



# Annual Report



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Securities Commission of The Bahamas



## **M**ission **S**tatement

**"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."**



28 June, 2010

The Rt. Hon. Hubert A. Ingraham  
Prime Minister and Minister of Finance  
Office of the Prime Minister  
Cecil Wallace-Whitfield Centre  
Cable Beach  
Nassau, N.P., Bahamas

Dear Prime Minister:

In accordance with Section 14(1) of the Securities Industry Act, 1999, I have the honour of submitting to you, on behalf of the Members of the Securities Commission of The Bahamas, the Annual Report for the Commission for the year 2009. Included in this report is the Annual Statement of Accounts of the Commission for the year.

Yours Sincerely,

Philip Stubbs  
Chairman



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## THE BOARD

AS AT 31 DECEMBER 2009



PHILIP STUBBS – CHAIRMAN



WENDY CRAIGG – DEPUTY CHAIRMAN  
EX-OFFICIO MEMBER  
GOVERNOR OF THE CENTRAL BANK



JOHN ARCHER  
MEMBER



DEBORAH BASTIAN  
MEMBER



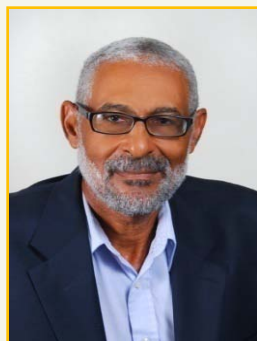
MAITLAND CATES  
MEMBER



RYAN KNOWLES  
MEMBER



LENNOX MCCARTNEY  
EX-OFFICIO MEMBER  
SUPERINTENDENT OF THE INSURANCE  
COMMISSION



STERLING QUANT  
MEMBER



HILLARY DEVEAUX – EXECUTIVE DIRECTOR  
EX-OFFICIO MEMBER

I am pleased to present the Annual Report of the Securities Commission of The Bahamas for 2009.

During most of 2009, many of the world's economies continued to be adversely affected by the global financial crisis and the ensuing recession. These events continued to challenge regulators and their roles and functions came under increased scrutiny. The Bahamas is tied to the global economy, and while the initial impact of the crisis was felt primarily through the reduction in revenue from the tourism and financial services sectors, there was growing disquiet about the viability and competitiveness of our financial services sector. In addition, concerns were raised regarding the survival of entities whose securities are traded in our local markets. At the international level, increased focus continued to be directed toward offshore financial centres with their activities being subjected to greater global regulation.



The challenges of operating in such a dynamic environment played an integral part in the planning and strategic direction of the Commission. A fundamental aspect of the 2009 goals was an assessment of the environmental, regulatory and operational risks facing the Commission. One of the means used to achieve this was the Commission's participation in a pre-Financial Sector Assessment Program (FSAP) that was undertaken by all of the financial services regulators. The Commission's assessment focused on its adherence to and application of the international standards of securities regulation; these standards are the Objectives and Principles of Securities Regulation as promulgated by the International Organization of Securities Commissions (IOSCO). The FSAP has resulted in the Commission's focus being directed in the following areas:

- Implementation of the draft Securities Industries Act and Regulations;
- Strengthening of the regulatory oversight, especially surveillance of the capital markets; and
- Continued development of a comprehensive database system to support regulatory functions, statistical information and financial administration.

2009 also witnessed other achievements:

- Improvements in governance, through enhanced financial reporting, improved strategic planning and the integration of an internal audit function;
- Legislative developments through the ongoing consultative process for the new SIA, amendments to the Investment Funds Act, and commencement of a review of the Financial and Corporate Service Providers Act; and
- Signing on as a signatory 'B' to IOSCO's Multilateral Memorandum of Understanding.

In speaking of these accomplishments, I acknowledge, with many thanks, the hard work and dedication of my fellow Members, management team and staff of the Commission. The achievements noted in this Report reflect your commitment to attaining the elevated standards we have set for ourselves amidst a demanding financial and regulatory environment.

*Philip Stubbs*  
**Chairman**

### **ROLE OF THE BOARD**

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

### **MEMBERSHIP**

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 7, all of whom are appointed at the discretion of the Minister of Finance. The Chairman holds office for a period of 5 years. The Deputy Chairman and other Commission Members hold their offices for a period not to exceed 4 years. All Commission Members including the Chairman are eligible for reappointment.

There are 3 ex-officio Members of the Commission, the Executive Director of the Commission, the Governor of the Central Bank of The Bahamas and the Superintendent of the Insurance Commission of The Bahamas. Other Members are chosen to serve on the Board based on their experience and expertise in the disciplines of commerce, law, finance, economics and administration.

### **COMMITTEES OF THE BOARD**

Committees were established to assist the Board in carrying out its role. As at 31 December 2009, there were 2 Board-established committees. The Committees are as follows:

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

**Human Resources Committee** – This committee assists the Commission in establishing and reviewing remuneration and other policies for all employees of the Commission. The committee is also responsible, by way of policies and packages, for providing employees with appropriate incentives to encourage enhanced performance, rewarding them for their individual contributions to the success of the Commission, and to the extent possible, ensuring that they are competitive to current industry standards.

### **DISCIPLINARY PROCEEDINGS OF THE BOARD**

The Commission, as a part of its function to maintain the integrity of the investment funds, securities and capital markets, has the authority to conduct investigations and hearings. The Board carried out these functions via 2 standing statutory bodies. These bodies are as follows:

**Hearing Panel** – This Panel 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 Investment Funds Act, 2003.

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



### BOARD TERMS

The Membership of the Board remained relatively stable during the year, with the only variation occurring when Mrs. Joy Jibrilu resigned on 31 March 2009 and was succeeded by Ms. Deborah Bastian. No other change is anticipated as the terms of the Board extend to 2011. Ms. Mechelle Martinborough, Legal Counsel remained as the Secretary to the Board.

Table 1: Terms of the Board Members as at 31 December 2009

Name	Appointed	Expiration of Term
Philip Stubbs (Chairman)	July/07	July/12
Wendy Craigg (Deputy Chairman)	June/05	Ex-Officio
John Archer	July /07	July/11
Deborah Bastian	March/09	March/11
Maitland Cates	August/08	October/11
Ryan Knowles	July/07	July/11
Lennox McCartney	February/08	Ex-Officio
Sterling Quant	July/07	July/11
Hillary Deveaux	December/02	Ex-Officio

### BOARD COMMITTEES & MEMBERS

There were no changes to the Board committees; however the composition was affected by the resignation of Mrs. Jibrilu and subsequent replacement by Ms. Bastian as well as the replacement of Mrs. Wendy Craigg by Mr. Maitland Cates on the Human Resources committee. Additionally Mr. Cates was added, as an alternate on the Disciplinary Committee.

Table 2: Committees and Members of the Board as at 31 December 2009

Audit Committee	Human Resources Committee	Disciplinary Committee	Hearing Panel
Lennox McCartney, Chair	Deborah Bastian, Chair	Philip Stubbs, Chair	Sterling Quant, Chair
John Archer	Maitland Cates	Ryan Knowles	John Archer
Sterling Quant	Philip Stubbs	Cheryl Bazard*	Deborah Bastian
Philip Stubbs		D'arcy Rahming*	Wendy Craigg (Alternate)
		Joseph Strachan*	Lennox McCartney (Alternate)
		Maitland Cates (Alternate)	

\*Non-Board Members

### ACTIVITIES OF THE BOARD

The Board held 9 regular meetings during the year and 4 extraordinary meetings. Eleven (11) Audit Committee, 1 Disciplinary Committee and 2 Hearing Panel meetings were also held. In addition, Members used the round robin process in lieu of meetings 20 times during the year to expedite the approval of matters requiring more immediate action.

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## MANAGEMENT TEAM

AS AT 31 DECEMBER 2009

**HILLARY DEVEAUX**

Executive Director

**MECHELLE MARTINBOROUGH**

Legal Counsel

**PEGGY KNOWLES**

Authorisations Department  
(Acting)

**SANDRA DUNCOMBE**

Market Surveillance  
(Acting)

**ADDIE WINDER**

Inspections Department

**JESSIKA SAWYER**

Policy and Research Department

**DEBORAH BURROWS**

Corporate Affairs Department

**MONIQUE SANDS**

Financial Controller

**CHARLES McKENZIE**

Information Technology Unit

The nature and scope of activities carried out by the Commission are defined by its mandate. However, developments associated with fluctuations in size and the underlying complexity of the financial markets require the Commission to position itself to meet shifting conditions. In this regard the strategic objectives for 2009 focused on strengthening the operational, business and legislative capabilities, and enhancing corporate governance. These goals resulted in a number of specific initiatives which were closely monitored to ensure success. Notwithstanding the defined program, a number of broader challenges faced the institution over the year, some resulting in the Commission pursuing disciplinary and enforcement actions and others relating to the overall development of the industry. Highlights of the year's activities and achievements are detailed below.



### **Enhancing the Operational Environment**

During the review period, the Commission revised the operational standards in all areas of its business. One crucial component was the strengthening of the operational environment. This was partially achieved through the implementation of recommendations from internal audit reviews of the key operational processes and supervisory departments. As a result there were improvements to some of the internal processes and procedures, as well as the formalisation and documentation of essential policies.

Building upon the developments within its operational environment, a number of projects, aimed at enhancing the business capabilities, were executed. This included the streamlining of the licensing process, specifically as it pertained to the delegated authority granted to the Executive Director for the administration of the Financial and Corporate Service Providers Act, 2000 (FCSPA, 2000). Additionally there was the inclusion of several SMART (Specific Mandate Alternative Regulatory Test) Fund Models into the Commission's Fast Tracking process, which allowed all funds offered to accredited investors to make applications for licensing under an expedited process.

Another critical undertaking was the strengthening of mechanisms that support the supervisory review, such as the refinement of the Commission's internal database. Changes to the database systems included the implementation of various controls and the refinement of reporting tools. These upgrades enhanced the ability to track the progress of applications and supporting documents, thus increasing the efficiency and the turn-around time for the processing of complete applications. Modifications to the billing infrastructure to facilitate the inclusion of Financial and Corporate Service Providers into the billing arrangement were also completed.

### **Enhancements to the Regulatory Framework**

To further strengthen the legislative framework and align practices with the requirements of the industry, the Commission worked to finalise the draft securities legislation and amended the Investment Funds Act, 2003 (IFA, 2003), the SMART Fund Rules and the FCSPA, 2000. These provided significant business enhancements such as removing the nexus of the investment manager/adviser as a requirement for the licensing of a fund; lengthening the time for the submission of audited financial statements to meet the needs of the market; and improving the licensing arrangements for Financial and Corporate Service Providers. In addition, several policy positions were formalised and shared with the industry including the issuance of the Statement of Practice on Physical Presence and the Anti-Money Laundering and Countering the Financing of Terrorism guidelines.

Other related matters included the achievement of Signatory 'B' status with respect to the International Organization of Securities Commission's Multi-lateral Memorandum of Understanding and the commitment to move towards Signatory 'A' status. This was a major accomplishment for the industry as it affirmed the country's

commitment to maintaining a well regulated jurisdiction and provided evidence of good citizenship in the global financial market.

**Engaging Industry Stakeholders**

The continued development and maintenance of strong working relationships with the industry was a pivotal objective for 2009. This was achieved through active consultation with industry participants on systemically important matters; hosting and participating in meetings and other forums with the relevant public and private sector representatives; and strengthening the communication links between licensees/registrants and the officers assigned to their portfolios. These activities facilitated the understanding of the industry's concerns and laid the foundation necessary to construct practical and balanced approaches to changing the regulatory regime.

The Commission's Annual Industry Briefing, held 16 February 2009, provided an opportunity to apprise stakeholders of the Commission's accomplishments for the previous period as well as its plans for 2009. In addition to the 2009 Industry Briefing, an impressive and intense consultation initiative was launched to support the release of the draft securities legislation. This consultation effort combined multiple media presentations and high-level focus group discussions.

As a part of the Group of Financial Services Regulators, the Commission participated in the Group's Forum session geared towards providing an overview of the various revisions made to the pieces of financial legislation relating to Anti-Money Laundering and Countering the Financing of Terrorism.

The Commission looks forward to building on the achievements of 2009 to position itself to meet the evolving requirements of the dynamic investment fund, securities and capital markets. In order to reach this goal, the Commission intends to further streamline its processes so as to increase efficiencies and maximise its resources.

*Hillary Deveaux*

**Executive Director**

## MANDATE

The Commission's mandate is to formulate principles to regulate and govern 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 investment funds, securities and capital 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.

Effective 1 January 2008, the Commission was appointed as the Inspector of Financial and Corporate Service Providers (FCSPA) (the Inspector). The role of the Inspector, as set out in the Financial and Corporate Service Providers Act, 2000, provides for the supervision and regulation of financial service providers and financial institutions not otherwise regulated under securities, banking and insurance laws.

## STRUCTURE

The Commission is comprised of 7 departments. There are 3 supervisory departments: Authorisations, Market Surveillance and Inspections. Two (2) departments are non-supervisory: Policy and Research and Office of Legal Counsel. The remaining 2 departments are operational: Corporate Affairs and Executive (which comprise the Informational Technology and Accounts Units). The Commission's organisational chart and a description of each department are outlined on the following page.

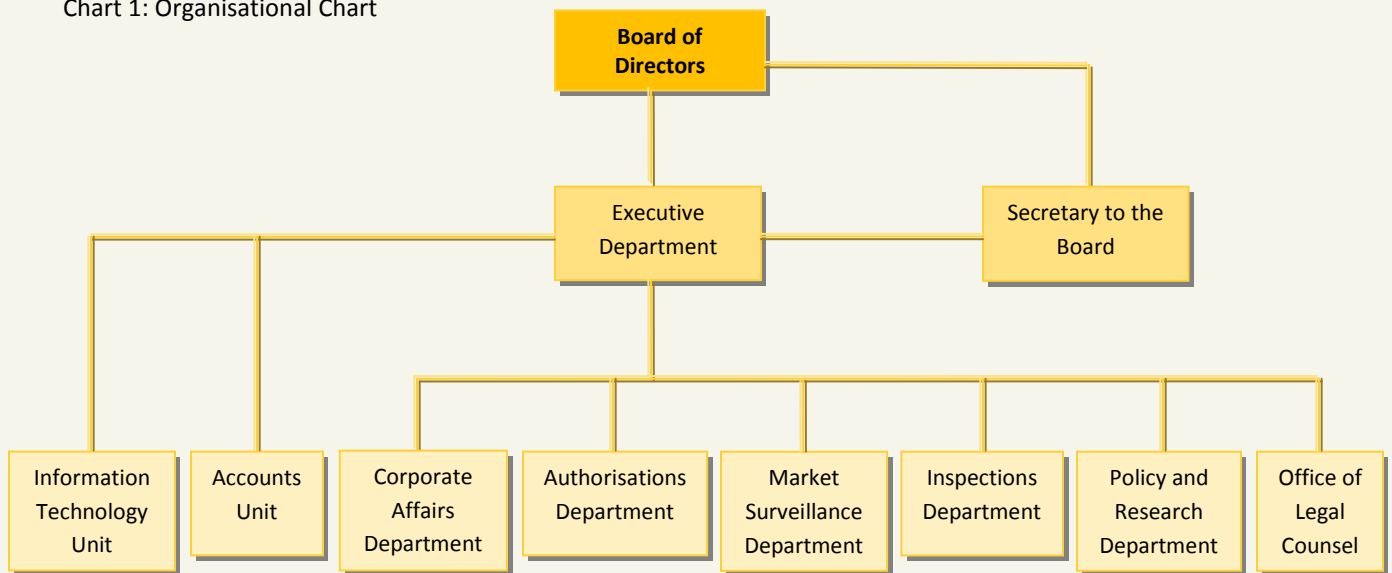
## STAFF COMPLEMENT

The number of staff showed a net increase of 4 from the year prior as the Inspections, Policy and Research and Executive Departments benefited from the addition of new personnel to support the successful execution of their respective functions.

Table 3: Number of staff as at 31 December 2008 and 31 December 2009

Department	Number of Staff as at 31 Dec. 2008	Number of Staff as at 31 Dec. 2009
Executive Department	9	10
Office of Legal Counsel	7	6
Authorisations Department	7	6
Market Surveillance Department	11	11
Inspections Department	7	9
Policy and Research Department	3	6
Corporate Affairs Department	7	7
<b>All Departments</b>	<b>51</b>	<b>55</b>

Chart 1: Organisational Chart



**Executive Department** – This department is responsible for the day-to-day management of operations, technical and financial matters. The Executive Department includes the Accounts Unit, which is responsible for all of the Commission’s financial matters including annual budgets and the preparation of financial statements and the Information Technology Unit, which is responsible for facilitating the information and communication needs of the Commission.

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

**Office of Legal Counsel** – This department is responsible for providing legal advice to the 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 securities exchange, and reviewing proposals from the local securities 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, the content of the Commission’s website, public relations and the 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, which includes, ensuring adequate manpower to facilitate the Commission’s mandate, as well as implementing and enforcing staff regulations.



In 2009 the Commission identified a number of strategic goals and objectives, which were laid out in the 2009 Annual Statement of Priorities. The goals focused on improving the business capabilities of the organisation that would strengthen the capacity to execute its mandate more effectively. The status of achievement for each goal is presented below:

<b>GOAL 1</b>	<b>Conduct a comprehensive review of the Commission to identify areas of risk and required improvements</b>
<b>OBJECTIVE</b>	Identify major risks facing the Commission, for example, the regulatory and enforcement frameworks integral to maintaining confidence in capital markets and averting harm to investors.
<b>MEASURES</b>	<ul style="list-style-type: none"> <li>▪ Review the regulatory and operational framework</li> <li>▪ Develop effective enforcement mechanisms</li> </ul>
<b>ACHIEVEMENTS</b>	A formal risk assessment exercise was postponed to a later period however, risks in key areas were assessed through participation in a pre-Financial Sector Assessment Program (FSAP) exercise, in which a review of the jurisdictions' regulatory framework relative to international best practices in securities regulation, corporate governance, and policy formation and development was conducted. Additionally, an internal audit function was initiated and the ensuing reviews identified gaps in operational risk management.

<b>GOAL 2</b>	<b>Enhance the efficiency of the Commission</b>
<b>OBJECTIVE</b>	Undertake a review of core elements of operation to assist in the efficient deployment of resources.
<b>MEASURES</b>	<ul style="list-style-type: none"> <li>▪ Streamline the processes for planning, reporting and measuring performance.</li> <li>▪ Enhance the collection, storage and dissemination of information including databases and the website.</li> <li>▪ Improve the legislative and policy development process</li> <li>▪ Develop and provide internal and industry training</li> </ul>
<b>ACHIEVEMENTS</b>	The strategic planning process was refined and the supporting monitoring tools and processes further developed. While not fully completed, some adjustments to the database systems were made, resulting in improved tracking of applications and enhanced reports to support regulatory reviews. Additionally, a number of successes on issues relating to legislative and policy development were achieved.

<b>GOAL 3</b>	<b>Enhance the legislative framework of the Commission</b>
<b>OBJECTIVE</b>	Ensure that the legislative framework supporting investment funds, securities and capital markets is responsive to today's needs and tomorrow's challenges.
<b>MEASURES</b>	<ul style="list-style-type: none"> <li>▪ Finalise the draft of the Securities Industry Regulations</li> <li>▪ Codify amendments to the Investment Funds legislation</li> <li>▪ Conduct a review of the FCSPA to identify deficiencies and address with amendments, where necessary</li> </ul>
<b>ACHIEVEMENTS</b>	The draft Securities Industries Regulations were completed and, together with the draft Securities Industries Act, were issued for public consultation. With respect to the IFA, some significant amendments were completed and tabled in Parliament. Further, the rule establishing SMART Fund 006 was passed bringing into existence a side pocket fund vehicle. While the full review of the FCSPA was not undertaken during the review period, several key initiatives related to the regulation and supervision of these entities were introduced.

<b>GOAL 4</b>	<b>Enhance transparency in the operations of the Commission</b>
<b>OBJECTIVE</b>	Clearly document policies, operating procedures and planning processes and effectively communicate expectations to the Industry.
<b>MEASURES</b>	<ul style="list-style-type: none"> <li>▪ Document policies of the Board as well as enhance documentation of internal operating procedures.</li> <li>▪ Maintain open lines of communication with industry participants and the public</li> </ul>
<b>ACHIEVEMENTS</b>	There were a number of internal developments that improved the efficiency and transparency of the operational processes as well as the governance of the Commission. These included improved financial reporting, upgrades to the IT infrastructure, the review and upgrade of some internal procedural manuals and increased dialogue with the industry.

The Commission undertook a tactical review exercise to assess its achievement of the 2009 goals and to develop a proactive three-year strategic programme<sup>1</sup>. Six focus areas were identified, which are to:

- Improve risk management through an assessment of regulatory and operational risks;
- Enhance internal systems including the refinement of staff regulations and evaluation tools;
- Advance governance (internal and external) by developing appropriate documentation, improving transparency and reporting, and strengthening communication tools;
- Increase efficiency of operations by reinforcing technical skills and expanding critical internal structures used to support regulatory and statistical functions;
- Strengthen the legislative framework. This involved the finalising of the new draft legislation governing the Securities Industries, and reviewing the Financial Corporate Services Providers Act and the IFA; and
- Maintain high standards of ongoing operations.

Priority areas were scheduled for the initial 2010 period and centre around the implementation of the new securities legislation, execution of an action plan designed to eliminate gaps in the regulatory framework, and preparation for the consolidation of the financial services regulators.

<sup>1</sup> The horizon of three years 2010 – 2012 was intentionally shorter than a common five year period to allow for the flexibility to adapt to imminent changes in the legislative structure and the consolidation of the financial services regulators into a single regulatory authority.

### The Bahamian Capital Markets

The Bahamas' capital markets consist of both local and offshore (international) financial activities. The local capital markets comprise traditional capital market products such as equities, corporate debt, government treasury bills and registered stock<sup>2</sup>, and investment funds. Derivatives and other complex instruments are nascent in the local market. The offshore capital market is dominated by investment fund administration and management, and asset management activities which are conducted in the international financial markets.

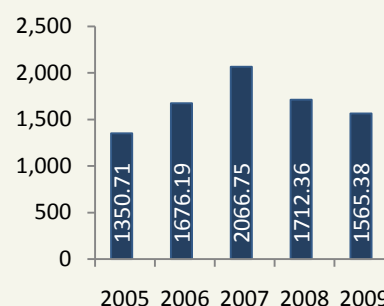
### Offshore Capital Markets Activities

As a result of the contraction of international economies in 2009 stemming from the financial crisis, sharp decreases in global asset values, and decreased investor confidence continued to impact Bahamian offshore capital markets activities. Although difficulties in the valuation of assets experienced internationally compounded the complexity of analysing the strength of the asset base, the reductions in the net asset values reported for investment funds and the assets managed and administered in the jurisdiction provided evidence of the impact. The reduction in the strength of the investment fund sector was marked by the number of funds that closed or moved into dormancy.

### Domestic Capital Markets Activities

While there was no direct spill over on the locally based capital markets and products, The Bahamas was indirectly impacted by sluggish international economies, which contributed to the modest activity in the domestic capital markets. Two (2) public issuers raised funds via private placements, one of which offered \$15 million of preference shares in October 2009 while the other offered \$1.5 million of preference shares in December 2009. Activity over the Bahamas International Securities Exchange (BISX) continued to be depressed, despite some gains seen on some international indices. The BISX All Share Index declined a further 8.6% to 1565.4 points in 2009. This decline, however, was not as steep as that observed at the end of 2008 when a decrease of 17.2% was recorded. The composition of the listed securities remained unchanged with 24 primary listings: including 19 common share listings; 1 preference share listing; and 4 tranches of debt. Market capitalisation fell by \$280 million or 8.5% to \$3.0 billion, which is an improvement over the previous year's decline of 17.1%.

Chart 2: BISX All-Share Index 2004-2009



The volume of shares traded on the Exchange fell from 9.6 million in 2008 to 4.9 million in 2009. However, the trading volume for 2008 included a single, significant share acquisition, which represented 52.1% (5 million shares with a value of \$41 million) of the total shares traded. After adjusting for this transaction the underlying movement in the trade volume for the year was positive and reflected a small growth of 6.5%<sup>3</sup>. As at 31 December 2009 the market valuation was \$26.7 billion, 15.5% lower than the adjusted figure for 2008.

In other capital market activities, the Fidelity Market Limited's broader weighted share price index 'FINDEX', which includes equities traded over-the-counter, fell by 5.4% in the first 9 months<sup>4</sup> of the year to close at 789.77 points, and 6 public companies continued to be engaged in the over-the-counter during the year.

No major over-the-counter transactions were reported over the review period.

<sup>2</sup> Administered by the Central Bank of The Bahamas

<sup>3</sup> 4.9 million in 2009 compared to 4.6 million in 2008

<sup>4</sup> The last reported Fidelity Market Limited's broader weighted share price index 'FINDEX' was as at 30 September 2009

## Updates on Ongoing Supervisory Activities

The Commission's supervision and oversight responsibilities are discharged through its core functions: **the authorisations process; off-site supervision programme and on-site inspections** of registered and licensed entities. The goals of the supervisory programme are to: maintain effective oversight; strengthen market confidence; protect investors; and facilitate the orderly growth and development of the markets. During 2009, several operational and regulatory measures to enhance the resilience of regulated entities and to protect investors were initiated.

### Authorisations Process

The Authorisations Department assesses applications for individuals and entities submitted for registration or licensing under the various legislation administered by the Commission. Key to this process is ensuring the fitness and propriety of market participants and 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 an effort to enhance governance and efficiency with respect to the processing applications, the delegated authority conferred on the Executive Director was extended. Prior to 2009, delegated authority was granted to the Executive Director to register Recognised Foreign Funds under the Investment Funds Act, 2003 (IFA, 2003) and license Associated Persons under the Securities Industry Act, 1999 (SIA, 1999). In 2009, the Commission extended the delegation of authority to include all matters related to the administration of the Financial and Corporate Service Providers Act, 2000 (FCSPA, 2000), with the exception of enforcement matters.

### Off-site Supervision Programme

The responsibility for monitoring the activities of registrants and licensees rests with the Market Surveillance Department, and is executed through the off-site supervision programme. The surveillance process is continuous, and is based on the registrants' compliance with applicable legislation, codes of conduct and best practices. It involves the review of statutory filings, which include prudential reports and reports on material changes and the assignment of a Market Surveillance Officer who is responsible for managing the day-to-day relationships with constituents and assessing performance and compliance with the legislation. During the year the department refined its program, increasing the frequency of contact with licensees/registrants in an effort to improve relationships. This effort proved successful, resulting in improved compliance with ongoing obligations by

licensees/registrants and enhanced the Commission's appreciation of the developments in the jurisdictions and the resulting impacts. The department is also charged with the responsibility for monitoring the market place, including oversight of the exchange and the over-the-counter market.

### On-site Inspections Programme

On-site examinations are conducted on a 3 to 5 year rotational basis of registrants under the SIA, 1999 and IFA, 2003, including Broker-Dealers, Investment Fund Administrators and Securities Investment Advisors. These examinations provide a more detailed understanding of the registrant's business activities and operating environment and afford an assessment of compliance with the relevant legislative requirements and the nature of the licence granted.

In 2009 the Commission entered into a Joint Protocol for examinations with the Central Bank of The Bahamas. The Protocol facilitates joint inspections of entities supervised by both regulatory bodies, and provides the basis for collaboration on areas of mutual interest as it relates to the oversight of licensees. A total of 3 examinations were

conducted jointly over the course of 2009. Further, during the period under review, the Commission continued to work with The Central Bank to develop a risk based review strategy and in this regard, preliminary undertakings, which will guide efforts in developing the risk assessment framework for joint licensees, were started. It is intended that the knowledge from these efforts is used to assist in fashioning a similar approach for standalone licensees.

## Legislative and Policy-Related Developments

Legislative developments during 2009 included amendments to the IFA, 2003, the Template for SMART Fund Model 006, the Investment Funds (SMART Fund) Rules, 2003, and the Guidelines for Licensees/Registrants on the Prevention of Money Laundering and Countering the Financing of Terrorism. Policy-related developments include updates to the Fast Tracking Process and the issuance of the Statement of Practice on Physical Presence.

### LEGISLATIVE UPDATES

#### Draft Securities Industry Act and Regulations

The draft Securities Industry Act and Regulations, which reflect the international securities markets' shift towards modern and comprehensive legislation, were drafted. The drafts were prepared to be consistent with international best practises as provided by the 30 IOSCO Objectives and Principles of Securities Regulation as well as the 40 plus 8 Financial Action Task Force recommendations to combat money laundering and terrorist financing. In May 2009, the draft Securities Industry Regulations, accompanied by the rerelease of the draft Securities Industry Act, was issued for public consultation. This included focus group discussions with market participants and public sensitisation through a targeted media campaign. As an extension of the commitment to engage with stakeholders, the Commission hosted a number of meetings to discuss the new legislation with integral interest groups; namely the Bahamas Institute of Chartered Accountants, the Association of International Banks and Trust Companies, Bahamas Financial Services Board, Bahamas Association of Securities Dealers, Bahamas Association of Compliance Officers and the Bahamas Bar Association.

#### Investment Funds Act, 2003

Continuing its focus of strengthening and diversifying its legislation, several amendments to the IFA, 2003 were made. These amendments were identified through a collaborative effort that was spearheaded by the Commission and included the investment funds industry and The Bahamas Financial Services Board's (BFSB) Funds Working Group. Amendments included:

- Amending the definition of "Investment Fund" to remove the nexus of the investment manager/advisor as the basis for defining a fund as Bahamas-based thereby requiring it to be licensed by the Commission;
- Amending the definition of "Professional Fund" to expand its application by repealing the requirement that investors in the fund reside in a prescribed jurisdiction and expanding the categories of persons that qualify to invest in a professional fund;
- Amending the definition of "Recognized Foreign Fund" to allow funds that are not licensed or registered in a prescribed jurisdiction or listed on a prescribed exchange to register as a Recognized Foreign Fund, provided that the investment manager/advisor to the fund is regulated in a prescribed jurisdiction; and
- Amending the time period within which a fund is required to file its annual audited financial statements with the Commission after its financial year end from 4 to 6 months.

Another amendment was the development of the SMART Fund Model 006, which brought into existence a side pocket fund vehicle. This Model was designed to hold assets of an existing fund that holds assets that are illiquid or difficult to value and only existing investors in the primary fund are entitled to a share of these assets. This Model may only be offered to investors to whom a Professional Fund could be offered.

Amendments were also proposed to clarify the application of SMART Fund Model 004. The amendments were:

- Eliminate the impression given in the existing rule, that operators who opt to administer a SMART Fund Model 004 are required to obtain a licence; and
- Clarify that where the operator outsources the administration functions of the fund to a licensed administrator, that administrator is not accountable to the Commission as the administrator of the fund.

### **Financial and Corporate Service Providers (Amendment) Act, 2009**

The Financial and Corporate Service Providers (Amendment) Act, although passed in 2008, was brought into force early in 2009. This Act repealed the requirement for the issuance of annual renewal of licences under the FCSPA. Licences issued are now held in perpetuity. The legislation was further rationalised to provide exemptions from the requirements to obtain references and to maintain specified records subject to a directive from the Inspector. The exemption was extended to apply to all financial institutions, beyond those originally identified on a specific list in the legislation.

A major component of the FCSP (Amendment) Act was the establishment of the administrative sanctioning authority of the Inspector and the empowerment of the Inspector to issue rules, guidelines and directives. This significantly improved the regulatory framework of the sector.

## **POLICY-RELATED DEVELOPMENTS**

### **Fast Tracking Process**

In 2009, SMART Fund Models 4, 5 and 6 were included in the Fast Tracking Process. The inclusion of these funds in the Fast Tracking process facilitated the efficiency and timeliness of processing applications submitted under the expedited process.

### **Statement of Practice on Physical Presence**

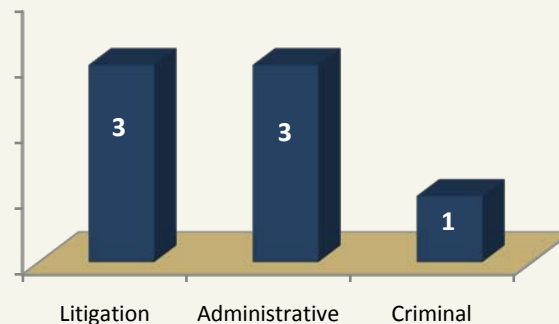
In November, the Commission issued a Statement of Policy on Physical Presence Requirements, which provided guidance on the minimum physical presence standards for all registrants (Broker-Dealers and Securities Investment Advisors) under the SIA, 1999. The general standards established included: an established place of business bearing appropriate exterior identification of the registrant's presence; the management and maintenance of premises and equipment necessary for the administration of the registrant's affairs; and a public access telephone. In addition, Broker-Dealers must also appoint a Compliance Officer pursuant to section 5 (e) of the Financial Transactions Reporting Regulations, 2000. Securities Investment Advisors however, may themselves satisfy all of the general standards for physical presence or appoint a Managing Representative that administers the affairs of the registered firm, subject to conditions set out in the Statement of Practice, which is available on the Commission's website.



## Enforcement

Seven (7) major enforcement matters were addressed in 2009. These matters were all transferred to the Office of Legal Counsel from other departments for final enforcement action, either due to inadequate response to enforcement action taken at the departmental level or where, due to the gravity of the matter, it required immediate disciplinary/legal action.

Chart 3: Enforcement Matters in 2009



Three (3) matters were addressed through litigation, 3 through administrative action and 1 was transferred to the Office of the Attorney General for criminal prosecution, the progress of which the Commission continues to monitor. All of the litigation and one of the matters addressed through administrative action were closed by the end of 2009 and 2 others were carried over into 2010.

By the end of 2009, 16 out of a total of 25 investigations (a number of which were carried forward from previous years) were closed. Of these 16 matters, 2 were forwarded to the Royal Bahamas Police Force and another 2 aided in international matters. Nine (9) matters were carried over into 2010.

Four (4) public notices were issued to protect investors from unfair and inappropriate securities and investment activities. These were:

World Distribution Network – issued on 20 April 2009  
 Imperia Invest IBC – issued on 20 April 2009  
 Gulf International Investment Group – issued on 11 May 2009  
 Mellor Holdings Ltd. – issued on 23 July 2009

As the Inspector of Financial and Corporate Services Providers, 1 press release was issued on 29 September 2009 in order to inform the public that allegations of money laundering levied against a licensee were being reviewed to determine the extent to which any violation of Bahamian money laundering laws and regulations had occurred. The matter was carried over to 2010.

## International, Regional and Local Cooperation

### Requests for Assistance from International Regulatory Authorities

The Commission received and responded to several requests for assistance from international regulatory authorities during the year under review. The Office of Legal Counsel bears the responsibility for advising on and coordinating responses to requests and the department works, where necessary, with other institutions to procure the necessary information. There were 32 requests for assistance in 2009, 18 of which were carried over from 2008 and 14 were received in 2009. A total of 11 matters were closed and 21 matters remained open as at 31 December 2009. Three (3) of the 11 closed requests were refused, 2 of which were refusals to provide consent for onward disclosure of information provided by the Commission to a third party and 1 was considered to be too broadly framed and could not be brought into compliance with the anti-fishing standards embedded in the law. The table below illustrates the details on requests for assistance for the year.

Table 4: Number of Requests from International Regulatory Authorities

Requests for Assistance 2009		
Jurisdiction	Open Matters	Closed Matters
United States	16	3
Canada	9	3
France	2	1
Other	5	4

### International Organisation of Securities Commissions (IOSCO)

In September 1996, the Commission was granted membership in IOSCO, the international standards setter for securities and capital markets regulation. Its membership comprises of securities regulators and other similar regulatory agencies from countries throughout the world. The purpose of IOSCO is to enable members to exchange information with a view to developing the securities markets and improving their efficiency, to coordinate the enforcement of securities regulation internationally and to implement common standards. The Commission regularly participates in IOSCO meetings and conferences. In 2009, the Commission attended the 34<sup>th</sup> Annual Conference held in Israel from 8 – 11 June.

On 10 June 2009, the Commission became a Signatory 'B' to the Multilateral Memorandum of Understanding<sup>5</sup> Concerning Consultation and Cooperation and Exchange of Information (the MMoU) established by IOSCO. The Commission applied to become a signatory to the MMoU in May, 2008. By signing the MMoU as a Signatory 'B', the Commission undertakes to make the necessary legislative changes to enable it to meet all of the terms of the MMoU. Once the necessary changes have been made, the Commission would then apply to become a Signatory 'A'. The provisions of the draft Securities Industry Act and Regulations reflect the provisions necessary to enable the Commission to become a Signatory 'A'. The Commission therefore intends to pursue an application for a change in status to a signatory 'A' once the draft securities legislation is brought into force. The Commission anticipates that this process will be straightforward and that the change in status to a Signatory 'A' would be imminent.

<sup>5</sup> The International Organization of Securities Commissions - Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information, referred to as the IOSCO MMoU, is an information-sharing arrangement agreed among international securities regulators. The IOSCO MMoU sets international standards for cross-border co-operation and assistance which is critical to combating violations of securities laws. Signatories to the IOSCO MMoU have undergone a rigorous screening process to verify their ability to co-operate as provided in the IOSCO MMoU.

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

At COSRA's annual meeting in Santiago, Chile in June 1997, the Commission was confirmed as a member of this group. COSRA, formed in 1992, was created to provide a forum that promoted cooperation and communication amongst its members to enhance the efforts of each country and to develop the growth of sound securities markets that are fair to all investors. Membership to COSRA is open to all securities regulatory authorities of North, South and Central America and the Caribbean. There are 31 members in 26 countries. The Commission is an active participant of this group. In 2009, Commission staff attended both meetings held in April in Panama and in November in Uruguay.

**Caribbean Group of Securities Regulators (CGSR)**

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

The 6<sup>th</sup> Annual Conference was held 22 October 2009 in Trinidad and Tobago. The session focused heavily on the development of a harmonised takeover rule for the CGSR member countries. Additionally areas of discussion included the failure of CL Financial group (which included CLICO) and its impact on the regional financial markets as well as the role of a College of 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 Offshore Group of Collective Investment Scheme Supervisors was established in 1997.

OGCISS meets annually and membership is open to all bodies with responsibility for the regulation and supervision of collective investment schemes. The 12th annual meeting of the Offshore Group of Collective Investment Scheme Supervisors was held in the Cayman Islands from 1-3 June 2009. The meeting consisted of 3 days of interactive discussions regarding the regulatory challenges facing the members. Hosted by the Cayman Islands Monetary Authority, the event focused on a range of topics including lessons from on-site inspections and enforcement cases; compliance and valuation issues facing collective investment schemes during the financial crisis, and insolvency and liquidation challenges.

**Group of Financial Services Regulators (GFSR)**

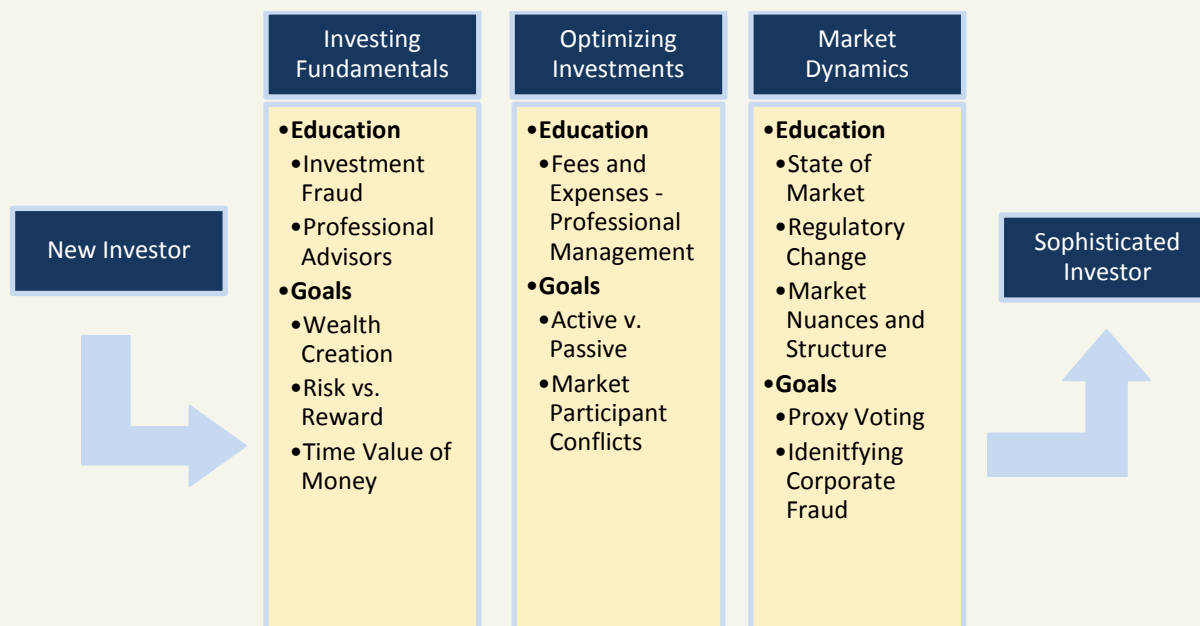
The Commission is a member of the GFSR, which focuses on crosscutting issues that affect the domestic financial services sector. The Chairmanship of the Group rotates between the Securities Commission of The Bahamas and the Central Bank of The Bahamas, the latter being the current chair. In 2009, the work of the group focused on a number of important initiatives. Among them were a number of legislative reviews and amendments to remedy deficiencies identified by the Caribbean Financial Action Task Force (CFATF) Mutual Evaluation Report on The Bahamas Anti Money–Laundering (AML)/Combating the Financing of Terrorism (CFT) Regime (2007) and to comply with international standards. Substantive work was undertaken by small working groups and focused on matters such as:

- Cross-border disclosure and declaration of currency;
- Reporting of International Wire Transfer Transactions;
- Fixed Threshold Currency Reporting System; and
- Non-Profit Organisations.

Special activities undertaken by the GFSR included the hosting of an AML/CFT Forum, which was held in Nassau and Freeport, Grand Bahama. The event aimed at providing an overview of amendments to various pieces of financial legislation, which sought to remedy deficiencies identified by the CFATF Mutual Evaluation Report on The Bahamas AML/CFT Regime (2007) and to bring the legislation into compliance with international standards. Also, during 2009, the Commission as part of a national effort coordinated by GFSR, embarked on an internal self-assessment exercise of its compliance with applicable international standards, including the 30 IOSCO principles.

## Investor Education

A key area of interest for the Commission is the promotion of investor education and protection. In 2009, the Commission continued to implement its re-energised Investor Education Programme – *Getting My Money Right*. The Programme aims to encourage first time investors and introduce them to the importance of investing. At the same time, the programme’s design is based on moving investors along a continuum that would satisfy the gamut of investors’ educational needs. The Programme’s focus is conceptualized in the following diagram:



*Getting My Money Right* is comprised of 8 modules: online interactive tools; joint initiatives; public service announcements; an essay competition and apprenticeship; print media; investor education weekly campaigns; e-communications and offshore outreach. The full scope of activities are expected to be delivered over a 3 year time frame. In 2009, its first year, the majority of activities focused on the development of joint projects with various private sector investor education programmes and other community based initiatives, which included the CFAL Junior Investor Education Programme and the Ministry of Education’s Annual Career Fair. In this first year, emphasis was also placed on building the tools and skills necessary to execute the programme’s goals and, as such, Commission staff participated in the IOSCO and the International Forum for Investor Education (IFIE) conference. The conference was lead by world experts on investor education and provided the opportunity to develop methodologies for establishing new investor education programmes and those to strengthen those programmes already in existence.

The Commission maintains a comprehensive registry and automated database systems, which capture regulatory filings and house statistics on registrants and licensees. From this data, a summary of the licensing activities, number of authorised licensees and registrants, on-site inspections and any notable trends is provided. The categories of registration and licensing under the various pieces of legislation administered by the Commission are noted in Table 5 and Table 6:

Table 5: Licensees and Registrants under the Securities Industry Act, 1999 (SIA, 1999)

Licensee or Registrant 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 4 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 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>Prospectus</b>	A document that provides details about an offer of securities to the public. The 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 6: Licensees and Registrants under the Investment Funds Act, 2003 (IFA, 2003)

Licensee or Registrant 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 license 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 the</b> Investment Funds licensed or registered by the Commission. A restricted licence holder <b>does not</b> have the authority to independently license an investment fund – licensing must be from the Commission.
<b>Investment Funds</b>	<b>Professional Fund</b> This Fund is available solely to accredited investors.
	<b>Standard Fund</b> A Standard Fund can only be licensed by the Commission and is generally for those funds that are not categorised as a Professional, SMART or Recognised Foreign Fund. An example is a retail-type Fund.
	<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', or 'SMART Fund', is a flexible asset management fund product designed to cater to the specific needs of investors. In this category of fund, both the operational and regulatory structure of the fund are specifically designed by industry participants, subject to approval from the Commission.

## Licensing Activities

The licensing and registration of market participants is a critical function in any regulatory institution. It is a major component of the regulatory tool-kit used to ensure the integrity and reputation of the financial sector.

During 2009, the Commission processed a total of 324 applications of which 202 were received from firms, investment funds and administrators (corporate entities). The remaining 112 were received from individuals, namely Principles, Brokers and Associated Persons. Of the 202 applications received from corporate entities: 185 were for the licensing or registration of Investment Funds; 4 were for an Investment Fund Administrator's licence, 3 were for the registration of Broker-Dealers and 10 were for the registration of Securities Investment Advisors. Overall, the number of corporate applications received in 2009 remained consistent with the number received in 2008, both of which were slightly lower (by approximately 20 applications or 9%) than the number received in 2007.

The SMART Fund was, for the first time, the main category of applicant, accounting for 64.9% of the applications submitted for consideration under the IFA, 2003. The second largest category of applications from investment funds was Professional Funds, which represented 18.9% of those applications. This differed considerably from the application profile seen in 2008 when there was a more even distribution of the applications from the 3 main categories of funds; Professional Funds (21.0%), SMART Funds (36.3%) and Recognised Foreign Funds (38.9%). The pattern of licensing activities for firms and administrators did not reflect the same prominent shift seen in the investment funds, although there was relatively strong growth in the number of applications for Securities Investment Advisors' relative to the previous period.

Table 7 illustrates the number of applications processed within each category of licence- or registrant-type under the SIA, 1999 and the IFA, 2003. The numbers of applications received and approved for Investment Funds included those authorised by Unrestricted Investment Fund Administrators and those authorised by the Commission during the respective periods. In 2008, the number of applications approved exceeds the number of those received as a result of applications carried over from 2007.

Table 7: Licensing Activity during 2007, 2008 and 2009

Category	Applications 2007		Applications 2008 <sup>6</sup>		Applications 2009	
	Received	Approved	Received	Approved	Received	Approved
Broker-Dealer Class I	4	3	-	-	2	2
Broker-Dealer Class II	1	1	4	3	1	2
Securities Investment Advisors (Company)	6	2	5	5	10	5
Unrestricted Investment Fund Administrators	3	2	2	3	2	2
Restricted Investment Fund Administrators	6	3	2	3	2	2
Exempt Investment Fund Administrators	-	-	1	1	-	-
Professional Funds	60	46	40	55	35	34
SMART Funds	45	42	69	68	120	121
Standard Funds	15	11	7	11	6	1
Recognised Foreign Funds	74	65	74	72	21	26
Non-Bahamas Based Funds	8	8	-	-	3	1
<b>TOTAL</b>	<b>222</b>	<b>183</b>	<b>204</b>	<b>221</b>	<b>202</b>	<b>196</b>

<sup>6</sup> These statistics were revised and as such differs from that in the 2008 Annual Report.



## Registrants and Licensees

### Securities Industry Act, 1999

At the end of 2009 there were a total of 113 entities registered under the SIA, 1999, a net increase of 5 registrants or 4.6% from a year earlier. During the review period, 11 new entities (3 Bank and/or Trust and 8 stand-alone companies) were registered and 6 entities closed. Broker-Dealers continued to represent the largest category of registrants comprising 56.6% of the total number of regulated entities under the SIA, 1999. Securities Investment Advisors represented 42.3% of the registrants. As seen in the previous year Banks and Trust Companies continued to dominate the Broker-Dealer category, while the majority of stand-alone entities were Securities Investment Advisors.

Table 8: Registrants under the SIA, 1999

Constitution Type			31 Dec. 2007	31 Dec. 2008	31 Dec. 2009
Broker-Dealer	Class I	Bank & Trust Cos.	11	10	11
		Non Bank & Trust Cos.	7	6	6
	Class II	Bank & Trust Cos.	38	35	36
		Non Bank & Trust Cos.	11	10	11
Securities Investment Advisors		Bank & Trust Cos.	3	3	3
		Non Bank & Trust Cos.	41	43	45
Securities Exchange			1	1	1
TOTAL			112	108	113

### Investment Funds Act, 2003

The number of Investment Fund Administrators licensed under the IFA, 2003 remained relatively stable between 2007 and 2009 with the total number of licensees declining by 2 in 2009 compared to 2008. Both of the administrators leaving the sector were Unrestricted Fund Administrators.

Table 9: Administrators under the IFA, 2003

Administrator	31 Dec. 2007	31 Dec. 2008	31 Dec. 2009
Unrestricted	35	36	34
Restricted	27	27	27
Exempt	2	3	3
TOTAL	64	66	64

Table 10 demonstrates the shifts in the number of active funds by category from 2007 to 2009. In 2009, SMART Funds comprised the highest number of funds over all categories; a change from the prior year where Professional Funds was the dominant fund type. This shift is as a result of the continued increase in the number of new applications for SMART Funds, a 49.2% jump over the 2008 growth rate of 21.2%. At the same time, there was a sustained fall-off in the number of new funds in the other categories. The number of Professional Funds fell 20.8%, representing the largest percentage drop experienced in a fund category during 2009, however declines were also realised in the number of Standard Funds and Recognized Foreign Funds of 15.5% and 13.1%, respectively. In particular, the distribution of applications across investment fund categories changed, as new applicants continued to opt for the SMART Fund Model.

Table 10: Number of Investment Funds under the IFA, 2003

Fund Category	31 Dec. 2007	31 Dec. 2008 <sup>7</sup>	31 Dec. 2009
Standard Funds	144	97	82
Professional Funds	286	298	259
Recognised Foreign Funds	206	231	183
SMART Funds	146	177	264
<b>TOTAL</b>	<b>782</b>	<b>803</b>	<b>788</b>

### Fund Changes over the Year

By year end, 69 investment funds had entered into liquidation, 24 investment funds had transferred out of the jurisdiction and 132 investment funds had ceased business, primarily in the Professional Fund and Recognized Foreign Fund categories. During the same period, 182 investment funds were authorised.

Table 11: Change in status of authorised Investment Funds in 2009

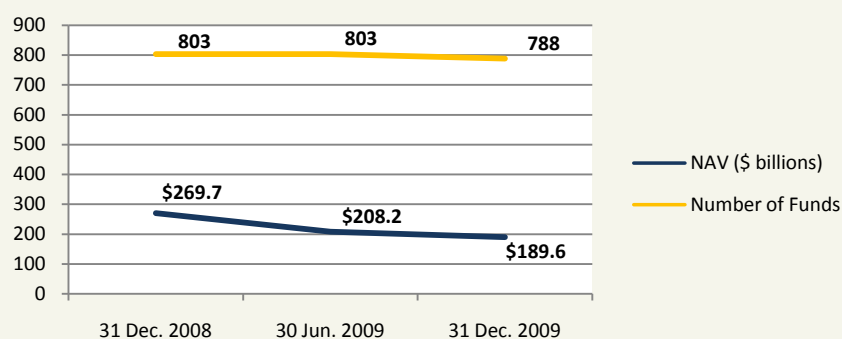
Fund Category	Entered Liquidation	Transferred to another jurisdiction	Closed	Newly Authorised
Standard Funds	11	0	17	1
Professional Funds	36	11	40	36
Recognised Foreign Funds	15	13	49	26
SMART Funds	7	0	26	119
<b>TOTAL</b>	<b>69</b>	<b>24</b>	<b>132</b>	<b>182</b>

### Net Asset Values of Funds

Table 12: Net Asset Values by Fund Category

Fund Category	31 Dec. 2008	30 Jun. 2009	31 Dec. 2009
Standard Funds	23.7	10.5	9.7
Professional Funds	139.5	110.4	86.7
Recognised Foreign Funds	79.2	63.2	68.1
SMART Funds	27.2	24.1	25.0
<b>TOTAL (Billions)</b>	<b>269.6<sup>8</sup></b>	<b>208.2</b>	<b>189.5</b>

Chart 4: Total Net Asset Values



The Net Asset Values are estimated figures based on the total number of funds from which data was received.

<sup>7</sup> These statistics were revised and as such differ from those in the 2008 Annual Report.

<sup>8</sup> This figure is estimated.

### Financial and Corporate Services Providers Act (FCSPA), 2000

At 31 December 2009, there were 267 active licensees under the FCSPA, 2000. In its capacity as the Inspector of financial and corporate service providers, the Commission, renewed 244 licences and authorised 23 new licensees. The former represents an increase of 15 renewed licences and the latter a decrease of 14 new licences compared to the licensing activity that occurred in 2008, when the Commission first began administering the FCSPA, 2000. The overall decrease in new licensees is attributed to a reduction in the number of applications from the Companies and Partnerships category.

Table 13: Financial and Corporate Services Providers under the FCSPA, 2000

Category		31 Dec. 2008		31 Dec. 2009	
Companies	Renewals	103	126	115	124
	New	23		9	
Partnerships	Renewals	29	34	30	31
	New	5		1	
Individuals	Renewals	97	106	99	112
	New	9		13	
TOTAL		266		267	

### On-site Inspections Activities

Table 13 summarises the number of inspections (by licence type) completed from 2007 to 2009 under the SIA, 1999 and IFA, 2003. There were no inspections for cause in 2009. The number of inspections conducted by licence type grew by 47.6% over 2008 and is a reflection of the investment in personnel as well as process improvements in the department.

Table 14: Number of Inspections by Licence Type under the SIA, 1999 and IFA, 2003

Type of Licence		2007	2008 <sup>9</sup>	2009
Securities Industry Act	Broker-Dealer Class I	1	4	2
	Broker-Dealer Class II	4	3	7
	Securities Investment Advisor	6	6	11
Investment Funds Act	Unrestricted Investment Fund Administrator	3	6	5
	Restricted Investment Fund Administrator	2	2	5
	Exempt Investment Fund Administrator	-	-	1
TOTAL		16	21	31

Table 14 summarises the number of inspections completed in 2009 by entity. A total of 23 entities were inspected during the review period. However, some of the entities inspected had multiple licences: Broker-Dealer, Securities Investment Advisor or Investment Fund Administrator, for which Examiners execute different work programmes as noted above. Three (3) of the 23 inspections held in 2009 were joint inspections under the Joint Protocol signed with the Central Bank of The Bahamas.

Table 15: Inspections by Type

Examination Type	2008	2009
Routine Examination	8	20
Inspection for Cause	1	-
Joint Inspection with the Central Bank of The Bahamas	5	3
TOTAL	14	23

<sup>9</sup> These statistics were revised and as such differ from those in the 2008 Annual Report.  
Annual Report 2009

The financial statements that appear on pages 26 to 40 in this Annual Report present the financial position, financial performance and cash flows of the Commission as of and for the year ended December 31, 2009 in accordance with International Financial Reporting Standards.

The Commission is mainly funded through fees charged to licensees, registrants and applicants under the Securities Industry Act, 1999, the Investment Funds Act, 2003, and the Financial and Corporate Services Providers Act, 2000. Fees charged are set out in legislation. In addition, the Commission receives an annual subvention from the Government.

As noted in the audited financial statements, the Commission changed its accounting policy in respect of the treatment of government subvention effective 1 January 2009. Government subvention is now recorded as income in the statement of comprehensive income rather than as contributed surplus in the statement of changes in net assets. Management is of the opinion that the newly adopted policy provides more reliable and relevant information because it more appropriately reflects the economic impact of the subvention. This policy was retroactively applied and the corresponding figures for prior periods were restated to comply with the new policy.

Total income increased by \$163,988 in 2009, mainly resulting from increases in investment fund fees, penalty fees and interest income. The largest percentage increase was in interest income with a change of \$37,666 from 2008. In December of 2008 the Commission changed its cash management strategy and employed this strategy throughout 2009.

There was a \$273,947 increase in total expenses, resulting in an erosion of net comprehensive income. After including government subvention in total income, the Commission attained net comprehensive income of \$170,681 for the year 2009. This represents a 39.2% reduction when compared to 2008 results of \$280,640. The increase in expenses resulted from a 17.6% increase in personnel costs in the amount of \$414,086 netted against greater than 30% reductions in training and conferences expenses and professional fees.

The Commission ended the year with \$444,797 in cash and cash equivalents. This represents an increase of 11.1% over 2008. An increase in interest income resulting from the change in the Commission's cash management strategy was the major contributing factor to this increase. Overall, the Commission ended the year with a higher asset base than in 2008 resulting from increases in cash and equivalents and fixed assets combined with a reduction in total liabilities.

**INDEPENDENT AUDITORS' REPORT**

**To the Members of the Securities Commission of The Bahamas**

We have audited the accompanying financial statements of the Securities Commission of The Bahamas (the Commission), which comprise the statement of financial position as of 31 December 2009, and the statement of comprehensive income, statement of changes in net assets and statement of 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 the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Commission as of 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

  
Chartered Accountants

Nassau, Bahamas

28 June 2010

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

**Statement of Financial Position**  
**As of 31 December 2009**  
(Expressed in Bahamian dollars)

	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>		
Cash on hand and at banks	444,797	400,217
Accounts receivable (Note 4)	80,113	145,780
Prepaid expenses and other assets	80,964	16,007
Plant and equipment (Note 5)	191,497	137,282
<b>Total assets</b>	<b>797,371</b>	<b>699,286</b>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	101,930	284,113
Deferred income (Note 6)	257,531	147,944
<b>Total liabilities</b>	<b>359,461</b>	<b>432,057</b>
<b>NET ASSETS</b>	<b>437,910</b>	<b>267,229</b>
Represented by:		
<b>SURPLUS</b>	437,910	267,229
	<b>437,910</b>	<b>267,229</b>

Approved and authorized for issue by the members of the Commission and signed on their behalf by:

  
Chairman

  
Executive Director

28 June 2010  
Date

The notes on pages 30 to 40 are an integral part of these financial statements.



## The Securities Commission of The Bahamas

### Statement of Comprehensive Income For the Year Ended 31 December 2009 (Expressed in Bahamian dollars)

	2009 \$	2008 \$
<b>INCOME</b>		
Fee income		
Investment fund	1,048,184	994,946
Investment fund administrators	517,667	507,375
Broker-dealer fees	451,073	434,770
Financial and corporate service providers	411,250	403,350
Securities investment advisors	57,458	52,075
Associated persons	8,692	6,604
Securities exchange	10,000	10,000
Penalties	57,300	31,300
Examinations	12,205	14,800
Total fee income	2,573,829	2,455,220
Government subvention (Note 6 and 13)	1,411,695	1,400,000
Interest income	38,459	793
Other income	37,416	41,398
<b>Total income</b>	<b>4,061,399</b>	<b>3,897,411</b>
<b>EXPENSES</b>		
Salaries, wages and employee benefits (Note 7)	2,772,793	2,298,882
Rent	383,196	358,247
Utilities and property charges	147,032	184,080
Training and conferences	142,992	234,116
Professional fees	90,886	134,361
Office	90,245	102,248
Depreciation (Note 5)	86,892	71,399
Disciplinary committee fees and related costs	19,500	19,500
Repairs and maintenance	49,961	54,481
Printing and publications	25,147	6,507
Advertising	22,462	16,372
Membership fees	21,016	21,037
Miscellaneous	16,342	24,005
Examination costs	9,965	10,700
Bank charges	9,690	16,321
Provision for doubtful accounts receivable	2,350	1,065
Investor education	-	3,307
Interest expense	249	318
<b>Total expenses</b>	<b>3,890,718</b>	<b>3,616,771</b>
<b>Total comprehensive income</b>	<b>170,681</b>	<b>280,640</b>

The notes on pages 30 to 40 are an integral part of these financial statements.

## The Securities Commission of The Bahamas

### Statement of Changes in Net Assets For the Year Ended 31 December 2009 (Expressed in Bahamian dollars)

	Surplus \$
Balance as of 1 January 2008	(13,411)
Total comprehensive income	<u>280,640</u>
<b>Balance as of 31 December 2008</b>	<b><u>267,229</u></b>
Balance as of 1 January 2009	267,229
Total comprehensive income	<u>170,681</u>
<b>Balance as of 31 December 2009</b>	<b><u>437,910</u></b>

The notes on pages 30 to 40 are an integral part of these financial statements.

## The Securities Commission of The Bahamas

### Statement of Cash Flows

For the Year Ended 31 December 2009

(Expressed in Bahamian dollars)

	2009 \$	2008 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Total comprehensive income	170,681	280,640
Adjustments for non-cash items:		
Depreciation	86,892	71,399
Provision for doubtful accounts receivable	2,350	1,065
Gain on disposal of equipment	(3,865)	(3,171)
<b>Movements in working capital:</b>		
(Increase)/Decrease in accounts receivable	63,317	(12,258)
(Increase)/Decrease in prepaid expenses and other assets	(64,957)	104,457
Increase/(Decrease) in accounts payable and accrued expenses	(182,183)	85,445
Increase/(Decrease) in deferred income	62,806	(7,906)
<b>Net cash from operating activities</b>	<u>135,041</u>	<u>519,671</u>
<b>Cash flows from investing activities:</b>		
Purchase of plant and equipment	(141,862)	(71,498)
Government subvention for purchase of plant and equipment	46,781	-
Proceeds from disposal of plant and equipment	4,620	4,240
<b>Net cash used in investing activities</b>	<u>(90,461)</u>	<u>(67,258)</u>
<b>Increase in cash and cash equivalents</b>	<b>44,580</b>	<b>452,413</b>
Cash and cash equivalents as of beginning of year	400,217	(52,196)
<b>Cash and cash equivalents as of end of year</b>	<u><b>444,797</b></u>	<u><b>400,217</b></u>
<b>Cash and cash equivalents</b>		
Cash on hand and at banks	<u>444,797</u>	<u>400,217</u>

The notes on pages 30 to 40 are an integral part of these financial statements.

# **The Securities Commission of The Bahamas**

## **Notes to the Financial Statements**

**31 December 2009**

### **1. General Information**

The Securities Commission of The Bahamas (the Commission) is established, as a body corporate, under the Securities Industry Act, 1999 (the Act) of the Commonwealth of The Bahamas (The Bahamas). The offices of the Commission are located at Charlotte House, Shirley and Charlotte Streets, Nassau, Bahamas.

The functions of the Commission are to monitor and regulate the securities industry in The Bahamas, the participants of which include: investment funds; investment fund administrators; broker-dealers; securities investment advisors and associated persons. The Commission regulates the industry in accordance with the Act; the Investments Funds Act, 2003; and the related rules and regulations.

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

### **2. Going Concern**

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

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

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

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

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and under the historical cost convention. The preparation of financial statements in accordance with IFRS requires management to exercise its judgment in the process of applying its accounting policies.

# The Securities Commission of The Bahamas

## Notes to the Financial Statements

31 December 2009

(Continued)

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

#### (a) Basis of preparation (continued)

It also requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Notes 3(d) and 3(g).

In the current year, the Commission adopted IAS 1 (Revised) *Presentation of Financial Statements* and the amendment to IFRS 7 *Financial Instruments: Disclosures* which became effective for fiscal periods beginning on or after 1 January 2009. IAS 1 (Revised) requires non-beneficiary changes in equity to be presented separately from beneficiary changes in equity, resulting in a statement of comprehensive income. The amendment to IFRS 7 requires enhanced disclosures about fair value measurements and liquidity risk. Corresponding information has been re-presented to conform with new disclosure requirements.

The remaining standards and amendments and interpretations to published standards that became effective for fiscal periods beginning on or after 1 January 2009 were not relevant to the Commission's operations and accordingly did not impact the Commission's accounting policies or financial statements.

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

#### (b) Foreign currency translation

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

# The Securities Commission of The Bahamas

## Notes to the Financial Statements

31 December 2009

(Continued)

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

#### (c) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, demand deposits with banks, and term deposits with banks with maturities of three months or less.

#### (d) Accounts receivable

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Commission will not be able to collect all amounts due according to the original terms of the receivables. The amount of provision is the difference between the asset's carrying amount and the present value of future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of a provision account, and the amount of the loss is recognised in the statement of comprehensive income. When an account receivable is uncollectible, it is written off against the provision for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against provision for doubtful accounts in the statement of comprehensive income.

#### (e) Plant and equipment

Plant and equipment are stated at historical cost, less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

# The Securities Commission of The Bahamas

## Notes to the Financial Statements

31 December 2009

(Continued)

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

#### (e) Plant and equipment (Continued)

Assets' useful lives are reviewed, and adjusted if appropriate, at each date of the statement of financial position or when an event has occurred that indicates a need to re-evaluate useful lives. Assets subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

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

#### (f) Accounts payable

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

#### (g) Income and expense recognition

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

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

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

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



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

### **Notes to the Financial Statements**

**31 December 2009**

**(Continued)**

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

##### **(h) Employee benefits**

The Commission has a defined contribution pension plan for its employees, whereby the Commission makes fixed contributions to a privately administered pension plan. The Commission has no further obligations to pay contributions if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods. The Commission's contributions to the defined contribution pension plan are charged to the statement of comprehensive income in the year to which they relate. Salaries, wages and other employee benefits are recognised on the accrual basis of accounting.

##### **(i) Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under the operating lease are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

##### **(j) Taxation**

The Commission is established under the laws of The Bahamas and therefore is not subject to income or capital gains taxes.

##### **(k) Corresponding figures**

Certain corresponding figures in the statement of comprehensive income were adjusted to conform to changes in presentation in the current year.

## The Securities Commission of The Bahamas

### Notes to the Financial Statements

31 December 2009

(Continued)

#### 4. Accounts Receivable

	2009 \$	2008 \$
Investment funds and investment fund administrators	49,608	45,305
Broker-dealers, securities investment advisors and associated persons	1,896	36,204
Financial and corporate service providers	6,750	22,250
Other	21,859	42,021
	<u>80,113</u>	<u>145,780</u>
Provision for doubtful accounts	-	-
<b>Total</b>	<b><u>80,113</u></b>	<b><u>145,780</u></b>

Movements in the provision for doubtful accounts are as follows:

	2009 \$	2008 \$
Opening balance	-	-
Provision for doubtful accounts	2,350	1,065
Bad debts written off	(2,350)	(1,065)
<b>Closing balance</b>	<b><u>-</u></b>	<b><u>-</u></b>

## The Securities Commission of The Bahamas

### Notes to the Financial Statements

31 December 2009

(Continued)

#### 5. Plant and equipment

	Computer Equipment \$	Furniture & Fittings \$	Vehicles \$	Total \$
<b>Cost</b>				
1 January 2009	342,379	385,468	59,940	787,787
Additions	60,104	81,758	-	141,862
Disposals	(14,810)	(755)	-	(15,565)
<b>31 December 2009</b>	<b>387,673</b>	<b>466,471</b>	<b>59,940</b>	<b>914,084</b>
<b>Accumulated Depreciation</b>				
1 January 2009	251,435	343,319	55,751	650,505
Depreciation expense	48,060	34,643	4,189	86,892
Disposals	(14,810)	-	-	(14,810)
<b>31 December 2009</b>	<b>284,685</b>	<b>377,962</b>	<b>59,940</b>	<b>722,587</b>
<b>Net book value as of:</b>				
<b>31 December 2009</b>	<b>102,988</b>	<b>88,509</b>	<b>-</b>	<b>191,497</b>
<b>31 December 2008</b>	<b>90,944</b>	<b>42,149</b>	<b>4,189</b>	<b>137,282</b>

#### 6. Deferred Income

	2009 \$	2008 \$
Investment fund and investment fund administrator fees	100,800	41,794
Broker-dealer, securities investment advisor and associated person fees	74,700	60,900
Financial and corporate service provider fees	35,250	45,250
Government subvention	46,781	-
<b>Total</b>	<b>257,531</b>	<b>147,944</b>

All deferred income is recognised in the following year in the statement of comprehensive income, with the exception of \$35,086 in Government subvention.

## The Securities Commission of The Bahamas

### Notes to the Financial Statements

31 December 2009

(Continued)

#### 7. Employee Benefits

Pension costs recognised in the statement of comprehensive income in the current year total \$178,746 (2008: \$159,063). The Commission's contributions to the pension plan vest 50% with employees upon completion of 5 years of employment, and fully vest upon completion of 10 years of service.

During the year, the Commission received reimbursements totalling \$33,982 (2008: \$78,858) representing the unvested portion of pension contributions relating to the former employees of the Commission. The unvested contributions were credited to salaries, wages and employee benefits in the statement of comprehensive income.

As of 31 December 2009, the Commission employed 55 (2008: 54) persons.

#### 8. Balances and Transactions with Related Parties

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

	2009 \$	2008 \$
<i>Assets</i>		
Cash at banks	444,547	399,985
Accounts receivable	2,254	18,314
Prepaid expenses and other assets	17,256	10,349
<i>Liabilities</i>		
Accounts payable and accrued expenses	10,109	5,381
<i>Expenses</i>		
Utilities and property charges	110,006	130,982

## The Securities Commission of The Bahamas

### Notes to the Financial Statements

31 December 2009

(Continued)

#### 8. Balances and Transactions with Related Parties (Continued)

Key management personnel is comprised of Members of the Commission, the Executive Director, Deputy Executive Director, Secretary to the Board, Manager of Corporate Affairs and the Financial Controller. Compensation of key management personnel for the year ended 31 December 2009 totalled \$351,900 (2008: \$320,303) for salaries and other short term benefits and \$20,095 (2008: \$17,423) for pension benefits.

#### 9. Commitments and Contingencies

##### *Commitments*

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

2010	\$303,987
2011	\$303,986

##### *Contingencies*

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

#### 10. Financial Risk Management

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

##### (a) Credit risk

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

## The Securities Commission of The Bahamas

### Notes to the Financial Statements

31 December 2009

(Continued)

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

##### (a) Credit risk (continued)

The Commission in its effort to minimise credit risk exposure monitors the accounts receivable balances ensuring that all efforts are expended in order to reduce accounts with long overdue balances. The aged analysis of accounts receivable as of 31 December 2009 is set out below:

	2009 \$	2008 \$
<i>Days outstanding</i>		
0 – 60 days	59,459	41,279
61 – 120 days	9,835	23,255
> 120 days	10,819	81,246
<b>Total</b>	<b>80,113</b>	<b>145,780</b>

Based on its experience, the Commission considers balances greater than 120 days to have acceptable credit quality.

##### (b) Liquidity risk

The objective of liquidity management is to ensure the availability of sufficient funds to honour all of the Commission's financial commitments as they become due. The Commission maintains a level of liquid assets that mature in the short term or could be redeemed immediately to meet cash requirements for normal operating purposes.

As of 31 December 2009, all of the Commission's payables and accrued expenses are due within one year.

##### (c) Interest rate risk

Interest rate risk is the risk that future cash flows or fair value of a financial instrument will fluctuate because of changes in market interest rates. The Commission's exposure to cash flow interest rate risk is concentrated in cash at banks; the Commission does not hedge this risk as it is not considered significant. The Commission does not have any significant fair value interest rate risk.

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

### **Notes to the Financial Statements**

**31 December 2009**

**(Continued)**

#### **11. Fair Value of Financial Instruments**

Financial instruments utilised by the Commission include the recorded financial assets and liabilities, and their estimated fair values approximate their carrying values due to the relatively short term nature of these instruments.

#### **12. Capital Management**

The Commission regards the balance of its Surplus account and any reserve fund as capital. The Commission's objectives when managing capital are to: i) safeguard its ability to continue as a going concern; and ii) maintain a capital base sufficient to support its regulatory powers and associated operations.

#### **13. Change in Accounting Policy**

Effective 1 January 2009, the Commission changed its accounting policy in respect of Government subvention. Government subvention is now recorded as income in the statement of comprehensive income rather than as contributed surplus in the statement of changes in net assets. Management is of that opinion that the newly adopted policy provides more reliable and relevant information because it more appropriately reflects the economic impact of the subvention.

This policy change has been applied retrospectively, resulting in Total income and Total comprehensive income for the year ended 31 December 2008 being increased by \$1,400,000.

#### **14. Subsequent Events**

Subsequent to 31 December 2009, the Commission received \$400,000 in Government subvention.







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