SECURITIES COMMISSION OF THE BAHAMAS

2019 ANNUAL REPORT

SECURITIES COMMISSION OF THE BAHAMAS

Our Mission

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

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SECURITIES COMMISSION OF THE BAHAMAS

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

30 June 2020

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 2019. Included in this Report is the Annual Statement of Accounts of the Commission for the year.

Yours sincerely,

Robert V. Lotmore
Chairman

"The Commission had another strong year of advancement in ways that make for a stronger regulator, an internationally recognized, compliant legal framework, better investor protection, and continued innovation leadership."

Chairman's Message

The Securities Commission of The Bahamas (the Commission) continued on its trajectory of growth and development in 2019, further establishing itself as a regional leader in financial regulation. The hallmarks of this advancement included the commencement or conclusion of strategic initiatives designed to position the Commission to be responsive to innovation, support and improve investor and market confidence, and better leverage technology to improve data-driven supervision.

Positioning for Innovation

Technology based innovation continues to disrupt traditional financial services, affording new access and opportunities to the consumers of financial services, and the operators of financial services and technology firms. Simultaneously, Fintech innovation has brought new and potentially unforeseen risks for consumers and financial markets. The Commission has undertaken several initiatives to position itself to respond to Fintech developments in a manner which encourages innovation, protects investors, particularly the most vulnerable, and supports market integrity.

Perhaps the centre-piece of the Commission's initiatives in this area was the development of the Digital Assets and Registered Exchanges Bill, 2019. The draft legislation underwent a period of public consultation in the first half of the year and was subsequently reworked to reflect the high-quality input received during the consultation process. By the end of the year a new, reworked draft was prepared, and the Commission is looking to the legislation being approved by Parliament in 2020. When passed, it will provide a framework to address the regulation of aspects of digital assets business in The Bahamas, including activities associated with the creation, sale and trading of digital assets, the registration of token exchanges, and the procedures for initial token offerings, among other things.

Importantly, the Commission launched its Fintech innovation hub, "SCB FITLink", in November, to provide a central touchpoint for domestic and international industry stakeholders and financial regulators. SCB FITLink became a member of IOSCO's FinTech Network last year and, as of December, a member of the Global Financial Innovation Network (GFIN). These memberships seat the Commission "at the table", along with global industry and regulatory leaders as they work through the policy implications of the Fintech industry, in turn informing the development of the Commission's regulatory policies.

The Commission also continued to deepen its involvement in the research and policy work of IOSCO, the global standards setter for securities regulation, through greater participation in some of its committee activities. In 2019, the Commission was successful in joining IOSCO's Committee on Regulation of Market Intermediaries (Committee 3), and the Assessment Committee, which aims to encourage full implementation of IOSCO Principles of Securities Regulation and IOSCO Standards. Participation in the work of these committees, and IOSCO overall, allows deeper insight into the direction of trends and developments in global standards, positioning the Commission to be proactive as it advances securities regulation in The Bahamas.

During the review year, the Commission's administrative structure was also reorganised for a more streamlined Board, through the promulgation of the Securities Industry (Amendment) Act, 2019.

Supporting investor and market confidence

Two long awaited Rules were added to the legislative framework in the review year: the Securities Industry (Corporate Governance) Rules, 2019 and the Securities Industry (Take-over) Rules, 2019. The introduction of these Rules has brought about greater investor protection provisions overall by legislating best-practices and standards in corporate governance for public issuers, and adding protections for minority shareholder interests in the case of take-overs.

The introduction of the rules was a part of a greater national effort to improve the conditions for doing business in The Bahamas, and the jurisdiction's ranking on the World Bank's Doing Business Index. The Commission's work in this area contributed to a remarkable 44-place jump in the Protecting Minority Investors category of the Index.

The promulgation of the Investment Funds Act, 2019 (IFA) updated the legislative and regulatory framework for investment funds. The legislation advanced these frameworks from primarily facilitating The Bahamas' historic private banking and wealth management industries, to facilitating modern investment funds operations and institutional investment fund operators. For example, the IFA introduced licensing requirements for investment fund managers and regulatory oversight of custodians, and facilitates the appointment of international investment fund administrators. The legislation provides for a regulatory framework that complies with international best practices and standards and was designed to allow for passporting of Bahamas-based investment funds and investment fund managers under the EU's Alternative Investment Fund Manager's Directive.

As a final note, regarding supporting investor confidence and market integrity, the Board greenlighted the development of a whistle-blower program near the end of 2019. Whistle-blower programs have proven to be an extremely valuable source of market intelligence for financial regulators, particularly when they feature strong mechanisms to protect and, in suitable circumstances, reward whistle-blowers for alerting the regulator to misconduct or other irregularities. We look forward to adding this to the Commission's regulatory toolkit in 2020.

Modernizing operations and transforming to data driven regulation

Fundamental to risk-based supervision is reliable, accessible data. The Commission took notable steps to improve its capacity with regard to modern data collection and analysis in the review year. In August, the Commission successfully launched a cloud-based filings portal, the "SOFY" platform, to facilitate improved data collection for its risk assessments of industry participants. The deployment of this tool better facilitates desk-based reviews and improves the Commission's insight into key risk indicators, such as those for identifying potential money laundering, terrorist financing or financing of proliferation of weapons of mass destruction. Importantly, it is envisioned to do so in a manner which is relatively efficient for registrants and licensees, through the use of an online interface.

Of note, the Commission also commenced the process of sourcing a consultant to assist with the development and implementation a comprehensive cloud-based regulatory and statistical filings portal, to allow registrants and licensees to meet their regulatory and statistical filings online at the end of 2020.

Conclusion

The Commission had another strong year of advancement, notably in ways that make for a stronger regulator, an internationally recognized, compliant legal framework, better investor protection, and continued innovation leadership. On behalf of the Board, I thank the management team and staff, led by Executive Director Rolle, for their continuing steadfastness and commitment to the Commission's mandate. It is my pleasure to present the 2019 Annual Report.

Members of the Commission from left: Tonique Lewis, Gregory Cleare, Deno Moss, Christina Rolle, Executive Director, Robert V. Lotmore, Chairman, Michael Paton, Vice-chairman, Dawn Patton and Bede Sands

Structure and Membership of the Commission

The Securities Commission of The Bahamas (the Commission) is a statutory body, established in 1995, pursuant to the Securities Board Act, 1995. The Act was repealed and replaced by the Securities Industry Act, 1999, and subsequent to that the Securities Industry Act, 2011.

Amendments to the SIA, 2011, made by the Securities Industry (Amendment) Act, 2019, (SI(A)A, 2019) resulted in streamlining, more efficiency and greater independence of the Commission. The Commission's membership now comprises a Chairman, Deputy Chairman, the Executive Director of the Commission (ex officio), and up to five members appointed by the Minister of Finance. The Minister appoints board members based on their experience or demonstrated capacity in matters relating to industry and the disciplines of commerce, law, finance, economics and administration.

The SIA, 2011 provides for the Chairman to hold office for a period of five years, and the Deputy Chairman and other members to hold their offices for a period not to exceed four years. The Act also allowed for all members, including the Chairman, to be eligible for reappointment. SI(A)A, 2019 allows the Commission's Executive Director to hold office for a period of five years and to be eligible for a one-term reappointment on the recommendation of the Commission.

Pursuant to the SI(A)A, 2019, the positions of Governor of the Central Bank and the Superintendent of Insurance are no longer ex officio members of the Commission and the relevant appointments were vacated 30 April 2019. Gregory Cleare resigned from the Commission's Board effective 31 December.

Table 1: Board of the Commission as at 31 December 2019

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 Sands	Member	1 July 2017
Deno Moss	Member	1 July 2017
Tonique Lewis	Member	1 July 2017

Role of the Board

The Board is responsible for governance of the organization. The duties of the Board include overseeing the strategic focus, establishing rules and guidelines applicable to investment funds, securities and the capital market, and all policymaking with regard to the Commission. The Board has the authority to establish committees to assist in the execution of its duties.

During 2019, the Board held 12 regular meetings. There were three Audit Committee meetings, and one Human Resource Committee meeting.

Committees of the Board

Audit Committee (AC)

The Board appointed the Audit Committee (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 AC also assists the Commission in reviewing remuneration and other related policies for employees of the Commission. It met three times during 2019.

The 2019 membership of the AC consisted of Gregory Cleare (Chair), Dawn Patton, Bede Sands, and Christina Rolle. Secretary to the Board Mechelle Martinborough also attended the AC meetings as well as Monique Sands, the Commission's Financial Controller, as a management representative.

Human Resource Committee (HRC)

The Human Resource Committee (HRC) assists the Commission in establishing and reviewing remuneration, benefits and policies for employees of the Commission including salary scales, pensions, bonuses, leave entitlement and any other benefits or incentives. The HRC also 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 once during 2019.

The 2019 membership of the HRC consisted of Michael Paton (Chair), Bede Sands, Deno Moss, Tonique Lewis, and Christina Rolle. Secretary to the Board Mechelle Martinborough also attended the HRC meeting as well as Bernadette Gibson, Human Resources Manager, as a management representative.

Strategic Goals 2019

The Commission developed a three-year strategic plan for the 2018-2020 period, which drives its initiative and activities. The strategic goals under the plan are:

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

"A key element of meeting the challenges of being a regulator today, given the pace, complexity, and ever-changing international and domestic dynamics is the ability to pivot swiftly in order to meet challenges head on."

Executive Director Remarks

The Securities Commission of The Bahamas welcomed 2019 as a year of new beginnings, changes, challenges and growth. Many of our long outstanding projects objectives were achieved and the Commission continued to enhance its regulatory oversight, global engagement as well as development of human capital.

New Location

The Commission began the year in our new office premises located at Poinciana House, 31A East Bay Street. After a year-long relocation project and an even longer anticipation of the move, the new premises were a welcomed change. Prime Minister the Most Hon. Dr. Hubert Alexander Minnis and Minister of Finance the Hon. K. Peter Turnquest attended the official opening ceremonies for Poinciana House on 26 April.

The move to the new space was critical for the Commission, as we had long outgrown our previous premises. The new premises now has sufficient capacity to accommodate our staff comfortably as well as to plan for future growth. The offices, outfitted with updated and state-of-the-art equipment, allow staff to harness technology and increase their effectiveness in executing the Commission's mandate as overseer of the capital markets and securities industry, and Inspector of Financial and Corporate Services. The expanded premises also provides better access for the Commission's registrants and licensees with ample parking facilities and fully outfitted meeting rooms.

Enhancements To Regulatory Oversight

Risk Analytics and Examinations and the KPMG SOFY Platform

In January 2019, the Risk Analytics and Examinations Department released its first annual "Examinations Priorities". These priorities highlighted the top risk areas for registrants and licensees, including, but not limited to: AML/CFT Thematic Reviews of Financial and Corporate Service Providers; Risk Management including Self-Risk Assessment and Client Risk-Rating Framework; Business Conduct and Risk Profile; and Cybersecurity – all areas that potentially pose a systemic risk to the jurisdiction. The Commission took a number of factors into account in determining the priority focus areas, including results of the 2018 risk-rating exercise for registrants and licensees as well as deficiencies identified in The Bahamas' most recent mutual evaluation report by the Caribbean Financial Action Task Force (CFATF).

While the Commission introduced risk based supervision in 2018, we aimed to enhance our data gathering, analysis and overall oversight capacity with the introduction of the KPMG SOFY Risk-Based Supervision Platform. This new analytics tool was rolled out to all registrants and licensees beginning in September. The platform integrates with internal tools that analyse data and highlight risk areas. The Commission's risk-based approach then focuses supervisory attention where there is perceived to be the greatest risk across its regulatory scope.

SCB FITLink

Demonstrating our commitment to the development of cutting-edge financial innovation, ensuring market integrity and mitigating systemic risk, the Commission launched the financial innovation hub SCB FITLink in December. FITLink provides guidance on Fintech issues, as well as opportunities and risks. The hub's dedicated staff also develop and draft policy, rules and guidelines for the Fintech space.

Investment Funds (Amendment) Act, 2019

The Commission's largest and most significant piece of legislation for 2019, the Investment Funds Act, 2019 (IFA, 2019) – which repealed and replaced the Investment Funds Act, 2003 – came into effect in September. The IFA, 2019 overhauled the licensing regime for investment funds and fund administrators; established the regulatory framework for fund managers and custodians; and appropriately assigned administrative and fiduciary responsibilities amongst parties related to an investment fund. The legislation also included developments to establish compliance with the Alternative Investment Fund Managers Directive (AIFMD) regulatory regime, which will be necessary for The Bahamas to qualify for European Union (EU) passporting. Ultimately, AIFMD compliance will allow Bahamian funds and fund managers to market and/or operate within the EU.

Securities Industry (Amendment) Act, 2019

The Securities Industry (Amendment) Act, 2019, gazetted 30 April, addressed issues with respect to the protection of minority investors. It also introduces new terms and clarifications to the administrative structure and powers of the Commission, the nature of assistance to overseas authorities, and the scope of investigations and how appeals of Commission decisions are administered. In addition, the SIA amendments clarified certain activities of registrants and licensees in the securities business and introduced provisions that recognize the Financial Transactions Reporting Act, 2018, ensuring securities laws comply with international standards on anti-money laundering and countering of terrorism financing.

Ease of Doing Business

In addition to amendments made to the SIA for the protection of minority investors, a suite of Rules to improve the country's ease of doing business rating was legislated to support the SIA, 2011. They included:

- Securities Industry (Corporate Governance) Rules, 2019, that specify that public issuers must implement Corporate Governance principles within OECD guidelines. The Rules address principles such as Board composition, appointment process, qualifications, remuneration and training and requires public issuers to implement risk management and internal control protocols.
- Securities Industry (Take-over) Rules, 2019, that apply to public companies falling within the SIA legislative framework and aim to ensure protection of minority shareholders in take-over scenarios.

Implementation of these Rules significantly contributed to the jurisdiction's improvement in the World Bank's Ease of Doing Business 2020 Report for Protection of Minority Investors (PMI). On this specific metric, The Bahamas gained a 44-point improvement and a jump in the metric rankings from 132nd to 88th place.

Response to CFATF/FATF Review

In October 2018, after review by the Financial Action Task Force (FATF) to identify the jurisdiction's strategic AML/CFT deficiencies, The Bahamas made the commitment to work with FATF and CFATF to strengthen the effectiveness of its AML/CFT regime and address any related technical deficiencies. To address the specified gaps, the Commission drafted and promulgated the Securities Industry (Anti-Money Laundering and Countering the Financing of Terrorism) (Amendment) Rules, 2019, and the Financial and Corporate Service Providers (Anti-Money Laundering and Countering the Financing of Terrorism) Rules, 2019. These addressed compliance with the Financial Transactions Reporting Act, 2018 (FTRA); Proceeds of Crime Act, 2018 (POCA); Anti-Terrorism Act, 2018 (ATA) and best practices in Anti-Money Laundering, Countering the Financing of Terrorism and Proliferation Financing.

Additionally, in coordination with the Office of the Attorney General, the Commission put in place internal processes for the dissemination of information and to ensure that our registrants and licensees are compliant with the International Obligations (Economic and Ancillary Measures) (Amendment) Act, 2019 (IOEAMA). Pursuant to section 3A of the IOEAMA, any resolution adopted by

the United Nations Security Council to impose a sanction in respect of a person or foreign state – that resolution, any annex, schedule or amendment has full effect and force of law in The Bahamas.

International Engagement

At the International Organization of Securities Commissions' (IOSCO's) annual general meeting held in Sydney, Australia in May, I was pleased to participate to the official signing ceremony for the Enhanced Multilateral Memorandum of Understanding (EMMoU). The Commission became an early adopter of the EMMoU in November 2018 and this agreement goes beyond IOSCO's prevailing information sharing agreement with provisions aimed to keep pace with technological, societal and market developments.

At the time of the signing, The Bahamas was one of only eight securities regulators approved to fully adopt the EMMoU.

Also of note during the year, was the Commission's acceptance as a member of IOSCO's Committee on Regulation of Market Intermediaries (Committee 3) in October. Committee 3 focuses on regulatory issues affecting international securities markets. The Commission offers a unique perspective to cross-border activity as one of its operational concerns is regulation of market intermediaries whose clients invest in international markets through Bahamas-based registered firms, so in this regard, the Commission is well positioned to speak to global policy on regulatory issues.

Training

In early June, the Commission sponsored and hosted the first regional FATF Standards Training Course (STC) for members of CFATF. The FATF Training and Research Institute conducted the training. As The Bahamas' formal representative to CFATF, the Attorney General and Minister of Legal Affairs the Hon. Carl W. Bethel co-sponsored the event, which was held at our shared training facilities in Poinciana House. The opportunity to host the course not only showcased the new offices' ability to accommodate the 50-plus persons in attendance, but also more importantly, demonstrated the Commission's commitment to ensuring that our staff are properly prepared to address global regulatory concerns and international best practices.

Conclusion

As The Bahamas moves to enhance its reputation as a well regulated international financial centre by meeting international standards in the financial industry, we must retain recognition among our peers as an unparalleled regulatory regime. A key element of meeting the challenges of being a regulator today, given the pace, complexity and ever-changing international and domestic dynamics, is the ability to swiftly pivot in order to meet challenges head on. In order for this to happen successfully, action by market participants and the Commission is required. For 2019, the Commission has succeeded in meeting many of our objectives and challenges. Our organization is structured to continue to do so in 2020 and well beyond.

Departments of the Commission

Office of the Executive Director

The Office of the Executive Director supports the Executive Director in managing the day-to-day operations of the Commission. The office has three units to achieve its objectives. Policy, Research and Compliance has responsibility for collecting, analysing and reporting statistical data; supporting the development of research and policy papers; providing technical support in the development of legislation; maintaining compliance with the internal procedures and policies of the Commission; and maintaining the Fintech innovation hub SCB FITLink. Investor Education and Communications is responsible for managing the Commission's investor education , and overseeing public relations and communication. Project Management and International Relations oversees managing local and international stakeholder relationships, facilitating the strategic planning process, monitoring international standards setters and managing special projects.

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 Securities Industry Act, 2011, Investment Funds Act, 2019, and the Financial and Corporate Service Providers Act, 2000. It is responsible for the onsite monitoring and supervision of market participants under the aforementioned Acts, and the review and registration of prospectuses for public offerings and private placements.

Risk Analytics and Examinations Department

The Risk Analytics and Examinations Department consists of two complementary units, risk analytics and examinations. The 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 onsite examinations of all registrants and licensees. This includes processing and recommending applicants to act as the Commission's agents for the onsite examination of financial and corporate service providers, and reviewing any examinations they conduct on behalf of the Commission.

Office of Legal Counsel

The Office of Legal Counsel provides legal advice to the Commission. OLC spearheads the development and review of laws related to securities, the capital markets, financial and corporate services, and financial sector legislation generally, as well as assisting in the 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.

Enforcement Department

The Enforcement Department (END) primarily implements disciplinary actions pursuant to 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. END also investigates operations or entities (companies and individuals) that are operating in The Bahamas without a license or registration as required by law.

Office of the Financial Controller

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

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.

Administration Department

The Administration Department plans and oversees 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.

Information Technology Department

The Information Technology Department facilitates the information and electronic communications needs of the Commission.

Management Team

As at 31 December 2019

CHRISTINA ROLLE
Executive Director

CHRISTIAN ADDERLEY
Manager
Policy, Research & Compliance

ALYSIA ARCHER-COLEBROOKE
Manager
Administration

JOHN CLARKE
Manager
Information Technology

BERNADETTE GIBSON
Manager
Human Resources

ODECCA GIBSON
Legal Counsel
Office of Legal Counsel

REO HORTON
Deputy Manager
Risk Analytics

MECHELLE MARTINBOROUGH
Deputy Executive Director
Senior Legal Counsel, Office of Legal Counsel

STEWART MILLER
Manager
Investor Education & Communications

SHERINN MUNNINGS
Deputy Manager, Project
Management & International Relations

DANA MUNNINGS GRAY
Manager, Securities and
Financial & Corporate
Service Providers

LESLEY PEARSON
Senior Manager
Risk Analytics & Examinations

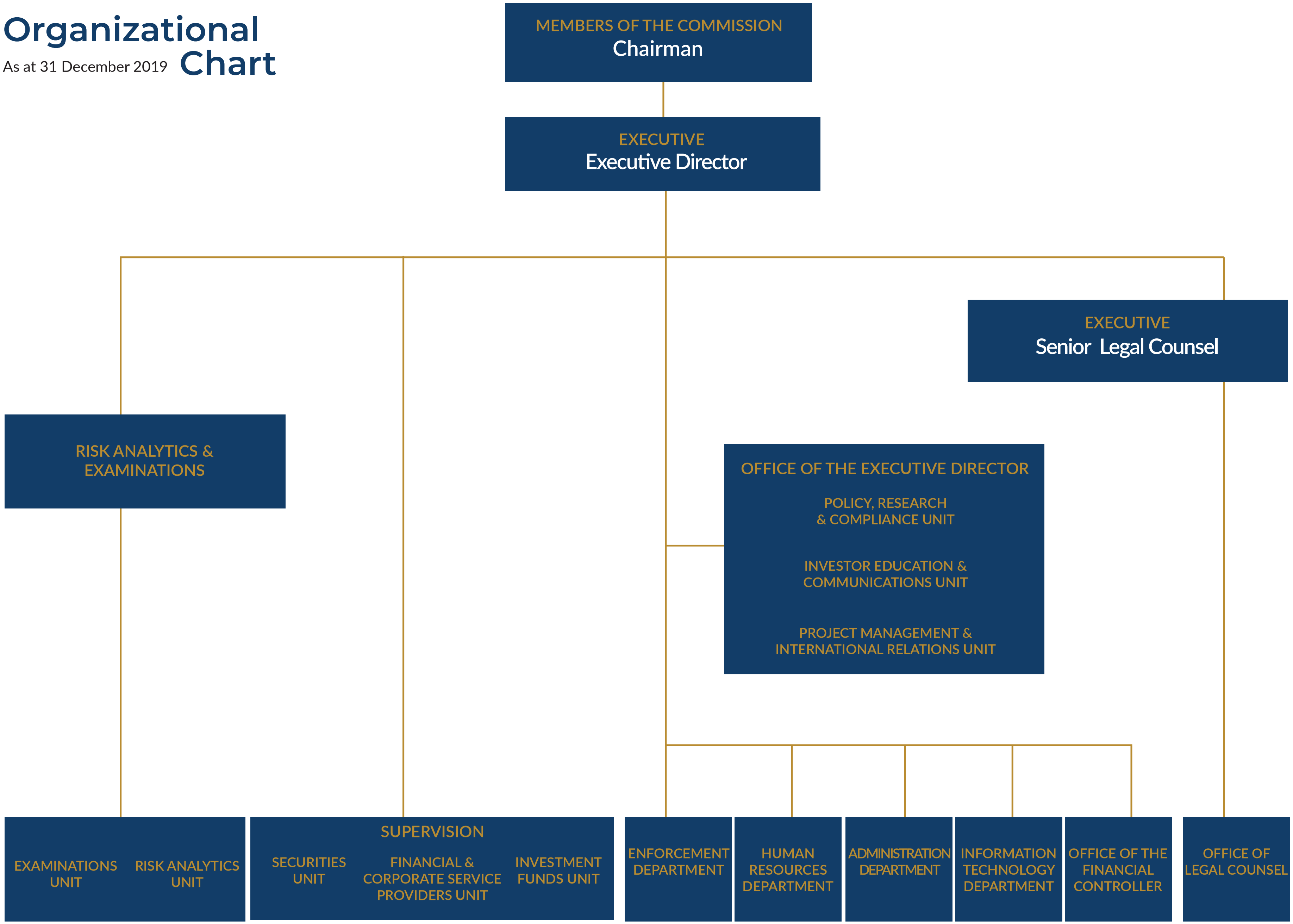
MONIQUE SANDS
Financial Controller
Office of the Financial Controller

MAGAN TAYLOR
Manager
Investment Funds

GAWAINE WARD
Manager
Enforcement

Organizational Chart

As at 31 December 2019



Operations


Courtesy Elbow Reef Lighthouse Society/©Kent LeBoutillier

Policy, Research and Compliance

During 2019, the Commission conducted policy and research work in five priority areas:

- developing a digital asset regulatory framework, Digital Assets and Registered Exchanges (DARE) Bill;
- developing a regulatory framework for the registration and oversight of contracts for differences, Securities Industry (Contracts For Differences) Rules;
- amending existing securities legislation to, among other things, improve The Bahamas' Doing Business ranking, as measured by the World Bank;
- developing Whistle-blower Rules, designed to incentivize individuals who provide information to the Commission that leads to enforcement action; and
- leading the Commission's engagement with international Fintech regulators and global innovation networks.

Digital Assets and Registered Exchanges (DARE) Bill

The Commission conducted research and benchmarking of jurisdictions that had adopted or had indicated their intent to adopt digital asset legislation. The Commission's PRC Unit and Office of Legal Counsel (OLC) worked together to understand risks and concerns with the digital asset market, and aimed to address such concerns with a view of creating an environment to encourage innovation. After engaging PwC to prepare an overall global digital assessment, the Unit prepared the first draft of the Digital Assets and Registered Exchanges (DARE) Bill. The proposed legislation intends to regulate initial token offerings (ITOs) and digital asset service providers and businesses operating in the digital asset market. This includes digital exchanges, and persons operating as a payment service provider utilizing digital assets. The Bill will create an environment that balances creating a suitable regulatory environment for digital assets while supporting market development and adhering to The Bahamas' established Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) provisions. The DARE Bill is anticipated to be passed in 2020.

Contracts for Differences (CFD) Rules

In February, the Commission conducted research, reviewed and benchmarked various jurisdictions where legislation specific to the global Contracts for Differences (CFD) market is enforced. It further studied regulatory concerns regarding the CFD market and regulatory approaches to drafting legal instruments to address them. The CFD Rules, which provide a registration and oversight framework for persons engaged in CFD business, is the result of more than a year of research and public dialogue with both the public and private sector and with international regulatory authorities and securities firms. Among other things, the CFD Rules address client suitability; leverage requirements; risk disclosure, pricing and order execution; and sanctions and penalties for non-compliance.

World Bank Doing Business Project–Protecting Minority Investors Index

The Commission continued work on the Doing Business Protecting Minority Investors' Index (PMI) project.

The PRC Unit worked along with the Office of The Prime Minister's Project Delivery Unit to review areas within the PMI index in an effort to improve the level of protection for minority investors in public companies and subsequently increase The Bahamas' overall ease of doing business ranking. From this collaboration, amendments to certain legislation, such as the Securities Industry (Take-over) Rules, 2019, and the Securities Industry (Corporate Governance) Rules, 2019, were recommended, and subsequently adopted.

Additional amendments are proposed and are anticipated to be adopted in early 2021.

Securities Industry (Whistle-blower) Rules

In November 2019, a policy briefing report presented to the Board recommended the establishment of a program that incentivized individuals, i.e. "whistle-blowers", who provide information to the Commission, ultimately leading to successful enforcement actions and recovery of monetary damages. Key pillars of the Whistle-blower Rules include whistle-blower protection against retaliation; penalties for non-compliance; confidentiality of whistle-blowers providing information; and monetary awards for whistle-blowers, upon meeting specified conditions.

Fintech

In November 2019, the Board approved the launch of SCB FITLink, the Commission's Fintech innovation hub. SCB FITLink, overseen by the PRC Unit is the central point of contact for the Commission's engagement with domestic and international stakeholders and regulatory agencies on all issues related to Fintech, such as initial token offerings, digital asset businesses, crowdfunding, and artificial intelligence.

In tandem with the launch of SCB FITLink, the Commission established an internal Fintech Committee (the Committee), comprising a representative from each department of the Commission. The Committee assists the PRC Unit in the administration of SCB FITLink by discussing issues and concerns, presenting ideas, and sharing possible solutions related to Fintech issues and market development. Committee members are also responsible for apprising members of their respective departments of the Commission's Fintech efforts.

On behalf of the Commission, SCB FITLink gained membership in IOSCO's Fintech Network in November, and the Global Financial Innovation Network (GFIN) in December. SCB FITLink is currently in discussion with the US Commodity Futures Trading Commission to negotiate a MoU to facilitate the exchange of supervisory and enforcement relating to Fintech activities.

Investor Education

Promoting an understanding of the capital markets and its participants and the benefits, risks and liabilities associated with investing is a primary 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 more empowered to make sound investment decisions and avoid many of the hazards of investing.

World Investor Week (WIW)

The Securities Commission of The Bahamas participated in an array of activities to observe World Investor Week (WIW), an initiative of the International Organization of Securities Commissions (IOSCO).

The official WIW period of 30 September to 6 October was the launch pad for investor education initiatives introduced in the month of October, which was declared Investor Education Month in The Bahamas by Prime Minister, Dr Hubert A Minnis.

The Commission's activities focused on raising awareness of the risks associated with investing in cryptocurrencies, reminding investors of red flags associated with investment frauds and scams, whether traditional or perpetrated using Fintech, and raising awareness of the role of the Commission as regulator of the capital markets and the recourse for investors. Promotion of the initiatives was through social media and traditional print media.

Some activities conducted during WIW included:

- **Launch of Fintech Pledge.** The Commission participated with other members of the Caribbean Working Group of the International Forum for Investor Education (IFIE), Americas Chapter. The Commission was involved in the developing the content for the pledge, which took the form of an informative, interactive web page. It was designed to inform the public about crypto assets and the investment risks associated with them, and to secure the commitment of investors to research and ensure they understand crypto assets before investing.

  The joint initiative was launched across the Caribbean by the member regulators of the Caribbean Working Group. The pledge was posted on the Commission's website during World Investor Week and as at 31 December, there were 542 visits to the page and 70 pledges. Persons who taking the pledge agreed to research and understand crypto assets before they invested in them.

- **Dissemination of the Investor "Bill of Rights".** The document presents some of the fundamental rights and reasonable expectations to which an investor is entitled when using securities firms registered with the Commission. The Investor Bill of Rights was posted to the Commission's website and accessible through its Facebook page, and advertisements were placed in major daily newspapers.

- **Development and sharing of Facebook posts to inform the public about avoiding investment frauds and scams.** The Commission focused on reminding investors of red flags to look out for to protect themselves. One of the highlights of this campaign included surveying Facebook users on the likelihood of them investing in a stock based solely on its perceived popularity. Red flags advertisements also ran in local daily newspapers.

Harnessing Social Media

During the year, the Commission advanced its use of social media to engage and educate the retail investing public. On 26 February, the Commission launched the initiative "Timely Tip Tuesday", weekly dissemination of Facebook posts with a financial literacy or investor education message. Additionally, media items such as press releases, public notices and notices are posted to the Facebook page to increase its utility to users. These initiatives and activities have allowed the Commission to better measure the impact and reach of its various communications. Facebook analytics, as well as other metrics, have allowed the Commission to better understanding whom its messages are reaching.

Financial Literacy Fairs

St. John's College Careers Fair

The Commission participated in St. Johns College's Careers Fair on 7 February. Commission staff spoke to students on career opportunities available within the organization, subsequent to the completion of an undergraduate degree. The Commission also used this opportunity to distribute a number of its publications.

Colina Financial Advisors Limited's (CFAL) Junior Investor Education Program

The Commission continued its participation in CFAL's Junior Investor Education Program with presentations at Bahamas Academy, St. Andrew's International School, St. Augustine's College and Jordan Prince Williams Baptist School on 14, 22, 25 March and 14 April respectively. At the company's invitation, the Commission discussed its role and function in the capital markets.

Capacity Building/Training

International Forum for Investor Education

The International Forum for Investor Education Americas Chapter, Caribbean Working Group (IFIE CWG) met in The Bahamas for training, capacity building and networking on 11-12 June. Paul Andrews, Secretary General, IOSCO, participated in the meeting remotely and discussed topical issues with participants.

One of the key objectives of the meeting was to develop initiatives for members to improve delivery of investor education in their respective jurisdictions. Meeting activities included a review of the effectiveness of investor education activities and initiatives that took place in member jurisdictions as well as joint coordinated efforts. There were meetings held that focused on the best approaches to augment the capacity of member jurisdictions while simultaneously enhancing the regional impact of the IFIE CWG.

Highlights of the meetings included an engaging and interactive presentation by a representative of a curriculum developer that focuses on educating children on managing financial resources through social and financial education. IOSCO's Secretary General, Paul Andrews, called in remotely to discuss the work that the CWG had done and the recognition of the CWG across IOSCO groups/subgroups.

The Commission has been a participant in the IFIE CWG 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.

International Relations

Industry Engagement

Financial Action Task Force (FATF) and Base Erosion and Profit Shifting (BEPS) Obligations Information Briefing

The Commission hosted an information briefing for IFA/SIA/FCSPA registrants and licensees and the public on the Financial Action Task Force (FATF) and Base Erosion and Profit Shifting (BEPS) obligations on 21 March. The presentations focused on harmful tax practices and the response to such practices, in addition to the implications for the Commission's registrants and licensees.

An overview of the Commercial Entities (Substance Requirements) Act, 2018, and guidelines was provided. There was a presentation on the rules and guidance notes issued by the Commission that support anti-money laundering (AML) and countering the financing of terrorism (CFT) such as the Securities Industry (AML/CFT) (Amendment) Rules, 2019, the Financial and Corporate Service Providers (AML/CFT) Rules, 2019, sound management of risks related to financial crime in The Bahamas, and proliferation of financing of weapons of mass destruction. This was followed by an overview of AML/CFT typologies.

The briefing was for chief executive officers, compliance officers, money laundering reporting officers, and the client-facing personnel of registrants and licensees of the Commission.

Financial and Corporate Service Providers Industry Briefing

The Commission hosted an industry briefing for financial and corporate service providers in New Providence on 29 April and in Grand Bahama on 30 April.

Both briefings focused on the differences, and transition from, the prevailing financial and corporate service providers governing legislation, to the suite of pending legislation, which will repeal and replace it. On both days, there were discussions on the requirement of financial and corporate service providers to conduct self-risk assessments. The briefing in Grand Bahama also spoke to the FATF and BEPS updates provided during the FATF and BEPS Obligations Information Briefing.

Affiliations and Memberships

International Organization of Securities Commissions (IOSCO)

The International Organization of Securities Commissions (IOSCO) is the global standards 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.

The Commission became an early 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. IOSCO's newest enforcement-related information-sharing agreement, 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."

The Commission is a member of five IOSCO committees:

- **Growth and Emerging Markets Committee (GEMC)** seeks to promote the development and efficiency of emerging securities and futures markets.
- **Inter-American Regional Committee (IARC)** discusses regional issues to contribute a regional perspective to Board debates and policy work.
- **Committee on Enforcement and the Exchange of Information (Committee 4)** aims to help prevent and detect the breaches of securities laws and regulations in global financial markets.
- **Committee on Regulation of Market Intermediaries (Committee 3)** seeks to promote investor protection and market efficiency through its recommendations on issues relating to market intermediaries. Recent work includes publication of suitability requirements for the distribution of complex financial products, final guidance for regulators on how to enhance their supervision of intermediaries holding client assets, and contributions to the Financial Stability Board roadmap on reducing financial intermediaries' reliance on ratings from credit rating agencies.

  During 2019, Committee 3 continued its work on examining conflicts of interest and associated conduct risks during the debt capital raising process. The Commission joined Committee 3 on 24 September.
- **Assessment Committee (AC)**, established by the Executive Committee in February 2012, is an initiative of IOSCO's Strategic Direction Review, to organize and structure a program to assess implementation of IOSCO Principles and Standards across the IOSCO membership. It also provided guidance on how the assessment program may be structured.

  IOSCO's effectiveness in achieving this goal will be reflected in implementation by members of IOSCO's Objectives and Principles of Securities Regulation (which it will ensure remain contemporary); and other standards and policies set out in IOSCO reports or resolutions approved by IOSCO (IOSCO Standards). On 10 December, the Commission became a member of the AC.

Caribbean Group of Securities Regulators (CGSR)

The Caribbean Group of Securities Regulators (CGSR), formed in 2002, aims to facilitate information sharing and collaboration between Caribbean securities regulators to enhance regional securities supervision. In 2019, the Commission concluded a second two-year term as CSGR chair.

Council of Securities Regulators of America (COSRA)

The Council of Securities Regulators of America (COSRA), established in 1992 as a forum for securities regulators in North, South and Central America, and the Caribbean, focuses on investor protection, the maintenance of market integrity, regulatory cooperation and information-sharing. This regional group usually meets in conjunction with ISOCO's IARC due to their shared membership.

Group of Financial Services Regulators (GFSR)

The Group of Financial Service Regulators (GFSR) comprises domestic financial services regulators, 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. The group serves as a medium for information sharing between members and international financial services regulators and members use the forum to discuss unique and shared regulatory challenges.

On the 26 June, the Commission was a presenter at the GFSR AML/CFT seminar "The Evolving Landscape of AML/CFT in The Bahamas."

Table 2: Meetings/Conferences Attended

International Organization of Securities Commissions (IOSCO)

Meeting/Conference	Themes/Topics
44th Annual Meeting of IOSCO Sydney, Australia 13-17 May 2019	• Climate change risks • The role of securities regulators in sustainable finance • Rapidly evolving Fintech innovation and agile regulation • The future of financial services and benchmarks
GEMC Sydney, Australia 13 May 2019	• Sustainable Financing in Emerging Markets • Fintech in Emerging Markets • Capacity building and initiatives to provide greater support to emerging market members
GEMC St. Petersburg, Russia 18-22 Sept 2019	"Capital Markets in a Cross-Border Digital Environment" • What is the impact of market fragmentation to cross-border activity? • What are the current challenges and opportunities for building sustainable capital markets? • Are regulators prepared to face the rapidly evolving Fintech innovation? • Investor education in a digital era – how can we make a difference?
C4 and Screening Group Meeting Buenos Aires, Argentina 12-14 March 2019	Information not available to the public.
C4 and Screening Group Meeting Montreal, Quebec, Canada 17-21 June 2019	Information not available to the public.
C4 and Screening Group Meeting London, England 29 Sept-4 Oct 2019	Information not available to the public.
C3 (Committee on regulation of Market Intermediaries) Meeting Mumbai, India 1-5 Dec 2019	Information not available to the public.

Group of Financial Services Regulators (GFSR)

Meeting/Conference	Themes/Topics
GFSR Nassau, The Bahamas 21 January, 9 May, 11 July, 10 October	• Financial regulatory challenges impacting the jurisdiction.
GFSR AML/CFT Seminar Nassau, The Bahamas 26 June 2019	"The Evolving Landscape of AML/CFT in The Bahamas"

Inter-American Regional Committee (IARC)/ Council of Securities Regulators of the Americas (COSRA)

Meeting/Conference	Themes/Topics
Inter-American Regional Committee Meeting Sydney, Australia 13 May 2019	• Sustainable Finance • Crypto Assets
Inter-American Regional Committee/Council of Securities Regulators of America Meetings Buenos Aires, Argentina 5-6 Nov 2019	• Stable coins • Activities of C4 and the Screening Group • Liquidity Risk Management in Collective Investment Funds • IOSCO's work on Financial Benchmarks • Fintech

Caribbean Group of Securities Regulators (CGSR)

Meeting/Conference	Themes/Topics
CGSR 15th Annual Conference & Workshop Nassau, The Bahamas 12-14 June 2019	"Strengthening Securities Market Resilience in the Caribbean" • Regional cohesion to further shared interests. Regional regulation of lagging securities markets and strengthening the Caribbean's resilience to exposure from the rapid development of Fintech. • Threats to financial stability regarding direct and indirect costs associated with the introduction of Fintech, cybersecurity, and climate change.

Caribbean Financial Action Task Force (CFATF)

Meeting/Conference	Themes/Topics
CFATF Plenary & Working Group Meeting Port of Spain, Trinidad 26 May-1 Jun 2019	Mutual Evaluations (discussion of the mutual evaluation report of the Republic of Haiti), and Follow-up Process and International Cooperation Review Group (ICRG) matters; CFATF Counter Financing of terrorism (CFT) Operational Plan.
CFATF Plenary & Working Group Meeting St. Johns, Antigua and Barbuda 23-30 Nov 2019	Mutual Evaluations (discussion of mutual evaluation reports of Bermuda and the Turks and Caicos Islands); CFATF Counter Financing of Terrorism (CFT) Operational Plan.

Human Resources

As at 31 December, the Commission employed 85 persons consisting of 80 full-time employees and 5 temporary/contract employees.

Table 3: Number of employees by department as at 31 December 2019

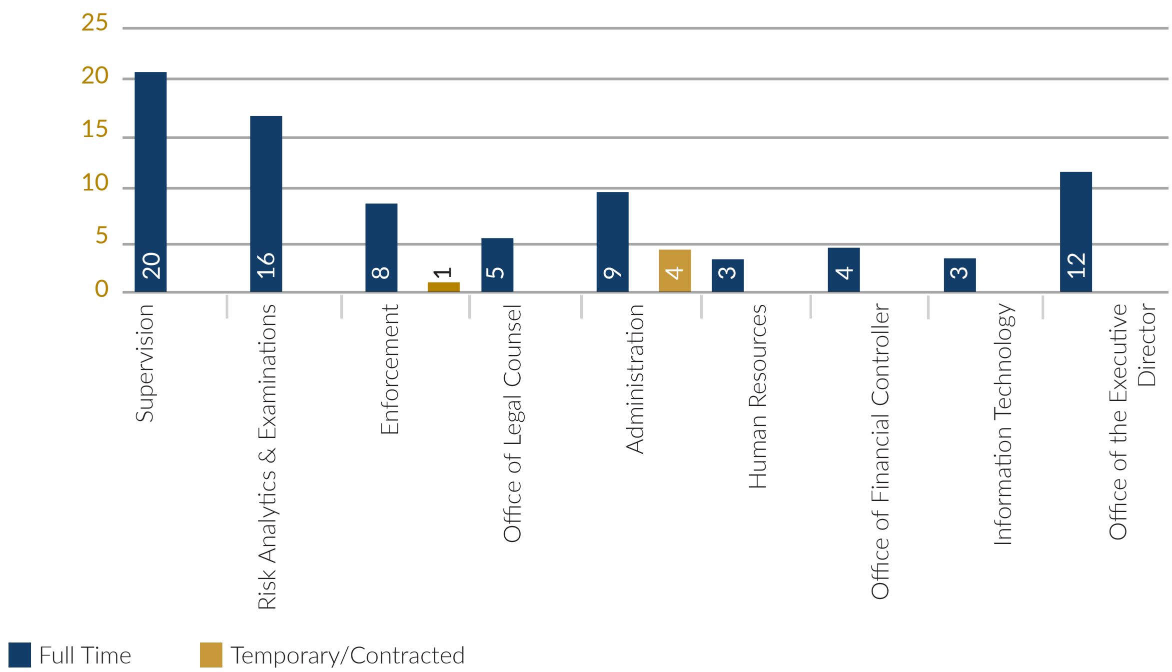
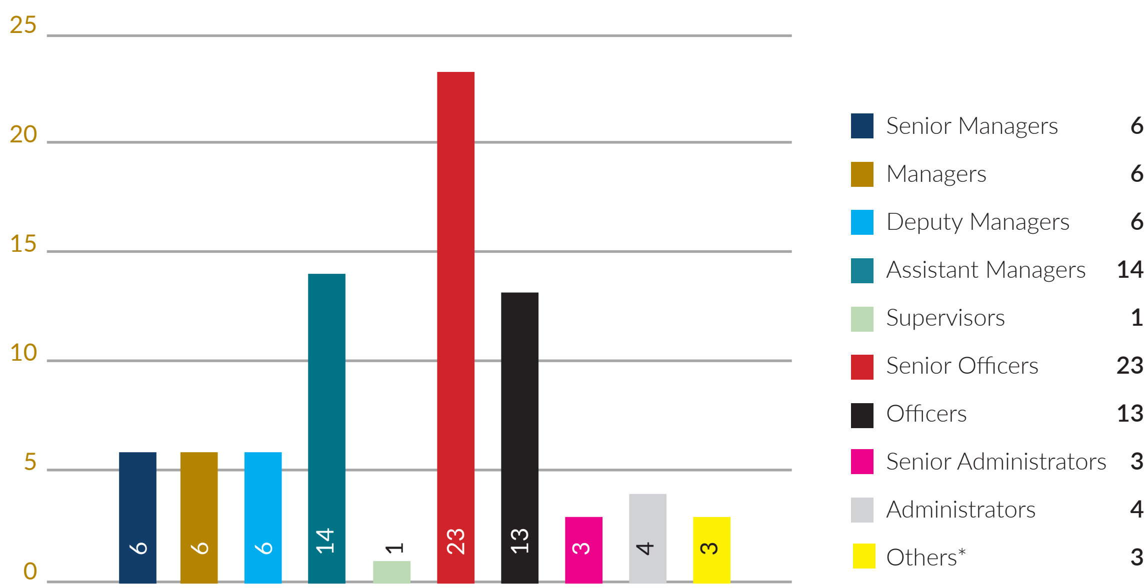
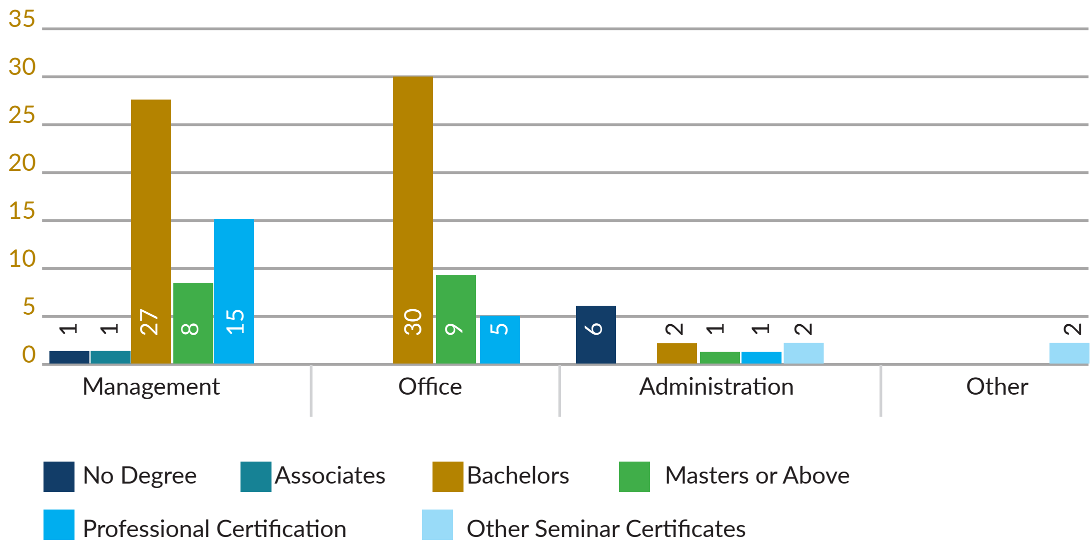


Table 4: Number of employees by position as at 31 December 2019



* Other represents 1 Receptionist, 1 Janitress and 1 Messenger

Table 5: Qualifications of employees across positions as at 31 December 2019



Relocation to Poinciana House

The 14 December marked the completion of the first year that the Commission had occupied its new premises, Poinciana House. The Commission hosted the official opening ceremony on 26 April.

Employee Handbook

The Board approved the Commission's Employee Handbook on 15 January. Amendments to the employee handbook were to bring policies in line with labour laws and the current goals and strategies of the Commission.

Meetings, Education and Training

During 2019, the Commission held 6 staff meetings, 4 regular meetings and 2 special meetings.

The Commission continued its incentive-based support of staff development in order to strengthen its capacity to execute its functions and ongoing priorities. See **Table 6.**

Health and Wellness Initiatives

The Commission seeks to create a proactive environment for the health and wellness of staff. In its effort to increase benefit offerings, improve employee health, and manage health plan costs, the Commission continues to facilitate its insurance provider's health program, with staff incentives and accommodation of initiatives on offer. Participants have the opportunity to increase their awareness of health and wellness, through a number of initiatives that provide the tools to make informed lifestyle choices. Included is an annual voluntary biometric screening with an assessment on participants' metrics such as, blood pressure, cholesterol, glucose, and body fat percentage. The aggregated statistics give the Commission an indication of the overall health of the staff.

On 11 December, the Commission organized health professionals to administer influenza vaccines onsite.

Community Outreach

On 23 August, the Commission conducted its annual blood drive on behalf of the Princess Margaret Hospital Blood Bank. The drive yielded 14 pints of blood.

Table 6: International, domestic and virtual training and capacity building events attended by staff in 2019.

Event	Staff Attended
2019 Securities Industry Institute, Philadelphia, PA	3
OICU-IOSCO TA Program for Developing Inspection Manuals, Bridgetown, Barbados	2
29 Annual Int'l Institute for Securities Market Growth and Development, Washington, DC	4
ACAMS 24th Annual International AML & Financial Crime Conference, Hollywood, FL	2
IOSCO Annual Meeting, Sydney, Australia	2

Event	Staff Attended
OICU-IOSCO TA Program for Developing Inspections Manuals Phase 3, San Jose, Costa Rica	1
CFATF XLIX Plenary & Working Group Meeting, Port of Spain, Trinidad	2
IOSCO/PIFS Harvard Law School Global Certificate Program, Madrid, Spain	5
ICAC's 37th Caribbean Conference of Accountants, Kingston, Jamaica	1
SHRM Annual Conference, Las Vegas, Nevada	2
CFATF Assessor Training, Bridgetown, Barbados	1
Getting Things Done Training Workshop, Washington, DC	4
CFATF Training Course, Grand Cayman, Cayman Islands	1
IOSCO GEMC 2019, St. Petersburg, Russia	3
Intelligence Support Systems for Electronic Surveillance, Social Media Dark Web Monitoring and Cyber Crime Investigations, Washington, DC	4
Seminar on AML CFT Supervision for Securities Sector, Luxembourg	1
AICPA Governmental NFP Training, Las Vegas, NV	1
Fintech Network Event, Singapore	1
Global Certificate Program, Cambridge, MA	5

Information Technology

The Commission remains strongly focused on information security, protection of data, and ensuring it is positioned to respond to new market challenges. In 2019, the Commission implemented world-leading software that provides autonomous responses to malware and attempted data theft. The automation features of the new cybersecurity software bring efficiency and provide quick responses to detected threats.

The major technological introduction during the year was the risk-based supervision platform, including the SOFY platform. Once fully implemented, it will make data exchange more efficient between registrants and licensees, and the Commission. No changes to infrastructure were required to accommodate the SOFY platform.

The Commission also introduced upgraded software to assist supervisory departments in developing real-time profiles for applicants. Improved workstations with more compact machines with greater processing power and dual monitor configuration for comparative analysis and, and the installation of a modern telephony system for increased functionality and business collaboration, as well as new audiovisual equipment allowing for more impactful audiovisual presentations were other technological updates.

Business Continuity Plan

Subsequent to its relocation to Poinciana House, the Commission re-visited plans to adapt its business continuity plan. The revised plan will be more robust, as the Commission – in light of the super storm Hurricane Dorian in early September 2019, which devastated two Bahamian islands – considers the increasing severity of hurricanes and other natural disasters that may affect its work.

Development of Cloud-Based Regulatory and Statistical Filings Solutions

In December, the Commission issued a request for proposals for the development and implementation of an intuitive, flexible, cloud-based platform for the online submission of regulatory and statistical filings by registered users. The expected benefits are to reduce the Commission's reliance on paper filings, increase efficiency, improve the quality and accessibility of data and reduce costs. The Commission intends to move forward with this project in 2020.

Supervision and Examinations

Courtesy Elbow Reef Lighthouse Society/©Heather Forde-Prosa

Risk Analytics and Examinations

Risk Based Supervision (RBS) Update

In 2019, the Commission launched the SOFY platform. In preparation for the transition, the Commission reviewed data collected from its constituents in order to improve submission compliance and quality of analysis, with the aim of maximizing its supervisory capacity. The analysis of historical and current data collection processes highlighted the gaps and weaknesses that needed to be resolved. Enhancements to the legal framework and heightened global reporting standards also increased the areas where the Commission needed to strengthen its data collection and analysis.

To address these concerns, the Commission conducted a pilot survey of registrants and licensees to gather relevant data on their activities based on products, policies and procedures, jurisdictions of operation, and client profiles. This provided the Commission current and reliable data for all of its constituents. The analysis of this data provided the critical information the Commission needed to risk-rate licensees' and registrants' based on business processes, corporate governance, business model, risk appetite and regulatory compliance.

SOFY Platform

In August, the Commission implemented a cloud-based filings portal, the "SOFY" platform, which automated the process of gathering data from registrants and licensees to inform risk assessments, and bridged new and historical information that will eventually interface with the internal risk-based supervision framework (RBSF) platform.

The data collected informs the following indicators: AML/CFT/PF risk; business processes risk; customers, products and markets risk; and prudential risk. The pilot questions for the SOFY platform, which will be updated, focused on areas of the market analysis that identify controls and inherent risks highlighted in registrants and licensees activities, organizational structure, clients, performance and size, capital requirements, and complaints.

SOFY's Impact on RBSF Platform

Upon analysis of internal supervisory procedures, the Commission identified a number of risks and gaps that the RBSF addressed, or which would require the enforcement of new regulations, in order to facilitate the successful and effective implementation of the RBSF.

A critical risk identified within the current supervision process is the inability to perform effectively, desk-based thematic reviews of regulated entities. Desk-based reviews allow enhanced analysis of market and licensee-specific trends in order to better identify anomalies. As a result, the RBSF will assist the Commission in identifying entities that pose a significant risk to the market.

IT Environment

The RBSF platform will be developed to be scalable and to provide a single point of contact for registrants and licensess to supply data as required and to meet their ongoing filing requirements.

2019 Examinations Priorities

Along with a preliminary risk-rating exercise conducted for all licensees and registrants in 2018, the Commission's focus for the year 2019 with regard to onsite examinations was in the following areas:

- **AML/CFT Thematic Reviews of Financial and Corporate Service Providers.** Examiners conducted focused reviews of all FCSPs for compliance with applicable anti-money laundering requirements, sufficiency of KYC documentation and the effective management of IBCs including the maintenance of accounting records.
- **Risk Management including Self-Risk Assessment and Client Risk-Rating Framework.** The unit assessed the effective implementation of self-risk assessment and client risk-rating frameworks for SIA/IFA/FCSPA licensees, now required by the Financial Transactions Reporting Act, 2018.
- **Business Conduct and Risk Profile.** Examinations under this focus included a review of large entities that potentially pose a systemic risk to the jurisdiction (i.e. employs a large number of staff; manages a large number of client assets) and have operations across multiple industries (i.e. securities, banking, insurance). Additionally, examiners performed an assessment of other identified risk areas, inclusive of new product lines introduced by its registrants, capital adequacy levels, and corporate governance.
- **Cybersecurity.** All examination programs included a review of cybersecurity with emphasis on disaster recovery, data management and accessibility, data protection and retention, as well as proper configuration of network storage devices.

These areas of priority are not exhaustive and are not the sole areas of risk that the Commission sought to address in its examinations. The nature and scope of any onsite examination is determined by a risk-based approach that considers a licensee's operations, products offered, financial position, and other risk factors.

Securities Industry Act, 2011

Firms

In 2019 the Commission approved 14 new firms; 2 firms upgraded their license to conduct registrable securities business and 7 firms surrendered their license in 2019. As at 31 December 2019, there were 164 registered securities firms in the industry.

Table 7: Securities Industry Registered Firms, Approvals and Surrenders

Category	Registered Firms at year end	Newly Approved	Surrenders	Registered Firms at year end
	2018	2019	2019	2019
Dealing as principal or agent	2	1	0	3
Dealing as agent only	8	1	0	9
Arranging deals in securities only	0	0	0	0
Managing securities only	18	1	2	17
Advising on securities only	9	0	0	9
Dealing as agent only and Arranging deals in securities	9	2	0	11
Dealing as agent only and Advising on securities	1	0	0	1
Arranging deals in securities and Managing securities	1	0	0	1
Arranging deals in securities and Advising on securities	1	0	0	1
Managing securities and Advising on securities	48	2	2	48
Dealing as principal or agent and Advising on securities	1	0	0	1
Dealing as principal or agent, Arranging deals in securities	5	4	0	9
Dealing as principal or agent, Managing securities and Advising on securities	4	0	0	4
Dealing as principal or agent, Arranging deals in securities and Advising on Securities	1	0	0	1
Arranging deals in securities, Managing securities and Advising on securities	2	0	0	2
Dealing as principal or agent, Arranging deals in securities, Managing securities and Advising on securities	14	3	1	16
Dealing as agent only, Arranging deals in securities, Managing securities and Advising on securities	31	0	2	29
Clearing facilities	1	0	0	1
Marketplaces	1	0	0	1
Total	**157**	**14**	**7**	**164**

Individuals

In 2019, 138 individuals were approved under the Securities Industry Act (SIA), while 153 individuals surrendered their license. As at 31 December 2019, there were 1,095 registered individuals under the SIA.

Table 8: Securities Industry Registered Individuals, Approvals and Surrenders

Category	Registered Individuals at year end	Newly Approved	Surrenders	Registered Individuals at year end
	2018	2019	2019	2019
CEO	163	22	22	163
Compliance officer	230	29	95	164
Representative – Trading	228	31	8	251
Representative – Discretionary management	114	7	2	119
Representative – Advising	157	13	6	164
CEO and Representative – Trading	9	2	1	10
CEO and Representative – Discretionary management	44	3	2	45
CEO and Representative – Advising	11	0	0	11
Representative – Trading and Discretionary management	14	1	0	15
Representative – Trading and Advising	29	10	5	34
Representative – Discretionary management and Advising	52	8	8	52
CEO, Representative – Trading and Advising	1	0	0	1
CEO, Representative – Discretionary management and Advising	25	6	1	30
Representative – Trading, Discretionary management and Advising	24	5	3	26
CEO, Representative – Trading, Discretionary management and Advising	9	1	0	10
Total	**1,110**	**138**	**153**	**1,095**

SIA Onsite Examinations

Examination of SIA Firms as at 31 December 2019

A total of 8 examinations under SIA legislation were conducted; 3 were routine standalone examinations and 5 were for cause. Of the 5 for cause examinations 1 was performed jointly with the Central Bank of The Bahamas.

Investment Funds Act, 2003 and 2019

The promulgation of the Investment Funds Act, 2019 (IFA, 2019), and amendments effected during the year resulted in a number of changes to the supervisory framework for investment funds. The IFA, 2019, and its amendments redefined the triggers for the licensing of an investment fund carrying on business in or from within The Bahamas. These include:

- formation of an investment fund;
- establishment of a unit trust;
- operation of any fund licensed under the Act;
- invitation to a person in The Bahamas who is not an accredited investor to subscribe for equity interests in an investment fund (regardless of where the fund is incorporated, registered or established);
- and engaging in investment fund business as a fund manager, administrator or advisor or Alternative Investment Fund Manager (AIFM).

With the widening of the requirement for licensing, foreign funds within the regime's scope, will be licensed and regulated by the Commission, before expiration of the transition period. The Commission will no longer regulate non-Bahamas-based funds or recognized foreign funds, as the former is now only required to notify the Commission of the establishment of the applicable arrangement to have the fund managed or administered in The Bahamas.

The IFA, 2019, also expanded the administration of licensed investment funds in The Bahamas to allow for an investment fund administrator established and operating in accordance with the laws of a prescribed jurisdiction to act on behalf of a licensed investment fund.

Lastly, the IFA, 2019 introduced legislative and regulatory framework for AIFMs, a company which markets an investment fund or an EU AIF in the EU, or manages an EU AIF whether or not its markets in EU and is licensed under the IFA, 2019.

Investment Fund Administrators

During 2019, 1 investment fund administrator was licensed by the Commission. As at 31 December 2019, there were 57 licensed fund administrators.

On 1 September 2019, the Investment Funds Act, 2019 (IFA) came into force providing for the administration of a Bahamas-based fund by a foreign administrator (licensed or established in a prescribed jurisdiction). Of note, the category of exempt administrator is no longer applicable. At the end of the transition period, all administrators acting on behalf of a Bahamas based fund will be required to meet the statutory requirements.

Table 9: Investment Fund Administrators and Approvals

Category	Investment Fund Administrators at year end	Newly Approved	Investment Fund Administrators at year end
	2018	2019	2019
Unrestricted	34	1	34
Restricted	24	0	18
Exempt	5	0	5
Total	**63**	**1**	**57**

Investment Funds

In 2019, 93 investment funds were approved and licensed; of those, the Commission licensed 14, and 79 were licensed by unrestricted investment fund administrators (UIFAs) and filed with the Commission. During the 2019 period, 131 funds satisfactorily liquidated or surrendered their license resulting in 742 licensed or registered investment funds at year end.

Pursuant to Section 5 of the IFA, 2019, an investment fund shall not carry on or attempt to carry on business in or from The Bahamas unless licensed under the remaining categories of a professional, standard or SMART fund. With the implementation of the IFA, 2019, the investment fund regime no longer prescribes obligations for the Recognized Foreign Fund category and changes the obligations for a non-Bahamas based fund.

The SMART Fund models 002, 004 and 007 continue to display activity despite a net decrease in funds over the year.

Table 10: Investment Funds and Approvals

Category	Investment Funds at year end	Newly Approved	Investment Funds at year end
	2018	2019	2019
Standard Funds	39	2	33
Professional Funds	230	26	215
Recognized Foreign Funds	33	1	32
Smart Funds 001	5	0	5
Smart Funds 002	148	22	142
Smart Funds 003	9	0	9
Smart Funds 004	177	15	149
Smart Funds 005	4[R]	1	5
Smart Funds 006	1	0	1
Smart Funds 007	135	26	151
Total	**781[R]**	**93**	**742**

R- Revised

Investment Fund Administrators Onsite Examinations

In 2019, 1 routine examination of an unrestricted investment fund administrator was conducted.

Financial and Corporate Service Providers Act, (FCSPA) 2000

During 2019, 16 Financial and Corporate Service Providers were licensed, while 20 surrendered their licenses. As at 31 December 2019, there were 349 licensed Financial and Corporate Service Providers.

Table 11: Financial and Corporate Service Providers Licensees, Approvals and Surrenders, 2019

Category	FCSPs at year end	Newly Approved	Surrenders	FCSPs at year end
	2018	2019	2019	2019
Companies	209	10	11	208
Partnerships	30	0	0	30
Individuals	107	6	7	106
Unincorporated Bodies	7	0	2	5
Total	**353**	**16**	**20**	**349**

Financial and Corporate Service Providers Onsite Examinations

For Financial and Corporate Service Providers, routine examinations are conducted by both the Examinations Unit and authorized agents appointed by the Commission in its capacity as the Inspector of Financial and Corporate Services. To be approved as an authorised agent, licensure by The Bahamas Institute of Chartered Accounts and successful completion of training administered by the Commission are required.

During the year, review on IBCs looking at AML/CFT compliance, specifically beneficial ownership, share structure and management of accounting records. A total of 95 examinations were conducted during 2019, 94 routine and 1 for cause.

Capital Markets Overview

Global

Global equities rose through to the end of the year in 2019 as a by-product of the announcement of a limited truce in the United States and China trade war. In the US, technology stocks were the frontrunners with a 14 percent gain on the year, and close behind was the health-care sector. The tech-laden Nasdaq had a 12 percent gain while the S&P 500 surged up by 31 percent on the year, the largest increase since 2013.

As stocks ascended, fixed-income securities descended slightly, as investor demand shifted to riskier investment vehicles. In December, the Federal Open Market Committee held the target range of the federal funds rate steady at 1.5 percent to 1.75 percent.

Following their American counterparts, European stocks also had a boost due to the trade war truce. The MSCI Europe Index had an end of year gain of nearly 24 percent. However, the Eurozone economy's annual GDP as forecasted, dropped to the lowest levels since 2013. The European Central Bank also maintained a negative interest rate policy throughout the year.

In the Far East, Japan's economy expanded despite the trade friction between the US and China. Japanese stocks also advanced with the MSCI Japan Index gaining by 8 percent through year-end.

Months of political protests adversely affected the economic climate of Hong Kong as the economy fell into recession.

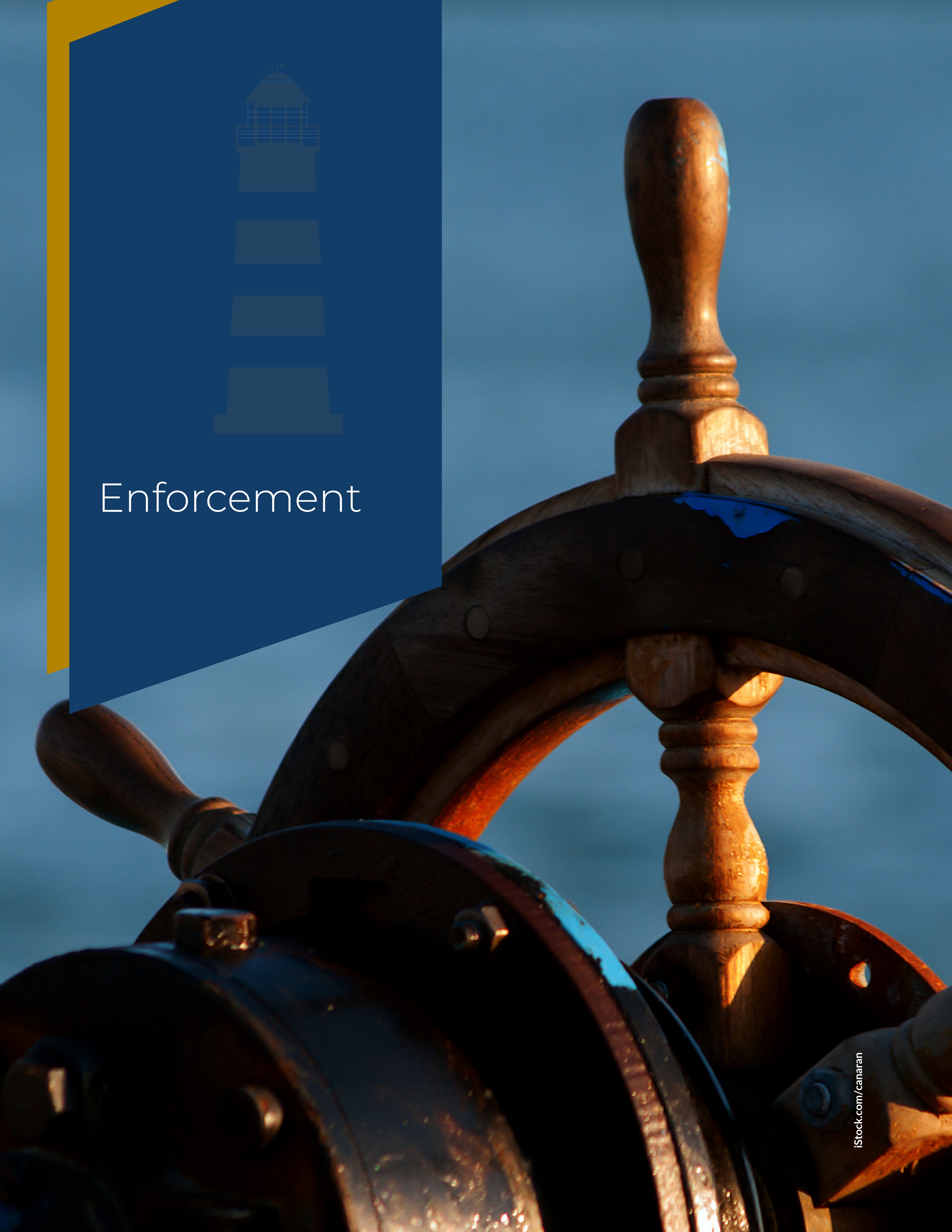
China's growth rate slowed during the third quarter of 2019; however, economic activity began tracking upwards near the end of the year, with stronger factory output and increased retail sales. Chinese stocks also rebounded as the year ended.

On 31 December 2019, China alerted the World Health Organization (WHO) to several cases of an unusual pneumonia in Wuhan. This was the advent of an unknown virus at the time, which would usher in a global health pandemic and birth an economic tragedy that no nation would escape in 2020.

Local

The Bahamas International Securities Exchange (BISX) has continued to serve as a critical element in the Bahamian capital markets. As at 31 December 2019, there were 38 primary market listings (2018: 51) which included 19 ordinary shares with a market capitalization of $4.77 billion (2018: $4.48 billion), 7 preference shares with a market capitalization of $244 million and 12 bonds with a face value of $507 million. The volume of shares traded on BISX in 2019 was 8.853 million (valued at $42.746 million) up from 2018 when the volume of shares traded was 8.519 million (valued at $41.832 million). Additionally, as at 31 December 2019 the BISX All-Share Index closed at 2,231.60 compared to 2,109.45 in 2018, which represented a 5.79 percent increase year-on-year.

Enforcement



iStock.com/canaran

Enforcement

There were 14 enforcement matters brought forward from 2018. During 2019, 6 new matters were opened and 8 matters were closed. As at 31 December 2019, 12 enforcement matters remained open, of which 8 involved litigation, 3 were administrative and 1 was a supervisory liquidation. Administrative matters primarily concern non-compliance with filing obligations and client files/records under the Securities Industry Act and Regulations.

Table 12: Enforcement Matters

Type of Matter	Matters brought forward from previous years into 2019	New matters opened in 2019	Matters closed in 2019	Matters referred to another agency in 2019	Matters that remained open by year-end 2019
Litigation	5	3	0	0	8
Administrative	8	3	8	0	3
Criminal	0	0	0	0	0
Other	1	0	0	0	1
Total	**14**	**6**	**8**	**0**	**12**

During 2019, three litigation matters were opened. These matters concerned Swiss America Securities Ltd., Alpha Pacifico, and Pacifico Global Advisors Ltd. The first matter was a judicial review application while the latter two matters were a court-supervised receivership and a court-supervised liquidation, respectively. These matters all remained ongoing before the courts at year end.

The liquidation of Seton Securities International Ltd. (Seton), a registrant of the Commission, continued throughout 2019. In September 2018, Seton was convicted and fined in Alberta, Canada for unregistered securities activity. Hence, the Commission revoked Seton'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.

Table 13: Enforcement Notices Issued in 2019

Notice	Issue Date	Description
Swiss America Securities Ltd.	19 September 2019	Public Notice issued advising that five days suspension was placed on Swiss America Securities Ltd. During the suspension period, neither Swiss America Securities Ltd. nor any of its related party companies, affiliates or subsidiary entities were allowed to conduct any business transactions.
Sovereign Friendly Society; Fusion Friendly Society; Canna Friendly Society; Fusion Bank; and Fusion Financial	24 July 2019	The Commission was notified that Sovereign Friendly Society might be carrying out activities that are registrable under one or more of the Acts administered by the Commission. An investigation was conducted on the status of the company and its affiliates and it was determined that the entity was not registered with the Commission. Therefore, as it was not registered with the Commission, a Public Notice was issued warning the public about doing business with this entity.

Notice	Issue Date	Description
Capital Trust Realty	24 July 2019	The Commission was notified that Capital Trust Realty might be carrying out activities that are registrable under one or more of the Acts administered by the Commission. An investigation was conducted on the status of the company and its agents and it was determined that the entity was not registered with the Commission. Therefore, as it was not registered with the Commission, a Public Notice was issued warning the public to exercise extreme caution doing business with this entity.

Disciplinary Rules Amendments

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 2017. These Rules give the Panel the flexibility and authority to resolve matters through an informal hearing process, allowing for a timely, 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. The amended Rules are currently with the Law Reform Commission pending finalization. As at 31 December, the Disciplinary Rules Amendments were with the Law Reform Commission seeking finalization.

International Cooperation

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

The Commission is an A Signatory to IOSCO's 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 the terms of the MMoU. Most international requests are related to enforcement actions and must be related to breaches of securities laws.

The Commission is also an A Signatory to IOSCO's Enhanced Multilateral Memorandum of Understanding Concerning Cooperation, Consultation and Exchange of Information (EMMoU), one of the first regulators in the world to adopt the new standard, showing our commitment to being a leader in enforcement and enhancing participation in global enforcement efforts. The EMMoU primarily enables sharing of more types of information from different sources such as access to audit papers and telephone and internet records. It also makes additional avenues available to regulators to cooperate to assist with freezing of assets or compel information. These provisions aim to keep pace with technological, societal, and market developments and to bolster deterrence to protect investors better and the markets.

In 2019, 20 requests were received and 5 requests were brought forward from previous periods. Of the 20 requests received, 7 originated from the United States, 2 from France, 2 from the United Kingdom, 2 from Luxembourg, 2 from Uruguay, 1 from Bulgaria, 1 from Canada, 1 from Germany, 1 from Italy, and 1 from Japan. During 2019, 15 requests were closed. At the close of 2019, 10 matters remained open. No matters were stayed or denied in 2019.

During 2019, the Commission made four requests to overseas regulators using the IOSCO MMoU. By year-end, the Commission had received responses to three of the requests and was expecting a response to the final request that had been sent in December 2019.

Other Updates

The Commission entered a MoU under the Alternative Investment Fund Managers Directive (AIFMD) with BaFin, the German Federal Financial Supervision Authority. The bilateral cooperation agreement with BaFin came into force on 15 February.

The objective of AIFMD, a directive of the European Parliament and Council, is to create a comprehensive regulatory framework for Alternative Investment Funds Managers (AIFMs) either operating from the European Union or marketing Alternative Investment Funds (AIFs) there. AIFs include hedge funds, private equity funds, real estate funds and other types of institutional funds. By year-end 2019, the Commission had entered into 28 AIFMD MoUs.

Legislative Updates

Courtesy Elbow Reef Lighthouse Society/©Annie Potts

Legislation

Investment Funds Act, 2019

Gazetted 30 April 2019

The Investment Funds Act, 2019 ushered in a modern investment funds regulatory regime that is fully compliant with international standards and best practices, facilitative of industry growth, and development, as well as provides strong investor protection measures and supports the reputation of the jursidciton. The legisaltion:

- overhauls the licensing and registration regimes for investment funds and investment fund administrators;
- establishes a regulatory regime for fund managers and custodians;
- rationalizes the regulatory regime for Bahamas-based funds and removes the category of recognized foreign funds;
- provides an appropriate regulatory regime for closed-end funds and master/feeder fund structures;
- appropriately realigns administrative and fiduciary duties and obligations to the appropriate party in an investment fund;
- establishes a regime to ensure The Bahamas' compliance with the Alternative Investment Fund Managers Directive Passport regime; and
- generally, enhances the regulatory capacity of the Commission.

Investment Funds (Amendment) Act, 2019

Gazetted 11 September 2019

The Act clarified the definitions of investment fund administrator and principal office along with introducing the definition of external valuer. The act also introduced the valuation regime for standard funds and provided a concise list of persons qualified to act as investment fund custodian. Additionally, the amendments facilitate the repeal of the Investment Funds Act, 2003, and its replacement with the Investment Funds Act, 2019.

Securities Industry (Amendment) Act, 2019

Gazetted 30 April 2019

The amendments to the Securities Industry Act, 2011 serve several objectives. Principally, the amendments introduce new terms and provide important clarifications with respect to the organisational structure and administrative powers of the Commission. They also clarify the activities of those engaged in securities business.

Further, these amendments introduce provisions recognizing the recent introduction of the Financial Transactions Reporting Act, 2018, thereby ensuring compliance with international standards on anti-money laundering and countering terrorism financing, and securities laws.

Securities Industry (Corporate Governance) Rules, 2019

Gazetted 18 March 2019

The Securities Industry (Corporate Governance) Rules, 2019 created a legislative framework that is compliant with international standards enunciated in the Organisation for Economic Co-operation and Development (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 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.

The Rules apply to public issuers, state-owned enterprises, and any private company seeking to raise funds in the capital markets or seeking listing by introduction.

Securities Industry (Take-over) Rules, 2019

Gazetted 17 April 2019

The Securities Industry (Take-over) Rules, 2019 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:

- the 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 or the Court.

The Rules apply to all take-overs and similar transactions involving a public issuer and/or public company whether listed, or not, on a domestic stock exchange or operating on the over-the-counter market.

Securities Industry (Anti-Money Laundering and Countering the Financing of Terrorism) (Amendment) Rules, 2019

Gazetted 25 February 2019

The Securities Industry (Anti-Money Laundering and Countering the Financing of Terrorism) (Amendment) Rules, 2019 were developed to amend the Securities Industry (Anti-Money Laundering and Countering the Financing of Terrorism) Rules, 2015.

The main objective of the Rules is to incorporate various international developments in anti-money laundering (AML) and countering the financing of terrorism (CFT) legislation and standards. The updated Rules ensure compliance with AML/CFT legislation, including the Financial Transactions Reporting Act, 2018, the Proceeds of Crime Act, 2018, and the Anti-Terrorism Act, 2018.

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.

The Rules apply to all licensees and registrants under the Securities Industry Act, 2011, and the Investment Funds Act, 2019.

Securities Industry (Compliance Officer) Rules, 2019

Gazetted 4 February 2019

The Securities Industry (Compliance Officer) Rules, 2019 created a legal framework for the conduct of registered firms and their compliance officers, operating in The Bahamas, pursuant to the Securities Industry Act, 2011.

These Rules prescribe the:

- physical presence and filing obligations of compliance officers;
- required acuity, acumen and objectivity of compliance officers;
- ethical conduct for firms engaging with their compliance officer(s);
- roles which can and cannot be occupied by the compliance officer(s) of a registered firm;
- requirements that must be met by registered firms in order to outsource the functions of a compliance office; and
- maintenance of client confidentiality and data protection by the registered firm subsequent to the outsourcing of compliance functions.

Financial and Corporate Service Providers (Anti-Money Laundering and Countering the Financing of Terrorism) Rules, 2019

Gazetted 25 February 2019

The Financial and Corporate Service Providers (Anti-Money Laundering and Countering the Financing of Terrorism) Rules, 2019 repeal and replace the 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, 2018, the Proceeds of Crime Act, 2018, and the Anti-Terrorism Act, 2018.

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.

The Rules apply to all licensees under the Financial and Corporate Service Providers Act, 2000.

Consultation Documents

A critical part of the development of legislation is the public consultation process. As a part of the consultation process, draft documents are disseminated to the Commission's registrants, licensees and applicable stakeholders and published to the Commission's website for comments and input. See **Table 14.**

The International Obligations (Economic and Ancillary Measures) Act

The International Obligations (Economic and Ancillary Measures) Act (IOEAMA Act) is an Act to provide for the imposition of economic sanctions and for the taking of ancillary measures to give effect to the international obligations of The Bahamas. Pursuant to the IOEAMA Act, the Governor General may:

- by Order restrict or prohibit certain activities in relation to a foreign state; and
- by Order, cause to be seized, frozen or sequestrated property situated in The Bahamas that is held by or on behalf of:
    - o a foreign state;
    - o any person in that foreign state; or
    - o a national of that foreign state who does not ordinarily reside in The Bahamas.

The IOEAMA Act was amended in 2019 such that when the United Nations Security Council (UNSC) adopts a resolution, that resolution, any annex, schedule or any amendments thereto shall have full effect and force of law in The Bahamas from the date of adoption by the UNSC.

Further amendments to the IOEAMA Act provide that, for the purpose of implementing a unilateral sanction imposed by a foreign state, the Governor General may make an order:

- to restrict or prohibit activities referred to in the unilateral sanction; and
- cause to be seized, frozen or sequestrated, any money, assets or property situated in The Bahamas held by or on behalf of:
    - o a foreign state upon which the unilateral sanction is imposed;
    - o any person named in the sanction; or
    - o a person named in the sanction, not ordinarily resident in The Bahamas, with a view to preventing the removal of such property.

Alternatively, where no order is made with respect to a unilateral sanction, the Attorney General may direct any regulatory agency to require all persons regulated by it to perform a search of their database, and register of beneficial owners, and report the results of that search to the Attorney General.

The Commission's examination programs were updated to include compliance for the obligations in the Orders issued pursuant to the IOEAMA Act, the Anti-Terrorism Act (ATA) and Anti-Terrorism Regulation (ATR). The Commission monitors compliance with the Orders as a component of onsite examinations.

Caribbean Financial Action Task Force (CFATF) Update

The Caribbean Financial Action Task Force (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. The report also gives 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.

In November, The Bahamas submitted its second follow-up report to CFATF Plenary and Working Group Meetings. It was reported that The Bahamas remains in status quo, as the assessment of the implementation of three outstanding deficiencies would be determined in FATF Plenary in February 2020.

Table 14: Consultation Documents

Consultation Item	Summary	Consultation Period
Securities Industry (Contracts for Differences) Rules, 2019	The Rules introduce new registration requirements for firms and individuals carrying on securities business in Contracts for Differences (CFD) or CFD-related products, or marketing CFDs in or from within The Bahamas. The Rules also create ongoing obligations and conduct standards for participants in the CFD space. The Rules apply to any person carrying on CFD business in or from within The Bahamas, including firms currently registered under the Securities Industry Act.	27 March-27 May
Digital Assets and Registered Exchanges Bill, 2019	This Bill seeks to introduce a regulatory regime for the administration, licensing and regulation of persons and the activities associated with the creation, sale and trading of digital assets, excluding security tokens. This proposed legislation will provide for the registration of digital asset businesses, and token exchanges. It will also stipulate the rules and procedures for initial token offerings. When passed the Bill will impose regulatory capital requirements, require compliance with AML/CFT standards, as well as require adherence to the standards for data protection and cybersecurity.	3 April-28 May

Consultation Item	Summary	Consultation Period
Securities Industry (Fee) (Amendment) Rules, 2019	The Securities Industry (Fee) (Amendment) Rules, 2019 prescribe the fee requirements for firms and individuals carrying on securities business in Contracts for Differences (CFD) in or from The Bahamas. The Rules apply to any person carrying on CFD business in or from within The Bahamas, including firms currently registered under the Securities Industry Act.	25 April-27 May
Financial and Corporate Service Providers Bill, 2019	The Financial and Corporate Service Providers Bill, 2019 seeks to repeal and replace the current Financial and Corporate Service Providers Act (Ch. 369). The draft legislation enhances the regulatory and oversight authority of the Inspector of Financial and Corporate Services, establishes appropriate conduct standards of FCSPs, clear and distinct categories of financial and corporate service providers' activity.	9 July-19 August
Financial and Corporate Service Providers (General) Regulations 2019	The Financial and Corporate Service Providers (General) Regulations will provide the regulatory operational framework for the provisions of the FSCPA.	9 July-19 August
Financial and Corporate Service Providers (Fees) Rules, 2019	The Financial and Corporate Service Providers (Fees) Rules will establish the amount of fees applicable to and payable by persons licensed to conduct the various categories of activities licensable. The Rules will provide application and annual fees for all licensees under the Financial and Corporate Service Providers Bill, 2019, which proposes to adjust substantially the categories of licensees.	30 July-19 August
Investment Funds (Prescribed Jurisdiction) Rules, 2019	The Investment Funds (Prescribed Jurisdictions) Rules, 2019 will establish the countries and jurisdictions that are "prescribed jurisdictions" for the purposes of the Investment Funds legislative regime. The Rules apply to any person licensed or registered pursuant to the Investment Funds Act, 2019.	25 November-20 December
Investment Funds Regulations, 2019	The Investment Funds Regulations propose to repeal and replace the Investment Funds Regulations, 2003. The Investment Funds Regulations, 2019 provides the procedural and operational framework for the implementation of the provisions of the Investment Funds Act, 2019. Amongst its features, the Regulations 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).	28 November-20 December
Investment Funds (Amendment) (No 2) Bill, 2019	The Investment Funds (Amendment) (No. 2) Bill, 2019 will apply to all registrants and licensees under the IFA, 2019, and any such firm or individual to be registered or licensed under the IFA, 2019; including investment funds, investment fund administrators, investment fund managers and any other parties related to investment funds.	13-31 December
Investment Funds (Fee) Rules, 2019	The Investment Funds (Fee) Rules, 2019 prescribes the fee requirements for firms and individuals carrying on investment funds business in or from within The Bahamas. These Rules will apply to all registrants and licensees under the Investment Funds Act, 2019.	13-31 December

Frequently Used Abbreviations and Terms

AIFMD – Alternative Investment Fund Managers Directive.
AML/CFT – Anti-money laundering and countering the financing of terrorism.
AML/CFT/PF – Anti-money laundering and countering the financing of terrorism and proliferation of weapons of mass destruction
ATA, 2018 – Anti-Terrorism Act, 2018
ATR, 2019 – Anti-Terrorism Regulations, 2019
BEPS – Base Erosion Profit Shifting
BICA – 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.
CFD – Contract For Differences
CGSR – Caribbean Group of Securities Regulators
COSRA – Council of Securities Regulators of the Americas
CRO – Compliance Reporting Officer.
CRS – Common Reporting Standard of the OECD.
CWG – Caribbean Working Group
DARE Bill – Digital Assets and Registered Exchanges Bill
END – Enforcement Department
Ex officio member – A member of the Board by virtue of the office held
FATCA – Foreign Account Tax Compliance Act
FATF – Financial Action Task Force
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
HRC – Human Resources Committee
IARC – Inter-American Regional Committee
IFA – Investment Funds Act
IFIE – International Forum for Investor Education
IOEAMA Act– International Obligations (Economic and Ancillary Measures) Act
IOSCO – International Organization of Securities Commissions
IOSCO EMMoU – Enhanced Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information
IOSCO MMoU – Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information
IPO – Initial Public Offering
MLRO – Money Laundering Reporting Officer
OECD – Organisation for Economic Co-operation and Development.
OED – Office of the Executive Director
OGCISS – Offshore Group of Collective Investment Scheme Supervisors
OFC – Office of Financial Controller
OLC – Office of Legal Counsel
POCA, 2018 – Proceeds of Crime Act, 2018
PRC – Policy Research and Compliance
RA – Risk Analytics
RAED – Risk Analytics and Examinations Department
RBS – Risk Based Supervision
RBSF – Risk Based Supervision Framework
RIFA – Restricted Investment Fund Administrator
SIA, 2011 – Securities Industry Act, 2011
SI(A) A, 2019 – Securities Industry (Amendment) Act, 2019
The Commission – Securities Commission of The Bahamas
UIFA – Unrestricted Investment Fund Administrator.

Financial Summary

The audited financial statements that appear on the following pages in this Annual Report represent the financial position of the Securities Commission of The Bahamas (the Commission) as at 31 December 2019, 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 2018 are shown.

The Commission's income is mainly generated from fees charged to licensees, registrants and applicants under the Securities Industry Act, 2011, the Investment Funds Act, 2019, and the Financial and Corporate Services Providers Act, 2000 as well as funding from the Government of The Bahamas (the Government).

On the statement of financial position, the change in accounting for operating leases resulting from the implementation of International Financial Reporting Standard 16 (Leases) led to the addition of $4.11 million of "right-of-use" assets and $4.28 million of lease liabilities. In 2019, Government subvention of $1 million was transferred to the reserve fund established for the development of the Commission.

Income from fees increased by 6.1% from 2018 to 2019. There was a significant reduction in income from government subvention, with a 29.9% decrease from $3.12 million in 2018 to $2.19 million in 2019. Only $1 million was transferred to the reserve fund and $1.19 million was used to fund the Commission's operations.

The Commission experienced a 24.1% increase in operating expenses from $7.76 million in 2018 to $9.64 million in 2019. A large portion of this change is attributed to a $0.85 million increase in expenses related to the Commission's office space lease since the relocation of its offices to Poinciana House on East Bay Street.

During 2019, the Commission focused on the strategic goal of enhancing its legislative framework to ensure compliance with global standards and best practices. The Commission enacted the Investment Funds Act, 2019, the Investment Funds (Amendment) Act, 2019, and numerous Securities Industry Rules. To facilitate this, the Commission shored up its human capital with the hiring of qualified professionals. This contributed to the $0.57 million increase in personnel expenses from $4.90 million in 2018 to $5.47 million in 2019.

The Commission expects to continue to focus enhancing its legislative framework in 2020. The Commission is in the process of revamping legislation governing Financial and Corporate Service Providers. In addition, the Commission expects to enact legislation expanding its regulatory scope to cover Digital Assets and Registered Exchanges and to impose a new fee structure for registrants that conduct business with respect to contracts for differences. The Commission will also commence the revision of the Securities Industry Act.

Securities Commission of The Bahamas

Financial Statements
31 December 2019

Courtesy Elbow Reef Lighthouse Society/©Annie Potts

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 at 31 December 2019, 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 at 31 December 2019;
- 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 2019 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.

PricewaterhouseCoopers, 2 Bayside Executive Park, West Bay Street & Blake Road, P.O. Box N-3910, Nassau, Bahamas T: + 1 242 302 5300, F: + 1 242 302 5350, www.pwc.com/bs, E-mail: pwcbs@bs.pwc.com

When we read the Securities Commission of The Bahamas 2019 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 Members 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

26 June 2020

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

Statement of Financial Position
As of 31 December 2019
(Expressed in Bahamian dollars)

	2019 $	2018 $
ASSETS		
Cash on hand and at banks	2,074,251	1,687,022
Accounts receivable (Note 6)	285,335	281,026
Prepaid expenses and other assets	83,274	28,660
Investments in debt securities (Note 4)	4,068,413	4,068,413
Right-of-use assets (Note 5)	4,106,275	-
Property and equipment (Note 8)	840,177	984,454
Total assets	**11,457,725**	**7,049,575**
LIABILITIES		
Accounts payable and accrued expenses	951,023	1,388,759
Other liabilities	494,283	759,603
Lease liabilities (Note 5)	4,275,419	-
Deferred income (Note 9)	585,615	749,828
Total liabilities	**6,306,340**	**2,898,190**
NET ASSETS	**5,151,385**	**4,151,385**
REPRESENTED BY:		
Surplus	1,031,385	1,031,385
Reserve fund (Note 10)	4,000,000	3,000,000
Special purpose reserve (Note 10)	120,000	120,000
	5,151,385	**4,151,385**

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

Chairman

Director

26 June 2020

Date

The accompanying notes are integral part of these financial statements.

Statement of Comprehensive Income
For the Year Ended 31 December 2019
(Expressed in Bahamian dollars)

	2019 $	2018 $
INCOME		
Fee income		
Securities industry licensees and registrants	3,292,153	3,231,554
Investment funds	2,336,736	2,271,715
Investment fund administrators	960,717	1,005,771
Financial and corporate service providers	605,583	554,104
Penalties	508,090	194,343
Securities exchange	23,000	23,000
Examinations	700	4,060
Other	13,500	10,000
Total fee income	7,740,479	7,294,547
Government subvention (Note 9)	2,186,139	3,117,739
Interest income	196,632	182,191
Other income	514,502	498,421
Total income	**10,637,752**	**11,092,898**

The accompanying notes are integral part of these financial statements.

Statement of Comprehensive Income
For the Year Ended 31 December 2019
(Expressed in Bahamian dollars)
(Continued)

	2019 $	2018 $
EXPENSES		
Salaries, wages and employee benefits (Note 11)	5,472,997	4,903,408
Depreciation on right-of-use assets (Note 5)	602,282	-
Provision for expected credit losses (Note 6)	667,519	250,201
Professional fees	572,325	688,635
Training and conferences	568,414	386,065
Office	369,701	350,467
Rent	404,409	434,064
Depreciation on property and equipment (Note 8)	301,494	263,458
Interest expense on lease liabilities (Note 5)	248,454	-
Utilities and property charges	145,014	165,938
Repairs and maintenance	132,803	129,600
Membership fees	40,183	40,548
Printing and publications	28,596	29,536
Advertising and public relations	23,851	30,098
Legislative initiatives	23,772	25,046
Bank charges	22,506	31,435
Investor education	10,635	29,294
Miscellaneous	2,797	7,084
Total expenses	**9,637,752**	**7,764,877**
Net income and total comprehensive income	**1,000,000**	**3,328,021**

The accompanying notes are integral part of these financial statements.

Statement of Changes in Net Assets
For the Year Ended 31 December 2019
(Expressed in Bahamian dollars)

	Surplus $	Special Purpose Reserve $	Reserve Fund $	Total $
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)	(120,000)	120,000	-	-
Balance as of 31 December 2018	**1,031,385**	**120,000**	**3,000,000**	**4,151,385**
Balance as of 1 January 2019	**1,031,385**	**120,000**	**3,000,000**	**4,151,385**
Total comprehensive income	1,000,000	-	-	1,000,000
Transfer to the reserve fund (Note 10)	(1,000,000)	-	1,000,000	-
Transfer to special purpose reserve (Note 10)	-	-	-	-
Balance as of 31 December 2019	**1,031,385**	**120,000**	**4,000,000**	**5,151,385**

The accompanying notes are integral part of these financial statements.

Statement of Cash Flows
For the Year Ended 31 December 2019
(Expressed in Bahamian dollars)

	2019 $	2018 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	1,000,000	3,328,021
Adjustments for:		
Interest income	(196,632)	(182,191)
Gain on disposals of property and equipment	(2,384)	(3,060)
Depreciation on property and equipment	301,494	263,458
Depreciation on right-of-use assets	602,282	-
Interest expense on lease liabilities	248,454	-
Provision for expected credit losses	667,519	250,201
Interest received	196,632	171,643
Changes in operating assets and liabilities:		
Increase in accounts receivable	(671,828)	(403,146)
(Increase)/decrease in prepaid expenses and other assets	(54,614)	982,605
(Decrease)/increase in accounts payable and accrued expenses	(437,736)	980,315
(Decrease)/increase in other liabilities	(265,320)	25,971
Decrease in deferred income	(164,213)	(1,254,939)
Net cash provided from operating activities	**1,223,654**	**4,158,878**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of debt securities	-	(1,000,000)
Investment in Poinciana SPV Limited (SPV)	-	(1,000,000)
Purchases of property and equipment	(157,284)	(906,231)
Proceeds on disposals of property and equipment	2,451	9,390
Net cash used in investing activities	**(154,833)**	**(2,896,841)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid on lease liabilities	(248,454)	-
Principal paid on lease liabilities	(433,138)	-
Net cash used in financing activities	**(681,592)**	-
Net increase in cash and cash equivalents	**387,229**	**1,262,037**
Cash and cash equivalents as of beginning of year	**1,687,022**	**424,985**
Cash and cash equivalents as of end of year	**2,074,251**	**1,687,022**
CASH AND CASH EQUIVALENTS:		
Cash on hand and at banks	**2,074,251**	**1,687,022**

The accompanying notes are integral part of these financial statements.

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), and under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in accordance with IFRS requires management to exercise judgment in the process of applying the Commission’s 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.

2. Summary of Significant Accounting Policies (Continued)

(b) Changes in applicable accounting policies

i) New standards, amendments and interpretations adopted by the Commission

With the exception of IFRS 16 *Leases* (IFRS 16), standards and amendments and interpretations to published standards that became effective for the Commission's financial year beginning on 1 January 2019 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 Commission adopted IFRS 16 retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 January 2019.

On adoption of IFRS 16, the Commission recognised a lease liability in relation to leases which had previously been classified as operating leases under the principles of IAS 17 *Leases* (IAS 17). This liability was measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liability on 1 January 2019 was 6.5% applicable to vehicle lease.

Practical expedients applied

In adopting IFRS 16, the Commission has used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics; and
- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019.

The Commission has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Commission relied on its assessment made applying IAS 17 and *Interpretation 4 Determining whether an Arrangement contains a Lease*.

2. Summary of Significant Accounting Policies (Continued)

(b) Changes in applicable accounting policies (continued)

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

Measurement of lease liabilities
The table below reconciles the operating lease commitments at 31 December 2018 to the lease liability at 1 January 2019:

	$
Operating lease commitments disclosed as at 31 December 2018	49,571
Discounted using the lessee's incremental borrowing rate at the date of initial application	(3,801)
Lease liability recognised as at 1 January 2019	**45,770**
of which are:	
Current lease liability	26,492
Non-current lease liability	19,278
	45,770

Measurement of right-of-use assets
The right-of-use-asset at the date of initial application for leases previously classified as an operating lease under the principles IAS 17 was measured at the amount equal to the lease liability, adjusted as applicable by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018.

Adjustments recognised in the statement of financial position on 1 January 2019
The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

- Right-of-use asset – increased by $45,770
- Lease liability – increased by $45,770

The net impact on surplus on 1 January 2019 was immaterial.

2. Summary of Significant Accounting Policies (Continued)

(b) Changes in applicable accounting policies (continued)

ii) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2019 and not early adopted by the Commission

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.

(c) 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.

(d) 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 from the date of acquisition.

2. Summary of Significant Accounting Policies (Continued)

(e) 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

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.

2. Summary of Significant Accounting Policies (Continued)

(e) 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 marketplace (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.

2. Summary of Significant Accounting Policies (Continued)

(e) 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.

2. Summary of Significant Accounting Policies (Continued)

(e) Financial instruments (continued)

i) Financial assets (continued)

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.

ECLs are recognised in a three-stage model. 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 and whose credit risk has not significantly increased since initial recognition;

- Stage 2 – Lifetime ECL: considers all possible default events over the expected life of a financial instrument. A loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of default. 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.

2. Summary of Significant Accounting Policies (Continued)

(e) Financial instruments (continued)

i) Financial assets (continued)

Impairment of financial assets (continued)

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.

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.

2. Summary of Significant Accounting Policies (Continued)

(e) 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).

(f) Property and equipment

Property 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.

2. Summary of Significant Accounting Policies (Continued)

(f) Property 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.

(g) 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 recognised at a point in time 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 relates. 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.

2. Summary of Significant Accounting Policies (Continued)

(h) 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.

(i) Leases

The Commission leases a property for its office use and vehicles for its employee use. The property lease is for a fixed period of 5 years and has a renewal option which is exercisable by the Commission. The lease term is negotiated on an individual basis and contains a wide range of different terms and conditions. The lease agreement does not impose any covenants.

Until 31 December 2018, leases of property and equipment were classified as operating leases, see note 2(b) for details. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding lease liability at the date which the leased asset is available for use by the Commission.

Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities include the net present value of the following lease payments:

- Fixed payments less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date.

Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. Refer to Note 3 for how the Commission determines the lease term with extension and termination options.

2. Summary of Significant Accounting Policies (Continued)

(i) Leases (continued)

The lease payments are discounted using the interest rate implicit in the lease. Where that rate is not readily determined, which is the case for the Commission's lease, the Commission's incremental borrowing rate is used, being the rate the Commission would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. Refer to Note 3 for how the Commission determines the incremental borrowing rate.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the interest expense in the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date less any incentives received;
- Any initial direct costs; and
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Previous accounting policy until 31 December 2018

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.

2. Summary of Significant Accounting Policies (Continued)

(j) 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.

(k) 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 information presented below provides an overview of the areas that involve a higher degree of judgement or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

Measurement of ECL allowance

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.

3. Critical Accounting Estimates and Assumptions (Continued)

Leases – lease term and incremental borrowing rate

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The Commission cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Commission would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Commission 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Commission estimates the IBR using observable inputs (such as market interest rates or internal) when available and is required to make certain entity-specific adjustments.

Detailed information about the judgements and estimates made by the Commission in the above areas is set out in Notes 5, 6 and 14.

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.

4. Investments in Debt Securities (Continued)

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.

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

4. Investments in Debt Securities (Continued)

Investments in debt securities are as follows:

	2019 $	2018 $
Level 2		
Debt securities	4,068,413	4,068,413
Total investments in debt securities	**4,068,413**	**4,068,413**

Bahamas Government Registered Stock

		2019		2018	
Maturity Date	**Interest Rate**	**Nominal Value**	**Fair Value $**	**Nominal Value**	**Fair Value $**
25 July 2025	4.4%	3,000,000	3,000000	3,000,000	3,000,000
15 October 2038	5.0%	1,000,000	1,000,000	1,000,000	1,000,000
			4,000,000		4,000,000
Accrued interest			68,413		68,413
Total investments in debt securities			**4,068,413**		**4,068,413**

5. Leases

The Commission entered into a lease agreement with a new landlord commencing 1 January 2019 under one non-cancellable operating lease with an option to renew for three years, which was assessed as reasonably certain to be exercised. The Commission also leases vehicles for employee use.

The statement of financial position shows the following amounts:

	31 December 2019 $	1 January 2019 $
Right-of-use assets		
Office space	4,079,939	-
Vehicles	26,336	45,770
	4,106,275	**45,770**

For the year-ended 31 December 2019, there were no direct costs incurred by the Commission upon entering a lease.

	31 December 2019 $	1 January 2019 $
Lease liabilities		
Current	476,463	26,492
Non-current	3,798,956	19,278
	4,275,419	**45,770**

The IBRs applied to the lease liabilities of the office space and vehicles are 5.5% and 6.5%, respectively. Common area maintenance and other additional rent charges not included in the measurement of lease liabilities are presented under 'Rent' in the statement of comprehensive income.

The statement of comprehensive income shows the following amounts:

	2019 $
Depreciation on right-of-use assets	602,282
Interest expense on lease liabilities	248,454
	850,736

6. Accounts Receivable

	2019 $	2018 $
Investment funds and investment fund administrators	357,272	230,743
Financial and corporate service providers	500,223	291,223
Securities industry licensees and registrants	196,704	86,962
Other	287,870	222,413
	1,342,069	831,341
Allowance for expected credit losses	(1,056,734)	(550,315)
Total accounts receivable	**285,335**	**281,026**

Movements in the allowance for expected credit losses comprise:

	2019 $	2018 $
As of 1 January	550,315	305,314
Provision for expected credit losses	667,519	250,201
Bad debts written off	(161,100)	(5,200)
As of 31 December	**1,056,734**	**550,315**

6. Accounts Receivable (Continued)

The allowance for expected credit losses as of 31 December 2019 and 31 December 2018 was determined as follows for accounts receivable:

As of 31 December 2019	0 to 90 days	91 to 180 days	181 to 270 days	271 to 360 days	Over 360 days	Total
	$	$	$	$	$	$
Gross carrying amount	237,044	255,750	2,875	411,221	435,179	1,342,069
Allowance for expected credit losses	4,086	229,097	2,553	397,313	423,685	1,056,734

As of 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
Allowance for expected credit losses	93,786	-	-	-	456,529	550,315

7. Investment in SPV

In September 2017, 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 SPV comprise:

	2019	2018
	$	$
As of 1 January	-	-
Investment during the year	-	1,000,000
Utilisation of subvention and extinguishment of liability to the Government to finance the investment	-	(1,000,000)
As of 31 December	-	-

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	**2019**	**2018**
	$	**$**
Current assets	2,707,618	3,487,520
Investment property	20,869,204	20,426,662
Total assets	**23,576,822**	**23,914,182**
Current liabilities	1,823,866	1,417,871
Borrowings	15,512,500	16,362,500
Total liabilities	**17,336,366**	**17,780,371**
Share capital	2	2
Contributed capital	9,568,603	9,568,603
Accumulated deficit	(3,328,148)	(3,434,794)
Total equity	**6,240,457**	**6,133,811**
Total liabilities and equity	**23,576,823**	**23,914,182**

Summary Statement of Comprehensive Income	**2019**	**2018**
	$	**$**
Total income	2,039,237	751,116
Total expenses	(1,932,591)	(2,594,951)
Net comprehensive income (loss)	**106,646**	**(1,843,835)**

8. Property and Equipment

	Computer Equipment	Furniture and Fittings	Vehicles	Leasehold Improvements	Art Work	Total
	$	$	$	$	$	$
For the year ended 31 December 2019						
Cost						
1 January 2019	1,861,434	729,968	-	-	17,150	2,608,552
Additions	76,678	17,729	-	57,163	5,714	157,284
Disposals	(26,706)	-	-	-	-	(26,706)
31 December 2019	**1,911,406**	**747,697**	**-**	**57,163**	**22,864**	**2,739,130**
Accumulated depreciation						
1 January 2019	1,615,381	8,717	-	-	-	1,624,098
Depreciation expense	140,624	149,437	-	11,433	-	301,494
Disposals	(26,639)	-	-	-	-	(26,639)
31 December 2019	1,729,366	158,154	-	11,433	-	1,898,953
Net book value as of 31 December 2019	**182,040**	**589,543**	**-**	**45,730**	**22,864**	**840,177**
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	-	(572,998)	(34,708)	(53,830)	-	(661,536)
31 December 2018	**1,861,434**	**729,968**	**-**	**-**	**17,150**	**2,608,552**
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	-	(566,668)	(34,708)	(53,830)	-	(655,206)
31 December 2018	1,615,381	8,717	-	-	-	1,624,098
Net book value as of 31 December 2018	**246,053**	**721,251**	**-**	**-**	**17,150**	**984,454**

9. Deferred Income

	2019 $	2018 $
Government subvention	542,057	728,196
Securities industry licensee and registrant fees	29,400	14,000
Financial and corporate service provider fees	14,158	7,632
Total deferred income	**585,615**	**749,828**

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

Movements in Government subvention comprise:

	2019 $	2018 $
As of 1 January	728,196	2,845,935
Government subvention received	2,000,000	2,000,000
Government subvention utilised – reserve fund	(1,000,000)	(3,000,000)
Government subvention utilised – operations	(1,186,139)	-
Government subvention utilised – investment in SPV	-	(1,000,000)
Government subvention utilised – specific projects	-	(117,739)
As of 31 December	**542,057**	**728,196**

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:

10. Reserve Fund and Special Purpose Reserve (Continued)

	2019 $	2018 $
Balance of the special purpose reserve, gross	175,000	175,000
Provision for expected credit losses	(55,000)	(55,000)
Balance of the special purpose reserve, net	**120,000**	**120,000**

11. Employee Benefits

Pension costs recognised in the statement of comprehensive income in the current year totaled $290,472 (2018: $283,824). 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 $16,348 (2018: $61,182) 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 2019, the Commission employed 85 (2018: 80) persons.

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:

	2019	**2018**
	$	**$**
Assets		
Cash at banks	2,074,251	1,686,272
Accounts receivable	133,992	84,180
Prepaid expenses and other assets	1,770	1,770
Investments in debt securities	4,068,413	4,068,413
Right-of-use assets	4,079,939	-
Liabilities		
Accounts payable and accrued expenses	39,031	80,430
Accounts payable and accrued expenses - due to SPV	280	618,230
Other liabilities - due to the Compliance Commission	494,003	759,603
Lease liabilities	4,247,722	
Income		
Interest income	196,632	182,191
Other income	92,400	120,400
Expenses		
Depreciation on right-of-use assets	582,848	-
Interest expense on lease liabilities	246,014	-
Utilities and property charges	105,334	106,473
Other		
Investment in SPV	-	1,000,000

Compensation of key management personnel for the year ended 31 December 2019 comprised $559,247 (2018: $589,456) for salaries and other short-term benefits and $24,956 (2018: $24,569) for pension benefits.

13. Commitments and Contingencies

Operating lease commitments prior to adoption of IFRS 16

The Commission was previously a party to operating lease agreements, with options to renew for further periods, relating to office space. As at 31 December 2018, the office space lease ended and the Commission entered into a lease agreement with a new landlord, a related party, commencing 1 January 2019 (Note 5). The Commission also leases vehicles for employee use.

Future minimum payments required under the operating leases were as follows:

	2018
	$
Within one year	20,512
Within 2-5 years	29,059

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.

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 based on The Bahamas' 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.

<u>Accounts Receivable</u>
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 2019 or 24 months before 1 January 2019 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on

14. Financial Risk Management (continued)

(a) Credit risk (continued)

Impairment (Continued)

<u>Accounts Receivable (continued)</u>
macroeconomic factors affecting the ability of the customers to settle the receivables. The Commission 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 2019, 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.

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 2019, the Commission received subvention of $2,000,000, to be utilised by the Commission for its general operations and capital expenditure.

In early February 2020, the Commission discovered that it had experienced a fraud in the amount of B$850,000. The matter was reported to the police and is currently under investigation.

In March 2020 the World Health Organization declared the novel coronavirus, known as COVID-19 outbreak as a pandemic. The outbreak of COVID-19 has resulted in travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand and general market uncertainty.

While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. Therefore, while the Commission expects this matter to negatively impact its operating results, the related financial impact and duration cannot be reasonably estimated at this time.

Courtesy Elbow Reef Lighthouse Society/© Heather Forde-Prosa

SECURITIES COMMISSION OF THE BAHAMAS

Our cover

Elbow Reef Lighthouse

The easily recognizable Elbow Reef Lighthouse at Hope Town, Abaco is one of the best-known cultural treasures in The Bahamas. Built in 1864, the internationally acclaimed lighthouse is one of a kind, with a lighthouse lens turned by hand and a light beam fuelled by kerosene.

Following independence in 1973, oversight of Bahamian lighthouses passed from the British Imperial Lighthouse Service to the Bahamas Port Department. All but three of the lighthouses were automated as technological advancements allowed for conversion and reduced manpower. Not so for the Elbow Reef Lighthouse. It is one of only 11 Imperial Lighthouse Service light stations to be manned continuously as an active aid to navigation, as it has been throughout its 156 years.

Due to its unique character and significance, this red and white striped lighthouse has become an icon of Bahamian heritage and its beauty celebrated on the Bahamian $10 bill. While the lighthouse appears poignantly and proudly on the nation's currency, the reality is a scene of Category-5 destruction because of the devastation caused to the Abacos by Hurricane Dorian in September 2019.

The successful preservation of this iconic lighthouse has been under the watch of the Elbow Reef Lighthouse Society, a non-profit organization championing the preservation of the Elbow Reef Lighthouse. Their recent historical restoration project from 2012 to 2017 proved invaluable and was likely the reason the lighthouse's irreplaceable Fresnel lens was not destroyed during Hurricane Dorian. Still, the lighthouse sustained almost $1 million in damages. Support from individuals across The Bahamas and the United States, as well as corporate partnerships and relationships with government agencies has assisted in funding this vital, ongoing restoration.

Photo Courtesy of Elbow Reef Lighthouse Society/©Annie Potts

SECURITIES COMMISSION OF THE BAHAMAS

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

www.scb.gov.bs