



2000
*Annual
Report*



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“Our mission is to effectively oversee and regulate the activities of the securities and capital markets, protecting the investors while strengthening public and institutional confidence in the integrity of those markets.”



The Hon. William C. Allen
Minister of Finance
Ministry of Finance
Sir Cecil Wallace- Whitfield Centre
Cable Beach
Nassau, Bahamas.

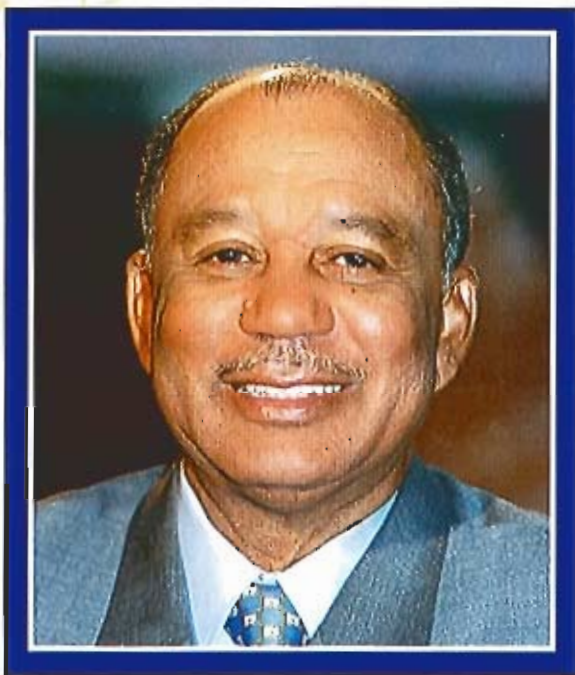
Dear Minister:

In accordance with Section 14 (1) of the Securities Industry Act, 1999, I have the honour to send you herewith on behalf of the Members of the Commission, the Annual report of the Commission for the year 2000. Included in this report are the audited Financial Statements of the Commission for the year.

Yours Sincerely,

T.B. Donaldson
Chairman





REMARKS FROM *The Chairman*

As the Commission celebrates its fifth anniversary, one cannot deny the obvious growth and development of the Bahamian securities markets.

We have seen the Government of The Bahamas, in its efforts to enhance our position as a leading financial services sector, enact a comprehensive body of financial regulatory legislation. We have noted the steady increases in the number of entities making application to operate in our jurisdiction over the past years. During the year under review, the Bahamas International Securities Exchange (BISX) was established. BISX will seek to serve as a catalyst

for capital formation, economic growth and assist in the continued advancement of our securities industry.

At the Commission, we will continue in our efforts to ensure that our markets are well policed, fair and efficient. In this respect, we will continue to review our internal processes and operations while at the same time identifying and eliminating any deficiencies.

We will continue to work with international organizations, namely IOSCO and COSRA, ensuring that the views and concerns of The Bahamas are articulated as the international regulatory environment evolves.

I would like to take this opportunity to welcome our newest Board member, Dr. Roger Brown, whose appointment became effective November, 2000. Dr. Brown replaces Mr. Kendal Munnings. We thank you "Sir" for your expertise and invaluable contributions.

While the past year has been demanding, the staff and the Commission have risen to the challenge and their efforts are to be commended.

We have embarked on a regulatory journey that seeks to promote innovation, integrity and transparency in the markets ensuring that investors are protected and the securities environment is not stifled by over-regulation. We trust that we have a regulatory regime that will remain competitive and viable well into the future.

T. B. DONALDSON
Chairman

REPORT FROM *The Executive Director*

It is indeed my profound pleasure to present the annual report of the Securities Commission of The Bahamas for the year 2000.

The year proved to be an exciting and challenging period for the Commission. The recent enactment of the Securities Industry Act, 1999 and subsequent passing of the Regulations during May of this year reaffirmed the Government's commitment to safeguarding The Bahamas' position amongst other offshore jurisdictions.

As we strive to enhance our operational efficiency, I am pleased to report that the Commission established the Securities Department whose primary responsibilities will include the prudential oversight of those entities engaged in securities activities operating in and from our jurisdiction.

During the year under review, The Bahamas embarked on a serious effort to address international concerns regarding weak supervision of the offshore financial sector, money laundering, and allegations of harmful tax practices. To that end, in December 2000, parliament enacted a comprehensive body of legislation that (i) enhanced the supervisory role of the Central Bank, allowed for cross border supervision by banking regulators of foreign banks with branches in The Bahamas, and introduced stricter licensing requirements for financial institutions; (ii) strengthened "know-your-customer rules" and the obligation to report suspicious activities to a newly created Financial Intelligence Unit; and (iii) relaxed bank secrecy provisions while providing for international cooperation in money laundering.

While some might argue that such measures were hasty and could be detrimental to our financial services industry, I contend that these measures will only serve to strengthen our position as a competitive offshore jurisdiction. The Bahamas will continue to focus on the development of the capital markets and the Commission will do its part by reviewing global trends in the international financial services markets and seeking innovative strategies to promote our dynamic regulatory architecture.

We will continue to foster and strengthen ties with domestic and foreign regulators in an effort to increase the global awareness for effective information sharing and cooperation thereby promoting investor protection and deterring those wanting to circumvent the securities laws.

Investor education will continue to be a priority at the Commission. It is our belief that an informed investor, one who is knowledgeable about the investment products available in the markets is the best defense in preventing fraud and misrepresentation.

I would like to take this opportunity to extend a heartfelt thanks to the members of the Commission for their unwavering commitment and support and to my staff I say a profound "Thank you". Your hard work and dedication throughout the year is greatly appreciated.




SANDRA J. KNOWLES

Executive Director



Commission Profile

The Securities Commission of The Bahamas (“the Commission”) is a quasi - governmental agency, which exercises statutory powers under the Securities Legislation (the Securities Industry Act, 1999; Securities Industry Regulations, 2000; the Mutual Funds Act, 1995 and the Mutual Funds, Regulations 1995).

The Securities Industry Act, 1999, provides the Commission with specific powers to regulate the securities market. Issuers making offerings to the public of shares, bonds and most other financial instruments are required to file a prospectus with the Commission. Additionally, all industry participants, including stock exchanges, brokers, broker-dealers and securities investment advisors, operating in or from the Bahamas are required to register with or be licensed by the Commission.

Equally, the Mutual Funds Act, 1995, empowers the Commission to regulate mutual funds and to license mutual fund administrators that operate within or from The Bahamas.

The Commission is charged with the overall responsibility of administering the Securities Legislation. Commission members meet at least once a month to deal with broad issues such as policy formulation, applications for licensing and other such matters.

Membership of the Commission consists of a Chairman, a Deputy Chairman and members not to exceed seven, all of whose appointments are discretionary to the Minister of Finance. The Chairman holds office for a period of five (5) years. The Deputy Chairman and other Commission members hold their offices for a period not to exceed four years. All Commission members including the Chairman are eligible for reappointment.

The Governor of the Central Bank, Registrar of Insurance and the Executive Director, through legislation, are ex-officio members of the Commission

The statutory requirement for membership on the Commission is experience and expertise in the disciplines of commerce, law, finance, economics and administration.

The Executive Director, who is accountable to the Commission, is responsible for the day-to-day operations of the securities legislation and manages the Commission’s Staff.

The Commission’s personnel operate from the following Departments:

- Securities
- Mutual Funds
- Compliance
- Administration/Operations
- Executive

Members of The Commission

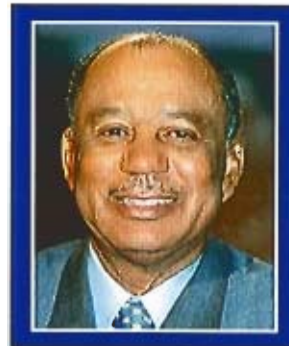
MR. TIMOTHY B. DONALDSON Chairman

Mr. Timothy B. Donaldson obtained a B. A. in Mathematics from Fisk University, an M. A. in Mathematics from the University of Minnesota and a M. A. in Public Administration from Columbia University. His credentials also include a Diploma in Public Finance from the International Monetary Fund and a Ph.D. in Economics.

In 1973 Mr. Donaldson became the first Governor of the Central Bank of The Bahamas. He has also worked in the private sector as the Director and President for a number of Banks, Trusts and private organizations.

Other noteworthy accomplishments include Mr. Donaldson's appointment as the first Bahamas Governor of the World Bank, the International Monetary Fund and the Caribbean Development Bank. He has also served as Ambassador of the Commonwealth of the Bahamas to the United States of America and as Non-Resident Ambassador to Mexico and Colombia.

He currently serves as Chairman of Commonwealth Bank, United European Bank & Trust, and is a director of Morgan Trust Company. Mr. Donaldson was appointed as the first Chairman of the Commission in July 1995.



MR. JULIAN W. FRANCIS Deputy Chairman

Mr. Julian Francis was educated at the Government High School, Nassau, and at New York University, New York, where he obtained a B. Sc. in Finance (with special honors) and an MBA. He is fluent in French having worked extensively in the banking industry in France.

Mr. Francis was appointed Deputy Governor of the Central Bank in 1993 and was appointed Governor and Chairman of the Board in 1997. He is also the Chairman of the Bridge Authority. He was appointed Deputy Chairman of the Securities Commission in July 1995.





MS. SANDRA J. KNOWLES

Board Member
(Executive Director)

Sandra J. Knowles attended the University of Windsor (formerly the Polytechnic of North London); where she obtained a University of London Teaching Certificate in 1974. She is also the recipient of a B.Ed. in Social Studies degree (Cum Laude) from the University of Miami in 1977.

Ms. Knowles spent thirteen (13) years at Coutts attaining the position of Senior Securities Dealer in the Investment Department. She gained a wealth of experience in portfolio/asset management, stock trading, investments and financial instruments. As a prototype dealer for the organization she was able to deal and manage both sides of the dealer room

She was appointed Executive Director of the Securities Commission on July 14, 1997. In this capacity, she assumes overall managerial responsibility for the Commission's day-to day operations; including participating in establishing rules and guidelines that shape our regulatory architecture as well as forming policies that set standards for the securities market and its participants.

She currently serves as Deputy Chairman of the Hotel Corporation of the Bahamas.



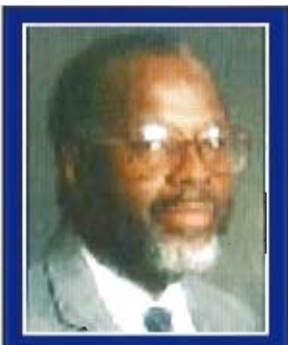
MS. SHARON BROWN

Board Member

Ms. Brown obtained a B. Sc. in Business Administration from Boston University in 1975 and a MBA from the University of Miami in 1979.

She is currently Corporate Director at Barclays (Bahamas) Ltd.

Ms. Brown has served on the Board of a number of government institutions and currently is a Director of the Bahamas Electricity Corporation. She was appointed as a member of the Securities Commission in July 1995.



DR. ROGER BROWN

Board Member

Dr. Roger Brown, obtained a BA with Special Honors in History and a Diploma in Education from the University of the West Indies in Jamaica. He holds a Masters of Education from the University of Toronto, and an MBA and Doctorate in Education (Ed. D.) from the University of Miami.

Dr. Brown currently serves as the Registrar of Insurance Companies. He became a member of the Securities Commission in November 2000.



MRS. E. M. BURROWS-POITIER
Board Member

Mrs. Poitier obtained her BA in Economics and her MBA in Business Economics from Pace University in New York. In 1981, she was the first Bahamian to complete the Chartered Financial Analyst programme.

She is currently a Senior Lecturer/Department Head in Banking and Finance at the College of the Bahamas. She was appointed a member of the Securities Commission in July 1995.



MR. TREVOR D. A. SUNDERLAND
Board Member

Mr. Trevor Sunderland qualified as a Chartered Accountant in England and Wales in 1962. He attended the Pacific Coast Banking School of the University of Washington in 1986.

He is currently a director of Thorand Trust and Management Limited, Solomon Brothers Limited and SFS Management Limited. He was appointed as a member of the Securities Commission in July 1995.



MR. CLIFFORD A. JOHNSON
Board Member

Mr. Clifford Johnson, a chartered accountant is a Fellow of the Association of Chartered Certified Accountants U.K. and a member of the Bahamas Institute of Chartered Accountants and a partner of PriceWaterhouseCoopers, Bahamas.

Mr. Johnson is a member of St. Augustine College Board of Advisors and The Royal Bahamas Police Force Dependants Trust Fundraising Committee. He was appointed as a member of the Securities Commission in July 1995.

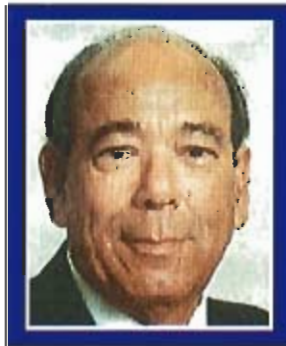


MR. REGINALD LOBOSKY
Board Member

Mr. Reginald Lobosky obtained his LLB and LLM Degrees at the University of London England. He is Barrister at Law (Lincoln's Inn) and was called to the Bar of England and Wales in 1975.

He is an Associate of the Chartered Institute of Arbitrators, London. The International Academy of Trial Lawyers and the International Bar Association.

He is currently a senior partner at Lobosky and Lobosky. He was appointed a member of the Securities Commission in July, 1995.



Senior Management of The Securities Commission



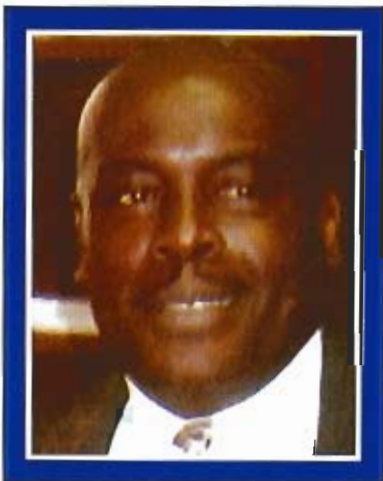
SANDRA J. KNOWLES
Executive Director



HILLARY DEVEAUX
Secretary
to the Commission



PEGGY KNOWLES
Manager
Mutual Funds Department



SYDNEY SAUNDERS
Manager
Securities Department



MECHELLE ALBURY
Manager
Compliance Department



CAROLYN FERGUSON
Manager
Administration &
Operations Department

Domestic Macro-Economic Review

After a decade of low economic growth, the Bahamian economy began to experience a sustained recovery in the mid-1990's, due mainly to substantial inflows of foreign investment in tourism, shipping and construction, and to a steady expansion of financial services. To a large extent, this turnaround was due to the government's commitment to sound macroeconomic policies and was supported by the recovery of consumer demand in the United States. The favorable economic performance contributed to a decline in the unemployment rate to 7 1/2 per cent in 1999, from 11 1/2 per cent in 1996 (preliminary information suggests that unemployment fell further to below 7 per cent by end-2000). Inflation averaged less than 1 1/2 per cent during the period 1996 – 2000.

Real GDP increased from 3 to 3 1/2 percent a year in 1997- 98 to 6 percent in 1999 and remained strong at 5 percent in 2000. GDP is estimated at about US \$ 4.9 billion in 2000, implying an average per capita income of about US \$ 16,000. The main sector of the economy is tourism, which accounts for about half of the total GDP. The financial sector, the public administration, and the construction sector account for 15 per cent, 10 per cent, and 4 per cent of GDP respectively.

The key factor in the economic recovery has been the government's policy of gradual fiscal consolidation. The deficit of the central government narrowed from over 3 per cent of GDP in FY 1996/97 (fiscal year begins July 1) to 0.8 percent in FY 1999/2000, due to an increase in tourism tax rates, some reduction in customs duty exemptions, and lower capital outlays. Central government savings increased by 1 1/2 percentage points of GDP over the same period, to above 2 per cent of GDP in FY 1999/2000. The improvement in the fiscal position allowed for a reduction in the total debt of the non-financial public sector to about 40 per cent of GDP at end-2000, from 43 1/2 percent at end of 1996 (the short term component of the debt is estimated at 5 per cent of GDP) .

Broad money growth slowed to 7 1/2 per cent during 2000, from about 10 per cent in 1999, while credit to the private sector increased by more than 14 1/2 per cent, following an 11 1/4 per cent expansion in 1999. Credit demand rose during the second half of 2000, which led commercial banks to reduce their excess reserves to expand their operations. In addition, interest rates on treasury bills remained low during this period, encouraging banks to reduce their holdings of these instruments, which were taken up by the Central Bank.

Interest rates in treasury bills declined gradually from 3 1/2 percent at the end of 1998 to 1 percent in mid-2000 due to an increase in banking system liquidity and remained largely unchanged at that level during the remainder of 2000.

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Table 1
The Bahamas – Economic Indicators, 1998 -2000

	1998	1999	Est. 2000
(Annual percentage changes; unless otherwise stated)			
National accounts and prices			
Real GDP	3.0	5.9	5.0
Real GDP per capita	1.3	4.2	3.3
GDP deflator	3.2	3.1	2.5
Consumer Price index (period avg.)	1.3	1.3	1.6
Unemployment rate (in percent)	7.8	7.5
(Ratios to GDP)			
Public Finances			
Central government 1/	18.8	18.3	19.4
Total Revenue (including grants)	20.5	20.0	20.2
Total Expenditure	2.3	2.3	2.0
<i>Of Which</i> interest	1.3	1.3	2.1
Savings	0.7	0.6	1.2
Primary balance	0.7	0.6	1.2
Overall balance	-1.7	-1.6	-0.8
Consolidated public sector 2/			
Primary balance	0.8	0.4	4.0
Overall balance	-2.1	-2.2	1.6

Source: The IMF



Table 2
Selected Interest Rates

Period Ended	%	%	Treasury Bill Rates		
			%	%	%
	Bank Rate	Prime Rate	Re-Discount Rate	Average Tender Rate	Average Rate of Discount
1997	6.50	6.75	4.99	98.3	4.49
1998	6.50	6.75	3.98	98.63	3.48
1999	5.75	6.00	1.99	99.34	1.49
2000	5.75	6.00	1.38	99.78	0.88

Source: Central Bank

Table 3
Selected Economic Indicators

INDICATOR	UNIT	1997	1998	1999	2000
Average Retail Price Index	Oct./Nov 1995=100	101.6	103	104	195.9
Value of Construction Permits	B\$000	316,387	472,177	641,134	n.a.
Value of Construction Starts [^]	B\$000	458,553	163,520	164,384	n.a.
Value of Construction Completions [^]	B\$000	171,030	512,119	247,681	n.a.
Government Revenue(a)	B\$000	729,460p	761,347	869,099p	940,846p
Government Revenue(b)	B\$000	684,401p	764,034p	803,768p	918,439p
Government Expenditure (a)	B\$000	864,777p	842,643p	919,800p	950,457,p
Government Expenditure (b)	B\$000	827,282p	835,380p	874,511p	956,540p
Average Treasury Bill Discount Rate	%	4.49	3.48	1.49	0.88
Money Supply (M1)	B\$000	518,768	596,426	758,232	803,741
Money Supply (M2)	B\$000	2,466,107	2,843,478	3,194,664	3,463,582

Source: Central Bank

Note: [^]Excludes Family Island Statistics

(a) = Calendar year; (b) = Fiscal Year (July-June)



International Capital Markets Review

During 1999 and into the first half of 2000, global financial conditions generally improved with a strong rebound in the global economy. Following the most severe market turbulence – especially for emerging markets in the postwar period – entailing a succession of regional crises that enveloped the major financial markets, credit concerns have eased and global investors became more willing to engage in risk taking. This was especially evident in their rush to invest in technology – related companies that underpinned the “new economy”.

As markets recovered during 1999, mature market credit spreads receded from their crisis peaks and have remained appropriately above precise levels, given the decline in highly leveraged activities that had compressed spreads before the crisis. The remarkable, continued rapid growth of US productivity – largely related to the new economy – helped sustain the low inflation expansion in the United States, and spurred US and worldwide investment. Despite the upturn in global interest rates, equity markets rose to record highs during the second half of 1999 and into early 2000 on increasingly optimistic expectations of future earnings growth for investments in the dynamic technology related sector. The deepening and broadening of credit markets in the euro era helped boost global debt, reflecting too the increased pace of corporate restructuring (especially merger and acquisition activity) and the gathering strength of the global expansion. Even in Japan equity markets recovered on initial signs that the decline in output may have bottomed.

Emerging market asset prices saw strong increases in 1999 and the domestic and external financing situation of most emerging markets continued to recover from the rolling crises that affected Asia, Russia and Brazil between mid 1997 and early 1999. Reflecting these improvements, the credit ratings of a number of emerging markets improved. Emerging markets bonds posted strong returns in 1999, significantly outperforming the low or negative returns for most alternative fixed income asset classes in mature markets. Emerging equity markets also had a stellar year, driven by the performance of technology driven stocks. Other favorable developments include a widening of the investor base for emerging markets assets, a diversification of funding sources by borrowers, and a shift toward longer term funding.

Throughout most of the 12-month period ending in June 2000, developments in international capital markets continued to be strongly influenced by the perception that US economy offered the highest risk adjusted asset return in the major currency areas. Favorable perceptions reflected the continued strong performance of the US economy, uncertainty about growth prospects in Europe, and the halting economic and financial recovery in Japan. While this combination of factors might not explain all of the international reallocations of capital and risks, or all assets –price movements, it was an important part of the background against which these adjustments occurred.

Based on data compiled by the International Monetary Fund's (IMF) estimates



Table 4

Global Economic Indicators (year-on-year percentage change unless otherwise indicated) - Year 2000

	Output			Inflation	Liquidity and Interest Rates		
	Real GDP	Industrial Production	Consumer Prices	Producer Prices	Broad Money Supply (M3)	Short-term Rates (%)	Long-term Rates (%)
2000							
US	5.2	5.3	3.2	2	6.1	6.1	6.1
Japan	1.4	6.6	-0.8	-0.9	2.2	1.8	1.8
UK	3.1	1.4	3.1	2.2	6.4	0.1	5.2
Germany	2.9	3.5	2.4	n.a	3.3	3.7	5.4
Hong Kong	8	-1	-2.8	n.a	5.6	5.9	n.a.
Taiwan	6.5	6.8	1.6	n.a	6.4	5.1	n.a.
Australia	4	3.1	4.8	4.4	8.5	n.a.	5.5
Singapore	7.9	18.7	1.7	n.a	-2.1	2.6	n.a.
Malaysia	7.5	21.2	1.9	n.a	6.6	3.3	n.a.

Sources: IMF, OECD, Datastream/ICV, Economic Report 2000, Reuters and Goldman Sachs, Consensus Economics

Note: Data are latest available and may not reflect actual year-end figures. Where unavailable, manufacturing production has been used in place of industrial production



Domestic Capital Markets Review

Based on preliminary indicators, the domestic financial system appears to be well capitalized, with a comfortable level of liquidity, with the average capital/assets ratio rising from 9.1 per cent at the end of 1997 to 11.2 percent at the end of 2000.

According to the Central Bank estimates, the financial sector accounts for about 15 percent of GDP, with half of this contribution generated by the banking sector. As of December 2000, there were 410 licensed banks and trust companies, of which 142 had restricted or non-active licences, with about 200 having physical presences in the Bahamas. According to BISX, banks managed US\$ 276 billion in foreign assets, 87 percent of which are inter-bank claims. Off balance activity is not measured, but is estimated to be equally significant. By comparison, domestic operations amount to only US\$ 4 billion (80 per cent of GDP). Employment in the sector totaled 4,409 by yearend 1999, or about 2.8 per cent of the total work force.

Offshore banking operations, measured by the size of the external assets, grew at an average rate of 3.2 per cent during the past decade (thereafter 4.5 percent). At the same time, the number of registered IBC's, which is the vehicle commonly used by non-residents to hold financial assets, grew steadily from 28,493 in 1994 to 117,520 in 2000.

Financial activities constitute a significant source of revenue for the Government. In 2000, fees paid by the banking sector amounted to B\$17.1 million, while IBC licensing fees totaled B\$17.2 million. Combined, these fees were equivalent to 3.7 percent of government revenue and 0.7 percent of GDP.



Table 5
Indicators of the Financial Services Sector

	1996	1997	1998	1999	2000
Number of registered IBC's	51,192	69,889	84,540	100,092	117,520
Bank and Trust Companies					
Total Licensees	425	418	418	415	410
Public	299	291	282	276	268
Restricted	107	109	119	123	125
Non-active	19	18	17	16	17
Number of employees	3,786	3,942	4,080	4,145	4,409
Domestic banks	2,980	3,050	3,178	3,203	3,270
Offshore banks	806	892	902	42	1,139

Sources: Central Bank of the Bahamas, Bank for International Settlements; IMF

Bahamas International Securities Exchange - (BISX)

The Bahamas International Securities Exchange (BISX), one of the first “demutualised” exchanges of the 21st century successfully launched its domestic market for the listing and trading of local public companies on Friday, May 12, 2000. Trading in international securities is scheduled to follow by the end of the year.

BISX is expected to deliver innovative instruments to the domestic and international capital formation and trading. The Exchange is also expected to break new ground by partnering with the global financial services and major information technology and communications providers.

BISX's strategic plans include the creation of a world class capital markets environment which will aim to replicate The Bahamas' success in other financial services activities, by making the best use of the advantages that the Bahamas has to offer, as well as exploiting leading-edge advances in securities market technology and advanced thinking on legal and regulatory issues

At the end of December, 2000, fifteen companies were actively trading on the Exchange. The net total of these shares values \$B26.7 million, with a market capitalization of \$B1.8 billion as at 31 December, 2000.



Table 6

Companies Listed on the Bahamas International Exchange (BISX) – 2000

Public Company	Total Shares Outstanding as at Dec. 31, 2000	Market Capitalization as at Dec. 31, 2000 –BS
Abaco Markets	10,287,331	66,559,032
Bahamas Property Fund	2,500,000	13,125,000
Bahamas Waste Limited	4,200,000	14,280,000
Benchmark (Bahamas)	4,959,111	5,653,387
British American Bank	16,666,670	33,166,673
Cable Bahamas	20,000,000	175,800,000
CIBC (Bahamas) Ltd	55,000,000	614,900,000
Commonwealth Bank	31,161,896	280,145,445
Doctor's Hospital	9,971,634	21,937,595
Fanguard Corporation Ltd	8,500,000	30,600,000
FINCO	26,666,666	300,000,038
FOCOL	8,400,000	57,120,000
Global Bahamas	12,738,830	24,458,554
ICD Utilities	10,000,000	140,000,000
J.S. Johnson	8,000,000	57,600,000
TOTAL	229,054,171	1,835,347,753

Source: Securities Commission

Table 7

World Market Capitalization as at 31 December (US\$ billion)

Country	2000
United States	15,107.75
Japan	3,157.22
United Kingdom	2,577.00
Germany	1,270.24
Hong Kong	623.38
Australia	372.79
Taiwan	258.28

Source: FIBV

Recent Developments in Financial Regulation

Following the concerns raised by the Financial Action Task Force (FATF), the Financial Stability Forum (FSF) and the Organization of Economic Cooperation and Development (OECD) in 2000, the Bahamas launched a comprehensive legislative effort aimed at strengthening present laws concerning anti-money laundering practices and the supervision of the offshore sector.

In response to the international initiatives, in late 2000, the Bahamas government enacted a compendium of legislation to bring the regulation and supervision of the financial services sector into compliance with international standards and practices. This effort involved nine new pieces of legislation that addressed three major issues. (i) customer identification, reporting of suspicious transactions, and transparency, (ii) financial supervision practices ; and (iii) international cooperation. The following provides an overview of the legislation:

The Financial Transactions Reporting Act, 2000 (the "FTRA") makes provisions for the verification of the identity of customers by financial institutions, making it an offence to conduct operations without verifying the identity of the customer; further, it imposes the obligation to maintain records for a minimum of five years and establishes the obligation to report transactions known or reasonably suspected to be related to offenses specified in the Proceeds of Crime Act. It also expands the definition of financial institutions by including professionals, (lawyers, accountants), when they engage in certain types of financial activity. The FTRA also imposes the legal obligation on a financial institution to report to the authorities any suspicious transactions.

The Financial Intelligence Unit Act, 2000 (the "Act") establishes a Financial Intelligence Unit (FIU) as the agency responsible for receiving, analyzing, obtaining, and disseminating information that may relate to offenses specified in the Proceeds of Crime Act. The Act empowers the FIU to request the production of such information as considered necessary for the execution of its functions.

The International Business Companies Act, 2000 (the "Act") repealed the International Business Companies Act, 1989. The Act sets new provision for the incorporation, registration, and operation of International Business Companies (IBC's) in the Bahamas. Among the most important specifications, the Act provides for the elimination of bearer shares in new companies and for the recall and substitution of existing bearer shares.

The Financial and Corporate Service Providers Act, 2000 (the "Act") provides for the licensing and regulation of financial and corporate service providers. Following its approval, only licensees under this new Act and Bank and Trust companies licensed under the Bank and Trust Companies Regulation Act can incorporate IBC's. Licensees also have to comply with other provisions such as having in place internal controls procedures and anti-money laundering policies. In addition, the Act establishes the Office of the Inspector of Financial and Corporate Services as an independent control authority that will conduct on site and off-site examinations to ensure compliance with the new requirements

The **Central Bank of the Bahamas Act, 2000** (the "Act") repealed the Central Bank of the Bahamas Act, 1974. Under the Act, the Central Bank of the Bahamas (the "Bank") continues to have the same legal capacity as a statutory body corporate with perpetual succession, and its duties remain largely the same, which may be summarized as follows:

- 1) To act as a regulator of the banking system in terms of both licensing and ongoing supervision of banking and trust business and management
- 2) To manage the country's foreign reserves
- 3) To issue and redeem Bahamian coins and notes
- 4) To control the money supply
- 5) To administer the Exchange Control regime; and
- 6) To act as banker to the commercial banks and banker to the Government

The new legislation adds to the Bank's functions *vis a vis* the power (not duty) to assist and to co-operate with overseas regulatory authorities. Additionally, under the Act, the Bank is given extensive powers to require specific information from financial institutions for its own regulatory purposes whilst having the ability to set fines for non-compliance and seek a court order. The Bank is also authorized to share information with foreign supervisors in order to help in the exercise of their function. The prohibition of disclosure of information by the Bank officials – the duty of confidentiality is relaxed under certain circumstances, such as court requirements.

The **Bank and Trust Companies Regulation Act, 2000** (the "Act") repealed both the Banks Act, 1909 and the Bank and Trust Companies Regulation Act, 1965. The Act introduces several improvements in the regulatory framework of banks. In particular, the Act,

- (i) enhances the authority and autonomy of the Bank's Governor, who has full responsibility for the licensing of banking and trust companies,
- (ii) expands the licensing criteria for banks and trust companies, including fit and proper tests for the applicants, the evaluation of the applicant's financial resources, its business record and experience, and the soundness and feasibility of the business plan;
- (iii) requires that the establishment of a branch or subsidiary of a foreign bank be approved by the authority in charge of the consolidated supervision of such institution;
- (iv) expands the duties and powers of the Inspector of Banks, who is in charge of the supervision of licensees, allowing for on-site examinations and off-site supervision; and
- (v) allows foreign supervisors, upon approval by the Inspector of Banks, to conduct inspections of Bahamian branches or subsidiaries of foreign banks for purposes of consolidated supervision.

The Proceeds of Crime Act, 2000 (the “Act”) repealed the Tracing and Forfeiture of Proceeds of Drug Trafficking Act, 1986 and the Money Laundering (Proceeds of Crime) Act, 1996. The Act provides for means by which the proceeds of a broad range of criminal conduct, with special reference to drug trafficking and money laundering, may be confiscated and paid into a newly created fund called the Confiscated Assets Fund, the assets of which may be used by the Minister responsible for a limited number of purposes.

The Criminal Justice (International Cooperation) Act, 2000 (“the Act”) establishes, inter alia, the legal mechanism whereby the Bahamian government may assist foreign courts, tribunals or relevant authorities in obtaining evidence in The Bahamas. The Act operates only in respect of predicate offences under the Proceeds of Crime Act, 2000

The Evidence (Proceedings in other Jurisdiction) Act, 2000 (the “Act”) repealed the Foreign Tribunal Evidence Act, 1856. The Act updates the legal mechanisms whereby the Court may assist foreign courts or tribunals in obtaining evidence in The Bahamas in connection with civil proceedings, which either have been instituted before the foreign requesting court or tribunal, or the institution of which before that court or tribunal is contemplated and for which an investigation has already commenced.



Review of Departmental Operations

The Administration & Operations Department

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

Budget

The Commission's income is derived mainly from fees levied on market participants in addition to an annual subvention from the Government.

At the end of 2000, the Commission generated income of \$1,087,127 an increase of \$356,014 or 67% as compared to \$731,113 that was recorded in 1999. The increase in revenue was mainly attributed to the Securities Department fees coming online.

Table 8

Breakdown of Revenue Fees and Charges for the year ended 31 December 2000

	2000 (BS)	1999 (BS)
Mutual Fund registration and licence fees	322,000	292,500
Mutual Fund principal office fees	313,500	270,000
Mutual Fund application fees	64,500	73,000
Mutual Fund administrator licence fees	74,600	32,200
Mutual Fund administrator application fees	4,200	13,400
Broker Dealer registration and licence fees	169,542	0
Broker dealer application fees	70,138	0
SIA- registration fees	27,929	0
SIA- application fees	12,548	0
Associated persons-registration fees	1,580	0
Associated persons -- application fees	650	0
Penalty fees	7,000	0
Examination fees	5,850	6,911
Investor Education Income	0	34,950
Bank Interest	4,147	4,661
Miscellaneous Income	8,907	3,491
Total	1,087,127	731,113

Source: Securities Commission



Budget Allocations

The following outlines a breakdown for the major sectors of the annual budget 2000:

- Administrative Expenses (excluding staff salaries & training) accounted for the greater part of the allocated funds totaling \$962,539 or 51%.
- A total of \$586,891 or 31% of the budget was allocated for staff salaries.
- Training was allotted \$91,634 or 4.8% of the annual budget
- Salaries (including Honoraria for Board members & two Consultant) was \$925,517
- There was also an allocation of \$88,714 or 4.67% for Capital expenditure during 2000. The large portion of these funds was used to purchase computers and office furniture.

Table 9

Total Operating Expenditure for the Year Ended 31 December 2000

	Amount (\$B)	Percent (%)
Administrative Expenses	1,093,054	57.00
Training	83,333	4.38
Capital Expenditure	57,913	3.40
Other Expenditure	663,039	35.00
TOTAL	1,901,093	100

Source: Securities Commission

Human Resources

By the end of 2000, the Commission staff totaled 18 permanent members and two consultants. During the year the Commission terminated the services of two employees, two employees resigned and the Commission welcomed the following staff members:

- Mr. Hugh Cleland.....Capital Markets Consultant
- Mr. Sydney Saunders.....Manager, Securities Department
- Ms. Jalinka Munroe.....Clerk, Mutual Funds Department
- Ms. Shericka Mckenzie.....Secretary, Compliance Department
- Ms. Dionne Comery.....Consulting Accountant, Securities Department

Of the total staff of eighteen, 7 or 41% of the employees were executives while the remaining 11 or 61% were non-executives.

The staff turnover rate was 19% for 2000, which was an increase of 4% when compared to the 15% that was recorded in 1999.



The Securities Department

The Securities Industry Act, 1999 (SIA) requires the registration of all issuers engaged in Initial Public offerings (IPO) with the Commission. Additionally, industry participants, including brokers, broker dealers and stock exchanges are required to register with or be licensed by the Commission. The Securities Department is responsible for the prudential oversight of all those regulated entities

Under the SIA, a company that intends to raise capital by selling securities to the public must generally prepare a detailed disclosure document – a “Prospectus” – for investors. The Prospectus must be filed with the Commission for review and acceptance before the securities can be sold in the Bahamas unless exemption is granted. The securities staff conducts a comprehensive review of prospectuses and other offering documents to ensure that they comply with all regulatory requirements. The department is also responsible for monitoring and reviewing continuous disclosure reports filed by issuers.

Moreover, the Department processes applications for all individuals and firms wishing to engage in trading or advising in the securities markets.

Prospectuses Registered

In 2000, three (3) new prospectuses were submitted for registration

Table 10

Application for Registration of Prospectus for the year ending Dec. 31, 2000

Company Name	Shares Offering	Cost Per Share
Bahamas Waste Limited	2,000,000	\$3.00
Benchmark (Bahamas) Ltd	2,709,111	\$1.00
Commonwealth Bank	3,000,000	\$6.00



Rights Issues

During 2000, the Department received two (2) applications for registration

Table 11
Application for Rights Issues

Company Name	Rights Offered	Cost per share
Abaco Markets Limited	1,879,300	6.50
Bank of the Bahamas	2,000,000	5.00

During 2000, the Department received application for one (1) private placement issue on behalf of ICD Utilities Limited (a public company).

Table 12
Private Placement

Company Name	Shares Offered	Cost per share
ICD Utilities Limited	1,500,000	12.00

Licences Issued to Market Intermediaries

The total number of applications received for capital market intermediaries at year-end 2000:

- Broker Dealers: Class I 8
- Broker Dealers: Class II 33
- Securities Investment Advisors 5

The following is a listing of registrants (Preliminary Registration) recorded at the end of 2000:

- Alliance Investment Management Ltd.,
- Bay Street Securities International (Bahamas) Ltd
- Berkley (Bahamas) Limited
- Dominion Investment (Nassau) Ltd
- Fidelity Capital Markets Ltd
- Foreign Asset Management Expertise Ltd. (FAME)
- Power Securities Limited
- Windermere Asset Management Ltd

Major Projects undertaken during 2000 by the Department:

- Registration of Bahamas International Securities Exchange
- Registration of Broker Dealers and Securities Investment Advisors
- Development of proxy statements requirements



The Mutual Funds Department

The Mutual Funds Act, 1995 (The Act) stipulates that all mutual funds and mutual fund administrators, which operate within or from the Bahamas, must be licensed and or registered by the Commission. The Mutual Funds Department is responsible for the direct oversight of those entities.

The Department reviews all applications submitted for registration to operate mutual funds in this jurisdiction. This process is conducted to ensure primarily that the following occurs:

- i. all the funds' governing documents comply with provisions that are outlined in the Act
- ii. the promoter of the fund is of sound reputation
- iii. the funds' administrator has sufficient expertise to administer the fund and is also of sound reputation

The Act provides for three categories of mutual funds:

- 1) Licensed Mutual Funds pursuant to Section 3-1 of the Act
- 2) Authorized Mutual Funds – pursuant to Section 3.-(3) of the Act
- 3) Exempt Mutual Funds – pursuant to Sections 3.-(4) & 3.-(6) of the Act

In addition, the Department also conducts thorough due diligence checks on all applications submitted for licensing as Mutual Fund Administrators. The Commission will not grant a license until a fit and proper evaluation is conducted and we are satisfied that the applicant:

- has sufficient expertise to administer regulated mutual funds
- is of sound reputation
- has the financial capacity to operate the mutual fund

At the end of 2000, there were a total of 757 active Mutual Funds with a total Net Asset Value of \$US 95.02 billion. This figure increased from the previous year (1999) where a total of 636 funds were recorded with a Net Asset Value of \$US94.5 billion

At the end- 2000, the Commission received 151 applications for licensing of mutual funds a slight decrease from the previous year in which 156 applications were received. During the year, the Department received five (5) applications for Mutual Fund Administrators a decrease from the fourteen applications received in 1999.



Statistical Data

Table 13

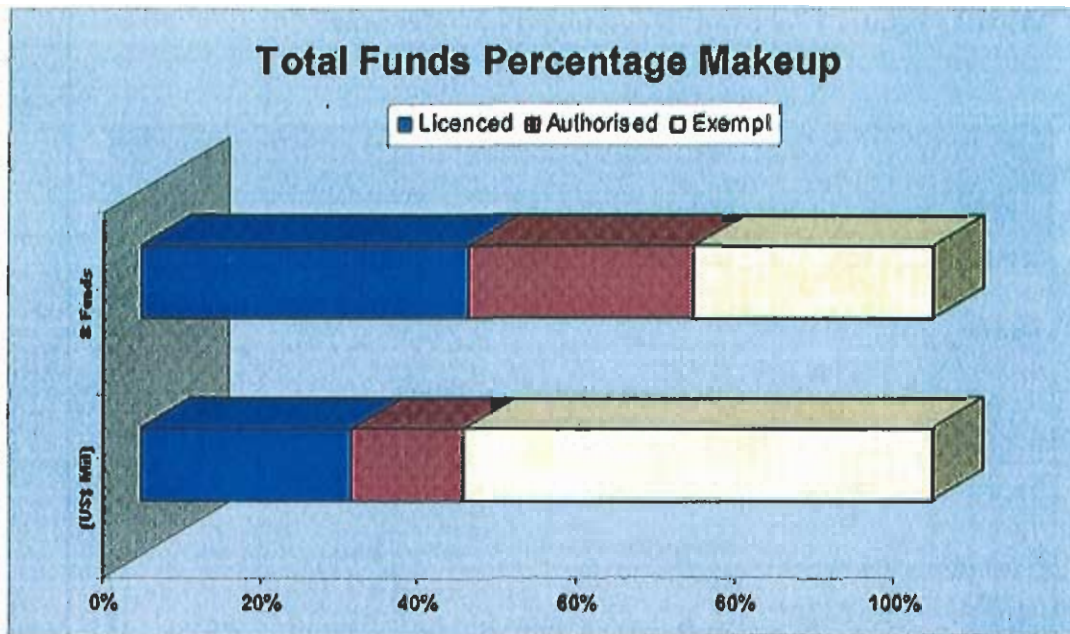
**Mutual Funds Licensed, Registered or "Exempt"
as at December 31, 2000**

Funds Requiring	Total Number of funds	Total NAV (US\$ Billions)
Mutual Fund Licenses Section 3.-(1) of the Act	314.00	25.33
Registration (authorized funds) Section 3.-(3) of the Act	216.00	13.54
Exempt Mutual Funds Sections 3. (4) & 3.(6) of the Act	227.00	56.16
TOTALS	757.00	95.03

Source: Securities Commission

Chart 1

Total Funds in Percent Makeup: Licenced*Authorised*Exempt



Figures are based on available information provided by Mutual Fund Administrators. As at December 31, 2000 there were a total of 57 Licenced, registered or Exempt Mutual Fund Administrators and one (1) Self Administered Fund, eight (8) of which did not administer any funds. In addition, application for licence for one (1) is still pending.



Chart 2

Top Mutual Fund Administrators – Net Assets Values: 1996-2000

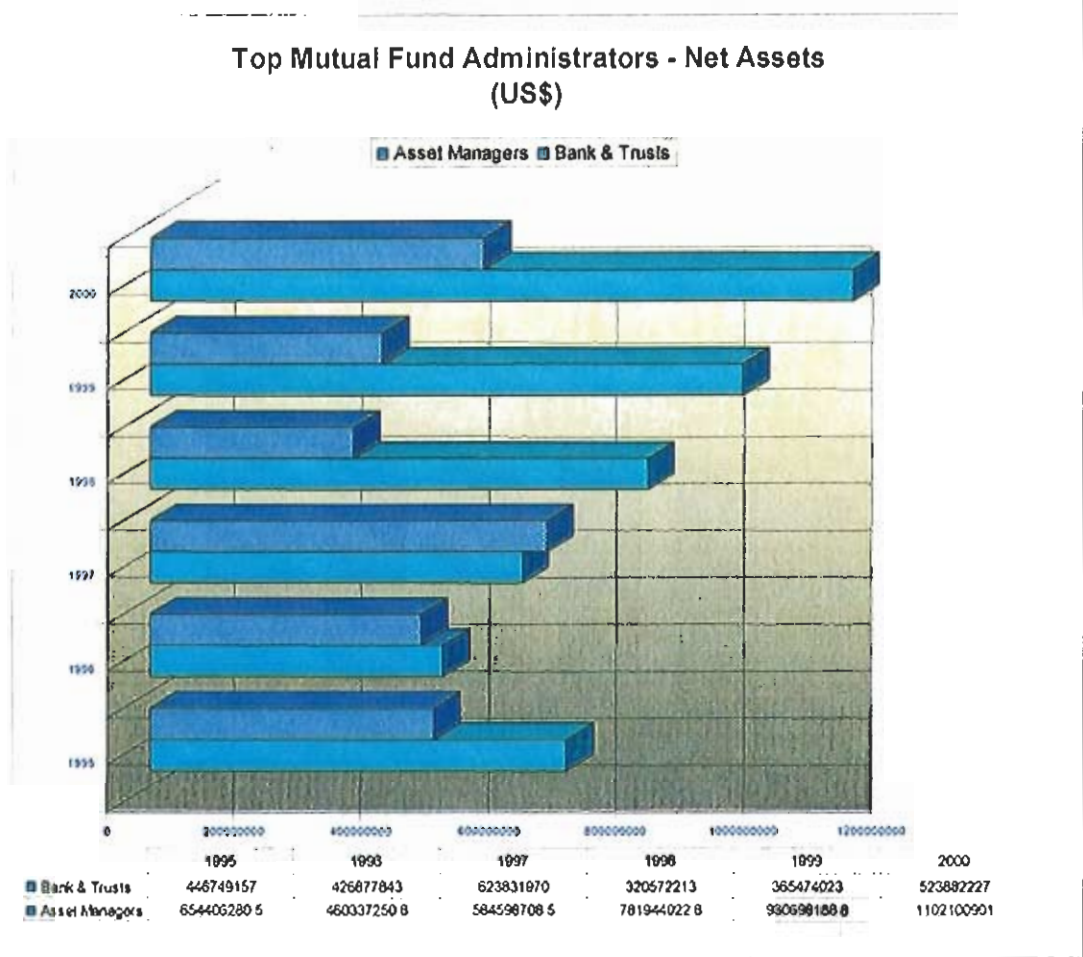


Table 14

Mutual Fund Administrators Applications Received 2000

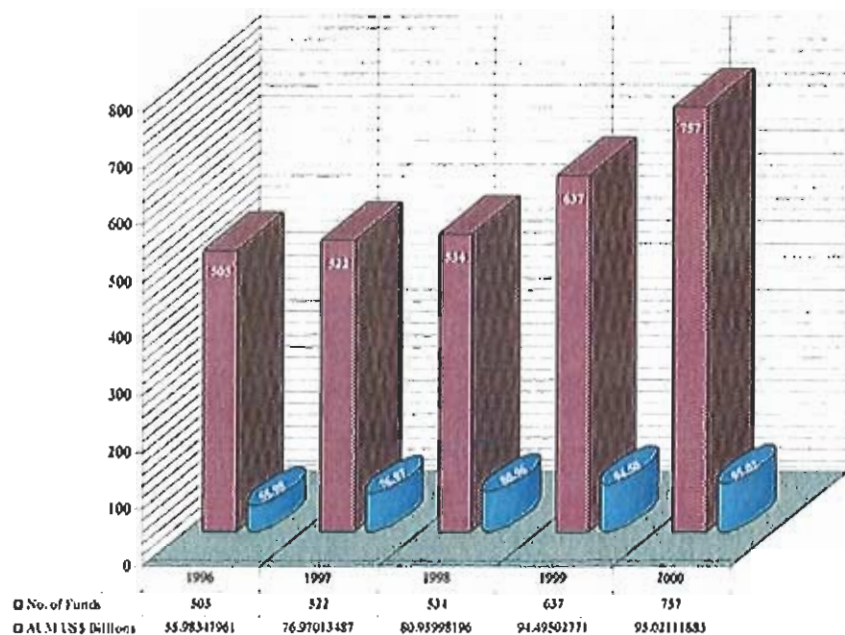
Name of Fund Administrator	Type of Licence Submitted
Hottinger Bank & Trust Limited	Restricted
PFPC Inc	Restricted
Pactual Overseas Bank & Trust	Exempt
Pictet Bank & Trust	Exempt
European Fund Services Ltd	Restricted

Source: Securities Commission

Chart 3

Mutual Funds Industry Growth: 1996-2000

Mutual Funds Industry Growth 1996 - 2000



Source: Securities Commission

Table 15

Growth of the Mutual Funds Industry, 1996-2000 (Billions of US Dollars)

End of year/period	1996	1998	2000
Number of Funds	505	521	757
% increase of Funds	n.a.	3.0%	45%
Value (US\$ billion)	55.9	81	95.03
% increase in Value	n.a.	45%	17.0%

Projects undertaken during the year :

- Designation and training of staff members to deal exclusively with all due diligence request and responses.
- Compile and analyze statistical mutual funds data for the period 1996-2000
- Created a Mutual Funds procedural manual which will aid in the orientation of new staff and assist with equipping staff in the competencies of effective public communication
- Organization of the Investor Education Program for 2000

Challenges

- I. Compiling all Mutual Funds statistics into a proper database to provide for quick and easy access of constituent information
- II. Determining top countries from which Mutual Funds originate by type and market
- III. Preparing ratio analysis of financial statements for Mutual Fund Administrators and Mutual Funds
- IV. Produce a Booklet to assist in educating and training the Commission's staff. Topics include - Why investors choose to invest in the Bahamas, role and responsibilities of the Commission, internal procedures etc.,.



The Compliance Department

An effective and credible compliance system is essential in maintaining the integrity and safeguarding the interests of market participants in any securities market. At the Commission, the Compliance Department is entrusted with the overall responsibility for ensuring that those entities which fall under the purview of our securities laws, adhere to the prescribed policies and procedures. Other responsibilities include but are not limited to the following:

- Advising the Commission generally on legal and policy matters.
- Investigating breaches and enforcing the securities laws.
- Liaising in a legal capacity with the other Departments in the Commission.

Compliance and the Mutual Funds Department

The Compliance Department is responsible for the following:

- Reviewing all applications, ensuring that there is legal compliance with all relevant laws in the Bahamas.
- Reviewing the due diligence process of the fund to ensure that there is sufficient information to legally satisfy the standard of fit and proper.

Applications required to be processed in this manner are as follows:

- Mutual Funds Administrators
- Mutual Funds

During the year, the Department prepared approximately forty-one (41) responses that dealt with Mutual Fund matters. Eight (8) of these correspondences were sent to overseas attorney's and regulators.

The Department also reviewed twenty-four (24) applications for licensing or registration by Mutual Funds and Mutual Fund Administrators. Additionally, it reviewed data on funds which had been licenced by an Unrestricted Mutual Fund Administrator and subsequently submitted to the Commission for filing as well as information voluntarily submitted by Exempt mutual funds.

Compliance and the Securities Department

The Compliance Department is responsible for conducting a comprehensive review of all applications made under the Securities Industry Act, 1999. The Compliance review is conducted to ensure:

- All of the information and documentation required by the Securities Industry Act, 1999 and Securities Industry Regulations, 2000 have been submitted to the Commission
- There is legal compliance with all applicable laws in the Bahamas
- With respect to all applications there is sufficient information to legally satisfy the standard of fit and proper.

Applications required to be processed in this manner are as follows:

- Broker Dealers
- Brokers
- Securities Investment Advisors
- Associated Persons
- Exchanges
- Facilities
- Initial Public Offerings

During the year, the Department dealt with thirty-seven (37) matters for the Securities Department. These responses were sent mainly to international regulators.

The Department also reviewed forty-six (46) applications that were submitted for licencing or registration by the Securities Department on behalf of its constituents.

Legal Opinions

The Department also has responsibility for conducting internal requests for legal opinions related to the application and interpretation of both the Mutual Funds Act, 1995, and the Securities Industry Act, 1999.

During 2000, seven (7) legal mutual funds opinions and eight (8) securities opinions were executed.

Investigations/Enquiries

The Department is responsible as well for processing requests for due diligence evaluations. These inquiries may be concerning companies and/or individuals. Further, the department conducts enquiries initiated from complaints received by investors.

At the end of 2000, the investigations unit initiated approximately seventy-seven (77) inquiries. Nine (9) of these included "Show & Tell Letters". A 'Show & Tell' is a letter from the Commission to companies that are potentially operating in the securities industry contrary to the Securities Industry Act, 1999.

There were twelve (12) investigation matters that were brought forward from 1999. Of this amount, eight (8) were closed. During the year, twenty-one new investigations were initiated and subsequently, eleven were closed during the year.



Table 16

Current Position of Investigations Conducted in 2000

Current Position of Investigations	Number	Number
Brought forward from 1999		12
+ New Investigations 2000		21
		33
Less		
Investigations b/f and closed	8	
New cases closed	11	
		19
Investigations carried forward to 2001		14

Source: Securities Commission

Administrative Actions

During the year, the Department dealt with one (1) administrative action, resulting in conditions being attached to the license of a licensee under the Mutual Funds Act, 1995.

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

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

The Commission will continue to monitor the activities of the said Fund until it is satisfied that the Fund fully complies with all applicable laws.



Litigations

The Department also administered two (2) litigation matters during 2000.

- (i) **Securities Commission of the Bahamas and Alastair-Prescott Limited et al Supreme Court Action # 585/2000**

In June, 2000, the Commission made application to the Court for the appointment of a receiver to a group of some 36 funds managed under the Tenesheles Trust. The original application of the Commission was granted and the accounting firm of BDO Mann Judd was appointed as the receiver. The Commission is presently considering its options with regard to the potential continued operation of these funds in the jurisdiction.

- (ii) **Civil Appeal No. 30 of 2000 between Petroleum Products Limited et al v The Securities Commission of the Bahamas**

The Defendants in this matter filed an action for judicial review of the Commission's decision to approve the prospectus of Freeport Oil Holdings Company Limited. By a decision of the Honorable Mr. Justice Hayton that application was dismissed.

The Defendant filed the captioned appeal in response. The appeal was dismissed. The defendant then applied to the Court of Appeal for leave to appeal to the Privy Counsel, which was also refused.

Warning Letters

The Department issued three (3) warning letters during this period. Two (2) were issued to Bahamian citizens who were offering securities for sale to the general public contrary to Sections 22 and/ or 29 of the Securities Industry Act, 1999 . The third letter was issued to a Bahamian citizen who attempted a public offering contrary to Section 54 of the Act

Table 17

Warning Letters Issued in 2000

No.	Company/Individual	Offence
2	Bahamian citizens	Sections 22 and or 29 SIA
1	Bahamian citizen	Section 54 SIA



Review and Amendment of Legislation

Another function performed by the Department is the review and development of legislation and amendments to presently existing legislation.

The Department was responsible for finalizing the Securities Industry Regulation that were promulgated in May of 2000.

Enforcement

The Compliance Department is also responsible for the enforcement of compliance issues under the Securities Industry Act, 1999 and the Mutual Funds Act, 1995. The Department is required to follow up on delinquent fees, filings and any other breaches that it becomes aware of as they relate to the securities and mutual funds industry.

Projects

During the year, the Commission was involved in three major projects that heavily utilized the Department's resources.

- The process of licensing the Bahamas International Securities Exchange (BISX)
- Establishing the Securities Department
- The Completion of the Securities Legislation
- Oracle Fund investigation and hearings

Staff Training

At the Commission, we believe that educating and training our staff on a continuous basis is a necessity if we are to keep pace with the ever-changing trends in the financial markets. In this regard, the Commission continues to encourage and support staff to take advantage of training both locally and abroad.

The following schedule outlines the various seminars and conferences that our staff attended in 2000:

- Bahamas Business Outlook Seminar – Nassau, Bahamas, Jan 2000
- Bahamas Bar Association Seminar – Nassau, Bahamas, Feb 2000
- COSRA Conference – Bridgetown, Barbados, Feb 2000
- IDB Board of Governor's Meeting – Louisiana, USA, Mar 2000
- Business Outlook Seminar – Grand Bahama, Bahamas, Apr 2000
- Securities Market Regulation Program - Toronto, Canada, Apr 2000
- Bahamas Chamber of Commerce E-Commerce Seminar – Nassau Bahamas, Apr 2000
- IAAP Seminar – Nassau Bahamas, Apr 2000
- International Institute Conference – Washington D.C. USA, Apr 2000
- Money Laundering Conference – Miami Florida, Apr 2000
- Bahamas Institute of Bankers "Bankers Week" – Nassau, Bahamas, May 2000
- IOSCO Conference – Sydney Australia, May, 2000
- The CEO Network – Nassau Bahamas, Jun 2000
- Bahamas Investment Conference – Nassau, Bahamas, Jul 2000
- Financial Stability Institute Seminar – Basel, Switzerland, Sept 2000
- MAR Hedge Fund Conference – Hamilton, Bermuda, Sept 2000
- COSRA Conference – Caracas, Venezuela, Oct 2000
- FSA (British High Commission) – London, England, Oct, 2000
- IOSCO Training Program – Montreal Canada, Oct 2000
- US SEC Conference – Washington D.C. USA Nov 2000
- CFATF Conference on Financial Services – Trinidad & Barbados, Dec 2000
- FSA International Seminar for Overseas Regulators – London, England, Dec 2000
- Judicature Seminar – "Access to Justice" Nassau, Bahamas, Dec 2000



Investor Education

Investor Education continues to constitute a key focus of our mandate. We are committed to fostering an environment where investors have access to the tools they need to make informed investment decisions.

In a testament to this belief, the Commission responded favorably to several requests during the year to participate in various workshops, seminars, town meetings and television/radio programs both formal and informal. The overall aim being to promote the importance of savings and investing in the securities market in the Bahamian context.

Publishing Educational Literature

During the year the Commission reprinted the "Making your money Grow" booklet. The Commission plans to produce a series of education booklets with an array of provocative topics in 2001:

1. Investing – The basics facts
2. The Prospectus – What you need to know

Investor Education Week

The Commission held its Third Annual Investor Education Week as part of an initiative observed in more than 20 countries in North, South and Central America and the Caribbean. The focus of this activity is to provide the general public with the tools to understand and protect themselves when dealing in the securities market. This year's educational program was centered on a curriculum that enlisted professionals in the securities industry, along with members of the Commission, to act as instructors for the duration of the Program (September 19th - November 22, 2000). At the request of the Ministry of Education, eleventh grade students from the Government High and C.C. Sweeting High Schools were selected to participate. Many of the persons involved commented favorably on the outcome of this year's event.

The Commission will continue in this endeavor as we feel that proper savings etiquette and investing techniques taught at an early stage will result in a society of educated investors.

This year's program topics included:

- Overview of the Securities Industry Act
- The Bahamian Economy
- How Financial Markets Work
- Investment Choices
- Investment Fraud
- Bahamas Financial Services Sector
- Bahamas International Securities Exchange



International Affiliations

In today's evolving securities markets, international co-operation and communication are crucial if markets are to operate efficiently and investors' interests upheld. To this end, the Commission continues to participate in international fora, as we feel they provide an effective mechanism for the exchange of ideas and sharing of information in an environment where standards are set for the operation of the global securities markets

The Commission is actively involved in the following international organizations, International Organization of Securities Commissions (IOSCO), the Council of Securities Regulators of the America's (COSRA), Offshore Group of Collective Investment Schemes Supervisors (OGCISS) and others.

IOSCO

In September 1996, the Commission became an ordinary member of IOSCO. IOSCO is the leading international grouping of securities market regulators. Its current membership comprises regulatory bodies from 91 countries. The organization through its by-laws has resolved:

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

COSRA

In June 1997, the Commission became a member of the COSRA. COSRA was established in 1992, its membership is currently comprised of 31 member countries representing securities regulatory authorities from 26 countries located in North, South and Central America and the Caribbean. COSRA provides a forum for mutual cooperation and communication to enhance the efforts of each country in the region to develop and foster the growth of sound securities markets that are fair to all investors.



COSRA –Working Party on Securities Clearance and Settlement

At its general meeting in 1999, COSRA adopted the Report on Securities Clearance and Settlement Systems in the Americas and stated its intention to build on the work of IOSCO of enhancing investor protection. In particular, the stated principles relating to clearance and settlement of securities transactions should be subject to regulatory oversight, and designed to ensure that they are fair, effective and efficient and that they reduce systemic risk. The primary objective of the Working Party (“WP”) will be to provide its members with practical advice regarding the development of an effective clearance and settlement system. Each member of the WP will be expected to undertake an in-depth examination of the major clearance and settlement system in its jurisdiction and prepare a report summarizing this analysis for presentation to COSRA. The Commission is a member of the Working Party.

In 2000, the Commission continued its work with the WP and at the Roundtable Meeting held in Venezuela in October, 2000 presented its country report.

OGCISS

OGCISS was established in 1997 and has membership from 12 jurisdictions. Among the aims and objectives of the group is to encourage the application of high standards of supervision and regulation based on international principles with the aim of maintaining adequate protection of markets and market users. OGCISS also facilitates the cooperation and sharing of knowledge, experience and training between offshore regulators and supervisors of collective investment schemes and provides a forum for the discussion of international issues of relevance to the collective investment scheme industry.

Membership in these organizations as well as the Commission’s participation in other such organizations is a demonstration by the Commission of its commitment to enhance its effectiveness and to ensure a Bahamian contribution towards improving the efficiency of international markets and coordinating standards of market conduct worldwide.



**Financial Statements
For The Year Ended December 31, 2000**



Chartered Accountants

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AUDITORS' REPORT TO THE MEMBERS

We have audited the accompanying balance sheet of the Securities Commission of The Bahamas ("the Commission") as of December 31, 2000 and the related statements of operations, surplus funds and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards of Auditing as promulgated by the International Federation of Accountants. Those standards require that we plan and perform the audit to contain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2 a) to the financial statements, the Commission accounts for fee income on a cash received basis, not on an accrual basis. This is not in accordance with International Accounting Standards. During the year, the Commission did not maintain records of outstanding fee income and therefore the effect of this departure from International Accounting Standards on the Commission's financial position and results of operations could not be determined.

In our opinion, except as noted above, the financial statements present fairly, in all material respects, the financial position of the Commission as of December 31, 2000 and the results of its operations and its cash flows for the year ended, in accordance with the significant accounting policies disclosed in Note 2 to the financial statements.

Without further qualifying our opinion, we draw attention to note 9 to the financial statements. The Commission incurred an operating deficit for the year of \$374,321 (1999:\$373,064) before Government funding of \$475,000 (1999: 375,000). The Commission will only be able to continue as a going concern by attaining profitable operations and/or with continued financial support from the Government.

KPMG

Chartered Accountants

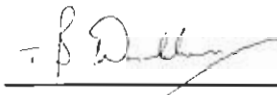
Nassau, Bahamas
September 27, 2001

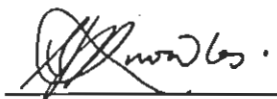
SECURITIES COMMISSION OF THE BAHAMAS
Balance Sheet

December 31, 2000, with comparative figures for 1999
(Expressed in Bahamian dollars)

	2000	1999
Assets		
Current assets:		
Petty cash	\$ 200	200
Cash at bank	191,605	80,518
Deposits and prepaid expenses	16,033	14,011
Receivable from the Government (note 3)	25,557	-
	233,395	94,729
Equipment (note 4)	206,004	210,318
	\$ 439,399	305,047
Liabilities and Surplus Funds		
Current liabilities:		
Accounts payable and accrued expenses	\$ 66,537	32,864
	66,537	32,864
Surplus funds (note 5)	372,862	272,183
Commitment (note 6)		
	\$ 439,399	305,047

These financial statements were approved on behalf of the Members of the Board on September 27, 2001 by:


Chairman


Executive Director

SECURITIES COMMISSION OF THE BAHAMAS

Statement of Operations

Year ended December 31, 2000, with comparative figures for 1999
(Expressed in Bahamian dollars)

	2000	1999
Operating income:		
Mutual Fund registration and licence fees	\$ 322,000	292,500
Mutual fund principal office fees	313,500	270,000
Mutual fund application fees	64,500	73,000
Mutual fund administrator licence fees	74,600	32,200
Mutual fund administrator application fees	4,200	13,400
Broker dealer registration and licence fees	169,542	-
Broker – dealer application fees	70,138	-
Securities investment advisor registration and licence fees	27,929	-
Securities investment advisor application fees	12,584	-
Associated person registration and licence fees	1,580	-
Associated person application	650	-
Penalty fees	7,000	-
Examination fees	5,850	6,911
Investor education income	-	34,950
Bank Interest	4,147	4,661
Miscellaneous income	8,907	3,491
	1,087,127	731,113
Operating expenses:		
Salaries, wages and benefits (note 7)	698,687	605,957
Rent for office and parking	211,570	111,211
Depreciation	101,157	83,187
Travel and entertainment	97,027	56,184
Office expenses	80,400	40,593
Professional fees	59,617	7,500
Members' honoraria	57,875	56,250
Utility and property charges	48,485	21,359
Telephone	29,764	22,684
Sundry	27,010	9,400
Membership and publication fees	16,605	18,422
Seminars	9,481	7,904
Advertising	8,894	13,423
Computer Expenses	6,521	-
Examination expenses	4,802	5,665
Loss on disposal of equipment	1,832	-
Printing	1,721	2,258
Investor education costs	-	42,178
	1,461,448	1,104,177
Operating deficit for the year	\$ (374,321)	(373,064)

SECURITIES COMMISSION OF THE BAHAMAS

Statement of Surplus Funds

Year ended December 31, 2000, with comparative figures for 1999
(Expressed in Bahamian dollars)

		Government Funding	Accumulated Operating Deficit	Total Surplus Funds
Balance at December 31, 1998	\$	825,000	(554,753)	270,247
Government funding		375,000	-	375,000
Operating deficit for the year		-	(373,064)	(373,064)
Balance at December 31, 1999		1,200,000	(927,817)	272,183
Government funding		475,000	-	475,000
Operating deficit for the year		-	(374,321)	(374,321)
Balance at December 31, 2000	\$	1,675,000	(1,302,138)	373,862

SECURITIES COMMISSION OF THE BAHAMAS

Statement of Cash Flows

Year ended December 31, 2000, with comparative figures for 1999

(Expressed in Bahamian dollars)

	2000	1999
Cash flow from operating activities:		
Operating deficit for the year	\$ (374,321)	(373,064)
Adjustments for:		
Depreciation	101,157	83,187
Loss on disposal of equipment	1,832	-
Cash used in operations before changes in operating assets and liabilities	(271,332)	(289,877)
(Increase)/decrease in deposits and prepaid expenses	(2,022)	9,340
Increase in receivable from the Government	(25,557)	-
Increase/(decrease) in accounts payable and accrued expenses	33,673	(1,080)
Net cash used in operating activities	(265,238)	(281,617)
Cash flows from investing activities:		
Proceeds from disposal of equipment	200	-
Purchases of equipment	(98,875)	(53,708)
Net cash used in investing activities	(98,675)	(53,708)
Cash flows from financing activities:		
Government funding	475,000	375,000
Net increase in cash	111,087	39,675
Cash balances, beginning of year	80,718	41,043
Cash balances, end of year	\$ 191,805	80,718

Cash balances are comprised of petty cash and cash at bank.

SECURITIES COMMISSION OF THE BAHAMAS

Notes to Financial Statements

Year ended December 31, 2000
(Expressed in Bahamian dollars)

1. General information

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

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

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

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

2. Summary of significant accounting policies

The financial statements have been prepared under the historical cost convention in accordance with International Accounting Standards, except as noted below. The significant accounting policies are as follows:

a) Fee income

Fees receivable from mutual funds, mutual fund administrators, broker-dealers, securities investment advisors and associated persons are accounted for on a cash received basis. On the basis of prudence, management considers this basis given the uncertainties that inevitably surround the determination and collectibility of the Commission's receivables.

SECURITIES COMMISSION OF THE BAHAMAS

Notes to Financial Statements

Year ended December 31, 2000

(Expressed in Bahamian dollars)

b) *Equipment*

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

Computer equipment	5 years
Furniture	5 years
Vehicles	5 years

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

c) *Defined contribution pension plan*

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

3. **Receivable from the Government**

During the year, the Government of The Bahamas ("the Government") entered into an 18 month contract for consulting services which will be administered by the Commission. The Consultant will assist in all areas of administration and regulation of the securities industry. The Commission will pay the salary, transportation, housing and utilities expenses and will be reimbursed by the Government. During the year, the Commission paid \$153,537 to the Consultant and was reimbursed \$127,980 by the Government. The balance of \$25,557 is reflected in these financial statements as a receivable from the Government.

SECURITIES COMMISSION OF THE BAHAMAS

Notes to Financial Statements

Year ended December 31, 2000

(Expressed in Bahamian dollars)

4. Equipment

	Computer Equipment	Furniture & fittings	Vehicles	Total
Cost, December 31, 1999	\$ 174,905	189,628	51,400	415,933
Additions	65,279	25,796	7,800	98,875
Disposals	(10,161)	-	-	(10,161)
Accumulated depreciation, Dec. 31, 1999	\$ 78,675	99,400	27,540	5,615
Charge for the year	46,005	43,312	11,840	101,157
Disposals	(8,129)	-	-	(8,129)
Accumulated depreciation, Dec 31, 2000	\$ 116,551	142,712	39,380	298,643
Net book value, Dec. 31, 2000	\$ 113,472	72,712	19,820	206,004
Net book value, Dec. 31, 1999	\$ 96,230	90,228	23,860	210,318

5. Surplus and reserve funds

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

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

SECURITIES COMMISSION OF THE BAHAMAS

Notes to Financial Statements

Year ended December 31, 2000

(Expressed in Bahamian dollars)

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

6. Commitments

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

Fiscal year end

Minimum lease payments

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

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

7. Defined contribution pension plan

The Commission implemented a defined contribution pension plan on January 1, 1999 for all members of staff. Participation in the plan is mandatory and contributions by the Commission and the employees are 10% and 5 % of employee salaries, respectively. The pension plan is administered by Colina Financial Advisors.

SECURITIES COMMISSION OF THE BAHAMAS

Notes to Financial Statements

Year ended December 31, 2000

(Expressed in Bahamian dollars)

8. Employees

The number of employees at December 31, 2000 was 18 (1999:17)

9. Going concern

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

10. Fair Value

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