



**SECURITIES INDUSTRY ACT, 2011 &
INVESTMENT FUNDS ACT, 2003
Annual Industry Briefing
Opening Remarks**

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Deputy Prime Minister and Minister of Finance
Commonwealth of The Bahamas
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Salutation

Thank you, [moderator].

I will accept the protocol established. Good morning, Ladies and Gentlemen:

I would like to thank the Securities Commission of The Bahamas for inviting me to speak this morning. A little over a month ago, I had the opportunity to address financial and corporate service providers overseen by the Commission in its capacity as the Inspector. I am pleased to now be given the opportunity to address this briefing for registrants, licensees and stakeholders in the investment funds, securities and capital markets.

Securities, Investment Funds, Capital Markets

The Commission advises that, as at 30th June 2017, there were one hundred and fifty-four (154) licensed securities firms, one (1) licensed market place, and one (1) licensed clearing facility. As at the 30th June 2016, there were eight-hundred and fifty-two (852) persons registered with the Commission as trading, advising or discretionary management representatives, compliance officers, and chief executive officers pursuant to securities laws.

In the investment funds subsector, as at the 30th of June 2017 there were eight hundred and sixty (860) licensed investment funds, and sixty-five (65) licensed investment fund administrators.

In the local capital markets, The Bahamas International Securities Exchange (or BISX) reported twenty (20) ordinary shares listed with a market capitalization of three-point nine-four Billion dollars (\$3.94 Billion) as at 30th June 2017. In addition, there were thirteen (13) preference shares listed with a market capitalization of three-hundred and twenty-seven point two-five million dollars (\$327.25 Million)

and nineteen (19) bonds with a face value of five-hundred and seventy-nine million dollars (\$579 Million). For the six-month period ending 30th June 2017, the BISX All-Share Index closed at one-thousand eight hundred and sixty-four point eight-seven (1,864.87), representing a year to date decrease of seventy-three point three four (73.34) or 3.78% percent.

Global Wealth Industry Facing Headwinds

Capital funding, wealth management and investment fund administration, provided by this sub-sector, are a key elements of The Bahamas' economy. On the domestic side, operators in the capital markets facilitate a process of channelling savings into the real economy through investments to fund entrepreneurial endeavours, business expansion and infrastructure development, simultaneously helping investors to preserve or build their wealth. On the international side, the securities, investment management and investment funds sectors are fundamental to The Bahamas' wealth management proposition as an International Financial Centre, and they generate many career opportunities for Bahamians in the financial services industry directly, as well as produce significant economic opportunities for legal, accounting and the real estate professionals.

Globally, there are some interesting trends in the wealth management industry which likely are impacting you. The amount of wealth held by individuals and families is on the rise, although the private banking sector and other wealth managers have struggled to maintain profit margins and in some cases, to stay in business.

As a case in point, the Financial Times reported in June this year that despite increasing assets under management (or AUMs), wealth managers' profit margins

had fallen by nearly a third over the past decade. The article references a Boston Consulting Group report, “Global Wealth 2017, Transforming the Client Experience.” According to the report, global private financial wealth grew by over 5 percent in 2016, to an estimated 166.5 trillion US dollars.

That’s AUMs at wealth managers generally. The Scorpio Partnership 2017 Private Banking Benchmark recently reported that AUMs in private banks globally rose by almost four percent in 2016, to twenty-one point-one (21.1) Trillion U.S. Dollars. Over the same period net new money decreased by 0.03 percent. While the report indicated increasing operating profits as private banks did better at containing expenses, the report also suggests that managing the revenue side of the profits equation will be the true challenge going forward.

As a final point for your consideration, last year KPMG reported that 10 percent of private banks in Switzerland did not survive 2015. The cry was that the institutions suffered reduced returns on equity and no notable increases in net new money.

The impact of the contraction in private banking operations globally certainly has manifested itself locally, as we saw a stark contraction in private banking operations being conducted from within The Bahamas since 2012. At the same time, however, smaller, independent, boutique firms appear to be creating opportunities from this contraction. To illustrate, the number of licensed securities firms which were structured as bank and trust companies declined from forty-seven (47) at 31st December 2013 to forty-four (44) at 30th June 2017. Simultaneously, the number of “standalones” – that is, licensed securities firms who were not bank and trust companies, increased from eighty-nine (89) to one-hundred and ten (110) over the same period. Similarly, the number of investment

funds administrators who were also bank and trust licensees slightly declined over that period, from twenty-five (25) to twenty-three (23), while standalones again increased in number, from thirty-eight (38) to forty-two (42) over the same period.

The Commission also advises that it is beginning to see a potential trend of some investment funds converting into simple IBCs, likely in an effort by wealth managers to contain costs where possible.

Each of you likely has a very intimate appreciation for some or all of these realities and trends. Increasing regulation, compliance costs, difficulty in bringing in new clients and new money, and clients who are increasingly wary of the costs associated with doing business are the new norm for many. Once again, financial services practitioners in The Bahamas find themselves challenged to maintain and grow market share locally and internationally. We can see, also, that it is not a unique challenge to this jurisdiction, however, as data suggests institutions around the world are struggling with the cost of compliance in an environment of increasing regulations and transparency, while trying to increase revenue and maintain or grow profit margins.

There may be many who quietly, or not so quietly, pine for the days of minimal regulations to comply with, few questions to ask of clients and prospective clients, few authorities to answer to, and the opaqueness of an independent jurisdiction respectful of the rule of law while committed to financial secrecy.

I believe, however, that most financial services practitioners appreciate that those days are gone. Being competitive in financial services today requires access to clients, access to correspondent banking and other facilitating services and access to financial markets, amongst other things. It means that to be competitive, this

jurisdiction must be known to be well-regulated and fully participating in global efforts to protect financial markets from abuse.

Automatic Exchange of Information (AEOI)

Among the issues financial services practitioners are contending with is the move to automatic exchange of information, particularly for matters related to taxation in other jurisdictions. The initial standard in this regard was the Exchange of Information on Request, espoused by the OECD-hosted Global Forum on Transparency and Exchange of Information for Tax Purposes. The Bahamas implemented a number of key legislative initiatives to ensure the legal and regulatory framework as well as supporting processes and procedures were in place to satisfy the Exchange of Information on Request standard.

These involved, among other things, ensuring reliable accounting records were maintained and accessible, and that the beneficial owners of entities, structures and legal arrangements were identified and properly maintained. The legislative initiatives included the International Tax Cooperation Act, 2010, which facilitated the implementation of international tax agreements and tax information sharing under those agreements. The Government also implemented a series of legislative amendments including amendments to the IBC Act, the Partnership Limited Liability Act and the Segregated Companies Act, amongst others, in 2011, and the IBC Accounting Records Order of 2016, to meet the information exchange standards. After having undergone the Global Forum's most recent review – the Phase 2 review, the jurisdiction is assessed as Largely Compliant.

The Foreign Account Tax Compliance Act, or FATCA was adopted by the United States Congress in 2010, and of course, The Bahamas made the necessary legislative and procedural changes to meet the FATCA requirements.

By September 2014, the G20 and leaders of the Organisation for Economic Cooperation and Development had endorsed the Common Reporting Standard, or CRS. The CRS facilitates automatic exchange of account information, on a confidential basis with information from financial institutions being exchanged on an annual basis. According to an OECD June 2017 report, some 101 jurisdictions had committed to implementing this newest standard on tax transparency and undertaking actual information exchanges by 2017 or 2018.

You would be aware that the Government is committed to adopting the multilateral approach to sharing information under the CRS regime. We simply cannot afford, nor do we wish to have, the reputation of being the 'last tax haven standing' as the Head of the OECD's Global Forum Secretariat on Transparency and Exchange of Information for Tax Purposes, Monica Bhatia, referred to the jurisdiction prior to the Government's commitment to the Multi-lateral approach. We must protect our sector from the fallout of blacklisting, and we want to be singled out for markers such as excellence in service, being business friendly, and product innovation--not for being a place to hide or launder illicit funds of any kind. Undoubtedly, this will impact reporting requirements and hence compliance costs in most, if not all, financial institutions.

Caribbean Financial Action Task Force (“CFATF”)

The sector is also aware of the work of the Financial Action Task Force, or more specifically for this jurisdiction, the Caribbean Financial Action Task Force, or CFATF, to prevent abuse of financial systems for money laundering or the financing of terrorism or proliferation of weapons of mass destruction. The Bahamas underwent its fourth round of mutual evaluations under the programme recently, the results of which were released in the July 2017 Mutual Evaluation Report on The Bahamas.

From a technical compliance perspective, the report concluded that The Bahamas was compliant with eight (8), Largely Compliant with ten (10), Partially Compliant with twenty-one (21) and Non-Compliant with one (1) of the FATF 40 Recommendations. Aspects of the report spoke to some of the strengths of the AML/CFT Regime, such as in the areas of international cooperation, preventative measures and criminalization of money laundering and terrorist financing. The report also referred to the AML/CFT legislative and supervisory regime as “well developed”.

However, there is work to be done. I will share just a few of the areas which the report recommends that the jurisdiction address. These recommendations will ultimately impact your operations.

The report recommends the jurisdiction finalize and document its Money Laundering/Terrorist Financing National Risk Assessment, or NRA, analysing threats and vulnerabilities within the context of The Bahamas as an international financial centre. We will share the NRA results with the appropriate stakeholders, which will inform the national ML/TF risk mitigation policies and strategies.

For this subsector, there is a related recommendation regarding the implementation of a risk-based approach to the supervision of the securities industry. You have heard from the Securities Commission before, and I understand today we will hear more, about its progress and targets for implementing Risk Based Supervision “RBS” for securities and investment funds regulated from within the jurisdiction. There are bound to be implications for you as the Commission reviews the sufficiency of the data its collects presently, as well as implement systems and tools in order to develop proper risk profiles for regulated entities.

The CFATF mutual evaluation report raised some issues with the sanctioning regime for AML/CFT infractions and recommended the implementation of a penalty structure for specific AML/CFT breaches. The financial services regulators are already coordinating their efforts with the Attorney General’s Office to produce an AML/CFT penalty and sanctioning framework which can demonstrate our commitment to credible deterrence as well as the effective regulation of these concerns.

The report also recommended that more emphasis be placed on the prosecution of criminal activity as well as the confiscation and forfeiture of assets connected to money laundering offences. While it can be debated whether these gaps are exaggerated, the reality is that we are perceived as a jurisdiction which needs to do more in the fight against money laundering and the financing of terrorism. To protect, defend and grow financial services in The Bahamas, we must ensure that the judiciary, law enforcement and regulators are all equipped with the framework and tools needed to prove that The Bahamas is, in fact, a well regulated financial centre of choice.

NEED TO REMAIN COMPETITIVE

Ladies and Gentlemen, we have talked about broad global trends of increasing private wealth, competition driving down profit margins and forcing a shift in operational structures, increasing regulations and associated compliance costs to contend with as well as increasing transparency standards globally. This industry must attract good business to grow. Regulations need to be appropriate and supervision must be risk based. Non-compliance with global initiatives to protect the financial system from criminal or other illicit abuse is not an option – not for the jurisdiction and certainly not for its constituents. We must all, therefore, ensure we comply in the most cost effective manner that we can. Are we harnessing, for example, financial and regulatory technology well to reduce costs in these areas?

The industry must leverage its competitive advantages. The clustering of investment services, banking and trust services, investment fund administration, company formation, coupled with the law and accounting professionals, hospitality specialists, and our location, for example, can support a focus on family office business.

We will hear more today, I understand, about some initiatives of the Commission, such as the Business Capital Rules, which, once implemented, will ease access to domestic capital market funding in The Bahamas in a manner that aims to provide suitable protection to investors. These initiatives are important for the economic development of The Bahamas and its people. You will also hear more about the development and overhaul of the Investment Funds regulatory framework. This overhaul is aimed at providing the legislative infrastructure necessary not only for

The Bahamas to stay afloat but to effectively compete with global players in this space. This is an opportunity to ensure the survival of our sector.

Once again it is my pleasure to join you this morning. I would like to thank the Securities Commission for inviting me to address this forum. I look forward to the upcoming work and I trust that the remainder of this briefing will be productive and meaningful for you.