



2021 ANNUAL REPORT

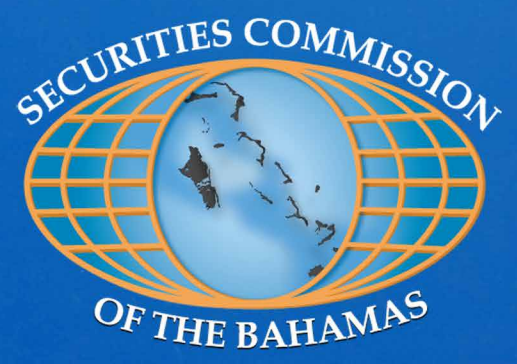
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Our Mission

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.



ANNUAL REPORT 2021

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30 June 2022

The Honourable Philip Davis, QC
Prime Minister and Minister of Finance
Ministry of Finance
Cecil Wallace-Whitfield Centre
West Bay Street
Nassau, NP
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 2021. Included in this Report is the Annual Statement of Accounts of the Commission for the year.

Yours sincerely,

Robert V. Lotmore
Chairman



Chairman's Message

“The Commission remains a key driver in facilitating the transformation and innovation in the domestic financial services sector”

In recent years, the Securities Commission of The Bahamas has undergone significant changes allowing it to augment regulatory capacity and effectively adapt to market variations. The Commission continued on its trajectory of growth and development in 2021, as it evolved in tandem with domestic and international financial sectors.

Transforming the Financial Services Sector

The Commission remains a key driver in facilitating the transformation and innovation in the domestic financial services sector. The Digital Assets and Registered Exchanges Act, 2020 (DARE) is the nexus to new markets and opportunities in financial and corporate services in the jurisdiction. Following the coming into effect of DARE in December 2020, the Commission began registering firms pursuant to the legislation in 2021. This signalled international recognition of the sound regulatory framework put forth by DARE and the beginning of the expansion of the jurisdiction's financial services sector into the digital space.

The Commission remains committed to being a leader and game-changer with regulation of the crypto space. In order to do this, the Commission will continue to build on the framework established by DARE. In alignment with international standards, the existing framework will evolve to ensure effective systems of monitoring and supervision.

The challenge for the Commission will be creating a well-regulated space that does not impede sector development and growth. The Commission will maintain a “Fintech Friendly” environment that continues to spur innovation. The Commission continues to develop ideas, recruit innovators and engage with investors to deepen the country's capital markets and improve employment opportunities. This has culminated in plans to host a Fintech Festival in 2023 to further promote the jurisdiction. With the DARE Act's place on the world stage and through its continual evolution, The Bahamas can be viewed as a harmonizer of the crypto space and enabler of growth of Fintech and digital asset markets.

The Commission continues to modernize its legislative regime to facilitate development in the capital markets. In July, the Securities Industry (Business Capital) Rules, 2021 came into effect. The Rules establish a regulatory framework for equity-based crowdfunding in The Bahamas. In alignment with key regulatory standards and practices, the Rules help to reduce the costs and barriers associated with raising capital for Small and Medium sized Enterprises. Traditionally, SMEs have experienced difficulty raising capital, which made expansion, and in some cases viability, challenging. With these Rules in effect, the Commission is helping to create an environment that supports diversity, innovation and inclusion of SMEs who now have more funding avenues and investment opportunities.

Corporate governance plays a pivotal role in the financial services industry. Good corporate governance is important to conducting business. With regard to corporate governance principles, the Commission is responsible for ensuring standards and practices are developed and applied. The Commission continues to work to ensure that these principles are enshrined in the legislative framework by reviewing and amending legislation to address corporate governance deficiencies highlighted by the World Bank. By doing so, we continue to develop an environment where good businesses can thrive and shareholder value is protected.

Modernizing Operations

Throughout 2021, The Bahamas endeavoured to mitigate the negative socio-economic effects of the COVID-19 pandemic. The continuation of social conditions imposed by the pandemic highlighted the relationship between resilience and preparation. The Commission progressed ongoing efforts to further modernize its operations. This is instrumental in the Commission's ability to efficiently, and effectively execute its mandate. The Commission's ongoing efforts to augment technical capacity will make the Commission digital at its core.

The Commission's digital transformation, specifically the automation of current processes, will improve engagement with registrants and licensees and enhance the Commission's risk assessment capacity. Principally, the Commission seeks to improve the end-to-end user experience.

Creation of Synergies with Other Regulatory Agencies

During 2021, the Commission continued its tradition of proactively seeking to create and enhance synergies with other domestic and international regulatory agencies. The task for regulatory agencies, in overseeing activities in globalized marketplaces, remains standardizing cooperation across jurisdictions. Information-sharing agreements underpin cross-border cooperation and strengthen enforcement and surveillance capacities within jurisdictions.

There must be balance in creating an environment for growth, while ensuring that there are frameworks in place to protect market participants.

Given the nuanced nature of digital assets and its underlying technology, regulators are seeking ways to promote growth, while allowing proper protections and having cross-border regulation is in place.

Strengthening Operations Through Strategic Plan 2021-2024

Equipped with a reassessed SWOT analysis, the Board, along with management, progressed the planning of a comprehensive and bold strategic plan for the 2021-2024 period. Given the changing global environment, and the Commission's expanded regulatory scope, our strategic plan will align our objectives with identified priorities and an action plan so that we realize SCB's stated goals.

In Closing

The Commission is a community of persons bounded by a vision of what a best-in-class Bahamian financial regulator ought to be. I am pleased and proud of the work done by the Commission. Truly, it was my privilege to serve at the helm of the Commission during these transformative years. On behalf of the Board, I thank the management team and staff, led by Executive Director Rolle, for their continuing steadfastness and commitment to the Commission's mandate.

It is my pleasure to present the 2021 Annual Report.

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 is eligible for a one-term reappointment on the recommendation of the Commission.

Table 1: Board of the Commission during 2021

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 to 1 October 2021
Peter T Carey	Member	1 October 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 2021, the Board held **12** regular meetings and **1** extraordinary board meeting. There were **7** Audit Committee meetings, and **2** Human Resource Committee meetings.

No exceptional matters occurred in relation to the Board from a governance or structural perspective during the 2021 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 January to December 2021.

Board of Directors

As at 31 December 2021



Robert V Lotmore



Michael Paton



Christina R Rolle
Ex officio Member



Dawn Patton



Bede Sands



Deno Moss



Peter T Carey

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 held seven meetings during 2021.

The 2021 membership of the AC consisted of Dawn Patton (Chair), Derek Sands, Peter T Carey and Christina R 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 held two meetings during 2021.

The 2021 membership of the HRC consisted of Michael Paton (Chair), Bede Sands, Deno Moss, Tonique Lewis and Christina R Rolle. Secretary to the Board Mechelle Martinborough also attended HRC meetings as well as Bernadette Gibson, Human Resources Senior Manager, as a management representative.



Executive Director's Remarks

“The registration in 2021 of the first licensee under DARE has catapulted The Bahamas into the limelight for regulation.”

For the Securities Commission of The Bahamas, 2021 was both a period of reflection on the Commission's recent regulatory accomplishments and an opportunity to strategically plan the path forward. Notwithstanding the ongoing COVID-19 pandemic and prevailing conditions, the Commission accomplished several noteworthy achievements during 2021.

Digital Assets and Registered Exchanges Act, 2020 Developments

Just over one year ago, the Digital Assets and Registered Exchanges Act, 2020 (DARE Act or DARE) came into effect signalling the jurisdiction's eagerness to adapt to market changes and reap the benefits of market activity. The registration in 2021 of the first licensee under DARE has catapulted The Bahamas into the limelight for regulation. DARE established a regulatory framework for the digital asset space, facilitating the registration of digital token exchanges, initial token offerings as well as other digital asset businesses. Many of the provisions set out in DARE are based on capital markets as well as general consumer protection principles. They were designed to give the Commission broad regulatory powers and flexibility to address a very dynamic space. Naturally, the framework must evolve alongside market developments as new products and risks emerge.

In the first quarter of 2022, the Commission is scheduled to release the draft Digital Assets and Registered Exchanges (Amendment) Bill, 2022, which will establish a framework for the monitoring and sanctioning of persons carrying on or purporting to carry on digital asset business activities without the requisite registration pursuant to the DARE Act. The proposed amendments will strengthen the Commission's enforcement powers as it relates to Digital Assets Service Providers, including freezing powers and the authority to compel the production of information and evidence.

The Commission also intends to release the draft Digital Assets and Registered Exchanges (Anti-Money Laundering, Countering Financing of Terrorism, and Countering Financing

of Proliferation) Rules for public consultation, in the first quarter of 2022. The Rules will establish a legislative framework to address anti-money laundering (AML) and countering the financing of terrorism (CFT) and countering proliferation financing (CPF) in the digital assets market, in accordance with international standards and best practices, and The Bahamas' AML/CFT/CPF legislative suite.

With respect to other upcoming amendments to the regulatory framework for digital assets, the Commission anticipates addressing some of the emerging risks and concerns in the space. Among the Commission's focus areas for 2022 are: potential amendments to the regulatory treatment of, and specific requirements for, stable coins; consideration with respect to whether an appropriate regulatory framework is required for non-fungible tokens (NFTs); regulation and/or guidance with respect to the "staking" of clients' digital assets; and, addressing issues around how clients' digital assets are held by exchanges and custodians.

Other Legislative Highlights

Securities Industry (Business Capital) Rules, 2021

The promulgation of the Securities Industry (Business Capital) Rules, 2021 in July was another of the Commission's achievements. The Rules establish a regulatory framework for equity-based crowdfunding in The Bahamas. The Rules address easing access to capital for many entrepreneurs and providing an appropriate protection regime for retail investors, in keeping with key regulatory standards and best practices.

Small- and medium-sized enterprises have long lamented the cost of raising business capital in The Bahamas, which has limited their capacity to grow, and in some cases, to compete and survive. Simultaneously, investors continue to seek greater diversity of investment products to choose from, to grow their personal wealth in alignment with their investment principles and personal philosophies. They also want confidence and protection from unfair practices, market misconduct and other securities and investment fraud.

The Rules allow eligible small- or medium-sized businesses to raise up to \$5 million BSD within a single 12-month period. They simultaneously reduce the regulatory burden otherwise associated with public offerings of securities. This is a typical example

of the Commission's embrace of its mandate for market development. It was our intention to provide alternative funding avenues for entrepreneurship which would then be a catalyst for growth in the broader Bahamian economy.

Securities Industry Legislative Amendments

The Commission completed its drafting and public consultation work to enhance the regulatory capital framework for its registrants under the Securities Industry Act, 2011 (SIA, 2011). The draft Securities Industry (Amendment) Regulations, 2021 and draft Securities Industry (Financial Resources) Regulatory Rules, 2021 were issued for consultation in the first quarter of 2021. These legislative developments provide for a new framework and requirements with respect to the calculation of regulatory capital and will repeal and replace the Operational and Financial Report Form (Form 13). The proposed amendments to the SIA, 2011 strengthen enforcement tools of the Commission, including the power to revoke licenses and address the deficiencies highlighted in the World Bank Ease of Doing Business Survey.

National Risk Assessment (NRA)

An important project for the Commission in 2021 was our participation in The Bahamas' National Risk Assessment (NRA) 2021. The NRA attempts to assess and risk-rate the country's anti-money laundering and countering the financing of terrorism regulatory framework as well as the country's progress with the implementation of that framework. For the NRA, the Commission was responsible for the Securities Module and contributed to the Financial Institutions and Designated Non-Financial Businesses and Professions Modules. In addition, the Commission took on the responsibility of performing risk assessments for virtual assets service providers and legal persons/legal arrangements. The Commission benchmarked and prepared surveys to determine the country's national risk assessment rating in practice, as The Bahamas is already largely compliant in terms of legislation and policy framework. The surveys were distributed to registrants and licensees of the Commission, other GFSR members, and industry stakeholders, as applicable. At year-end, the surveys were being analysed and the rating report prepared. The periodic conduct of an NRA is part of the Financial Action Task Force's (FATF) recommendations for the identification, assessment and understanding of ML/FT risks within the jurisdiction.

Investor education

With a focus on investor protection and financial resilience, the Commission launched two successful video-based investor education initiatives in 2021 to engage the young adult demographic. The first was a Financial Resilience Video series, which was released in August 2021. The series highlighted well-known Bahamians giving pointers to improve financial resiliency and how to be financially prepared for unforeseeable life events. The videos were well received, with some 48,600 views registered between August and September. The second initiative was the “Starting Out? Start Right!” video competition launched in October as a part of the Commission’s observance of World Investor Week 2021. The videos focused their messaging to young adults aged 18 to 25. Participants demonstrated their knowledge of investor education principles, and displayed praiseworthy creativity in crafting videos. The winning videos are scheduled to be announced in the first quarter of 2022.

The Way Forward

During 2021, the Commission commenced the development of its Strategic Plan 2021-2024 with the completion of internal and external stakeholder meetings aimed at getting ideas and feedback from the management team as well as various industry and government stakeholder groups.

The 2021-2024 strategic plan is expected to be approved by the Commission’s board in 2022. Some of its objectives and priorities include enhancing operational capabilities and performance, improving the regulatory framework, implementation of enhanced monitoring tools and supporting data driven decisions. Some of these priorities will result in the launch of significant operational projects as we are looking to use technology to expand our supervisory capabilities.

The Commission has also embarked on a project to review The Bahamas’ domestic capital markets, including its regulation and functioning, specifically to determine barriers to growth and opportunities for expansion. Once our analysis is complete, the Commission will make strategic recommendations to the government for improvements.

Conclusion

When I first came to the Commission in January 2015, I had two overarching concerns that drove my priorities, namely: 1) The Commission’s influence amongst its addressees, stakeholders and colleagues; and, 2) Contraction in the financial services sector in The Bahamas. Through improvements in our regulatory framework, engagement with licensees, registrants and other stakeholders, engagement and active participation in the International Organization of Securities Commissions (IOSCO) and other regional and international bodies, I believe that we have done much to address those two concerns. I believe now that it is time to turn my attention inward with a view of focusing on the Commission’s operational resilience. This will be one of the main themes underlying many of our objectives and projects for the next year or so and I look forward to engaging with our registrants and stakeholders as we engage on a journey to transform the Commission.

In concluding, I would be remiss if I did not thank the Commission’s board (particularly Chairman Lotmore and other outgoing board members), and the management as well as staff for their dedication to the advancement of the work of the Commission. Despite the prolonged upheaval and disruptions faced due to the COVID-19 pandemic, the Commission remains set to emerge from the 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 look forward to what is ahead for 2022 and beyond.

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. 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 Department

The Supervision Department (SUD) processes applications for the licensing and registration of persons wishing to conduct registrable and licensable activities. It is responsible for offsite monitoring and supervision of market participants under legislation administered by the Commission, and the review and registration of prospectuses for public offerings and private placements. The Department is divided into two units: Securities and Investment Funds, and Financial and Corporate Service Providers and Digital Assets and Registered Exchanges.

Risk Analytics and Examinations Department

The Risk Analytics and Examinations Department (RAED) consists of two complementary units: Risk Analytics and Examinations. The Risk Analytics Unit monitors 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 Department

The Enforcement Department (END) primarily implements disciplinary actions pursuant to laws administered by the Commission. The department defends the Commission in litigation matters and, where deemed necessary, initiates litigation to enforce laws administered by the Commission. END also investigates operations or entities (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 Department

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

Administration Department

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 Department

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

Management Team

As at 31 December 2021



CHRISTINA R 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



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



STEWART MILLER
Manager
Investor Education & Communications



SHERINN MUNNINGS
Deputy Manager
Project Management
& International Relations



DANA MUNNINGS-GRAY
Manager, Securities and
Financial & Corporate
Services Providers



LESLEY PEARSON
Senior Manager
Risk Analytics & Examinations



MONIQUE SANDS
Finance Director
Head of Finance
Office of Financial Controller



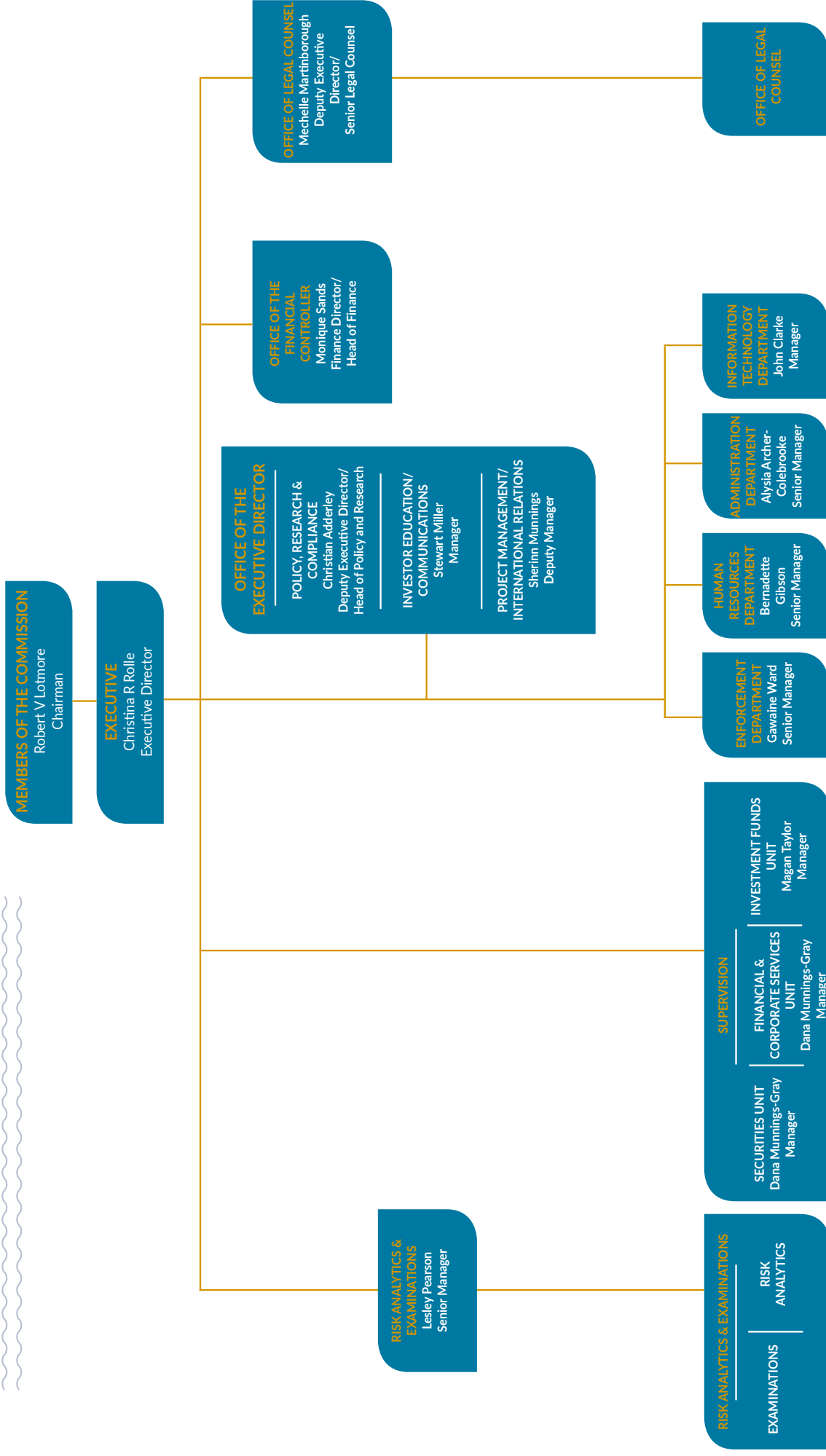
MAGAN TAYLOR
Manager
Investment Funds



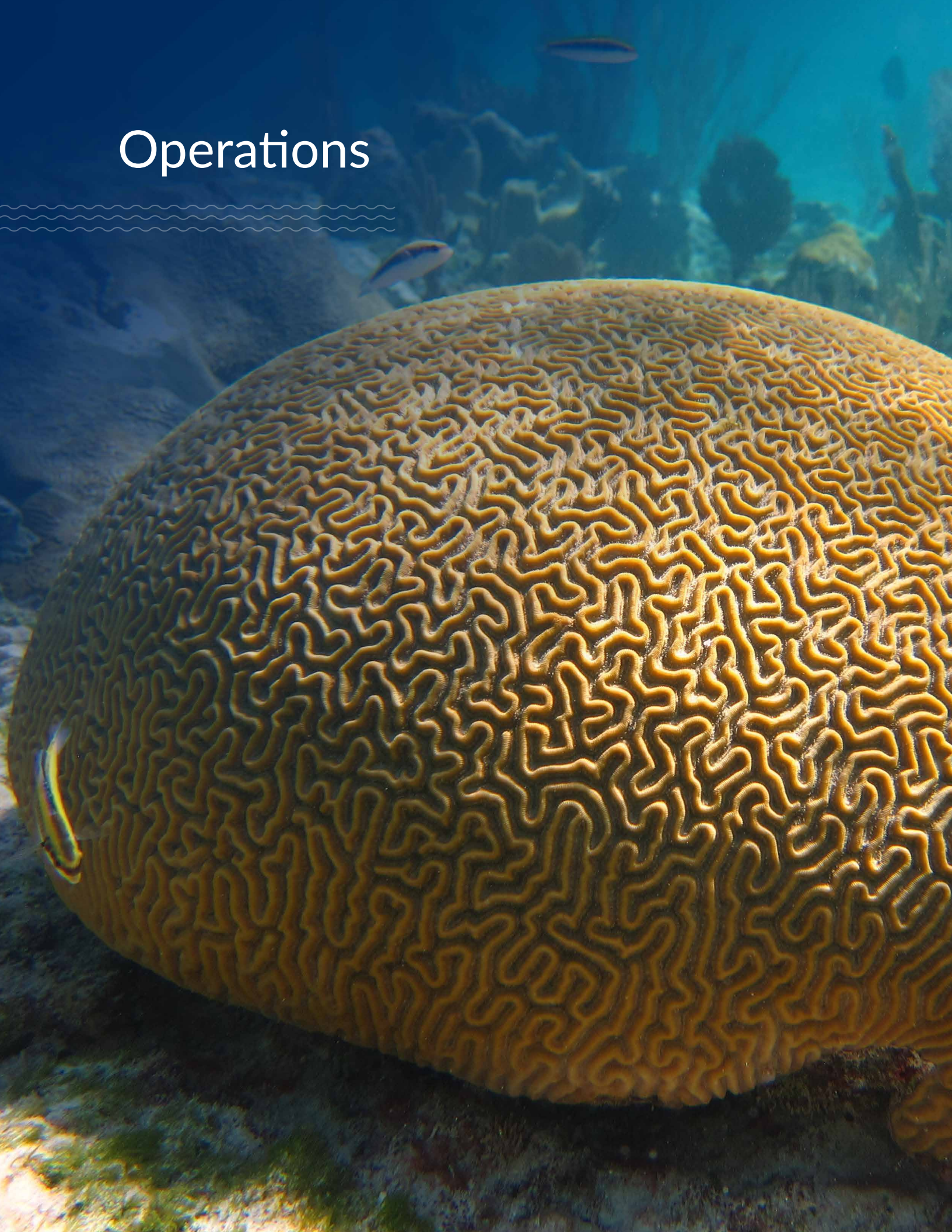
GAWAÏNE WARD
Senior Manager
Enforcement

Organizational Chart

As at 31 December 2021



Operations



Policy, Research and Compliance

During 2021, the Commission focused its policy, research and compliance initiatives on the following areas:

- Assisting Financial Services Regulators with completing The Bahamas' National Risk Assessment (NRA);
- Additional research, disseminating policy guidelines and guidance notes to enhance the Commission's Digital Assets and Registered Exchanges Act, 2020 (DARE) framework;
- Facilitating the Commission's local, regional, and international financial innovation efforts, via the financial technology (Fintech) hub, SCB FITLink;
- Researching and recommending improvements to the types and quality of statistical information and reports produced by the Commission; and
- Ongoing policy development.

National Risk Assessment (NRA) 2021

The Commission participated in The Bahamas' national risk assessment (NRA) exercise. To assist with this endeavour, the Policy, Research and Compliance (PRC) Unit prepared background research aimed at assisting the internal NRA team with preparing appropriate risk assessment surveys and a comprehensive and cohesive report. The surveys were disseminated to the Commission's registrants and licensees and allow The Bahamas to assess the risks posed by certain entities and the effectiveness of the mitigation measures to curtail those risks.

NRA Research

The Commission drafted a research paper, which examined the NRA outcomes and methodologies of various jurisdictions that have improved their Financial Action Task Force (FATF) Mutual Evaluation risk ratings. The paper also provided recommendations to assist The Bahamas in improving its overall rankings.

The Commission reviewed two key tools used by these jurisdictions in conducting their national assessment – the World Bank National Risk Assessment Methodology and the FATF Methodology for Assessing Compliance with the FATF Recommendations. The World Bank and the FATF methodologies provide guidance on rating Money Laundering (ML) and Terrorist Financing (TF) risks in a jurisdiction and for assessing technical compliance with the FATF 40 Recommendations, respectively. The Commission's final recommendations reflected the outcomes and priority actions set out in the FATF Mutual Evaluations and relative sections of the examined risk assessment and informed the Commission's contribution to The Bahamas' NRA.

Countering Proliferation Financing (CPF)

The Commission prepared an internal research paper that benchmarked the NRA outcomes and methodologies of various jurisdictions that have improved their Proliferation Financing (PF) risk ratings, as assessed by the World Bank. The paper also provides recommendations to assist The Bahamas in preparing for a national PF risk assessment.

NRA Surveys

To further assist the Commission with the NRA preparation, the PRC Unit developed three industry risk assessment surveys that were disseminated in November 2021. The surveys focused primarily on money laundering threats and mitigation tools with key themes related to the following:

- Suspicious transaction reporting;
- Record-keeping;
- Monitoring client transactions;
- Employee training; and
- Internal controls and systems.

Thematic Reviews – Digital Asset Service Providers (DASPs)

The Commission developed an industry thematic review related to digital asset service providers (DASPs) in an effort to robustly assess and understand the risks posed by this developing sector, and the mitigation measures that have been implemented by DASPs and other stakeholders (eg the government) to address those risks.

The thematic review was modelled after the International Organization of Securities Commissions (IOSCO) recommendations and the FATF Recommendations and requirements. To this end, the Commission produced and disseminated a DASP thematic review survey, which included the following themes:

- The FATF “Travel Rule” Requirements;
- Internal systems and controls;
- Transaction and client monitoring;
- Proposed future plans;
- Identification of other key risks and threats; and
- Identifying and assessing the quality of implemented mitigation measures.

Respondents to the survey were registrants and potential registrants of the DARE Act and the Financial and Corporate Service Providers Act, 2020 (FCSPA), think tanks, accelerators, and industry experts. The results will be analysed and included in the SCB’s national sectoral risk assessment on virtual assets and virtual assets service providers (VASPs), which is expected to be completed by May 2022.

Digital Assets and Registered Exchanges (DARE) Act, 2020

The DARE Act, regulates the issuance, sale and trade of digital assets in or from within The Bahamas. The Commission reviewed and assessed the emerging risks and concerns faced by the digital asset participants market, and aims to address such concerns with upcoming policy guidance for the digital asset sector. The purpose of the guidance is to create an environment that balances a suitable regulatory environment for digital assets while supporting market development. Policy guidance will address key issues such as the tokenization of securities, stable coin offerings, and the Commission’s policy on filing audited financial statements.

Ongoing Requirements Paper

The Commission is currently in the process of amending the DARE Act, and in efforts to provide recommendations, a research paper was completed that benchmarked the ongoing reporting requirements for digital asset businesses in each jurisdiction.

The key conclusions from the paper assisted the Commission in amending certain aspects of the DARE Act, to provide regulatory clarity for digital asset stakeholders with regard to the information that should be submitted to the Commission on a continuing basis. The updated reporting requirements are expected to be issued for public consultation in 2022.

DARE Act Frequently Asked Questions (FAQs)

The FAQs were drafted to assist the industry with understanding and complying with the Commission’s digital assets regulatory framework. The FAQs address the most commonly asked questions by the public on matters relating to both registering and continuing to comply with DARE and addressed key areas including:

- Physical presence requirements;
- Regulatory capital requirements;
- Application (registration and/or licensing) processes; and
- AML/CFT obligations.

Creation of DARE Policy

The Commission will continue its review and, where necessary, amends to DARE, to ensure a globally competitive, appropriately regulated jurisdiction.

Facilitating Financial Innovation

SCB Fintech Policy Development

The Commission conducted a number of Fintech-related reviews and policy updates, including:

1. Drafting the “Risks and Challenges” section of IOSCO Fintech Network’s Decentralized Finance Global Report, scheduled to be released in March 2022. The Commission contributed to the report by preparing the section on risks and challenges of DeFi (decentralized finance), some of which included:

- Inherent risks/operational risks of DeFi;
- Scalability limitations;

- Regulatory clarity;
 - Customer abuse;
 - Market abuse; and
 - AML/CFT risks and threats.
2. Ongoing review and monitoring of DARE and the FCSPA, 2020 to ensure compliance with the FATF Recommendation 15 and other internationally accepted digital assets supervisory best practices. This included drafting a policy memorandum comparing the FATF 15 AML/CFT requirements with that of the FCSPA, 2020, which assisted in developing the Digital Assets and Registered Exchanges (Anti-Money Laundering and Countering the Financing of Terrorism) Rules, 2022.
 3. Drafting and publicly disseminating a policy memorandum outlining the policy position with respect to Rule 13, Securities Industry (Business Capital) Rules, 2021 (crowdfunding).

Progress of Statement of Intent (SOI) with US Commodities and Futures Trading Commission (CFTC)

The Commission and the US Commodities and Futures Trading Commission (CFTC) continued to progress development of a statement of intent (SOI), which commenced in 2020. The SOI commits SCB and the CFTC to enter into an agreement of cooperation and exchange of Fintech information. The agreement will facilitate more effective and efficient regulation, and oversight of the financial markets and market participants, in light of the emerging technology in financial markets and services. The expected finalization and sign off of the SOI, by the respective authorities, is during the second quarter of 2022.

SCB FITLink

The Commission's Fintech hub, SCB FITLink, serves as the central point of contact for the SCB's engagement with the public on various issues related to Fintech, such as digital asset business, crowdfunding, distributed ledger technology, artificial intelligence and initial token offerings. Chart 1 and Chart 2 show categories of questions and percentage of questions by jurisdiction submitted to SCB FITLink in 2021.

Industry Engagement and Meetings

A primary activity of the Commission is its engagement with both local and international stakeholders, via its Fintech hub, SCB FITLink. Between 1 January and year-end 31 December 2021, SCB FITLink had held either in-person or virtual meetings with 75 stakeholders.

SCB presented on the DARE Act to the International Financial Services Commission (IFSC) and the Financial Intelligence Unit of Belize authorities on subjects including:

- The case for digital asset regulation;
- SCB's digital asset regulatory philosophy;
- A review of the DARE Act;
- SCB's international initiatives; and
- SCB FITLink.

FITLink staff attended New York FinTech Week hosted by Empire Startups in April 2021. The conference brought together innovators in the Fintech sector to discuss risks, threats, opportunities and possible solutions in the financial services sector.

Other engagements included Global Financial Innovation Network (GFIN) membership meetings, and meetings with the Decentralized Finance Group formed to draft the IOSCO Fintech Network DeFi report.

Chart 1: Categories of Fintech questions submitted to SCB FITLink in 2021.

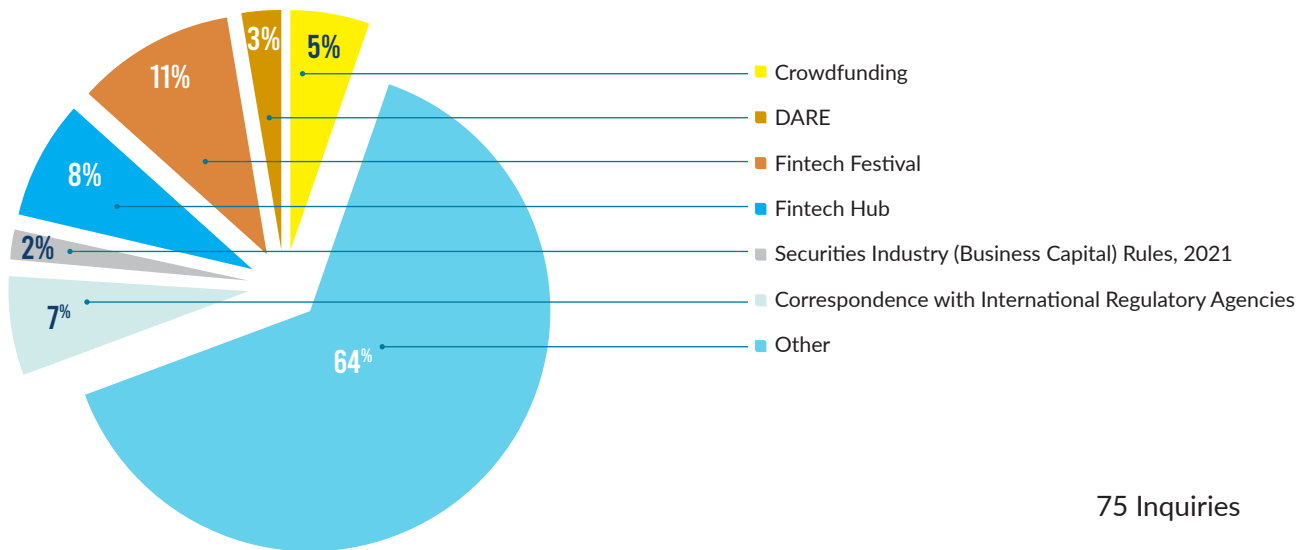
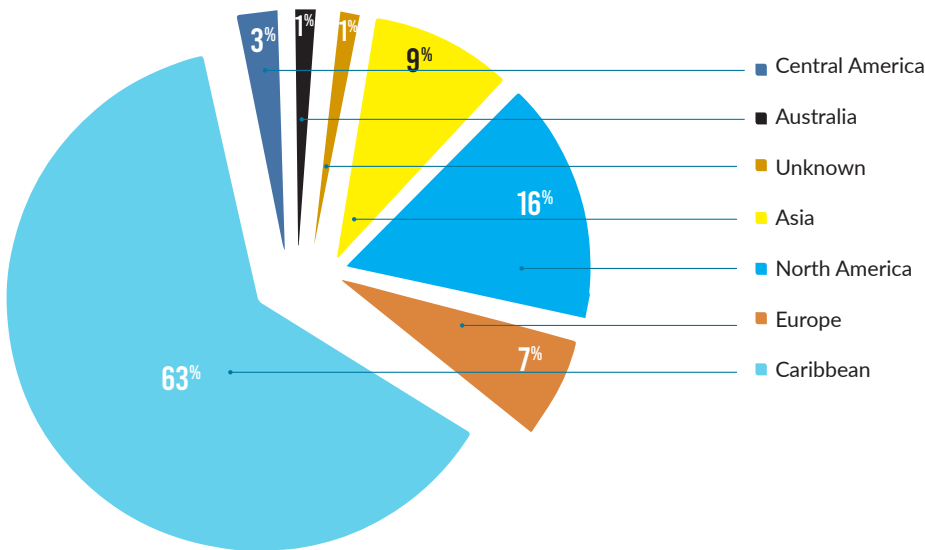


Chart 2: Fintech questions, by jurisdiction, submitted to SCB FitLink in 2021.



Improvement of the Quality of Statistical Information

The Commission has committed to increasing the amount and improving the quality of statistical information publicly disseminated.

The Commission's goals of improving the amount and quality of statistical information are to:

- Enable the Commission to gain better understanding and insight of the securities and capital markets;
- Provide the public access to data about what are the securities and capital markets regulated sectors; and
- Ensure supranational bodies, such as IOSCO and the FATF, understand the industry, trends, opportunities, and risk mitigation efforts.

The PRC Unit prepared an internal whitepaper recommending the production of four additional reports, which should derive the following results:

- Greater levels of operational transparency;
- Ease of access to an aggregation of facts regarding the securities and capital markets; and
- Increased internal efficiency, such as identifying trends to determine regulatory updates and investor notices.

Recommendations stemming from the whitepaper encompasses the goals, benefits, and concerns voiced by industry participants.

Ongoing Policy Development

Suitability Requirements for Complex Financial Products

In the fourth quarter of 2019, the Board reviewed a policy paper reviewing IOSCO's Principles of Suitability for Complex Financial Products. The paper focused on consumer and investor protection and emphasized the importance of, and need for, the classification of investors according to both their financial net worth and knowledge of the products of services in which they are investing. As is consistent with international accepted best practices, the paper recommended that investments made on behalf of clients be suitable by considering investor needs, objectives and risk tolerance.

In 2021, the Commission began to address the findings of the paper with the release of the Elective Professional Recategorization Guidelines (EPC), in February 2021, which provides a framework for retail investors involved in Contracts for Differences (CFD) trading to recategorize to an elective professional (accredited investor). The Commission will continue its work on this topic, culminating with the adoption of the Suitability Rules for Complex Financial Products, in 2023.

Carbon Credits

The Commission has commenced work on developing a regulatory framework for entities that intend to engage in a carbon credit initial offering and for exchanges that intend to facilitate the trading of carbon credits. The purpose of the new framework is to introduce a new category of registrant – a carbon credit exchange marketplace – that will facilitate the secondary trading of internationally transferred mitigation outcomes (carbon credits).

Capital Markets

The Commission will produce a comprehensive report on the current state of The Bahamas' capital markets. The paper will provide a SWOT analysis of The Bahamas' capital markets, benchmark the capital markets of emerging market countries, and, ultimately, recommend updates/improvements to existing capital markets legislation, including amended laws and trading rules.

Fintech Festival

The Commission is developing plans to host a Fintech Festival in 2023. Globally, Fintech festivals are becoming increasingly popular among regulators, as a means of promoting their jurisdiction as "Fintech friendly" and recruiting innovators and investors to deepen the country's capital markets and improve employment opportunities. The Commission avers that hosting a Fintech Festival will bring both the domestic and international Fintech stakeholders together to discuss risks, opportunities, and solutions. The potential benefits are that, The Bahamas will be considered a prime jurisdiction to invest in and to develop proof of concept projects. This will aid in the overall expansion, growth and development of the country's Fintech sector.

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 investor education and the execution of its function to promote an understanding of the capital markets and its participants, and the benefits, risks and liabilities associated with investing.

During 2021, the Commission's investor education initiatives reinforced the need to be financially prepared for crises, and for financial resilience on a personal, community and national level. Due to enforced COVID-19 social distance protocols, the Commission advanced its investor education programme digitally.



S Rosel Moxey, president of Sunshine Finance, was a participant in the SCB's Financial Resilience Video Series.

Financial Resilience Video Series

On 19 August, the Commission launched a series of short videos focusing on financial resilience which aimed to foster awareness of the importance of financial resilience and provide practical tips to help Bahamians on their financial journey. Another goal of the video series was to encourage viewers to commit to taking tangible steps to improve their financial resilience.

This video series was the culmination of the "I Will" social media campaign launched in tandem with the other members of the Caribbean Working Group of the Americas Chapter of the International Forum of Investor Education (IFIE) during World Investor Week (WIW) 2020. Like the video series, the "I Will" campaign encouraged persons to take action to be more financially resilient.

The video series' messaging included committing to develop and maintain a budget; setting long term financial goals and a plan to achieve them; tracking spending and eliminating unnecessary expenses; preparing financially for foreseeable and unforeseeable life events; and exploring alternative income streams. The videos featured well-known Bahamians and targeted the demographics of 25-40 and 41-60.

The videos were posted to the Commission's website, Facebook page and YouTube channel to ensure that the content was easily accessible. The videos ran on local cable networks during high viewership of local and international cable programming from 19 August to 30 September. During the period, the videos received more than 36,670 views. Facebook's data analytics indicate that during the period, the videos had a reach of 46,688 and a click to play rate of 10,200. Additionally, a 30-second advertisement for the videos ran on local cable networks during local and international news programmes. This culminated in views of more than 48,691, for the aforementioned period.

World Investor Week 2021

The Commission observed WIW the week of the 11-17 October 2021. Activities focused on increasing awareness of the importance of investor education and reinforcement of fundamental investor education and financial literacy concepts. The Commission continued its efforts to ensure that retail investors were aware of the risks and benefits of investing in achieving financial resilience.

Prime Minister, the Honourable Philip Davis, QC, declared the month of October "Investor Education Month" in support of the Commission's celebration of WIW and as national recognition of the importance of financial literacy and investor education.

"Starting Out? Start Right!"

Video Competition

On 13 October, the Commission launched the "Starting Out? Start Right!" video competition for Bahamians and residents aged 18 and older. The competition was well received with 15 submissions. Contestants produced a video of 2 to 4 minutes on fundamental financial literacy and investor education concepts and were to target persons between the ages of 18 and 25. The Commission anticipates leveraging the competition through the first quarter 2022 with viewers' choice elements and special promotions with the winning entries. The videos are posted to the Commission's website, Facebook page and YouTube channel.

Webinars

The Commission participated in the IFIE Caribbean Working Group Webinar on 28 October, under the theme: "Strengthening our Toolkit to Fight the Impact of Financial-Fraud during the COVID-19 Pandemic." This joint initiative forms a part of participating Caribbean securities regulators' WIW initiatives. Gawaine Ward the Senior Manager of Enforcement presented on the move to criminalize the promotion of fraudulent financial schemes through legislative provisions in the Financial and Corporate Service Providers Act, 2020. Stewart Miller the Manager of Investor Education and Communications moderated a segment on lessons learned about promoting investor education during a pandemic. Miller also presented on the Commission's lessons learned using video as a communications medium in recent years. The webinar's recording can be found on the Commission's website and Facebook page.

Social Media Campaigns

The Commission posted daily informational posts under the theme "Be a smart investor" as one of its WIW celebration initiatives. The campaign focused on traditional investor education messaging with posts on the Commission's Facebook page throughout the month of October. The campaign culminated in a total reach of 1,792.

The Commission launched a WIW 2021 page: <https://www.scb.gov.bs/investing/world-investor-week-2021/>. The page centralized the Commission's financial literacy and investor education content related to its WIW 2021 theme, and other financial literacy and investment content, for ease of reference.

The Commission launched a social media influencer pilot programme during the week. The influencer generated and hosted investor education content and referenced the Commission's WIW activities and website. During the pilot, the influencer reached an audience of 2,410 persons with the article "Understanding the securities and capital markets – An Introduction", 200 people with "Due Diligence Tips for Investors" and another 217 with "Investment Red Flags: Spotting an investment scam".

Harnessing Social Media

In October, the Commission launched Instagram and Twitter profiles to ensure that its financial literacy and investor education content is accessible to younger demographics including 18-24 and 25-40. Additionally, the Commission launched a LinkedIn profile to increase the various professional communities' accessibility to the regulator.

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.

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 and a number of groups:

- **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.
- **Assessment Committee (AC)** assesses implementation of IOSCO Principles and Standards across the IOSCO membership.
- **MMoU Monitoring Group** consists of all MMoU signatories and is tasked with monitoring the operation of the IOSCO MMoU.
- **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.
- **MMoU Screening Group** is tasked with reviewing MMoU applications to establish if applicants meet the requirements for becoming signatories to the MMoU.
- **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 and seeks to implement global enforcement cooperation under the IOSCO MMoU.
- **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.

- **Operational Resilience Group (ORG)** was formed to examine the operational resilience of regulated entities during the COVID-19 pandemic and to identify any themes and gaps in existing IOSCO and other international organizations’ principles and guidance on operational resilience.

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 the Americas (COSRA)

The Council of Securities Regulators of the Americas (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 IOSCO’s IARC due to their shared membership.

Global Financial Innovation Network (GFIN)

The Global Financial Network (GFIN), launched in 2019, is an international network of financial services regulators and related organizations committed to supporting financial innovation. GFIN aims to create a framework for cooperation between financial services regulators on innovation topics and sharing of experiences and approaches. It also seeks to provide efficient ways for innovative firms to interact with regulators and navigate between countries. The Commission attained membership in December 2020.

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 of The Bahamas. The group serves as a medium for information sharing between its members and international financial services regulators. Members use this forum to discuss unique and shared regulatory challenges.

International Forum for Investor Education (IFIE)

The International Forum for Investor Education (IFIE), formed in 2005, aims to unite and engage global organizations across sectors to help improve financial capability and investor education. The Bahamas has been a member since 2020. The IFIE Americas Chapter, formed in 2011, works on priority issues and needs of the Americas region, benefitting from the resources, programming and experience of the IFIE global network of partners and other global-regional chapters. The Bahamas is a founding member of the IFIE Americas Chapter Caribbean Working Group (CWG), whose focus is developing programmes on financial capability and investor education within the Caribbean context.

Table 2: Membership meetings and activities attended during 2021.

Meeting/Conference/Date	Place	Theme/Topic
International Organization of Securities Commissions (IOSCO)		
Annual Meeting of IOSCO 8-16 November	Virtual	No physical meeting due to the COVID-19 pandemic. Series of virtual meetings held in lieu of.
GEMC 11 November	Virtual	Discussions on recent work (published reports and projects), market developments and regulatory updates in member jurisdictions.
C3 (Committee on Regulation of Market Intermediaries) 23 March 13 April 25 May 14 June 18 November	Virtual	Information not available to the public.
C4 (Committee on Enforcement and the Exchange of Information) and Screening Group 26-27 January 25-26 May 28-29 September	Virtual	Information not available to the public.
Operational Resilience Group (ORG) 24 June 19 August 7 October	Virtual	Discussions on updates to IOSCO's BCP guidelines with respect to regulators and registrants.
Inter-American Regional Committee (IARC)/Council of Securities Regulators of the Americas (COSRA)		
IARC/COSRA 29 March	Virtual	Discussions on regional priorities, status of global capital markets and their trends and vulnerabilities, survey findings on Fintech and regional cybersecurity and training issues.
IARC 9 November	Virtual	Discussions on updates to the Board, financial innovation, and mutual funds.
Caribbean Group of Securities Regulators (CGSR)		
Annual Meeting 8 July	Virtual	Discussions on regional emerging challenges specifically COVID-19, its impact, members' responses, and the increase in fraudulent schemes observed.

Table 2 (continued)**Global Financial Innovation Network (GFIN)**

Quarterly Meeting 22 June	Virtual	Discussions on workstream updates.
Regulatory Technology (RegTech) and Supervisory Technology (SupTech) Showcase 29 June 2021	Virtual	Discussions to share RegTech and SupTech progress.
Annual Meeting 6 October	Virtual	Discussions on participation in working groups, review and analysis on Fintech surveys, and formulating strategic focus areas for 2022.

Human Resources

As at 31 December 2021, the Commission's staff complement stood at **91** consisting of **84** full-time employees and **7** temporary/contract employees.

Staff Meetings

During 2021, the Commission held **4** (quarterly) staff meetings. All meetings were held virtually due to the COVID-19 pandemic.

Staff Education and Training

During 2021, the Commission continued its incentive-based support of staff development in order to strengthen its capacity to execute its functions and ongoing priorities. The Commission continued to offer opportunities to employees including travel

as permitted. However, due to the pandemic, the majority of training was restricted to online webinars, conferences and seminars only.

Health and Wellness Initiatives

The Commission seeks to create a proactive environment for the health and wellness of the staff. In its effort to increase benefit offerings, improve employee health, and manage health plan costs, the Commission continues to facilitate its insurance provider's health program, with staff incentives and accommodation of initiatives on offer. Participants have the opportunity to increase their awareness of health and wellness, through a number of initiatives that provide the tools to make informed lifestyle choices. All continued virtually with several webinars during 2021.

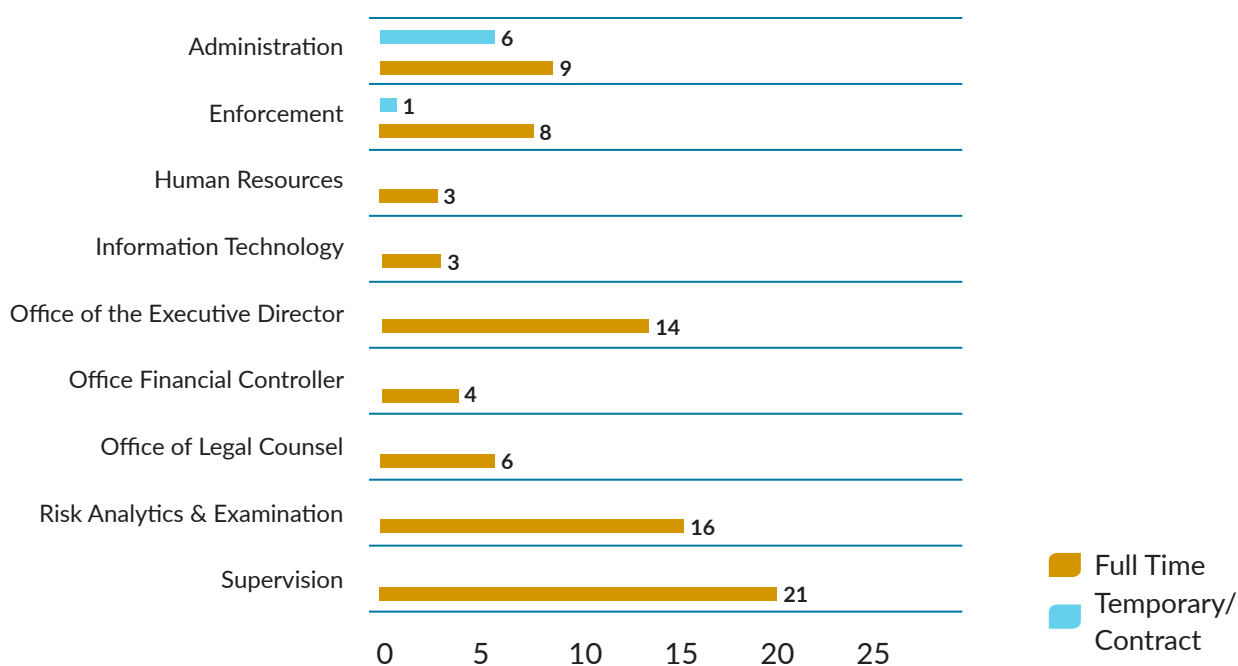
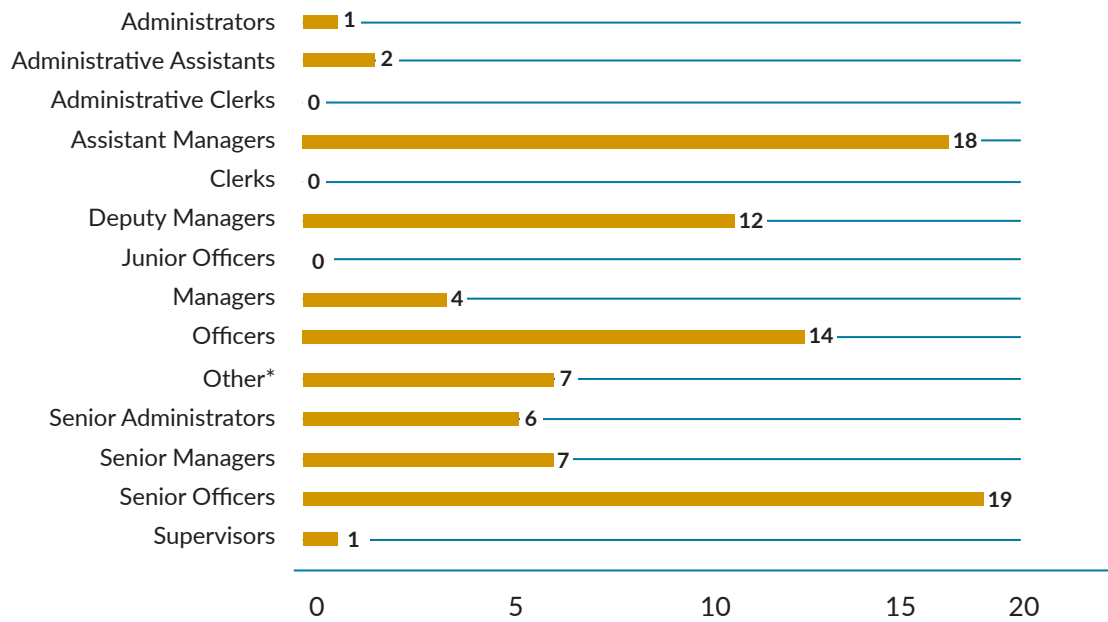
Table 3: Number of employees by department

Table 4: Number of employees by position



* Other represents 6 clerical workers and 1 investigations officer on contract.

Table 5: Qualifications of Commission employees across positions

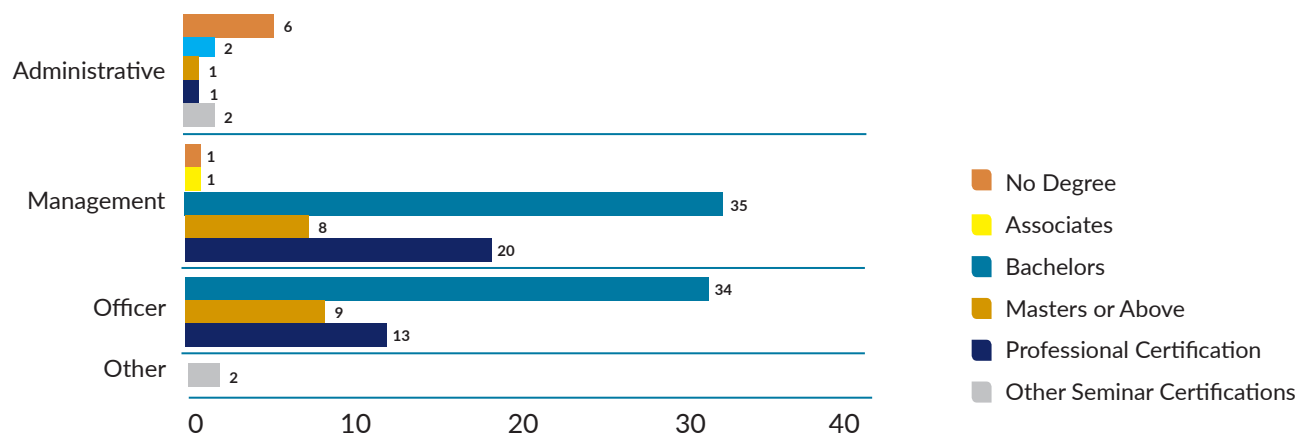


Table 6: International, domestic and virtual training and capacity building opportunities afforded to Commission staff in 2021

Meeting/Conference	Place	Staff Attended
Bahamas Business Outlook 2021	Virtual	2
CPF Training for CFATF Member Jurisdictions	Virtual	21
CESRA Informational Webinar Session	Virtual	1
INVITATION TO GFSR: 2021 Empirical Research Conference on Approaches to AML and Financial Crime Suppression	Virtual	13
The London School of Economics and Political Science: Regulation: Theory, Strategy, and Practice	Virtual	13
FINTECH & Digital Tokens	Virtual	3
The Malta Workshops	Virtual	All employees of SUD and RAED
2021 Bahamas Economic Outlook	Virtual	1
5th IOSCO/PIFS-Harvard Law School Global Certificate Program for Regulators of Securities Markets	Virtual	10
IOSCO's Capacity Building Online Toolkit	Virtual	All employees of SUD and RAED
GFIN RegTech & SupTech Showcase	Virtual	7
CFA Institute Financial Regulatory Symposium 2021	Virtual	All employees of SUD and RAED
SHRM21 Annual Conference & Expo	Virtual	3
2021 EA Summit	Chicago, IL	1
Fraud Prevention	Virtual	3
STEP LATAM Conference	Riviera, Mexico	4
Bentac (OSINT) Training	Virtual	25
IFSCA Global Fintech Event Infinity Forum 2021	Virtual	2
Offshore Alert Global 2021 Conference	Virtual	2
ACAMS Annual Caribbean Conference	Virtual	9
IOSCO/PIFS-HLS Global Certificate Programme-Phase II	Virtual	10
IOSCO SPAC Network Stakeholder Meeting	Virtual	1

Administration

Business Continuity Plan (BCP)

Since 2020, the Commission has been engaged in an ongoing effort to augment its business continuity plan (BCP) to ensure that the Commission is able to prevent and withstand as many foreseeable and unforeseeable challenges as possible. This process has involved review of Commission-wide operating procedures and the resilience of those procedures. Moving forward, SCB will test the BCP annually. In June 2021, the Commission conducted a successful test, which focused on the Commission's information technology data backup and recovery processes.

Efficiency Initiatives

The Commission remains committed to efficiency efforts that not only improve operations but also reduce inefficient spending. For 2021, the Commission continued to realize expense reductions in the overhead cost of operations. These reductions are a result of the Commission's staff working remotely.

COVID-19 Cleaning and Safety

Throughout 2021, the Commission's premises were sanitized daily. On a quarterly basis, the Commission's premises underwent a comprehensive deep cleaning and sanitizing to ensure that the environment met the highest health standards for persons requiring access to the premises. In September 2021, the Commission introduced an alternating work team rotation to facilitate staff working on premises. Among other arrangements made to accommodate this transition, mandatory COVID-19 testing at the start of each work rotation ensured that persons working from the Commission's premises were not at increased risk of exposure to the coronavirus.

Document Management Software Solution

In mid-2021, the Commission implemented a new Document Management Software Solution (DMSS), OnBase. The application, chosen in part because of the capability to allow users to easily create functional workflows, allows for greater efficiency as documents may be shared more efficiently. The workflows present opportunities for process enhancements as documents are funneled through various channels designed to increase efficiency. Completion of the initial phase of the implementation took place during the second half of the year, and included the transition of all data and documents from the previous DMSS, along with relevant workflows and other functionality. Phase two of the DMSS implementation was in progress at year-end and will provide additional software functionality and workflow efficiencies.

Data Warehouse Solution RFP

In an effort to raise the level of automation and digitization within the Commission, an RFP for the implementation of a data warehouse was issued in November 2021. The SCB aims to select a candidate to provide the necessary services by the end of quarter one, 2022. The operational advantages of a data warehouse include reductions in task completion time, workflows that are more efficient and improvements in data quality. This implementation will also aid the Commission in making data-driven decisions based on the organizations' accrued business intelligence.

Information Technology

Compliance and Regulatory Interface (CoRI)

The major technological improvement for the Commission during the year was the Compliance and Regulatory Interface (CoRI). CoRI is a web-based filing portal, introduced in 2021, which allows registrants and licensees to electronically submit required filings to the Commission, safely, swiftly and conveniently. Although introduced in direct response to social distancing protocols during the pandemic, CoRI will be maintained and upgraded into the future, to continually improve regulatory filing convenience for constituents and help position the SCB for transition to a data-driven work environment.

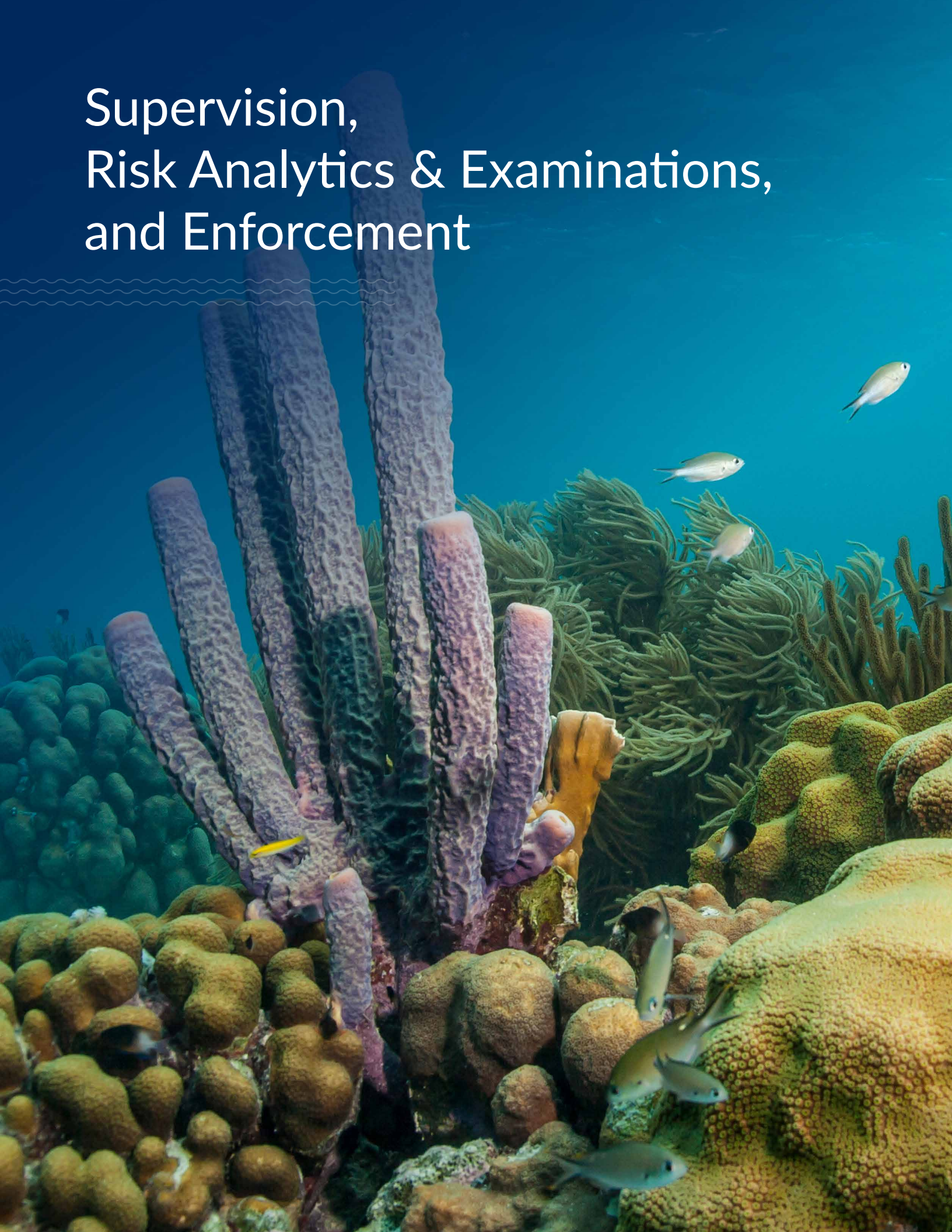
Server Infrastructure

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

Other Updates

The Commission developed a progressive testing schedule as an integral part of the information security framework. The schedule includes routine testing of the internal and external network components by a third party security vendor to uncover and mitigate vulnerabilities. This will enhance future security efforts. The Commission continues to explore new and innovative ways to maintain a secure environment.

Supervision, Risk Analytics & Examinations, and Enforcement



Supervision

Supervisory Approach

The Commission deploys a risk-based approach to the supervision of registrants, licensees and the markets, which in turn informs enforcement initiatives and strategies. Under this risk-based approach, supervisory, examinations and enforcement priority is given to the areas the Commission identifies as presenting the greatest risk to the public, the capital markets, the financial system, and the reputation of the jurisdiction as an international wealth management centre. The Commission publishes its priorities annually, which allows industry practitioners to review and improve their operations for compliance in the identified focus areas.

To determine supervisory and enforcement priorities, the Commission considers a number of factors, including:

- high-risk areas identified by global standards setters, such as IOSCO and CFATF;
- risk areas prioritized under the country's National Risk Assessment program, particularly with respect to anti-money laundering, the financing of terrorism and the proliferation of weapons of mass destruction;
- compliance and non-compliance trends of its constituents stemming from on-site and offsite reviews/examinations, including the findings of surveys, such as the desk-based thematic reviews conducted during 2020;
- global financial crime trends; and
- its own observations and experiences.

Supervision Priorities 2021

Corporate governance

Corporate governance is essential to the effective and efficient operation of any organization. Registrants and licensees may expose themselves to regulatory, legal and reputational risk where their corporate governance frameworks are not sufficiently comprehensive or adhered to, and may pose systemic risk to the financial services sector where frameworks are weak. Focus was given to the fitness and propriety of key personnel, oversight levels by the board and committees of the board, and the development of annual board confirmations. Corporate governance frameworks were reviewed to ensure they were sufficiently comprehensive and that they did not pose systemic risk to the financial services sector.

Compliance with reporting obligations

Following the relaxing of reporting timelines in 2020 due to the pandemic, the Commission focused on fostering strict compliance with reporting obligations in an effort to mitigate risks arising from lack of regulatory monitoring. This effort was enhanced by the implementation of the Commission's recently launched compliance and regulatory interface, CoRI.

Particular attention was paid to compliance with the following obligations:

- Compliance with filing of self-risk assessment;
- Compliance with filing of Financial and Operational Report, and maintenance of regulatory capital requirements; and
- Statistical information and performance reports for investment funds.

Enhanced Industry Outreach

In 2021, the Commission significantly increased its meetings with registrants and licensees, specifically to enhance the consultation process for the development and implementation of new laws and standards. While social distancing restrictions remained in place, these took the form of increased virtual meetings to focus constituents' attention on and encourage dialogue about the various regulatory issues and solutions being contemplated.

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 2021, the market comprised 37 primary market listings (2020: 37) which included 20 ordinary shares with a market capitalization of \$4.84 billion (2020: \$4.51 billion), 8 preference shares with a market capitalization of \$249 million, 9 Bahamas Government Stock (BGS) and corporate bonds with a face value of \$462 million, and 231 Bahamas Registered Stock (BRS) with a face value of \$3.7 billion.

The volume of shares traded on BISX in 2021 was 12.045 million (valued at \$108.438 million) in contrast to 2020 when the volume of shares traded was 5.558 million (valued at \$27.886 million). Additionally, as at 31 December 2021 the BISX All-share index closed at 2,228.24 compared to 2,092.46 in 2020, which represented a 6.50% increase.

Risk Analytics and Examinations

Self-Risk Assessments

In accordance with Part II–Duty of Financial Institutions, Section 5–Conduct of Risk Assessment of the Financial Transactions Reporting Act (FTRA), 2018, the Commission requires licensees and registrants to self-assess their identified risk(s), inclusive of Money Laundering, Financing of Terrorism and Proliferation Financing risk (AML/CFT/PF), and develop a comprehensive risk management system in order to take appropriate measures to manage and mitigate those risks.

A major component of the risk assessment is identifying, assessing and understanding the risk in relation to its facility holders and the jurisdictions of origin and operation and its products, services, transactions and delivery channels. This assessment should be documented, kept up-to-date and approved by Senior Management. Further, the risk assessment must be updated if any of these events occur:

- prior to the launch of a new product or business practice;
- prior to the use of new or developing technologies; and

- when there is a major event or development in the management and operation of the group.

Self-risk assessments were due at the end of December 2021. A self-risk assessment template disseminated to licensees and registrants increased the compliance rate for submission of self-risk assessments to 100% for both SIA and IFA registrants and licensees and over 85% for FCSPA licensees.

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.

Resumption of On-site Examinations

On site hybrid examinations resumed February 2021. Examiners took COVID-19 PCR tests prior to on site file reviews. Additionally, Microsoft Teams folders were set up to allow licensees and registrants to submit required documents for review and limit the time on premises.

Other Updates

In February, the Commission held its annual virtual Agent Training for BICA licensees interested in being approved agents to conduct FCSPA examinations on behalf of SCB. A virtual discussion was held in March on the SIA (Financial Resources) Rules, 2021 to assist firms with the 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.

Examinations Priorities 2021

Common Reporting Standards (CRS) – Proper tax filing (tax evasion/avoidance)

Examinations included a review of whether entities potentially pose a risk to the jurisdiction due to improper, inadequate or non-existent tax reporting. Particular focus was given to complex structuring,

which may have the potential to confuse the reporting responsibilities of licensees and registrants. The Commission distributed, in 2021, a desk-based thematic review to all licensees and registrants on this topic.

Business continuity planning/Disaster recovery (BCP/DR)

Examination programs included a review of disaster recovery plans to test the robustness of the securities sector in the aftermath of various disaster scenarios. Examinations focused on:

- operational capacity and contingency planning;
- record retention with emphasis on wireless restoration and client access to data during downtime;
- safeguards for clients' privacy with electronic security of client information, including encryption policies, data management and accessibility;
- data protection; and
- proper configuration of network storage devices.

Advisory fees and valuations for investment funds

Examinations reviewed disclosures related to fees and valuation controls and practices. Emphasis was placed on the valuation of client assets, due diligence, the oversight of investment managers, and how fees are calculated, tested and monitored to ensure accurate reporting to investors.

Enforcement

The Enforcement arm of the Commission was impacted by the implementation in early 2021 of the FCSPA, 2020, which criminalized “financial schemes”. The definition covers, inter alia, pyramid and Ponzi schemes and makes them unlawful activities. The Commission previously investigated such activities, but could not address them administratively or via criminal prosecution. The Commission now has the authority to prosecute such schemes as now they attract criminal liability under the FCSPA, 2020.

Enforcement Priorities

Improved communication and coordination with stakeholders

The Enforcement Department (END) worked to improve communication and coordination with bodies essential to carrying out its functions, such as the Financial Crime Unit of the Royal Bahamas Police Force, when addressing securities-related matters and matters under the FCSPA, 2020 that carry criminal penalties. The END aimed to work to improve relations with the Department of Public Prosecutions to streamline the handling of indictable criminal matters.

Streamlining of investigations into fraud schemes

Since late 2019, the Commission observed an upward trend in financial schemes, particularly involving online multi-level marketing internet-based Ponzi schemes as well as “Asue-branded” schemes. This trend appears to have steadily increased moving into 2021. As a result of the promulgation of the FCSPA, 2020, which criminalizes the launch or promotion of certain criminal financial schemes, and recent amendments to securities laws, the Commission has been actively investigating such matters, and plans to actively prosecute them.

Licensing, Registration and Examinations Overview

Securities Industry Act (SIA), 2011

Firms under the SIA

In 2021, the Commission approved **10** new firms under the Securities Industry Act (SIA). **5** firms upgraded their license to conduct registrable securities business. **6** firms surrendered their license in 2021. As at 31 December 2021, there were **167** registered securities firms in the industry, which represents an increase of **4** firms when compared to 31 December 2020.

Table 7: Firms registered under the SIA

	Registered Firms as at 31 December	Newly Approved Firms as at 31 December	Surrenders Completed**	Registered Firms as at 31 December
Category	2020	2021	2021	2021
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	12	1	0	13
Advising on securities only	9	0	1	8
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	0	1	0	1
Managing securities and Advising on securities	46	1	3	44
Dealing as principal or agent and Advising on securities	1	0	0	1
Dealing as principal or agent, Arranging deals in securities	12	3	0	15
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	2	1	0	3
Arranging deals in securities, Managing securities and Advising on securities	2	1	0	3
Dealing as principal or agent, Arranging deals in securities, Managing securities and Advising on securities	18	1	2	17
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*	1	0	2
Total	163	10	6	167

*Figure revised from SCB Annual Report 2020

**The surrenders includes surrenders completed from previous years that had not been reported.

Market breakdown by activity

The SIA provides for five categories of registrable activities.

Table 8: Firms by registrable activities

Category	2021
Dealing as principal or agent	46
Dealing as agent only	50
Arranging deals in securities	83
Managing securities	119
Advising on securities	115

Individuals under the SIA

In 2021, **73** individuals were approved under the SIA. From the individuals recorded as registered at the end of 2020, a total of 588** individual registrations were surrendered or not renewed. As at 31 December 2021, there were **564** registered individuals under the SIA.

Table 9: Individuals registered under the SIA

	Registered Individuals as at 31 December	Newly Approved Individuals as at 31 December	Registered Individuals as at 31 December
Category	2020	2021	2021
CEO	163	5	157
Compliance officer	163	24	162
Representative – Trading	239	20	151
Representative – Discretionary management	118	2	147 *
Representative – Advising	165	8	192 *
CEO and Representative – Trading	8	3	7
CEO and Representative – Discretionary management	43	0	34
CEO and Representative – Advising	13	1	9
Representative – Trading and Discretionary management	17	1	13
Representative – Trading and Advising	29	6	24
Representative – Discretionary management and Advising	49	1	35
CEO, Representative – Trading and Advising	2	0	1
CEO, Representative – Discretionary management and Advising	32	0	27
Representative – Trading, Discretionary management and Advising	28	1	26
CEO, Representative – Trading, Discretionary management and Advising	10	1	9
Total	1,079	73	564

*The figures for Discretionary Management and Advising Representatives include approvals from previous years that had not been reported.

**The surrenders for individuals includes surrenders completed from previous years that had not been reported.

Market breakdown by activity

The SIA provides for three categories of registrable activities for individuals. A single individual may be registered for a combination of these activities.

Table 10: Individuals by registrable activities

Category	2021
Trading Representative	200
Discretionary management Representative	291
Advising Representative	323

Securities Industry Act (SIA), 2011 Examinations

On-site Examinations of SIAs

During 2021, pursuant to the SIA, 2011, **15** on-site examinations for firms registered to conduct securities business were conducted. Of these, **14** were Routine and **1** was For Cause. There were no Joint On-Site examinations of licensees conducted with CBOB during 2021.

Table 11: Inspections by category of registration

Category	2021
Dealing as agent only	1
Managing securities only	1
Dealing as agent only and Arranging deals in securities	1
Managing securities and Advising on securities	1
Dealing as principal or agent, Arranging deals in securities and Managing on securities	1
Arranging deals in securities, Managing securities and Advising on securities	1
Dealing as principal or agent, Arranging deals in securities, Managing securities and Advising on securities	8
Dealing as agent only, Arranging deals in securities, Managing securities and Advising on securities	1
Total	15

Investment Funds Act, 2019

On 1 September 2019, the Investment Funds Act, 2019 (IFA) came into force providing for the administration of a Bahamas-based fund by a foreign administrator (licensed or established in a prescribed jurisdiction), and removing the category of exempt* investment fund administrator.

Investment Fund Administrators

During 2021, 3 investment fund administrators were licensed by the Commission including a previous exempt investment fund administrator that transitioned to a restricted investment fund administrator. As at 31 December 2021, there were 45 licensed investment fund administrators.

During 2021, 3 foreign fund administrators acted on behalf of Bahamas-based funds. At the end of December 2021, 26 licensed investment funds were being self-administered pursuant to section 8 of the IFA, 2019.

Table 12: Investment Fund Administrator Approvals

	Licensed Administrators as at 31 December	Newly Approved Licensed Administrators as at 31 December	Surrenders as at 31 December	Licensed Administrators as at 31 December
Category	2020	2021	2021	2021
Exempt*	1	0	1	N/A
Unrestricted	33	1	2	32
Restricted	14	2	3	13
Total	47	3	5	45

IFA, 2019 Examinations

Investment Fund Administrators

A total of 8 examinations of licensed investment fund administrators were conducted during 2021.

Investment Funds

In 2021, 77 investment funds were approved and licensed; of those, the Commission licensed 9, and 68 were licensed by unrestricted investment fund administrators and filed with the Commission. During the 2021 period, 80 funds entered into liquidation or indicated a surrender of their license; additionally, 101 investment funds satisfactorily completed the process by year-end resulting in 683 licensed investment funds at year-end.

The Professional Fund and SMART fund model 007 continue to have new applications and approvals despite a net decrease in funds over the year.

Table 13: Investment Funds Registered Under IFA, 2019

	Funds as at 31 December	Newly Approved Funds as at 31 December	Funds as at 31 December
Category	2020	2021	2021
Standard Funds	32	1	29
Professional Funds	226	24	214
SMART Fund Model 001	7	0	12
SMART Fund Model 002	133	13	130
SMART Fund Model 003	9	0	3
SMART Fund Model 004	144	7	123
SMART Fund Model 005	4	0	4
SMART Fund Model 006	1	0	2
SMART Fund Model 007	156	32	166
Total	712	77	683

Table 14: Investment Funds licensed during 2021 by category

	Licensed and filed by UIFAs	Licensed by SCB
Standard Fund	N/A	1
Professional Funds	18	6
SMART Fund Model 001	0	0
SMART Fund Model 002	13	0
SMART Fund Model 003	0	0
SMART Fund Model 004	6	1
SMART Fund Model 005	0	0
SMART Fund Model 006	0	0
SMART Fund Model 007	31	1
Total	68	9

Investment Funds Sector Net Asset Values (NAVs)

The Commission licenses investment funds in The Bahamas that invest in numerous underlying investments such as private equity, stocks, fixed income, real estate, ETFs, derivatives and cryptocurrency; in various structures, including hedge funds, fund of funds and feeder funds.

Total net asset value by all investment fund administrators at 31 December 2021 was \$50.0 billion, compared to \$49.8 billion for the period ending 31 December 2020, an increase of 0.6%.

Financial and Corporate Service Providers Act (FCSPA), 2020

On 14 December 2020, the Financial and Corporate Service Providers Act (FCSPA), 2020 was promulgated enhancing the regulatory framework for the industry.

In 2021, post COVID-19 pandemic, emphasis was placed on transitioning licensees under the FCSP, 2000 to the new FCSPA, 2020. The transitional period was six months following the implementation of the new Act. The FCSPA, 2020 allowed licensees to be licensed in the category of Corporate Services, Financial Services or Financial and Corporate Services, based on their business activity. The FCSPA, 2020 now requires persons engaged in areas such as financial advisory/consultancy services, financial intermediation, financial leasing services, money broking, custody of digital assets and wallet providers to be licensed by the Commission.

During 2021, **102** financial and corporate service providers (FCSPs) were either newly licensed or transitioned under the new legislation, while **198** licenses were either surrendered or did not transition under the new legislation.

As at 31 December 2021, there were **246** licensed FCSPs. This comprised **184** licensees in the category of Corporate Service Provider, **28** licensees in the category of Financial Service Provider, and **34** licensees in the category of Financial and Corporate Service Provider.

Table 15: Registered Financial and Corporate Service Providers as at 31 December 2021

Category	FCSPs as at 31 December 2020	Approved/ Transitioned 2021	Surrenders/ Non-Transitioned 2021	FCSPs as at 31 December 2021
Companies	201	65	90	176
Partnerships	30	3	18	15
Individuals/ Unincorporated Bodies	111	34	90	55
Total	342	102	198	246

FCSPA, 2020 Examinations

A total of **15** examinations of financial and corporate service providers were conducted during 2021; **8** were conducted by the Commission and **7** conducted by the Commission's appointed agents.

Table 16: Examinations by category of Financial and Corporate Service Providers during 2021

Category	Conducted by SCB	Conducted by Agents
Corporate Services only	8	4
Financial Services only	0	2
Financial and Corporate Services	0	1
Total	8	7

Digital Assets and Registered Exchanges Act, 2020 (DARE)

Ever focused on innovation, the Commission enacted legislation that placed The Bahamas at the forefront of digital asset regulation. The Digital Assets and Registered Exchanges Act (DARE), 2020 came into force on 14 December 2020, providing for the regulation of digital asset business offered in or from within The Bahamas.

At 31 December 2021, there were 3 firms registered to conduct digital assets business. Of those, 1 was a new registrant licensed as a digital token exchange under DARE, and 2 were current licensees of the Commission, registered under other legislation, which added digital assets business to their portfolio.

DARE, 2020 Examinations

Licensees were not registered under the DARE Act until the last quarter of 2021, thus would not have come up for routine examination in the 2021 period. However, the Commission's vigorous on-boarding process of all licensees and registrants includes a review of the systems and policies in place as well as Fit and Proper assessments of Key Personnel.

Enforcement Matters

There were 12 enforcement matters brought forward from 2020. During 2021, there were no matters opened or closed. As at 31 December 2021, 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. During 2021, END continued to monitor the mentioned outstanding matters.

Table 17: The nature of enforcement matters in 2021

Type of Matter	Matters brought forward from previous years into 2021	New matters opened in 2021	Matters closed in 2021	Matters referred to another agency in 2021	Matters that remained open as at 31 December 2021
Litigation	9	0	0	0	9
Administrative	3	0	0	0	3
Criminal	0	0	0	0	0
Other	0	0	0	0	0
Total	12	0	0	0	12

The Commission issued 10 enforcement-related notices in 2021. The full text of Public Notices, investor alerts and press releases issued by the Commission, along with copies of judgements, are available on SCB's website.

Table 18: Public Notices issued during 2021

Notice	Issue Date	Description*
QUBITTECH	19 March 2021	Public Notice No 3. It was brought to the attention of the Commission that Qubittech may be carrying out activities that are registrable under one or more of the Acts. Enquiries determined that the entity was not registered with or licensed by the Commission. Therefore, a Notice was issued warning the public about doing business with this entity.

Table 18: Public Notices issued during 2021 (continued)

Notice	Issue Date	Description*
WISELING	19 March 2021	Public Notice No 4. It was brought to the Commission's attention that Wiseling may be carrying out activities that are registrable under one or more of the Acts. The Commission, in the course of its investigation, noted that the entity and/or its affiliates were not registered with the Commission. Therefore, a Notice was issued warning the public about doing business with this entity.
KARATBARS INTERNATIONAL GmbH aka KARATBARS INTERNATIONAL aka KARATBIT FOUNDATION or KARATBARS BAHAMAS KARATBIT	19 March 2021	Public Notice No 5. It was brought to the attention of the Commission that an entity called Karatbars International GmbH, aka Karatbars International, aka Karatbit Foundation, aka Karatbars Bahamas or Karatbit may be carrying out activities that are registrable under one or more of the Acts. An investigation was conducted and it was determined that the entity was not registered with or licensed by the Commission. Therefore, a Notice was issued warning the public about doing business with this entity.
ENTITIES NOT REGULATED BY THE SECURITIES COMMISSION OF THE BAHAMAS	19 March 2021	Public Notice No 6. It was brought to the attention of the Commission that Assetval PLC, EX97 PLC, Forex PLC, Ifxon PLC, Globalval PLC, Metaex PLC, Popsmart PLC, Profitpro Plc, Traderx Plc and Uniten-Ex Plc all provided a false statement on their website, claiming to be authorized and regulated by the Commission. Therefore, a Notice was issued warning the public about doing business with these entities and their agents/representatives.
TRADEVOLT	19 March 2021	Public Notice No 7. It was brought to the attention of the Commission that Tradenvolt may be carrying out activities that are registrable under one or more of the Acts. An investigation was conducted and it was determined that the entity was not registered with or licensed by the Commission. Therefore, a Notice was issued warning the public about doing business with this entity.
ANS-AK.COM	10 May 2021	Public Notice No 8. It was brought to the attention of the Commission that ans-ak.com provided a false statement on their website, claiming to be authorized and regulated by the Commission. An investigation was conducted and it was determined that the entity was not registered with or licensed by the Commission. Therefore, a Notice was issued warning the public about doing business with this entity.
RUIMEI GLOBAL, aka RUIMEI GLOBAL GROUP, Aka RUIMEI GLOBAL ENTERPRISE GROUP or COOLCAT	21 June 2021	Public Notice No 9. It was brought to the attention of the Commission that an entity called Ruimei Global, aka Ruimei Global Group, aka Ruimei Global Enterprise Group or Coolcat provided a false statement on their website, claiming to be authorized and regulated by the Commission. An investigation was conducted and it was determined that the entity nor any affiliate was registered with or licensed by the Commission. Therefore, a Notice was issued warning the public about doing business with this entity and its affiliates.

Table 18: Public Notices issued during 2021 (continued)

Notice	Issue Date	Description*
RAY-E SECURITIES INVESTMENT COMPANY (RAY-E)	22 July 2021	Public Notice No 10. It was brought to the attention of the Commission that Ray-E Securities Investment Company aka Ray-E provided a false statement on their websites, claiming to be authorized and regulated by the Commission. An investigation was conducted and it was determined that the entity was not registered with or licensed by the Commission. Therefore, a Notice was issued warning the public about doing business with this entity.
ASUE MAXXED (ASM), aka ASUE MAXX, aka AMAXX, aka AMAXX FINANCIALS, aka AMAXX INVESTMENTS, aka AMAXX CASH MANAGEMENT or aka AMAXXED FINANCIAL INC.	26 August 2021	Public Notice No 11. It was brought to the attention of the Commission that that an entity called Asue Maxxed (ASM), aka Asue Maxx, aka Amaxx, aka Amaxx Financials, aka Amaxx Investments, aka Amaxx Cash Management or aka Amaxxed Financial Inc. may be carrying out activities that are registrable under one or more of the Acts. An investigation was conducted and it was determined that the entity was not registered with or licensed by the Commission. Therefore, a Notice was issued warning the public about doing business with this entity.
FX PRIMARY LTD or FXPRIMARY LLC (FX PRIMARY)	27 August 2021	Public Notice No 12. It was brought to the attention of the Commission that FX Primary Ltd or FX Primary LLC (FX Primary) provided a false statement on their websites claiming to be authorized and regulated by the Commission. An investigation was conducted and it was determined that the entity was not registered with or licensed by the Commission. Therefore, a Notice was issued warning the public about doing business with this entity.

* The full text of Public Notices Investor Alerts and press releases issued by the Commission by law along with copies of judgements, are available on SCB's website

Other Updates

The END underwent a one-week OSINT (Open Source Intelligence) training programme in December 2021. The training was centered on online investigations for purposes of identifying persons behind online unlawful activity with a view to bringing actions against those persons. Additional training will continue in 2022.

During 2021, the Commission formally sought the assistance of overseas regulators, using the IOSCO MMoU, with providing information to assist with the Commission's ongoing investigations. To date, the Enforcement Department continues to see the usefulness of this resource. The department sent two overseas requests for information during the course of the year. As at the 31 December 2021, the Commission had received responses to both requests, as well as the response to an outstanding overseas regulatory request sent in 2020.

Legislation



Legislative Updates

Securities Industry (Business Capital) Rules, 2021

Gazetted 23 June 2021

The Securities Industry (Business Capital) Rules, 2021 (the Business Capital Rules) are designed to allow small businesses to seek business capital (funding) in the capital markets without having to file a prospectus with the Commission.

The Business Capital Rules establish the standards and obligations for persons wishing to engage in crowdfund offerings, and relax various regulatory requirements, representing a lighter touch regulation of crowdfund offerings when compared with traditional initial public offerings. Overall, the Business Capital Rules make the capital raising process for small businesses less costly and burdensome, while still ensuring the level of investor protection that currently exists in securities laws.

The Business Capital Rules regulate “business funding” as an exempt distribution under section 92(i) of the Securities Industry Act 2011 to source or obtain business capital, and “crowdfunding” of a project or venture by raising money from the public through a crowdfund digital platform.

The Business Capital Rules apply to persons –

- sourcing business capital as an eligible person;
- operating or participating or intending to operate or participate in equity-based crowdfunding by distributing securities;
- investing in an eligible person; or
- registered or intending to be registered as an equity-based crowdfunding platform or restricted marketplace.

Consultation Documents

A critical part of the development of legislation is the public consultation process. As a part of the process, draft documents are disseminated to Commission registrants, licensees and stakeholders and posted on SCB's website for comments and input.

Securities Industry (Amendment) Bill, 2021

The Bill proposes to amend the Act to require disclosure where a material contract is entered into with a public issuer and a director of the issuer is a party or beneficiary to that contract; require a

public issuer to cause its financial statements to be posted on the company's website or published in the newspaper; and make the provision of a register of public issuers mandatory.

The Bill also proposes to provide for the automatic revocation of a license, where a licensee fails to meet requirements to renew its license, submit its annual filings, or pay its annual fees.

Issue date: 23 April 2021

Securities Industry (Amendment) Regulations, 2021

The proposed Securities Industry (Amendment) Regulations intend to provide for a new regulatory capital calculation, and repeal and replace the Operational and Financial Report form (Form 13) in the First Schedule to reflect proposed financial resource requirements.

Consultation period: 12 March – 7 May 2021

Securities Industry (Financial Resources) Regulatory Rules, 2021

The proposed Rules intend to update the current regulatory capital requirements and calculations, as well as ensure initial and ongoing capital and other prudential requirements for registered firms to reflect the risks that they undertake.

Consultation period: 12 March – 7 May 2021

International Obligations (Economic and Ancillary Measures) Act (IOEAMA)

The International Obligations (Economic and Ancillary Measures) Act (IOEAMA) operationalizes the international obligations of The Bahamas, and provides for the imposition of economic sanctions, and the application of counter measures as required.

In accordance with the requirements of IOEAMA and the Anti-Terrorism Act 2018, the Commission issues notices of United Nations Security Council Resolutions (UNSCRs), relevant annexes, schedules, and amendments thereto, to licensees and registrants for appropriate action. The Commission monitors the compliance of licensees and registrants with required actions through quarterly confirmations of compliance, and annual declarations of compliance, and as a component of onsite examinations.

The Commission disseminated 27 IOEAMA UNSC resolution related notices in 2021.

Caribbean Financial Action Task Force (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 within the country. The report also gives an analysis of the country's level of compliance with the FATF 40 Recommendations, the level of effectiveness of the AML/CFT/PF regime, and 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.

The National AML/CFT/CFP Risk Assessment (NRA) commenced in February 2021 with the assistance of an international risk assessment expert secured through the Group of Financial Services Regulators and is scheduled for completion in the first quarter of 2022.

In May 2021, The Bahamas applied for technical compliance rerating to the CFATF regarding its compliance with 10 of the FATF Recommendations. At this time, The Bahamas was rated as Compliant or largely compliant with 30 of the FATF 40 Recommendations. The rerating process significantly increased The Bahamas' technical compliance ratings, and the country is currently rated as Compliant or largely compliant with 38 of the FATF 40 Recommendations.

The application for rerating followed the delisting of The Bahamas from the FATF list of Jurisdictions Under Increased Monitoring, in December 2020, due to remediation efforts by The Bahamas regarding the effectiveness of its AML/CFT/CPF regime.

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. Prior to exchanging information, 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.

In 2021, 15 requests were received by The Commission and 23 requests were brought forward from previous periods. Of the 15 requests received, 4 originated from the United States, 5 from France, 1 from the United Kingdom, 3 from Italy, 2 from Canada (1 from British Columbia and 1 from Quebec). During 2021, 13 requests were closed, 3 of those matters were from the 7 previously stayed matters brought over from 2020. At the end of 2021, 25 matters remained open. No new matters were stayed or denied in 2021.

During 2021, the Commission made requests of two Overseas Regulators pursuant to the IOSCO MMoU, namely: 1 to Cyprus Securities & Exchange Commission and 1 to Superintendencia del Mercado de Valores (Panama). At year's end, the Commission had received responses to all two of the requests made and received a response relative to a request made in 2020.

Frequently Used Abbreviations and Terms

AC – Audit Committee

AML/CFT/PF – Anti-money laundering /Countering the financing of terrorism/Proliferation of weapons of mass destruction

ATA, 2018 – Anti-Terrorism Act, 2018

BCP – Business continuity plan

BICA – Bahamas Institute of Chartered Accountants

BISX – Bahamas International Securities Exchange

CBOB/Central Bank – The Central Bank of The Bahamas

CFD – Contracts for Differences

CFTC – Commodities and Futures Trading Commission

CFATF – Caribbean Financial Action Task Force

CGSR – Caribbean Group of Securities Regulators

CRS – Common Reporting Standard of the OECD

CWG – Caribbean Working Group

COSRA – Council of Securities Regulators of the Americas

DARE – Digital Assets and Regulated Exchanges Act, 2020

DASPs – Digital Asset Service Providers

DR – Disaster recovery

EPC – Elective Professional Recategorization Guidelines

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

FATF – Financial Action Task Force

FCSP – Financial and Corporate Service Provider

FCSP, 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

HRC – Human Resource Committee

IARC – Inter-American Regional Committee

IFA, 2019 – Investment Funds Act, 2019

IFSC – International Financial Services Commission

IFIE – International Forum of Investor Education

IOEAMA – International Obligations (Economic and Ancillary Measures) Act

IOSCO – International Organization of Securities Commissions

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

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

MMoU MG SC – MMoU Monitoring Group Steering Committee

NAV – Net Asset Value

NRA – National Risk Assessment

ORG – Operational Resilience Group

OSINT – Open Source Intelligence

PF – Proliferation Financing

SCB – Securities Commission of The Bahamas

SIA, 2011 – Securities Industry Act, 2011

SMART Fund – Specific Mandate Alternative Regulatory Test Fund

SWOT – Strength, Weakness, Opportunity, Threat

The Commission – Securities Commission of The Bahamas

UIFA – Unrestricted Investment Fund Administrator

UNSC – United Nations Security Council

UNSCR – United Nations Security Council Resolution

VASP – Virtual Assets Service Providers

Financials



Financial Summary

The audited financial statements that appear on the following pages of this Annual Report represent the financial position of the Securities Commission of The Bahamas (the Commission) as at 31 December 2021 along with the Commission's 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 2020 are shown.

The Commission's income is mainly generated from fees charged to licensees, registrants and applicants under the Securities Industry Act, 2011 (SIA), the Investment Funds Act, 2019 (IFA), and the Financial and Corporate Services Providers Act, 2020 (FCSPA) as well as funding from the Government of The Bahamas (the Government). The Financial and Corporate Service Providers (Fees) Rules, 2020 and the Securities Industry (Fee) Rules, 2020 both came into effect on 30 December 2020. The enactment of both pieces of legislation positively impacted the Commission's 2021 financial performance. The restructuring of the annual corporate service provider fee to account for the number of active international business companies administered by a registered agent/registered office, along with the establishment of fees for various other financial and corporate services, resulted in an increase in fees from FCSPA licensees in the amount of \$1.45 million. Fees from SIA registrants increased by \$1.43 million. While there was some contraction in the overall number of licensees and registrants supervised by the Commission, the new fee rules contributed to a \$3.61 million increase in fee income, a 49% change over the prior year.

Overall, expenses remained relatively steady with a 2% increase of approximately \$0.20 million. The fraud loss expense of \$0.85 million (booked in 2020) was replaced in 2021 by increases in other expenses including salaries, wages and employee benefits as well as provisions for expected credit losses of \$0.75 million and \$0.19 million respectively. The changes to the fee structure combined with a relatively low increase in overall expenses led to net comprehensive income of \$2.95 million.

Net assets grew by 57% from \$5.15 million in 2020 to \$8.10 million in 2021. Positive cash flows from operations was the major contributing factor to the \$2.48 million increase in the Commission's most liquid asset, cash on hand and at banks. In the short to medium term, the Commission plans to utilize available cash to facilitate changes to its regulatory framework (including the SIA, IFA and digital assets) and increase investments in its technological infrastructure to improve operational efficiency and achieve strategic initiatives.

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 2021, 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 2021;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity 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 2021 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


22 June 2022

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

Statement of Financial Position
As at 31 December 2021
(Expressed in Bahamian dollars)

	2021 \$	2020 \$
ASSETS		
Cash on hand and at banks	2,823,634	340,378
Accounts receivable, net (Note 6)	661,802	314,237
Prepaid expenses and other assets	30,955	105,741
Investments in debt securities (Note 4)	7,903,468	5,901,481
Right-of-use assets (Note 5)	2,914,240	3,504,836
Property and equipment (Note 8)	882,968	770,394
Total assets	15,217,067	10,937,067
LIABILITIES		
Accounts payable and accrued expenses	1,494,850	849,077
Other liabilities	298,991	444,902
Lease liabilities (Note 5)	3,287,531	3,798,956
Deferred income (Note 9)	2,032,007	692,747
Total liabilities	7,113,379	5,785,682
NET ASSETS	8,103,688	5,151,385
REPRESENTED BY:		
Surplus	4,011,508	1,220,490
Revaluation reserve (Note 10)	(197,820)	(189,105)
Reserve fund (Note 10)	4,170,000	4,000,000
Special purpose reserve (Note 10)	120,000	120,000
	8,103,688	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 21 June 2022 _____ Date	 _____ Director
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The accompanying notes are an integral part of these financial statements.

Securities Commission of The Bahamas

Statement of Comprehensive Income For the Year Ended 31 December 2021 (Expressed in Bahamian dollars)

	2021 \$	2020 \$
INCOME		
Fee income		
Securities industry licensees and registrants	5,050,322	3,624,131
Investment funds	2,446,498	2,074,334
Investment fund administrators and managers	1,124,973	1,013,813
Financial and corporate service providers	1,927,726	472,758
Digital assets and registered exchanges	48,976	-
Penalties	232,099	96,443
Securities exchange	46,406	13,500
Other	35,025	10,557
Total fee income	10,912,025	7,305,536
Government subvention (Note 9)	170,000	1,863,992
Interest income	308,995	264,466
Other income	1,349,935	336,948
Total income	12,740,955	9,770,942

The accompanying notes are an integral part of these financial statements.

Securities Commission of The Bahamas

Statement of Comprehensive Income For the Year Ended 31 December 2021 (Expressed in Bahamian dollars) (Continued)

	2021 \$	2020 \$
EXPENSES		
Salaries, wages and employee benefits (Note 11)	6,445,865	5,698,868
Fraud loss (Note 13)	-	850,000
Rent (Note 5)	506,618	606,078
Depreciation on right-of-use assets (Note 5)	602,305	601,439
Professional fees	315,377	401,735
Office	376,595	332,761
Depreciation on property and equipment (Note 8)	416,464	296,294
Training and conferences	303,469	238,270
Interest expense on lease liabilities (Note 5)	196,234	224,015
Utilities and property charges	102,284	109,113
Advertising and public relations	25,476	69,648
Repairs and maintenance	53,975	45,586
Membership fees	46,736	41,426
Printing and publications	18,904	22,269
Bank charges	35,028	21,544
Investor education	124,149	13,383
Provision for expected credit losses (Note 6)	194,249	-
Legislative initiatives	8,742	-
Miscellaneous	7,467	9,408
Total expenses	9,779,937	9,581,837
Net income	2,961,018	189,105
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	(8,715)	(189,105)
Total comprehensive income	2,952,303	-

The accompanying notes are an integral part of these financial statements.

Securities Commission of The Bahamas

Statement of Changes in Net Assets For the Year Ended 31 December 2021 (Expressed in Bahamian dollars)

	Surplus \$	Revaluation Reserve \$	Reserve Fund \$	Special Purpose Reserve \$	Total \$
Balance as at 1 January 2020	1,031,385	-	4,000,000	120,000	5,151,385
Net income	189,105	-	-	-	189,105
Other comprehensive loss	-	(189,105)	-	-	(189,105)
Total comprehensive income	<u>189,105</u>	<u>(189,105)</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>
Balance as at 1 January 2021	1,220,490	(189,105)	4,000,000	120,000	5,151,385
Net income	2,961,018	-	-	-	2,961,018
Other comprehensive loss	-	(8,715)	-	-	(8,715)
Total comprehensive income/(loss)	<u>2,961,018</u>	<u>(8,715)</u>	<u>-</u>	<u>-</u>	<u>2,952,303</u>
Transfer to the reserve fund (Note 10)	<u>(170,000)</u>	<u>-</u>	<u>170,000</u>	<u>-</u>	<u>-</u>
Total transfers	<u>(170,000)</u>	<u>-</u>	<u>170,000</u>	<u>-</u>	<u>-</u>
Balance as at 31 December 2021	<u>4,011,508</u>	<u>(197,820)</u>	<u>4,170,000</u>	<u>120,000</u>	<u>8,103,688</u>

The accompanying notes are an integral part of these financial statements.

Securities Commission of The Bahamas

Statement of Cash Flows For the Year Ended 31 December 2021 (Expressed in Bahamian dollars)

	2021 \$	2020 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	2,961,018	189,105
Adjustments for:		
Interest income	(308,995)	(264,466)
Depreciation on property and equipment (Note 8)	416,464	296,294
Depreciation on right-of-use assets (Note 5)	602,305	601,439
Interest expense on lease liabilities (Note 5)	196,234	224,015
Interest received	298,293	242,293
Changes in operating assets and liabilities:		
Increase in accounts receivable, net	(347,565)	(28,902)
Decrease/(increase) in prepaid expenses and other assets	74,786	(22,467)
Increase/(decrease) in accounts payable and accrued expenses	645,773	(101,946)
Decrease in other liabilities	(145,911)	(49,381)
Increase in deferred income	1,339,260	107,132
Net cash provided from operating activities	5,731,662	1,193,116
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of debt securities	(2,000,000)	(2,000,000)
Purchases of property and equipment (Note 8)	(529,038)	(226,511)
Net cash used in investing activities	(2,529,038)	(2,226,511)
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid on lease liabilities	(196,234)	(224,015)
Principal paid on lease liabilities	(523,134)	(476,463)
Net cash used in financing activities	(719,368)	(700,478)
Net increase/(decrease) in cash and cash equivalents	2,483,256	(1,733,873)
Cash and cash equivalents as at beginning of year	340,378	2,074,251
Cash and cash equivalents as at end of year	2,823,634	340,378
CASH AND CASH EQUIVALENTS:		
Cash on hand and at banks	2,823,634	340,378

The accompanying notes are an 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, 2019; 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, 2020, 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 interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB). The financial statements are prepared 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

Certain new accounting standards, amendments to accounting standards and interpretations to published standards that became effective for the Commission's financial year beginning on 1 January 2021 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 and interpretations not yet adopted by the Commission

Certain new accounting standards, amendments and interpretations to existing accounting standards that have been published but are not mandatory for the year ending 31 December 2021 have not been early adopted by the Commission. These standards, amendments or interpretations are not expected to have a material impact on the Commission in the current or future reporting periods and on foreseeable future transactions.

(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 and accounts receivable. For debt instruments, 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 to the amortized cost (net of allowance for ECLs) rather than to 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.

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 2021

(Continued)

4. Investments in Debt Securities (Continued)

Investments in debt securities are as follows:

	2021 \$	2020 \$
<u>Stage 2 - ECL</u>		
<u>Level 2</u>		
Debt securities at FVOCI	7,802,180	5,810,895
Accrued interest	<u>101,288</u>	<u>90,586</u>
Total investments in debt securities	<u>7,903,468</u>	<u>5,901,481</u>

Bahamas Government Registered Stock

		2021		2020	
Maturity Date	Interest Rate	Nominal Value	Fair Value \$	Nominal Value	Fair Value \$
29-Oct-22	3.10%	2,000,000	2,002,424	-	-
25-Jul-25	4.40%	3,000,000	3,056,137	3,000,000	3,054,874
15-Oct-38	5.00%	1,000,000	917,885	1,000,000	912,376
21-Apr-40	5.30%	425,900	397,733	425,900	399,005
21-Apr-50	5.69%	1,574,100	<u>1,428,001</u>	1,574,100	<u>1,444,640</u>
Total investments in debt securities at FVOCI			<u>7,802,180</u>		<u>5,810,895</u>

Securities Commission of The Bahamas

Notes to the Financial Statements 31 December 2021 (Continued)

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:

	2021	2020
	\$	\$
Right-of-use assets		
Office space	2,914,240	3,497,090
Vehicles	-	7,746
	<u>2,914,240</u>	<u>3,504,836</u>

For the year ended 31 December 2021, there were no direct costs incurred by the Commission upon entering a lease.

	2021	2020
	\$	\$
Lease liabilities		
Current	550,759	511,432
Non-current	2,736,772	3,287,524
	<u>3,287,531</u>	<u>3,798,956</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:

	2021	2020
	\$	\$
Depreciation on right-of-use assets	602,305	601,439
Interest expense on lease liabilities	196,234	224,015
	<u>798,539</u>	<u>825,454</u>

The total cash outflow for leases in 2021 was \$719,368 (2020: \$700,478).

Securities Commission of The Bahamas

Notes to the Financial Statements 31 December 2021 (Continued)

6. Accounts Receivable

	2021 \$	2020 \$
Investment funds and investment fund administrators	80,666	81,327
Financial and corporate service providers	399,790	191,373
Securities industry licensees and registrants	455,078	105,645
Other	92,769	163,144
	1,028,303	541,489
Allowance for expected credit losses	(366,501)	(227,252)
Total accounts receivable, net	661,802	314,237

Movements in the allowance for expected credit losses comprise:

	2021 \$	2020 \$
As at 1 January	227,252	1,056,734
Provision for expected credit losses	194,249	-
Bad debts written off	(55,000)	(829,482)
As at 31 December	366,501	227,252

Securities Commission of The Bahamas

Notes to the Financial Statements 31 December 2021 (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 2021	0 to 90 days	91 to 180 days	181 to 270 days	271 to 360 days	Over 360 days	Total
	\$	\$	\$	\$	\$	\$
Gross carrying amount	403,078	28,950	227,101	224,625	144,549	1,028,303
Allowance for expected credit losses	61,236	10,893	93,636	123,106	77,630	366,501
	\$	\$	\$	\$	\$	\$
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

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 2021 and 2020.

Securities Commission of The Bahamas

Notes to the Financial Statements 31 December 2021 (Continued)

7. Investment in SPV (Continued)

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

The following table summarises the unaudited financial information of Poinciana SPV Ltd. as at and for the year ended 31 December. The prior year corresponding figures have been amended to reflect reclassifications and ECL allowances.

Summary Statement of Financial Position	2021	2020
	\$	\$
Current assets	1,543,282	2,444,016
Investment property	19,915,454	20,695,836
Total assets	21,458,736	23,139,852
Current liabilities	1,065,600	2,181,196
Borrowings	13,812,500	14,662,500
Total liabilities	14,878,100	16,843,696
Share capital	2	2
Contributed capital	9,568,603	9,568,603
Accumulated deficit	(2,987,969)	(3,272,449)
Total equity	6,580,636	6,296,156
Total liabilities and equity	21,458,736	23,139,852
 Summary Statement of Comprehensive Income	 2021	 2020
	\$	\$
Total income	2,588,808	2,110,483
Total expenses	(2,304,328)	(1,817,991)
Net comprehensive income (loss)	284,480	292,492

Securities Commission of The Bahamas

Notes to the Financial Statements 31 December 2021 (Continued)

8. Property and Equipment

	Computer Equipment \$	Furniture and Fittings \$	Leasehold Improvements \$	Art Work \$	Total \$
For the year ended 31 December 2021					
Cost					
1 January 2021	2,126,025	759,589	57,163	22,864	2,965,641
Additions	525,552	1,486	-	2,000	529,038
Disposals	-	-	-	-	-
31 December 2021	2,651,577	761,075	57,163	24,864	3,494,679
Accumulated depreciation					
1 January 2021	1,861,931	310,450	22,866	-	2,195,247
Depreciation expense	251,316	153,715	11,433	-	416,464
Disposals	-	-	-	-	-
31 December 2021	2,113,247	464,165	34,299	-	2,611,711
Net book value as at 31 December 2021	538,330	296,910	22,864	24,864	882,968
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	2,126,025	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

Securities Commission of The Bahamas

Notes to the Financial Statements 31 December 2021 (Continued)

9. Deferred Income

	2021 \$	2020 \$
Government subvention	2,000,000	678,065
Securities industry licensee and registrant fees	9,932	500
Financial and corporate service provider fees	<u>22,075</u>	<u>14,182</u>
Total deferred income	<u>2,032,007</u>	<u>692,747</u>

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

Movements in Government subvention comprise:

	2021 \$	2020 \$
As at 1 January	678,065	542,057
Government subvention received	2,000,000	2,000,000
Government subvention utilised – transfer to reserve fund	(170,000)	-
Government subvention utilised – operations	-	(1,863,992)
Government subvention utilised – transfer to Consolidated fund	<u>(508,065)</u>	<u>-</u>
As at 31 December	<u>2,000,000</u>	<u>678,065</u>

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 \$170,000 (2020: \$Nil) to the reserve fund. The reserve fund as at 31 December 2021 totaled \$4,170,000 (2020: \$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:

	2021 \$	2020 \$
Balance of the special purpose reserve, gross	120,000	175,000
Provision for ECLs	-	(55,000)
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 \$367,315 (2020: \$340,926). 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 \$7,354 (2020: \$38,349) 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 2021, the Commission employed 91 (2020: 81) persons.

Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2021

(Continued)

12. Related Party Balances and Transactions

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

	2021	2020
	\$	\$
<i>Assets</i>		
Cash at banks	846,634	69,961
Accounts receivable	11,000	140,347
Prepaid expenses and other assets	1,260	1,260
Investments in debt securities	7,903,468	5,901,481
Right-of-use assets – SPV	2,914,240	3,497,089
<i>Liabilities</i>		
Accounts payable and accrued expenses	3,119	24,907
Other liabilities - due to the Compliance Commission	289,991	444,901
Lease liabilities – SPV	3,287,526	3,790,537
<i>Income</i>		
Interest income	308,358	264,446
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	195,841	222,780
Utilities and property charges	51,965	60,420

Compensation of key management personnel for the year ended 31 December 2021 comprised \$667,823 (2020: \$556,623) for salaries and other short-term benefits and \$30,240 (2020: \$28,840) 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. No contingent asset has been recognised as receivable as at 31 December 2021 (2020: \$Nil).

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 prior year, indicating a significant increase in credit risk. As a result, the investment securities were reclassified 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 24 months before 31 December 2021 (2020: 48 months before 31 December 2020) 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 2021, all of the Commission's accounts payable and accrued expenses and other liabilities are due within one year.

(c) Interest rate risk

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

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

15. Fair Value of Financial Instruments

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

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

16. Capital Management

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

17. Subsequent Event

Subsequent to 31 December 2021, 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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