

Annual Report

2020



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The background of the slide is an aerial photograph of a tropical coastline. It features turquoise water, white sand beaches, and a small boat. The image is overlaid with a dark blue hexagonal shape that contains the text.

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

30 June 2021

The Most Hon. Dr. Hubert A. Minnis
Prime Minister and Minister of Finance
Ministry of Finance
Cecil Wallace-Whitfield Centre
West Bay Street
Nassau, N. P., The Bahamas

Dear Prime Minister:

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 2020. Included in this Report is the Annual Statement of Accounts of the Commission for the year.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'R. Lotmore', with a long horizontal flourish extending to the right.

Robert V. Lotmore
Chairman



Chairman's Message



I am proud of how through forward thinking, and planning the operational resilience of the Commission came to the fore as the staff, registrants and licensees were able to pivot, adjust and step up to meet the challenges head-on, with minimal disruption.



The year 2020 was to be a celebratory milestone of the 25th anniversary of the Securities Commission of The Bahamas. Instead of a year of celebration, however, the mood was tempered by a pandemic – the likes of which had not been seen for more than a century. The advance of COVID-19 in the first quarter of 2020 forebode a year that was inconceivable. Because of the coronavirus pandemic, the Commission, The Bahamas, and the world had to reset perspectives and reimagine prospects.

Resilience

One of the greatest lessons taught by the COVID-19 crisis is the importance of resilience. Throughout 2020, the Commission responded to the operational impacts due to COVID-19 restrictions with strong governance and oversight. Despite lockdowns and business closures, the world's capital markets and the wealth management industry continued, and with their operations in the jurisdiction, regulatory oversight by SCB.

As Chairman, I am proud of how through forward thinking, and planning the operational resilience of the Commission came to the fore as the staff, registrants and licensees were able to pivot, adjust and step up to meet the challenges head-on, with minimal disruption. With a proactive management team, and a business continuity plan in the early stages of development, staff were equipped to be mobile and available to registrants and licensees as the digitization of SCB was already underway. This included the SOFY platform for the Commission's risk-based supervision as well as online applications, e-forms and e-signatures, digital certificates and all the elements necessary for the Commission to carry out supervision and examinations, albeit at arms-length. Because of this, the Commission and its staff members were able to remain operational during the work from home Emergency Orders, which were in effect for the balance of 2020.

With the announcement of lockdowns and work-from-home orders, the Commission transitioned into a near 100 per cent digital reality using online platforms to conduct from one-on-one local meetings to webinars with hundreds of participants from around the world. We saw how firms that had gone digital earlier managed to ensure business continuity, with the transition to working remotely and serving customers online. At the Commission, this is what we have been aiming for: to be digital to the core.

Business as usual

When the 2019 hurricane and 2020 pandemic prevented tourist visiting our shores, the absence highlighted the country's vulnerability, underscoring the importance of diversifying the economy.

During this prodigious year, the wheels and work of the financial services industry, especially parts overseen by the Commission, never stopped. Despite the pandemic, the country made a number of remarkable strides in the financial services industry.

At the close of 2020, Parliament passed two landmark pieces of legislation drafted by SCB: the Digital Assets and Registered Exchanges Act, 2020 (DARE) and the Financial and Corporate Service Providers Act (FCSPA), 2020. The Acts opened the entrepreneurial doors for new business opportunities in Fintech and for financial service providers as well as corporate service providers with both having built-in investor and consumer protection measures to preserve the integrity of the sector and the regulatory reputation of the jurisdiction.

In December, FATF (Financial Action Task Force) de-listed The Bahamas from its Jurisdictions under Increased Monitoring citing that the country had made "significant progress in improving its AML/CFT regime." The SCB's 2020 legislation, amendments, regulations and rules reflect the Commission's compliance with FATF Recommendations to strengthen the regulatory regime inclusive of a revised AML/CFT/CFP regime; development and implementation of risk based supervisory frameworks for money transmission service lenders, securities industry licensees and registrants, and designated non-financial businesses and professions. Both DARE and FCSPA, 2020 integrated FATF Recommendations and contributed to the de-listing.

In February 2020, the European Union removed The Bahamas from the EU tax "grey list" after it was deemed fully compliant with the bloc's tax standards. Much of the discussion surrounding the removal centred on the introduction of economic substance requirements for investment funds now addressed in SCB's Investment Funds Act, 2019 and its subsequent regulations.

Congratulations

I take the opportunity to commend Executive Director Rolle on her appointment in April 2020 to the government's Economic Recovery Committee (ERC), tasked with developing creative ways to bolster the

economy while the world was still in the nascent throes of the pandemic. The ED's work on the ERC contributed significantly to submissions put forth to the government. Her appointment speaks to the high regard she holds in the sector and the wider community.

I acknowledge and congratulate the Central Bank of The Bahamas on becoming the world's first institution to issue a Central Bank Digital Currency with the launch of the Sand Dollar, the digital replication of the country's fiat currency. According to the Central Bank, the purpose of the Sand Dollar was to improve financial inclusion. This aligns with the Commission's plan for developing the reputation of the jurisdiction as a standard setter and a leader in Fintech opportunities.

Looking forward

In 2021, the Commission will refocus on its mandate and role as regulator in the financial well-being of The Bahamas. The Commission plans to overhaul the Securities Industry Act, and introduce legislation with regard to business capital rules, whistle-blower rules and rules to govern various financial services under the financial and corporate services legislation.

In closing

I would like to thank my fellow Board members for contributing their business expertise and industry knowledge. In addition, on behalf of the entire board of directors I extend appreciation and thanks to Executive Director Christina Rolle for her outstanding leadership. I have always valued how the executive director and all of the staff of the Commission rise to meet every challenge and opportunity, carrying forth the Commission's outstanding legacy and enduring commitment to maintaining the capital markets and protecting investors. We thank them for taking that dedication to new heights this past year as they adapted to the challenges of the pandemic. I end by extending congratulations to the Securities Commission of The Bahamas in celebration of its 25th anniversary.



Securities Commission of The Bahamas Board of Directors from left: Tonique Lewis, Peter T. Carey, Deno Moss, Christina R. Rolle, Robert V. Lotmore, Michael Paton, 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 (SIA, 2011).

The Commission's membership, 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.

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

Table 1: Board of the Commission as at 31 December

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
Dawn Patton	Member	1 July 2017
Bede Sands	Member	1 July 2017
Deno Moss	Member	1 July 2017
Tonique Lewis	Member	1 July 2017
Peter T. Carey	Member	1 July 2020

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 it in the execution of its duties.

During 2020, the Board held **12** regular meetings. There were **4** Audit Committee meetings, and **1** Human Resource Committee meeting.

No exceptional matters occurred in relation to the Board from a governance or structural perspective during the 2020 period. Operationally, during the pandemic the Board utilized Microsoft Teams to conduct virtual Board meetings and comply with COVID-19 protocols. Virtual meetings were held from April-December 2020.

Committees of the Board

Audit Committee

The Audit Committee (AC) advises and makes recommendations on matters relating to corporate governance, including internal financial controls, internal and external audits, and compliance with financial reporting requirements. It also assists the Commission in reviewing remuneration and other related policies for employees of the Commission. The AC met four times during 2020.

The 2020 membership of the AC consisted of Dawn Patton (Chair), Derek Sands, Peter T. Carey (as at September 2020) and Christina Rolle. Secretary to the Board Mechelle Martinborough also attended AC meetings as well as Monique Sands, the Commission's Head of Finance, as a management representative.

Human Resource Committee

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 benefit 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 2020.

The 2020 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 HRC meetings as well as Bernadette Gibson, Human Resources Senior Manager, as a management representative.

Strategic Plan

The Commission's strategic plan, which directed its focus for the 2019-2020 period, was developed in 2018. Under the strategic plan, the Commission was guided by six overarching goals, which were further broken down into 35 Objectives. The goals were:

- financial independence and self-sustainability;
- create synergies with other regulatory bodies;
- implementation of Risk Based Supervision;
- enhancement of legislative framework to ensure compliance with latest global standards and best practices; and
- development of technological capacity, technology driven processes for monitoring and supervision.

As at year-end 2020, the Commission was able to complete 21 of the 35 identified strategic objectives. Two objectives were partially completed, and seven are ongoing. Ongoing initiatives include objectives which, by their nature, are continuous. Work on the remaining five objectives did not commence during the strategic period.

The Commission has commenced the process of developing its 2021-2023 strategic plan.



Executive Director's Remarks

Despite the upheaval and disruption faced as a result of COVID-19, the Commission and its staff are set to emerge on the other side of this pandemic more resilient, with enhanced operational capacity and efficiency.

In 2020, the Securities Commission of The Bahamas (the Commission) faced challenges unprecedented in its 25-year existence, ensuing from the COVID-19 pandemic. The Commission joined other regulators, businesses and the citizens of the world in adapting to new risks and threats which forced us to retool and streamline our operations, rationalize our resource requirements and relentlessly focus on our core activities while keeping an eye on the inevitable changes on the horizon.

For the Commission – which is responsible for regulating investment funds, securities, the capital markets and financial and corporate service providers – the year 2020 served as a poignant reminder of the essence of our function as a regulator: to protect investors and consumers of financial services under our remit, to ensure markets remained fair and efficient, and to facilitate stability in the broader financial system. The Commission rose to the challenge of 2020: we demonstrated our nimbleness and capacity to provide effective oversight and regulation during a prolonged crisis; we advanced or realized initiatives to improve the ease of doing business with the Commission; and we realized success on a prolific legislative agenda, evidenced by the culmination of significant and daring advances in the legislative framework – all despite the challenges brought on by the pandemic.

Immediate response

The Commission's management team followed developments with the COVID-19 pandemic attentively since news of the disease surfaced in December 2019, and was well underway with its preparedness and business continuity plans by the issuance of the first of The Bahamas' Emergency Powers (COVID-19) Orders and ensuing lockdowns. Our priority was to maintain the safety of staff and constituents, and hence the broader Bahamian community, while continuing to provide world-class regulation and advancing our strategic goals.

On Sunday 15 March 2020, the Ministry of Health confirmed the first case of COVID-19 infection in The Bahamas, just four days after the World Health Organization declared the scourge a pandemic. By 17 March, the Commission had suspended in-person meetings and on-site examinations, and had commenced a series of communications to registrants, licensees and stakeholders regarding operational changes that would impact them. The Commission published official guidance for its registrants and licensees which addressed, among other things, business closure to the public and work-from-home requirements, the SCB's expectations regarding how constituents ensured they met safety requirements, and circumstances where they were exempt from specific COVID-19 restrictions.

Prepared to work remotely

I note that by the time social distancing requirements and lockdowns were introduced, the Commission's staff had already been outfitted with the means to work seamlessly from home – including hardware, secure access to the Commission's email and other servers, the ability to receive desk calls remotely and participate in virtual meetings.

Changes to on-site/off-site supervision

While the Commission had to cease on-site examinations as a result of the social distancing requirements of the pandemic response, it enhanced its supervisory capacity with the addition of desk-based thematic reviews to its regulatory toolkit. In July 2020, the Commission successfully launched the first two of these reviews, which canvassed all licensees and registrants and focused on compliance with global AML/CFT/PF standards, as well as compliance with disaster planning and business continuity best practices.

Furnishing the Commission with audited financial statements timeously became difficult or impossible for

some registrants and licensees, particularly in the early days of the pandemic. In response, the Commission (in keeping with steps taken by other regulators around the world) provided a 45-day regulatory relief to filing deadlines for audited financial statements and annual reports. This filing extension applied to all persons registered or licensed under securities laws who were required to make the aforementioned filings between 1 April and 30 June 2020.

The Commission also demonstrated flexibility by providing a “no action” extension with respect to the new requirements to appoint an investment manager under the Investment Funds Act, 2019, so long as firms applied to the Commission with respect to the appointment within the extended time frame. The Commission took a similar “no-action” approach to the requirement for firms to apply for registration under the Securities Industry (Contracts for Differences) Rules, 2020 (CFD Rules, 2020), where the Commission notified firms operating in the space that they had until February 2021 to apply for the appropriate registrations under the CFD Rules, 2020.

Ease of business

The Commission continued to advance initiatives to improve the ease of business for licensees, prospects and other stakeholders. The Commission made legislative strides in order to improve national rankings in the World Bank Group’s *Doing Business 2020* publication, which I address below. Our commitment to easing business processes, however, extends well beyond policy development and supervisory practices to operational initiatives to embrace technology and improve operational efficiency.

To this end, the Commission developed the Compliance and Regulatory Filings Interface (CoRI) during 2020. The portal facilitates registrant and licensees making official filings and submissions to the Commission remotely. CoRI was launched just in time for filings applicable to the 2020 period which were due at the beginning of 2021. The development work, including user-testing and internal training, was the major operational project for the Commission during 2020. CoRI joins SOFY, which the Commission launched to support its risk-based supervision during the third quarter of 2019, as one of a host of initiatives designed to help streamline and automate processes, address data collection and processing deficiencies, and generally, to support the Commission’s evolution and transformation into a digital work environment.

The Commission successfully launched the *SCB Brief* in January 2020. The *SCB Brief* is a monthly newsletter that provides registrants and licensees with

a summary of key regulatory developments, changes and prospective changes to the legal framework and other pertinent news or regulatory reminders. The Commission also launched an overhauled website, www.scb.gov.bs, in July of 2020. The site has improved access to information by deploying a more a user-centric approach to content placement.

The Commission also ventured into producing fully remote webinars to address communication needs stemming from pandemic-related travel and social restrictions. To this end, the Commission hosted webinars to present and discuss the Digital Assets and Registered Exchanges Act and to heighten awareness of investment frauds and scams, and the measures people could take to protect themselves and their wealth. This became particularly timely with the advent of a notable regional increase in investment frauds during the pandemic, including the “Foundation Family Sou-sou” investment scam, which claimed victims in the US, The Bahamas and the Caribbean. Representatives of the Commission also took to the airwaves, appearing on local radio and television programs to discuss these fraud trends and the red-flags and warning signs investors should look out for.

Advancing the legislative framework

Financial and Corporate Service Providers Act, 2020

The Commission realized significant advancements to investor and consumer protection measures during 2020. This was particularly visible with the Commission’s work to overhaul the legislative framework for financial and corporate services providers (FCSPs), with the new Financial and Corporate Services Act (FCSPA), 2020, coming into effect on 14 December 2020. This groundbreaking piece of legislation takes the step of criminalizing investment schemes such as pyramid schemes, Ponzi schemes and pump-and-dump schemes. The Bahamas is among the first jurisdictions in the world with such legal provisions, empowering the Commission to investigate and take disciplinary action against perpetrators.

The most notable element of the new FCSPA legislation may be its clarification of the definitions of financial services and corporate services and activities falling under each. The legislation is designed to facilitate rules bespoke to specific financial services activities, based on their particular risk. The Commission will commence the rollout of the rules for the individual financial services in 2021.

A final element of the FCSPA deserving focus is the addition of four new categories of regulated financial services: financial leasing, trading in commodities and other financial instruments, wallet service provider and

custody of digital assets. The first two categories capture, for regulatory purposes, activity that is currently existing in The Bahamas but unregulated up to the enactment of the legislation. In the case of the latter two categories, these services stem directly from what many consider the highlight of our 2020 legislative accomplishments – the passage and implementation of the Digital Assets and Registered Exchanges Act (DARE).

Digital Assets and Registered Exchanges Act, 2020

Digital assets, including cryptocurrencies, are an increasingly important asset-class for investment advisors, their clients, and lay/retail investors, as well as speculators. The Commission was pleased to join a small but growing number of jurisdictions around the world with formal legislation enacted to provide a regulatory framework for the issuance of digital assets and services related to the issuance of digital assets – establishing requirements for entry and participation in the industry, among other things. The Commission saw the culmination of approximately three years of research, benchmarking, needs assessments, drafting, and public consultation with DARE coming into effect on the same day as the FCSPA – 14 December 2020.

The legislation expands the Commission's mandate and regulatory scope for more comprehensive supervision of the capital markets. Critically, DARE provides the legal framework for expansion into and development of new digital assets related business lines for existing registrants and licensees, and provides an inviting framework for entrepreneurial Fintech business seeking to conduct compliant digital assets activities out of a well-regulated jurisdiction.

The legislation was crafted with critical attention paid to global regulatory standards, especially as concerns the FATF Recommendation 15, which addresses the AML/CFT/PF standards that should be upheld in the industry. The Commission has also been keen to stay abreast of developments in this space, and participates as a member of IOSCO's Global Financial Innovation Network (GFIN).

Securities laws amendments enhance minority shareholder protections

Effective 28 April 2020, amendments to three pieces of securities legislation were gazetted: the Securities Industry (Amendment) Regulations, 2020; the Securities Industry (Corporate Governance) (Amendment) Rules, 2020 and the Securities Industry (Takeover) (Amendment) Rules, 2020. These amendments further enhanced minority shareholder protections in the jurisdiction. The amendments increased conflict of interest disclosure requirements, clarified

ownership and control structures, and required greater corporate transparency.

A host of other legislative advancements were made, which are addressed later in this report. I congratulate the Commissions management and staff who were engaged on these developments. It is always pleasing when we are able to, at long last, experience the conclusion of efforts.

Conclusion

I thank the SCB's management and staff for the dedication necessary to realize the accomplishments of 2020. It was a uniquely challenging year for all of us.

I would be remiss not to mention that our 25th Anniversary Year started with the loss of our dear colleague, Ms. Jonique Webb, who succumbed to a long struggle with lupus on 19 January 2020. The loss tore a hole in each of us at the Commission but, also drew us closer together as a family. Jonique's participation in the Commission's family and her contributions will not be forgotten.

I also pause to recognize the suffering and mental fatigue many staff endured adjusting to this new world of lockdowns and social distancing, compounded by the threat of sickness and death. We were not spared from the loss of family, friends and loved ones. I express my sincere thanks to the staff for their commitment to the work of the Commission throughout this time.

Despite the upheaval and disruption faced as a result of COVID-19, the Commission and its staff are set to emerge on the other side of this pandemic more resilient, with enhanced operational capacity and efficiency, better empowered to protect investors and consumers of financial services, and outfitted with tools to gather and analyse data and communicate with licensees and other constituents.

We are reminded of the immense changes that can happen in 25 years. We are encouraged to continue to be bold in our planning, committed to our cause, and to remaining nimble, flexible, and effective in the execution of our mandate in the years to come.

Departments of the Commission

Office of the Executive Director

The Office of the Executive Director (OED) supports the Executive Director in managing the day-to-day operations of the Commission. To achieve its objectives the office has three units. 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 programme, and overseeing public relations and communication. Project Management and International Relations oversees managing local and international stakeholder relationships; facilitating strategic planning; monitoring international standards setters and managing special projects.

Supervision

The Supervision Department (SUD) 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, or the Financial and Corporate Service Providers Act, 2020. It is responsible for the on-site 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

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

Office of Legal Counsel

The Office of Legal Counsel (OLC) provides legal advice to the Commission. OLC spearheads the review and development of laws related to securities, the capital markets, financial and corporate services and financial sector legislation generally, assisting in development and review of the Commission's guidelines and policies relating to the laws under the Commission's administrative remit, and managing matters of international cooperation.

Enforcement

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 (involving companies and individuals) that are operating in The Bahamas without a license or registration as required by law.

Office of Financial Controller

The Office of Financial Controller (OFC) 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

Human Resources (HR) 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

Administration (ADD) 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

Information Technology (IT) facilitates the information and electronic communications needs of the Commission.



Legislative Milestones

The Securities Commission of The Bahamas was established in 1995, initially as the Securities Board. Today, the Commission is among the leading securities and capital markets regulators in the region. This timeline looks at some of the landmark events in the regulation of investment funds, securities, digital assets, the capital markets, and the oversight of financial and corporate service providers over the Commission's first quarter-century.

1995

Securities Commission of The Bahamas is Established

1995

Securities Board established pursuant to the Securities Board Act, 1995.

Mutual Funds Act, 1995 and Mutual Funds Regulations, 1995 enacted.

1996

Securities Board moves into Charlotte House.

The Board becomes an ordinary member of IOSCO.

1996

IOSCO Membership

1999

Securities Industries Act, 1999

1999

Securities Industry Act, 1999 repeals and replaces Securities Board Act, 1995 renaming the Board the Securities Commission of The Bahamas (the Commission/SCB)

2000

SCB celebrates 5th Anniversary. Number of employees at 31 December 2000: 18

Securities Industry Regulations, 2000 enacted.



2003

Investment Funds Act,
2003

2003

Investment Funds Act, 2003 and Investment Funds Regulation, 2003 repeals and replaces the Mutual Funds Act, 1995 and Mutual Funds Regulations, 1995.

IFA, 2003 establishes the legal framework for the Specific Mandate Alternative Regulatory Test (SMART) Fund.

2005

SCB celebrates 10th Anniversary.
Number of employees: 38

2005

2008

2008

The Commission is appointed Inspector of Financial and Corporate Services. As Inspector, the Commission assumes responsibility for the oversight of financial and corporate service providers.

Financial and Corporate Service Providers Act, 2000 enacted.

2009

2009

SCB becomes a "B" signatory to IOSCO's MMoU.

The MMoU establishes standards to be applied by IOSCO members when making or responding to requests for information.



2011

Securities Industry Act, 2011 enacted.

2012

Securities Industry Regulations, 2012 enacted.

2013

SCB becomes "A" Signatory to IOSCO's MMoU.

2012

2013

Chairs

Robert Lotmore	2017-present
Tonya Bastian-Galanis	2012-2017
Phillip Stubbs	2007-2012
Calvin Knowles	2002-2007
Timothy Donaldson	1995-2002

Executive Directors

Christina Rolle (ED)	2015-present
Hillary Deveau (ED)	2013-2015
Dave Smith (ED)	2012-2013
Philip Stubbs (Acting ED)	2010-2012
Hillary Deveau (ED)	2005-2010
Hillary Deveau (Acting ED)	2002-2004
Sandra Knowles (ED)	1997-2002

Inspectors

Sandra Knowles	1997-1999
Jack Smith	1995-1997

2018

2019

2020

2015

SCB celebrates 20th Anniversary. Number of employees: 75

2018

SCB becomes an A1 signatory to IOSCO's EMMoU. The EMMoU makes additional avenues available to regulators to cooperate to enhance the outcome of investigation and enforcement activity as compared with the prevailing standard MMoU.

The Commission introduces risk-based supervision.

SCB relocates to Poinciana House, East Bay Street.

2019

Investment Funds Act, 2019 repeals and replaces the Investment Funds Act, 2003.



Executive Director Rolle elected Vice-chair of the Inter-American Regional Committee (IARC) of IOSCO. As a result the ED holds a seat on the IOSCO Board for the 2020–2022 term.

2020

Digital Assets and Registered Exchanges Act, 2020 is enacted. DARE provides for the registration of digital token exchanges, registration for provision of related services, and registration for participation in financial services related to the issue or sale of digital assets, amongst other things.

Financial and Corporate Service Providers Act, 2020 enacted. The Act criminalizes financial schemes including pyramid and Ponzi schemes, and provides for the regulation of financial leasing and trade in commodities and other financial instruments, amongst other things.

SCB celebrates 25th Anniversary. Number of employees: 81

Management Team

As at 31 December 2020



CHRISTINA ROLLE

Executive Director



CHRISTIAN ADDERLEY

Deputy Executive Director
Head of Policy, Research & Compliance



ALYSIA ARCHER-COLEBROOKE

Senior Manager
Administration



JOHN CLARKE

Manager
Information Technology



BERNADETTE GIBSON

Senior Manager
Human Resources



ODECCA GIBSON

Legal Counsel
Office of Legal Counsel



MECHELLE MARTINBOROUG

Deputy Executive Director
Senior Legal Counsel, Office of Legal Counsel



STEWART MILLER

Manager
Investor Education & Communications



SHERINN MUNNINGS

Deputy Manager, Project
Management & International Relations



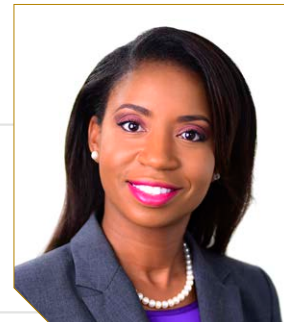
DANA MUNNINGS GRAY

Manager, Securities and
Financial & Corporate
Service Providers



LESLEY PEARSON

Senior Manager
Risk Analytics & Examinations



MONIQUE SANDS

Finance Director
Head of Finance
Office of Financial Controller



MAGAN TAYLOR

Manager
Investment Funds

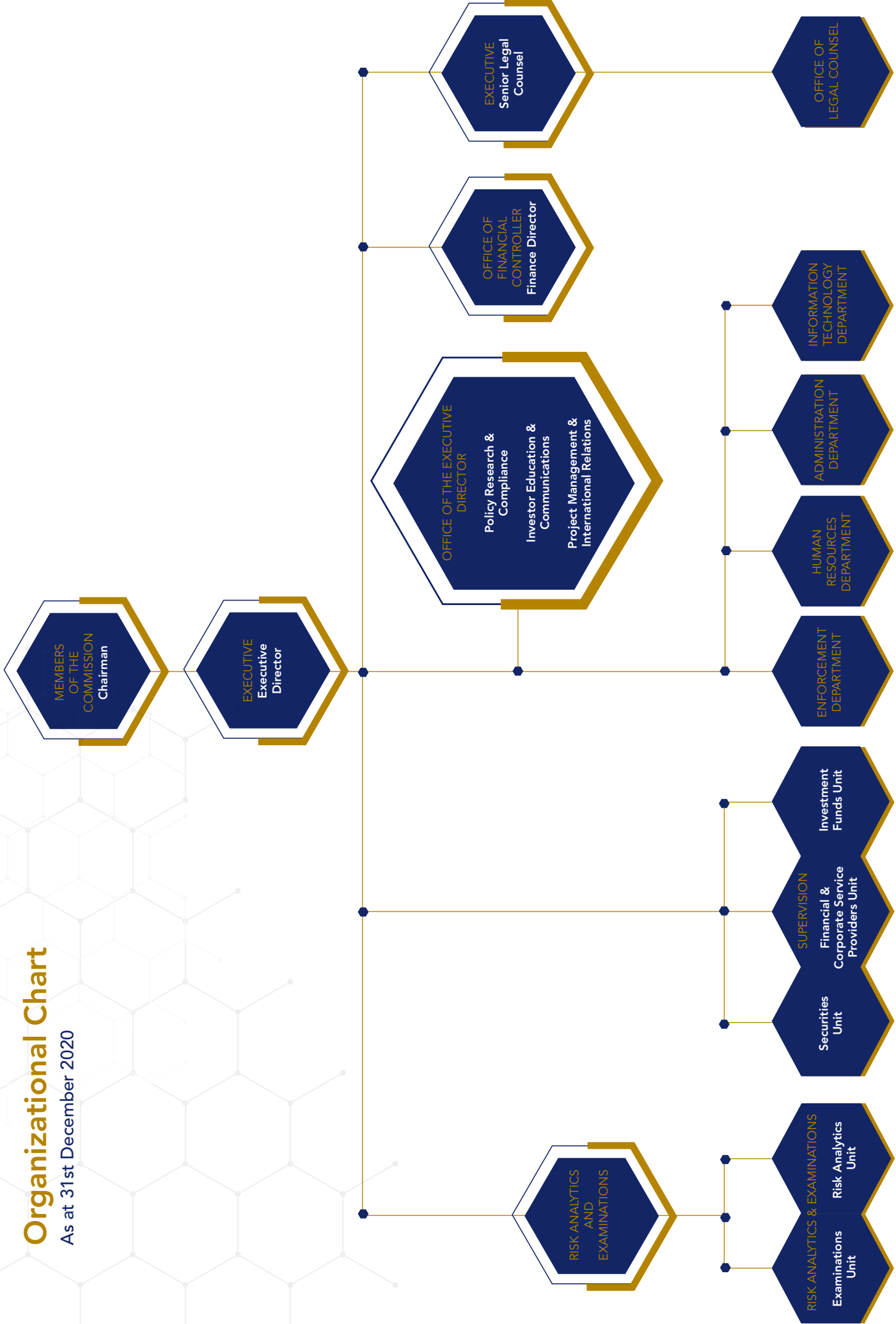


GAWAÏNE WARD

Senior Manager
Enforcement

Organizational Chart

As at 31st December 2020





Operations

Policy, Research and Compliance

During 2020, the Commission's policy, research and compliance unit (PRC) focused on the following areas:

- finalizing the Digital Assets and Registered Exchanges Act, 2020, the Financial and Corporate Services Providers Act, 2020, and the Securities Industry (Business Capital) Rules;
- conducting research on developing The Bahamas as a Fintech hub;
- developing thematic reviews in the areas of business continuity planning and suitability requirements for complex financial products and AML/CFT procedures;
- finalizing the Securities Industry (Contracts for Differences) Rules, 2020;
- researching a feasible whistle-blower programme; and
- leading the Commission's local, regional and international financial innovation efforts by utilizing the Fintech hub, SCB FITLink.

Finalization of Fintech-Related Legislation

Digital Assets and Registered Exchanges Act, 2020

Digital Assets and Registered Exchanges Act, 2020 (DARE) regulates initial token offerings (ITOs), digital asset service providers and digital asset businesses in the digital asset market, namely ITOs and their organizers, digital asset service providers and digital exchanges.

The PRC assisted the Office of Legal Counsel (OLC) in reviewing and understanding risks and concerns of our digital asset market participants and aimed to address such concerns, with a view of creating not only a balanced and appropriate digital assets regulatory environment, but also one that encourages and supports financial innovation and market development.

Having begun and completed much of the research and drafting efforts in 2018 and 2019, the Commission focused its 2020 work on finalizing the draft and educating the public about DARE prior to its adoption. In particular, PRC staff, participated in the Commission's webinar under the theme "DARE to Innovate: Fintech Opportunities and the Role of Responsible Regulation", which reviewed some of the potential opportunities of the DARE Bill.

DARE came into operation on 14 December 2020.

Financial and Corporate Service Providers Act, 2020

The Financial and Corporate Services Providers Act (FCSPA), 2020 was amended to, among other things, capture wallet service providers and custodians of digital assets under the regulatory scope of the Commission. The PRC unit assisted with the completion of the FCSPA, 2020, by both providing research on Fintech products and services that were, ultimately, included under the FCSPA, 2020 and with assisting in the final review and editing of the Act.

The FCSPA, 2020 came into operation on 14 December 2020.

Securities Industry (Business Capital) Rules

The Securities Industry (Business Capital) Rules (the Business Capital Rules) are designed to allow small businesses to seek business capital (funding) in the capital markets – i.e. conduct an initial public offering (IPO) – without having to file a prospectus with the Commission. Though much of the work for these Rules was completed in 2017, the Commission focused its 2020 work on updating the Rules for eventual adoption.

Certain regulatory requirements have also been relaxed, thus representing a lighter touch regulation of crowdfund offerings when compared with traditional initial public offerings. In short, the Business Capital Rules make the capital raising process less costly and less onerous – for small businesses than that of traditional initial public offerings.

Developing The Bahamas as a Fintech Hub

The Commission drafted a research paper that analysed jurisdictions considered as international Fintech hubs, and providing clear and consistent recommendations for establishing and coordinating a Bahamian

Fintech hub. Some of the recommendations submitted included:

- developing a national strategy for Fintech-related issues;
- forming a Fintech Steering Group to reduce the “silo” effect;
- developing and implementing supportive regulation and policy; and
- creating a Fintech incubator programme to attract Fintech talent.

Fintech hubs can facilitate a systemic, integrated and cohesive approach to the development of the Fintech sector, and derive benefits, including: an increase in foreign direct investment by technological innovators, an increase in business tourism, easing the cost of doing business, and cultivating and creating a more efficient and tech-savvy environment.

A Review of Jurisdiction Approaches to Aggregate Mining Regulation

This research paper focused on analysing the potential impact of investing in the mining industry, particularly aggregates. Specifically, the paper analyses The Bahamas’ social and legal landscape as it relates to mining and compares the existing mining regulatory framework to those of other jurisdictions, taking into consideration the social, environmental and economic impact experienced in the selected jurisdictions.

Contracts for Differences

The Contracts for Differences Rules, 2020 (CFD Rules), which govern the sale, advertisement, and distribution of CFDs, were finalized in May 2020. The Rules apply to any person carrying on CFD business in or from within The Bahamas, including firms previously registered under the SIA who currently carry on CFD business.

The Rules were initially distributed to the industry for consultation in 2019 and again in February 2020. The CFD Rules emphasize investor protection, particularly market conduct with retail or non-accredited investors, and require CFD firms to include investor disclosure and appropriate risk warnings, transactional and suitability protections for prospective investors.

The Rules also afford sufficient protection from market abuse by introducing a minimum margin requirement for retail clients, requiring negative

balance protection to ensure retail clients do not lose more than their initial investment, introducing requirements for a standard risk warning, and setting restrictions on incentives in the sale and distribution of CFDs.

The Rules also introduce a new policy for the Commission that allows for the reclassification of a retail client as an “elective professional client”. Under this policy, a firm may classify a retail client as an elective professional if the client passes a qualitative (knowledge and experience) assessment and meets two of following three financial criteria:

- The client has carried out transactions, in significant size, on the relevant market at an average frequency of 10 transactions per quarter over the previous four quarters.
- The size of the client’s financial instrument portfolio, including cash deposits and financial instruments, exceeds \$500,000.
- The client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions or services envisaged.

If classified as an elective professional, such client does not fall under the scope of minimum margin requirements set out in the CFD Rules.

The CFD Rules seek to strike a suitable balance between effective regulation and allowing for market growth and innovation in the securities industry markets.

Thematic Reviews

The Commission developed three industry thematic reviews to more robustly assess and understand the risks of the Commission’s registrants and licensees. The reviews were modelled using the International Organization of Securities Commissions (IOSCO) recommendations as it relates to supervisory efforts of the three thematic reviews. Based on the comments and responses received from registrants, an assessment was conducted to aid in developing a robust risk-based score. To this end, the Commission drafted thematic review surveys on three topics:

- AML/CFT procedures and practices;
- client suitability procedures and practices, product offerings and marketing; and
- business continuity planning and disaster recovery.

The thematic reviews on AML/CFT procedures and practices and business continuity planning were disseminated on 6 July 2020.

Fintech Update

The Commission officially launched SCB FITLink, a financial innovation hub, in December 2019 to improve communications on regulatory issues with the local and international Fintech community. In 2020, SCB FITLink met with and assisted nine Fintech innovators. Requests for information were received from a foreign Regtech firm, a supranational body, a foreign Fintech hub, and several domestic Fintech innovators.

Global Financial Innovation Network

In January 2020, SCB FITLink was admitted as a member of the Global Financial Innovation Network (GFIN) and is a participant in its collaboration work stream. Launched in January 2019 by a small group of international regulatory authorities, GFIN has 57 members. It supports financial innovation and investors, and consumer protection on a global scale. The objective of GFIN is two-fold:

- to provide efficient methods of connecting innovative firms with the relevant authorities as a way to assist innovators with navigating through the global regulatory environment; and
- to establish a framework for cooperation between financial regulators, specifically on Fintech and other innovative topics.

Arrangements with the Commodity Futures Trading Commission

In 2020, staff of SCB FITLink met with representatives of LabCFTC, the Fintech hub of the Commodity Futures Trading Commission (CFTC), to discuss challenges within the Fintech sector, Regtech solutions, and the possibility of signing a Fintech cooperation agreement with the Commission to exchange certain Fintech supervisory and enforcement cooperation information. Both organizations have agreed to the cooperation agreement, which is intended to be finalized and signed off in the first quarter of 2021.

COVID-19 has emphasized the need for improving financial inclusion and using technology to spur growth in the financial industry. In many countries, Fintech products have attracted new consumers, particularly during the COVID-19 pandemic. It is envisioned that similar products will emerge in The Bahamas and the work that SCB FITLink is doing will positively effect growth and innovation in the securities and capital markets in The Bahamas.

Ongoing Policy Development

Suitability Requirements for Complex Financial Products. In the fourth quarter of 2019, PRC submitted a Board paper reviewing IOSCO's Principles of Suitability for Complex Financial Products. The IOSCO Principles emphasize the need for the classification of clients, and ensure that investments made on behalf of clients are suitable considering investor needs, objectives and risk tolerance. The IOSCO Principles also emphasize clear and comprehensive disclosure of risks to investors in conducting investment business.

The topic of suitability in the securities industry has repeatedly been reviewed and has been a key topic in regulatory developments internationally, particularly as it relates to vulnerable clients. In 2020, the Commission drafted *Suitability Rules and Guidelines* for the securities industry, which will be a key priority for finalization in 2021.

Sustainable Financing. In the third quarter of 2020, a white paper was produced that analyses the benefits and opportunities of sustainable financing as well as provides benchmarking of several jurisdictions and organizations with the aim of determining a feasible strategy for implementing and encouraging an environmental, social, and corporate governance (ESG) framework.

Sustainable financing is increasingly becoming an important topic of discussion in the securities and capital markets. Traditionally, investors assessed financial asset performance based on gains and losses of their portfolios; however, with increased awareness of environmental hazards, investors are also assessing their performance on the ESG impacts their investments make. The Commission has the opportunity to introduce a change by ensuring that an appropriate ESG framework is in place for the benefit of the country's investment environment.

Peer-to-Peer (P2P) Lending. The 2021 Fintech research will focus on P2P lending. P2P lending, also known as crowdfunding, allows both individuals and small businesses to obtain loans directly from individual lenders. The Commission does not currently have an official position or legislative framework as it relates to P2P lending.

Investor Education

Financially literate investors with access to reliable, current investment information are better empowered to grow their wealth and protect themselves from falling victim to investment frauds, scams, and other misconduct. This underlying principle drives the Commission's approach to executing its function of promoting an understanding of the capital markets and its participants, and the benefits, risks and liabilities associated with investing.

The Commission's investor education initiatives for 2020 were driven by the socio-economic impact of Hurricane Dorian, which made landfall in the Northern Bahamas on 1 September 2019 as a category 5 hurricane, and the COVID-19 pandemic. Both disasters reinforced the criticality of being financially prepared for crises, and for financial resilience on a personal, community and national level. During the reporting period, there was an increase in the number of reported investment fraud and scams globally that industry experts have attributed to variables exacerbated by the pandemic. These included factors such as increased social and physical isolation, increased online activity, and challenging financial situations. In light of this, and with respect to enforced social distance protocols, the Commission advanced its entire investor education programme digitally.

World Investor Week

The Commission participated in an array of activities to observe World Investor Week (WIW), an initiative of IOSCO.

WIW 2020 was calendared for 5-11 October. However, the Commission's WIW initiatives extended from 1 October to 31 December and began with the Prime Minister, the Most Honourable Dr. Hubert Minnis, declaring the month of October "Investor Education Month" in The Bahamas.

The Commission's WIW activities focused on sound investing. The Commission continued its efforts to ensure that retail investors are readily able to identify and avoid fraud and scams. Additionally, the Commission focused activities on educating the public on the opportunities created by the Digital Assets and Registered Exchanges Act, 2020. Activities conducted by the Commission during WIW included:

Webinars

Be a Smart Investor – Protect Yourself from Frauds and Scams

This webinar was held on 9 October. The webinar informed participants about investment and securities frauds and scams. This included an overview of how these schemes are structured, typical warning signs, and the Commission's role in protecting investors. Chief Superintendent of Police, Matthew Edgecombe brought remarks on financial crime in The Bahamas to open the event. The Commission's Executive Director Christina Rolle, and Gawaine Ward, Senior Manager, Enforcement Department, led the panel discussion, which was moderated by Stewart Miller, Manager, Investor Education/Communications Unit. Participants logged on from The Bahamas, Barbados, Canada, Curaçao, Jamaica, the United Kingdom and the United States of America.

DARE to Innovate: Fintech Opportunities and the Role of Responsible Regulation

This webinar was held on 28 October and provided an overview of the Digital Assets and Registered Exchanges Act, 2020. The legislation governs digital assets and exchanges, emergent technologies and the establishment of a virtual assets authority. The webinar also focused on the entrepreneurial opportunities the legislation provided for, the Act's anti-money laundering provisions, investor protection features, registration processes and other requirements to conduct virtual assets business. The webinar targeted both potential participants in the digital/virtual assets business and potential investors.

The panellists included Executive Director Rolle, Christian Adderley, Head of Policy, Research and Compliance and Dana Munnings-Gray, Manager, Supervision Department, and was moderated by Aliya Allen, Partner, Graham Thompson. The webinar attracted participants from Andorra, Argentina, The Bahamas, Barbados, Bermuda, Canada, Cayman Islands, Colombia, Cyprus, Jersey, Trinidad and Tobago, the United Kingdom, the United States of America and Uruguay. Both webinars are on the Commission's website and Facebook page.

Television and Radio Show Appearances

The Commission promoted sound investing messaging, specifically, avoiding fraud and scams, over traditional media, which, particularly in the case of radio and local television news, maintains substantial audiences in The Bahamas, and

facilitated messages to vulnerable persons who may prefer or depend on traditional media channels for news and information.

On 7 October, the Commission launched its “Crypto Curious” television advertisement campaign on *You and Your Money*, the country’s premier financial advisory television programme. On 8 October, END senior manager and deputy manager participated in a radio segment on the popular talk-radio show *Morning Blend* to discuss common investment frauds seen in The Bahamas, red flags to watch out for and the Commission’s role in protecting investors.

On 30 November, the executive director and END senior manager appeared on *Bahamas at Sunrise*, a local morning television show, to discuss the ways in which the public can protect themselves and others from becoming a victim of pyramid schemes and other financial fraud and scams.

On 2 December, the Commission’s executive director and END senior manager appeared as guests on the *You and Your Money* programme and discussed the ways in which persons can engage in sound investing and avoid financial fraud and scams.

Social Media Campaigns

The Commission posted daily information bites under the theme “Be a smart investor” as one of its WIW celebration initiatives. The campaign focused on traditional investor education messaging and included messaging specific to initial coin offerings, digital assets and investing online. The Commission included the posts on its Facebook page throughout the month of October. The campaign culminated in a total reach of 8,588.

In tandem with the other members of the Caribbean Working Group of the Americas Chapter of the International Forum of Investor Education, the Commission launched the “I will” campaign. Daily financial literacy posts on the Facebook page encouraged persons to take various actions to be more financially resilient. The campaign culminated in a total reach of 2,090.

Timely Tip Tuesdays

The Commission continued its “Timely Tip Tuesday” initiative. Every Tuesday, the Commission posts financial literacy or investor education messages to its Facebook page.

Project Management and International Relations

Affiliations and Memberships

The Commission maintains membership in various international, regional and local organizations to stay abreast of regulatory and standards developments, and rising risks and threats, among other things. Some of these memberships also allow the Commission to represent stakeholder concerns and regulatory considerations specific to the jurisdiction at international fora. See Table 2.

International Organization of Securities Commissions (IOSCO)

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

The Commission became an early adopter and signatory to Appendix A of the Enhanced Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (EMMoU) on 21 November 2018. 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 IOSCO Board is the governing and standard setting body of IOSCO and comprises 34 securities regulators. The Commission is currently a Board member and a member of six 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. The Commission’s executive director currently serves as Vice-chair of IARC having been appointed in April 2020 first for the remainder of the term 2018-2020 and then for the term 2020-2022.

- **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.
- **Assessment Committee (AC)** assesses implementation of IOSCO Principles and Standards across the IOSCO membership.
- **MMoU Monitoring Group Steering Committee (MMoU MG SC)** serves to review problematic issues identified through use of the MMoU and make recommendations to the Monitoring Group as to how these should be addressed.

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.

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 this forum to discuss unique and shared regulatory challenges.

Table 2: Membership meetings and activities attended

International Organization of Securities Commissions (IOSCO)

Meeting/Conference/ Activity/Date	Place (city, country)	Themes/Topics
Annual Meeting of IOSCO		No physical meeting due to the COVID-19 pandemic. Series of virtual meetings held in lieu of.
GEMC 16 November 2020	Virtual	Discussion on recent work (published reports and projects) and market developments and regulatory updates in member jurisdictions.
C4 and Screening Group Meeting 19-20 February 2020	Madrid, Spain	Information not available to the public.
C4 and Screening Group Meeting 19-21 May 2020	Virtual	Information not available to the public.
C4 and Screening Group Meeting 15-17 September 2020	Virtual	Information not available to the public.

C3 (Committee on Regulation of Market Intermediaries) Meeting 30 April 2020	Virtual	Information not available to the public.
C3 (Committee on Regulation of Market Intermediaries) Meeting 1 July 2020	Virtual	Information not available to the public.
C3 (Committee on Regulation of Market Intermediaries) Meeting 17 September 2020	Virtual	Information not available to the public.
C3 (Committee on Regulation of Market Intermediaries) Meeting 2 December 2020	Virtual	Information not available to the public.
C3 (Committee on Regulation of Market Intermediaries) Meeting 14 December 2020	Virtual	Information not available to the public.

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

Meeting/Conference/ Activity	Place (city, country)	Theme/major topics addressed/reason attended
Inter-American Regional Committee Meeting 2 April 2020	Virtual	Discussion on COVID-19 and members' experiences.
Inter-American Regional Committee Meeting 17 June 2020	Virtual	Discussion on COVID-19 regulatory measures implemented, emerging risks and issues, IARC coordination mechanisms and regional virtual/online training.
Inter-American Regional Committee Meeting/ Council of Securities Regulators of the Americas 17 September 2020	Virtual	Discussion on regional priorities, status of global capital markets and their trends and vulnerabilities, survey findings on Fintech and regional cybersecurity and training issues.
Inter-American Regional Committee 12 November 2020	Virtual	Discussion on Board initiatives, and reports on market abuse regulation and global financial stability.

Caribbean Group of Securities Regulators (CGSR)

No meetings held due to the pandemic.

COVID-19 Response

The Commission's COVID-19 response was multifaceted to respond to the challenges the pandemic presented. This included increased cleaning of premises and installation of sanitizing stations throughout SCB's premises and strict enforcement of social distancing protocols.

In response to the Emergency Orders, the Commission commenced a phased closure of its physical offices during March. This resulted in non-essential staff working remotely commencing 20 March. All face-to-face meetings and travel for staff to attend international training and conferences were cancelled.

To ensure that the Commission's management and staff had access to timely and credible information an internal biweekly publication, *SCB COVID-19 Chronicles* was produced. The first issue was released on 11 May. It provided staff with COVID-19 statistics and other important information including legislative updates and links to speeches and presentations to government disseminated information.

Expansion of the Emergency Orders and the implementation of a 24-hour curfew resulted in the full closure of SCB's premises and all staff working remotely from home as at 24 March 2020.

Shifting to a remote working environment for staff was easily facilitated as the Commission had made the determination to accelerate its mobility project, which required workstations to be replaced with laptops as they reached the end of their production cycles. More than 95 per cent of SCB's workforce was ready to begin "work from home" as required. Implementation of additional infrastructure to support remote access to SCB servers and systems took place.

The Commission's licensing and registration functions and off-site surveillance continued without interruption during the operational changes. Specific focus was given to completion of the conversion of all online forms to e-fillable versions for ease of submission, and the development of new electronic versions of all licensing and registration certificates.

With the suspension of on-site examinations, and as part of its 2020 examination priorities, the Commission introduced desk-based thematic reviews as part of its supervisory toolkit.

Human Resources

As at 31 December 2020, the Commission's staff complement stood at **81** consisting of **75** full-time employees and **6** temporary/contract employees.

Table 3: Employees by department

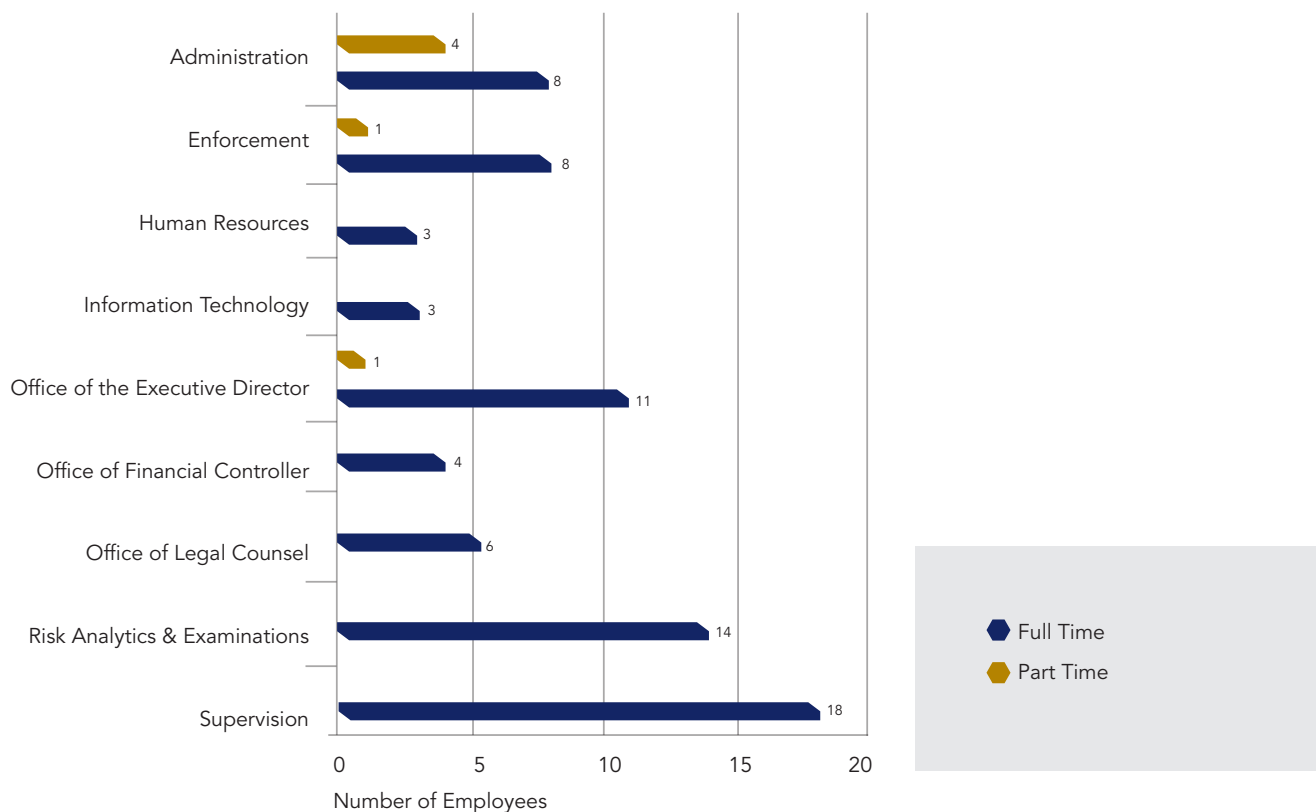
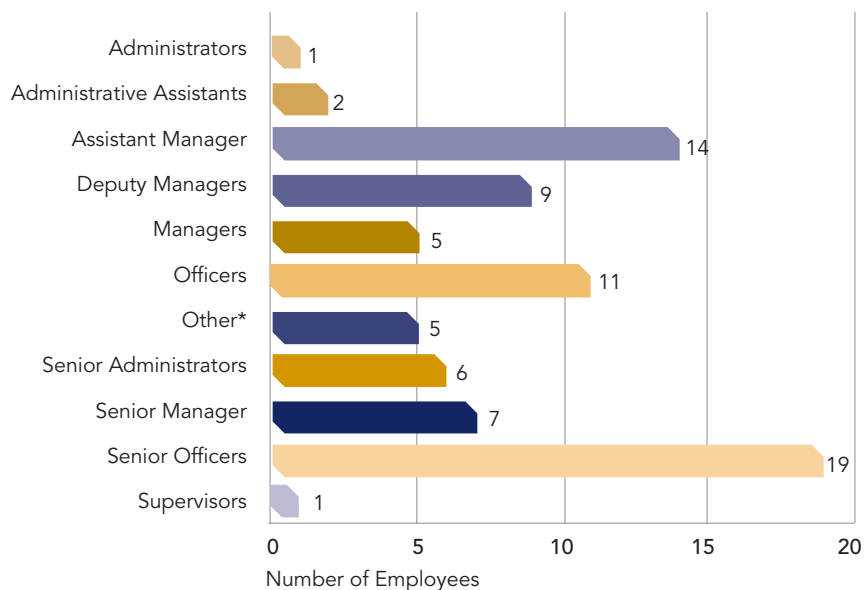
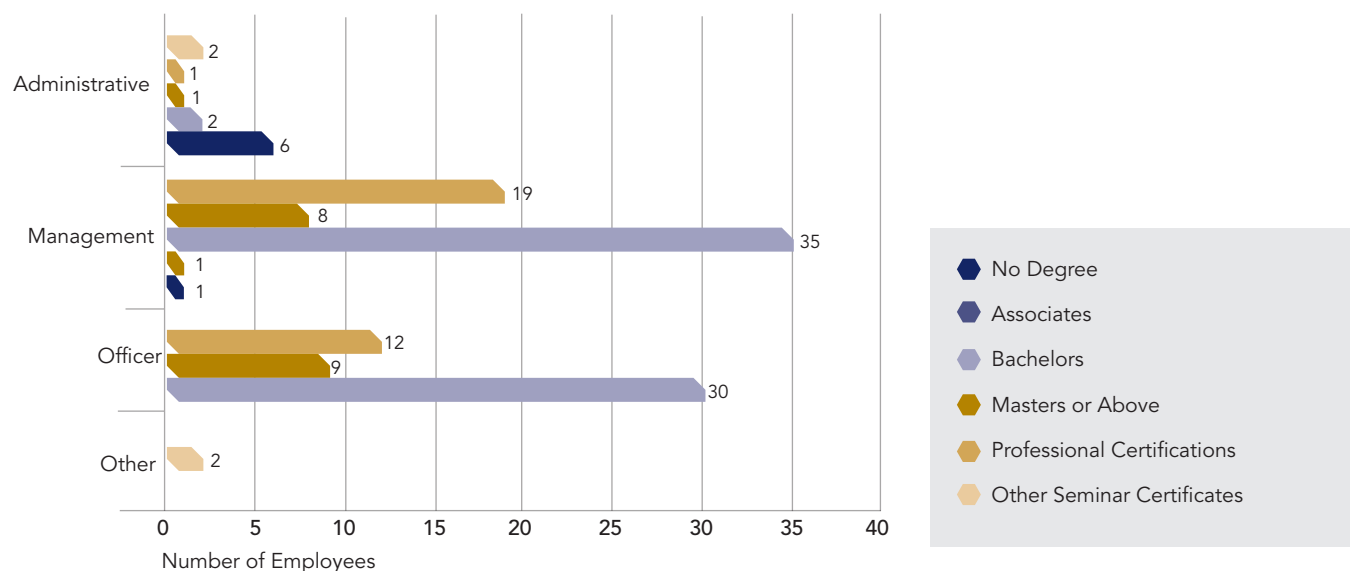


Table 4: Employees by position



* Other represents 4 clerical workers and 1 investigations officer on contract.

Table 5: Qualifications of Commission employees across positions



Staff Meetings

During 2020, the Commission held **4** staff meetings: **2** regular meetings and **2** special meetings. All meetings were virtual due to the COVID-19 pandemic.

Staff Education and Training

During 2020, the Commission continued its support of staff development in order to strengthen its capacity to execute its functions and ongoing priorities. The Commission continued to offer training opportunities to employees including travel, up to February 2020; after this date, all training was virtual webinars, conferences and seminars due to the pandemic. See Table 6.

Table 6: Training and capacity building events attended by Commission staff in 2020

International	Staff Attended
Bahamas Face-to-Face Meeting, Trinidad and Tobago	2
CFATF Pre on-site Training, St. Kitts & Nevis	1
IOSCO C4-SG Meetings, Madrid, Spain	2
Office Visit to CFD Operators, Cyprus	3
Cambridge Fintech and Regulatory Innovation (CFTRI) - Virtual	7
ACAMS Global Virtual Conference - Virtual	13
22nd IOSCO Seminar Training Program - Virtual	3
SIFMA Annual Meeting 2020 - Virtual	10
US CFTCs 28th Annual International Regulators Symposium - Virtual	3
BSHRM (Bahamas Society of Human Resources Management) Conference - Virtual	3
Hong Kong Fintech Week 2020 - Virtual	All Departments
MLRO Day 2020 - Virtual	1
ACAMS Caribbean Global Conference 2020 - Virtual	7

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 programme, with staff incentives and accommodation of initiatives on offer. Participants had the opportunity to increase their awareness of health and wellness, through a number of initiatives that provided the tools to make informed lifestyle choices. All mentioned continued virtually with several webinars (Mental Health, budgeting and home-schooling etc.) to assist staff during COVID-19 lockdowns. The virtual programme was initiated from mid-March 2020 and continued to the end of 2020.

Team Member Jonique Webb

On 19 January, the Commission was devastated by the death of team member Jonique Webb, Assistant Manager in the Risk Analytics and Examinations Department. Executive Director Christina Rolle described Jonique as "the consummate professional, working through her health struggles, determined to contribute at the highest standards". Jonique began her employment at the Commission on 16 May 2016. Initially hired to the position of Senior Officer, she was promoted to Assistant Manager in the Examinations Unit of RAED on 1 July 2018.

On 21 January, the Commission brought in Dr. Wayne Thompson, a local psychologist, to give a presentation on grief management.

On 24 January, the Commission held a memorial service to celebrate Jonique's life and contributions to the organization.

Administration

Business Continuity Plan

The Commission began a complete overhaul of its business continuity plan (BCP) mid-year. An internal committee was established to review all aspects of the plan, with an extended committee of representatives from each department included in the process. Aspects of the plan related to the remote working environment (Pandemic Scenario), were fleshed out as a part of this process, in light of the COVID-19 pandemic. A secure geographically diverse solution was implemented to minimize any risks associated with future threats like those experienced with Hurricane Dorian in 2019. The Commission also undertook an assessment of its

information technology data backup and recovery process, and support vendors. The finalization of the BCP is ongoing with committee members meeting virtually. The Hurricane and Emergency Disaster protocols were further detailed and updated.

Efficiency Initiatives

Staff continue to be encouraged to lower blinds, during prolonged absence from offices or work areas, in order to avoid furniture damage from sunlight and to assist with maintaining a cooler environment. The use of timers for office lights and manually turning off other lights when not in use is also ongoing.

COVID-19 Cleaning and Safety

From the onset of the pandemic, the Commission was mindful to safeguard a healthy environment for Commission staff and visitors. Subsequently, an increased and intense cleaning schedule was implemented. Daily disinfecting protocols included hourly cleaning of door knobs/handles; detailed wiping down of office equipment and workspace areas throughout the day; sanitizing table, chairs, door knobs/handles, telephone and any other items used in meeting rooms after a meeting. Detailed cleaning and sanitizing of all Commission spaces is performed each evening.

Signage and emails encouraged staff to be mindful of hand sanitizing and disinfecting workspaces specifically when in office throughout 2020. The Commission also issued formal guidance to staff regarding protocols and expectations for returning to work. Wall and desktop sanitizer units, thermometers, additional disinfectant sprays and wipes were strategically placed throughout the Commission's offices. An interim 'sick room' was designated for emergency purposes should they arise. The reception desk was installed with a sneeze guard security panel and a sanitizer stand was placed just inside the entry doors. A table was also placed just inside the entry for collection of incoming mail/packages to limit interaction with the receptionist. To minimize the need for persons to come to the Commission's offices, messengers delivered outgoing mail.

Management provided staff with care kits inclusive of masks, disinfectant and hand sanitizers in the third quarter and additional masks were given during the holidays. Staff were directed to wear face coverings when on premises and to maintain social distancing requirements.

Document Management Software Solution RFP

On 19 October, the RFP for a Document Management Solution was issued. Subsequently, a number of questions and points for clarification were received. In response, the RFP was reissued on 10 November, with an addendum that addressed the matters raised. The deadline for submissions was 23 November. A number of responses were received, and the Commission ended the year in the process of selecting a vendor for the project.

Information Technology

It is impossible not to recognize the impact that the pandemic of 2020, initiated by the coronavirus (COVID-19), had on the world at large, and the Bahamian technology arena. The unprecedented response to the widespread health threat, and requirements for human resources, demanded an immediate re-evaluation of priorities to allow organizations to continue to function effectively.

Pandemic Response

The Commission was proactive in preparing for the possible effects of the pandemic prior to the forecasted impact to The Bahamas. The Commission fast-tracked the plan that was in development, as a part of the Business Continuity Plan, which allowed the staff to continue normal functions while working remotely.

The plan included the acquisition of additional mobile workstations, the implementation of collaborative software throughout the Commission, and the full rollout of the remote functionalities of the newly acquired telephony system. The information security framework was enhanced to offset the additional risks inherent to operating in a remote environment.

Compliance and Regulatory Interface

The major technological improvement for the Commission during the year was the development of the Compliance and Regulatory Interface (CoRI). CoRI allows registrants and licensees to submit electronically the required filings to the Commission. The portal was developed and tested during 2020 and opened for registrant and licensee filings for the 2020 period in January 2021.

Server Infrastructure

The Commission made great strides toward future proofing its digital capabilities, by upgrading and enhancing the server infrastructure. The industry leading, fully implemented solution delivers increased redundancy, availability and responsiveness while allowing for the continued growth of the Commission's digital assets.



Adult and baby flamingoes, Inagua National Park,
Inagua, The Bahamas
© Bahamas Ministry of Tourism/Olga Stokes

Supervision and Examinations

Risk Analytics and Examinations

Risk Based Supervision (RBS) Update

The Commission completed its transition to a risk based supervisory framework in 2018. Key benefits of risk-based supervision include enhanced on-site and off-site surveillance capacity, which allows the Commission to identify emerging risks and intervene in a timely manner. In August 2019, 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 platform.

In March 2020, the platform was tested to assess the ease of use for users and the data flows into the RBS platform. The SOFY platform was opened during November 2020 to accept data relative to 2019 audited financial statements and/or management accounts. SOFY's data has been fully integrated into the RBS platform.

Examinations

The examinations conducted by the Commission are categorized as routine and "for cause". Routine examinations are performed with an average frequency of four years. Inspections for cause are based upon credible information coming to the Commission's attention and are performed on an "as needed" basis. In cases where banks and trust companies fall under the regulatory scope of both the Commission and the Central Bank of The Bahamas (CBOB) examinations may be conducted jointly with the CBOB.

Suspension of On-site Examinations

On 17 March 2020, the Commission suspended on-site examinations, due to social distancing and restrictions protocols in The Bahamas as a result of the COVID-19 pandemic.

2020 Examination Priorities

The Commission informed registrants and licensees of the risk areas it would focus its supervisory efforts on, in 2020, by publishing the examination priorities. The determination of the priorities was informed by 2019 risk rating exercise conducted for all licensees and registrants. The 2020 examination priorities were as follows:

- Desk-based thematic reviews and follow-up. In the second quarter of 2020, the Commission introduced desk-based thematic reviews as part of its supervisory toolkit. Based on the results of those thematic reviews, examiners prioritized high-risk licensees and registrants to ensure proper remediation, especially in key areas for operational compliance with international standards and best practices.
- Risk Management including Self-Risk-Assessment and Client Risk-Rating Framework. The Commission assessed the effective implementation of self-risk assessment and client risk-rating frameworks for SIA/IFA/FCSP registrants/licensees and ensured that risk mitigating efforts were effective and that new or emerging areas for concern were properly identified and controls sufficiently tested and reported.
- Common Reporting Standard (CRS) Reporting. As tax evasion is now a predicate offence for money laundering in The Bahamas, examinations under this focus included a review on whether entities potentially posed a risk to the jurisdiction due to improper, inadequate or non-existent tax reporting. The Commission particularly focused on complex structuring which may have the potential to confuse the reporting responsibilities of licensees and registrants.
- Business Continuity/Disaster Recovery. In the last decade, The Bahamas has experienced several catastrophic hurricanes with the most recent being Hurricane Dorian in September 2019. Considering this, the Commission tested the robustness of the securities sector in the aftermath of a disaster scenario. All examination programmes included a review of disaster recovery plans in terms of testing/reporting, record retention with emphasis on wireless restoration and client access to data during the down time, data management and accessibility, data protection, as well as proper configuration of network storage devices.

Desk-Based Thematic Reviews

In light of the suspension of on-site examinations, the Commission developed and distributed two extensive desk-based thematic reviews, one covering AML/CFT/PF and the other covering business continuity planning. The initial surveys were issued on 6 July 2020. The results will inform the Commission's assessment of high-risk licensees and priorities for 2021.

Other Updates

In February 2020, the Commission held a virtual training session for registered firms on Regulatory Capital Calculation. Moving forward the Commission intends to conduct more annual training sessions to engage licensees and registrants on their required reporting (Interims, Audited Financial Statements, Regulatory Capital) and speak to areas of concern noted during the period under review.

Securities Industries Act, 2011

Firms

In 2020, the Commission approved **9** new firms, **5** firms upgraded their license to conduct registrable securities business, and **10** firms surrendered their license. As at 31 December 2020, there were **163** registered securities firms. See Table 7.

Table 7: Firms registered under the SIA

Category	Registered Firms as at 31 Dec	Newly Approved	Surrenders	Matters open as at 31 Dec
	2019	2020	2020	2020
Dealing as principal or agent	3	0	0	3
Dealing as agent only	9	0	0	9
Arranging deals in securities only	0	0	0	0
Managing securities only	17	0	5	12
Advising on securities only	9	0	0	9
Dealing as agent only and Arranging deals in securities	11	0	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	1	0
Managing securities and Advising on securities	48	2	4	46
Dealing as principal or agent and Advising on securities	1	0	0	1
Dealing as principal or agent, Arranging deals in securities	9	3	0	12
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
Dealing as principal or agent, Arranging deals in securities and Managing Securities	0	2	0	2
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	16	2	0	18

Dealing as agent only, Arranging deals in securities, Managing securities and Advising on securities	29	0	0	29
Clearing facilities	1	0	0	1
Marketplaces	1	0	0	0
Total	164	9	10	163

Individuals

In 2020, **179** individuals were approved under the Securities Industry Act (SIA), while **195** individuals surrendered their license. As at 31 December 2020, there were **1,079** individuals registered under the SIA. See Table 8.

Table 8: Individuals registered under the SIA

Category	Registered Individuals as at 31 Dec	Newly Approved	Surrenders	Registered Individuals as at 31 Dec
	2019	2020	2020	2020
CEO	163	18	18	163
Compliance officer	164	34	35	163
Representative – Trading	251	21	33	239
Representative – Discretionary management	119	20	21	118
Representative – Advising	164	29	28	165
CEO and Representative – Trading	10	2	4	8
CEO and Representative – Discretionary management	45	7	9	43
CEO and Representative – Advising	11	7	5	13
Representative – Trading and Discretionary management	15	7	5	17
Representative – Trading and Advising	34	6	11	29
Representative – Discretionary management and Advising	52	12	15	49
CEO, Representative – Trading and Advising	1	2	1	2
CEO, Representative – Discretionary management and Advising	30	7	5	32
Representative – Trading, Discretionary management and Advising	26	5	3	28
CEO, Representative – Trading, Discretionary management and Advising	10	2	2	10
Total	1,095	179	195	1,079

SIA, 2011 Examinations

2020 On-site Examinations of SIAs

During 2020, pursuant to the SIA, 2011, **3** on-site examinations were conducted. Of these, **2** were routine examinations and **1** was for cause. There were no joint on-site examinations of licensees conducted with the CBOB over the review period.

Investment Funds Act, 2019

The promulgation of the Investment Funds Act (IFA), 2019 and the Investment Funds Regulations, 2020 ushered in a number of changes to the supervisory framework for investment funds. The amended IFA redefined the trigger for the licensing of an investment fund so that investment funds “carrying on business in or from within The Bahamas” (sections 3 and 5) includes activities such as:

- the formation of an investment fund;
- the operation of any fund licensed under the Act,
- the 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); or
- engagement in investment fund business as a fund manager, administrator, advisor or AIFM.

The Act prescribed the requirement for a person appointed as investment fund manager to:

- a standard fund to be registered under the SIA, 2011 or licensed (or registered) in a prescribed jurisdiction and registered under the IFA, 2019; and
- a professional or SMART Fund to be registered under the IFA, 2019.

At year-end 2020, more than 400 applications for registration were received by the Commission with the deadline for registration being extended to 31 January 2021, due to the COVID-19 pandemic.

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. This new feature has allowed for fund administrators in three prescribed jurisdictions to act on behalf of SCB-licensed funds thus far.

Of note, the category of exempt administrator is no longer applicable. One exempt administrator was in the process of completing its application to transition to a restricted administrator at year-end, but was delayed due to the COVID-19 pandemic.

Investment Fund Administrators

During 2020, **3** investment fund administrators were licensed by the Commission. As at 31 December 2020, there were **48** licensed fund administrators. See Table 9.

Table 9: Investment Fund Administrators

Category	Licensed Administrators as at 31 Dec	Newly Approved	Surrenders	Licensed Administrators as at 31 Dec
	2019	2020	2020	2020
Unrestricted	34	1	2	33
Restricted	18	2	6	14
Exempt	5	0	4	1
Total	57	3	12	48

Investment Funds

In 2020, the Commission approved and licensed **69** investment funds. The Commission licensed **6** of these, and **63** were licensed by unrestricted investment fund administrators and filed with the Commission. During the 2020 period, **105** funds entered into liquidation or indicated a surrender of license. Of those, **67** satisfactorily completed the process by year-end, resulting in **712** licensed investment funds at 31 December 2020. See Table 10.

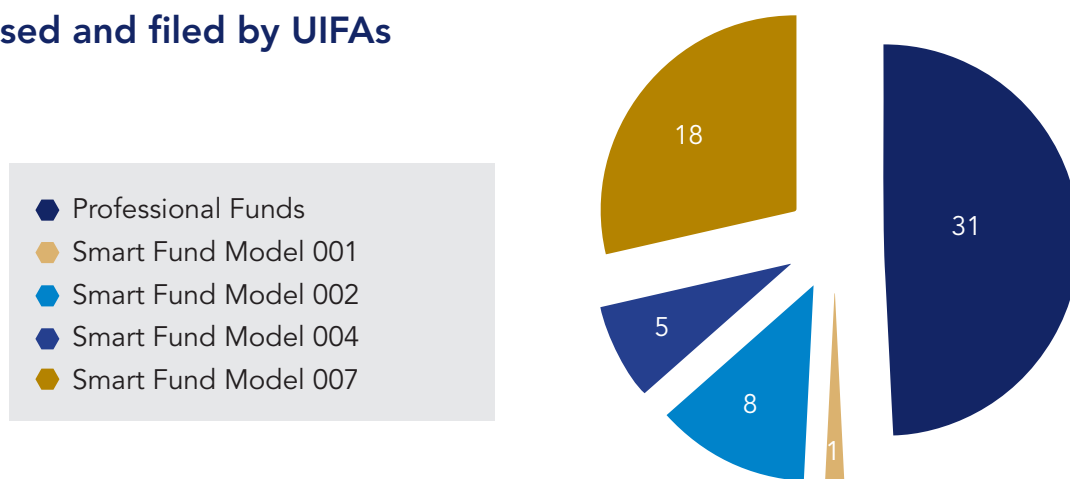
Table 10: Investment Funds*

Category	Investment Funds as at 31 Dec	Newly Approved	Investment Funds as at 31 Dec
	2019	2020	2020
Standard Funds	33	0	32
Professional Funds	215	31	226
SMART Fund Model 001	5	2	7
SMART Fund Model 002	142	9	133
SMART Fund Model 003	9	0	9
SMART Fund Model 004	149	6	144
SMART Fund Model 005	5	0	4
SMART Fund Model 006	1	0	1
SMART Fund Model 007	151	21	156
Total	710	69	712

* Table does not include surrenders or liquidations.

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 Professional Fund and SMART Fund Model 007 continue to display activity, despite a net decrease in funds over the year.

Licensed and filed by UIFAs



NAVs and AUAs: Investment Funds Administered by SCB-Licensed Investment Fund Administrators

A focused data collection exercise was conducted over the period 26 February to 22 May 2021 of investment funds administrators licensed by the Securities Commission of The Bahamas. The exercise was conducted to

allow for the compilation and analysis of current information about the size of the investment funds industry and to better understand any developing trends. The preliminary findings of the survey are provided below. See Table 11.

Table 11: Net Asset Values of Investment Funds Administered by SCB-Licensed Investment Fund Administrators

As At:	30 June 2019p	31 Dec. 2019p	30 June 2020p	31 Dec 2020p
Net Asset Value (\$US Billions)	35.594	38.357	42.395	49.747

As at 31 December 2020, aggregate assets under administration (AUAs) by licensed investment fund administrators stood at US \$131.496 Billion. This value, however, may include assets which are under the administration of a licensed investment fund administrator, but not held within a licensed investment fund structure, in cases where the administrator is also licensed pursuant to the Banks and Trust Companies Regulation Act, 2000.

Financial and Corporate Service Providers Act, 2020

The Financial and Corporate Service Providers Act (FCSPA), 2020 came into operation on 14 December 2020, repealing and replacing the FCSPA, 2000. A summary of key legislative changes is presented in the Legislative Updates section of this report.

Registered Financial and Corporate Service Providers

During 2020, **18** Financial and Corporate Service Providers (FCSPs) were newly licensed, while **25** licenses were surrendered. As at 31 December 2020, there were **342** licensed FCSPs. See Table 12.

Table 12: Financial and Corporate Service Providers (FCSPs)

Category	FCSPs as at 31 Dec	Newly Approved	Surrenders	FCSPs as at 31 Dec
	2019	2020	2020	2020
Companies	208	7	14	201
Partnerships	30	1	1	30
Individuals	106	8	10	104
Unincorporated Bodies	5	2	0	7
Total	349	18	25	342

FCSPA, 2020 Examinations

2020 On-site Examinations of FCSPs

One routine examination of a financial and corporate service provider was conducted during 2020.

Capital Markets Overview

The Bahamas International Securities Exchange (BISX) continued to serve as a crucial element in the Bahamian capital markets as the only registered securities exchange. As at 31 December 2020, the market comprised 37 primary market listings (2019: 38) which included 20 ordinary shares with a market capitalization of \$4.51 billion (2019: \$4.77 billion), 7 preference shares with a market capitalization of \$244 million and 10 Bahamas Government Stock (BGS) and corporate bonds with a face value of \$479 million. Also there was 210 Bahamas Registered Stock (BRS) with a face value of \$3.5 billion. The volume of shares traded on BISX in 2020 was 5.558 million (valued at \$27.886 million) in contrast to 2019 when the volume of shares traded was 8.853 million (valued at \$42.746 million). Additionally, as at 31 December 2020 the BISX All-share index closed at 2,092.46 compared to 2,231.60 in 2019 which represented a 6.23% decrease.



Enforcement

Enforcement

There were **12** enforcement matters brought forward from 2019. During 2020, **2** new matters were opened and **2** matter were closed. As at 31 December 2020, **12** enforcement matters remained open, of which **9** involved litigation and **3** were administrative matters. Administrative matters primarily concern non-compliance with filing obligations and client files/records under the Securities Industry Act and Regulations. See Table 13.

Table 13: Enforcement matters for 2020

Type of Matter	Matters brought forward from previous years	New matters opened	Matters closed	Matters referred to another agency	Matters open as at 31 Dec
	2020	2020	2020	2020	2020
Litigation	8	2	1	0	9
Administrative	3	0	0	0	3
Criminal	0	0	0	0	0
Other	1	0	1	0	0
Total	12	2	2	0	12

Of the two new litigation matters, one matter concerned the supervisory winding up of Mediatrix Capital Fund Ltd., a fund that failed to meet its statutory obligations and whose principals were charged with fraud by a foreign regulator. The Commission exercised its statutory authority, placing it in a court-supervised liquidation in April 2020. The court appointed PwC as the Joint Official Liquidators (JOLs) to the fund. The liquidation remains ongoing.

The second new matter concerned the Commission filing a petition in March 2020 seeking the court-supervised winding up of Swiss America Securities Ltd. (SASL), also known as Mintbroker International Ltd. The Commission's action emanated from the entity ceasing its business and surrendering its registration without the Commission's approval and its failure to remediate several breaches. Consequently, in an effort to secure the company's assets, property and documents, the Commission immediately sought an order for court-appointed provisional liquidators for SASL. The Commission now awaits the hearing of its petition.

Concerning the closed matters, on 2 November, the Supreme Court gave an oral ruling concerning a judicial review application filed by SASL in September 2019 challenging the Commission's authority to suspend SASL's registration for five days and investigate certain regulatory issues. In its oral ruling, the court confirmed that the Commission had acted within its statutory remit and dismissed the judicial review application. Hence, the Commission was able to close this matter involving SASL.

The second closed matter involved Seton Securities International Ltd. (Seton), which commenced during September 2018, when the Commission discovered that Seton had been convicted and fined in Alberta, Canada for unregistered securities activities. The Commission commenced a court-supervised winding up but subsequently agreed to a Commission-supervised, voluntary winding up using a liquidator appointed by the Commission – the first liquidation of this kind for SCB. Thereafter, the Commission received the court's leave to withdraw its petition in November 2018 and the winding up continued to the end of 2019 with the liquidator's final report being issued around February 2020.

Public Notices

The Commission issued **5** enforcement-related Public Notices in 2020. See Table 14. The full text of public notices, investor alerts and press releases issued by the Commission, along with copies of judgements are available on the Commission's website.

Table 14: Public Notices issued in 2020

Notice	Issue Date	Description
Pacifico Global Advisors Ltd	9 January 2020	Public Notice No 1 advised of the court-supervised liquidation of Pacifico Global Advisors Ltd.
MLM – Forex Scam in Bahamas	1 July 2020	It was brought to the Commission’s attention that various purported forex-based schemes being touted as multi-level marketing (MLM) programmes were soliciting persons in The Bahamas to join the programmes, offering training for persons to invest in foreign currency (Forex) trading. Public Notice No 9 advised the public that Forex trading is a highly speculative activity that carries a significantly increased risk of financial loss.
Foundation Family Sou Sou or African Sou Sou	14 September 2020	The Commission investigated Asue-like programmes Foundation Family Sou Sou or African Sou Sou that were deployed in this jurisdiction from the USA, purporting to be financial programmes and going by the foregoing names and various other monikers. The Commission noted its concern that these programmes had the same characteristics of a Ponzi and/or pyramid scheme. Public Notice No 11 advised the public to exercise caution before participating in “get rich quick” programmes.
Cash Forex Group aka Cash Fx Group aka Cash Fx Group S.A. aka Cfx or Cfx Group	2 December 2020	The Commission became aware of the operation of an entity purporting to facilitate trading in forex, called Cash FX Group S.A. aka CFX or CFX Group. The Commission, in the course of its investigation, noted that the entity and/or its affiliates were not registered with the Commission. Public Notice No 12 advised the public about doing business with this entity.
Blacc Legacy Investment Fund	3 December 2020	It was brought to the attention of the Commission that Blacc Legacy Investment Fund may be carrying out activities registrable under one or more of the Acts. 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. Public Notice No 13 advised the public about doing business with this entity.



Legislation

Legislative Updates

Securities Industry (Fee) Rules, 2020

Gazetted 30 December 2020

The Securities Industry (Fee) Rules, 2020 prescribed new fees for all registrants under the Securities Industry Act, 2011.

Securities Industry (Fee) (Amendment) Rules, 2020

Gazetted 26 May 2020

The Rules prescribed increased fee requirements for firms and individuals carrying on various categories of securities business pursuant to the Securities Industry Act, 2011. The Rules amended the application, registration, annual renewal, filing or administrative fees payable pursuant to the Securities Industry Regulations, 2012.

Securities Industry (Contracts for Differences) Rules, 2020

Gazetted 26 May 2020

The Rules introduced specific registration requirements for firms and individuals carrying on securities business in CFDs or CFD related products, or marketing CFDs in or from The Bahamas. The Rules also create ongoing obligations and conduct standards.

The Rules address:

- consumer protection measures, specifically minimum margin requirements and negative balance protection;
- restrictive measures for marketing CFD products to retail clients;
- education and experience requirements for individuals registered under the Rules;
- conduct of business measures based on transparency of transactions in CFDs; and
- specific prudential requirements.

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.

Securities Industry (Fees) (Amendment) Rules, 2020

Gazetted 26 May 2020

The Rules prescribed the fee requirements for firms and individuals carrying on securities business in CFDs 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, 2011.

Securities Industry (Anti-Money Laundering and Countering the Financing of Terrorism) (Amendment) Rules, 2020

Gazetted 26 May 2020

The Rules amended the Securities Industry (Anti-Money Laundering and Countering the Financing of Terrorism) Rules, 2015 to require that licensees obtain the contact information of clients changing the standard from obtaining the permanent address of clients thereby complying with the new international due diligence standards.

Securities Industry (Take-Over) (Amendment) Rules, 2020

Gazetted 28 April 2020

The Rules 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 and provide material obligations, restrictions, and principles regarding the take-over process.

The amendment to the Rules address deficiencies related to:

- 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;
- requirements for proper conduct ensuring bona fide take-overs;
- various restrictions and exemptions regarding take-overs.

Securities Industry (Corporate Governance) (Amendment) Rules, 2020

Gazetted 28 April 2020

The Securities Industry (Corporate Governance) Rules, 2020 created a legislative framework compliant with international standards enunciated in the OECD principles on Corporate Governance and Guidelines on Corporate Governance of State-Owned Enterprises. The amendments address gaps in the legislative regime and ensured that the corporate governance principles complement existing company law.

The Rules:

- require disclosures by prospective nominees to the Board of the number and nature of any other board appointments as well as employment and compensated commitments with other companies, public issuers or regulated entities;
- require an express resolution approving material contracts with a company where a director or

officer has disclosed that he is a director or officer of a party to the material contract;

- require disclosure of directors' interests, service contract with controlling shareholders and details of other Board memberships, employment or compensated commitments held by its directors; and
- require the Chairman and Chief Financial Officer to satisfy the Board that the financial statements present a true and fair view of the affairs of the company and that the Board ensures that the details regarding the company's capital structure are disclosed.

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 (Amendment) Regulations, 2020

Gazetted 28 April 2020

The amendment addressed the disclosure requirements of directors and nominee directors of a public issuer of any existing or potential board appointments, employment or compensated commitments.

Investment Funds (Fees) Rules, 2020

Gazetted 30 December 2020

The Investment Funds (Fees) Rules, 2020 prescribed new fees for all registrants and licensees under the IFA, 2019.

Investment Funds (Fees) (Amendment) Rules, 2020

Gazetted 16 April 2020

The Rules amended the fee requirements for firms and individuals carrying on investment funds business in or from within The Bahamas.

Investment Funds Regulations, 2020

Gazetted 31 January 2020

The Regulations repealed and replaced the Investment Funds Regulations, 2003 and are reissued following the implementation of the IFA, 2019.

The Regulations provide the procedural and operational framework for the implementation of the provisions of the IFA, 2019 and:

- introduce comprehensive requirements for the licensing of investment funds;

- introduce comprehensive requirements on the duties and obligations of licensees in the management and operation of their business;
- address the types of applications which can be made and ongoing reporting obligations of persons required to be licensed under the Investment Funds Act, 2019;
- establish a regulatory framework for operators, custodians, investment fund managers, and investment fund administrators;
- set out by Schedule the forms to be used by licensees and applicants; 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).

The Regulations apply to all registrants and licensees under the IFA, 2019 i.e. investment funds, investment fund administrators and investment fund managers.

Investment Funds (Prescribed Jurisdictions) Rules, 2020

Gazetted 16 April 2020.

The Securities Industry (Prescribed Jurisdictions) Rules, 2020 established 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 IFA, 2019.

Investment Funds (Amendment) Act, 2020

Gazetted 11 February 2020

The Investment Funds (Amendment) Act, 2020 amended the Investment Funds Act, 2019 (No.2 of 2019) to:

- clarify existing and introduces definitions for various terms;
- require funds to appoint a principal office in The Bahamas;
- delete "master fund" as a category of licensing of investment funds;
- require the surrender of a license by a fund that has not commenced operations within six months of licensing or where it has ceased operating for more than one year;
- empower the Commission, where a fund voluntarily surrenders its license, to –
 - order the court supervised winding up of a fund, or
 - appoint an official receiver to a fund;
- require investment fund managers be registered under the Act if acting for SMART or Professional

funds and to also be licensed under the SIA or in a prescribed jurisdiction if acting for a standard fund;

- clarify that a foreign investment fund administrator acting for Bahamas-based funds must be licensed or registered in a prescribed jurisdiction;
- clarify that investment fund administrators are required to file their annual audited statements within four months of their financial year end;
- provide an exemption to the requirement to appoint a custodian where the nature of the assets of the fund do not require custody;
- require that the auditor of a fund be approved by the Commission;
- Empower the Commission to apply to Court for Order to –
 - enforce a directive issued by the Commission,
 - wind up a market participant, or
 - take any other action Commission considers necessary;
- provide an obligation of confidentiality on the Commission and provide a framework for sharing information in particular circumstances; and
- extend the transition period provided under the IFA, 2019 from six to 12 months.

Financial and Corporate Services Providers Act, 2020 (FCSPA, 2020)

Gazetted 25 November 2020

The Financial and Corporate Service Providers Act, 2020 (FCSPA, 2020) repealed and replaced the FCSPA, 2000 and came into force on 14 December 2020 by Appointed Day Notice. The FCSPA 2020:

- establishes a new and robust regulatory regime addressing deficiencies in the FCSPA, 2000;
- enhances the regulatory authority and oversight of the Commission;
- establishes clear and distinct categories of activities for financial or corporate services licensable pursuant to the provisions of the FCSPA, 2020;
- establishes appropriate standards of conduct and obligations for financial and corporate service providers;
- establishes appropriate capital, financial and reporting obligations, commensurate with the category of financial or corporate activity being conducted; and
- provides appropriate transitional provisions.

The FCSPA, 2020 includes the oversight of the following additional financial services activities:

- financial leasing;
- financial intermediation services;
- financial advisory or consultancy services;
- trading in commodities and other financial instruments;
- custody of digital assets; and
- digital wallet providers.

The FCSPA, 2020 also removed the exemption from the requirements for regulation for licensees of the Central Bank of The Bahamas.

Financial and Corporate Service Providers Regulations, 2020

Gazetted 30 December 2020

The Regulations repealed and replaced the Financial and Corporate Service Providers (General) Regulations, No. 41 of 2000 to:

- reflect the regulatory changes to the FCSPA, 2020;
- introduce comprehensive requirements addressing the duties and obligations of licensees in the management and operation of their business;
- introduce expanded requirements addressing a licensee's due diligence obligations;
- establish the date when all licenses issued to financial and corporate service providers expire; and
- introduce the new licence format which will be used.

Financial and Corporate Service Providers (Fees) Rules, 2020

Gazetted 30 December 2020

The Rules established fees specific to the various categories of licensable activities provided in the FCSPA, 2020.

Financial and Corporate Services Providers (Anti-Money Laundering and Countering the Financing of Terrorism) (Amendment) Rules, 2020

Gazetted 26 May 2020

The Rules amended the Financial and Corporate Services Providers (Anti-Money Laundering and Countering the Financing of Terrorism) Rules, 2019 to require that licensees obtain client contact information, rather than client permanent address.

Digital Assets and Registered Exchanges Act, 2020

Gazetted 25 November 2020

The Digital Assets and Registered Exchanges Act,

2020 (DARE) came into force on 14 December 2020 by Appointed Day Notice and provides a regulatory framework for issuing digital tokens and intermediary services related to the issuance of digital tokens. DARE creates a legislative structure for persons participating in digital asset business and establishes requirements for entry and participation in the industry. It stipulates who may participate, the level of capital required, ongoing reporting obligations and penalties for non-compliance.

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. All consultation documents issued in 2020 were promulgated by year end.

Guidance Notes on Elective Professional Client (Rule 25) of the Contracts For Differences Rules, 2020

Under SIA, 2011 (section 13) for the purpose of the discharge of its functions the Commission may publish guidelines describing the interpretation of securities laws. The Commission published the Guidance Notes to assist CFD registered firms to comply with Rule 25 of the Contracts For Differences (CFD) Rules, 2020. Rule 25 allows a non-accredited investor to elect to reclassify as an accredited investor.

Consultation period: 4-13 November 2020

International Obligations (Economic and Ancillary Measures) Act

The International Obligations (Economic and Ancillary Measures) Act (IOEAMA) 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 IOEAMA, 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 sequestered 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.

Pursuant to IOEAMA 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. IOEAMA further provides 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 sequestered, 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 programmes 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 on-site examinations.

The Commission disseminated **16** IOEAMA UNSC resolutions in 2020.

CFATF Update

The CFATF mutual evaluation report provides a summary of the Anti-Money Laundering/Counter Financing of Terrorism and Proliferation Financing (AML/CFT/PF) measures in place, an analysis of the country's level of compliance with 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.

FATF approved The Bahamas for an on-site visit, scheduled to be held on 27 and 28 April 2020. Due to the global impact of the COVID-19 pandemic however, the FATF ICRG on-site review was postponed to 10 and 11 November 2020.

On 18 December 2020, subsequent to The Bahamas' FATF ICRG on-site review, FATF acknowledged the "significant progress" The Bahamas made in improving its AML/CFT regime. FATF noted the jurisdiction's ability to strengthen the effectiveness of its AML/CFT framework, and address "related technical deficiencies to meet the commitments in its action plan and remedy the strategic deficiencies identified by the FATF in October 2018".

The Bahamas is now de-listed from the list of Jurisdictions under Increased Monitoring by FATF.

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 'A1' 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 and 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 and markets better.

In 2020, **21** requests were received and **17** requests were brought forward from previous periods. Of the 21 requests received, 13 originated from the United States, 3 from France, 2 from United Kingdom, 1 from Germany, 1 from Bermuda and 1 from Bulgaria. During 2020, **13** requests were closed. At the end of 2020, **25** matters remained open. The Commission did not have any matters stayed or denied in 2020.

During 2020 the Commission used the IOSCO MMoU to seek assistance from an overseas regulator, with **1** Commission investigation. By year-end 2020, the Commission had received **1** response, which was the final response from the last of the **4** requests sent in 2019; the Commission awaits a response to the overseas regulatory request sent in 2020.

Frequently Used Abbreviations and Terms

AIBT – Association of International Banks and Trust Companies in The Bahamas
AIFM – Alternative Investment Fund Managers
AIFMD – Alternative Investment Fund Managers Directive
AML/CFT/PF – Anti-money laundering /Countering the financing of terrorism/Proliferation of weapons of mass destruction
ATA, 2018 - Anti-Terrorism Act, 2018
ATR, 2019 - Anti-Terrorism Regulations, 2019
AUA - Assets Under Management
BICA – Bahamas Institute of Chartered Accountants
BISX – Bahamas International Securities Exchange
CARTAC – Caribbean Regional Technical Assistance Centre
CBOB/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
DARE – Digital Assets and Regulated Exchanges Act, 2020
CRS – Common Reporting Standard of the OECD
Ex officio member – A member of the Board by virtue of the office he or she holds
FATCA – Foreign Account Tax Compliance Act
FATF – Financial Action Task Force
FCSP – Financial and Corporate Service Provider
FCSPA, 2000 – Financial and Corporate Service Providers Act, 2000
FCSPA, 2020 – Financial and Corporate Service Providers Act, 2020
GEMC – Growth and Emerging Markets Committee
GFSR – Group of Financial Services Regulators
IARC – Inter-American Regional Committee
IFA, 2003 – Investment Funds Act, 2003
IFA, 2019 – Investment Funds Act, 2019
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
ITO – Initial Token Offering
MLRO – Money Laundering Reporting Officer
NAV - Net Asset Value
NRA – National Risk Assessment
OECD – Organisation for Economic Co-operation and Development
OGCISS – Offshore Group of Collective Investment Scheme Supervisors
PCA, 2018 – Proceeds of Crime Act, 2018
RIFA – Restricted Investment Fund Administrator
SCB – Securities Commission of The Bahamas
SIA, 2011 – Securities Industry Act, 2011
SMART Fund – Specific Mandate Alternative Regulatory Test Fund
The Commission – the Securities Commission of The Bahamas
UIFA – Unrestricted Investment Fund Administrator
UNSC – United Nations Securities Council
UNSCR – United Nations Securities Council Resolution

Financials



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 2020, 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 2019 are shown.

The Commission's income is mainly generated from fees charged to licensees, registrants and applicants under the Securities Industry Act, 2011 (SIA, 2011), the Investment Funds Act, 2019 (IFA, 2019), and the Financial and Corporate Services Providers Act, 2020 (FCSPA, 2020) as well as funding from the Government of The Bahamas.

During 2020, the Commission was able to financially sustain its operations and maintain its solvency despite COVID-19. The Commission's asset base saw a year over year decrease of 4.54%, while liabilities decreased by 8.26%. There was a \$1.73 million decline in cash, mainly attributed to the purchase of \$2.0 million of investments in debt securities. The overall \$0.52 million decrease in assets was mainly attributed to depreciation of the Commission's right of use assets, specifically the lease of the Commission's office space. Similarly, the overall \$0.52 million decrease in liabilities was mainly attributed to repayment of office space lease liabilities.

In the area of financial performance, there was a 5.62% decline in total fee income, resulting mostly from a \$0.41 million reduction in penalty fees from 2019 to 2020. The impact of COVID-19 could be seen in the 8.77% reduction in combined fee income from IFA, 2019 and FCSPA, 2020 licensees and registrants. The greatest impact was from the decline in new IFA applications compared to 2019 and the fall off in licensees during the transition to the FCSPA, 2020. The \$0.34 million decline in fees from IFA and FCSPA licensees and registrants was offset by a \$0.33 million increase in income from entities licensed and registered under the SIA, 2011. This represented a 10.08% increase in income, which mostly resulted from the introduction of Rules (including new activity fees) for firms engaged in contracts for differences (CFD) activity.

Local and international work-from-home and other COVID-19 restrictions resulted in significant reductions in various areas of operating expenses including a \$0.33 million reduction in training and conferences and a combined reduction of \$0.16 million in office, repairs and maintenance, and utilities expenses. Despite cost reductions in these and other areas, overall expenses only declined by \$0.06 million or 0.58%. The Commission was the victim of a cash at bank fraud in early 2020 resulting in a loss of \$0.85 million, representing 8.87% of 2020 expenses. The matter remains under police investigation.

In 2021, the Commission will continue its revision of the legislative framework, with focus on the SIA and related capital rules. The Commission looks forward to improvement in its financial performance in the medium term in tandem with changes in the international and local economy resulting from the management of the pandemic.

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 2020, 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 2020;
- 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 significant accounting policies and other explanatory information.

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 Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for 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 2020 Annual Report (but does not include the financial statements and our auditors' report thereon).

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 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

25 June 2021

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


Statement of Financial Position
As at 31 December 2020
(Expressed in Bahamian dollars)

	2020 \$	2019 \$
ASSETS		
Cash on hand and at banks	340,378	2,074,251
Accounts receivable, net (Note 6)	314,237	285,335
Prepaid expenses and other assets	105,741	83,274
Investments in debt securities (Note 4)	5,901,481	4,068,413
Right-of-use assets (Note 5)	3,504,836	4,106,275
Property and equipment (Note 8)	770,394	840,177
Total assets	10,937,067	11,457,725
LIABILITIES		
Accounts payable and accrued expenses	849,077	951,023
Other liabilities	444,902	494,283
Lease liabilities (Note 5)	3,798,956	4,275,419
Deferred income (Note 9)	692,747	585,615
Total liabilities	5,785,682	6,306,340
NET ASSETS	5,151,385	5,151,385
REPRESENTED BY:		
Surplus	1,220,490	1,031,385
Revaluation reserve (Note 10)	(189,105)	-
Reserve fund (Note 10)	4,000,000	4,000,000
Special purpose reserve (Note 10)	120,000	120,000
	5,151,385	5,151,385

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



Chairman



Director

24 June 2021

Date

The accompanying notes are integral part of these financial statements.

Securities Commission of The Bahamas

Statement of Comprehensive Income For the Year Ended 31 December 2020 (Expressed in Bahamian dollars)

	2020	2019
	\$	\$
INCOME		
Fee income		
Securities industry licensees and registrants	3,624,131	3,292,153
Investment funds	2,074,334	2,336,736
Investment fund administrators and managers	1,013,813	960,717
Financial and corporate service providers	472,758	605,583
Penalties	96,443	508,090
Securities exchange	13,500	23,000
Other	10,557	14,200
	<hr/>	<hr/>
Total fee income	7,305,536	7,740,479
Government subvention (Note 9)	1,863,992	2,186,139
Interest income	264,466	196,632
Other income	336,948	514,502
	<hr/>	<hr/>
Total income	9,770,942	10,637,752

The accompanying notes are integral part of these financial statements.

Securities Commission of The Bahamas

Statement of Comprehensive Income For the Year Ended 31 December 2020 (Expressed in Bahamian dollars) (Continued)

	2020 \$	2019 \$
EXPENSES		
Salaries, wages and employee benefits (Note 11)	5,698,868	5,472,997
Fraud loss (Note 13)	850,000	-
Rent (Note 5)	606,078	404,409
Depreciation on right-of-use assets (Note 5)	601,439	602,282
Professional fees	401,735	572,325
Office	332,761	369,701
Depreciation on property and equipment (Note 8)	296,294	301,494
Training and conferences	238,270	568,414
Interest expense on lease liabilities (Note 5)	224,015	248,454
Utilities and property charges	109,113	145,014
Advertising and public relations	69,648	23,851
Repairs and maintenance	45,586	132,803
Membership fees	41,426	40,183
Printing and publications	22,269	28,596
Bank charges	21,544	22,506
Investor education	13,383	10,635
Provision for expected credit losses (Note 6)	-	667,519
Legislative initiatives	-	23,772
Miscellaneous	9,408	2,797
Total expenses	9,581,837	9,637,752
Net income	189,105	1,000,000
Other comprehensive loss		
<i>Items that may be reclassified to net income</i>		
Change in fair value of investments in debt securities at fair value through other comprehensive income	(189,105)	-
Total comprehensive income	-	1,000,000

The accompanying notes are integral part of these financial statements.

Securities Commission of The Bahamas

Statement of Changes in Net Assets For the Year Ended 31 December 2020 (Expressed in Bahamian dollars)

	Surplus \$	Revaluation Reserve \$	Reserve Fund \$	Special Purpose Reserve \$	Total \$
Balance as at 1 January 2019	1,031,385	-	3,000,000	120,000	4,151,385
Net income	1,000,000	-	-	-	1,000,000
Other comprehensive income	-	-	-	-	-
Total comprehensive income	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>
Transfer to the reserve fund (Note 10)	(1,000,000)	-	1,000,000	-	-
Transfer to special purpose reserve (Note 10)	-	-	-	-	-
Total transfers	<u>(1,000,000)</u>	<u>-</u>	<u>1,000,000</u>	<u>-</u>	<u>-</u>
Balance as at 31 December 2019	<u>1,031,385</u>	<u>-</u>	<u>4,000,000</u>	<u>120,000</u>	<u>5,151,385</u>
Balance as at 1 January 2020	<u>1,031,385</u>	<u>-</u>	<u>4,000,000</u>	<u>120,000</u>	<u>5,151,385</u>
Net income	189,105	-	-	-	189,105
Other comprehensive loss	-	(189,105)	-	-	(189,105)
Total comprehensive income/(loss)	<u>189,105</u>	<u>(189,105)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Transfer to the reserve fund (Note 10)	-	-	-	-	-
Transfer to special purpose reserve (Note 10)	-	-	-	-	-
Total transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance as at 31 December 2020	<u>1,220,490</u>	<u>(189,105)</u>	<u>4,000,000</u>	<u>120,000</u>	<u>5,151,385</u>

The accompanying notes are integral part of these financial statements.

Securities Commission of The Bahamas

Statement of Cash Flows For the Year Ended 31 December 2020 (Expressed in Bahamian dollars)

	2020 \$	2019 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	189,105	1,000,000
Adjustments for:		
Interest income	(264,466)	(196,632)
Gain on disposals of property and equipment	-	(2,384)
Depreciation on property and equipment (Note 8)	296,294	301,494
Depreciation on right-of-use assets (Note 5)	601,439	602,282
Interest expense on lease liabilities (Note 5)	224,015	248,454
Provision for expected credit losses (Note 6)	-	667,519
Interest received	242,293	196,632
Changes in operating assets and liabilities:		
Increase in accounts receivable, net	(28,902)	(671,828)
Increase in prepaid expenses and other assets	(22,467)	(54,614)
Decrease in accounts payable and accrued expenses	(101,946)	(437,736)
Decrease in other liabilities	(49,381)	(265,320)
Decrease in deferred income	107,132	(164,213)
Net cash provided from operating activities	<u>1,193,116</u>	<u>1,223,654</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of debt securities	(2,000,000)	-
Purchases of property and equipment (Note 8)	(226,511)	(157,284)
Proceeds on disposals of property and equipment	-	2,451
Net cash used in investing activities	<u>(2,226,511)</u>	<u>(154,833)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid on lease liabilities (Note 5)	(224,015)	(248,454)
Principal paid on lease liabilities (Note 5)	(476,463)	(433,138)
Net cash used in financing activities	<u>(700,478)</u>	<u>(681,592)</u>
Net (decrease)/increase in cash and cash equivalents	(1,733,873)	387,229
Cash and cash equivalents as at beginning of year	<u>2,074,251</u>	<u>1,687,022</u>
Cash and cash equivalents as at end of year	<u>340,378</u>	<u>2,074,251</u>
CASH AND CASH EQUIVALENTS:		
Cash on hand and at banks	<u><u>340,378</u></u>	<u><u>2,074,251</u></u>

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. 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. Significant Accounting Policies (Continued)

(b) Changes in applicable accounting policies

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

Standards and amendments and interpretations to published standards that became effective for the Commission's financial year beginning on 1 January 2020 were not relevant or not significant to the Commission's operations and accordingly did not have a material impact on the Commission's accounting policies or financial statements.

ii) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2020 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. 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 fair value through other comprehensive income (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. 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. 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. 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 4, 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. 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. 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. 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. 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. Lease contracts are negotiated on an individual basis and contain a wide range of different terms and conditions.

Leases are recognised as a right-of-use asset and a corresponding lease liability at the date on 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. 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.

2. 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 conform 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 ECL 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 ECLs are further detailed in Note 14, which also sets out the key sensitivities of the ECLs to changes in these elements.

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

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

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.

Securities Commission of The Bahamas

Notes to the Financial Statements 31 December 2020 (Continued)

4. Investments in Debt Securities (Continued)

Investments in debt securities are as follows:

	2020 \$	2019 \$
<u>Stage 2 - ECL</u>		
<u>Level 2</u>		
Debt securities at FVOCI	5,810,895	4,000,000
Accrued interest	<u>90,586</u>	<u>68,413</u>
Total investments in debt securities	<u>5,901,481</u>	<u>4,068,413</u>

Bahamas Government Registered Stock

		2020		2019	
Maturity Date	Interest Rate	Nominal Value	Fair Value \$	Nominal Value	Fair Value \$
25-Jul-25	4.40%	3,000,000	3,054,874	3,000,000	3,000,000
15-Oct-38	5.00%	1,000,000	912,376	1,000,000	1,000,000
21-Apr-40	5.30%	425,900	399,005	-	-
21-Apr-50	5.69%	1,574,100	<u>1,444,640</u>	-	-
Total investments in debt securities at FVOCI			<u>5,810,895</u>		<u>4,000,000</u>

5. Leases

The Commission entered into a non-cancellable operating lease agreement for a fixed period of five years with Poinciana SPV Ltd., commencing 1 January 2019, 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:

	2020	2019
	\$	\$
Right-of-use assets		
Office space	3,497,090	4,079,939
Vehicles	7,746	26,336
	<u>3,504,836</u>	<u>4,106,275</u>

For the year ended 31 December 2020, there were no direct costs incurred by the Commission upon entering a lease.

	2020	2019
	\$	\$
Lease liabilities		
Current	511,432	476,463
Non-current	3,287,524	3,798,956
	<u>3,798,956</u>	<u>4,275,419</u>

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:

	2020	2019
	\$	\$
Depreciation on right-of-use assets	601,439	602,282
Interest expense on lease liabilities	224,015	248,454
	<u>825,454</u>	<u>850,736</u>

Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2020

(Continued)

6. Accounts Receivable

	2020 \$	2019 \$
Investment funds and investment fund administrators	81,327	357,272
Financial and corporate service providers	191,373	500,223
Securities industry licensees and registrants	105,645	196,704
Other	<u>163,144</u>	<u>287,870</u>
	541,489	1,342,069
Allowance for expected credit losses	<u>(227,252)</u>	<u>(1,056,734)</u>
Total accounts receivable, net	<u>314,237</u>	<u>285,335</u>

Movements in the allowance for expected credit losses comprise:

	2020 \$	2019 \$
As at 1 January	1,056,734	550,315
Provision for expected credit losses	-	667,519
Bad debts written off	<u>(829,482)</u>	<u>(161,100)</u>
As at 31 December	<u>227,252</u>	<u>1,056,734</u>

Securities Commission of The Bahamas

Notes to the Financial Statements 31 December 2020 (Continued)

6. Accounts Receivable (Continued)

The allowance for expected credit losses as at 31 December was determined as follows for accounts receivable:

As at 31 December 2020	0 to 90 days	91 to 180 days	181 to 270 days	271 to 360 days	Over 360 days	Total
	\$	\$	\$	\$	\$	\$
Gross carrying amount	85,101	112,305	11,077	75,661	257,345	541,489
Allowance for expected credit losses	2,298	27,948	736	60,007	136,263	227,252

As at 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

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).

There were no movements in the investment in the SPV in 2020 and 2019.

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.

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	2020	2019
	\$	\$
Current assets	2,985,789	2,707,619
Investment property	20,667,935	20,869,204
Total assets	23,653,724	23,576,823
Current liabilities	2,540,182	1,823,866
Borrowings	14,662,500	15,512,500
Total liabilities	17,202,682	17,336,366
Share capital	2	2
Contributed capital	9,568,603	9,568,603
Accumulated deficit	(3,117,563)	(3,328,148)
Total equity	6,451,042	6,240,547
Total liabilities and equity	23,653,724	23,576,823
 Summary Statement of Comprehensive Income	 2020	 2019
	\$	\$
Total income	2,110,483	2,039,237
Total expenses	(1,817,991)	(1,932,591)
Net comprehensive income (loss)	292,492	106,646

Securities Commission of The Bahamas

Notes to the Financial Statements 31 December 2020 (Continued)

8. Property and Equipment

	Computer Equipment \$	Furniture and Fittings \$	Leasehold Improvements \$	Art Work \$	Total \$
For the year ended 31 December 2020					
Cost					
1 January 2020	1,911,406	747,697	57,163	22,864	2,739,130
Additions	214,619	11,892	-	-	226,511
Disposals	-	-	-	-	-
31 December 2020	2,2126,025	759,589	57,163	22,864	2,965,641
Accumulated depreciation					
1 January 2020	1,729,366	158,154	11,433	-	1,898,953
Depreciation expense	132,565	152,296	11,433	-	296,294
Disposals	-	-	-	-	-
31 December 2020	1,861,931	310,450	22,866		2,195,247
Net book value as at 31 December 2020	264,094	449,139	34,297	22,864	770,394
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 at 31 December 2019	182,040	589,543	45,730	22,864	840,177

Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2020

(Continued)

9. Deferred Income

	2020 \$	2019 \$
Government subvention	678,065	542,057
Securities industry licensee and registrant fees	500	29,400
Financial and corporate service provider fees	14,182	14,158
Total deferred income	692,747	585,615

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

Movements in Government subvention comprise:

	2020 \$	2019 \$
As at 1 January	542,057	728,196
Government subvention received	2,000,000	2,000,000
Government subvention utilised – reserve fund	-	(1,000,000)
Government subvention utilised – operations	(1,863,992)	(1,186,139)
As at 31 December	678,065	542,057

10. Reserves

Revaluation reserve

The Commission's investments in debt securities are measured at FVOCI, as explained in note 2(e)(i). Changes in fair value of these investments are accumulated within the revaluation reserve within equity. The accumulated changes in fair value are transferred to net income when the investment is derecognised or impaired.

10. Reserves

Reserve fund

Upon obtaining approval from the Ministry of Finance, the Commission established a reserve fund 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. During the year, the Minister of Finance approved an addition of \$nil (2019: \$1,000,000) to the reserve fund. The reserve fund as at 31 December 2020 totaled \$4,000,000 (2019: \$4,000,000).

Special purpose reserve

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 ECLs is shown below:

	2020 \$	2019 \$
Balance of the special purpose reserve, gross	175,000	175,000
Provision for ECLs	<u>(55,000)</u>	<u>(55,000)</u>
Balance of the special purpose reserve, net	<u>120,000</u>	<u>120,000</u>

11. Employee Benefits

Pension costs recognised in the statement of comprehensive income in the current year totaled \$340,926 (2019: \$290,472). 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 totaling \$38,349 (2019: \$16,348) 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 2020, the Commission employed 81 (2019: 85) 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:

	2020	2019
	\$	\$
<i>Assets</i>		
Cash at banks	69,961	2,074,251
Accounts receivable	140,347	133,992
Prepaid expenses and other assets	1,260	1,770
Investments in debt securities	5,901,481	4,068,413
Right-of-use assets - SPV	3,497,089	4,079,939
<i>Liabilities</i>		
Accounts payable and accrued expenses	24,907	39,031
Accounts payable and accrued expenses - due to SPV	-	280
Other liabilities - due to the Compliance Commission	444,901	494,003
Lease liabilities - SPV	3,790,537	4,247,722
<i>Income</i>		
Interest income	264,446	196,632
Other income	92,400	92,400
<i>Expenses</i>		
Depreciation on right-of-use assets - SPV	582,848	582,848
Interest expense on lease liabilities - SPV	222,780	246,014
Utilities and property charges	60,420	105,334

Compensation of key management personnel for the year ended 31 December 2020 comprised \$556,623 (2019: \$559,247) for salaries and other short-term benefits and \$28,840 (2019: \$24,956) for pension benefits.

13. Commitments and Contingencies

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.

In early February 2020, the Commission discovered that it had experienced a cash at bank fraud resulting in losses in the amount of B\$850,000. On 31 December 2020, the Commission filed Writs of Summons against various parties seeking to recover this amount. Having received legal advice, management believes a favourable outcome is probable. However, the contingent asset has not been recognised as a receivable at 31 December 2020.

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.

14. Financial Risk Management (Continued)

(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 were downgraded to non-investment grade credit ratings during the year, indicating a significant increase in credit risk. As a result, the investment securities were classified from stage 1 to stage 2, where a lifetime expected credit loss is recognised, for the purpose of assessing ECLs.

Impairment

The Commission has assessed the ECL for cash at banks, investments in debt securities and other receivables included in prepaid expenses and other assets. The identified impairment losses based on the credit quality of the counterparties were determined to be immaterial and are not recorded in these financial statements.

Accounts Receivable

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

To measure the ECLs, 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 48 months before 31 December 2020 (2019: 36 months before 31 December 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 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.

14. Financial Risk Management (Continued)

(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 2020, 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. Impact of COVID-19

The novel coronavirus (“COVID-19”) pandemic has spread across various regions globally, causing disruptions to business and economic activities. COVID-19 has brought about uncertainties in the global economic environment. The authorities, both domestic and international, have announced various measures across the globe to counter possible adverse implications.

Business continuity planning

The Commission throughout the course of the pandemic has activated its risk management practices to manage the business disruption the COVID-19 outbreak had and potentially continues to have on its operations and may have on its financial performance.

The Commission continues to closely monitor the situation and take certain measures to ensure the safety and security of the Commission’s staff and uninterrupted service to its clients. The Commission is taking these measures with the objective to maintain service levels, address customer complaints as they may arise, and continue to meet client needs as they would do in normal scenarios.

As a result of the measures implemented by the Commission, it has been able to operate without any major impact to its customers.

Valuation estimates and judgements

The Commission has considered potential impacts of the current economic volatility in the determination of the reported amounts of the Commission’s financial assets and these amounts are considered to represent management’s best assessment based on observable information. Markets however remain volatile and the recorded amounts remain sensitive to market fluctuations.

Overall assessment

Even with the introduction of vaccines, there remain significant uncertainties in assessing the duration of the COVID-19 pandemic and its economic impact. At the statement of financial position date, the Commission has not experienced a significant impact to its financial performance or operations, however, the Commission continues to monitor the situation closely given the prolonged nature of the pandemic and is ready to take additional mitigating actions that may be required.

18. Subsequent Event

Subsequent to 31 December 2020, the Commission received subvention of \$2,000,000, to be utilised by the Commission for its general operations and capital expenditure.



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