

# Securities Commission of The Bahamas



Annual Report 2002  
& Statement of Accounts  
for the Year  
Ended Dec 31, 2002





## **Mission Statement**

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



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# Chairman's Letter of Transmittal



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

Dear Prime Minister:

Pursuant to Section 14(1) of the Securities Industry Act, 1999 I have the honour of submitting to you, on behalf of the Members of the Board of the Securities Commission, the Annual Report of the Securities Commission of the Bahamas for the year 2002. Included with this report is the Annual Statement of Accounts of the Securities Commission for the year ending December 31, 2002.

Yours Sincerely,  
Chairman

# Chairman's Report

The year 2002 was marked by significant changes for the Securities Commission of the Bahamas. Notable among these were the changes in the Board Members and the Executive of the Commission. In June 2002, the terms of appointment of all the Members of the Board of the Commission expired. Further, following the resignation of Ms. Sandra J. Knowles as Executive Director on November 30, 2002, economist Mr. Hillary H. Deveaux was appointed Acting Executive Director of the Commission.

A major focus for the Commission during the year was the revision of existing mutual funds legislation, which developed into the drafting of an Investment Funds Bill. Following an extensive consultative process with industry participants, I am pleased to report that by the end of the year the proposed bill had been substantially completed and work on the draft regulations was well underway.

This task posed many challenges to the Commission, as it required the input and focus of the entire management team throughout the year. Many overtime hours were expended and the Commission's management team was nonetheless required to ensure that the daily functions and other special projects continued as normal. In spite of some very tough challenges, the team was able to significantly advance this project, and I take this opportunity to commend them on a job well done.

The Commission was appointed to serve as chair to the Group of Financial Services Regulators ("GFSR") from June 2002 for a period of 6 months. The GFSR, a body made up of Executives from the various domestic regulatory bodies (The Central Bank of The Bahamas, The Securities Commission of The Bahamas, The Registrar of Insurance Companies, The Inspector of Financial and Corporate Service Providers and The Compliance

Commission) was established to harmonize the regulatory regime of The Bahamas. On October 16, 2002 a Memorandum of Understanding ("MOU") was executed between the members of the group, setting out various provisions designed to:

- (i) encourage harmonization of regulatory practices;
- (ii) minimize instances of supervisory overlap; and
- (iii) foster greater efficiency in the regulation and supervision of financial institutions in The Bahamas.

While the MOU formalizes certain practices implemented by the Regulators prior to its execution, it was agreed that other matters such as information sharing, harmonization of licensing standards, joint on-site inspections, and the establishment of a central database, were to all be addressed by the group.

The year 2002 was therefore a transitional period during which the Commission embraced wider responsibilities and positioned itself to better discharge ongoing activities.

We will continue to pursue the broad philosophy of regulation adopted by the Commission at its inception: giving priority to promoting honest and fair markets with inherent investor protection. Our immediate objectives are: to integrate our core functions so that they are performed seamlessly; to enhance our compliance and information strategies; to improve infrastructure, with measurable improvements in the work environment; and to continue to improve delivery of service in an efficient and cost effective manner.

Calvin B. Knowles  
Chairman



# Members of The Commission

**Calvin B. Knowles**  
Chairman

**Patricia A. Hermanns**  
Deputy Chairman

**Tonya N. Bastian-Galanis**  
Member

**Bernard K. Bonamy**  
Member

**Roger G. Brown**  
Member

**Jerry C. Butler**  
Member

**Julian W. Francis**  
Member

**Eve M. Poitier**  
Member

**Hillary H. Deveaux**  
Acting Executive Director



# Management of the Commission

**Hillary H. Deveaux**  
Acting Executive Director

**Mechelle P. A. Albury**  
Acting Secretary/Manager  
Compliance Department

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

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

**L. Alexander Roberts**  
Manager  
Securities Department





## Commission's Profile



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The Securities Commission of The Bahamas ('the Commission') is the agency responsible for regulating the capital market inclusive of market intermediaries, secondary markets and mutual funds. There are two primary pieces of legislation governing the regulation of this sector. The Securities Industry Act, 1999 ("SIA") governs the regulation of capital and securities market participants and public companies, and the Mutual Funds Act 1995 governs the regulation of mutual funds and mutual fund administrators.

The Commission's mandate is defined in Section 4 of the SIA which charges the Commission with responsibility to:

1. Formulate Principles to regulate and govern mutual funds, securities and capital markets;
2. Maintain surveillance over mutual funds, securities and capital markets ensuring orderly, fair and equitable dealings;
3. Create and promote conditions to ensure the orderly growth and development of the capital markets;
4. Advise the Minister generally regarding mutual funds, securities and capital markets; and

5. Do such other things as may be prescribed by this Act or by any other written law.

Under Section 4(2) of the SIA, the Commission is given general discretionary power in executing its mandate.

In order to effectively carry out its mandate, the Commission's staff is organized into the following Departments:

- Executive Office
- Administration and Operations Department
- Compliance Department
- Mutual Funds Department
- Securities Department

The staff of the Commission is directly responsible to the Executive Director, who in turn is responsible to the Members of the Commission commonly referred to as the Board.

Membership of the Commission consists of a Chairman, a Deputy Chairman and members not to exceed seven. All appointments are at the discretion of the Minister of Finance. The Members are answerable in law for any 'mal fides' or derogation of their duties.



# Review of Operations

## 1. The Securities Department

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

The processing of applications involves stringent due diligence aimed at ensuring that all persons permitted to operate in The Bahamas are considered fit and proper.

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

*Table 1: Processing of Securities Applications*

Category	Number of applications approved	Number of applications pending
<b>FIRMS</b>		
Broker - Dealers: Class I	5	1
Broker - Dealers: Class II	17	11
Securities Investment Advisors	14	7
<b>INDIVIDUALS</b>		
Associated Persons	21	1
Brokers	11	3
Principals	83	9
Securities Investment Advisors	33	0

Source: Securities Department, Securities Commission of The Bahamas

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

During the year, two Class II Broker-Dealers – Credit Agricole Indosuez (Bahamas) Ltd. and HSBC Private Banking (Bahamas) Ltd. voluntarily ceased operations in the jurisdiction.

Pursuant to Regulation 49 of the Securities Industry Regulations, 2000, the Department facilitated the financial reporting procedures for market participants with the production and distribution of a template which was well received.

The Bahamas International Securities Exchange (BISX) is registered with the Commission and is monitored by the Securities Department. Monitoring of the exchange includes the daily review of trades, and the review and approval of any rules intended for the exchange before they are implemented.



**Table 3: Companies Listed on The Bahamas International Securities Exchange**

Name of Issuing Company	Total Shares Outstanding as at Dec 31st, 2002	Market Capitalization as at Dec 31st, 2002w	% of Cap.
Abaco Markets Ltd.	10,249,417	21,098,531.00	1.18
Bahamas Property Fund Ltd.	2,407,000	17,932,150.00	1.03
Bahamas Waste Ltd.	4,200,000	8,800,000.00	0.51
Benchmark (Bahamas) Ltd.	4,959,111	2,973,466.00	0.17
British American Bank (1957) Ltd.	16,666,670	18,046,670.30	1.05
Cable Bahamas Ltd.	20,000,000	120,000,000.00	6.91
Commonwealth Bank Ltd.	31,239,956	202,747,714.44	11.67
Doctor's Hospital Health System Ltd.	9,949,411	5,969,645.60	0.34
FAMGUARD Corporation Ltd.	8,500,000	4,980,000.00	0.29
Finance Corporation of The Bahamas Ltd.	26,666,670	221,886,694.30	12.73
First Caribbean Int'l Bank (Bahamas) Ltd.	119,463,600	806,379,300.00	46.42
Freeport Concrete Company Ltd.	4,500,000	11,250,000.00	0.63
Freeport Oil Holdings Company Ltd.	8,400,000	70,896,000.00	4.08
Global Bahamas Holdings Ltd.	13,000,000	20,670,000.00	1.19
R.D. Utilities Ltd.	10,000,000	109,400,000.00	6.30
T.S. Johnson & Company Ltd.	8,000,000	64,000,000.00	3.81
		<b>1,737,032,076.24</b>	<b>100.00</b>

Source: Securities Department, Securities Commission of The Bahamas

On October 31, 2001, CIBC Canada and Barclays announced that they had signed an agreement to combine their respective operations in the Caribbean through the creation of FirstCaribbean International Bank. As a result of the merger, new shares were issued, bringing the total number of shares outstanding to 119,463,600. During 2002, RND Holdings Limited de-listed its shares from the Bahamas International Securities Exchange (BISX) and commenced over-the-counter trading. At the end of December 2002, 16 public companies were listed on the exchange with a total market capitalization of B\$1,737,032,076.24. Three companies (Bahamas Supermarkets Limited, Bank of The Bahamas Limited and RND Holdings Limited) traded their shares over the counter with a market capitalization of B\$142,062,834.85.



## 2. Mutual Funds Department

The Commission is mandated under the Mutual Funds Act, 1995 (The Act) to oversee all mutual fund administrators and mutual funds which operate within or from The Bahamas. Under the Act, it is required that mutual fund administrators and mutual funds be registered or licensed, unless otherwise exempted. In addition to being registered or licensed by the Commission, mutual funds can be licensed by an unrestricted mutual fund administrator in its capacity as licensor. All applications for registration or licensing by the Commission are processed by the mutual funds department which is also responsible for monitoring the ongoing operations of mutual fund administrators and mutual funds under the Act.

The Mutual funds Act, 1995 provides that no entity may perform the duties of a mutual fund administrator, unless it is authorized to do so by a Mutual Fund Administrator's Licence which is granted by the

Securities Commission. The Commission issues two categories of licences: an unrestricted licence, which authorizes the licensee to administer an unlimited number of mutual funds, as well as license funds which it will administer; and a restricted licence authorizes the holder of the licence to act or carry on business as a mutual fund administrator solely in respect of the regulated mutual funds specified from time to time in its licence. This licence cannot be granted to an entity which does not have a registered office in The Bahamas. The Commission may exempt a Mutual Fund Company from obtaining a Mutual Fund Administrator's Licence if upon application, accompanied by the prescribed application fee, the Commission is satisfied that the entity will not be administering more than one specified mutual fund even though it functions as a Mutual Fund Administrator.

The licensing and registration procedures applied to



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

The number of mutual funds increased from 673 with a net asset value (NAV) of US\$89.43 billion at December 31, 2001 to 669 mutual funds with a net asset value (NAV) of US\$91.65 billion at December 31, 2002, as seen in Table 4, below:

**Table 4: Mutual Funds Comparative table 2001 & 2002**

TYPE OF FUND	December 31, 2002*		December 31, 2001	
	Total Number of Funds	Total NAV (US\$ Billion)	Total Number of Funds	Total NAV (US\$ Billion)
Licences	335	\$25.34	325	\$26.26
Registration	135	\$12.52	173	\$11.99
Exempt	199	\$53.79	175	\$51.18
<b>Totals</b>	<b>699</b>	<b>\$91.65</b>	<b>673</b>	<b>\$89.43</b>

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

At December 31, 2002 there were a total of 67 authorized Mutual Fund administrators. Table 5, below, provides a

breakdown of mutual fund administrators, as at the December 31, 2002. It should be noted that as a policy of the Commission, foreign based mutual fund administrators may only be granted 'restricted' mutual fund administrators' licenses.

**Table 5: Approved Mutual Fund Administrators**

	Year						
	1996	1997	1998	1999	2000	2001	2002
Unrestricted Administrators	35	38	41	42	42	41	46
Restricted Administrators	6	6	7	10	11	13	17
Exempt Administrators	1	3	1	2	3	3	3
Self Administered Funds	0	3	2	2	1	1	1
<b>Total Administrators</b>	<b>42</b>	<b>50</b>	<b>51</b>	<b>56</b>	<b>57</b>	<b>58</b>	<b>67</b>
Foreign Domiciled Administrators	1	0	6	7	8	9	9

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

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

- Providing input on proposed Mutual Funds legislation
- Providing information necessary to the Financial Sector Assessment Program.



### 3. Compliance Department

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

During the processing of applications for licensing and registration under the Mutual Funds Act, 1995 and the Securities Industry Act, 1999, the Compliance Department ensures that all applications are compliant with relevant securities laws and policies established by the Commission. The Department also deals with com-

plaints and queries from the investing public and industry participants.

The investigations function of the Commission is also carried out by the Compliance Department. Investigations conducted by the Commission relate to investor complaints, due diligence information and 'rogue' operations i.e. entities that are operating in the Bahamas, not having been licensed or registered as required by the legislation. These inquiries also included

investigations of potentially fraudulent activities and other breaches of the legislation which carry criminal sanctions, as well as providing direction and assistance to the various departments when market participants are found with compliance deficiencies.

In dealing with the legal interests of the Securities Commission, the Compliance Department continued to assist in the preparation of the Commission's responses to international initiatives such as those by the OECD, FATF and FSF.

The Compliance Department has played a pivotal role in the drafting of the Investment Funds legislation and has represented the Commission in various domestic initiatives related to the

body of new financial legislation passed in 2000.

During 2002 the Department advised the Commission on the following matters:

- Registration and licensing of applications under the Securities Industry Act, 1999 and Mutual Funds Act, 1995;
- Development of Policy Matters;
- Site-Inspections of the Commission's registrants and licensees;
- Preparation of legal opinions regarding the interpretation of Securities Industry Act, 1999 and Mutual Funds Act, 1995; and
- Legal opinions related to the Commission's operations.



## 4. Administration & Operations Department

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

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

During the latter part of 2002 there was a hiring freeze due to the Commission's financial constraints. In addition, two persons resigned from

the Commission, which resulted in a net staff reduction of one person for the year. Chart 1, above, shows the changes in the Commission's staff from inception to December 31, 2002.

Chart 1: Staff Complement



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



## Staff Training

The Commission allocates a large portion of its resources to the quest for continued knowledge in order to keep its staff abreast of developments within the securities and capital markets. This involves not only training, but also participation in seminars and workshops, both locally and internationally. The following is a list of Seminars, Conferences and Workshops that Members of the Securities Commission and Senior Officials attended during 2002:

- Bahamas Human Resources Development Annual Conference – Nassau, Bahamas, October 2002
- Bahamas Institute of Bankers Banker's Week – Nassau, Bahamas, May 2002
- Providence Technology Group Computer / Network Security Seminar – Nassau, Bahamas, March, 2002
- College of the Bahamas 'Information Technology' Course – Nassau, Bahamas, October 2002
- Financial Sector Regional Forum – Washington D.C., USA, September 2002
- Higgs & Johnson 'Seminar 2002' – Nassau, Bahamas, April 2002
- International Association of Administrative Professionals Seminar '50years of Recognizing Excellence' – Nassau, Bahamas, April 2002
- International Association of Administrative Professionals Annual Conference – Nassau, Bahamas, October 2002
- International Management & Advisory Services Ltd 'Evolving Employment Environment' Seminar – Nassau, Bahamas, February 2002
- NASAA Broker-Dealer Training Seminar – Florida, USA, June 2002
- Seminar 'Understanding the Employment Act 2001' – Nassau, Bahamas, March 2002
- The CEO Network 6th Annual Conference – Nassau, Bahamas, May 2002
- The Counsellor's Annual 'Bahamas Business Outlook Seminar' 2002 – Nassau, Bahamas, January 2002
- Toronto Centre Securities Market Leadership Seminar – Toronto, Canada, June 2002
- Trade Union Congress 'International Labour Conference on the FTAA' – Nassau, Bahamas, October 2002
- U.S. Securities Exchange Commission Institute Program – Washington D.C., USA, November 2002



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## International Organizations

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

The primary international organizations of relevance to Securities Commissions are the International Organization of Securities Commissions (IOSCO) and its regional arm; the Council of Securities Regulators of the Americas (COSRA). The Bahamas maintains membership in both of these organizations and continues to benefit there-from through, the positive exchange of information within the membership.

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

The Commission was represented at annual meetings of these bodies in 2002, specifically attending the COSRA Bi-annual Roundtable Meeting in Port of Spain, Trinidad in February and the IOSCO Annual Conference in Istanbul Turkey in May.

## Financial Summary

The Commission recorded an operating deficit for 2002 of \$950,410 marginally lower than the prior year's deficit of \$996,146. An increase in operating expenses of 0.74% (\$16,401) was offset by similar increases in revenues of 5.05% (\$62,137).

Cash from operations, after taking into account changes in working capital items, declined from a negative \$ 580,234 (2001) to a negative \$851,469 (2002). This was largely financed by government funding of \$500,000 (2001: \$334,443). The Commission's cash position declined from negative \$115,181 to negative \$524,990. At the end of the year, the accumulated operating deficit stood at \$448,418, up from a deficit of \$36,008 as at the prior year end.

The auditor's report again contained a going concern statement of emphasis, stressing the Commission's inability to survive without either attaining profitable operations and /or continued government funding. The Commission's ability to increase its revenue base is limited by the level of business that it has under its regulatory oversight, and the fee structure as determined by the relevant legislation.





Chartered Accountants

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

Year ended December 31, 2002



# SECURITIES COMMISSION OF THE BAHAMAS


## Financial Statements

Year Ended December 31, 2002

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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, 2002 and the related statements of operations, accumulated operating deficit and reserve funds and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Commission as of December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with the International Financial Reporting Standards promulgated by the International Accounting Standards Board.

Without qualifying our opinion, we draw attention to note 10 to the financial statements. The Commission incurred an operating deficit for the year of \$950,410 (2001 - \$996,146, as restated) before Government funding of \$500,000 (2001 - \$334,443) and current liabilities exceeded current assets. The Commission will only be able to continue as a going concern by attaining profitable operations and/or with continued financial support from the Government.

Chartered Accountants

Nassau, Bahamas  
October 28, 2004

**SECURITIES COMMISSION OF THE BAHAMAS**  
Balance Sheet

December 31, 2002, with corresponding figures for 2001  
(Expressed in Bahamian dollars)



	2002	2001
		(As restated)
<b>Assets</b>		
Current assets:		
Petty cash	\$ 200	200
Cash at bank (note 3)	40,298	30,229
Accounts receivable	118,411	148,588
Deposits and prepaid expenses (note 4)	34,407	13,492
	<u>193,316</u>	<u>192,509</u>
Equipment (note 5)	134,647	159,753
	<u>\$ 327,963</u>	<u>352,262</u>

**Liabilities and Accumulated Operating  
Deficit and Reserve Funds**

Current liabilities:		
Bank overdraft (note 3)	\$ 565,488	145,610
Deferred revenue	173,494	137,548
Accounts payable and accrued expenses	75,399	105,112
	<u>814,381</u>	<u>388,270</u>
Accumulated Operating Deficit and Reserve Funds (notes 6 & 11)	(486,418)	(36,008)
Commitments and contingencies (notes 4 & 7)		
	<u>\$ 327,963</u>	<u>352,262</u>

See accompanying notes to financial statements.

These financial statements were approved for issue on behalf of the Members of the Board on October 28, 2002 by:

Chairman

Acting Executive Director

# SECURITIES COMMISSION OF THE BAHAMAS

## Statement of Operations

Year ended December 31, 2002, with corresponding figures for 2001

(Expressed in Bahamian dollars)

	2002	2001
		(As restated)
Operating income:		
Mutual fund registration and licence fees	\$ 286,750	296,250
Mutual fund principal office fees	286,750	296,250
Mutual fund application fees	57,000	46,200
Mutual fund administrator licence fees	78,800	72,800
Mutual fund administrator application fees	39,400	13,000
Broker - dealer registration and licence fees	277,167	255,174
Broker - dealer application fees	16,000	11,500
Securities investment advisor registration and licence fees	107,042	83,681
Securities investment advisor application fees	14,400	12,100
Associated person registration and licence fees	2,600	3,634
Associated person application fees	450	350
Securities exchange registration and licence fees	25,000	25,000
Fees from public offerings	31,500	58,500
Penalty fees	35,200	37,000
Miscellaneous income	16,203	8,362
Examination fees	15,000	5,750
Gain on sale of equipment	3,680	-
Bank interest	-	5,254
	1,292,942	1,230,805
Operating expenses:		
Salaries, wages and benefits (note 8)	1,268,485	1,098,244
Rent for office and parking	335,713	312,536
Professional fees	103,340	259,995
Utility and property charges	100,000	58,756
Depreciation (note 5)	87,126	105,947
Office expenses	57,436	52,268
Travel and entertainment	50,394	68,044
Members' honoraria	47,958	59,500
Sundry	33,777	25,303
Telephone	37,731	41,727
Computer expenses	37,268	43,634
Provision for doubtful accounts and bad debts	32,100	-
Membership and publications fees	17,811	19,074
Examination expenses	13,164	4,799
Seminars	10,585	56,505
Printing	10,180	2,330
Advertising	284	15,936
Investor education costs	-	2,353
	2,243,352	2,226,951
Operating deficit for the year (note 11)	\$ (950,410)	(996,146)

See accompanying notes to financial statements.

## SECURITIES COMMISSION OF THE BAHAMAS

### Statement of Accumulated Operating Deficit and Reserve Funds

Year ended December 31, 2002, with corresponding figures for 2001  
(Expressed in Bahamian dollars)

	Government Funding	Accumulated Operating Deficit	Total
Balance at December 31, 2000	1,675,000	(982,709)	692,291
Prior period adjustment (note 11)	—	(66,596)	(66,596)
Balance at December 31, 2000, as restated	1,675,000	(1,049,305)	625,695
Government funding	334,443	—	334,443
Operating deficit for the year, as previously reported	—	(975,526)	(975,526)
Prior period adjustment (note 11)	—	(20,620)	(20,620)
Operating deficit for the year, as restated	—	(996,146)	(996,146)
Balance at December 31, 2001, as restated	2,009,443	(2,045,451)	(36,008)
Government funding	500,000	—	500,000
Operating deficit for the year	—	(950,410)	(950,410)
Balance at December 31, 2002	\$ 2,509,443	(2,995,861)	(486,418)

See accompanying notes to financial statements.

# SECURITIES COMMISSION OF THE BAHAMAS

## Statement of Cash Flows

Year ended December 31, 2002, with corresponding figures for 2001  
(Expressed in Bahamian dollars)

	2002	2001
		(As restated)
<b>Cash flows from operating activities:</b>		
Operating deficit for the year	\$ (950,410)	(996,146)
Adjustments for:		
Depreciation	87,126	105,947
Bad debt allowance	27,100	-
Gain on disposal of equipment	(3,680)	-
Cash used in operations before changes in operating assets and liabilities	(839,864)	(890,199)
Decrease in accounts receivable	3,077	188,395
(Increase)/decrease in deposits and prepaid expenses	(20,915)	2,541
Decrease in receivable from the Government	-	25,557
Increase in deferred revenue	35,946	137,548
Decrease in accounts payable and accrued expenses	(29,713)	(44,076)
Net cash used in operating activities	(851,469)	(580,234)
<b>Cash flows from investing activities:</b>		
Purchases of equipment	(65,140)	(59,696)
Proceeds from disposal of equipment	6,800	-
Net cash used in investing activities	(58,340)	(59,696)
<b>Cash flows from financing activities:</b>		
Government funding	500,000	334,443
Net cash provided by financing activities	500,000	334,443
Net decrease in cash and cash equivalents	(409,809)	(305,487)
Cash and cash equivalents, beginning of year	(115,181)	190,306
Cash and cash equivalents, end of year	\$ (524,990)	(115,181)

Cash and cash equivalents are comprised:

Petty cash	\$ 200	200
Cash at bank	40,298	30,229
Bank overdraft	(565,488)	(145,610)
Cash and cash equivalents, end of year	\$ (524,990)	(115,181)

See accompanying notes to financial statements.

# SECURITIES COMMISSION OF THE BAHAMAS

## Notes to Financial Statements

Year ended December 31, 2002  
(Expressed in Bahamian dollars)

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### 1. General information

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

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

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

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

### 2. Summary of significant accounting policies

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

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board.

#### (b) *Basis of preparation*

The financial statements are presented in Bahamian dollars, the Commission's functional currency.

The financial statements are prepared on a historical cost basis. The accounting policies have been applied consistently by the Commission and are consistent with those used in the previous year.

#### (c) *Use of estimates*

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the year. Actual results could differ from those estimates.



# SECURITIES COMMISSION OF THE BAHAMAS

## Notes to Financial Statements

Year ended December 31, 2002

(Expressed in Bahamian dollars)

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### *(d) Equipment*

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

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

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

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

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

### *(e) Impairment*

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

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

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

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

Accounts receivable are stated at cost less provision for doubtful accounts of \$27,100 (2001 – Nil).

Accounts payable is stated at cost.

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

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

### *(h) Government grants*

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

# SECURITIES COMMISSION OF THE BAHAMAS

## Notes to Financial Statements

Year ended December 31, 2002

(Expressed in Bahamian dollars)

(i) *Income*

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

(j) *Defined contribution pension plan*

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

**3. Bank overdraft**

During the year the Commission increased its bank overdraft facility to \$750,000 (2001 - \$100,000) and it bears interest at Bahamian Dollar Prime plus 1% per annum, which is 7% (2001 - 7%).

**4. Deposits and prepaid expenses**

Included in deposits and prepaid expenses is \$21,200 paid towards the construction of a systems database for the mutual funds and securities fees department. The total cost of the systems database is \$42,400 and it is expected to be completed in 2004.

**5. Equipment**

	Computer equipment	Furniture & fittings	Vehicles	Total
Cost, December 31, 2001	\$ 270,709	234,434	59,200	564,343
Additions	61,014	4,126	-	65,140
Disposals	(41,331)	-	(7,800)	(49,131)
Cost, December 31, 2002	\$ 290,392	238,560	51,400	580,352
Accumulated depreciation, December 31, 2001	\$ 166,828	186,542	51,220	404,590
Charge for the year	55,837	26,429	4,860	87,126
Disposals	(41,331)	-	(4,680)	(46,011)
Accumulated depreciation, December 31, 2002	\$ 181,334	212,971	51,400	445,705
Net book value, December 31, 2002	\$ 109,058	25,589	-	134,647
Net book value, December 31, 2001	\$ 103,881	47,892	7,980	159,753

# SECURITIES COMMISSION OF THE BAHAMAS

## Notes to Financial Statements

Year ended December 31, 2002  
(Expressed in Bahamian dollars)

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### 6. Reserve Funds

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

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

As the Commission incurred an operating deficit for the year there were no surplus funds available from operations.

### 7. Commitments and contingencies

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

	\$
• Within one year	- 309,400
• More than one year and less than five years	- 644,583

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

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

(ii) In the normal course of its business, the Commission is involved in various legal proceedings arising out of and incidental to its operations. Management of the Commission does not anticipate that the losses, if any, incurred as a result of these legal proceedings will materially affect the financial position of the Commission.

### 8. Defined contribution pension plan

The Commission implemented a defined contribution pension plan on January 1, 1999 for all members of staff. Participation in the plan is mandatory and contributions by the Commission and the employees are 10% and 5% of employee salaries, respectively. The pension plan is administered by Colina Financial Advisors. Contributions to the plan by the Commission during the year amounted to \$109,701 (2001 - \$80,219) and are included in salaries, wages and benefits in the statement of operations.

# SECURITIES COMMISSION OF THE BAHAMAS

## Notes to Financial Statements

Year ended December 31, 2002  
(Expressed in Bahamian dollars)

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### 9. Employees

The number of employees at December 31, 2002 was 31 (2001 - 32).

### 10. Going concern

The Commission incurred an operating deficit for the year of \$950,410 (2001 - \$996,146, as restated) before Government funding of \$500,000 (2001 - \$334,443) and current liabilities exceeded current assets. The Commission will only be able to continue as a going concern by attaining profitable operations and/or with continued financial support from the Government of the Commonwealth of The Bahamas. These financial statements are prepared on the assumption that the Commission will continue as a going concern.

### 11. Prior year adjustment

In 2001 the Commission changed the method of accounting for operating income from a cash basis to an accruals basis to comply with IFRS. Errors in the implementation of the accruals basis in the amount of \$87,216 were discovered in the current year. Accordingly, the operating deficit for the year ended December 31, 2001 has been restated by \$20,620 and accumulated operating deficit as at December 31, 2000 has been restated by \$66,596.

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### 12. 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 or liquid nature.

# Appendices

## Appendix 1

### Listing of Registrants & Licencees of the Commission as at December 31, 2002

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

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

- Alliance Investment Management Ltd.
- Banca del Gottardo
- Banco Atlantico (Bahamas) Bank & Trust Limited
- BankBoston Trust Company Ltd.
- Credit Suisse First Boston (Bahamas) Ltd.
- First Bahamas Capital Ltd.
- LOM Securities (Bahamas) Limited
- Oceanic Bank & Trust Limited
- RBC Dominion Securities (Global) Limited
- Royal Bank of Canada Trust Company (Bahamas) Limited

**BROKER-DEALERS (Class II)** – Companies that recommend, solicit or effect transactions in securities for the account of others, buy and sell securities either on their

own behalf or in a fiduciary capacity, manage securities portfolios for others and advise others as to the purchasing, selling or exchanging of securities are required to register with the Commission as a Broker-Dealer (class II).

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

- Ansbacher (Bahamas) Limited
- Arner Bank & Trust (Bahamas) Ltd.
- Banc Agricol (Bahamas) Limited
- Banca del Sempione (Overseas) Ltd.
- Bank Hofmann (Overseas) Limited
- Bank Leu Limited (Nassau Branch)
- Banque Privee Edmond de Rothschild Ltd.
- Banque SCS Alliance (Nassau) Ltd.
- Behring International Asset Management Limited
- BNP Paribas Private Bank & Trust Bahamas Ltd.
- BSI AG - Nassau Branch
- BSI Overseas (Bahamas) Ltd.
- BSI Trust Corporation (Bahamas) Limited
- Caledonia Corporate Management Group Ltd.
- CIBC Trust Company (Bahamas) Limited
- Credit Lyonnais Suisse (Bahamas) Limited
- Credit Suisse (Bahamas) Ltd.
- Darier Hentsch Private Bank & Trust Ltd.
- Deltec Bank & Trust Ltd.
- Dominion Investments (Nassau) Ltd.





- Elco Bank & Trust Company Limited
- Euro-Dutch Trust Company (Bahamas) Limited
- Ferrier Lullin Bank & Trust (Bahamas) Limited
- Hottinger Bank & Trust Limited
- J. Safra Bank (Bahamas) Ltd.
- Lloyd's TSB Bank & Trust (Bahamas) Limited
- MeesPierson (Bahamas) Limited
- MMG Bank & Trust Ltd.
- National Bank of Canada (International) Limited
- Pasche Bank & Trust Limited
- Pictet Bank & Trust Limited
- Private Investment Bank Limited
- Quantum Wealth Management Limited
- RIG Investment Advisors Limited
- RMF Investment Products (Bahamas) Limited
- Safra International Bank & Trust Ltd.
- Santander Central Hispano Bank & Trust (Bahamas) Ltd.
- SG Hambros Bank & Trust (Bahamas) Ltd.
- Syz & Co. Bank & Trust Limited
- The Private Trust Corporation Limited
- The Winterbotham Trust Company Ltd.
- UBS (Bahamas) Ltd.
- Union Bancaire Privee (Bahamas) Limited
- Union Bancaire Privee (Nassau Branch)
- United European Bank & Trust (Nassau) Limited

#### SECURITIES INVESTMENT ADVISORS –

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

Companies registered as Securities Investment Advisors –

- Alternative Asset Advisors S.A.
- Bahamas Securities (1987) Limited
- Bearbull International Ltd.

- Benchmark Advisors (Bahamas) Ltd.
- Black & Associates Limited
- Braun & CIE Ltd.
- Colina Financial Advisors Limited
- Dolphin Capital Management Limited
- Emerald Key Advisors Ltd.
- Fidelity Merchant Bank & Trust Limited
- FTC Asset Management (Bahamas) Limited
- Hang Seng Bank Trustee (Bahamas) Limited
- Hofschidt Global Select Inc.
- Holdun Investment Management Limited
- I.C.L. Bahamas Inc.
- Leopold Joseph (Bahamas) Ltd.
- Moore Park Asset Management Limited
- Shayne Davis
- Sonja Bethel
- Nordica Investment Management Limited
- Oceanic Investment Management Limited
- Octogone Fund Management Limited
- Pearl Investment Management Limited
- Sentinel International Asset Management Ltd.
- Templeton Global Advisors Limited
- Thorand Bank & Trust Ltd.
- Van Daalen International Ltd.

**UNRESTRICTED MUTUAL FUND ADMINISTRATORS** – Persons carrying on the business of mutual fund administration in respect of an unlimited number of funds that they are also able to license, is required to be licensed as an unrestricted mutual fund administrator.

Companies licensed as Unrestricted Mutual Fund Administrators –

- Ansbacher (Bahamas) Ltd.
- Arner Bank & Trust Ltd.
- BBA Creditanstalt Bank Ltd.
- BBM Bank Limited
- BSI Overseas (Bahamas) Ltd.
- Banco Atlantic Bank & Trust
- Banco del Sempione (Overseas) Limited
- Banco Santander Trust & Banking Corp (Bahamas) Limited
- Bank of Nova Scotia Trust Co. Ltd.
- Banque Privee Edmond de Rothschild Ltd.
- Banque SCS Alliance (Nassau) Ltd.
- Cardinal International Bank & Trust Co. Ltd.
- CIBC Trust Company (Bahamas) Ltd.
- Citco Bank & Trust Company (Bahamas) Limited
- Citco Fund Services (Bahamas) Limited
- Cititrust (Bahamas) Limited
- Cardinal International Corp. Ltd.
- Credit Suisse First Boston (Bahamas) Limited
- Custom House Administration & Corp. Services Ltd.
- Deerfield International Administrative Services Limited
- Deltec Bank & Trust Ltd.
- Dominion Management Services Limited
- Fidelity Merchant Bank & Trust Limited
- Finter Bank & Trust (Bahamas) Ltd.
- Fortis Fund Services (Bahamas) Limited
- Genesis Fund Services Limited
- Guaranty Trust Bank Limited
- HSBC Private Banking (Bahamas) Limited
- Hottinger Bank & Trust Ltd.
- JP Morgan Chase Private Bank of the Bahamas Limited

- Leopold Joseph (Bahamas) Limited
- Lloyds TSB Bank & Trust (Bahamas) Limited
- Oceanic Bank & Trust (Bahamas) Ltd.
- Oceanic Fund Services Limited
- Olympia Capital International Inc.
- PIB Trust Co. Ltd.
- Private Trust Corporation Limited, The
- Safra International Bank & Trust Ltd.
- Sentinel Bank & Trust Co. Limited
- SG Hambros Bank & Trust (Bahamas) Limited
- Swiss Financial Services (Bahamas) Limited
- Templeton Global Advisors Limited
- Thorand Bank & Trust Limited
- Trident Corporate Services (Bahamas) Limited
- United European Bank & Trust (Nassau) Limited
- W & P Fund Services Limited
- Winterbotham Trust Company Limited, The



**RESTRICTED MUTUAL FUND ADMINISTRATORS** - Persons carrying on the business of mutual fund administration in respect of a limited number of funds identified in the license of the administrator is required to be licensed as a restricted mutual fund administrator.

Companies licensed as Restricted Mutual Fund Administrators –

- Amicorp Fund Services N.V.
- Ansbacher Investment Management (CI) Ltd.
- Derivatives Portfolio Management Limited
- Fortis Fund Services (Ireland) Limited
- Fortis Fund Services (IOM) Ltd.
- Goldman Sachs (Cayman) Trust Limited
- Hemisphere Management Limited
- Lion Corporate Services Limited
- Lombard Odier Darier Hentsch Private Bank & Trust Limited



- Management International (Dublin) Limited
- Orbitex Management Limited
- Royal Bank of Canada Trust Company (Bahamas) Limited
- Security Fund Administration Limited
- SEI Investments Mutual Fund Services Limited
- Sterling Management Limited
- Strategic Resources Corporation

#### MUTUAL FUND ADMINISTRATORS EXEMPTED FROM OBTAINING A LICENCE

– Persons carrying on business of mutual fund administration in respect of one mutual fund only are able may be exempted from obtaining a mutual fund administrator’s license.

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

- Colina Financial Advisors Ltd.
- Montaque Securities International Ltd.
- Votorandim Bank Limited

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

The Commission also registers persons under the following categories:

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

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

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

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

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