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The Securities Commission of The Bahamas (the Commission) is pleased to release VOL.2 of its Semi-Annual Industry Update and Statistical Digest (the Digest). This volume will provide updates on the legislative, regulatory and statistical functions of the Commission, up to December 2010, along with the strategic planning, monitoring and enforcement, and investor education activities.

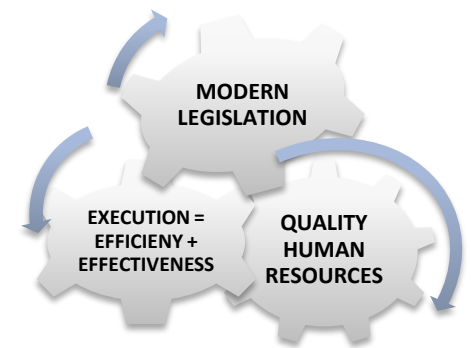
STRATEGIC DIRECTION

The Commission's strategic direction for 2010-2012 focuses on developing people, processes and tools with the aim of increasing operational efficiency and productivity. Achievement of these identified targets are spread over six goals, which over a three-year period is expected to enhance corporate governance, operational efficiency, the legislative framework and the consistency and quality of ongoing operations.

Current Activities

Now in year two of its three year strategic plan, the Commission's focus for 2011 will expand upon the foundational work achieved during 2010. Specific areas of focus include:

- Implementing the recommendations arising from the self assessment and the internal audit undertaken in 2010. The primary projects emanating from these exercises relate to improving the surveillance and oversight programs of the Commission.
- Developing a framework to improve the technical skills of regulatory personnel, the database function, and document management process; all while using technology to advance communication, coordination and time management.
- Improving the current human resource tools, such as team building programs, enhanced communication and performance evaluation tools.
- Improving governance by ensuring that processes and procedures are being followed, developed or amended as they change.
- Working to modernize its legislative arsenal by finalizing and implementing the new securities legislation.
- Re-defining and re-structuring its core operations, which will extend from the registration process to the surveillance and enforcement functions. Anticipating a consolidated regulatory structure the Commission, for 2011, will also work to build closer functional relationships with other financial services regulators in an effort to form a single point of entry into the regulatory environment for cross-licensed entities.



INDUSTRY COLLABORATION

Industry Briefing: The Commission hosted its 5th Annual Industry Briefing on February 9, 2011. This Briefing is held every year and is designed to bring together capital market stakeholders with senior management of the Commission to exchange ideas on developments and challenges within the market.

A total of 89 persons attended the Briefing, representing a cross section of constituents, along with representatives from the Bahamas Financial Services Board (BFSB), the Bahamas Institution of Financial Services (BIFS), the Bahamas Institute of Chartered Accountants (BICA), and the Association of International Bank and Trust Companies (AIBT).

2010 ACTIVITIES

For the second part of 2010 the Commission continued with the enhancement and development of initiatives started earlier in the year. Such efforts were predominately focused on finalizing the new securities legislation. In addition, the Commission continued with reviews of its regulatory and operational processes through its internal audit function and a self assessment exercise. Advancing its inspections programme, application process and its database function were the remaining activities that rounded out the Commission's work program for 2010.

LEGISLATIVE AND REGULATORY UPDATES

Securities Legislation

During the latter part of 2010 the Commission worked diligently to finalize the draft securities legislation. To this end the Commission is pleased to confirm that the Securities Industry Act is in its final form as a Bill. In December, the Act was tabled in Parliament and is expected to be debated shortly. The Securities Industries Regulation will be promulgated upon the passing of the Act.

In addition to its efforts to finalize the new securities legislation the Commission also worked on identifying and beginning to draft the necessary Rules and Guidelines that will be needed to properly facilitate the new securities legislation once it comes on stream.

Investment Fund Legislation

The Commission, through industry collaboration by way of the BFSB's Funds Working Group has begun the necessary proceedings to make amendments to the SMART Fund Model Four (SFM 004) as it pertains to the wording of regulation 6(1)(b). Currently, the noted provision allows private investment companies, rather than any legal entity, to be eligible as a SFM 004. To allow other legal entities to be licensed as a SFM 004, the Commission is proposing that regulation 6(1)(b) be amended to reflect that any legal entity can be eligible to apply as a SFM 004.

Financial and Corporate Service Providers Legislation

In the second half of 2010, in its role as the Inspector pursuant to the Financial and Corporate Service Providers Act, 2000 (FCSPA, 2000), the Commission continued with its efforts of integrating licensees of the FCSPA, 2000 into its surveillance and oversight programs. The first phase of this exercise was the streamlining of the application process and the formalization of a billing process for current licensees. The second phase included a cursory review of the legislation to determine which types of entities would require licensing under the FCSPA, 2000. During this review, the Inspector, in wanting to provide a more concrete definition of 'financial services' to better administer the Act, adopted the definition enunciated by the World Trade Organization (WTO). Other steps taken to improve the facilitation of the FCSPA, 2000 included the Commission's release of its Guidelines for assessing the fitness and propriety of Money Lending Reporting Officers (MLROs) and a Notice on the calculation of the rate of interest to be charged under the Rate of Interest Act, 1990 as it related to money lending services.

The Inspector also issued a public notice stating that persons conducting financial and corporate services without a license are doing so in offence of the governing legislation. In the notice, the Inspector announced that all persons operating as such should cease business immediately and advised that a 'zero tolerance' policy to such activities was adopted. Persons were given 60 days to come into compliance or risked being fined according to the provisions of the FCSPA, 2000.

Legislative Reviews Slated for 2011

In an endeavour to remain on track with achieving its goal, *Improving the legislative framework of the Commission*, established in the 2010-2012 planning period, a notable portion of the Commission's efforts for 2011 will be focused on amending its regulatory and administrative programs to reflect the new securities legislation. Other matters of interest for the Commission will include the preliminary efforts to conduct comprehensive reviews of the Industry Funds Act, 2003 (IFA, 2003) and FCSPA, 2000. Such reviews will be in collaboration with industry stakeholders and done by benchmarking industry standards.

COMMUNICATION WITH THE PUBLIC

Press Releases and Public Notices

Press Releases were issued on: New Securities Act To Comply With IOSCO Exchange Of Information Standards; Securities Commission Appoints Manager of Authorizations; Minister of State for Finance Congratulates Hillary Deveaux; Securities Commission Announces Resignation of Executive Director and Interim Appointment; Commission Announces Enforcement Action Under The Financial and Corporate Service Providers Act; Investor Education Public Service Announcement Campaign; and FCSP Operators 30-Day Extension

Public Notices were issued on: Amendments to Investment Funds Act, 2003 & Investment Funds Regulations, 2003; Bahamas Supermarket Limited; Unlicensed FCSP Operators; Calculation of the Rate of Interest; and Guidance Notes: Fitness and Propriety of MLROs.

AUTHORIZATIONS

The Commission received a total of 191 applications in 2010 from entities requesting registration as a Broker-Dealer, Securities Investment Advisor, Investment Fund Administrator, Investment Fund and Financial and Corporate Service Provider.

The total number of 'Applications Approved' includes applications received in 2010, but also received in the previous year, which were under consideration at yearend 2009.

Table 1 provides a breakdown of the applications received and approved in 2010. A total of 169 applications were approved. Of these, 23 were received in 2009.

Table 1 – Applications Received and Approved

Category	Applications Received	Applications Approved
Broker-Dealer Class I	1	0
Broker-Dealer Class II	2	2
Securities Investment Advisors	15	7
Unrestricted Investment Fund Administrator	1	2
Restricted Investment Fund Administrator	2	1
Exempt Investment Fund Administrator	2	0
Standard Fund	2	6
Professional Fund	36	36
Recognized Foreign Fund	19	16
SMART Fund	60	58
Non-Bahamas Based Fund*	11	4
Financial and Corporate Service Providers	40	37
Total	191	169

*Six of the Non Bahamas Based applications were received on December 29, 2010 and thus carried over into 2011.

INSPECTIONS

A review of inspections conducted by license type, as shown in table 2, indicates that the Commission performed a total of 30 on-site examinations during 2010. The majority of examinations carried out were conducted for licensees under the SIA, 1999 representing a total of 66.6%. Brokers-Dealers Class II represented the largest registrant group at 46.6% to be inspected with Unrestricted Investment Fund Administrators coming in second at 30% of inspections conducted by constituent type.

Of the 30 examinations held 16 (69.5%) were routine inspections, six (26.1%) were joint inspections with the Central Bank of The Bahamas (the Central Bank) and one was an inspection for cause, as noted in table 3. The 30 on-site examinations conducted captured a total of 23 entities. This is a result of entities being multiple license holders. Fifteen were single license holders and eight were multiple license holders, as shown in table 4.

Table 2 – Examinations by License Type

Type of License	2010
Securities Industry Act Broker-Dealers Class I	1
Broker-Dealers Class II	14
Securities Investment Advisors	5
Investment Funds Act Unrestricted Investment Fund Administrator	9
Restricted Investment Fund Administrator	1
Total	30

Table 3 – Examinations by Type

Examination Type	2010
Routine	16
For Cause	1
Joint	6
Total	23

Table 4 – Examination by License Holder

Entities	2010
Single License Holder	15
Multiple License Holder	8
Total	23

The Commission's inspection program, for 2011, will focus on improving the Joint Inspection Protocol established with the Central Bank. Specifically, the Protocol will look to strengthen the administrative processes governing joint examinations and developing a systemic risk-based approach in identifying and conducting inspections of dual licensed entities. Incorporating Financial and Corporate Service Providers into its examination regime is another priority area for the Commission's inspection program. A solidified program for such licensees is expected to be fully articulated by the end of quarter one 2011.

ENFORCEMENT

In 2010 the Commission addressed a total of 17 enforcement matters. Nine of the 17 matters were carry-over items from 2009. Two of these matters were transferred to the Office of the Attorney General and to the police. Four matters received in 2010 were carried over into 2011. Of the 17 open enforcement matters addressed in 2010: six (35.2%) were litigation matters; nine (52.9%) were administrative matters and two (11.6%) were criminal matters.

Table 5 – Enforcement Matters

Enforcement Type	2010
Litigation	6
Administrative	9
Criminal	2
Total	17

In addition to the enforcement matters addressed the Commission dealt with a total of 28 investigations. Fifteen (were closed in 2010 and 13 were carried over into 2011.

Table 6 – Registered Firms in the Securities Industry

Category	31 Dec. 2008	31 Dec. 2009	30 Jun. 2010	31 Dec. 2010
Broker-Dealer I	16	17	17	17
Broker-Dealer II	45	47	49	48
Securities Investment Advisor	46	48	49	50
Total	107	112	115	115

Table 7 – Financial and Corporate Service Providers

Category		31 Dec. 2008	31 Dec. 2009	30 Jun. 2010	31 Dec. 2010
Company	Renewal	103	115	110	114
	New	23	9	4	17
Partnership	Renewal	29	30	31	34
	New	5	1	2	1
Individual	Renewal	97	99	93	103
	New	9	13	10	13
Total		266	267	250	282

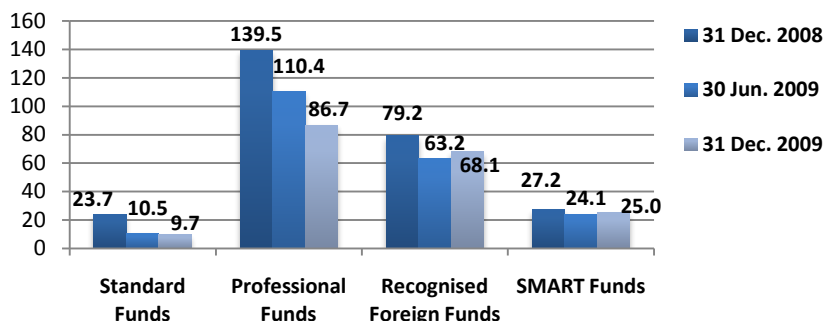
Table 8 – The Investment Funds Industry, Investment Fund Administrators

Category	31 Dec. 2008	31 Dec. 2009	30 Jun. 2010	31 Dec. 2010
Unrestricted Investment Fund Administrator	36	34	34	35
Restricted Investment Fund Administrator	27	27	27	28
Exempt Investment Fund Administrator	3	3	2	2
Total	66	64	63	65

Table 9 – The Investment Funds Industry, Investment Funds

Fund Category	31 Dec. 2008	31 Dec. 2009	30 Jun. 2010	31 Dec. 2010
Standard Funds	97	82	79	70
Professional Funds	298	259	252	243
Recognized Foreign Funds	231	183	180	158
SMART Funds	177	264	286	282
Total	803	788	797	753

Figure 1 – Net Asset Values, By Fund Type (\$ billions)



The Securities Industry

As shown in **Table 6**, the total number of registered securities firms increased from year-end 2009 to year-end 2010 with Securities Investment Advisors experiencing the largest growth. During the year, Broker-Dealer II firms experienced an overall increase of one firm (two firms were licensed and one firm closed) while Securities Investment Advisors had an overall increase of two firms (six firms were licensed and four firms were no longer licensed). There was no change in the number of Broker-Dealer I firms during the year.

Financial and Corporate Service Providers

Table 7 illustrates a more significant increase in the total number of FCSPs from 2009 to 2010 compared to the very slight increase from 2008 to 2009. In 2010, the overall number of renewal licenses increased by seven, while the overall number of new licenses increased by eight (compared to 2009, which saw an overall increase of 15 renewals and a decrease of 14 new licenses).

During 2010, the largest increase in new licenses was by companies (an additional 13 new licenses) and the largest increase in renewals was by individuals (an additional 10 renewals).

The Investment Funds Industry

Table 8 summarizes the number of licensed Investment Fund Administrators from yearend 2008 to 2010. Over this time period, there has been no significant movement in the number of Investment Fund Administrators. During 2010, there was an increase of one Unrestricted and one Restricted Investment Fund Administrator. Exempt Investment Fund Administrators decreased by one.

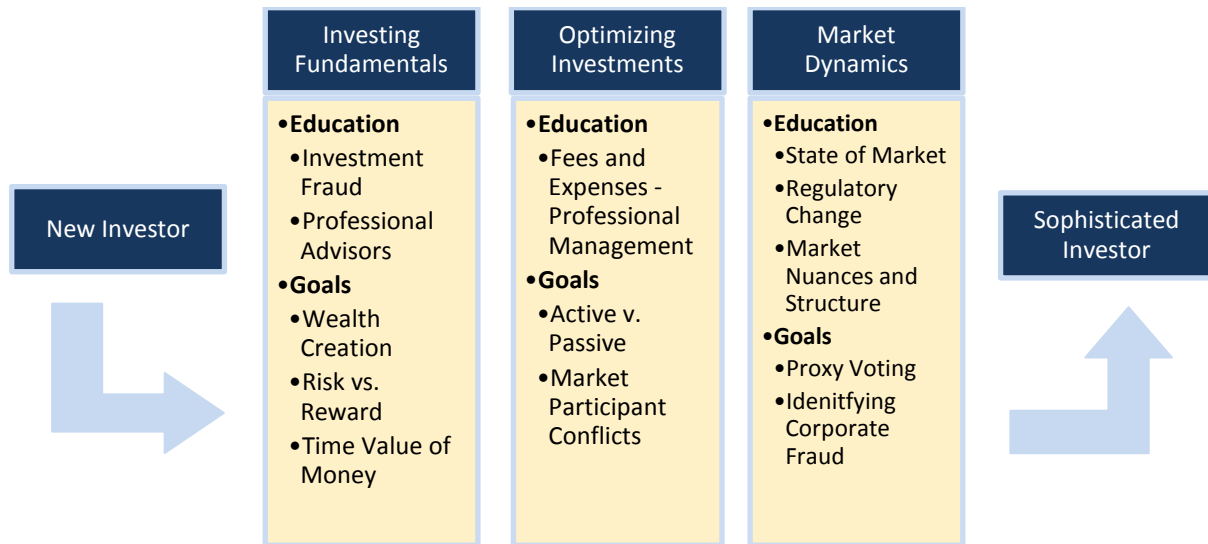
Represented in **Table 9** is the number of registered investment funds in the jurisdiction from yearend 2008 to 2010. Every category of investment funds from yearend 2009 to 2010 experienced an overall decline except for SMART Funds. The decline is a result of a number of investment funds that have liquidated, are in the process of liquidating and have transferred out of the jurisdiction.

At the end of 2010, there were 753 registered investment funds.

Net asset values for 30 June 2010 and 31 December 2010 are not shown in **Figure 1** as they are not yet available. The periods-ending shown in the graph were in the previous Lighthouse edition (Volume 1).

A key area of interest for the Commission is the promotion of investor education and protection. In 2010, the Commission remained committed to advancing its investor education initiatives under the theme - *Getting My Money Right*. The Commission’s Investor Education Program is comprised of several modules that are designed on moving investors along a continuum that would satisfy a gamut of investors’ educational needs.

Diagram 1: Investor Education Continuum



Understanding that an informed and educated investor, regardless of their sophistication level, supports a healthy investment climate the Commission focused on maintaining the momentum of past projects, and developing and introducing new ones. Investor Education activities for 2010 included:



Joint Initiatives, where the Commission partnered with several organizations with youth-specific programs. Such partnerships included CFAL’s Junior Investor Education Program and Ministry of Youth, Sports and Culture’s Junior Achievement Bahamas Program. These partnerships included the Commission leading interactive discussions regarding the student’s mock involvement in the local capital markets, and how, the activities of their mock companies, environment and individual actions would fall under the regulatory ambit of the Commission.

Other joint initiatives undertaken by the Commission included its involvement in the Ministry of Education’s National Career Awareness Month. During National Career Awareness Month the Commission participated in the annual Career’s Fair, which allowed the Commission to interact with primary and secondary students and to inform them of the necessary educational and professional qualifications the Commission requires for employment. In addition, the Commission served as a speaker on the National Career Awareness Month’s Speakers Circuit. This provided the Commission with an intimate and interactive environment that allowed Commission representatives to share first-hand knowledge about working in a regulatory environment and the ethical, professional and educational standards expected.

Building on the momentum of its Joint Initiative module, the Commission, in October 2010, launched a four week **Public Service Announcement Campaign**, which was designed to introduce the Bahamian public to four key topics that built upon each other; reiterating and re-introducing to some, good fiscal habits, irrespective of their previous knowledge on the various topics. Under the Program’s theme *Getting My Money Right* the sub-topics: Budgeting, Savings, Investments and the role of the Securities Commission of The Bahamas were blasted over a wide range of media sources and mediums. Such mediums included radio, television and news paper advertisements; appearances on radio talk shows, walk-on guests on local news stations and a three hour live remote.

Receiving positive feedback and noting the success of the initiatives undertaken in 2010, the Commission is well underway with its plans for 2011. The Commission’s Investor Education agenda for 2011 include more involved joint initiatives with its existing partners while launching new partnerships with Creative Wealth Management.

During 2010 the Commission bid farewell to its Executive Director and hired industry veterans to head its authorization and inspection functions.

Resignation of Executive Director

Mr. Hillary Deveaux resigned as Executive Director of the Commission effective August 31, 2010, a position he has held since December 1, 2002. Preceding this position, he served as Secretary to the Commission from June 1, 1997.

The Honorable Zhivargo Laing, Minister of State for Finance shared that “while Mr. Deveaux’s talents will be missed at the Commission, I am certain that his broader responsibilities will benefit our nation.”

Mr. Deveaux has accepted the position of Capital Markets Advisor at the Caribbean Regional Technical Assistance Centre (CARTAC), a regional resource, based in Barbados, which provides technical assistance and training in core areas of economic and financial management to member countries throughout the Caribbean region, including The Bahamas. The International Monetary Fund (IMF) serves as the executing agency for CARTAC.



Mr. Philip B. Stubbs, Chairman of the Commission, stated that, “Mr. Deveaux has made an invaluable contribution to the Commission over the past 13 years, and will continue this contribution through his new role, not only for The Bahamas but also the region.”

While pending the successful recruitment of a new executive director, Mr. Stubbs will assume the function of Executive Director in addition to his role as Chairman. Mr. Stubbs has many years of experience in accounting, auditing and business advisory services, and a keen understanding of the financial sector. He has worked with a wide range of clientele including international, domestic and public-sector clients; in industries such as professional services, financial services, health care, utilities, transport and shipping and retail and wholesale merchandising. He is a former country managing partner of Ernst & Young and has served as Chairman of the Commission since July 2007.

New Managers of Authorizations and Inspections Departments

In July, Ms. Laverne Thompson was appointed Manager of the Authorizations Department. Prior to her appointment, Ms. Thompson spent more than 12 years in the financial services industry having held the positions of Head Securities Trader at Templeton Global Advisors Ltd., and as Relationship Manager with Swiss Private Bank and Alternative Asset Manager, Union Bancaire Privee.

Ms. Thompson’s primary responsibilities will include the registration and licensing of persons and products operating in or from The Bahamas under the legislation administered by the Commission.

Another new hire that the Commission is excited to announce is the appointment of Ms. Denise O’Brien, Manager of the Inspections Department. Ms. O’Brien, an accountant who has worked with all the major accounting firms, here locally or abroad, has vast experiences in Private Banking, Trusts and Mutual Funds Administration.

Ms. O’Brien’s primary responsibilities will include overseeing the Commission’s on-site monitoring program.

The Commission, in an effort to better utilize its existing human resources, conducted a restructuring exercise during the second half of 2010. As a result, Mrs. Peggy Knowles, the former Acting Manager of the Authorizations Department, was appointed the Deputy Manager of the Corporate Affairs Department. In her new role as Deputy Manager, Mrs. Knowles is responsible for training and development, human resource matters and the public relation function of the Commission.

The next issue of the SCB Lighthouse will feature further managerial changes and restructuring that became effective during the first six months of 2011.

THE COMMISSION’S CALENDAR OF EVENTS

The Commission’s social and charity events for the second half of 2010 included:

JULY	Annual Independence Day Celebration
OCTOBER	Staff Fun and Bowling Night at Mario’s Bowling Center
NOVEMBER	Thanksgiving Gifts presented to The Nazareth Centre
DECEMBER	Christmas Treats for Commission Kids
	Christmas Gifts presented to The Nazareth Centre
	Annual Staff Christmas Party
	Annual News Year Day Celebration



2010 Annual Independence Day Celebration