



2018 ANNUAL REPORT

FREQUENTLY USED ABBREVIATIONS AND TERMS

AIBT – Association of International Banks and Trust Companies in The Bahamas

AIFMD – Alternative Investment Fund Managers Directive

AML – Anti-money laundering

BICA – The Bahamas Institute of Chartered Accountants

BISX – The Bahamas International Securities Exchange

CARTAC – Caribbean Regional Technical Assistance Centre

Central Bank – The Central Bank of The Bahamas

CFATF – Caribbean Financial Action Task Force

CFT – Countering the Financing of Terrorism

CGSR – Caribbean Group of Securities Regulators

COSRA – Council of Securities Regulators of the Americas

CPF – Counter proliferation financing

CRS – Common Reporting Standard of the OECD

EMMoU – Enhanced Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information

Ex officio member – A member of the Board by virtue of the office he or she holds

FATCA – Foreign Account Tax Compliance Act

FCSP – Financial and Corporate Service Provider

FCSPA – Financial and Corporate Service Providers Act, 2000

GEMC – Growth and Emerging Markets Committee

GFSR – Group of Financial Services Regulators

IARC – Inter-American Regional Committee

IFA – Investment Funds Act, 2003

IOSCO – International Organization of Securities Commissions

IPO – Initial Public Offering

MLRO – Money Laundering Reporting Office

MMoU – Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information

MoE – Ministry of Education

NRA – National Risk Assessment

OECD – Organization for Economic Cooperation and Development

RIFA – Restricted Investment Fund Administrator

SIA – Securities Industry Act, 2011

The Commission – The Securities Commission of The Bahamas

UIFA – Unrestricted Investment Fund Administrator

TABLE OF CONTENTS

| | |
|---|----|
| Table of Contents | 3 |
| Transmittal Letter | 4 |
| Chairman's Message | 5 |
| Structure and Membership of the Commission | 7 |
| Members of the Commission | 7 |
| Executive Director's Remarks | 10 |
| Management Team | 13 |
| Organisational Updates | 15 |
| Supervisory Updates | 21 |
| Securities Industry Act, 2011 | 23 |
| Investment Funds Act, 2003 | 27 |
| Financial and Corporate Service Providers Act, 2000 | 29 |
| Industry Engagement | 30 |
| Legislative Updates | 31 |
| International Requests Overview | 33 |
| Enforcement | 34 |
| Investor Education | 36 |
| Affiliations and Memberships | 37 |
| Financial Summary | 40 |
| Audited Financial Statements | 41 |



Poinciana House
North Building, 2nd Floor
31A East Bay Street
PO Box N-8347
Nassau, Bahamas

28 June 2019

The Hon. K. Peter Turnquest, MP
Deputy Prime Minister and Minister of Finance
Ministry of Finance
Cecil Wallace-Whitfield Centre
West Bay Street
Nassau, The Bahamas

Dear Minister Turnquest:

In accordance with Section 31(1) of the Securities Industry Act, 2011, I have the honour of submitting to you, on behalf of the Members of the Securities Commission of The Bahamas (the Commission), the Annual Report for the Commission for the year ended 31 December 2018. Included in this Report is the Annual Statement of Accounts of the Commission for the year.

Yours sincerely,

Robert V. Lotmore
Chairman

CHAIRMAN'S MESSAGE

On behalf of the Board, Management and staff of the Securities Commission of The Bahamas (“the Commission”), it is my pleasure to present the 2018 Annual Report.

The Commission has grown remarkably over its 23-year history, establishing a firm foundation in terms of human and technical capacity. It has improved its standing globally which was exemplified in 2018 by the Commission becoming one of the first securities regulators in the world to adopt IOSCO’s newly implemented information sharing standard (the EMMoU). The Commission has also dramatically expanded its regulatory capacity to meet the needs of the financial services industry in The Bahamas.

The Board of the Commission is now tasked with guiding the institution into the future as a globally respected securities and capital markets regulator. As the Board together with Management contemplated what that would entail, we developed a comprehensive and bold 2018-2020 strategic plan for the Commission. The Commission’s strategic plan identifies six key priorities with a detailed action plan on each priority. These priorities include:

- Financial independence and self-sustainability;
- Creation of synergies with other regulatory agencies;
- Implementation of risk based supervision;
- Enhancement of the legislative framework to ensure compliance with latest global standards and best practices;
- Development of technological capacity, with technology driven processes for monitoring and supervision; and
- Development of human capital and capacity building.

The following outlines some of the overarching themes, priorities, key initiatives and surrounding issues.

Championing robust modern regulation and supervision

The jurisdiction, and certainly the Commission, are becoming increasingly adept at developing legal and regulatory frameworks that adhere to the technical requirements of international standard setting bodies. This past year, the Commission made tremendous strides in developing its legal framework, though many of the pieces of legislation it advanced, such as the overhauled Investment Funds Act, takeover rules, corporate governance rules, and anti-money laundering/counter terrorism financing rules were not debated and passed in Parliament until 2019.



“The Commission is increasingly focused on additional elements of modern regulation and supervision, including the optimal use of a risk-based approach to supervision, deploying technology and technology driven processes for monitoring and supervision, and enhancing staff’s regulatory capacity through exposure, knowledge and training.”

The Commission is increasingly focused on additional elements of modern regulation and supervision, including the optimal use of a risk-based approach to supervision, deploying technology and technology driven processes for monitoring and supervision and enhancing staff’s regulatory capacity through exposure, knowledge and training.

In line with executing on its strategic priorities, 2018 saw dramatic changes to the structure of the Commission with the introduction of a Risk Analytics team, which now functions within a reconstituted Risk Analytics and Examinations Department. The focus of this Department is central to the Commission’s 2018 adoption of a risk-based approach to the supervision of its licensees and registrants.

Initiatives to optimise the implementation of risk based supervision involve continuing to manage the change to the new approach, which extends beyond the Commission to include conditioning registrants and licensees to the enhanced data and information requirements necessary to support effective risk-based supervision. The nature of risk based supervision also calls for a frequent evaluation of its effectiveness in supporting core objectives, as the markets and their attendant risks evolve.

Technology is constantly reshaping the world, and financial services are among the primary beneficiaries, or targets, of many of today’s advances. Financial technology (fintech) presents risk and opportunities, as do regulatory and supervisory technology (regtech/suptech). The Commission has prioritised developing its technological capacity, to understand and respond to how technology is impacting investor protection, fair, efficient and transparent markets, and financial stability.

Somewhere at the intersection of developing a modern legal framework and driving technical capacity, the Commission has prioritised the development and implementation of a whistleblower programme. It will require supporting legislation and the deployment of technological solutions to gather information discretely. Such programmes have yielded excellent results for leading securities regulators to support the detection and enforcement of securities infractions. The tool has been missing from the Commission's regulatory toolkit, but is now a strategic initiative envisaged to further the Commission's maturity, and its capacity to protect investors and preserve market integrity.

Safeguarding regulatory independence

A key principle of securities regulation espoused by IOSCO is that regulators should be both accountable and operationally independent in the exercise of their functions and powers. This operational independence must represent independence from both political and commercial interference. This combination of operational independence and legal accountability is essential to safeguard the reputation of the regulator as both objective and fair, which is fundamental to investor confidence and market integrity.

Currently, the Commission's funding is derived from a combination of an annual subvention along with licensing, registration, administrative and other regulatory fees, not including discretionary fines and penalties, which are paid by licensees and registrants. The Commission recognises the potential conflicts in its current funding model, and has prioritised attaining sustainable financial independence—meaning producing surplus income with formal discretion over its apportionment and spending and mechanisms to ensure self-sustainability.

The timing of the strategic thrust aligns with the Ministry of Finance's policy that the Commission's funding be independent of government subsidy, befitting the regulation provided, sourced from regulated entities, and self-sustainable. To accomplish this, the Commission will review its various fee structures, and its capacity to amend them, both in terms of legislative authority and industry capacity to bear the fees. It will assess the amounts needed to attain and maintain financial independence and will review revenue streams for new opportunities. Ultimately, the goal is to establish the appropriate fees structures throughout regulated industries, and to develop a reserve fund to subsidise projects and provide a liquidity buffer against funding shortages.

Innovation Leadership

The Board recognizes that many of the changes needed to improve regulatory efficacy lie outside of its direct control, though not outside of its influence. It has prioritised the creation of synergies with other regulatory agencies and to this end will

engage with other regulatory stakeholders to minimise overlaps in regulatory functions and leverage synergies. The Commission commenced working with other regulatory agencies in 2018 to establish a position for the jurisdiction on digital assets and other unregulated financial services, such as commodities.

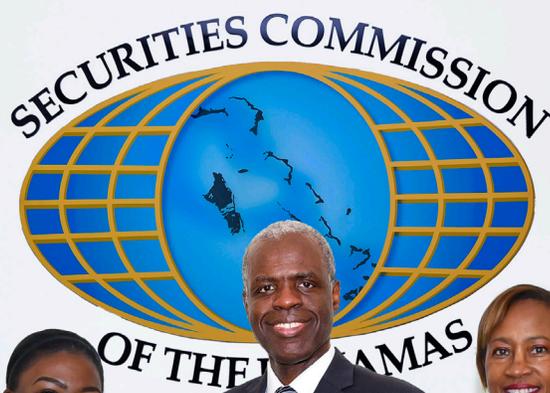
CONCLUSION

There were a number of key projects and initiatives that were concluded or significantly advanced during 2018. I wish to acknowledge and thank the Executive Director, Management and Staff of the Commission for their unwavering dedication and the role they play to develop and deliver on a comprehensive vision for the Commission.

In addition to the legislative and supervisory initiatives, 2018 saw the Commission's relocation to its new office premises at Poinciana House, which is the culmination of three years of hard work and persistence. The Commission's staff is now comfortably situated in an environment that is conducive to both productivity and creativity.

Finally, while recognising that there are many challenges ahead – both for the jurisdiction and the Commission – I wish to assure our licensees, registrants and other stakeholders that the Commission is keeping abreast of the international regulatory landscape, adapting and improving itself to address issues, not only as the need arises, but also to ensure that The Bahamas is at the front of international regulatory best practices.

Thank you for your support of the Commission and its work.



MEMBERS OF THE COMMISSION

Front L-R: Christina R. Rolle (Executive Director), Robert V. Lotmore (Chairman), Michael Paton (Deputy Chairman and Human Resource Committee Chair), Back L-R: Gregory Cleare (Audit Committee Chair), Dawn Patton, Tonique Lewis, John Rolle, Michele Fields, Deno Moss, Bede Derek Sands

STRUCTURE AND MEMBERSHIP OF THE COMMISSION

Part II of the Securities Industry Act, 2011 (SIA) establishes the Commission as a body corporate and requires that the membership be comprised of a Chairman, a Deputy Chairman, up to seven Members appointed at the discretion of the Minister of Finance and three ex officio Members: the Executive Director of the Commission, the Governor of the Central Bank of The Bahamas and the Superintendent of the Insurance Commission of The Bahamas. Members are appointed by the Minister based on their experience or demonstrated capacity in matters relating to industry and the disciplines of commerce, law, finance, economics and administration.

The SIA provides for the Chairman to hold office for a period of five years, and for the Deputy Chairman and other Members to hold their offices for a period not to exceed four years. All members, including the Chairman, are eligible for reappointment.

Members serving on the Board as at 31 December 2018 and their respective appointment dates appear in Table 1, below.

TABLE 1: Membership of the Board

| Name | Position | Appointment |
|--------------------|-------------------|-----------------|
| Robert V. Lotmore | Chairman | 1 July 2017 |
| Michael Paton | Deputy Chairman | 1 July 2017 |
| Christina R. Rolle | Ex officio Member | 26 January 2015 |
| Gregory Cleare | Member | 1 July 2017 |
| Dawn Patton | Member | 1 July 2017 |
| Bede Derek Sands | Member | 1 July 2017 |
| Deno Moss | Member | 1 July 2017 |
| Tonique Lewis | Member | 1 July 2017 |
| John Rolle | Ex officio Member | 4 January 2016 |
| Michele Fields | Ex officio Member | 1 January 2012 |

ROLE OF THE BOARD

Members of the Commission have responsibility for the policy matters and governance of the organisation. The duties of the Board include overseeing the strategic focus of the organisation, as well as establishing Rules and Guidelines applicable to investment funds, securities and the capital markets. The Board is responsible for making policies for the licensing and registration of financial and corporate service providers. The Board also has the authority to establish committees to assist it in the execution of its duties.

The Board held 12 regular meetings during 2018.

COMMITTEES OF THE BOARD

AUDIT COMMITTEE (AC)

The Board appointed the AC to advise and make recommendations on matters relating to corporate governance, including internal financial controls, internal and external audits, and compliance with financial reporting requirements. The Audit Committee also assists the Commission in reviewing remuneration and other related policies for employees of the Commission. The AC met five times during 2018.

Members: Gregory Cleare (Chair), Dawn Patton, Bede Derek Sands, Christina Rolle, (the Financial Controller & Secretary to the Board attends Audit Committee meetings.)

HUMAN RESOURCE COMMITTEE (HRC)

The HRC assists the Commission in establishing and reviewing remuneration and benefit policies for employees of the Commission, including salary scales, pensions, bonuses, leave entitlements and any other benefit or incentives. It is responsible for recommending changes to the staff manual and the Commission's human resources policies, and hears and considers formal complaints and grievances raised by staff. Its functions also include the periodic review of staff turnover and other human resources reports. The HRC met twice during 2018.

Members: Michael Paton (Chair), Bede Derek Sands, Deno Moss, Tonique Lewis, Christina Rolle, (the Human Resources Manager & Secretary to the Board attends Human Resource Committee meetings.)

STRATEGIC PLANNING

The Securities Commission issued a request for proposal for a strategic planning consultant, from qualified firms, to assist with the development of its strategic plan. The Commission received responses from a number of firms, as well as a widely

recommended corporate growth strategy which suggests a balanced focus across seven key drivers of growth, namely: people, behaviors, and culture; digital, technology and analytics; operations; funding and finance; customer; transactions and alliances; and risk.

To assess the Commission's ability to achieve its strategic goals within the period defined, a scan of its internal and external environment was conducted, which included an analysis of its strengths, weaknesses, opportunities and threats ("SWOT"). The Commission also sought input from its external and other internal stakeholders, hosting two half-day strategic planning sessions at its offices. From the workshops, a total of twenty-seven initiatives were identified as improvement opportunities for the Commission. The Commission subsequently assessed the merit of each recommendation based on relevance, benefits and consequences, priority, area of impact (people, process, and technology) and estimated cost.

In developing the framework for the strategic plan, the Commission identified six strategic goals for the 2018 - 2020 period.

FINANCIAL INDEPENDENCE & SELF-SUSTAINABILITY

Securities regulators must be free to conduct their operations without undue influence. This allows them to make sound decisions in accordance with their regulatory mandates, which is fundamental to being perceived as objective and impartial, and in turn building trust and inspiring confidence in the markets. A potential source of undue influence arises from how a regulator's operations are funded. Recognising this, the Commission has prioritised the strategic goal of financial independence and sustainable self-funding.

CREATE SYNERGIES WITH OTHER REGULATORY AGENCIES

There are opportunities to gain regulatory capacity by leveraging existing and potential synergies lying untapped in the overlap of functions among financial regulators and other Government agencies. The Commission has made a strategic priority of discovering and exploiting these overlaps to improve its regulatory efficiency and effectiveness.

IMPLEMENTATION OF RISK-BASED SUPERVISION

The full transition to risk-based supervision has many elements. During 2018, the Commission significantly advanced implementation with an organisational restructuring that included the establishment of a Risk Analytics and Examinations Department. In addition to the continuous honing of the risk based framework to adapt to emerging risks and new regulatory priorities, the Commission will also focus on managing the cultural shift to the new supervisory approach both internally and across regulated industries.

ENHANCEMENT OF LEGISLATIVE FRAMEWORK TO ENSURE COMPLIANCE WITH LATEST GLOBAL STANDARDS AND BEST PRACTICES

Ensuring that the legal framework governing the industries regulated by the Commission is compliant with prevailing global standards and best practices remains strategically critical. Considering the pace of regulatory reform globally, it will be a priority for the foreseeable future.

This will require vigilant observation of the trends of global standards setters including principles and recommendations of organisations such as IOSCO, the Financial Action Task Force (“FATF”) and the International Monetary Fund’s Financial Sector Assessment Program. It will also require careful consideration of risks and threats to investors and the markets, and close consultation with regulated industries to understand the implications and opportunities presented in amending the legislative framework.

DEVELOPMENT OF TECHNOLOGICAL CAPACITY, TECHNOLOGY DRIVEN PROCESSES FOR MONITORING AND SUPERVISION

The Commission must keep pace with technological advancements. Progress in financial technology for consumers underscores the regulatory responsibility to protect investors and the markets and safeguard the integrity of the overall financial system. Separately, there is the potential to harness technology to improve the Commission’s supervisory capacity – through improved intelligence as a result of enhanced data collection, processing, analysis, reporting and forecasting. As a result, the Commission established a “Technical Project Team” to assess the Commission’s technological needs. The Commission will continue to use these assessments to seek out technology which will enhance its regulatory capacity.

DEVELOPMENT OF HUMAN CAPITAL AND CAPACITY BUILDING

Cutting edge technology, new legislation, new systems, better information, and a self-funded organization are meaningless in the absence of human capital with the requisite capacity to make the most of them. The organisation will continue to develop its human capital to achieve an effective, adaptable and adept staff.

EXECUTIVE DIRECTOR'S REMARKS

INTRODUCTION

The Commission's willingness and capacity to adapt to the requirements of an evolving financial services industry is critical to safeguarding and maintaining integrity in the Bahamian financial and capital markets. Over 2018, the Securities Commission demonstrated both, advancing its press for world-class regulation by reforming the legal and regulatory framework, adapting internal structures and processes, and advancing the capacity of its human capital.

IOSCO's Enhanced Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (EMMoU)

Among the greatest signs of the impact of advances the Commission has made to its legal framework for investment funds, securities and the capital markets was evident with the Commission's acceptance as one of the first adopters of IOSCO's newest cooperation and information sharing framework—the EMMoU.

To be eligible, securities regulators must demonstrate that the legal and regulatory framework allow certain specific powers. To summarise, these include powers: to obtain and share audit work papers, to compel physical attendance for testimony, to freeze or support the freezing of assets, and to obtain and share Internet service provider records and existing telephone records.

The Commission had the necessary legal framework and intent to move to the new cooperation and information sharing standard and is pleased to be among the first securities regulators in the world to be accepted into the new agreement. The Commission's acceptance speaks highly of the quality of the legal framework with regard to the requirements of the EMMoU, and to our commitment to participate in the global effort to protect investors and the markets from cross-border securities crime.

The Commission is also a member of IOSCO's Committee on Enforcement and the Exchange of Information (Committee 4). Membership on Committee 4 will help the Commission to stay on top of trends and developments in both enforcement and information sharing through its involvement in the Committee's work. Last November, representatives attended their first C4 meeting on behalf of the Commission and participated in, among other things, the screening process for applicants to IOSCO's MMoU. The Commission was appointed to verification team 7, and as such will be a consistent part of the review of applications moving forward.



“Among the greatest signs of the impact of advances the Commission has made to its legal framework for investment funds, securities and the capital markets was evident with the Commission's acceptance as one of the first adopters of IOSCO's newest cooperation and information sharing framework—the EMMoU.”

Anti-Money Laundering/Countering Financing of Terrorism/Countering Proliferation Focus (AML/CFT/CP)

Throughout the Bahamian financial services industry, 2018 saw a reinvigorated focus on tightening the AML/CFT/CP framework. This took a number of forms, including initiatives of the Group of Financial Services Regulators (GFSR), of which the Commission is a member, to host a national AML/CFT Conference in September 2018 and the production of The Bahamas 2018 AML/CFT Report.

The national AML/CFT/CP framework itself underwent significant enhancement to support compliance with international best practices and standards. To this end, the Financial Transactions Reporting Act, 2018, the Proceeds of Crime Act, 2018 and the Anti-Terrorism Act, 2018, among others, all came into effect during the year. The GFSR also published the Guidance Note on the Sound Management of Risks Related to Financial Crime in The Bahamas and the Guidance Note on Proliferation and Proliferation Financing in August 2018.

The Commission developed the Securities Industry (Anti-Money Laundering and Countering the Financing of Terrorism) (Amendment) Rules and the Financial and Corporate Service Providers (Anti-Money Laundering and Countering the Financing of Terrorism) Rules to ensure the AML/CFT/CP framework complied with the new legislation, referenced above, and international developments. Among their provisions, the Rules consider the proper implementation of new technologies and products, the implementation of risk rating frameworks, and verification of the identities of customers and third parties including eligible introducers. These did not come into effect until 2019, however.

Risk Based Supervision

To further its implementation of a risk-based approach to supervision, the Commission restructured its departments and revised internal practices and processes where appropriate. The Commission implemented a risk based supervisory approach for financial and corporate service providers since around 2014. However, it was not until last year that it concluded its risk based supervisory framework, which was benchmarked against frameworks of other conduct and prudential regulators, both locally and internationally.

Organisationally, the Commission restructured what was formally market surveillance, authorisations and inspections departments into two distinct, but collaborative departments – the supervision department and the risk analytics and examinations department. The official restructuring took place with the formation of the risk analytics unit within the new risk analytics and examinations department in May 2018.

The functions of the supervision department for offsite surveillance combined the functions of approvals and authorisations with the ongoing offsite surveillance of registrants and licensees, bringing the entire offsite supervisory life-cycle of registrants and licensees into a single department. The department itself consists of units which specialise in one of the three pieces of legislation primarily administered by the Commission.

The risk analytics function is relatively new to the Commission. The unit has been primarily engaged in gathering, processing and analysing the data and information necessary to determine risk profiles. The unit completed a review of all required submitted audited financial statements and quarterly interim financial statements of registrants and licensees, and a comprehensive data gathering survey. The analyses informed a risk-rating exercise for all registrants and licensees of the Commission.

Investment Funds Regulatory Overhaul

The Commission advanced its initiative to overhaul the legal framework governing investment funds by finalising the development of the new regulations for the overhauled framework. The regulations establish a regulatory framework for certain new classes of registration, including operators, custodians and investment fund managers.

The Commission continued to prepare the industry and stakeholders for the new legislation, through interviews and articles, making presentations locally and internationally, and continuing to engage with impacted registrants and licensees at industry events to discuss how the proposed legislation will transform the regulatory framework.

The much anticipated debate of the Investment Funds Bill in the Houses of Parliament, and its eventual passage and assent would not occur until early 2019. The Investment Funds Regulations, 2019, would also not become law until 2019.

Minority Shareholder Rights

The Commission completed a successful consultation process on two pieces of legislation that have too-long been absent from the capital markets legal framework: Securities Industry (Corporate Governance) Rules, and the Securities Industry (Takeover) Rules. Their absence have left minority shareholders without certain fundamental protections, and are not conducive to market integrity and attracting capital formation.

In preparing these rules, the Commission was attentive to international regulatory standards and best practices. It also contemplated their impact on national efforts to improve business-ease in The Bahamas, and to see this reflected in the ratings of the World Bank's Doing Business report. The proposed Rules would not come into effect until the first quarter of 2019.

Digital Assets

There were other developments to the regulatory framework, including the issuance of policies governing regulatory capital calculation for firms managing and advising on securities, the reclassification and downgrade of unrestricted investment fund administrators, and on requirements for refreshing due diligence.

The Commission also spent much of 2018 developing the Digital Assets and Registered Exchanges Bill, the first draft of which, as at the end of 2018, is expected to be issued for consultation in early 2019. However, the bulk of the work to develop the legislation, including determining the direction the Commission wanted to take with regard to crypto-assets, drafting, and benchmarking took place during the year.

The legislation is envisaged to be comprehensive and provide clarity to would-be participants in the digital assets space. They will provide requirements for participation, including capital requirements and rules for seeking approvals and reporting to the Commission. The Bill will also establish AML/CFT standards and provide penalties for non-compliance, and would require participants to take steps to protect client assets against data breaches.

Financial and Corporate Service Providers Legal Framework Reform

The financial and corporate services industry is set for a major overhaul to its legal and regulatory framework once the Financial and Corporate Services Providers Act, 2019, is brought into effect. During 2018, the Commission issued various supporting legislation for public consultation, including the Financial and

Corporate Services Providers (General) Regulations, 2018, the Financial and Corporate Service Providers (Application) Regulations, 2018 and the Financial and Corporate Service Providers (Fees) Rules, 2018.

Capacity and Relocation

The Commission continues to prioritise staff training to build technical capacity, with 2018 being no exception. The Commission's staff continue to participate in capacity building programs developed by the U.S. SEC as well as IOSCO. Recruitment has been focused on enhancing our regulatory depth and as a result, we have recruited a number of staff with professional certifications and/or industry experience.

During 2018, the Commission brought to fruition its efforts to address the physical capacity issues culminating at its former location in Charlotte House. For some years, the Commission observed that its premises would not facilitate the growth in the number of staff that would be necessary to execute its regulatory function properly. Over the 20 years at Charlotte House, the organisation had simply outgrown its premises.

The transition started in earnest in 2015, when a formal proposal to purchase the property was made to the then Minister of State for Finance. A determination was made to purchase the property to house other regulatory agencies to enable synergies among them. In July of that year a letter of intent to purchase the property was executed, which triggered commencement of the process for the necessary Cabinet approvals and to conclude financial arrangements.

A special purpose vehicle was used to acquire the property on 8 November 2017, and just over a year later, the Commission officially moved to the Poinciana House regulatory complex. The complex consists of 58,747 gross square feet of space on a 7.3 acre plot area. It also includes 1.31 acres of vacant land, which is suitable for future development.

I take this opportunity to thank several persons for their support with the move. These include members of both the former and current administration, specifically, Prime Minister the Most Honourable Dr. Hubert Minnis and the Deputy Prime Minister and Minister of Finance, the Honourable K. Peter Turnquest as well the Rt. Honourable Perry G. Christie, former Prime Minister of The Bahamas and Mr. Michael Halkitis, former Minister of State for Finance.

I also thank Mr. John Rolle, Governor of the Central Bank of The Bahamas for his support of this project in his previous role as Financial Secretary and Mr. David Davis, Permanent Secretary formerly within the Ministry of Finance. These persons were involved in drafting the deal and provided us with support in the

acquisition of this complex.

The former Board of the Securities Commission, led by then Chairman, Mrs. Tonya Bastian Galanis played a key role as the Securities Commission is currently the shareholder of Poinciana SPV Ltd., on behalf of the Government of The Bahamas. The Commission's current Board, led by Mr. Robert Lotmore, also embraced and supported this project without hesitation.

CONCLUSION

The Commission did well in 2018 to put forward the legal and regulatory reforms necessary to keep the jurisdiction's financial services industry, particularly as relates to securities, investment funds, the capital markets and financial and corporate service providers regulated according to international standards and best practices.

The organization took critical steps to improve its risk-based supervision and to ensure it remains current with global enforcement and information sharing trends. It saw many projects come to fruition, such as its acceptance as an early adopter of the EMMoU, its successful relocation to Poinciana House, and the many pieces of legislation or policy it advanced throughout the year. It also successfully addressed to critical elements of the securities legal framework in terms of minority investor protections with its work to finalise the corporate governance and takeover rules for the securities industry.

The pace of regulatory change remains unabated, and in many regards there is still considerable catch-up work the Commission is contending with, particularly with regard to legislative initiatives, and the overhaul or updating of the suite of legislation the commission is responsible for. I thank the Board of the Commission for their direction, governance and overall support of the Commission's work. I also stop to recognize the staff for their contribution. With the continued strategic direction of the Board and the professionalism and commitment of staff, the Commission will build on these successes to continue to deliver the world-class regulation befitting our industry and jurisdiction.

MANAGEMENT TEAM

As at 31 December 2018



Christina Rolle
Executive Director

Christian Adderley
*Manager, Policy & Research
(On Secondment to USSEC)*

Alysia Archer-Colebrooke
Manager, Administration

John Clarke
*Deputy Manager,
Information Technology*

Sandra Duncombe
*Manager,
Investment Funds Unit*



Bernadette Gibson
Manager, Human Resources

Reo Horton
*Deputy Manager,
Risk Analytics*

Aisha Lloyd-Minnis
Head Of Supervision

Mechelle Martinborough
Senior Legal Counsel

Stewart Miller
*Manager,
Investor Education/
Communications*



Sherinn Munnings
*Deputy Manager, Project
Management /
International Relations*

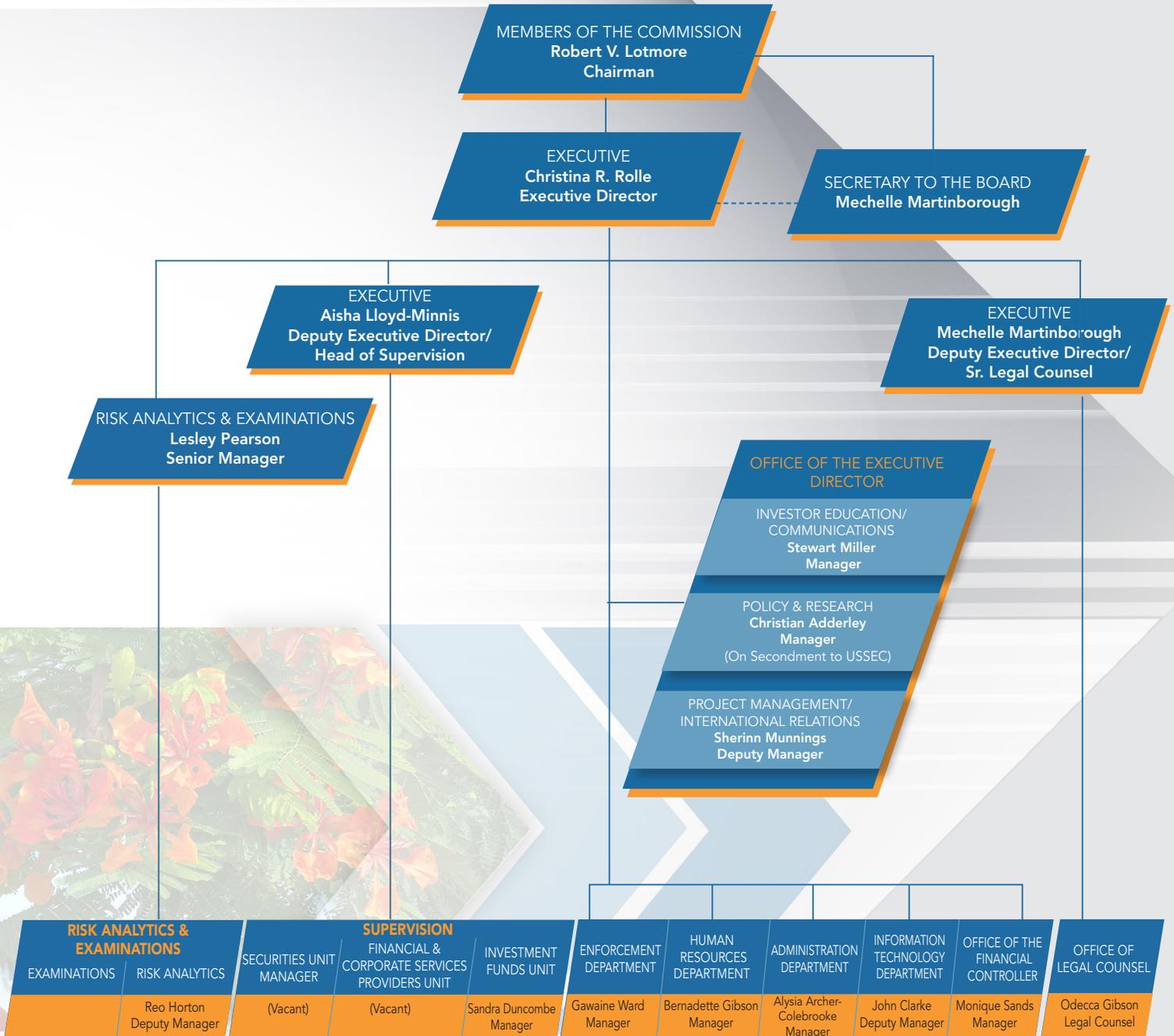
Lesley Pearson
*Senior Manager, Risk
Analytics & Examinations*

Monique Sands
Financial Controller

Gawaine Ward
Manager, Enforcement



ORGANISATIONAL CHART



At 31 December 2018, the Commission was comprised of 9 departments/offices. These included 2 supervisory departments (Supervision and Risk Analytics and Examinations), 2 non-supervisory departments (Enforcement and the Office of Legal Counsel) and 5 operational departments (Administration, Human Resources, Information Technology, Office of the Executive Director and Office of the Financial Controller).

ORGANISATIONAL UPDATES

RELOCATION TO POINCIANA HOUSE

In 2015, the Commission re-evaluated its premises' location as a result of various reasons, inclusive of some operational issues (productivity and planned staff growth in the immediate future), and determined that it was the appropriate time to seek a new location that would be more suitable for day-to-day operations and continued growth of the organization.

The Commission carried out a search for an alternative location, which included looking for possible leaseholds and buildings for sale. In reviewing potential locations, consideration was given on whether any new premises also had available space to accommodate the two other financial services regulators that were located in Charlotte House. The proximity of these regulators created synergies and cost efficiencies which the parties wanted to preserve.

Nearing the end of 2015, a sales agreement for the purchase of the UBS Office Park Complex (comprised of the UBS House, UBS Annex Building and adjacent 1.31 acres vacant development site), East Bay Street, New Providence, was executed under the direction and support of the Ministry of Finance.

On 7 November 2016, Poinciana SPV Ltd. completed the purchase of the UBS Office Park Complex. While a portion of rentable space in the complex is rented to pre-existing tenants; remaining vacant space would be occupied by the Securities Commission of The Bahamas, the Insurance Commission of The Bahamas, the Compliance Commission of The Bahamas, and possible other government agencies, space permitting.

The complex was subsequently renamed Poinciana House (North Building and South Building). Poinciana SPV Ltd., with support from the Securities Commission, supervised the renovation of the North Building, and vacant space in the South Building.

During 2017 and 2018, the Securities Commission's relocation team, comprised of persons from the Administration, Information Technology, Executive and Human Resources Departments, worked towards getting the new premises fit for relocation. This included –

- Working with the Renovations' Project Management Team to develop floor plans suitable to the Securities Commission;
- Liaising with other identified financial services tenants on planned shared services (Human Resources/Information Technology/Finance);

- Establishing an internal committee, with persons from the Administration, Information Technology and Executive Departments, to organize a seamless move to the new premises;
- Launching a Commission-wide Clean Up Campaign to remove clutter from the office, identify documents to be scanned into the organisation's electronic document management system; and
- Re-organizing the Commission's Offsite Storage Facility.

On 17 December 2018 the Securities Commission began operations in its new premises, Poinciana House North Building. This new premises is designed to be energy efficient, using LED bulbs, timers/sensors for lights and other measures. Additionally, as a result of the streamlining of daily processes within the Securities Commission, operations have become less paper-based; which allowed the Commission to enter the new premises with a significant reduction in the number of printers on the premises.

The Commission also committed to use the opportunity to contribute to local communities, which led to a partnership with Antonius Roberts, in the purchase of local art work, mostly by young artists, to decorate the office space.

Poinciana House has a number of shared spaces (shared by other tenants within its building), including a main training room, meeting rooms, cafeteria, gym, and library. The property also has ample parking for staff and visitors.

HUMAN CAPITAL

STAFF COMPLEMENT

The staff complement was 80 at 31 December 2018, which consisted of 72 full-time employees and 8 temporary/contract employees, with no employees working on a part-time basis. The number of staff by department and a summary of staff qualifications and professional designations appear in the tables below.

Table 2: Full-time, Part-time, Temporary/Contracted Employees at 31 December 2018.

| Staff Category | Full-Time | Part-Time | Temporary/ Contracted |
|----------------------------------|-----------|-----------|--------------------------|
| Supervision | 16 | 0 | 2 |
| Risk Analytics & Examinations | 15 | 0 | 0 |
| Enforcement | 4 | 0 | 1 |
| Office of Legal Counsel | 5 | 0 | 0 |
| Administration | 9 | 0 | 4 |
| Human Resources | 3 | 0 | 0 |
| Office of Financial Controller | 4 | 0 | 0 |
| Information Technology | 4 | 0 | 0 |
| Office of the Executive Director | 12 | 0 | 1 |
| TOTAL | 72 | 0 | 8 |

Table 3: Qualifications of staff by highest degree earned and number of staff with Professional Certifications at 31 December 2018

| Staff Category | No Degree | Associates | Bachelors | Masters | Professional Certification |
|----------------|-----------|------------|-----------|-----------|-------------------------------|
| Management | 0 | 2 | 11 | 10 | 13 |
| Officer | 3 | 0 | 26 | 6 | 0 |
| Administrative | 4 | 0 | 2 | 1 | 0 |
| Other | 2 | 0 | 0 | 2 | 2 |
| TOTAL | 9 | 2 | 39 | 19 | 15 |

DEPARTMENTS OF THE COMMISSION

Office of the Executive Director



The Office of the Executive Director is responsible for supporting the executive director in managing the day-to-day operations of the Commission. Its functions include managing local and international stakeholder relationships, facilitating strategic planning, monitoring international standards setters, managing the Commission's investor education programme, overseeing public relations and communications, collecting, analysing and reporting statistical data, supporting the development of research and policy papers, maintaining compliance with the internal procedures and policies of the Commission, and managing special projects. To achieve its objectives the office is divided into three units: Investor Education and Communications, Policy and Research, and Project Management and International Relations.

Front row L-R: Carisma Tucker, Christina Rolle, LaDonna Hudson, Tammi Miller

Back Row L-R: Thea Munroe, Jasmine Williams, Sherinn Munnings, Khadijah Cooper, Stewart Miller

Not Pictured: Anwar Sawyer, Christian Adderley, Tasia Blair

Supervision Department



The Supervision department is responsible for processing applications for the licensing and registration of persons wishing to conduct registrable and licensable activities under the SIA, IFA, or FCSPA ("the Acts"). Additionally, it is responsible for the offsite monitoring and supervision of market participants under the Acts. The department is also responsible for the review and registration of prospectuses for public offerings and private placements.

Front row L-R: Sharon Simmons, Crystal McClain, Michelle Cooper, Marcia Meeres, Aisha Lloyd-Minnis

Back Row L-R: Kyle Thompson, Carolyn Ferguson, Kadesha Musgrove-Hanna, Magan Taylor, Lamont Astwood

Not Pictured: Sandra Duncombe, Dwynette Smith, Crista Young Petty, Norette Bain, Sycmont Fountain, Joshua Thompson, Duane Cargill

Risk Analytics and Examinations Department



Risk Analytics and Examinations is divided into two complementary units. This Risk Analytics Unit is tasked with monitoring solvency and operational and conduct risks of the Commission's licensees and registrants, including continuous AML/CFT monitoring. The unit's work informs the Examinations Unit's priorities. The Examinations Unit is responsible for on-site examinations of all registrants and licensees. This includes processing and recommending applicants to act as the Commission's agents for the on-site examination of financial and corporate service providers, and reviewing any examinations they conduct on behalf of the Commission.

Front row L-R: Nicholette Shepherd-Farrington, Ashley Poiter, Lesley Pearson, Shannel Neely, Princess Bethel, Chivalle Gibson-Culmer

Back Row L-R: Reo Horton, Keshia Mortimer, Royan Rolle, Ricardo Hepburn, Tina Wright, Jonique Webb, Cecil Minnis

Not Pictured: Robyn Newton, Raynell Miller

Office of Legal Counsel



The Office of Legal Counsel is responsible for providing legal advice to the Commission, assisting in the review and development of laws related to securities, the capital markets, financial and corporate services and financial sector legislation generally, assisting in development and review of the Commission's guidelines and policies relating to the laws under the Commission's administrative remit, and managing matters of international cooperation. The Senior Legal Counsel also serves as the Secretary to the Board.

L- R: Odecca Gibson, Shericka Penn, Mechelle Martinborough, Krishner Higgins, Krisspin Sands

Enforcement Department



The Enforcement department is primarily responsible for implementing the Commission's disciplinary actions pursuant to various laws administered by the Commission. The department also defends the Commission in litigation matters and, where deemed necessary, initiates litigation to enforce laws administered by the Commission. The department is additionally responsible for investigating operations or entities (involving both companies and individuals) that are operating in The Bahamas without a license or registration required by law.

L-R: Benson Russell, Steve Bonamy, Merrilen Hepburn, Gawaine Ward, Wilfred Bain, Vernal Smith

Office of the Financial Controller



The Office of the Financial Controller is responsible for all of the Commission's financial matters, including preparation and monitoring of annual budgets and the preparation of financial statements.

*L-R: Davero Baker, Donell Stuart, Monique Sands, Keri Josey
Not Pictured: Jarod Fowler*

Human Resources Department



The Human Resources department is responsible for the daily management of the human resources of the Commission, which includes ensuring adequate human capital to facilitate the Commission's mandate, as well as implementing and enforcing staff regulations.

*L-R: Bernadette Gibson, Sandra Sutherland
Not Pictured: Colene Collie*

Administration Department



The Administration department is responsible for planning and overseeing general administrative support and office services; including the Commission's document management systems. The department is also responsible for general safety requirements within the premises and maintenance of the Commission's equipment and vehicles.

*Front row L-R: Tara Robinson-Collie, Alysia Archer-Colebrooke, Drelexia Bootle, LaSasha Gray, Davina Williams, Raquel Minns, Jewel Bethel, Cromwell Forbes
Back row L-R: Zachery Sweeting, Kadesha Musgrove-Hanna, Meghan Bootle, Tarah McDonald, Jenetta Adderley
Not Pictured: Christine Lundy*

Information Technology Department



The Information Technology department is responsible for facilitating the information and electronic communication needs of the Commission.

*L-R: Patrick Thompson, LaDashia Johnson-Burrows, John Clarke
Not Pictured: Alex Reckley*

SENIOR MANAGEMENT APPOINTMENTS

Ms. Mechelle Martinborough was appointed and promoted to the position of Deputy Executive Director / Senior Legal Counsel effective 16 April 2018. Ms. Martinborough joined the Commission 1 April 1998 and has served in the capacities of Legal Counsel and Secretary to the Board. She continues to serve as Secretary to the Board. Ms. Martinborough is a Counsel and Attorney at Law with experience in public, private and government sectors. Ms. Martinborough has twenty years' experience in securities regulation.

Ms. Lesley Pearson joined the Commission on 14 March 2016 in the capacity of Manager, Inspections Department. She was promoted to the position of Senior Manager, Risk Analytics and Examinations Department, effective 16 April 2018. Ms. Pearson is a Certified Public Accountant (CPA). Prior to joining the Commission, Ms. Pearson served as Financial Controller of an off-shore bank in The Bahamas and has over 10 years' public accounting experience.

EMPLOYEE HANDBOOK

The HRC of the Board met on 5 July 2018 to conclude on the review of the proposed Employee Handbook. The Employee Handbook was subsequently presented to the Board, but was not approved during 2018.

STAFF EDUCATION AND TRAINING

Encouraging and supporting staff development in areas which will strengthen the Commission's capacity to execute its functions is an ongoing priority for the Commission. In 2018, the Commission continued with this commitment, providing local and international training to staff as well as support to staff undertaking professional designations and certifications in disciplines relevant to the functions of the Commission.

Staff participated in training programmes with various organisations and agencies, including the IOSCO, the Caribbean Regional Technical Assistance Centre, the CFATF, the International Forum for Investor Education Americas Chapter, US Securities and Exchange Commission, North America Securities Administrators Association, Bahamas Institute of Chartered Accountants, Bahamas Association of Compliance Officers, Bahamas Human Resources Association and Bahamas Institute of Financial Services.

Areas of training included financial technology and cyber resilience, securities markets development and oversight, risk-based supervision, financial stability, investor education, compliance and examinations, emerging market issues and compliance and examinations.

Mr. Christian Adderley, Deputy Manager, Policy and Compliance,

continued his two-year secondment to the US Securities and Exchange Commission. The secondment commenced 11 September 2017.

Clifton Strengths Assessment Surveys by Gallup

In 2017, the Commission engaged Gallup to conduct an engagement survey and the Clifton Strengths assessment survey. On 29 August 2018, Gallup launched part II of the assignment where staff received an invite from Gallup to complete the Clifton Strengths assessment survey.

The Clifton Strengths assessment is a powerful online tool that helps individuals identify, understand and maximize their strengths. Gallup has found that when people understand and apply their strengths, the effect on their lives and work is transformational.

HEALTH AND WELLNESS

Staff continues to enjoy the benefits of the Virgin Pulse Health Program provided by the Commission's medical provider. Our most recent report showed improved participation resulting in increased enrolment, engagement and usage of the health station. A new initiative aimed to encourage staff to eat more fruits and vegetables was recently introduced at the beginning of 2018.

Staff now share a direct link to a wellness blog, where they are exposed to a wider range of wellness materials. Also, there are quarterly champions' meetings held where leaders keep current through presentations of new initiatives for employees. Among them, staff volunteers participated in Atlantic Medical's "Companies Cook-Off", 9 March 2018. The Commission was selected as a participant due to the strong progress in health metrics in 2017.

In April, 2018, staff participated in the Atlantic Medical Annual Fun Walk/Run. The proceeds from this annual event are donated by Atlantic Medical to the Cancer Society and The Bahamas Diabetic Association.

COMMUNITY OUTREACH

The Commission's annual blood drive in conjunction with The Bahamas Blood Bank, held on 24 August 2018 was as usual well supported by the staff of the Securities Commission.

During the Thanksgiving season of 2018 some of the Commission's staff volunteered with The Bahamas Feeding Network's Hot Meal Preparation Program, where they assisted with the packaging of some 1,300 meals. Additionally, the staff of the Commission participated in a food drive during the period 12 – 30 November to assist persons in need.

EFFICIENCY INITIATIVES

ELECTRONIC DOCUMENT MANAGEMENT SYSTEM

Work continued on improving the management of the Commission's records through an electronic document management system during 2018. The Commission completed the digitising of its non-registrant operational information. A module to improve work flows within the Commission that was intended to be implemented in 2018 will launch in 2019.

ELECTRONIC INVENTORY MANAGEMENT SYSTEM

During the course of 2018, the Commission continued its use of the inventory management system that was integrated in December of 2017. This management system was implemented to improve efficiency and reduce the costs in managing office supplies; while improving the reporting of supplies usage per department.

INFORMATION TECHNOLOGY UPDATES

During 2018, the Commission introduced an information technology security system that uses artificial intelligence to assess normal and acceptable behaviour patterns for users and devices on the Commission's network. Additionally, at year's end the network infrastructure was upgraded to increase redundancies and make the network more resilient. The focus of 2018 was to ensure that the Commission's technology needs were met subsequent to the relocation.

The IT Department maintains a standard to ensure that implemented solutions not only exceed current requirements but also present the opportunity for expansion.

The IT Steering Committee, formed in 2018, worked to examine the current technological and by extension functional needs of the Commission. The committee is working to complete a needs based assessment.

SUPERVISORY UPDATES

RISK ANALYTICS

The Securities Commission significantly advanced its implementation of risk-based supervision across its regulatory spectrum in 2018. The Commission developed and commenced the implementation of a framework for its risk based approach to the supervision of licensees and registrants under the Securities Industry Act, 2011 (SIA) and the Investment Funds Act, 2003 (IFA). This framework also enhances risk-based supervision (RBS) for licensees pursuant to the Financial and Corporate Service Providers Act (FCSPA), which has been in place since 2014.

In developing its framework, the Commission engaged a former Head of Policy and Research from the International Organization of Securities Commissions (IOSCO) and also benchmarked other RBS frameworks developed by international conduct as well as prudential regulators, including the Central Bank of The Bahamas.

To accompany its RBS framework, the Commission developed Risk Indicators along with the in-house development of a risk indicator tool (RIT) which provided a preliminary assessment and highlighted key risk areas for further analysis.

Effective May 2018, the Commission restructured its operations with the introduction of the Risk Analytics Unit, whose mandate is to analyse the risk of all licensees and registrants with particular focus on the continuous monitoring of financial soundness, market conduct and Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT).

To gather initial data for its first assessment of licensees and registrants, the Commission produced and distributed an extensive survey to all licensees and registrants under the SIA, IFA and FCSPA. After the survey closed, the Commission conducted follow-up calls to ensure full compliance with the survey.

SECURITIES INDUSTRY ACT (SIA)

Using its risk indicator tool, the Commission assessed each of its licensees and registrants and categorised them as either High, Medium or Low risk based on operational practices and size, governance and control mechanisms as well as AML/CFT mitigation.

Under the SIA, there were 157 registrants (32 joint registrants with the Central Bank of the Bahamas (CBOB)) licensed as at 31

December 2018.

The next step was the assessment of the financial risk and the placement of licensees into risk “buckets” based on the analysis of the audited financial statements. This impacted the overall risk scoring of the licensee.

The third step was to measure the regulatory risk by assessing the regulatory capital adequacy compliance coupled with the history of submission of regulatory obligations. This also impacted the overall risk scoring of the licensee.

These are now categorized as follows:

Table 4: Risk Rating of SIA firms as at 31 December 2018 by categories registered to perform

| Risk Rating | No. of Categories | Licensees Registered | % Total | CBOB Joint License |
|--------------|-------------------|----------------------|---------|--------------------|
| High | 4 | 45 | 29% | 22 |
| Medium | 2-3 | 73 | 46% | 7 |
| Low | 1 | 39 | 25% | 3 |
| TOTAL | | 157 | | 32 |

INVESTMENT FUNDS ACT (IFA)

The Commission assessed all of its investment fund administrators as well as investment funds and categorized them as either High, Medium or Low risk based on operational practices and size, governance and control mechanisms as well as AML/CFT mitigation.

The next step was the assessment of the financial risk and the placement of licensees into risk buckets based on the analysis of the audited financial statements and financial information in the case of funds where audited financials are waived. This impacted the overall risk scoring of the licensee.

With respect to investment fund administrators only, the third step was to measure the regulatory risk by assessing the regulatory capital adequacy compliance coupled with the history of submission of regulatory obligations. This also impacted the overall risk scoring of the licensee. Funds do not have a capital adequacy requirement so this component was excluded.

Under the IFA, there were 63 investment fund administrators and 780 investment funds licensed as at 31 December 2018.

These are categorized as follows:

Table 5: Risk Rating of Investment Funds as at 31 December 2018

| Risk Rating | Category Licensed | No. of Licensees | % Total |
|--------------|-----------------------------------|------------------|---------|
| High | Smart Fund/ Recognized Foreign | 511 | 66% |
| Medium | Standard Fund | 39 | 5% |
| Low | Professional Fund | 230 | 29% |
| TOTAL | | 780 | |

Table 6: Risk Rating of Investment Funds Administrators as at 31 December 2018

| Risk Rating | Category Licensed | No. of SCB Licensees | % Total |
|--------------|-------------------|----------------------|---------|
| High | Unrestricted | 34 | 54% |
| Medium | Restricted | 24 | 38% |
| Low | Exempt | 5 | 8% |
| TOTAL | | 63 | |

FINANCIAL AND CORPORATE SERVICES PROVIDERS ACT (FCSPA)

Finally at 31 December 2018 there were 353 Financial and Corporate Service Providers.

They are categorized as follows:

Table 7: Risk Rating of Financial and Corporate Service Providers as at 31 December 2018

| Risk Rating | No. of SCB Licensees | % of Total |
|--------------|----------------------|------------|
| High | 177 | 50% |
| Medium | 138 | 39% |
| Low | 38 | 11% |
| TOTAL | 353 | |

POLICIES AND GUIDELINES ISSUED

As a part of its functions, the Commission publishes notices, guidelines, bulletins and policies describing its views on the interpretation, application or enforcement of laws under its administration.

Policies issued during 2018 are as follows:

Regulatory Capital Calculation for Firms Managing Securities and Advising on Securities Policy.

This document establishes the Commission's policy regarding specific receivables that may be used in the calculation of net free regulatory capital by firms registered to carry on the business of managing securities or of advising on securities that are not also registered to carry on the business of dealing in securities.

Reclassification and Downgrade of an Unrestricted Investment Fund Administrator License

This policy establishes the Commission's position regarding the treatment of unrestricted investment fund administrators ("UIFAs") who, in the exercise of their delegated authority with respect to the licensing of investment funds, breach provisions of the Investment Funds Act, 2003.

Due Diligence Refresher Policy

This policy clarifies the Commission's position on the frequency with which registrants and licensees will be required to provide updated due diligence and the process the Commission will use to advise registrants and licensees of their requirements regarding refreshed or supplemental due diligence documents.

Guidelines issued during 2018 are as follows:

Guidance Note on the Sound Management of Risks Related to Financial Crime In The Bahamas

This Guidance Note covers risk management approaches for AML/CFT and other financial crimes and acts as a guide to Bahamian financial entities to improve industry practices as well as support supervisors as they provide additional impetus to industry to mitigate identifiable risks. It was jointly issued by the Central Bank of The Bahamas, the Securities Commission of The Bahamas, the Insurance Commission of The Bahamas, and the Compliance Commission of The Bahamas.

Guidance Note on Proliferation and Proliferation Financing

This Guidance Note provides inaugural guidance to Bahamian financial entities that may be exposed to proliferation risk. The Note is intended to raise awareness among those institutions of the risks and vulnerabilities in regards to proliferation and proliferation financing. It was jointly issued by the Central Bank of The Bahamas, the Securities Commission of The Bahamas,

the Insurance Commission of The Bahamas, and the Compliance Commission of The Bahamas.

Guidance Notes E-Filing of Statistical Data

The Commission issued these Guidance Notes to assist investment fund administrators and operators in the use of the Electronic Filing (E-Filing) System. This Facility was established to enhance the updating of statistical data on the activities of investment funds pursuant to Section 51 of the Investment Funds Act, 2003

SECURITIES INDUSTRY ACT, 2011

FIRMS

REGISTRATION ACTIVITY

In 2018, the Commission approved 16 new firms. 2 firms upgraded their license to conduct registrable securities business. As at 31 December 2018, there were 157 registered securities firms in the industry.

While the total number of firms increased to 157 as at December 31st 2018 there were 12 firms that surrendered their license in 2018.

Table 8: Categories for which firms were approved in 2018

| Category | No. of Newly Approved Firms | Total Registered Firms as recorded at years end | |
|--|--------------------------------|--|------------|
| | 2018 | 2017 | 2018 |
| Advising on securities only | 2 | 10 | 9 |
| Arranging deals in securities only | 0 | 0 | 0 |
| Clearing facilities | 0 | 1 | 1 |
| Dealing as agent only | 0 | 8 | 8 |
| Dealing as principal or agent | 1 | 1 | 2 |
| Managing securities only | 1 | 18 | 18 |
| Marketplaces | 0 | 1 | 1 |
| Arranging deals in securities and Advising on securities | 0 | 1 | 1 |
| Arranging deals in securities and Managing securities | 0 | 1 | 1 |
| Dealing as agent only and Advising on securities | 0 | 1 | 1 |
| Dealing as agent only and Arranging deals in securities | 2 | 7 | 9 |
| Dealing as principal or agent and Advising on securities | 1 | 0 | 1 |
| Dealing as principal or agent and Arranging deals in securities | 6 | 0 | 5 |
| Managing securities and Advising on securities | 4 | 48 | 48 |
| Arranging deals in securities, Managing securities and Advising on securities | 0 | 3 | 2 |
| Dealing as agent only, Arranging deals in securities and Managing securities | 0 | 0 | 0 |
| Dealing as agent only, Advising on securities and Managing securities | 0 | 0 | 0 |
| Dealing as principal or agent, Arranging deals in securities and Advising on securities | 0 | 1 | 1 |
| Dealing as principal or agent, Arranging deals in securities and Managing securities | 0 | 0 | 0 |
| Dealing as principal or agent, Managing securities and Advising on securities | 0 | 4 | 4 |
| Dealing as agent only, Arranging deals in securities, Managing securities and Advising on securities | 1 | 31 | 31 |
| Dealing as principal or agent, Arranging deals in securities, Managing securities and Advising on securities | 0 | 15 | 14 |
| TOTAL | 18 | 151 | 157 |

INDIVIDUALS

REGISTRATION ACTIVITY

As at 31 December 2018, there was a total of 1,110 registered individuals under the SIA, a net increase of 162 (17%) individuals compared to the end of 2017 when there were 948 registered individuals.

Table 9: Total number of registered individuals by category at 31 December 2018

| Category | No. of Newly Approved Individuals | Total Registered Individuals as recorded at years end | |
|---|--------------------------------------|--|--------------|
| | 2018 | 2017 | 2018 |
| CEO | 25 | 138 | 163 |
| Compliance officer | 54 | 176 | 230 |
| Representative – Trading | 26 | 202 | 228 |
| Representative – Discretionary management | 5 | 109 | 114 |
| Representative – Advising | 7 | 150 | 157 |
| CEO and Representative – Trading | 1 | 8 | 9 |
| CEO and Representative – Discretionary management | 4 | 40 | 44 |
| CEO and Representative – Advising | 3 | 8 | 11 |
| Representative – Trading and Discretionary management | 4 | 10 | 14 |
| Representative – Trading and Advising | 13 | 16 | 29 |
| Representative – Discretionary management and Advising | 6 | 46 | 52 |
| CEO, Representative – Trading and Advising | 0 | 1 | 1 |
| CEO, Representative – Discretionary management and Advising | 7 | 18 | 25 |
| Representative – Trading, Discretionary management and Advising | 4 | 20 | 24 |
| CEO, Representative – Trading, Discretionary management and Advising | 3 | 6 | 9 |
| TOTAL | 162 | 948 | 1,110 |

EXAMINATIONS

The types of inspections conducted by the Commission are typically categorised as routine and “for-cause”. Routine inspections are performed with an average frequency of four years. Inspections “for-cause” are based upon credible information coming to the Commission’s attention and are performed on an “as needed” basis.

In cases where banks and trust companies fall under the regulatory scope of both the Commission and the Central Bank of The Bahamas (“CBOB”), inspections may be conducted jointly with the Central Bank.

A total of 26 inspections were conducted during 2018.

Table 10: Number of inspections of registered firms by category in 2018

| Category | 2018 |
|--|-----------|
| Dealing as principal or agent | 2 |
| Dealing as agent only | 1 |
| Arranging deals in securities only | 0 |
| Managing securities only | 5 |
| Advising on securities only | 2 |
| Dealing as agent only and Arranging deals in securities | 1 |
| Dealing as agent only and Advising on securities | 0 |
| Arranging deals in securities and Managing securities | 0 |
| Arranging deals in securities and Advising on securities | 0 |
| Managing securities and Advising on securities | 4 |
| Dealing as principal or agent, Arranging deals in securities and Advising on securities | 0 |
| Dealing as principal or agent, Managing securities and Advising on securities | 3 |
| Arranging deals in securities, Managing securities and Advising on securities | 0 |
| Dealing as principal or agent, Arranging deals in securities, Managing securities and Advising on securities | 4 |
| Dealing as agent only, Arranging deals in securities, Managing securities and Advising on securities | 4 |
| Clearing facilities | 0 |
| Marketplaces | 0 |
| TOTAL | 26 |

Table 11: Types of inspections of registered firms by category in 2018

| Category | 2018 | |
|--------------|------------|-----------|
| | Standalone | With CBOB |
| Routine | 21 | 1 |
| For Cause | 2 | 2 |
| TOTAL | 23 | 3 |

CAPITAL MARKETS OVERVIEW

DOMESTIC CAPITAL MARKET REVIEW

The Bahamas International Securities Exchange (BISX) continued to serve as a critical element in the Bahamian capital markets as the only registered securities exchange. As at 31 December 2018, the market was comprised of 51 primary market listings (2017: 52) which included 19 common share listings with a market capitalisation of \$4.48 Billion (2017: \$4.43 Billion), 13 preference share listings with a market capitalisation of \$327 Million (2017: \$327 Million), and 19 bonds with a face value of \$579 Million (2017: \$579 Million).

For the year 2018, trading volumes posted an increase with trading values decreased compared to 2017. The volume of shares traded on BISX in 2018 was 8.519 Million (valued at \$41.832 Million) in contrast to 2017 when the volume of shares was 5.128 Million (valued at \$44.596 Million). Additionally, the BISX All-Share Index closed 2018 at 2,109.45 (2017: 2,063.57). BISX also announced the listing of 10 new investment funds on the exchange in the 4th quarter of 2018.

Also for the year 2018, there were no Initial Public Offerings. Private placement offerings totalled approximately \$32 million, a decrease compared to \$50 million in 2017.

INTERNATIONAL CAPITAL MARKETS OVERVIEW

For the year 2018, the bull markets continued to rise in the U.S. as the Dow Jones Industrial Average (DJIA), NASDAQ and the S&P 500 continued to outperform global peers, maintaining the pace set in 2017. U.S. corporate earnings growth remained steady, but the ongoing monetary policy tightening cycle in the U.S. and increasing trade tensions between the U.S. and China pushed up equity risk premiums.

U.S. GDP growth held firm at 2.6 percent for the year 2018 alongside a low unemployment rate of 3.9 percent for the year. Amidst this, consumer confidence among American households fell for a few months in 2018 as a result of weak expectations for economic growth and heightened market volatility; however, consumer confidence rebounded by the end of 2018 and overall, real disposable personal income in the U.S. increased by 4.2 percent at year end.

The Eurozone's GDP rose by 1.8 percent in 2018 as economic activity in the European Union (EU) continued to strengthen throughout 2017 and in early 2018. The EU Central Bank held onto extremely low refinancing rates and maintained its 2017 monetary policy. The political climate in the EU was tumultuous throughout 2018 especially with Brexit first looming, then ultimately receiving a favourable vote by the U.K.

INVESTMENT FUNDS ACT, 2003

INVESTMENT FUND ADMINISTRATORS

During 2018, 5 investment fund administrators were licensed by the Commission. As at 31 December 2018, there was a total of 63 licensed fund administrators.

Table 12: Total number of Investment Fund administrators by category at 31 December 2018

| Category | No. of Newly Approved Licensed Administrators | Total Licensed Administrators as recorded at years end | |
|--------------|--|---|-----------|
| | 2018 | 2017 | 2018 |
| Unrestricted | 4 | 31 | 34 |
| Restricted | 1 | 26 | 24 |
| Exempt | 0 | 5 | 5 |
| TOTAL | 5 | 62 | 63 |

INVESTMENT FUNDS

In 2018, 105 investment funds were approved, of which 24 were licensed by the Commission and 81 were licensed by unrestricted investment fund administrators and filed with the Commission. During the 2018 period, 108 investment funds were liquidated or surrendered their license. Resulting in a total of 780 licensed and registered investment funds at year-end 2018 and representing a net decrease over year-end 2017.

Table 13: Total Bahamas Based Investment Funds by category at 31 December 2018

| Category | No. of Newly Approved Funds | Total Funds as recorded at years end | |
|--------------------------|-----------------------------------|--------------------------------------|------------|
| | 2018 | 2017 | 2018 |
| Standard Funds | 2 | 39 | 39 |
| Professional Funds | 36 | 219 | 230 |
| Recognised Foreign Funds | 3 | 31 | 33 |
| SMART Fund Model 001 | 1 | 4 | 5 |
| SMART Fund Model 002 | 26 | 133 | 148 |
| SMART Fund Model 003 | 0 | 9 | 9 |
| SMART Fund Model 004 | 12 | 215 | 177 |
| SMART Fund Model 005 | 0 | 4 | 3 |
| SMART Fund Model 006 | 0 | 1 | 1 |
| SMART Fund Model 007 | 25 | 128 | 135 |
| Total | 105 | 783 | 780 |

NON-BAHAMAS BASED INVESTMENT FUNDS

Investment funds that do not meet the criteria to be categorised as Bahamas based investment funds but have some nexus to The Bahamas are referred to as non-Bahamas based investment funds pursuant to the Investment Funds Act, 2003. These investment funds must appoint a representative approved by the Commission. The overall number of representatives of non-Bahamas based funds investment funds registered in the Bahamas as at 31 December 2018 was 25, representing a net increase of 2 from 23 at 31 December 2017.

EXAMINATIONS

The types of inspections conducted by the Commission are typically categorised as routine and “for-cause”. Routine inspections are performed with an average frequency of four years. Inspections “for-cause” are based upon credible information coming to the Commission’s attention and are performed on an “as needed” basis.

In cases where banks and trust companies fall under the regulatory scope of both the Commission and the Central Bank of The Bahamas (the Central Bank), inspections may be conducted jointly with the Central Bank.

A total of 12 examinations were conducted during 2018.

Table 14: Number of examinations conducted in 2018 by investment fund administrator category

| Category | 2018 |
|--------------|-----------|
| Unrestricted | 9 |
| Restricted | 3 |
| Exempt | 0 |
| Total | 12 |

Table 15: Types of inspections of investment fund administrators by category in 2018

| Category | 2018 | |
|--------------|------------|-----------|
| | Standalone | With CBOB |
| Routine | 10 | 1 |
| For Cause | 1 | 0 |
| Total | 11 | 1 |

FINANCIAL AND CORPORATE SERVICE PROVIDERS ACT, 2000

REGISTERED FINANCIAL AND CORPORATE SERVICE PROVIDERS

During 2018, a total of 15 financial and corporate service providers were registered. As at 31 December 2018, there was a total of 353 financial and corporate service providers registered.

Table 16: Approvals by services provided

| Category | No. of Newly Approved Providers | Total as recorded at years end | |
|-------------------------|---------------------------------|--------------------------------|------------|
| | 2018 | 2017 | 2018 |
| Corporate Services only | 9 | 268 | 261 |
| Financial Services only | 2 | 36 | 45 |
| Both | 4 | 37 | 47 |
| Total | 15 | 341 | 353 |

EXAMINATIONS

The types of inspections conducted by the Commission are typically categorised as routine and “for-cause”. Routine inspections are performed with an average frequency of four years. Inspections “for-cause” are based upon credible information coming to the Commission’s attention and are performed on an “as needed” basis.

The Commission, in its capacity as the Inspector of Financial and Corporate Services, provides annual training to Bahamas Institute of Chartered Accountants (“BICA”) licensees who desire to be agents of the Inspector. Agent training was held in conjunction with the Compliance Commission of the Bahamas on 15 February 2018 via live stream on the Internet.

The training was to equip agents to execute onsite examinations of financial and corporate service providers at the Inspector’s standard. A total of 36 examinations were conducted during 2018.

Table 17: Examinations By Category

| Category | 2018 | |
|-------------------------|-----------|-----------|
| | Agents | SCB |
| Corporate Services only | 10 | 18 |
| Financial Services only | 0 | 1 |
| Both | 2 | 5 |
| Total | 12 | 24 |

Table 18: Examinations By Type

| Category | 2018 | |
|--------------|------------|-----------|
| | Standalone | With CBOB |
| Routine | 36 | 0 |
| For Cause | 0 | 0 |
| Total | 36 | 0 |

INDUSTRY ENGAGEMENT

FCSPA INDUSTRY BRIEFING

The Commission in its capacity as inspector of Financial and Corporate Services hosted its annual briefing for licensees under the Financial and Corporate Service Providers Act, 2000 on 26 April 2018. The briefing addressed ongoing issues and highlighted legislative developments specific to financial and corporate service providers.

INVESTMENT FUNDS REGULATIONS, 2018 INDUSTRY MEETING

The Commission hosted an industry meeting on 3 May 2018 that focused on the draft Investment Funds Regulations, 2018. The draft Regulations were issued for public consultation on 13 April – 15 June 2018. This industry event provided an overview of the draft Regulations and addressed the treatment of comments received by the Commission during the consultation period.

NATIONAL AML/CFT RISK MANAGEMENT CONFERENCE

The Caribbean Group of Financial Service Regulators (CGSR) along with the Bahamas Financial Services Board (BFSB) and the Association of International Banks and Trust Companies (AIBT) hosted the first annual National AML/CFT Risk Management Conference on 17-18 September 2018. The Conference is part of a larger effort by the Bahamian public and private sectors to improve national capacity to manage AML/CFT/ PF risk, and to improve the jurisdiction’s visibility in this regard.

SIA /IFA INDUSTRY BRIEFING

The Commission hosted its annual industry briefing for registrants and licensees under the SIA and IFA on 27 September 2018. The briefing addressed regulatory developments that impact the capital markets, securities and investment funds industries in The Bahamas.

PUBLIC COMPANIES FORUM

The Commission hosted a half-day forum for public companies, local businesses and entrepreneurs seeking to raise funding for their ventures on 8 November 2018. This forum served as an opportunity for entrepreneurs to learn about alternative means available in the country to raise funds for their businesses.

During this forum, the Commission introduced the proposed Corporate Governance Rules, Takeover Rules, as well as the finalised Business Capital Rules. Additionally, this forum featured three panel discussions on the topics of: Corporate Governance for Public Companies and State Owned Enterprises; Capital Raising Challenges and Opportunities and; the IDB Invest Opportunities.

LEGISLATIVE UPDATES

The Commission is responsible for the administration of the Securities Industry Act, 2011 (the SIA) and the Investment Funds Act, 2003 (the IFA), which provide for the supervision and regulation of the activities of the investment funds, securities and capital markets. The Commission, having been appointed Inspector of Financial and Corporate Services effective 1 January 2008, is also responsible for administering the Financial and Corporate Service Providers Act, 2000.

INVESTMENT FUNDS (AMENDMENT) REGULATIONS, 2018

The Investment Funds (Amendment) Regulations served to repeal and replace Schedule 12 of the IFA, which focused on new application and renewal fees for the various fund types and categories. The amendments came into effect on 1 January 2018.

PUBLIC CONSULTATION

A critical part of the development of legislation is the public consultation process. As a part of the consultation process, draft

documents are disseminated via email to the Commission's registrants, licensees and applicable stakeholders and published to the Commission's website for public consultation, usually supported by an advertisement in the leading daily newspapers indicating the document is available on the Commission's website for comment.

During 2018, the following documents were released for consultation:

Financial and Corporate Service Providers (General) Regulations:

These Regulations seek to repeal and replace the current Financial and Corporate Service Providers (General) Regulations, No. 41 of 2000 to:

- reflect the regulatory changes to be introduced in the Financial and Corporate Service Providers Bill;
- introduce comprehensive requirements addressing the duties and obligations of licensees in the management and operation of their business;
- introduce expanded requirements addressing a licensee's due diligence obligations;
- establish the date when all licenses issued to financial and corporate service providers expire; and
- introduce the new licence format which will be used.

Financial and Corporate Service Providers (Application) Regulations:

These regulations set out the form which applications for a licence to conduct financial and corporate services will be required to take under the proposed Financial and Corporate Service Providers Bill.

Financial and Corporate Service Providers (Fees) Rules:

These Rules were reissued for consultation following an initial consultation period, and aim to establish the amount of fees which will be applicable to and payable by persons licensed as financial and corporate service providers to:

- reflect the introduction of payment of application and annual fees based on the type of financial or corporate service for which application has been made or for which the annual fee is due; and
- Introduces a new formula for the calculation of application and annual fees where an application is made for or a licensee's business involves more than one financial or corporate service activity or a combination of financial and corporate service activity.

Investment Funds Regulations:

The Commission disseminated the draft Investment Funds Regulations for public consultation. The Regulations propose to repeal and replace the Investment Funds Regulations, 2003.

The draft Investment Funds Regulations is subsidiary to the Investment Funds Bill and provides the procedural and operational framework for the implementation of the provisions of the Investment Funds Bill.

The Regulations:

- introduce comprehensive requirements addressing applications and ongoing reporting obligations of persons required to be licensed under the Investment Funds Bill;
- set out the various application and other forms required under the proposed Investment Funds Bill;
- introduce comprehensive requirements addressing the duties and obligations of licensees in the management and operation of their business;
- establish a regulatory framework for operators, custodians, investment fund managers, and investment fund administrators; and
- establish the specific duties and obligations to enable investment funds and investment fund managers to meet the requirements of the Alternative Investment Fund Managers Directive (AIFMD).

Draft Securities Industry (AML/CFT)(Amendment) Rules:

The Securities Industry (Anti-Money Laundering and Countering the Financing of Terrorism) (Amendment) Rules were developed to amend the Securities Industry (Anti -Money Laundering and Countering the Financing of Terrorism) Rules, 2015.

The main objective of the draft Rules is to incorporate various international developments in anti-money laundering (AML) and countering the financing of terrorism (CFT) legislation and standards. The Rules are updated to ensure compliance with AML/CFT legislation, including the Financial Transactions Reporting Act, the Proceeds of Crime Act and the Anti-Terrorism Act. The Rules principally address:

- customer due diligence measures;
- proper implementation of new technology and products;
- third party verification; and
- internal controls, including those regarding foreign branches and subsidiaries.

Draft Securities Industry (Corporate Governance) Rules:

The Securities Industry (Corporate Governance) Rules, were drafted to create a legislative framework that is compliant with

international standards enunciated in the OECD principles on Corporate Governance and Guidelines on Corporate Governance of State-Owned Enterprises. These Rules address gaps in the companies' legislative regime and require Public Issuers to implement corporate governance principles and procedures in the operation of their companies under Part XI section 106 of the Securities Industry Act, 2011.

The Rules:

- introduce new terms that will apply; and
- ensure that the new corporate governance principles complement existing company law.

The Rules principally address the –

- composition, appointment, qualification, duties, training and remuneration of the Board;
- company's relationship with shareholders and how shareholders' rights, specifically minority shareholder rights, are to be protected;
- company's obligations to implement a risk management and internal control protocol; and
- accountability and reporting obligations of the Board.

Draft Securities Industry (Take-Over) Rules:

The Securities Industry (Take-over) Rules were drafted to govern the structure, process and conduct of take-overs, mergers, acquisitions, and other similar transactions relating to public companies falling within the legislative framework of the Securities Industry Act, 2011. The Rules provide material obligations, restrictions and principles regarding the take-over process.

The Rules principally address:

- equal treatment and rights of shareholders, particularly minority shareholders;
- the provision of timely, accurate and adequate information to all shareholders and the general public;
- proper conduct with respect to, and the requirements for ensuring, bona fide take-overs;
- various restrictions and exemptions regarding take-overs;
- required documentation and circulars; and
- special powers of, and enforcement by, the Commission and/or the Court.

Draft Financial and Corporate Service Providers (AML/CFT) Rules:

The Financial and Corporate Service Providers (Anti-Money

Laundering and Countering the Financing of Terrorism) Rules, will repeal and replace the existing Financial and Corporate Services Providers (Anti-Money Laundering and Countering the Financing of Terrorism) Handbook & Code of Practice.

These Rules create a legislative framework of the mandatory standards licensees under the Financial and Corporate Service Providers Act are required to comply with to ensure that they meet international standards relating to anti-money laundering (AML) and countering the financing of terrorism (CFT). The Rules establish the mandatory standards with which FCSPs must comply to implement the requirements of AML/CFT legislation, including the Financial Transactions Reporting Act, the Proceeds of Crime Act, and the Anti-Terrorism Act. The Rules principally address:

- implementation of risk rating framework;
- internal control procedures;
- suspicious transactions reporting;
- customer identity verification, including third party verification and eligible introducers; and
- record keeping.

INTERNATIONAL REQUESTS OVERVIEW

Pursuant to Sections 34 and 36 of the Securities Industry Act, 2011 (SIA), the Commission is authorised to exchange information with its international counterparts for administrative, supervisory and enforcement purposes including criminal proceedings related to securities laws.

Being signatory 'A' to the International Organization of Securities Commissions' (IOSCO) Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMoU), where the Commission receives a request from an international counterpart that is also an 'A' signatory to the MMoU, information is exchanged in accordance with the terms of the MMoU. The Commission evaluates every request received to ensure that it meets minimum information sharing requirements, as set out in legislation and where applicable, the terms of the IOSCO MMoU. International requests for information must be related to securities laws and are mainly in relation to administrative and supervisory actions of overseas regulatory authorities.

In 2018, 15 requests were received and 10 requests were brought forward from previous periods. Of the 15 requests received, 8

originated from the United States, 2 from Italy, 2 from France, 1 from Spain, 1 from Dubai and 1 from Brazil. During 2018, 19 requests were closed. At the end of 2018, 6 matters remained open. We did not have any matters stayed or denied in 2018.

EMMOU

The Commission's application to be a signatory to IOSCO's Enhanced Multilateral Memorandum of Understanding Concerning Cooperation, Consultation and Exchange of Information (EMMoU) was approved by the EMMoU verification committee in September 2018. The Commission became an Appendix 1 Signatory to the new enforcement-related information-sharing agreement on 21 November 2018.

The EMMoU makes additional avenues available to regulators to cooperate to enhance the outcome of investigation and enforcement activity as compared with the prevailing standard, the Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information ("MMoU"). These provisions are aimed to keep pace with technological, societal and market developments and to bolster deterrence to better protect investors and the markets.

As enforcement is a core tool for regulators, the ability to access relevant information across borders is often vital for the investigation of criminal activity. By becoming an early adopter of the EMMoU, the Commission is shifting the narrative with respect to The Bahamas' commitment to and seriousness with cross-border investigation and enforcement.

Referred to as "ACFIT" powers, they require signatories' legal empowerment to:

- obtain and share audit work papers, communications and other information relating to the audit or review of financial statements including with the assistance of a prosecutor, court or other authority,
- compel physical attendance for testimony (by being able to apply a sanction in the event of noncompliance) including with the assistance of a prosecutor, court or other authority
- freeze assets if possible or, if not, advise or provide information on how to Freeze assets, at the request of another signatory,
- obtain and share existing Internet service provider (ISP) records (not including the content of communications) including with the assistance of a prosecutor, court or other authority, and
- obtain and share existing telephone records (not including the content of communications), including with the assistance of a court, prosecutor or other authority.

ENFORCEMENT

The Enforcement Department is primarily responsible for implementing the Commission's disciplinary actions pursuant to various laws administered by the Commission. The department defends the Commission in litigation matters and, where deemed necessary, initiates litigation to enforce laws administered by the Commission. The department is also responsible for investigating operations or entities (involving both companies and individuals) that are operating in The Bahamas without a licence or registration required by law.

There were 15 enforcement matters brought forward from 2017. During 2018, two new matters were opened and four matters were closed. As at 31 December 2018, 13 enforcement matters remained open, of which 5 involved litigation and 8 were administrative. Administrative matters primarily concern non-compliance with filing obligations under the Securities Industry Act and Regulations, including client records/information.

Table 19: Approvals by services provided

| Type of Matter | # of matters brought forward from previous years into 2018 | # of new matters opened in 2018 | # of matters closed in 2018 | # of matters referred to another agency in 2018 | # of matters that remained open by end of 2018 |
|----------------|--|---------------------------------|-----------------------------|---|--|
| Litigation | 5 | 1 | 1 | 0 | 5 |
| Administrative | 10R | 1 | 3 | 0 | 8 |
| Criminal | 0 | 0 | 0 | 0 | 0 |
| Other* | 0 | 1 | 0 | 0 | 1 |
| Total | 15R | 3 | 4 | 0 | 14 |

R Total matters brought forward were revised and reduced by two to reflect closed matters after a reconciliation was performed in 2018.

During 2018, one litigation matter was closed. It involved Seton Securities International Ltd, a registrant of the Commission which, in September 2018, was convicted and fined in Alberta, Canada for unregistered securities activity. The Commission revoked the firm's registration and commenced proceedings, petitioning for a court-supervised winding up. The Commission agreed instead to a Commission-supervised voluntary winding up using a liquidator appointed by the Commission. The Commission received the court's leave to withdraw its petition in November 2018 and the winding up continued under the Commission's supervision.

Additionally, there were three settlements reached by the Commission, bringing those disciplinary matters to a close. Settlements were reached with the following entities:

- Swiss America Securities Ltd.
- Montague Capital Partners Ltd. (two separate settlements were reached with this entity)

Table 20: Notices issued by the Enforcement Department during 2018

| Notice | Issue Date | Description* |
|-------------------------------|------------------|---|
| Biscayne Capital Ltd. | 27 February 2018 | A Notice was issued to inform the public that BCL's liquidation had become court-supervised and the provisional liquidators, Messrs. Raymond Winder and Mark Munnings, both of Deloitte, were appointed as the official liquidators. |
| Arrest of Matthias Krull | 3 August 2018 | The Commission became aware of the arrest of Matthias Krull, a banker in Miami Florida. The allegations potentially references regulated entities in the Bahamas. Therefore, a Notice was issued advising the public that the Commission was conducting its investigation into the matter. |
| IMarkets Live – Forex Trading | 15 October 2018 | This follow-up notice was issued to further inform the public about legal sanctions placed on IMarkets Live (IML) and its principals, as well as to inform of warnings issued by other jurisdictions. While reminding the public that IML was not a registrant of the Commission, the Notice also advised against dealing with this entity. |

The full text of public notices, investor alerts and press releases issued by the Commission, along with copies of judgements may be found on the Commission's website.

STATUS OF DISCIPLINARY RULES AMENDMENT

A Hearing Panel to address alleged breaches of securities laws was established through the promulgation of the Securities Industry (Disciplinary Proceedings) (Hearings & Settlements) Rules on 7 February 2018. These Rules give the Panel the flexibility and authority to resolve matters through an informal hearing process, allowing for a timelier, efficient and effective disciplinary process.

The Commission has since proposed amendments to the Rules. One of the suggested amendments is the addition of the Commission's board members on the hearing panel. Others relate to the independence of the panel. The amended Rules are being developed, and once completed will be submitted to the Law Reform Commission for finalization.

OTHER UPDATES

Enforcement plans to commence formally seeking the assistance of overseas regulators, using the IOSCO MMoU, with providing information to assist with the Commission's ongoing investigations. To date, the Commission has seen the usefulness of this tool only from the standpoint of being the provider of information sought by international regulatory counterparts. The Enforcement Department plans to make use of this tool for the first time.

During 2018, Enforcement upgraded its data management software for managing enforcement matters. The department also underwent a training exercise for using the software in May/June. Enforcement increasingly utilizes the software for its department records/operations and in due course will generate all department reports from the platform.

INVESTOR EDUCATION

Promoting an understanding of the capital markets and its participants and the benefits, risks and liabilities associated with investing is a function of the Commission (Securities Industry Act, 2011 s.12). Investor Education is the key tool used to achieve this. Informed, financially literate investors are better empowered to make sound investment decisions and avoid many of the hazards of investing.

WORLD INVESTOR WEEK

The Securities Commission of The Bahamas participated in an array of activities to formally celebrate World Investor Week (WIW), an initiative of the International Organisations of Securities Commissions 1-7 October 2018. The Prime Minister, Dr. the Most Honourable Hubert Alexander Minnis, O.N, M.P., declared the week “Investor Education Week” in The Bahamas.

During this period, the Commission sought to raise awareness about the role of the regulator as the guardian of the capital markets, improve the Commission’s social media presence and engagement, and disseminate timely investor education and protection messages.

Some of the activities conducted by the Commission during WIW included:

- the posting of daily investor education tips to the Commission’s Facebook page, in line with the global messaging for World Investor Week.
- the physical and electronic launch of “Make Your Money Work For You: A Guide to Investing” publication.
- the launch of the “How I Did It” Video Series. The series featured well known Bahamians: Sir Franklyn Wilson, Mr. Gowon Bowe and Ms. Wendy Warren, who shared some of their own life experiences with managing their finances that contributed to their success, including personal tips on saving, budgeting, managing debt, and investing. The videos were uploaded to the Commission’s Facebook page where they received peak review during WIW.
- collaboration with the other members of the International Forum for Investor Education (IFIE) Americas Chapter, Caribbean Working Group to produce a video entitled “Voices of the Caribbean” that focused on the importance of investing, and financial literacy and resilience at all stages in the life cycle. This video was

accessible through the Commission’s Facebook page and website, as well as websites of participating Caribbean jurisdictions, and was also featured on the official World Investor Week home page.

FINANCIAL LITERACY/INVESTOR EDUCATION PILOT PROGRAM AND STUDY

The Commission collaborated with the Ministry of Education (“MOE”/“the Ministry”) to launch a pilot programme to deliver, and study the effectiveness of teaching, fundamental investor education and financial literacy concepts to junior high and primary school students.

The Ministry selected three schools in New Providence, namely, A.F. Adderley Junior High School, H.O. Nash Junior High School and C.W. Sawyer Primary School to participate in the pilot programme and study. The study included a Grade 7 and 8 class from each of the junior high schools, and a grade 6 class from the primary school, and a control group from each of the schools. The grade 6 class focused on the numeracy aspects of the curriculum only.

The programme officially launched in October 2017 and ran for just under a school year, concluding in June 2018. The study included pre- and post-evaluations of student performance, and a standard in-class test administered to students in the study and control groups to assess the success of the programme in delivering key concepts.

The Commission spearheaded the development of the curriculum for the programme. The Commission also undertook ensuring the teachers were trained to effectively deliver the content to students. The Commission also provided the teachers with material to develop lesson plans, and materials for students to use during their classes. The Commission is analysing the data from the study to ascertain what it indicates the next steps should be.

FINANCIAL LITERACY FAIRS

BAHAMAS INSTITUTE OF CHARTERED ACCOUNTANTS (BICA)

The Commission participated in The Bahamas Institute of Chartered Accountants Financial Literacy Fair, held on 10 November 2018. Representatives from the Commission presented to the students on the role of the Commission in the capital markets, saving and budgeting. The Commission also used this opportunity to distribute various publications including: “Tips to Avoid Frauds and Scams” and “Make Your Money Work For You: A Guide to Investing”. Commission staff engaged in other

interactive activities and games with the students.

COLINA FINANCIAL ADVISORS LIMITED'S (CFAL) JUNIOR INVESTOR EDUCATION PROGRAMME

The Commission continued its participation in CFAL's Junior Investor Education Program with presentations at C.V. Betel High School, R. M. Bailey Senior High School, and St. Andrews International School and on 1, 8, and 15 March 2018 respectively. At the company's invitation, the Commission discussed its role and function in the capital markets.

OTHER INITIATIVES

In July, the Commission gave the Over-the-Hill Community Development Partnership Initiative, copies of our publications, namely, "Making Your Money Grow" and "Tips to Avoid Fraud and Scams" to be used as part of their community engagement.

CAPACITY BUILDING/TRAINING

NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION'S INVESTOR EDUCATION TRAINING PROGRAMME

A representative of the Commission's investor education team attended the North American Securities Administrators Association's (NASAA's) Investor Education Training Program in New Orleans from 13 – 19 March 2018. The program's theme was "Unmask Your Investor Education Potential in the Big Easy". NASAA is an association of non-federal securities regulators (i.e. US State and Canadian Provincial securities regulators) and has been promoting investor education since 1919.

The training conference provided informative updates and case studies on cutting-edge investor education and protection issues, including educating investors about bitcoins and cryptocurrency, protecting senior citizens from financial exploitation, and preparedness for the impact of the opioid abuse crisis on financial advisory services.

In addition to the information provided, a notable aspect of the training was its focus on providing participants with pragmatic tools to improve their efficiency and effectiveness in executing financial education initiatives. Examples of this include the session on providing multi-media solutions on a budget, which incorporated practical links to applications to produce informative, low-cost/good quality infographics and videos, and a presentation on public speaking to improve practitioners' delivery of investor education materials and content.

INTERNATIONAL FORUM FOR INVESTOR EDUCATION

The International Forum for Investor Education ("IFIE") Americas Chapter, Caribbean Working Group met in The Bahamas for training, capacity building and networking on 26 – 27 May 2018. One of the key objectives of these meetings was to develop initiatives for members to improve delivery of investor education in their respective jurisdictions.

The Commission has been a participant in the IFIE Americas Chapter Working Group since 2015 and to this end participates in teleconferences with representatives of other Caribbean securities regulators on a regular basis. The meetings have augmented capacity through IFIEs direct initiatives to provide resources to address gaps identified by the group, and through the sharing of knowledge and ideas amongst participants.

AFFILIATIONS AND MEMBERSHIPS

The Commission is a member of various international, regional and local organisations. In addition to the organisations presented below.

INTERNATIONAL ORGANISATION OF SECURITIES COMMISSIONS (IOSCO)

The International Organisation of Securities Commissions (IOSCO) is the global standard setter for securities and capital markets regulators. The Commission has been an ordinary member of IOSCO since September 1996, and became a signatory to Appendix A of its Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMoU) on 27 December 2012.

Additionally, the Commission became an early adopter, and signatory to Appendix A of the Enhanced Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (EMMoU) on 21 November 2018. This is IOSCO's newest enforcement-related information-sharing agreement. According to IOSCO, the EMMoU was established "to keep pace with technological, societal and market developments; to bolster deterrence; and to ensure that IOSCO continues to meet its objectives."

IOSCO: GROWTH AND EMERGING MARKETS COMMITTEE (GEMC)

IOSCO's GEMC seeks to promote the development and greater efficiency of emerging securities and futures markets. Commission representatives attended the GEMC conference and plenary meeting in the Cayman Islands on 19-20 September 2018 under the theme, "Building Sustainable Capital Markets in a Digital Era". The conference focused on trends, risks and regulatory implications of initial coin offerings and cryptocurrencies; the impact of passive investing in emerging markets and; challenges and opportunities for building sustainable capital markets.

The plenary meeting focused on sustainable financing in emerging markets; emerging risks and trends in GEM jurisdictions and future potential work streams; initiatives to provide greater support of emerging market members; and strengthening cooperation among regulators.

IOSCO: INTER-AMERICAN REGIONAL COMMITTEE (IARC) AND COUNCIL OF SECURITIES REGULATORS OF THE AMERICAS (COSRA)

Commission representatives attended the IARC and COSRA annual meetings on 17-18 September 2018 in the Cayman Islands. The meetings focused on fintech; sustainability and; leveraging capital markets for SMEs in emerging market economies, and regional integration activities.

Additionally, the Commission hosted the IARC Enforcement Manual Workshop on 20-21 November 2018, in The Bahamas, as part of the IOSCO Technical Assistance Programme.

IOSCO: COMMITTEE ON ENFORCEMENT AND THE EXCHANGE OF INFORMATION (COMMITTEE 4)

Committee 4 is focused on the prevention and detection of breaches of securities laws and regulations in global financial markets and the implementation of global enforcement cooperation under the MMoU. In November, representatives from the Commission participated in their first C4 meeting that focused on the screening process for applicants to IOSCO's MMoU. Additionally, the Commission was appointed to the Verification Team 7, which reviews applicants to IOSCO's MMoU.

IOSCO 43RD ANNUAL CONFERENCE

Representatives of the Commission attended IOSCO's 43rd annual conference, which was held 7-11 May 2018 in Budapest, Hungary. The conference welcomed securities regulators, industry representatives and other financial market participants. The conference focused on addressing issues facing securities market regulators. Key issues discussed included: the sale of unsuitable products to retail investors; the challenges of fintech and digitalization; the shift from active to passively managed collective investment schemes and; SME access to funding

through capital markets.

CARIBBEAN GROUP OF SECURITIES REGULATORS (CGSR)

The CGSR was formed in 2002 with an aim to facilitate information sharing and collaboration between Caribbean securities regulators to enhance regional securities supervision.

On 23-25 May 2018, the Commission, in its capacity as Chair of CGSR, along with the Caribbean Regional Technical Assistance Centre (CARTAC), hosted the annual conference and workshop under the theme "Strengthening Risk-Based Supervision and the Framework for Promoting Financial Stability in the Caribbean". Representatives from over ten Caribbean countries along with industry experts and external advisors attended the conference.

CARIBBEAN FINANCIAL ACTION TASK FORCE (CFATF)

Representatives from the Commission attended a plenary meeting on 28 May - 1 June 2018 in Trinidad and Tobago which focused on the Mutual Evaluation Report for Antigua and Barbuda.

The CFATF mutual evaluation report provides a summary of the Anti-Money Laundering/Counter Financing of Terrorism and Proliferation Financing (AML/CFT/PF) measures in place, an analysis of the country's level of compliance with the FATF 40 Recommendations, the level of effectiveness of the AML/CFT regime, and a list of recommendations on how the regime could be strengthened.

The Bahamas has committed to implement and maintain an appropriate and effective AML/CFT/PF regime inclusive of implementation of a vigorous AML/CFT legislative framework, a National Risk Assessment framework and AML/CFT Guidance Notes.

On 4-5 September 2018, Commission representatives participated in CFATF Bahamas' first Follow Up Report International Co-operation Review Group session in Miami, Florida.

During 19-23 November 2018, Commission representatives also participated in a plenary meeting that focused on the Mutual Evaluation Report for the Cayman Islands. The sessions were held in Barbados.

GROUP OF FINANCIAL SERVICES REGULATORS (GFSR)

The GFSR is comprised of domestic financial services regulators which includes The Central Bank of The Bahamas, The Compliance Commission of The Bahamas, the Financial Intelligence Unit, the Gaming Board of The Bahamas, The Insurance Commission of The Bahamas, and the Securities Commission. This group serves as a medium for information sharing between members and international financial services regulators. This group also uses this forum to discuss their respectively unique and shared regulatory challenges.

As part of GFSR, representatives from the Commission attended and presented at The Bahamas' first annual National AML/CFT Management Conference on 17-18 September 2018. The conference focused on national AML/CFT strategies and key areas of concern for the jurisdiction. Presentations and moderated sessions focused on topics including the Government's legislative and regulatory agenda for AML/CFT; international approaches to AML/CFT; rating AML sovereign risk; and migrating to a cashless society.

FINANCIAL SUMMARY

The audited financial statements that appear on the following pages in this Annual Report represent the financial position of the Commission as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards. Comparative figures for the year ended 31 December 2017 are shown.

The Commission's income is mainly generated from fees charged to licensees, registrants and applicants under the Securities Industry Act, 2011 (the SIA), the Investment Funds Act, 2003, and the Financial and Corporate Services Providers Act, 2000 as well as funding from the Government of The Bahamas (the Government).

The Commission's strategic goals for the 2018 - 2020 period include financial independence and self-sustainability. To help advance this goal, the Commission enacted the Securities Industry (Fee) (Amendment) Rules, 2018 and the Investment Funds (Amendment) Regulations, 2018. Both pieces of legislation were in force effective 01 January 2018, leading to a 39.7% increase in fee income from \$5.22 million in 2017 to \$7.29 million in 2018.

The Commission sought and obtained permission from the Ministry of Finance to establish a reserve fund for the development of the Commission. Government subvention of \$3 million was utilised for this purpose. Additional Government subvention of \$0.12 million was used for the implementation of Commission's electronic database, a major information technology project. Deferred income in the amount of \$1 million was contributed Poinciana SPV Ltd., to aid in completing the renovation of the Commission's new offices located in Poinciana House on East Bay Street.

The Commission experienced a 16.8% increase in operating expenses from \$6.65 million in 2017 to \$7.76 million in 2018. This increase was mainly attributed to a \$0.57 million increase in professional fees as the Commission pursued its various strategic goals, including a consultancy for the implementation of risk-based supervision. The Commission also focused on the enhancement of its legislative framework, which included the development of a regulatory framework for digital assets. This specific initiative resulted in the drafting of the Digital Assets and Registered Exchanges Bill, 2019.

During 2018, the Commission continued to shore up its human capital through recruitment of personnel as part of organisational restructuring to further its implementation of a risk-based approach to supervision. There was a \$0.26 million increase in personnel expenses from \$4.65 million in 2017 to \$4.90 million in 2018. The Commission is expected to focus on recruitment of professionals to support its expanding regulatory framework in 2019.

The Commission expects expenditure will increase in the near term as it continues to pursue its strategic objectives.

AUDITED FINANCIAL STATEMENTS





Independent auditors' report

To the members of the Securities Commission of The Bahamas

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Securities Commission of The Bahamas (the Commission) as of 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Commission's financial statements comprise:

- the statement of financial position as of 31 December 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in net assets for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Commission in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information

Management is responsible for the other information. The other information comprises the Securities Commission of The Bahamas 2018 Annual Report (but does not include the financial statements and our auditors' report thereon), which is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



When we read the Securities Commission of The Bahamas 2018 Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Commission's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management, either intends to liquidate the Commission or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Commission's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commission's ability to continue as a going concern.



If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Commission to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Matter

This report, including the opinion, has been prepared for and only for the Commission in accordance with the terms of our engagement letter and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers
Chartered Accountants
Nassau, Bahamas

28 June 2019

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

Statement of Financial Position
As of 31 December 2018
(Expressed in Bahamian dollars)

| | 2018 | 2017 |
|--|------------------|------------------|
| | \$ | \$ |
| ASSETS | | |
| Cash on hand and at banks | 1,687,022 | 424,985 |
| Accounts receivable (Note 6) | 281,026 | 76,466 |
| Prepaid expenses and other assets (Note 5) | 28,660 | 1,011,265 |
| Investments in debt securities (Note 4) | 4,068,413 | 3,057,865 |
| Plant and equipment (Note 8) | 984,454 | 348,011 |
| | <u>7,049,575</u> | <u>4,918,592</u> |
| LIABILITIES | | |
| Accounts payable and accrued expenses | 1,388,759 | 408,444 |
| Other liabilities | 759,603 | 733,632 |
| Deferred income (Note 9) | 749,828 | 3,004,767 |
| | <u>2,898,190</u> | <u>4,146,843</u> |
| | <u>4,151,385</u> | <u>771,749</u> |
| NET ASSETS | | |
| REPRESENTED BY: | | |
| Surplus | 1,031,385 | 771,749 |
| Reserve fund (Note 10) | 3,000,000 | - |
| Special purpose reserve (Note 10) | 120,000 | - |
| | <u>4,151,385</u> | <u>771,749</u> |

APPROVED AND AUTHORISED FOR ISSUE BY THE MEMBERS OF THE SECURITIES COMMISSION OF THE BAHAMAS AND SIGNED ON THEIR BEHALF BY:

Chairman

Director

28 June 2019

Date

The accompanying notes are integral part of these financial statements.

The Securities Commission of The Bahamas

Statement of Comprehensive Income For the Year Ended 31 December 2018 (Expressed in Bahamian dollars)

| | 2018 | 2017 |
|---|-------------------|------------------|
| | \$ | \$ |
| INCOME | | |
| Fee income | | |
| Securities industry licensees and registrants | 3,231,554 | 1,967,740 |
| Investment funds | 2,271,715 | 1,801,996 |
| Investment fund administrators | 1,005,771 | 725,835 |
| Financial and corporate service providers | 554,104 | 566,854 |
| Penalties | 194,343 | 138,708 |
| Securities exchange | 23,000 | 10,000 |
| Examinations | 4,060 | 4,300 |
| Other | 10,000 | 7,500 |
| | <hr/> | <hr/> |
| Total fee income | 7,294,547 | 5,222,933 |
| Government subvention (Note 9) | 3,117,739 | 942,297 |
| Interest income | 182,191 | 165,152 |
| Other income | 498,421 | 316,130 |
| | <hr/> | <hr/> |
| Total income | 11,092,898 | 6,646,512 |

The accompanying notes are integral part of these financial statements.

The Securities Commission of The Bahamas

Statement of Comprehensive Income For the Year Ended 31 December 2018 (Expressed in Bahamian dollars) (Continued)

| | 2018 \$ | 2017 \$ |
|--|-------------------------|------------------|
| EXPENSES | | |
| Salaries, wages and employee benefits (Note 11) | 4,903,408 | 4,646,686 |
| Professional fees | 688,635 | 122,519 |
| Rent | 434,064 | 414,943 |
| Training and conferences | 386,065 | 344,342 |
| Office | 350,467 | 274,876 |
| Depreciation (Note 8) | 263,458 | 323,174 |
| Provision for expected credit losses (Note 6) | 250,201 | 129,803 |
| Utilities and property charges | 165,938 | 145,461 |
| Repairs and maintenance | 129,600 | 86,930 |
| Membership fees | 40,548 | 38,229 |
| Bank charges | 31,435 | 15,969 |
| Advertising and public relations | 30,098 | 37,179 |
| Printing and publications | 29,536 | 28,461 |
| Investor education | 29,294 | 5,590 |
| Legislative initiatives | 25,046 | 26,272 |
| Miscellaneous | 7,084 | 6,078 |
| | <u>7,764,877</u> | <u>6,646,512</u> |
| Total expenses | | |
| | <u>7,764,877</u> | <u>6,646,512</u> |
| Net income and total comprehensive income | <u><u>3,328,021</u></u> | <u><u>-</u></u> |

The accompanying notes are integral part of these financial statements.

The Securities Commission of The Bahamas

Statement of Changes in Net Assets For the Year Ended 31 December 2018 (Expressed in Bahamian dollars)

| | Surplus \$ | Special Purpose Reserve \$ | Reserve Fund \$ | Total \$ |
|--|-------------------------|-------------------------------------|-------------------------|-------------------------|
| Balance as of 1 January 2017 | <u>771,749</u> | <u>-</u> | <u>-</u> | <u>771,749</u> |
| Total comprehensive income | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Balance as of 31 December 2017 | <u>771,749</u> | <u>-</u> | <u>-</u> | <u>771,749</u> |
| Balance as of 31 December 2017 | 771,749 | - | - | 771,749 |
| Transition adjustment (Note 6) | <u>51,615</u> | <u>-</u> | <u>-</u> | <u>51,615</u> |
| Restated balance as of 1 January 2018 | 823,364 | - | - | 823,364 |
| Total comprehensive income | 3,328,021 | - | - | 3,328,021 |
| Transfer to the reserve fund (Note 10) | (3,000,000) | - | 3,000,000 | - |
| Transfer to special purpose reserve (Note 10) | <u>(120,000)</u> | <u>120,000</u> | <u>-</u> | <u>-</u> |
| Balance as of 31 December 2018 | <u>1,031,385</u> | <u>120,000</u> | <u>3,000,000</u> | <u>4,151,385</u> |

The accompanying notes are integral part of these financial statements.

The Securities Commission of The Bahamas

Statement of Cash Flows For the Year Ended 31 December 2018 (Expressed in Bahamian dollars)

| | 2018 | 2017 |
|---|--------------------------------|------------------------------|
| | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | 3,328,021 | - |
| Adjustments for: | | |
| Interest income | (182,191) | (165,152) |
| (Gain)/loss on disposals of plant and equipment | (3,060) | 1,099 |
| Depreciation | 263,458 | 323,174 |
| Change in provision for expected credit losses | 250,201 | 109,613 |
| Interest received | 171,643 | 164,995 |
| (Increase)/decrease in operating assets | | |
| Accounts receivable | (403,146) | (72,130) |
| Prepaid expenses and other assets | 982,605 | (947,643) |
| Increase/(decrease) in operating liabilities | | |
| Accounts payable and accrued expenses | 980,315 | 55,712 |
| Other liabilities | 25,971 | 196,218 |
| Deferred income | (1,254,939) | 1,089,340 |
| Net cash from operating activities | <u>4,158,878</u> | <u>755,226</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of debt securities | (1,000,000) | - |
| Investment in Poinciana SPV Limited (SPV) | (1,000,000) | (567,314) |
| Purchases of plant and equipment | (906,231) | (140,174) |
| Proceeds on disposals of plant and equipment | 9,390 | 30 |
| Net cash used in investing activities | <u>(2,896,841)</u> | <u>(707,458)</u> |
| Net increase in cash and cash equivalents | 1,262,037 | 47,768 |
| Cash and cash equivalents as of beginning of year | <u>424,985</u> | <u>377,217</u> |
| Cash and cash equivalents as of end of year | <u><u>1,687,022</u></u> | <u><u>424,985</u></u> |
| CASH AND CASH EQUIVALENTS: | | |
| Cash on hand and at banks | <u><u>1,687,022</u></u> | <u><u>424,985</u></u> |

The accompanying notes are integral part of these financial statements.

The Securities Commission of The Bahamas

Notes to the Financial Statements 31 December 2018

1. General Information

The Securities Commission of The Bahamas (the Commission) was established in 1995 and operates as a body corporate, under the Securities Industry Act, 2011 (the Act), of the Commonwealth of The Bahamas (The Bahamas). The Act establishes the structure, governance and funding of the Commission; accordingly, the Commission is not deemed to have a parent. The offices of the Commission are located at Poinciana House, East Bay Street, Nassau, Bahamas.

The functions of the Commission are to monitor and regulate the securities industry in The Bahamas, the participants of which include: entities and individuals dealing in securities, arranging deals in securities, managing securities and advising on securities; investment funds; and investment fund administrators. The Commission regulates the industry in accordance with the Act; the Investments Funds Act, 2003; and the related rules and regulations.

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

2. Summary of Significant Accounting Policies

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

(a) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), under the historical cost convention and on a going concern basis. The preparation of financial statements in accordance with IFRS requires management to exercise its judgment in the process of applying its accounting policies. It also requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

New standards, amendments and interpretations adopted by the Commission

With the exception of IFRS 9 *Financial Instruments* (IFRS 9) and IFRS 15 *Revenue from Contracts with Customers* (IFRS 15), standards and amendments and interpretations to published standards that became effective for the Commission's financial year beginning on 1 January 2018 were not relevant or not significant to the Commission's operations and accordingly did not impact the Commission's accounting policies or financial statements.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2018

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

New standards, amendments and interpretations adopted by the Commission (continued)

Adoption of IFRS 9

The Commission adopted IFRS 9 on 1 January 2018. The adoption of IFRS 9 resulted in changes in the Commission's accounting policies for recognition, classification and measurement of financial assets and impairment of financial assets. IFRS 9 also significantly amended other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures' (IFRS 7).

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39), bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

As permitted by the transitional provisions of IFRS 9, the Commission elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities in the opening surplus as of the date of initial application of the standard. Consequently, the disclosure requirements from the amendments to IFRS 7 have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Commission's financial statements. The specific IFRS 9 accounting policies applied in the current period are disclosed in Note 2(d) and the previous IAS 39 accounting policies applied in the comparative period are described in Notes 2(e) and 2(f).

Classification and measurement of financial assets and liabilities

Under IFRS 9, financial assets are subsequently measured at fair value through profit or loss (FVTPL), amortised cost (AC) or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: (i) the Commission's business model for managing the assets; and (ii) whether the instruments' contractual cash flows represent 'solely payments of principal and interest'.

The assessment of the Commission's business models for each group of financial assets was made as of the date of initial application on 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2018

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

New standards, amendments and interpretations adopted by the Commission (continued)

Adoption of IFRS 9 (continued)

Classification and measurement of financial assets and liabilities (continued)

Financial assets previously classified as loans and receivables (LR) under IAS 39 were reclassified to the AC measurement category under IFRS 9. Debt instruments previously classified as at fair value through profit and loss are now classified as debt instruments at FVOCI under IFRS 9. The Commission expects not only to hold the debt instruments to collect contractual cash flows, but also to sell to meet liquidity needs. The Commission's debt instruments comprise Bahamas Government Registered Stock (BGRS) that passed the SPPI test. This change in measurement category did not result in a change in the carrying amount.

The following table reconciles the measurement categories and the carrying amounts of financial assets as previously measured and classified in accordance with IAS 39 and the new carrying amounts and measurement categories upon adoption of IFRS 9 on 1 January 2018:

| (Expressed in Bahamian Dollars) | IAS 39 | | IFRS 9 | |
|---------------------------------|----------------------|-----------------|----------------------|-----------------|
| | Measurement category | Carrying Amount | Measurement category | Carrying Amount |
| Financial assets | | \$ | | \$ |
| Cash on hand and at banks | LR | 424,985 | AC | 424,985 |
| Accounts receivable | LR | 76,466 | AC | 128,081 |
| Other assets | LR | 1,002,151 | AC | 1,002,151 |
| Investments in debt securities | FVTPL | 3,057,865 | FVOCI | 3,057,865 |

There were no changes to the classification and measurement of financial liabilities.

Reconciliation of Provisions for Impairment (IAS 39) and credit loss allowance (IFRS 9)

The adoption of IFRS 9 has fundamentally changed the Commission's accounting for impairment losses for financial assets by replacing IAS 39 incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Commission to recognize an allowance for ECLs for all debt instruments not held at FVTPL.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2018

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

New standards, amendments and interpretations adopted by the Commission (continued)

Adoption of IFRS 9 (continued)

Reconciliation of Provisions for Impairment (IAS 39) and credit loss allowance (IFRS 9) (continued)

The ECL model includes the use of forward-looking information and classification of financial assets in three stages as summarized below and further explained in Notes 6 and 14:

- Stage 1 – 12-month ECL: represents the expected credit loss arising from default events possible within 12 months from the reporting date. This is applicable to financial assets that originated or were purchased without credit recovery issues;
- Stage 2 – Lifetime ECL: considers all possible default events over the expected life of a financial instrument. This is applicable to financial assets that originated or were purchased without credit recovery issues and whose credit risk has increased significantly since initial recognition; and
- Stage 3 – Lifetime ECL for credit-impaired assets: considers all possible default events over the expected life of a financial instrument. The measurement of assets classified in this stage is different from Stage 2 due to the recognition of interest income by applying the effective interest rate at amortized cost (net of provision) rather than at the gross carrying amount.

A financial asset will migrate from a stage as its relative credit risk since initial recognition subsequently increases or decreases. Therefore, a financial asset that migrated to stages 2 and 3 may return to stage 1, unless it was originated or purchased with credit recovery issues.

Management determined that a significant increase in credit risk would result from, amongst others, a financial asset's credit rating migrating from investment grade to non-investment grade, and deterioration of credit ratings applicable to non-investment grade financial assets.

Upon adoption of IFRS 9, the Commission reversed previously recorded impairment losses on accounts receivable in the amount of \$51,615 which was recorded against opening retained earnings as of 1 January 2018.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2018

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

New standards, amendments and interpretations adopted by the Commission (continued)

Adoption of IFRS 15

IFRS 15 supersedes IAS 11 *Construction Contracts* (IAS 11), IAS 18 *Revenue* (IAS 18) and related interpretations, and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

The Commission adopted IFRS 15 on 1 January 2018. There was no material change in revenue recognition on transition from IAS 18 to IFRS 15.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2018 and not early adopted by the Commission

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

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2018

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2018 and not early adopted by the Commission (continued)

IFRS 16 Leases

IFRS 16 *Leases* (IFRS 16) sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 *Leases* (IAS 17) and, instead, introduces a single lessee accounting model. Leases will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

The Commission has not yet assessed the full impact of adopting IFRS 16, which is effective for annual periods beginning on or after 1 January 2019.

(b) Foreign currency translation

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

(c) Cash and cash equivalents

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

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2018

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(d) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Classification

From 1 January 2018, the Commission classifies its financial assets, at initial recognition in the following measurement categories: at amortised cost and at FVOCI. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Commission's business model for managing them.

In order for a financial asset to be classified and measured at amortised cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Commission's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Financial assets at amortised cost

The Commission measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2018

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(d) Financial instruments (continued)

i) Financial assets (continued)

Classification (continued)

Financial assets at FVOCI

The Commission measures financial assets at FVOCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling the financial asset and;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Commission reclassifies financial assets when and only when its business model for managing those assets changes.

Recognition and Derecognition

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular-way trades) are recognised on the trade date, which is the date that the Commission commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Commission has transferred substantially all risks and rewards of ownership. If the Commission has neither transferred nor retained substantially all the risks and rewards of ownership, an assessment is made whether the Commission has retained control of the financial assets.

Gains or losses arising from sales of financial assets are recognised in the statement of comprehensive income as a part of net income in the financial period in which they arise.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2018

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(d) Financial instruments (continued)

i) Financial assets (continued)

Measurement

At initial recognition, the Commission measures a financial asset at its fair value plus, in the case of financial assets not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets at amortised cost are subsequently measured using the effective interest rate method and are subject to impairment. Gains and losses are recognised in net income in the statement of comprehensive income when the asset is derecognised, modified or impaired.

The Commission's financial assets at amortised cost includes 'cash on hand and at banks', 'accounts receivable' and other receivables included in 'prepaid expenses and other assets' in the statement of financial position.

For financial assets at FVOCI, interest income and impairment losses or reversals are recognised in net income in the statement of comprehensive income. The remaining fair value changes are recognised in other comprehensive income (OCI). Upon derecognition, the cumulative fair value change previously recognised in OCI is recycled to net income. Interest income from these financial assets is calculated using the effective interest rate method.

The Commission's financial assets at FVOCI includes 'investments in debt securities' in the statement of financial position.

Impairment of financial assets

The Commission recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Commission expects to receive, discounted at an approximation of the original effective interest rate.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2018

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(d) Financial instruments (continued)

i) Financial assets (continued)

Impairment of financial assets (continued)

ECLs are recognised in a three stage model. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For accounts receivable, the Commission applies a simplified approach in calculating ECLs. Therefore, the Commission does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Commission has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of the ECL is recognised in the statement of comprehensive income. If in a subsequent period the amount of the ECL decreases, the previously recognised ECL is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

The Commission writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. The write offs represent a derecognition event. The uncollectible financial asset is written off against the related allowance account. Recoveries of accounts previously written off are recognised directly in the statement of comprehensive income.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2018

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(d) Financial instruments (continued)

ii) Financial liabilities

Financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. The Commission's financial liabilities comprise accounts payable and other liabilities.

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

(e) Financial assets – Pre-IFRS 9 accounting policies

Classification

The Commission classified its financial assets into the following categories: loans and receivables (accounts receivables and other assets) and financial assets at fair value through profit or loss. Management determined the classification of its financial assets at initial recognition.

Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not traded in an active market, other than those that the Commission intended to sell in the short term or that it had designated as at fair value through profit or loss.

A financial asset was classified into the financial assets at fair value through profit or loss category at inception if acquired principally for the purpose of selling in the short term, if it formed part of a portfolio of financial assets in which there was evidence of short-term profit-taking, or if so designated by management. Financial assets designated as at fair value through profit or loss at inception were those that were managed and whose performance was evaluated on a fair value basis, and were intended to be held for an indefinite period of time but might be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Information about these financial assets was provided internally on a fair value basis to the Commission's key management personnel. All of the Commission's investments in debt securities classified as at fair value through profit or loss had been so designated by management.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2018

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(e) Financial assets – Pre-IFRS 9 accounting policies (continued)

Recognition and Derecognition

Regular-way purchases and sales of financial assets were recognised on the trade date, the date on which the Commission commits to purchase or sell the asset. Financial assets were derecognised when the rights to receive cash flows from financial assets have expired or have been transferred and the Commission has transferred substantially all risks and rewards of ownership.

Measurement

At initial recognition, the Commission measured a financial asset at its fair value plus, in case of financial assets not at fair value through profit or loss, transaction costs that were directly attributable to the acquisition of the financial asset. Transaction costs of financial asset carried at fair value through profit or loss were expensed in profit or loss.

Loans and receivables were subsequently carried at amortised cost using the effective interest method, less any provision for impairment.

Financial assets at fair value through profit or loss were subsequently carried at fair value based on quoted prices for financial assets traded in active markets or valuation techniques, including recent arm's length transactions, discounted cash flow analyses and other valuation techniques commonly used by market participants for financial assets not traded in active markets.

Gains and losses arising from sales or changes in fair value of financial assets were recognised in the statement of comprehensive income in the financial period in which they arise.

(f) Impairment of financial assets – Pre-IFRS 9 accounting policies

The Commission assessed at each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2018

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(f) Impairment of financial assets – Pre-IFRS 9 accounting policies (continued)

If there was objective evidence that an impairment loss on loans and receivables had been incurred, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. By comparison, the amount of loss on financial assets at fair value through profit or loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of interest for a similar financial asset.

The carrying amount of the asset was reduced through the use of an allowance account and the amount of the loss was recognised in the statement of comprehensive income. If in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss was reversed by adjusting the allowance account. The amount of the reversal was recognised in the statement of comprehensive income. When a financial asset was uncollectible, it was written off against the related allowance account. Recoveries of accounts previously written off were recognised directly in the statement of comprehensive income.

(g) Plant and equipment

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

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

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets as follows:

| | |
|------------------------|--------------------------------------|
| Computer equipment | 3 years |
| Furniture and fittings | 3 – 5 years |
| Vehicles | 3 – 5 years |
| Leasehold improvements | Lesser of lease term and 3 – 5 years |

Assets' useful lives are reviewed, and adjusted if appropriate, at each date of the statement of financial position or when an event has occurred that indicates a need to re-evaluate useful lives.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2018

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(g) Plant and equipment (continued)

Assets subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

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

(h) Income and expense recognition

Fee income of the Commission is comprised of application fees, registration fees, annual renewal fees, filing fees and other administrative fees charged to its licensees. Revenue is recognized upon the completion of the document evaluation process of each of the activities described above. There are no post-performance obligations after the completion of the document evaluation processes to which each fee relate. All licence fees are for fixed amounts.

Appropriations by Parliament (termed Government subvention) received to subsidise operating expenses and specific projects of the Commission, are deferred and recognised as income in the financial period in which any conditions attached to them has been satisfied and by reference to the financial period in which the Commission recognises as expenses the related costs that the Government subvention is intended to compensate. These amounts are presented gross in the statement of comprehensive income.

Government subvention, received to subsidise capital acquisitions, is recorded as deferred income and recognised as income over the useful lives of the applicable assets.

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

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2018

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(i) Income and expense recognition – Pre-IFRS 15 accounting policies

Revenue was measured at the fair value of the consideration received or receivable and was recognised when amounts could be reliably measured and it was probable that future economic benefits would flow to the Commission.

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

Appropriations by Parliament (termed Government subvention) received to subsidise operating expenses and specific projects of the Commission, were deferred and recognised as income in the financial period in which any conditions attached to them had been satisfied and by reference to the financial period in which the Commission recognises as expenses the related costs that the Government subvention was intended to compensate. These amounts were presented gross in the statement of comprehensive income.

Government subvention, received to subsidise capital acquisitions, was recorded as deferred income and recognised as income over the useful lives of the applicable assets.

Interest income was recognised using the effective interest method. All other income and expenses were recognised on the accrual basis of accounting.

(j) Employee benefits

The Commission has a defined contribution pension plan for all eligible employees, whereby the Commission makes contributions to a privately administered pension plan. The Commission has no legal or constructive obligations to pay further contributions if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior years. The Commission's contributions to the defined contribution pension plan are recognised in the statement of comprehensive income in the financial period to which they relate.

Salaries, wages and other employee benefits are recognised on the accrual basis of accounting.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2018

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(k) Leases

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

(l) Taxation

The Commission is established under the laws of The Bahamas and therefore is not subject to income, capital gains or other corporate taxes. The Commission's operations do not subject it to taxation in any other jurisdiction.

(m) Corresponding figures

Where necessary, corresponding figures are adjusted to confirm with changes in presentation in the current year.

3. Critical Accounting Estimates and Assumptions

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and at FVOCI is an area that requires the use of a model and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of licensees defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring the expected credit losses are further detailed in Note 14, which also sets out the key sensitivities of the expected credit losses to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring the expected credit losses, such as:

- Determining the criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of expected credit losses;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product and the associated expected credit losses;
- Establishing groups of similar financial assets for the purposes of measuring the expected credit losses.

Detailed information about the judgements and estimates made by the Commission in the above areas is set out in Notes 6 and 14.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2018

(Continued)

4. Investments in Debt Securities

The Commission ranks its investments in debt securities based on the hierarchy of valuation techniques required by IFRS, which is determined based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Commission's market assumptions. These two types of inputs lead to the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Commission considers relevant and observable market prices in its valuations where possible.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset.

The determination of what constitutes 'observable' requires significant judgment by the Commission. The Commission considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The fair value of financial instruments traded in active markets is based on quoted market prices as of the reporting date. A market is regarded as active if quoted prices are readily and regularly available from the exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in Level 1.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2018

(Continued)

4. Investments in Debt Securities (Continued)

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently.

Investments in debt securities are as follows:

| | 2018 | 2017 |
|---|-------------------------|-------------------------|
| | \$ | \$ |
| <i>Level 2</i> | | |
| Debt securities | <u>4,068,413</u> | <u>3,057,865</u> |
| Total investments in debt securities | <u>4,068,413</u> | <u>3,057,865</u> |

Bahamas Government Registered Stock

| | 2018 | | 2017 | | |
|---|---------------|---------------|-------------------------|---------------|-------------------------|
| Maturity Date | Interest Rate | Nominal Value | Fair Value \$ | Nominal Value | Fair Value \$ |
| 25 July 2025 | 4.4% | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 |
| 15 October 2038 | 5.0% | 1,000,000 | 1,000,000 | - | - |
| Accrued interest | | | <u>68,413</u> | | <u>57,865</u> |
| Total investments in debt securities | | | <u>4,068,413</u> | | <u>3,057,865</u> |

5. Prepaid Expenses and Other Assets

During the year ended 31 December 2017, the Commission advanced an amount of \$1,002,151 to purchase Bahamas Government Registered Stock which was unsuccessful and this amount was due from the broker and refunded to the Commission subsequent to 31 December 2017. This balance was included in prepaid expenses and other assets in the statement of financial position as of 31 December 2017. No such balance was outstanding as of 31 December 2018.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2018

(Continued)

6. Accounts Receivable

| | 2018 \$ | 2017 \$ |
|---|-----------------------|----------------------|
| Investment funds and investment fund administrators | 230,743 | 130,164 |
| Financial and corporate service providers | 291,223 | 142,973 |
| Securities industry licensees and registrants | 86,962 | 24,280 |
| Other | <u>222,413</u> | <u>135,978</u> |
| | 831,341 | 433,395 |
| Provision for expected credit loss | <u>(550,315)</u> | <u>(356,929)</u> |
| Total | <u>281,026</u> | <u>76,466</u> |

Movements in the provision for expected credit loss comprise:

| | 2018 \$ | 2017 \$ |
|---|-----------------------|-----------------------|
| As of 31 December – calculated under IAS 39 | 356,929 | 247,316 |
| Transition adjustment—amount restated through surplus | <u>(51,615)</u> | - |
| As of 1 January – calculated under IFRS 9 | 305,314 | 247,316 |
| Provision for expected credit loss | 250,201 | 129,803 |
| Bad debts written off | <u>(5,200)</u> | <u>(20,190)</u> |
| Closing balance | <u>550,315</u> | <u>356,929</u> |

The Securities Commission of The Bahamas

Notes to the Financial Statements 31 December 2018 (Continued)

6. Accounts Receivable (Continued)

The expected credit loss allowance as of 31 December 2018 and 1 January 2018 (on adoption of IFRS 9) was determined as follows for accounts receivable:

| At 31 December 2018 | 0 to 90 days | 91 to 180 days | 181 to 270 days | 271 to 360 days | Over 360 days | Total |
|--------------------------------|-----------------|-------------------|--------------------|--------------------|------------------|---------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Gross carrying amount | 317,035 | - | - | - | 514,306 | 831,341 |
| Expected credit loss allowance | 93,786 | - | - | - | 456,529 | 550,315 |
| At 1 January 2018 | 0 to 90 days | 91 to 180 days | 181 to 270 days | 271 to 360 days | Over 360 days | Total |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Gross carrying amount | 76,466 | - | - | - | 356,929 | 433,395 |
| Expected credit loss allowance | - | - | - | - | 305,314 | 305,314 |

7. Investment in SPV

In September 2016, the Commission agreed to hold 100% of the shares of Poinciana SPV Ltd. (a special purpose vehicle (SPV) incorporated in The Bahamas) on behalf of the Government of The Bahamas (the Government). The Commission's holding of the shares of Poinciana SPV Ltd. is expected to be temporary.

The Commission evaluated if it controls or exerts significant influence over Poinciana SPV Ltd. based on the guidance in IFRS 10 - *Consolidated financial statements* and IAS 28 - *Investments in associates and joint ventures* respectively and concluded that it does not have controlling power or significant influence over Poinciana SPV Ltd. (See Note 13 for further information).

Movements in the investment in the SPV is as follows:

| | 2018 | 2017 |
|---|--------------------|------------------|
| | \$ | \$ |
| Balance at the beginning of the year | - | - |
| Investment during the year | 1,000,000 | 567,314 |
| Utilisation of subvention and extinguishment of liability to the Government to finance the investment | <u>(1,000,000)</u> | <u>(567,314)</u> |
| | <u>-</u> | <u>-</u> |

The Securities Commission of The Bahamas

Notes to the Financial Statements 31 December 2018 (Continued)

7. Investment in SPV (Continued)

Poinciana SPV Ltd. owns real estate located on East Bay Street, Nassau, Bahamas which is comprised of land and two Class A office buildings known as the Poinciana House North and South (formerly, UBS Corporate Center).

The following table summarises the unaudited financial information of Poinciana SPV Ltd. as at and for the year ended 31 December:

| Summary Statement of Financial Position | 2018 | 2017 |
|--|---------------------------|---------------------------|
| | \$ | \$ |
| Current assets | 3,160,092 | 1,481,392 |
| Investment Property | 20,426,662 | 17,809,410 |
| Total assets | <u>23,586,754</u> | <u>19,290,802</u> |
| Current liabilities | 1,084,222 | 1,313,157 |
| Borrowings | 16,362,500 | 14,000,000 |
| Total liabilities | <u>17,446,722</u> | <u>15,313,157</u> |
| Share capital | 2 | 2 |
| Contributed capital | 9,568,603 | 5,568,603 |
| Accumulated deficit | (3,428,572) | (1,590,960) |
| Total equity | <u>6,140,032</u> | <u>3,977,645</u> |
| Total liabilities and equity | <u>23,586,754</u> | <u>19,290,802</u> |
| | | |
| Summary Statement of Comprehensive Loss | 2018 | 2017 |
| | \$ | \$ |
| Total income | 751,116 | 701,098 |
| Total expenses | (2,588,728) | (2,134,336) |
| Net comprehensive loss | <u>(1,837,612)</u> | <u>(1,433,238)</u> |

The Securities Commission of The Bahamas

Notes to the Financial Statements 31 December 2018 (Continued)

8. Plant and Equipment

| | Computer Equipment \$ | Furniture and Fittings \$ | Vehicles \$ | Leasehold Improvements \$ | Art Work \$ | Total \$ |
|--|-----------------------------|---------------------------------|----------------------|---------------------------------|----------------------|-------------------------|
| For the year ended 31 December 2018 | | | | | | |
| Cost | | | | | | |
| 1 January 2018 | 1,707,693 | 567,626 | 34,708 | 53,830 | - | 2,363,857 |
| Additions | 153,741 | 735,340 | - | - | 17,150 | 906,231 |
| Disposals | <u>-</u> | <u>(572,998)</u> | <u>(34,708)</u> | <u>(53,830)</u> | <u>-</u> | <u>(661,536)</u> |
| 31 December 2018 | <u>1,861,434</u> | <u>729,968</u> | <u>-</u> | <u>-</u> | <u>17,150</u> | <u>2,608,552</u> |
| Accumulated depreciation | | | | | | |
| 1 January 2018 | 1,373,712 | 553,596 | 34,708 | 53,830 | - | 2,015,846 |
| Depreciation expense | 241,669 | 21,789 | - | - | - | 263,458 |
| Disposals | <u>-</u> | <u>(566,668)</u> | <u>(34,708)</u> | <u>(53,830)</u> | <u>-</u> | <u>(655,206)</u> |
| 31 December 2018 | <u>1,615,381</u> | <u>8,717</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,624,098</u> |
| Net book value as of 31 December 2018 | <u>246,053</u> | <u>721,251</u> | <u>-</u> | <u>-</u> | <u>17,150</u> | <u>984,454</u> |
| For the year ended 31 December 2017 | | | | | | |
| Cost | | | | | | |
| 1 January 2017 | 1,577,919 | 564,438 | 34,708 | 53,830 | - | 2,230,895 |
| Additions | 135,189 | 4,985 | - | - | - | 140,174 |
| Disposals | <u>(5,415)</u> | <u>(1,797)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(7,212)</u> |
| 31 December 2017 | <u>1,707,693</u> | <u>567,626</u> | <u>34,708</u> | <u>53,830</u> | <u>-</u> | <u>2,363,857</u> |
| Accumulated depreciation | | | | | | |
| 1 January 2017 | 1,069,122 | 548,035 | 27,768 | 53,830 | - | 1,698,755 |
| Depreciation expense | 309,551 | 6,683 | 6,940 | - | - | 323,174 |
| Disposals | <u>(4,961)</u> | <u>(1,122)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(6,083)</u> |
| 31 December 2017 | <u>1,373,712</u> | <u>553,596</u> | <u>34,708</u> | <u>53,830</u> | <u>-</u> | <u>2,015,846</u> |
| Net book value as of 31 December 2017 | <u>333,981</u> | <u>14,030</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>348,011</u> |

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2018

(Continued)

9. Deferred Income

| | 2018 | 2017 |
|--|-----------------------|-------------------------|
| | \$ | \$ |
| Government subvention | 728,196 | 2,845,935 |
| Securities industry licensee and registrant fees | 14,000 | 63,536 |
| Financial and corporate service provider fees | 7,632 | 22,720 |
| Investment fund and investment fund administrator fees | - | 72,576 |
| | <u>749,828</u> | <u>3,004,767</u> |
| Total | <u>749,828</u> | <u>3,004,767</u> |

All deferred income is eligible to be recognised in the following year in the statement of comprehensive income.

Movements in Government subvention comprise:

| | 2018 | 2017 |
|---|-----------------------|-------------------------|
| | \$ | \$ |
| Opening balance | 2,845,935 | 2,288,232 |
| Government subvention received | 2,000,000 | 2,000,000 |
| Government subvention utilised – reserve fund | (3,000,000) | - |
| Government subvention utilised – operating expenses | - | (822,614) |
| Government subvention utilised – investment in SPV | (1,000,000) | (500,000) |
| Government subvention utilised – specific projects | (117,739) | (119,683) |
| | <u>728,196</u> | <u>2,845,935</u> |
| Closing balance | <u>728,196</u> | <u>2,845,935</u> |

10. Reserve Fund and Special Purpose Reserve

Upon obtaining approval from the Ministry of Finance, the Commission established a reserve fund of \$3,000,000 on 30 April 2018 in accordance with Section 20(2) of the Act. Section 21(1) of the Act enables the Commission to determine the management of the fund. This reserve fund will be used for the Commission's development with the approval of its members.

Section 22(3) of the Act requires that administrative fines levied by the Commission be used for the sole purpose of promoting public understanding of the financial system. Accordingly, the Commission established a special purpose reserve for this purpose. The special purpose reserve as of the year end, net of provision for doubtful accounts is shown below:

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2018

(Continued)

10. Reserve Fund and Special Purpose Reserve (Continued)

| | 2018 | 2017 |
|--|-----------------------|-----------------|
| | \$ | \$ |
| Balance of the special purpose reserve, gross | 175,000 | 55,000 |
| Provision for expected credit losses | <u>(55,000)</u> | <u>(55,000)</u> |
| Balance of the special purpose reserve, net | <u>120,000</u> | <u>-</u> |

11. Employee Benefits

Pension costs recognised in the statement of comprehensive income in the current year totaled \$283,824 (2017: \$315,174). The Commission's contributions to the pension plan vest 50% with employees upon completion of 5 years of employment, incrementally vesting annually, with full vesting upon completion of 10 years of service.

During the year, the Commission received reimbursements totalling \$61,182 (2017: \$33,687) representing the unvested portion of pension contributions relating to former employees of the Commission. The unvested contributions were credited to salaries, wages and employee benefits in the statement of comprehensive income.

As of 31 December 2018, the Commission employed 80 (2017: 79) persons.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2018

(Continued)

12. Related Party Balances and Transactions

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

| | 2018 | 2017 |
|---|-------------|-------------|
| | \$ | \$ |
| <i>Assets</i> | | |
| Cash at banks | 1,686,272 | 424,235 |
| Accounts receivable | 84,180 | 42,835 |
| Prepaid expenses and other assets | 1,770 | 1,770 |
| Financial assets at fair value through profit or loss | 4,068,413 | 3,057,865 |
| <i>Liabilities</i> | | |
| Accounts payable and accrued expenses | 80,430 | 71,160 |
| Accounts payable and accrued expenses: Due to SPV | 618,230 | 5,367 |
| Other liabilities: Due to the Compliance Commission | 759,603 | 733,632 |
| <i>Income</i> | | |
| Interest income | 182,191 | 165,152 |
| Other income | 120,400 | 78,000 |
| <i>Expenses</i> | | |
| Utilities and property charges | 106,473 | 90,274 |
| <i>Other</i> | | |
| Investment in SPV | 1,000,000 | 567,314 |

Compensation of key management personnel for the year ended 31 December 2018 comprised \$ 579,156 (2017: \$550,717) for salaries and other short-term benefits and \$ 24,569 (2017: \$24,104) for pension benefits.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2018

(Continued)

13. Commitments and Contingencies

Lease commitments

The Commission was previously party to operating lease agreements, with options to renew for further periods, relating to office space. The Commission entered into a lease agreement with a new landlord, a related party and future minimum payments required under the operating leases is as follows:

| | 2018 | 2017 |
|------------------|-------------|-------------|
| | \$ | \$ |
| Within one year | 671,650 | 175,867 |
| Within 1-5 years | 2,800,781 | - |

Other commitments

During 2015, the Commission acted as executing agent on behalf of the Government in relation to a purchase agreement for land and buildings. Initial funding was provided by the Government. During 2016, the Ministry of Finance (the Ministry) decided to acquire that land and buildings through Poinciana SPV Ltd., the special purpose vehicle referred to in Note 7. The Ministry subsequently decided that the Commission would hold the shares of Poinciana SPV Ltd. The Commission expects that the holding of shares of Poinciana SPV Ltd. will be temporary.

Contingencies

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

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2018

(Continued)

14. Financial Risk Management

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

(a) Credit risk

Credit risk arises from the potential failure of a counterparty to perform according to the terms of the contract. The Commission's exposure to credit risk is concentrated in its cash at banks, accounts receivable, other receivables included in prepaid expenses and other assets and investments in debt securities. The Commission mitigates the risk associated with cash at banks by placing its deposits with domestic financial institutions in good standing with the Central Bank of The Bahamas, including a related party. The risk associated with accounts receivable is mitigated by the monitoring of payment history before continuing to extend credit to licensees. Transactions in securities are conducted with brokers in good standing with the Commission. The investment in debt securities consists of debt securities issued by the Government, which currently maintains an investment grade credit rating with a well-known rating agency.

Impairment

The Commission has assessed the expected credit loss for cash at banks, investments in debt securities and other receivables included in prepaid expenses and other assets. Investment in debt securities and cash are considered to be investment grade credit rating with a well-known ratings agency and in stage 1 of the expected credit loss model. The identified impairment losses, based on the credit quality of the counterparties were determined to be immaterial and are not recorded in these financial statements.

Accounts Receivable

The Commission applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all accounts receivable.

To measure the expected credit losses, accounts receivable have been grouped based on shared credit risk characteristics and the days past due. The Commission has therefore, concluded that the expected loss rates for accounts receivable are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of licensing fees over a period of 36 months before 31 December 2018 or 24 months before 1 January 2018 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on

The Securities Commission of The Bahamas

Notes to the Financial Statements 31 December 2018 (Continued)

14. Financial Risk Management (continued)

(a) Credit risk (continued)

Impairment (Continued)

Accounts Receivable (continued)

macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the Gross Domestic Product (GDP) of The Bahamas to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in this factor.

See Note 6 for the aged analysis of accounts receivable.

(b) Liquidity risk

The objective of liquidity management is to ensure the availability of sufficient funds to honour all of the Commission's financial commitments as they become due.

As of 31 December 2018, all of the Commission's accounts payable and accrued expenses and other liabilities are due within one year.

(c) Interest rate risk

Interest rate risk is the risk that the future cash flows or fair values of financial instruments will fluctuate because of changes in market interest rates. The Commission's exposure to cash flow interest rate risk is concentrated in cash at banks, which is not considered significant as amounts earned on these balances are minimal.

The Commission is exposed to fair value interest rate risk on its Bahamas Government Registered Stock (BGRS) investments, which are at fixed interest rates.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2018

(Continued)

15. Fair Value of Financial Instruments

Financial instruments utilised by the Commission include the recorded financial assets and liabilities disclosed in the financial statements. Their estimated fair values approximate their carrying values due to the relatively short-term nature of the instruments or the instruments being carried at fair value.

The fair value hierarchy of financial instruments is principally Level 2.

16. Capital Management

The capital of the Commission is represented by its net assets. The Commission's objectives when managing capital are to safeguard its ability to continue as a going concern in order to support its regulatory powers and associated operations.

17. Subsequent Event

Subsequent to 31 December 2018, the Commission received subvention of \$1,000,000, to be utilised by the Commission for its general operations and capital expenditure.

**THE SECURITIES COMMISSION
OF THE BAHAMAS**

**Financial Statements
31 December 2018**



2018 ANNUAL REPORT

Poinciana House
North Building, 2nd Floor
31A East Bay Street
P. O. Box N-8347
Nassau, Bahamas

www.scb.gov.bs