
Accounts receivable (note 4)	134,587	118,291
Deposits and prepaid expenses	120,464	10,728
	273,073	136,539
Equipment (note 6)	138,252	168,269
	\$ 411,325	304,808

### Liabilities and Accumulated Operating Deficit and Reserve Funds

Current liabilities:		
Bank overdraft (note 5)	\$ 70,218	30,787
Deferred revenue (note 7)	155,850	86,758
Accounts payable and accrued expenses (note 12)	198,668	305,484
	424,736	423,029
Accumulated Operating Deficit and Reserve Funds (notes 8 and 11)	(13,411)	(118,221)
Commitments and contingencies (note 9)		
	\$ 411,325	304,808

See accompanying notes to financial statements.

These financial statements were approved for issue on behalf of the Members of the Board on  
June 19, 2009 by:

Chairman

Executive Director

# SECURITIES COMMISSION OF THE BAHAMAS

## Statement of Operations

Year ended December 31, 2007, with corresponding figures for 2006 (Expressed in Bahamian dollars)

	2007	2006
Operating income:		
Fee income:		
Investment funds:		
Registration and licence fees	\$ 573,735	564,137
Principal office fees	288,775	286,575
Application fees	108,933	104,150
Investment fund administrators:		
Administrator licence fees	491,351	451,033
Administrator application fees	32,000	16,000
Broker - dealer fees:		
Registration and licence fees	417,600	407,600
Application fees	17,525	22,200
Securities investment:		
Advisor registration and licence fees	48,163	46,583
Advisor application fees	2,800	5,817
Associated person:		
Registration and licence fees	6,658	3,717
Application fees	1,825	575
Securities exchange registration and licence fees	25,000	25,000
Fees from public offerings	—	123,350
Penalty fees	11,050	38,600
Examination fees	5,125	7,225
Total fee income	2,030,540	2,102,562
Miscellaneous income	18,243	37,354
Gain on sale of equipment	—	400
	2,048,783	2,140,316
Operating expenses:		
Salaries, wages and benefits (notes 10 & 12)	2,237,946	1,919,797
Rent for office and parking	307,948	311,472
Travel and entertainment (note 12)	223,044	233,073
Professional fees	55,725	293,321
Utility and property charges	151,476	156,175
Depreciation (note 6)	84,445	86,117
Office expenses	78,819	72,425
Members' honouraria (note 12)	57,875	59,500
Disciplinary Committee honouraria (note 12)	19,500	—
Training and seminars	71,175	56,743
Telephone	56,634	59,758
Advertising	34,060	17,603
Printing	3,032	6,950
Membership and publications fees	18,580	13,836
Computer expenses	16,800	15,943
Examination expenses	3,285	6,470
Sundry	10,208	4,929
Finance charges (note 5)	13,421	22,211
	3,443,973	3,336,323
Operating deficit for the year	\$ (1,395,190)	(1,196,007)

See accompanying notes to financial statements

## SECURITIES COMMISSION OF THE BAHAMAS

### Statement of Accumulated Operating Deficit and Reserve Funds

Year ended December 31, 2007, with corresponding figures for 2006 (Expressed in Bahamian dollars)

	Government Funding	Accumulated Operating Deficit	Total
Balance at December 31, 2005	\$ 5,909,443	(5,831,657)	77,786
Government funding	1,000,000	—	1,000,000
Operating deficit for the year	—	(1,196,007)	(1,196,007)
Balance at December 31, 2006	6,909,443	(7,027,664)	(118,221)
Government funding	1,500,000	—	1,500,000
Operating deficit for the year	—	(1,395,190)	(1,395,190)
Balance at December 31, 2007	\$ 8,409,443	(8,422,854)	(13,411)

See accompanying notes to financial statements.

# SECURITIES COMMISSION OF THE BAHAMAS

## Statement of Cash Flows

Year ended December 31, 2007, with corresponding figures for 2006 (Expressed in Bahamian dollars)

	2007	2006
Cash flows from operating activities:		
Operating deficit for the year	\$ (1,395,190)	(1,196,007)
Adjustments for:		
Depreciation	84,445	86,117
Gain on disposal of equipment	—	(400)
Cash used in operations before changes in operating assets and liabilities	(1,310,745)	(1,110,290)
(Increase)/decrease in accounts receivable	(16,296)	22,554
(Increase)/decrease in deposits and prepaid expenses	(109,736)	26,844
Increase/(decrease) in deferred revenue	69,092	(13,653)
(Decrease)/increase accounts payable and accrued expenses	(106,816)	135,111
Net cash used in operating activities	(1,474,501)	(939,434)
Cash flows from investing activities:		
Purchases of equipment (note 5)	(54,428)	(69,505)
Proceeds from disposal of equipment	—	400
Net cash used in investing activities	(54,428)	(69,105)
Cash flows from financing activities:		
Government funding	1,500,000	1,000,000
Net cash provided by financing activities	1,500,000	1,000,000
	(28,929)	(8,539)
Net decrease in cash and cash equivalents		
Cash and cash equivalents, beginning of year	(23,267)	(14,728)
Cash and cash equivalents, end of year	\$ (52,196)	(23,267)
Cash and cash equivalents are comprised:		
Cash at bank and on hand	\$ 18,022	7,520
Bank overdraft	(70,218)	(30,787)
Cash and cash equivalents, end of year	\$ (52,196)	(23,267)

See accompanying notes to financial statements.

# SECURITIES COMMISSION OF THE BAHAMAS

## Notes to Financial Statements

### Year ended December 31, 2007 (Expressed in Bahamian dollars)

#### **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, which was repealed by Section 98 of the Securities Industry Act, 1999, on the renaming of the Commission. 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 investment funds industry in The Bahamas.

Effective November 2000, licensed 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 also earns fee income from broker-dealers, securities 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. Basis of preparation**

##### *(a) Statement of compliance*

These financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”).

In preparing these financial statements, the Commission has adopted IFRS 7 – *Financial Instruments: Disclosures* which came into effect from January 1, 2007. The adoption of IFRS 7 impacted the type and amount of disclosures made in these financial statements, but had no impact on the reported profits or financial position of the Commission. In accordance with the transitional requirements of the Standards, the Commission has provided full comparative information.

##### *(b) Functional and presentation currency*

The financial statements are presented in Bahamian dollars, the Commission’s functional and presentation currency.

##### *(c) Basis of measurement*

The financial statements are prepared on a historical cost basis.

# SECURITIES COMMISSION OF THE BAHAMAS

## Notes to Financial Statements

### Year ended December 31, 2007 (Expressed in Bahamian dollars)

#### **2. Basis of preparation** *(continued)*

##### *(d) Use of estimates and judgments*

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, and the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in note 3(b) and 3(d).

#### **3. Significant accounting policies**

The accounting policies have been applied by the Commission consistently and are consistent with those used in the previous year.

##### *(a) Equipment*

Equipment is stated at cost less accumulated depreciation and impairment losses.

Expenditure incurred in the replacement of equipment is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the equipment. All other expenditure is recognised in the statement of operations as an expense as incurred.

Depreciation is charged to the statement of operations on a straight-line basis over the estimated useful lives of the equipment 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.

# SECURITIES COMMISSION OF THE BAHAMAS

## Notes to Financial Statements

### Year ended December 31, 2007 (Expressed in Bahamian dollars)

#### **3. Significant accounting policies** *(continued)*

##### *(b) Impairment*

The carrying amounts of the Commission's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of operations.

An impairment loss in respect of a receivable is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of equipment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

##### *(c) Operating leases*

Lease rentals relating to office spaces are recognised as an expense in the statement of operations on a straight-line basis over the lease term.

##### *(d) Accounts receivable and accounts payable*

Accounts receivable are stated at cost less provision for doubtful accounts and impairment.

Accounts payable are stated at cost.

##### *(e) Cash and cash equivalents*

Cash and cash equivalents represent petty cash, demand cash at bank less bank overdraft.

##### *(f) Government grants*

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

##### *(g) Income*

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

##### *(h) 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.



# SECURITIES COMMISSION OF THE BAHAMAS

## Notes to Financial Statements

### Year ended December 31, 2007 (Expressed in Bahamian dollars)

#### 3. Significant accounting policies *(continued)*

##### *(i) IFRSs not yet effective*

Up to the date of these financial statements, the International Accounting Standards Board has issued a number of new standards, amendments to existing standards and interpretations which are not yet effective for the year ended December 31, 2007 and which have not been adopted in these financial statements.

The Commission is in the process of making an assessment of what the impact of these new standards, amendments to existing standards and interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Commission's financial position.

#### 4. Accounts receivable

	2007	2006
Investment funds and administrators	\$ 42,617	41,076
Broker-dealers, securities advisors and associated persons	76,063	50,386
Other receivables	15,907	26,829
	134,587	118,291
Less: allowance for doubtful accounts	-	-
	\$ 134,587	118,291

The aging analysis of accounts receivable as at December 31 is as follows:

##### 2007

	0-60 days	61 - 120 days	> 120 days	Past due and impaired	Total
	\$	\$	\$	\$	\$
Investment funds and administrators	8,959	10,062	23,596	—	42,617
Broker-dealers, security advisors & associated persons	7,971	100	67,992	—	76,063
Other receivables	541	1,432	13,934	—	15,907
Total	17,471	11,594	105,522	—	134,587

# SECURITIES COMMISSION OF THE BAHAMAS

## Notes to Financial Statements

### Year ended December 31, 2007 (Expressed in Bahamian dollars)

#### 4. Accounts receivable *(continued)*

2006

	0-60 days	61 - 120 days	> 120 days	Past due and impaired	Total
	\$	\$	\$	\$	\$
Investment funds and administrators	27,245	3,425	10,406	—	41,076
Broker-dealers, security advisors & associated persons	13,283	34,688	2,415	—	50,386
Other receivables	4,512	—	22,317	—	26,829
<b>Total</b>	<b>45,040</b>	<b>38,113</b>	<b>35,138</b>	<b>—</b>	<b>118,291</b>

#### 5. Bank Overdraft

The Commission has a bank overdraft facility amounting to \$750,000 (2006 - \$750,000) and it bears interest at Bahamian Dollar Prime plus 1% per annum, which is 6.5% (2006 - 7%). The Government of the Bahamas issued a letter of comfort dated June 21, 2004 as security for the bank overdraft facility.

#### 6. Equipment

	Computer equipment	Furniture & fittings	Vehicles	Total
Cost, December 31, 2006	\$ 402,176	358,099	59,940	820,215
Additions	47,676	6,752	—	54,428
<b>Cost, December 31, 2007</b>	<b>\$ 449,852</b>	<b>364,851</b>	<b>59,940</b>	<b>874,643</b>
Accumulated depreciation, December 31, 2006	\$ 312,645	299,728	39,573	651,946
Charge for the year	47,199	25,257	11,989	84,445
<b>Accumulated depreciation, December 31, 2007</b>	<b>\$ 359,844</b>	<b>324,985</b>	<b>51,562</b>	<b>736,391</b>
<b>Net book value, December 31, 2007</b>	<b>\$ 90,008</b>	<b>39,866</b>	<b>8,378</b>	<b>138,252</b>
<b>Net book value, December 31, 2006</b>	<b>\$ 89,531</b>	<b>58,371</b>	<b>20,367</b>	<b>168,269</b>

# SECURITIES COMMISSION OF THE BAHAMAS

## Notes to Financial Statements

### Year ended December 31, 2007 (Expressed in Bahamian dollars)

#### 7. Deferred revenue

	2007	2006
Investment Fund	\$78,100	54,050
Security Firms	77,750	32,708
	\$155,850	86,758

#### 8. 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.

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 in the current and prior year there were no surplus funds available from operations.

#### 9. Commitments and contingencies

- (i) The Commission has leased office space under two lease agreements that were renewed on February 1, 2006 for a period of 3 years, with the option to renew them for a further 3 years. The annual lease payments will be determined at the time of renewal using a price index. The future minimum lease payments are as follows:
  - Within one year \$ 284,648
  - More than one year and less than five years 23,721
- (ii) In the normal course of its business, the Commission is involved in various legal proceedings arising out of and incidental to its operations. Management of the Commission does not anticipate that the losses, if any, incurred as a result of these legal proceedings will materially affect the financial position of the Commission.

The Commission is the defendant in a legal action brought against it by a former employee. The Commission's attorneys have not quantified the amount of the claim and have advised that the plaintiff is not expected to succeed.

# SECURITIES COMMISSION OF THE BAHAMAS

## Notes to Financial Statements

### Year ended December 31, 2007 (Expressed in Bahamian dollars)

#### **10. 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 \$157,314 (2006 - \$126, 402) and are included in salaries, wages and benefits in the statement of operations.

During 2007 Colina Financial Advisors reimbursed the Commission \$48,716 (2006 \$54,796) for the unvested portion of pension contributions made on behalf of individuals that ceased employment with the Commission, and is included in salaries, wages and benefits in the statement of operations.

#### **11. Going concern**

The accompanying financial statements have been prepared on the basis that the Commission will continue as a going concern. Notwithstanding the fact that:

- (a) the Commission experienced an operating deficit for the year of \$1,395,190 (2006 – \$1,196,007) before Government funding of \$1,500,000 (2006 – \$1,000,000);
- (b) the accumulated operating deficit and reserve funds had a net deficit of \$13,411 (2006 – net deficit of \$118,221); and
- (c) current liabilities exceeded current assets,

management considers the Commission to be a going concern based on its expectation that the Government of the Commonwealth of The Bahamas will continue to provide financial support as needed. 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 of the Commonwealth of The Bahamas.

Subsequent to the year end the Commission received Government funding in the amount of \$1,400,000 in respect of the financial year 2008. In respect of the financial year 2009, the Commission received funding of \$400,000 out of the \$1,400,000 allocated from the Government.

#### **12. Related party transactions and balances**

##### *Honouraria to members*

Included in the statement of operations is \$57,875 (2006 - \$59,500) as honouraria to the members of the Board. Also included is \$19,500 (2006 - \$Nil) as honouraria to the members of the Commission's Disciplinary Committee.

# SECURITIES COMMISSION OF THE BAHAMAS

## Notes to Financial Statements

### Year ended December 31, 2007 (Expressed in Bahamian dollars)

#### **12. Related party transactions and balances** *(continued)*

*Travel and entertainment* Included in the statement of operations is \$64,492 (2006 - \$82,281) relating to travel and entertainment expense related to members of the board incurred in the conduct of Commission business.

*Executive remuneration and pension contributions*

Included in salaries, wages and benefits in the statement of operations is remuneration of \$744,062 (2006 - \$636,403) and pension contributions of \$29,217 (2006 - \$25,667) relating to key management personnel. Included in accounts payable and accrued expenses in the balance sheet is \$2,000 (2006 - \$4,038) accrued for key management personnel remunerations.

#### **13. Financial instruments and associated risks**

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

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Commission is exposed to credit risk on accounts receivable and provides for amounts not considered to be collectible.

Liquidity risk is the risk that the entity will encounter difficulty in meeting commitments associated with financial liabilities, arises because of the possibility that the entity could be required to pay its liabilities earlier than expected. The Commission is exposed to liquidity risk on accounts payable and accrued expenses. The Commission's overdraft facility is available to meet these commitments if they were to become due immediately.







**THE SECURITIES COMMISSION OF THE BAHAMAS**  
3<sup>rd</sup> Floor, Charlotte House, Shirley & Charlotte Sts.  
P.O. Box N-8347, Nassau, Bahamas  
**T:** 242-356-6291, **F:** 242-356-7530  
**E:** [info@scb.gov.bs](mailto:info@scb.gov.bs), **W:** [www.scb.gov.bs](http://www.scb.gov.bs)