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Bahamas Institute of Financial Services
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British Colonial Hilton
"Skill-Up to Be Better Prepared"

[Protocol]

I'm honoured to appear before you this afternoon and participate in the fine program the Bahamas Institute of Financial Services, or BIFS, has put together for Bankers Week. The organizers have lined-up a number of intriguing topics and expert speakers for the three-day seminar, and I thank BIFS for this opportunity.

Disclaimer

Before I get started, let me say that the views expressed in this presentation are my own and may not represent those of the Securities Commission of The Bahamas, its members, its staff, or any other Regulator. Also, none of the statements that will be made supersede any duly promulgated legislation or guidelines.

Many know that Wednesday is often referred to as 'hump day', and being not only in the middle of the week, but the mid-point of the seminar, this 'lunch-and-learn' may be the crest of the hump. With the aid of your lunch, I hope to make it an easy but valuable cross-over into the balance of the program.

My topic, "Skill Up to Be Better Prepared" I believe fits well with the Banker's Week theme, 'Resilience to Meet 21st Century Challenges'. Not taking anything for granted let me create a context by defining skill, better and prepared. According to

<http://www.merriam-webster.com/dictionary/skill>

Definition of SKILL

- a. the ability to use one's knowledge effectively and readily in execution or performance
- b. dexterity or coordination especially in the execution of learned physical tasks
- c. a learned power of doing something competently : a developed aptitude or ability

Prepared - adjective

: subjected to a special process or treatment

Better -*adjective* \ 'be-tər \

Comparative of [good](#)

- a. : greater than half <for the **better** part of an hour>
- b. : improved in health or mental attitude <feeling **better**>
- c. : more attractive, favorable, or commendable <in **better** circumstances>
- d. : more advantageous or effective <a **better** solution>

Perhaps one's skill level is among the factors important to meet the 21st century challenges. Earlier presenters covered topics spanning WTO ascension, business ethics, risk management, and mentioned other developments that impact The Commonwealth of The Bahamas and more specifically financial services.

Let me pause to thank you for being here. I know the challenges as many of us could be clearing items off our desk or "To Do Lists". I hope that my contribution here today serves as an impetus that encourages a greater focus on the absolute necessity of skill development on an individual basis but more importantly in the organizations where we are employed. This coupling buoys the drive to improve and maintain a competitive advantage as a "jurisdiction of choice" and to be better prepared for the challenges ahead. The landscape has changed, the rules are different and new "normals" have and are being established.

Those of you who attended earlier sessions would have heard about the WTO ascension, FACTA, the Bahamas' achievement of signatory 'A' Status to the IOSCO MMoU, etc. The charge to 'skill-up' takes on a special dimension for a Regulator, such as the Securities Commission of The Bahamas in light of our mandate. For example, the Commission under its Fitness and Propriety Guidelines 2011, must assess and define as best as possible the education, qualification and Skills that are requisite in

critical positions throughout the industry--for the protection of investors and the development and ongoing competitiveness of the industry.

For those of you who are not familiar with the Securities Commission, let me give you a quick introduction before we go any further. The Commission regulates and oversees the securities and investment funds industry and the capital markets. It was also appointed the Inspector of Financial and Corporate Services in January 2008, giving it responsibility for the oversight of the Financial and Corporate Service Providers (FSCP) Industry as well. The primary pieces of legislation the Commission administers include: the Securities Industry Act, or SIA, 2011, the Investment Funds Act, 2003 and the Financial and Corporate Service Providers Act, 2000; along with supporting Regulations. The Commission is a statutory body, with its functions defined under Section 12 of the SIA 2011.

Among the functions laid out there, the Commission is to protect the integrity of the capital markets against any abuses arising from financial crime, market misconduct and other unfair and improper practices, as referred to in Section 12 (d); and to foster timely, accurate, fair and efficient disclosure of information to the investing public and the capital markets [Section 12 (c)].

We are here to help protect investors from outcomes such as last year's AIJ Investment Advisors scandal in Japan, wherein the company had their operations suspended by Japan's Financial Services Agency (FSA) after it was unable to account for the majority of some \$2.6 billion in pension funds, according to an article in the International Financial Law Review in March 2012. (McNaulty, 2012) The author, Lucy McNaulty, wrote on the subject that an underlying factor may have been the

commonplace practice of mid- and small-sized pension funds to hire only one or two dedicated managers, “often without the necessary *skills* or professional background to manage pension funds.”

In the effort to protect the integrity of the capital markets and foster timely, accurate and fair disclosure of information, the requisite skills and qualifications of compliance officers and auditors, as well as those selling or promoting investments, for example, fall under the Commission’s mandate.

In this regard, the Securities Commission of the Bahamas has had to focus on skilling up also. I will tell you more about what we are doing as an organization to be better prepared shortly after some broader comments.

Compliance Officers

During a presentation to the Bahamas Association of Compliance Officers (BACO) in Grand Bahama a few weeks ago, I mentioned some challenges being faced, in particular the need to understand regulation through better communication.

Understand the Regulations through better Communication

According to the results of a 2012 survey of Financial Crime Compliance, conducted by Ernst & Young in collaboration with the International Compliance Association (ICA), 50% (Fifty percent) of the financial crime professionals responding to the survey indicated that *regulatory pressure* was their primary concern. (Ernst & Young, 2012)

I believe many Bahamian based compliance professionals would have a similar view. Regulatory Pressure, for the purposes of the study, could be considered in two components:

1. The burden of complying with the current regulatory expectations—things like Know Your Client and other Customer Due Diligence activities, transaction monitoring, responding to or supporting law enforcement enquiries, etcetera, and
2. The matter of the changes to the regulatory landscape that are on the horizon—such as the various draft guidelines on the Commission’s website, and global shifts which may impact your function, like the United States’ Foreign Account Tax Compliance Act, or FATCA, and the European Union’s Alternative Investment Fund Managers Directive, or AIFMD. In fact, the Commission just issued draft Guidelines on the Management of Accounting Records in response to the OECD’s Phase One Peer Review.

I mentioned these as examples of the changes to the landscape, the new rules and what could be viewed as the new normal.

Knowing a few basic definitions, conducting some training and checking-off some KYC requirements are, in truth, a miniscule portion of what compliance officers must do to mitigate the risk of money laundering, and speak nothing, or very little, to the true challenges involved in executing your function competently, and being able to demonstrate the same when the Regulators come calling. In fact, greater preparedness or continuous preparedness/education must become the “New Normal” for practitioners with professional designations. In fact, most require a component of continuing education or CPEs.

Skill-up to be better prepared

Of course, a compliance officer's capacity to understand, interpret and implement regulatory requirements meaningfully will depend in large part on the technical expertise, experience, education and training of the individual performing the function. Interestingly, the Financial Crime Compliance study indicated that while AML itself was a "well-established" subject, three-quarters of respondents said there was a lack of *skilled* personnel in anti-money laundering¹. Finding the 'right-people' at a senior level was the concern of one senior manager the report cited. (Ernst & Young, 2012)

Auditors

Beyond compliance officers, there is another critical group of professionals integral to our function in ensuring timely, accurate and fair information is disseminated to the investing public and in the overall protection of the integrity of the capital markets – they are, of course, Auditors.

In 2008, the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) came together in a joint initiative and formed the Financial Crisis Advisory Group to investigate the implications of the global financial crisis for financial reporting, as I'm sure many of you remember.

Following the study, in July 2009, the FCAG report to FASB, IASB and the G20 underscored the critical nature of financial reporting to the financial markets, both to

investors, and to regulators. The report indicated that the financial crisis revealed “limitations of current reporting standards.” (United Nations, 2010)

The international climate has been heating up on the critical nature of the role auditors play as gatekeepers, as they participate in establishing foundations of trust in the reporting of financial information so critical to transparency and investor confidence in the capital and securities markets.

Just a few months ago, in December of last year, the International Forum of Independent Audit Regulators (IFIAR) released the findings of its first global survey of audit inspection findings, looking at some of the key areas of focus its worldwide Members had identified. Honing in on inspection activity levels and common inspection findings in public company audits, the survey was also a response to a request from the Financial Stability Board (FSB) regarding the findings from the inspections of audits of major financial institutions. Audit firms that are members of the six largest international audit firm networks were particularly under the surveyors’ microscopes. (International Forum of Independent Audit Regulators 2012 Summary Report of Inspections findings, 2012)

To quote from the Executive Summary to the report, “Certain inspection findings also have been identified by Members repeatedly, from year to year. Findings in four areas – professional skepticism, group audits, revenue recognition, and the role of the engagement quality control reviewer – have been the subject of detailed discussion between IFIAR and the six largest international audit firms. The results of this survey show that these four remain sources of concern.”

What might be appreciated is that the established standards espoused by BICA and IFAC to arrive at publically reliable financial statements should be adhered to. They too emphasize the need to ensure a focus on skill and competence. In some instances financial penalties result where there has been a finding of lack of skill and or competence in the execution of professional obligations/function.

RBA to Training and Development

Trained staff who can spot suspicious activity and know how to properly address their suspicions, whether they are client-facing, executing trades or other transactions, in senior management, or elsewhere in the organization is critical.

However, according to the Ernst & Young Financial Crime study referenced earlier forty-four (44) percent of respondents believed that the effort and cost of the training did not outweigh the benefits gained. Perhaps this is an early warning signal. Perhaps.

Interestingly, in the Ernst & Young study, only sixty-three percent (63%) of respondents indicated that internal training was based on a risk based approach. The report reads, "Undertaking training for training's sake will ultimately deliver disappointing results. . . . Investment here is just as critical as investment in technology and should be managed in the same way with critical deliverables clearly defined at the outset." (Ernst & Young, 2012)

I have dedicated a considerable amount of time focusing on Compliance Officers and Auditing firms. This is only to make the broader application that the need to "skill up" applies to all stakeholders seeking to better position The Bahamas as a "Jurisdiction

of Choice" by advancing a competitive advantage of "better human capital, better regulation and better service".

Before I conclude, let me return to what we are doing as an organization to "skill up to be better prepared" as we face the challenges of the twenty-first (21st) Century.

You all are aware that the Commission is a member of the International Organization of Securities Commissions (IOSCO), the standard setter for securities and capital markets around the world and a forum for the global industry's Regulators. At an organizational level and a member of a "Global Community" this membership is accompanied with certain expectations captured in 38 principles.

1. Principle 3. The Regulator should have adequate powers, proper resources and the capacity to perform its functions and exercise its powers
2. Principle 5. The staff of the Regulator should observe the highest professional standards, including appropriate standards of confidentiality.

The Securities Commission of The Bahamas as at December had 63 employees. 23 hold first degrees 14 hold a master's degree and 6 hold professional certifications. I must note that individuals I have the privilege to work alongside and lead are counted among the hardest working employees that I have ever encountered. Collectively, we recognize and agree that it is important to have a focus of "continuous improvement". This also means continuous development. With this in mind the SCB has responded to the findings of the 2002 Financial Sector Assessment Programme [FSAP] and

continues that effort today and the significant progress has been noted in the 2012 FSAP results.

The 2002 IMF mission raised questions not only about the efficiency of the regulatory structure, but also about the pressure it placed on the pool of skilled resources to staff the various agencies. The report went further to note that “availability of resources to the different agencies varies considerably, although all faced the common challenge of having to compete with private sector institutions for staff with specialist skills that are in short supply.” That was not the end, the report went even further to note that SCB had a staff compliment of 31, most were well-trained and relatively experienced professionals but constrained in its growth by the fact that it is not entirely self-financed and is dependent on the government for a significant proportion of its budgetary needs.

By the way the FSAP is yet another example of the changing landscape and new normals. Back to the point, the SCB revamped its performance management program with an aim to achieve greater accountability and transparency. What is important about this is the intentional focus on competency and skill development which is given specific weightings in the evaluation. The tone at the top is such that skill development is driven throughout the organization. Since April 2012 the SCB has also revamped its training program to ensure it aligned with our strategy and its public statement of priorities. An enhanced management style has been introduced which focuses on coaching and mentoring again to drive capacity building and skill development. Being better prepared goes a step further, as I speak the Commission has one employee on secondment with

an Auditing firm and another in China improving her Mandarin capabilities. You might have seen several job ads over the past 12 months, this too an action directly related to skilling up. We are developing and procuring the necessary skills to be better prepared for the 21st Century.

Finally, yesterday Minister Pinder expressed with great appreciation and vigor his admiration for The Bahamas Institute of Financial Services G-12 programme. Let me say that I have had an immense opportunity to lecture in that Programme and BIFS Banking Certificate programme for more than a decade. I see some of you here today and I am so proud of your accomplishments. So for you the charge to "Skill up to be better prepared" is perhaps not a new clarion call, but rather reminder that development and education is a life long journey.

Skill and competence are integral to your personal success, as they are integral to the success of the jurisdiction. Together with a clear understanding of the challenges and changes through collaboration and communication we can capably be prepared to meet the challenges of the twenty-first century.

Thank you for listening so intently and good afternoon.

Works Cited

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