



SECURITIES COMMISSION
OF THE BAHAMAS

2011

ANNUAL REPORT





4 June 2012

The Rt. Hon. Perry G. Christie
Prime Minister and Minister of Finance
Office of the Prime Minister
Cecil Wallace-Whitfield Centre
Cable Beach
Nassau, N.P., 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 2011. Included in this Report is the Annual Statement of Accounts of the Commission for the year.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Philip B. Stubbs", is written over a horizontal line.

Philip B. Stubbs
Chairman

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FREQUENTLY USED TERMS

GENERAL

AIBT *Association of International Banks and Trust Companies in The Bahamas* The body representing banks and trust companies operating within The Bahamas.

BCSD *Bahamas Central Securities Depository* A depository for Bahamian securities trading on the Bahamas International Securities Exchange.

BICA *Bahamas Institute of Chartered Accountants* The professional body mandated to govern and regulate the public accounting industry in The Bahamas.

CBoB *Central Bank of The Bahamas* The primary regulator of banks and trust companies in The Bahamas.

MMoU *Multilateral Memorandum of Understanding* A legal document setting out the terms and details of a formal agreement between two or more countries.

The Commission *Securities Commission of The Bahamas* Regulator of securities and capital markets and the Inspector of Financial and Corporate Services for The Bahamas.

REGISTRANTS AND LICENSEES

BISX *Bahamas International Securities Exchange* The registered marketplace in The Bahamas that facilitates execution of trades in securities.

EIFA *Exempted Investment Fund Administrator* A person exempted from obtaining an Investment Fund Administrator's license.

FCSP *Financial and Corporate Service Provider* A person licensed to conduct the business of financial and corporate services in or from within The Bahamas.

IPO *Initial Public Offering* The first offering of stock in a company to the public.

RIFA *Restricted Investment Funds Administrator* A company licensed as a Restricted Investment Fund Administrator.

RFF *Recognised Foreign Fund* This Fund is one that is listed on a securities exchange which has been prescribed by the Commission or one which is licensed or registered in a prescribed jurisdiction.

RTA *Registrar and Transfer Agent* A corporate body appointed by any other person or group of persons to carry out registrar and transfer services, including administrative aspects of the issuer's subscription process, maintenance of securities holder records, and payments on behalf of the issuer to securities holders, among other things.

SIA *Securities Investment Advisor* A person who advises others as to investing or selling securities, is primarily engaged in giving advice regarding investment funds, or manages investments in securities portfolios for clients for a fee or reward.

SMART *Fund Specific Mandate Alternative Regulatory Test Fund* A flexible asset management fund product designed to cater to the specific needs of investors.

UIFA *Unrestricted Investment Fund Administrator* A company licensed as an Unrestricted Investment Fund Administrator.

MEMBERSHIPS AND ORGANISATIONS

CARTAC *Caribbean Regional Technical Assistance Centre* A technical assistance and training resource focusing on economic and financial management for participating countries.

CGSR *Caribbean Group of Securities Regulators* Informal group of Caribbean securities regulators established to strengthen the regulatory framework of members.

COSRA *Council of Securities Regulators of the Americas* A forum for North, South and Central American and Caribbean securities regulators.

GFSR *Group of Financial Services Regulators* The group of Bahamian financial services regulators focusing on issues of mutual concern in the domestic financial services sector.

IOSCO *International Organisation of Securities Commissions* International standard setter for securities and capital markets regulation.

OECD *Organisation for Economic Cooperation and Development* An international organization of 34 member countries whose mission is to promote policies that will improve the economic and social well-being of people around the world.

OGCISS *Offshore Group of Collective Investment Scheme Supervisors* A forum for the exchange of ideas among regulators and supervisors of collective investment schemes.

LEGISLATION

FCSPA, 2000 *Financial and Corporate Financial Service Providers Act, 2000*

FTRA, 2000 *Financial Transactions Reporting Act, 2000*

IFA, 2003 *Investment Funds Act, 2003*

IFR, 2003 *Investment Funds Regulations, 2003*

SIA, 1999 *Securities Industry Act, 1999*

SIA, 2011 *Securities Industry Act, 2011*

SIR, 2000 *Securities Industry Regulations, 2000*

SIR, 2012 *Securities Industry Regulations, 2012*

Message From The Chair

PHILIP B. STUBBS Chairman

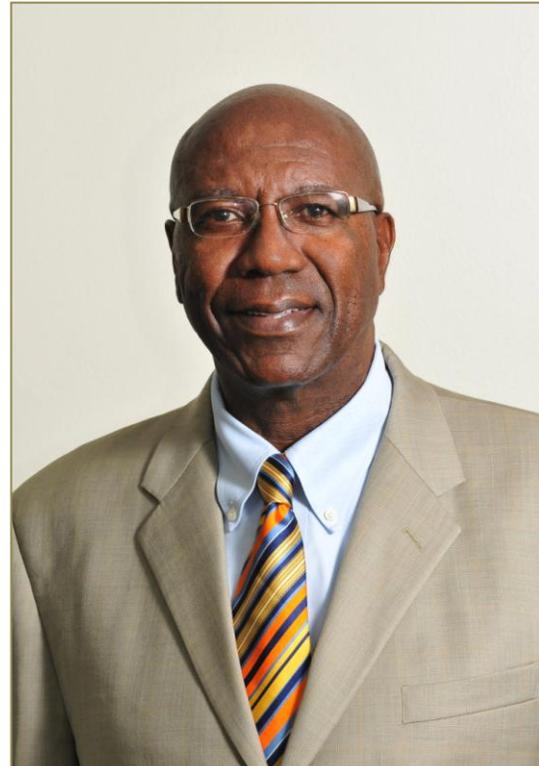
I am pleased to present the 2011 Annual Report of the Securities Commission of The Bahamas.

2011 will be looked upon as a landmark year for the Commission, and the securities and capital markets in The Bahamas. Critical milestones to accomplishing the Commission's identified objectives were achieved during this mid-year in a three year strategic plan. The passing of modern, cutting edge securities legislation in the form of the Securities Industry Act, 2011 (SIA, 2011) is among the most notable and widely recognised of them. Significant improvements were also made throughout the Commission's operations—many of which are highlighted in this report.

SECURITIES INDUSTRY ACT, 2011

The promulgation and implementation of the new legislation was a key focus throughout the year. In this regard, town-hall meetings, presentations, media outreach programmes, and communications on the Commission's redesigned interim website, were undertaken to educate market participants and the local and international public about the new Act during 2011 and on into 2012.

The Commission's consultative approach to developing the SIA, 2011, its Regulations and Rules speaks to its commitment to industry collaboration to ensure a responsive, flexible yet strong regulatory framework. This is evident in the Physical Presence Rule, now published in the Official Gazette, and other Rules high on 2012's priority list, including the Corporate Governance Rule, the Regulatory Capital Rule, and Guidance for Minimum Standards of Outsourcing.



There were a number upgrades to the securities regulatory regime made under the new Act. For example, the enforcement powers have been enhanced, and categories of registrants have been redefined for a rationalised approach to licensing based on the function and activities of licensees, simultaneously bringing the categories into closer alignment with those in use by other Commonwealth and Caribbean jurisdictions. The Act also provides for further operational independence of the Commission—an important principle of securities regulation of the International Organisation of Securities Commissions (IOSCO).

The above mentioned key changes are among the hallmark features of the new Act, resulting in a more transparent securities regulatory regime and, it is hoped, paving the way to greater business opportunities for Bahamas-based securities business.

GROWING CAPITAL MARKET & OTHER DEVELOPMENTS

2011 also saw an increase in the number of initial public offerings (IPOs), with the largest in the history of the Bahamian capital markets, raising some \$62.5 million, brought to the market in the first half of the year.

A second IPO prospectus was also registered by the Commission in late 2011 with the subscription period ending during the first month of 2012. That issue ended up being highly oversubscribed, with a very high take up rate by retail investors, suggestive of an increase in interest in alternative investment opportunities by non-sophisticated investors and growing interest in the capital market. These IPOs signal the important role of the capital market for investors across a broad spectrum of Bahamians, and their increasing confidence in investing in Bahamian public companies. The Commission is responsible for fostering fair and efficient capital markets, and the vital task of supporting investor confidence through its regulatory and investor education efforts. In this regard, the Commission is hopeful that this trend within the capital markets will continue.

During the year, progress was also made on developing a revised Protocol for the on-site examination of banks and trust companies regulated by both the Commission and the Central Bank of The Bahamas (the Central Bank), an important step toward the ultimate goal of integrating financial services regulation. The revised Protocol updated the

2008 provisions in a move to minimise the regulatory burden on licensees while maintaining the regulatory integrity of the broader financial sector. The revised Protocol was signed 31 January 2012.

In another move toward regulatory integration, the examination function for Financial and Corporate Service Providers (FCSPs) fully transferred to the Commission from the Compliance Commission of The Bahamas on 30 June 2011. This final transfer marked the end of a process that began in 2008, when the Commission was appointed as Inspector of Financial and Corporate Services.

The Commission has subsequently produced a programme for the oversight of FCSPs. To support the new responsibility, the Commission conducted the annual training of members of the Bahamas Institute of Chartered Accountants (BICA) interested in becoming Inspector's Agents. Inspector's Agents are authorised to conduct annual routine on-site examinations of FCSPs on the Commission's behalf.

Still, 2011 was not a year without challenges, as there were developments in the capital markets that sometimes outpaced the careful process of putting in place jurisdiction-specific, world-class legislation to govern the industry.

Each of those challenges, however, brought to the fore the critical nature of the Commission's role and the urgency of modern legislation and regulations, as Bahamian capital markets and the activities therein continued to grow in complexity and sophistication. The challenges created timely opportunities for the Commission to issue a Press Release on International Best Practices for Takeovers, and to remind the public of the Commission's mandate and role in regulating public companies, including the limitations of its mandate and the need for investors to understand their own responsibilities when investing in the capital market.

The Commission concluded 2011 with a number of key objectives in its three-year strategic plan (2010-2012) accomplished. The Commission's priorities for executing the final year of the plan have been streamlined and reorganised. The key goals for 2012 are:

1. To improve the legislative framework of the Commission;
2. To enhance internal systems and the work environment to support employee relations;
3. To review the regulatory operations of the Commission to identify areas of risk and required improvements;
4. To improve the efficiency of the Commission; and
5. To enhance the governance of the Commission.

Leading the effort to achieve these goals will be Mr. Dave S. Smith, the Commission's Executive Director, appointed effective 1 March 2012. He brings practical managerial experience from the private sector within the financial services industry. He comes at a time when dynamic changes to the securities landscape are continuing, but with both broad and specific qualifications and experience that should qualify him for the task. The Commission welcomes him to lead the team into its next phase of growth and development.

Having functioned as the Acting Executive Director prior to Mr. Smith's appointment, I take this opportunity to thank the Members of the Commission, the management team and staff of the Commission for their efforts and the notable strides made during 2011.



Philip B. Stubbs
Chairman

The Board

THE BOARD

(AS AT 31 DECEMBER 2011)



PHILIP STUBBS
Chairman and
Acting Executive Director



WENDY CRAIGG
Deputy Chairman
Ex-Officio Member
Governor of the Central
Bank of The Bahamas



JOHN ARCHER
Member



DEBORAH BASTIAN
Member



MAITLAND CATES
Member



LENNOX MCCARTNEY
Ex-Officio Member
Superintendent of the
Insurance Commission of
The Bahamas



MARLENE MINUS
Member



STERLING QUANT
Member

ROLE OF THE BOARD

Members of the Commission have the responsibility for the overall direction and governance of the organisation. The duties of the Board include overseeing the strategic focus of the organisation, approving licensees and registrants to operate in the capital, securities and investment funds markets of The Bahamas, as well as establishing rules and guidelines to govern these markets.

Insurance Commission of The Bahamas. Other Members are chosen to serve on the Board based on their experience and expertise in the disciplines of commerce, law, finance, economics and administration.

BOARD TERMS

The Membership of the Board saw the departure of two (2) Members by year-end 2011. Mr. Ryan Knowles' term came to an end 30 June 2011. He was replaced by Mrs. Marlene Minus on 1 July 2011. In addition, Mr. Lennox McCartney, an ex-officio Member of the Commission, resigned as Superintendent of the Insurance Commission of The Bahamas on 31 December 2011. Mrs. Michele Fields was appointed as the new Superintendent with an effective date of 1 January 2012. Mechelle Martinborough, Legal Counsel, continued as the Secretary to the Board.

Table 1: Terms of the Board Members as at 31 December 2011

Name	Appointed	Expiration of Term
Philip Stubbs (Chairman)	July 2007	June 2012
Wendy Craigg (Deputy Chairman)	June 2005	Ex-Officio
John Archer	July 2007	June 2012
Deborah Bastian	March 2009	June 2012
Maitland Cates	August 2008	June 2012
Lennox McCartney	February 2008	December 2011
Marlene Minus	July 2011	June 2012
Sterling Quant	July 2007	June 2012

MEMBERSHIP

The Securities Industry Act, 1999 requires that the membership of the Commission consist of a Chairman, a Deputy Chairman, and other Members not to exceed seven (7), all of whom are appointed at the discretion of the Minister of Finance. The Chairman holds office for a period of five (5) years. The Deputy Chairman and other Commission Members hold their offices for a period not to exceed four (4) years. All Commission Members, including the Chairman, are eligible for re-appointment.

There are three (3) ex-officio Members of the Commission: the Executive Director of the Commission, the Governor of the Central Bank of The Bahamas and the Superintendent of the

COMMITTEES OF THE BOARD

Committees were established to assist the Board in carrying out its role. As at 31 December 2011, there were two (2) Board established committees. These committees are as follows:

Human Resources Committee – This committee assists the Commission in establishing and reviewing remuneration and other policies for all employees of the Commission. The committee is also responsible, by way of policies and packages, for providing employees with appropriate incentives to encourage enhanced performance by rewarding them for their individual contributions to the success of the Commission, and to the extent possible, ensuring that rewards and incentives are competitive with current industry standards.

Audit Committee – This committee advises and makes recommendations to the Commission on all matters relating to corporate governance, including internal financial controls, internal and external audits, and compliance with financial reporting requirements.

DISCIPLINARY PROCEEDINGS OF THE BOARD

The Commission, as a part of its function to maintain the integrity of the investment funds, securities and capital markets, has the authority to conduct investigations and hearings. The Board carries out these functions via two (2) standing statutory bodies. These bodies are as follows:

Disciplinary Committee – This committee assists the Executive Director in making recommendations to the Commission, on the appropriate disciplinary action to be taken as a result of an investigation.

Hearing Panel – This panel presides over regulatory hearings and determines disciplinary matters of the Commission. In carrying out its functions, the Hearing Panel is empowered to impose various sanctions, remedies or other relief, as provided for in the Securities Industry Act, 1999 and Investment Funds Act, 2003.

BOARD COMMITTEES AND MEMBERS

Table 2: Members of Committees of the Board as at 31 December 2011

Audit Committee	Human Resources Committee	Disciplinary Committee	Hearing Panel
Maitland Cates, Chair	Deborah Bastian, Chair	Philip Stubbs, Chair	Sterling Quant, Chair
John Archer	Maitland Cates	Marlene Minus	John Archer
Sterling Quant	Philip Stubbs	Cheryl Bazard*	Deborah Bastian
Philip Stubbs		D'Arcy Rahming*	Wendy Craigg (Alternate)
		Joseph Strachan*	
		Maitland Cates (Alternate)	

*Non-Board Members

ACTIVITIES OF THE BOARD

The Board held 12 regular meetings during the year. Nine (9) Audit Committee and 15 Human Resources Committee meetings were also held. In addition, Members used the Round Robin process in lieu of meetings four (4) times during 2011 to expedite the approval of matters requiring more immediate action. Due to the Delegation of Authority to the Executive Director the Commission was able to reduce, in comparison to previous years, the need to use the Round Robin process, and assess applications more quickly. The Hearing Panel and Disciplinary Committee met two (2) and three (3) times respectively.

Table 3: Activities of the Board for each of the years ended 31 December 2010 and 31 December 2011

Meeting Type	31 Dec. 2010	31 Dec. 2011
Regular	11	12
Extraordinary	1	-
Round Robin	9	4
Audit Committee	11	9
Human Resources Committee	7	15
Hearing Panel	-	2
Disciplinary Committee	-	3
Total	39	45

Organisation

ORGANISATIONAL STRUCTURE



EXECUTIVE DEPARTMENT – This department is responsible for the day-to-day management of operations, technical and financial matters. The Executive Department includes the Information Technology Unit, which is responsible for facilitating the information and communication needs of the Commission, and the Accounts Unit, which is responsible for all of the Commission's financial matters, including annual budgets and the preparation of financial statements.

CORPORATE AFFAIRS DEPARTMENT – This department is responsible for the daily management of the human and physical resources of the Commission, which includes ensuring adequate manpower to facilitate the Commission's mandate, as well as implementing and enforcing staff regulations.

AUTHORISATIONS DEPARTMENT – This department is responsible for the licensing and registration of market participants, as well as the review and registration of prospectuses for public offerings along with new products and structures including investment funds.

MARKET SURVEILLANCE DEPARTMENT – This department is responsible for the off-site monitoring and supervision of market participants' and the local securities exchange, and reviewing proposals from the local securities exchange.

INSPECTIONS DEPARTMENT – This department is responsible for the supervision and on-site monitoring of market participants' adherence to the acts, regulations and rules.

OFFICE OF LEGAL COUNSEL – This department is responsible for providing legal advice to the various departments of the Commission, assisting in the review of financial sector legislation, managing matters of international cooperation and overseeing enforcement and disciplinary matters.

ORGANISATIONAL OVERVIEW

MANDATE

To formulate principles to regulate and govern investment funds, securities and capital markets; maintain surveillance over investment funds, securities and capital markets ensuring orderly, fair and equitable dealings; create and promote conditions to ensure orderly growth and development of capital markets; and to advise the Minister of Finance regarding investment funds, securities and capital markets.

MISSION

To effectively oversee and regulate the activities of the securities and capital markets, to protect investors, while strengthening public and institutional confidence in the integrity of those markets.

ENABLING LEGISLATION

The Commission is a statutory body established in 1995 pursuant to the Securities Board Act, 1995, which was repealed and replaced by the Securities Industry Act, 1999. The SIA, 1999 was then repealed and replaced by the Securities Industry Act, 2011, which became effective 30 December 2011.

As a result, the Commission is responsible for the administration of the Securities Industry Act, 2011 (SIA, 2011). The SIA, 2011 provides the Commission with the authority to oversee the securities, investment funds and capital markets of The Bahamas.

The Commission is also responsible for administering the Investment Funds Act, 2003; which gives the Commission supervisory and regulatory powers to oversee the investment funds market.

Effective 1 January 2008, the Commission was appointed as the Inspector of Financial and Corporate Services (the Inspector). The role of the Inspector, as set out in the Financial and Corporate Service Providers Act, 2000, provides for the supervision and regulation of financial and corporate service providers and financial institutions not otherwise regulated under securities, banking and insurance laws.

STRUCTURE

As at 31 December 2011, the Commission was comprised of six (6) departments. These included three (3) supervisory departments (Authorisations, Market Surveillance and Inspections), one (1) non-supervisory department (the Office of Legal Counsel) and two (2) operational departments (Corporate Affairs and Executive, which is comprised of the Information Technology and Accounts Units).

Early in 2011 the Commission conducted a re-structuring exercise that included the re-allocation of the functions and officers of the former Policy and Research Department to the Executive and Market Surveillance Departments.

ORGANISATIONAL UPDATES



NEW EXECUTIVE DIRECTOR

Mr. Dave Smith was appointed Executive Director of the Securities Commission of The Bahamas, effective 1 March 2012.

Mr. Smith holds a B.A. in Business Administration and an MBA from Taylor University, Upland, Indiana. His other professional accomplishments include: Certified Public Accountant, Fellow of The Bahamas Institute of Financial Services, and Fellow of The International Compliance Association. He is also a Member of the Bahamas Association of Compliance Officers, Bahamas Institute of Financial Services and the Bahamas Institute of Chartered Accountants.

RESTRUCTURING OF THE COMMISSION

Working towards its strategic goal of improving efficiency, becoming more effective in executing the tasks of its day-to-day functions and developing its processes and tools, the Commission continued its restructuring activities, which began in late 2010. Realising better use of its human resources and re-aligning work programmes, the Commission transferred the staff and functions of the Policy and Research Department to the Market Surveillance and Executive Departments. During this transfer the staff complements of both Departments increased. It is hoped that these changes will strengthen the Commission's off-site surveillance programme, a priority identified in the **2011 Statement of Priorities**. Other structural and managerial changes included Ms. Sandra Duncombe's promotion to Deputy Manager of the Market Surveillance Department.



STAFF COMPLEMENT

At the close of 2011, the Commission's staff complement stood at 56. This represents a 9.8 percent increase from year-end 2010. Of the 14 staff persons attached to the Executive Department, two (2) were consultants.

Table 4: Number of staff as at 31 December 2009, 31 December 2010 and 31 December 2011

Department	Number of Staff as at 31 Dec. 2009	Number of Staff as at 31 Dec. 2010	Number of Staff as at 31 Dec. 2011
Executive Department	10	11	14
Office of Legal Counsel	6	7	7
Authorisations Department	6	7	6
Market Surveillance Department	11	10	11
Inspections Department	9	8	10
Corporate Affairs Department	7	8	8
All Departments	49	51	56

EXPANSION OF STAFF TO MEET SIA, 2011 IMPLEMENTATION PLAN NEEDS

Anticipating an increased work load in its regulatory, administrative and technical functions to accommodate the promulgation of the new securities legislation, the Commission made efforts to secure additional human resources to assist in executing this strategic goal and the day-to-day operations of the organisation. Additional human capital came through the engagement of a database consultant and persons from The Bahamas Government's Job Readiness and Training Initiative.

Database Consultant

As extensive changes were needed to the Commission's database to accommodate the new registration regime under the Securities Industry Act, 2011 a database consultant was engaged. The purpose of the project was to ensure that the Commission has a robust database system and tools that support its regulatory and operational requirements.

Job Readiness and Training Programme

The new legislation requires a number of standards and rules to be formally developed. To manage this process the Commission has organised an 18-month project and SIA Implementation Team to manage this process, which is currently underway. To help facilitate these efforts the Commission immediately identified additional human capital as a critical component in the development of the project. The team, which is led by a member of the Executive Department of the Commission, is assisted by 12 persons from The Bahamas Government's Job Readiness and Training Initiative.

Licensees and Registrants

Firms & Individuals registered with the Commission during 2011 were categorised according to the Securities Industry Act, 1999, the Investment Funds Act, 2003, and the Financial and Corporate Service Providers Act, 2000.

SIA, 1999 CATEGORIES

The registration and licensing categories under the SIA, 1999, are presented in the table below.

Table 5: Licensees and Registrants under the Securities Industry Act, 1999 (SIA, 1999)

Licensee or Registrant Type	Descriptions
FIRMS AND OFFERING DOCUMENTS	
Broker-Dealer	<p>A Broker-Dealer is a company incorporated or registered under the Companies Act, 1992 that provides the services of a broker, a dealer or a broker and a dealer.</p> <ul style="list-style-type: none"> (i) As a Broker, a Broker-Dealer may offer to provide securities or provide investment advice to the public and must be registered as such by the Commission. (ii) As a Dealer, a Broker-Dealer can trade on a Securities Exchange or deal in securities. <p>Broker-Dealers are categorised into four (4) classes, however, only Class I and Class II were in use since the inception of the Act. A Broker-Dealer Class I can underwrite securities and a Broker-Dealer Class II cannot.</p>
Securities Investment Advisor	<p>A Securities Investment Advisor can perform the duty of:</p> <ul style="list-style-type: none"> (i) An Investment Advisor who provides advice to others on investing in or selling securities and/or primarily engages in giving advice as it pertains to the investment of funds; or (ii) A Portfolio Manager who manages securities portfolios for clients with regard to investments.
Facility	A company incorporated under the Companies Act, 1992 providing clearing, settlement, depository, custody or other services which facilitate or are ancillary to the operations of a Securities Exchange.
Securities Exchange	A company incorporated under the Companies Act, 1992 operating a market or other place in The Bahamas at or on which securities are offered for sale, purchase, or exchange and which is registered by the Commission.
Prospectus	A document that provides details about an offer of securities to the public. The prospectus is required to be lodged with and registered by the Commission before the public is invited to subscribe or is issued an application to subscribe for or to purchase securities.
INDIVIDUALS	
Principal	A Principal is the Managing Director (or Chief Executive Officer) and/or Compliance Officer/Director of a Broker-Dealer. Pursuant to the Facilitated Requirements, with respect to companies licensed by the Central Bank of The Bahamas, Principals who are Supervisors and Compliance Officers were not required to register as Principals under the SIA, 1999.
Broker	An individual licensed as a Broker is any employee of a Broker-Dealer performing the activities of a Broker.
Associated Person	An individual licensed as an Associated Person is any employee of a Broker-Dealer or of a Facility not performing in the capacity of a Principal or Broker, who performs clerical or non securities-related functions.
Securities Investment Advisor	An individual licensed as a Securities Investment Advisor is any employee of a Securities Investment Advisor firm, or Broker-Dealer I or II performing the activities of an Investment Manager or Portfolio Manager.

MAPPING EXISTING LICENSEES/REGISTRANTS TO THE SIA, 2011 CATEGORIES

In line with the promulgation of the SIA, 2011 on 30 December 2011, existing licensees and registrants (firms and individuals) were grandfathered into the new licensing structure and were automatically re-aligned to the functional categories authorised by the 2011 Act. This mapping was done in accordance with sections 146 and 151 of the Securities Industry Regulations, 2012, and was intended to be an interim measure until firms confirm their desired categories of registration under the new Act. These SIA, 1999 categories and the corresponding interim registration under the SIA, 2011 are detailed in the following illustrations.

The re-categorisation of persons to the authorised activities defined in the Securities Industry Regulations, 2012 was included as a project under the SIA, 2011 implementation plan. Under that plan, 31 July 2012 was identified as the deadline for registrants to submit re-categorisation requests, with 31 September 2012 targeted as the deadline for the Commission to have confirmed categorisation to registrants.

During the latter half of the year persons previously registered under SIA, 1999 were billed for the 2012 period using fees established under the SIR, 2000. It is anticipated that renewal fees based on registration categories in the SIA, 2011 will be introduced in 2012. Applicants applying for registration after 30 December 2011 when the SIA 2011 came into effect will be categorised and billed according to the new Act and Regulations immediately. In contrast to the registration and renewal fees, all administrative fees under the new Act and Regulations will be applied on 30 January 2012, the effective date of the Security Industry (Fees) Rule, 2012.

Illustration 1: Firms registered under the SIA, 1999 and the Corresponding Authorised Activities under the SIA, 2011

Broker-Dealer I	Broker-Dealer II	Securities Investment Advisor
<ul style="list-style-type: none"> • Dealing in Securities as Agent or Principal • Managing Securities • Arranging Deals in Securities • Advising on Securities 	<ul style="list-style-type: none"> • Dealing in Securities as Agent • Managing Securities • Arranging Deals in Securities • Advising on Securities 	<ul style="list-style-type: none"> • Managing Securities • Advising on Securities

Illustration 2: Individuals registered under the SIA, 1999 and the corresponding registration category under the SIA, 2011

Principal, Broker, Stockbroker	Securities Investment Advisor	Associated Person
<ul style="list-style-type: none"> • Representative, Trading • Chief Executive Officer * • Compliance Officer * 	<ul style="list-style-type: none"> • Representative, Discretionary Management 	<ul style="list-style-type: none"> • Representative, Advising Only

*Under section 151 of the SIR, 2012, an individual previously registered as a principal under the former Act who is the chief executive officer or managing officer of a registered firm is to be registered as chief executive officer of that firm. Similarly, an individual previously registered as principal under the former Act who is the designated compliance director of a registered firm is registered as the compliance officer of the registered firm.

IFA, 2003 AND FCSPA, 2000 CATEGORIES

The registration and licensing categories under the Investment Funds Act, 2003 and the Financial and Corporate Service Providers Act, 2000 are detailed in the tables below.

Table 6: Licensees and Registrants under the Investment Funds Act, 2003 (IFA, 2003)

Licensee or Registrant Type		Descriptions
Investment Fund Administrator	Unrestricted	A company licensed as an Unrestricted Investment Fund Administrator has delegated authority to license and oversee the administration of an unlimited number of Investment Funds.
	Restricted	A company licensed as a Restricted Investment Fund Administrator can only provide administration services to the investment funds licensed or registered by the Commission. A restricted licence holder does not have the authority to independently license investment funds – licensing must be done through the Commission.
Investment Funds	Professional Fund	This fund is available solely to accredited investors.
	Standard Fund	A Standard Fund can only be licensed by the Commission and is generally for those funds that are not categorised as a Professional, SMART or Recognised Foreign Fund. An example is a retail-type fund.
	Recognised Foreign Fund	This fund is one that is listed on a securities exchange which has been prescribed by the Commission or one which is licensed or registered in a prescribed jurisdiction.
	SMART Fund	The 'Specific Mandate Alternative Regulatory Test Fund', or 'SMART Fund', is a flexible asset management fund product designed to cater to the specific needs of investors. In this category of fund, both the operational and regulatory structure of the fund is specifically designed by industry participants, subject to approval from the Commission.

Table 7: Licensees and Registrants under the Financial and Corporate Service Providers Act, 2000

Licensee or Registrant Type	Descriptions
Financial and Corporate Service Providers	<p>A person (company or individual) licensed to conduct the business of financial and corporate services in or from within The Bahamas.</p> <p>Financial services include money broking, lending of all types and related services.</p> <p>Corporate services include the registration, management and administration of companies, incorporated under the International Business Companies Act, 2000 or the Companies Act, 1992.</p>

Organisational Performance



THREE YEAR STRATEGIC PLAN

In 2010, the Commission embarked on a strategic planning exercise to identify action items that would result in the Commission's successful achievement of its regulatory, operational and administrative goals. The outcome of this exercise was the launch of a three (3) year Strategic Plan (2010-2012) with the goal of improving corporate governance, advancing operational efficiency, modernising the legislative framework, and enhancing its regulatory operations. Such goals were articulated through six (6) strategic programmes and their underlying projects. With the development of people, processes and tools identified as critical success factors, the Commission remained committed to achieving the goals of its Strategic Plan in 2011.

2011 STATEMENT OF PRIORITIES

In 2011, the Commission continued initiatives related to its 2010-2012 Strategic Plan. Strategic projects dictating the Commission's work plans and resources for 2011 focused on improving its enforcement programmes, database systems, information technology infrastructures, technical capacity of its staff, processes impacting the day-to-day regulatory and operational functions, and preparing for the promulgation of the Securities Industry Act, 2011.

These priority areas and the manner in which they were to be achieved were outlined in the Commission's **2011 Statement of Priorities**.

2011 ACHIEVEMENTS

Key achievements for the Commission during 2011 included the following:

REGULATORY OPERATIONS

In 2010 this goal focused heavily on conducting a review of the regulatory and operational risks facing the Commission. An assessment of these risks was done through an ongoing internal audit function and a self assessment exercise against the International Organisation of Securities Commission's (IOSCO) Principles of Securities Regulations, and corporate governance principles. As a result, in 2011, the Commission worked on implementing the recommendations stemming from these reviews, which focused mainly on the surveillance and oversight programmes. These reviews also signaled preliminary preparations for a planned Financial Sector Assessment Programme (FSAP) review of The Bahamas, which is scheduled to begin during the first half of 2012.

Another initiative that received elevated focus during 2011 was streamlining regulation within the financial oversight regime of The Bahamas. This was realised through collaborative efforts between the Commission and the Central Bank of The Bahamas. The aim of such efforts was to streamline and provide efficient regulation to entities supervised by both regulators. The issuance of a revised on-site examination protocol of joint licensees regulated by both entities on 31 January 2012 was one step in this process. This collaborative effort, which will carry over into 2012, will result in streamlined processes and procedures.

Additional targets meant to improve regulatory operations included the development of a surveillance programme for Financial and Corporate Service Providers (FCSPs), which incorporates the examination function for FCSPs, a function that was fully transferred to the Commission in June 2011.

In addition to incorporating the investigation function, the Commission adopted the definition of 'financial services' issued by the World Trade Organisation, to establish clear parameters for the application of the FCSPA, 2000. Efforts were made to improve regulatory operations through harmonisation of oversight programmes. This was accomplished through improved communication protocols between the off-site and on-site surveillance functions and to assist in the continued development and streamlining of internal regulatory processes and procedures as they pertain to the authorisation process.

EFFICIENCY OF OPERATIONS

For 2011 the focus of achieving this goal revolved around strategic projects that helped to build the Commission's understanding of risk and developing a corresponding framework to mitigate those risks.

As a result, the following targets were set to attain a more efficient work environment: preliminary enhancements to the structure of the Commission's internal database, which included changes to accommodate the new classification regime under the new securities legislation and on-going operations; improvements to the collection of investment fund data through the Commission's electronic filing system; the launch of an interim website, which introduced a new and improved homepage with the intent of enhancing the user experience through the re-organisation and re-categorisation of information to ensure easy access to areas that are of key interest; and establishment of a Training Task Force to create a comprehensive training programme for employees and purchasing licences to develop a document management system to move towards digitisation.

GOVERNANCE

In 2011, the Commission placed emphasis on enhancing regulatory transparency by improving the internal processes needed to produce regular reports for internal management and communication with the public.

Key publications and reports released in 2011 included: the 2010 Annual Report and Audited Financial Statements, which provided a detailed overview of the legislative, regulatory and administrative activities, statistical information on the Commission's licensees and registrants, along with the financial position as at 31 December 2010; and Volume 2 and 3 of The SCB Lighthouse: A Semi-Annual Industry Digest and Statistical Update. The 2010 Annual Report also included the 2011 Statement of Priorities, which set out the goals of the Commission for the upcoming year and demonstrates how they will be achieved.

In addition to enhanced reporting, initiatives geared towards the updating and drafting of internal procedures of department and other processes related to the passing of the SIA, 2011 remained a high priority project. This effort provides the ground work for the publishing of relevant procedures, with the intended result of improving transparency between the Commission and the industry.

LEGISLATIVE FRAMEWORK

A marked achievement for the Commission and the financial sector at large was the passage and promulgation of the Securities Industry Act, 2011 and progress made on the development of the Securities Industry Regulations, 2012, and relevant rules and procedures. The Act passed in both Houses of Parliament in early 2011 and was brought into force on 30 December 2011. The Act coming into force culminated a process that began in 2002 with a full review of the securities regulatory regime in The Bahamas by the International Monetary Fund (IMF) and World Bank as a part of its Offshore Financial Centre assessment. Subsequently, the Securities Industry Regulations were also promulgated, effective 9 January 2012.



The majority of the Commission's work programme, regulatory operations, processes, procedures and resources were re-aligned to meet the needs of bringing the new Act on stream. As a result, the Commission instituted an 18-month project to manage this process. The project is anticipated to continue through 2012. Critical to the success of this effort was the need for additional human capital. This issue was resolved through the re-assignment of subject matter experts within the Commission and the assignment of a number of persons from the Government Job Readiness and Training Initiative programme.

Highlights of this project include the development and execution of a multi-phased communication strategy, which is used in managing the consultation process with the industry and public at large. This multi-phased approach uses several outlets that consist of hosting town hall meetings, general industry sessions and specific focus group meetings with impacted industry groups. The use of the Commission's website to share information and to facilitate feedback, the issuance of press releases, public notices and other media avenues along with letters to licensees and registrants were additional mediums used in communicating with industry stakeholders and the wider public.

In addition to the new Act and Regulations, rules related to Physical Presence and Fees have been brought into force via publication in the Official Gazette, and the groundwork towards developing the Regulatory Capital and Corporate Governance Rules is well underway.

WORK ENVIRONMENT

Understanding that a highly skilled human resource pool is at the foundation of achieving the goals outlined in the strategic plan and improving overall service delivery standards the Commission, during 2011, placed a strong focus on developing the technical skills of staff through varying methods taking into account its financial restraints.

A revised training programme that identifies needed skills on an ongoing basis to respond to the needs of the organisation and the market was a critical area recognised to improving the work environment and overall efficiency of the Commission. In this regard, the Commission provided training through internal, local, national and international training programmes along with support to staff on achieving professional qualifications and certifications. In addition, focus on an enhanced performance management system with integrated career development plans and improved communication methods within the organisation were other key areas of focus in 2011 to improve the Commission's work environment.

2012 REPRIORITISED GOALS

***F**acing 2012, it was deemed necessary to streamline the goals of the Commission and align them with the human and capital resources available, while not putting a strain on the ongoing operations, and to re-focus projects in light of progress made on the goals identified during previous years. As a result, the strategic programmes and their underlying projects were re-defined to five (5) goals, which are highlighted in the **2012 Statement of Priorities**. These priority areas were honed to focus on the implementation of the SIA 2011, the enhancement of surveillance programmes, developing human capital and to the improvement of internal procedures and processes.*

Regulatory Functions

UPDATES ON ONGOING SUPERVISORY ACTIVITIES

The Commission's supervision and oversight responsibilities are discharged through the authorisations process, the off-site supervision programme and on-site inspections of registered and licensed entities—the Commission's core functions. The goals of the supervisory programme are to: maintain effective oversight; strengthen market confidence; protect investors; and facilitate the orderly growth and development of the markets.

AUTHORISATIONS PROCESS

One of the more critical aspects of capital market regulation is the management of the point of entry into the market. The Authorisations Department has responsibility for the assessment of applications for all registrations and licences under the legislation administered by the Commission. This responsibility includes assessing the fitness and propriety of market participants and associated personnel, at the point of application, through an evaluation of the applicant's financial soundness, educational and professional qualifications, character and operational capacities. The department is also engaged in reviewing the licensing process and the development of related policies, thereby making recommendations for process changes and entry criteria. The review of Initial Public Offerings (IPOs) along with the review of new products and structures, including investment funds, are additional responsibilities of the Authorisations Department.

AUTHORISATIONS REGULATORY DEVELOPMENTS

During 2011, a number of regulatory developments took place to streamline procedures relating to the authorisations process. Policies relating to the licensing of Investment Fund Administrators, Securities Investment Advisor Firms and Facilities were standardised within authorisations to improve and deliver enhanced service standards.

Blank Licence Statement of Practice

Under the IFA, 2003, Unrestricted Investment Fund Administrators (UIFAs) have delegated authority to oversee the administration of an unlimited number of Investment Funds and to license professional and Specific Mandate Alternative Regulatory Test (SMART) Funds. As such, they issue licenses for the Investment Funds they license. To improve the control of blank licence certificates issued to UIFAs the Commission released a Statement of Practice for the Issuance of Blank Licences to all registered UIFAs on 20 April 2011.

The Statement of Practice, inter-alia, (i) outlines the process for the issuance of blank certificates, (ii) limits the number of blank licences issued at a single interval to UIFAs, unless the UIFA can support, with adequate documentation, the need for a higher amount of blank licenses; and (iii) outlines rules surrounding the provision of additional licences.

The Statement also requires a monthly reconciliation from UIFAs to account for certificates issued to them. Section 13(1) of the IFA, 2003 provides that an UIFA shall, in respect to any Investment Fund licence, file with the Commission information relating to the licensing of a fund by an UIFA within 30 days. A penalty fee for late filing is enforced should the relevant information not be submitted within the requisite timeframe, pursuant to Section 13(5) of the IFA, 2003.

In support of the Commission's overall objective to promote dialogue and create the necessary partnerships with key market participants, a discussion forum was held on 20 April 2011 with Unrestricted Investment Fund Administrators at the close of the consultation period on the Statement of Practice for Issuance of Blank Licences. The primary focus of the presentation and discussion forum was to address matters related to the licensing process and procedures of Unrestricted Investment Fund Administrators, highlighting: (1) the importance of their role in the industry in partnering with the Commission in maintaining the integrity of the licensing process thereby protecting the reputation of the jurisdiction; and (2) the implementation of procedures as outlined in the Statement of Practice.

Attendees included representatives from more than 20 licensed firms as well as industry stakeholders including the Bahamas Financial Services Board and the Bahamas Institute of Chartered Accountants.

Security Investment Advisors Declaration of Non-Trading Activities

As a part of the Commission's risk management approach, an interim position was established requiring that Security Investment Advisor firms, whether new or existing, provide and maintain the stated regulatory capital of \$25,000. In addition, all Securities Investment Advisors must have adequate professional indemnity insurance coverage except for those Securities Investment Advisor firms who intend to provide investment advice only and not trade in securities or offer brokerage services.

Entities providing investment advice only will be required to submit a notarised declaration to this effect to the Commission, accompanied by a detailed business plan that outlines the exact services that the company will be providing.

Registrar and Transfer Agents

Another process that was reviewed and codified was the responsibility for licensing, regulating and supervising capital market intermediaries. There has been an increasing number of Initial Public Offerings, Takeovers, Mergers and similar transactions occurring in the Bahamian capital markets for which the Commission has been challenged in obtaining full specifics. In light of this, the Commission took steps to ensure that ancillary facilities providing Registrar and Transfer Agent (RTA) services are subject to direct oversight by the Commission and has moved forward with the registration of ancillary facilities starting initially with the registration of Registrar and Transfer Agents.

On 14 June 2011 the Commission issued and posted on its website a Public Notice relating to the licensing of Registrar and Transfer Agents pursuant to the SIA, 1999. The Public Notice outlined the Commission's legislative authority to oversee RTAs, the requirements RTAs are obligated to meet as prescribed in Regulations 30, 39, 40 and Form B of the Fifth Schedule of the SIR, 2000 along with a definition of an RTA and the type of activities such an entity carries out.

LICENSING ACTIVITIES

Securities Industry Act, 1999 Firms

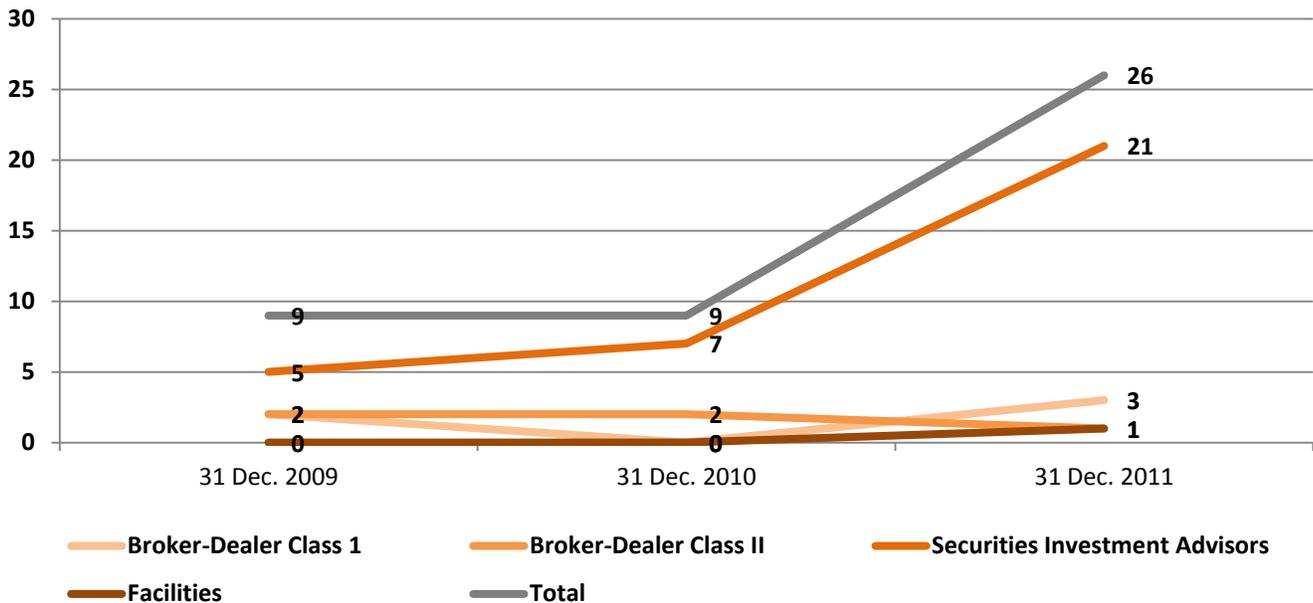
There were 21 Securities Investment Advisors, three (3) Broker-Dealers Class I, one (1) Broker-Dealer Class II and one (1) Facility approved in 2011. The Facility registration category was a new category of approval resulting from increased market developments in registrar and transfer agency services.

Securities Investment Advisors accounted for the highest category of approvals at 81 percent. This category of licensing saw a significant increase compared to 75 percent

in 2010 due to the continued attractiveness of the use of a Managing Representative as an alternative to establishing a physical presence within The Bahamas, a policy position of the Commission that was issued in 2009. Of the 21 Securities Investment Advisors approved, 10 or roughly half were approved using a Managing Representative.

In the first quarter of 2011, statistical data shows that there was one (1) Broker-Dealer Class I and five (5) Securities Investment Advisors approved. In the second quarter, four (4) Securities Investment Advisors were approved. During the third quarter the Commission approved one (1) Broker-Dealer Class I, one (1) Broker-Dealer Class II, three (3) Securities Investment Advisors and one (1) Facility. The fourth quarter was the most active with one (1) Broker-Dealer Class I and nine (9) Securities Investment Advisors being approved.

Graph 1: Licensing activity during 2009, 2010 and 2011 for Securities Firms under the SIA, 1999

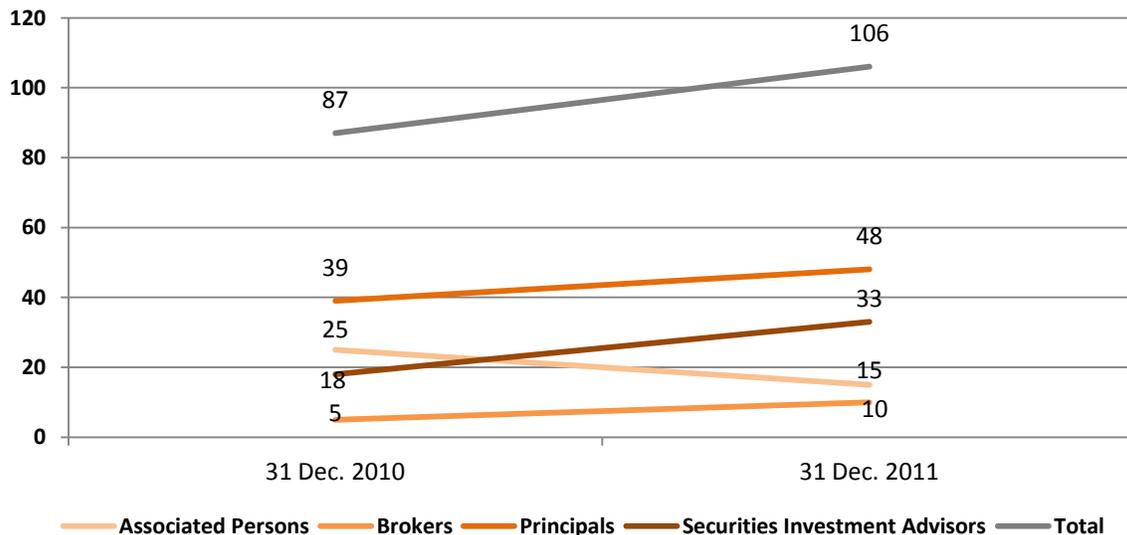


Individuals

Of the 106 individuals approved under the SIA, 1999 there were 48 Principals, 33 Securities Investment Advisors, 15 Associated Persons, and 10 Brokers. As with approved applicants in 2010, Principals continued to comprise the largest category, with 45 percent of all approvals. In tandem with the increase in the number of Securities Investment Advisor firms, the number of Securities Investment Advisor individuals increased from 20 percent in 2010 to 31 percent in 2011. Associated Persons, who in 2010 accounted for the second largest group of approved applications, experienced a decrease in approvals from 29 percent to 14 percent in 2011. Brokers being approved in 2011 accounted for roughly 9 percent, slightly increasing from 6 percent in 2010.

During the first quarter, the largest category of approvals was that of Principals, which was comprised of 16 individuals. Further approvals included nine (9) Securities Investment Advisors, five (5) Brokers and three (3) Associated Persons. In the second quarter we saw similar statistics, with Principals, again, being the highest category of approvals with nine (9). Further to this category of approvals, five (5) Associated Persons, five (5) Securities Investment Advisors and one (1) Broker were approved in the second quarter. In the third quarter, there were 12 Principals, six (6) Securities Investment Advisors, four (4) Associated Persons and one (1) Broker approved. In the fourth quarter there was a vast increase of 117 percent in the total number of Securities Investment Advisors approved, with six (6) being approved in the third quarter and 13 approved in the fourth quarter. This increase would have been affected by the increase experienced in the licensing of Securities Investment Advisor firms in that quarter. Other fourth quarter approvals included 14 Principals, three (3) Associated Persons and three (3) Brokers.

Graph 2: Licensing activity during, 2010 and 2011 for Security Personnel under the SIA, 1999



Investment Funds Act, 2003 (IFA, 2003)

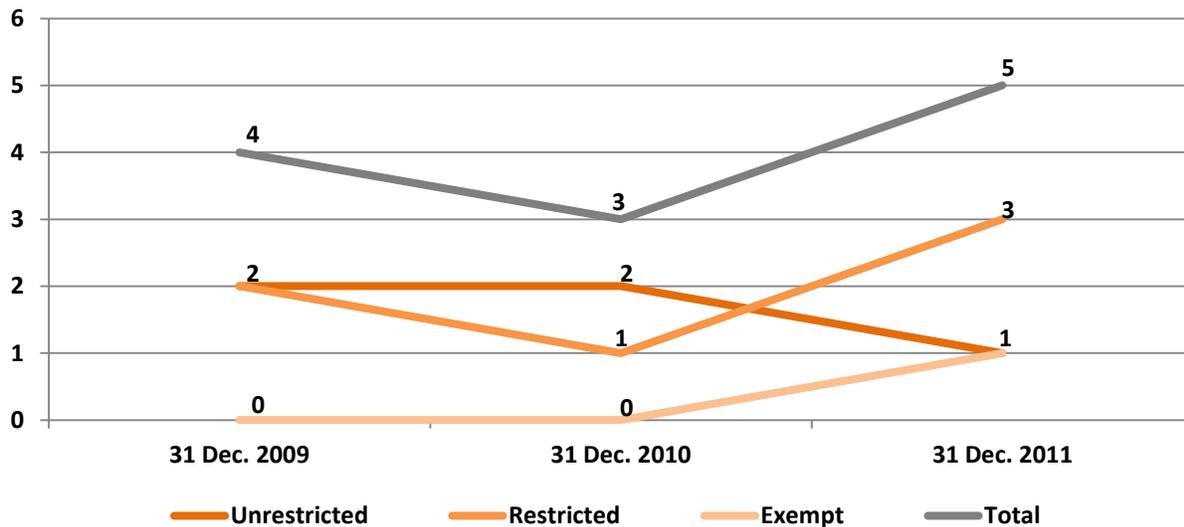
Administrators

Compared to 2010, in which two (2) firms were licensed, the overall level of approvals increased, with three (3) Restricted Investment Fund Administrators, one (1) Unrestricted Investment Fund Administrator and one (1) Exempted Investment Fund Administrator being approved in 2011. Continuing the trend experienced in 2009 and 2010, there were no

Exempted Investment Fund Administrators approved in 2011.

In the first quarter of 2011, there was one (1) Restricted Investment Fund Administrator approved. In the second quarter of 2011 there was one (1) Exempt Investment Fund Administrator approved. In the third quarter, one (1) Restricted Investment Fund Administrator was recorded. The fourth quarter also saw one (1) approval for an Unrestricted Investment Fund Administrator.

Graph 3: Licensing activity during 2009, 2010 and 2011 for Investment Fund Administrators under the IFA, 2003



Investment Funds

Overall, there were 138 Funds approved in 2011. Licensees were comprised of: 73 Professional Funds, 31 SMART Fund 004 Models, 26 SMART Fund 002 Models, one (1) SMART Fund 001 Model, six (6) Non-Bahamas Based Funds and one (1) Standard Fund. Further to the sharp increase of approved Professional Funds experienced in the first quarter, Professional Funds accounted for 53 percent of the total amount of funds approved. Although SMART Fund Models

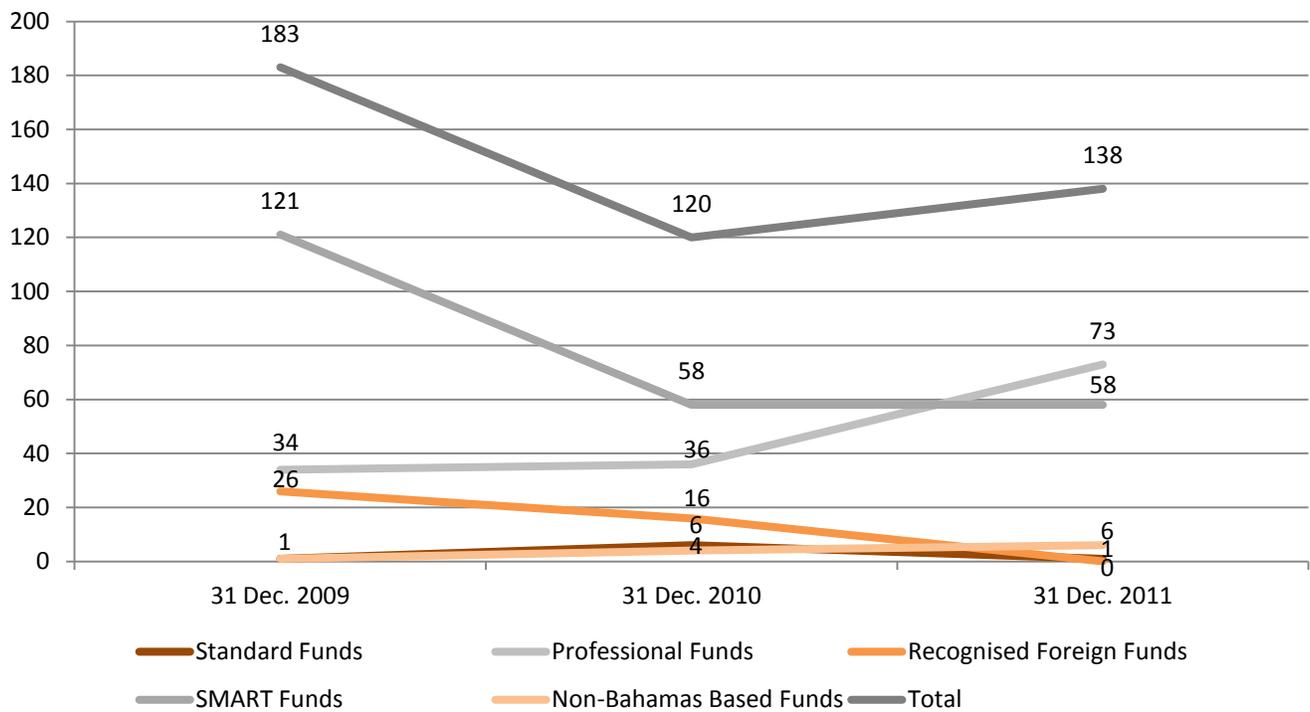
now comprise the second largest category of approved funds at 42 percent, they maintain their relative percentage (having decreased from 49 percent in 2010). Over 30 percent of Professional and SMART Funds were approved using the Fast Track Licensing process. Recognised Foreign Funds did not produce any approvals in 2011 and experienced a further decline from 15 percent in 2010, continuing the negative trend in this category of approvals by the Commission.

The first quarter of 2011 was most active where a sharp increase was seen in the number of approved investment funds under the IFA, 2003 as one (1) administrator left the jurisdiction and its portfolio of funds was transferred to a Restricted Investment Fund administrator in the

jurisdiction, which require that the funds under the administration of the UIFA had to be re-licensed. The portfolio of funds consisted of 32 Professional Funds which attributed 64 percent of all approved funds. In this quarter, the remainder of the approvals was comprised of three (3) additional Professional Funds, six (6) representatives of Non-Bahamas Based Funds, and 17 SMART Fund Models, comprising seven (7) SMART Fund 002 Models and 10 SMART Fund 004 Models.

In the second quarter, Professional Funds continued to top the number of funds approved at seven (7). In this quarter, there were also four (4) SMART Fund 002 Models, and three (3) SMART Fund 004 Models approved. The third quarter saw approvals which included 15 Professional Funds, seven (7) SMART Fund 004 Models, five (5) SMART Fund 002 Models and one (1) SMART Fund 001 Model. These approvals, again, continued the trend of Professional Funds being the most approved category of funds. In the fourth quarter, there were 16 Professional Funds, 11 SMART Fund 004 Models, 10 SMART Fund 002 Models and one (1) Standard Fund approved. As seen in preceding quarters, the trend of Professional Funds being the most approved category of funds continued.

Graph 4: Licensing activity during 2009, 2010 and 2011 for Investment Funds under the IFA, 2003

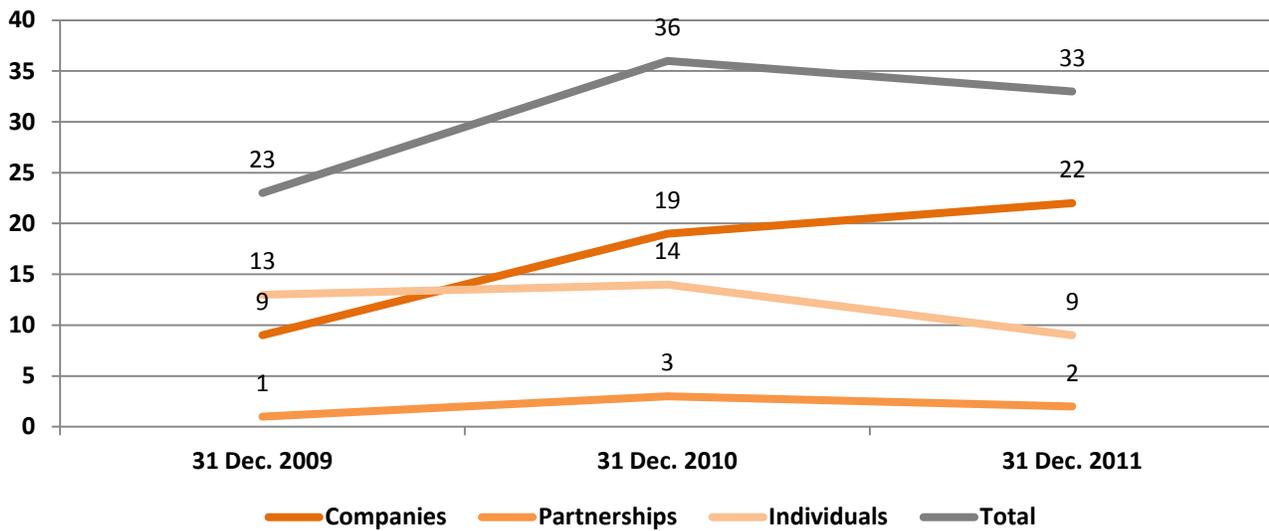


Financial and Corporate Service Providers Act, 2000 (FCSPA, 2000)

Overall, of the 33 applications approved under the FCSPA, 2000, Companies comprised 67 percent of total approvals; Individuals comprised 27 percent and Partnerships comprised 6 percent of the total approvals.

In the first quarter of 2011, two (2) Companies were approved and two (2) Individuals were approved. In the second quarter, there was a significant increase in Company approvals to entities that mainly provide corporate services, with nine (9) being licensed. Further to these approvals, two (2) Individuals were approved. In the third quarter, there were six (6) Companies, three (3) Individuals and two (2) Partnerships approved. The fourth quarter experienced five (5) Companies and two (2) Individuals being approved.

Graph 5: Licensing activity for 2009, 2010 and 2011 under the FCSPA, 2000



OFF-SITE SUPERVISION

The responsibility for monitoring the on-going activities of registrants and licensees rests in part with the Market Surveillance Department, and is executed primarily through the off-site supervision programme. The surveillance process is continuous, and is based on the registrant's compliance with applicable

legislation, codes of conduct and best practices. It involves the review of statutory filings, which include prudential reports and reports on material changes and the assignment of a Market Surveillance Officer who is responsible for managing the day-to-day relationships with constituents and assessing performance and compliance with the legislation. The department is also charged with the responsibility for monitoring the market place, including oversight of the exchange and the over-the-counter market.

MARKET SURVEILLANCE REGULATORY UPDATES

Review of Supervisory Process

One major strategic goal articulated for the on-site surveillance unit was the enhancement of its oversight so as to improve response timelines to industry, strengthen its review of licensees and registrants and prepare the initial basis for a more risk-based system. In this regard, the Commission moved to harmonising and improving communication amongst its off-site and

on-site surveillance programmes in an effort to be more proactive and responsive to risk impacting the integrity of the securities, capital and investment funds markets.

Complaints

Another significant initiative taken by the Commission during 2011 was steps to enhance its complaints process by which licensees, registrants and the general public may share their concerns regarding a licensee, registrant or any rogue activities taking place in the market. A complaints link was placed on the homepage of the Commission's website, to allow market participants and the general public to submit complaints.

LICENSEES & REGISTRANTS

Securities Industry Act, 1999

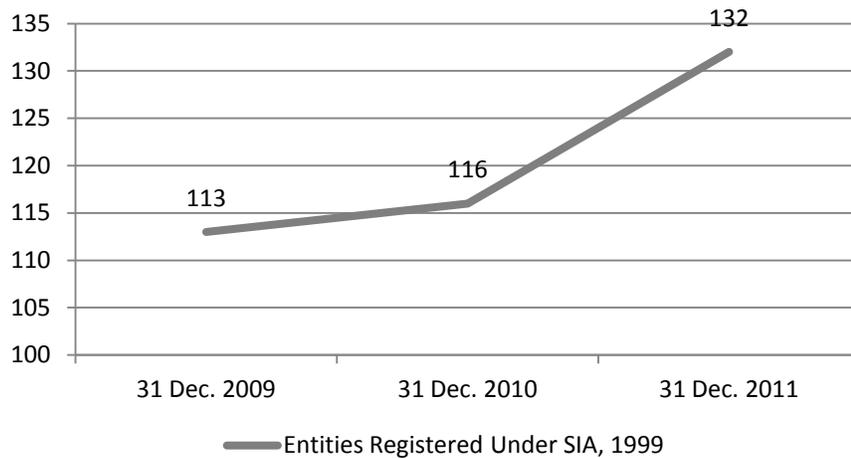
The Commission closed 2011 with 132 registrants under the SIA, 1999, up 13.8 percent or 16 registrants year-on-year. It marked the third consecutive year of net growth in the number of SIA registrants. The largest growth was seen in the number of registered non bank and trust Securities Investment Advisors, up 31.9 percent or 15 registrants year-on-year for 62 registrants at 31 December 2011. Including the three (3) bank and trust Securities Investment Advisors there were 65 registered with the Commission at year-end.

At year-end, 2011, there were 18 Broker-Dealer Class I registrants, of which 11 were Bank and Trust Companies and seven (7) were not—a net increase of one (1) Non Bank and Trust registrant over 2010's numbers. The 47 Broker-Dealer Class II registrants, constituting 34 Bank and Trust Companies and 13 Non Bank and Trust companies, represented a net decrease of one (1) Bank and Trust registrant year-on-year.

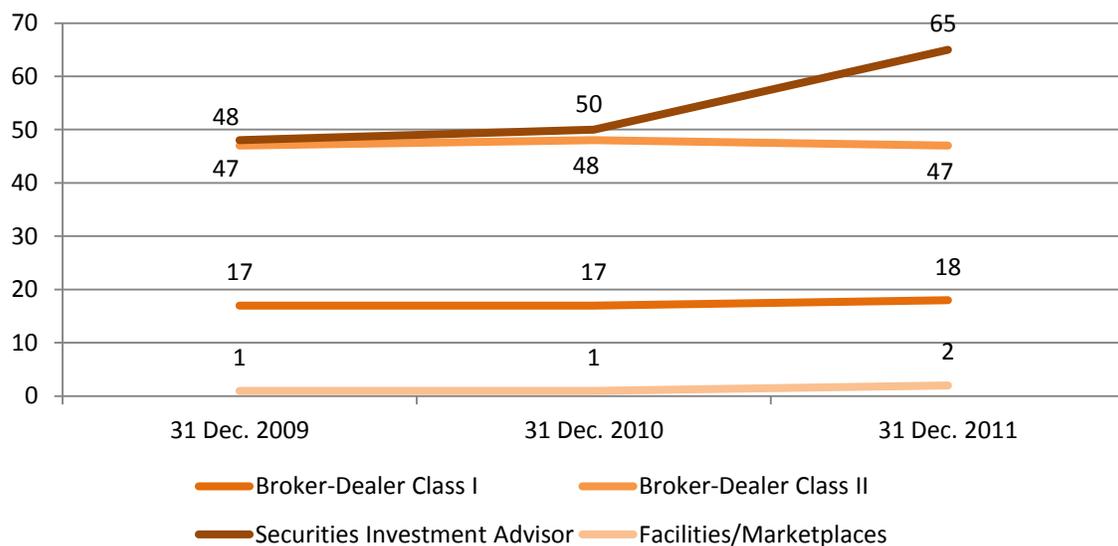
By year-end 2011, the number of registered Securities Investment Advisors had increased by a net of 15 year-on-year, with 19 new standalones registered and four (4) previous standalones no longer registered with the Commission.

BISX was the only licensed Marketplace registered at year-end and one (1) new Bank and Trust Facility was licensed. Graph 7 shows the movement in licensees under SIA, 1999 since 31 December 2009 by registrant categories.

Graph 6: Number of Licensees under the SIA, 1999 at Year-ends, 2009, 2010 and 2011



Graph 7: Number of Licensees under the SIA, 1999 at Year-ends, 2009, 2010 and 2011, by Licence Category



Investment Funds Act, 2003

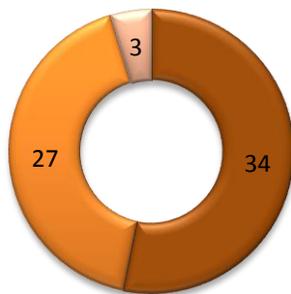
Administrators

The total number of Fund Administrators was 65 at 31 December 2011. This represents no net change from year-end 2010. There was activity in the individual numbers of Administrators throughout the year, despite no net change in the aggregate. The year saw decreases of two (2) Unrestricted Administrators with one (1) new registration, decreases of two (2) Restricted Administrators offset by two new registrations, and one (1) new Exempt Investment Fund Administrator registration.

At 31 December 2011, there were 34 registered Unrestricted Investment Fund Administrators, one (1) less than year-end 2010, 28 Restricted Fund Administrators, the same as year-end 2010, and three (3) Exempt Fund Administrators, up one (1) from year-end 2010.

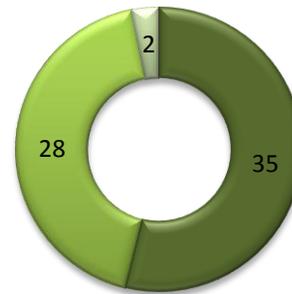
Charts 1-3: Number of Investment Fund Administrators (IFAs) under the IFA, 2003, for 2009, 2010 and 2011

Chart 1: IFAs at 31 Dec. 2009



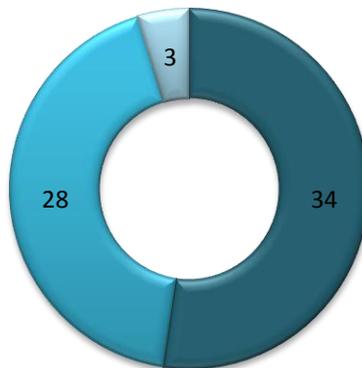
■ Unrestricted ■ Restricted ■ Exempt

Chart 2: IFAs at 31 Dec. 2010



■ Unrestricted ■ Restricted ■ Exempt

Chart 3: IFAs at 31 Dec. 2011

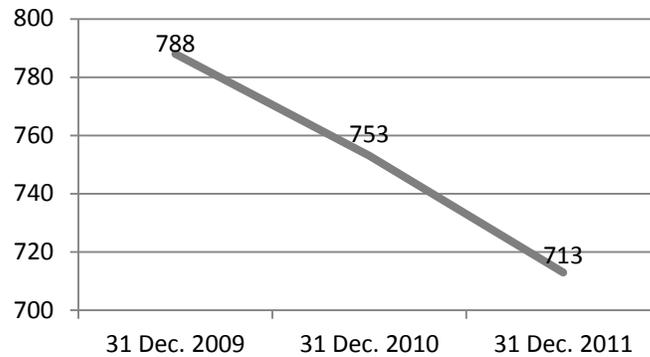


■ Unrestricted ■ Restricted ■ Exempt

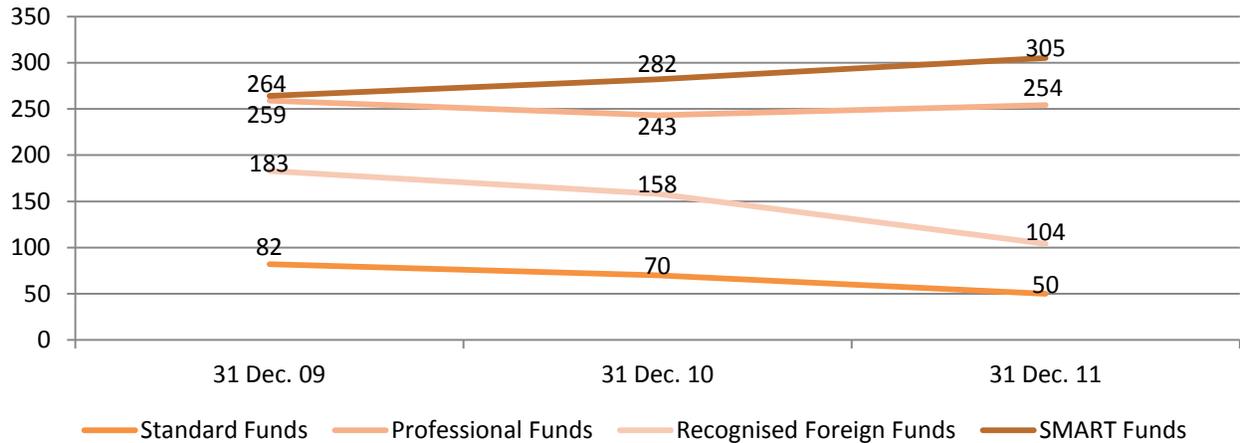
Investment Funds

At year-end 2011, there were 713 registered funds, down 40 or 5 percent from 31 December 2010. The number of Recognised Foreign Funds saw the greatest decline, falling by 54 or 34 percent to 104 as the number of Standard Funds also fell off, by 20 or 29 percent, to 50 at year-end 2011. The number of SMART Funds has been trending upward since 2008. By year-end 2011 they were up 23 or 8.2 percent to 305, year-on-year. The number of registered Professional Funds also increased, expanding by 11 or 4.5 percent to 254. The graphs below show the movement in the total number of administrators at each year-end from 2009 to 2011, and the breakdown of the number of funds per category at those points.

Graph 8: Number of Investment Funds Under the IFA, 2003



Graph 9: Licensed Funds by Type at Year-ends, 2009, 2010 and 2011



Financial and Corporate Service Providers Act, 2000

There were 289 active licensees under the FCSPA, 2000 at the end of 2011, up slightly from the 287 active licensees at 31 December 2010. A total of 33 new licences and 256 renewals were approved during the year. Companies formed the largest category of FCSPs with 144 licensed at 31 December 2011, followed by 108 individuals and 33 partnerships.



Fund Changes Over the Year

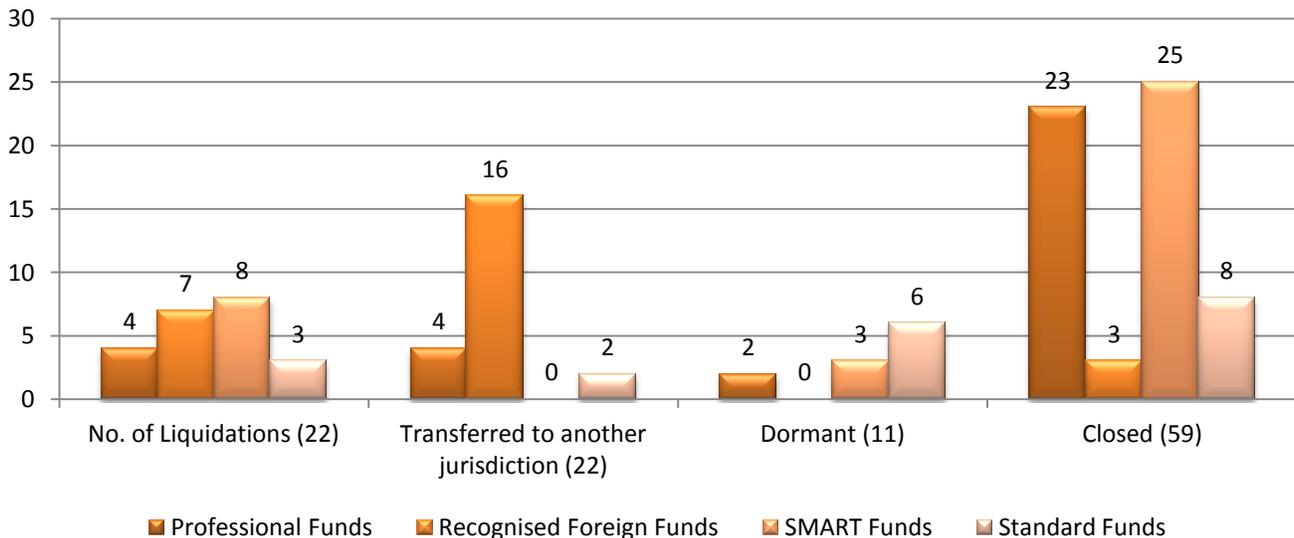
Most of the losses to investment funds in 2011 were attributable to fund closures (59), although the year saw as many funds enter into liquidation (22) as transferred to another jurisdiction (22). The majority of the closures were of SMART Funds, accounting for 25 (42 percent), followed by 23 Professional Fund closures (39 percent), eight (8) Standard Fund closures (14 percent) and three (3) Recognised Foreign Fund closures (5 percent). The 59 investment fund closures represented an increase from the 45 closures during the 2010 period.

During the year, a total of 22 investment funds entered into liquidation, down from 78 in 2010. The majority of them, eight (8), were SMART Funds, which represented approximately 36 percent of the firms entering liquidation. This was followed by Recognised Foreign Funds with seven (7) liquidations representing 32 percent, Professional Funds with four (4) representing 18 percent, and Standard Funds with three (3) representing 14 percent.

While general market decline and the resulting performance of funds contributed significantly to fund closures and liquidations during 2011, the transfer of 16 Recognised Foreign Funds out of the jurisdiction accounted for 73 percent of losses due to transfers out of the jurisdiction. There were 22 such transfers during 2011, down from 29 in 2010. The loss of the Recognised Foreign Funds was largely attributable to the client of a registrant consolidating global operations to another jurisdiction. Four (4) Professional Fund transfers (18 percent) and two (2) Standard Fund transfers (9 percent) accounted for the remainder.

Investment Funds, from time to time, make the decision to cease trading and to liquidate their assets without formally liquidating their structure, thus becoming dormant. During 2011, 11 investment funds became dormant, down from the 17 dormancies in 2010. Of 2011's new dormant cases, six (6) were Standard Funds (55 percent), three (3) were SMART Funds (27 percent) and two (2) were Professional Funds (18 percent).

Graph 10: Funds Entering Liquidation, Closures, Dormancies and Transfers During 2011



ON-SITE INSPECTIONS

The Commission conducts on-site examinations of licensees and registrants to ensure their compliance with the respective Acts and Regulations governing them. This responsibility falls under its mandate as expressed in Section 4(1)(b) of the Securities Industry Act, 1999, which charges the Commission to “maintain surveillance over the mutual funds, securities and capital markets to ensure orderly, fair and equitable dealings.” The Commission inspects registrants for compliance with that Act, as well as with the Securities Industry Regulations, 2000; the Investment Funds Act, 2003 and the Investment Funds Regulations, 2003; the Financial Transactions Reporting Act, 2000 and the Financial Transactions Reporting Regulations, 2000, as appropriate. On-site inspections also provide an opportunity for the Commission to examine licensees for compliance with their own documented procedures and generally accepted corporate governance practices.

INSPECTIONS REGULATORY DEVELOPMENTS

Since assuming the full on-site examination responsibilities of the Inspector of Financial and Corporate Services, effective 30 June 2011, the Commission became responsible for the examination of Financial and Corporate Service Providers (FCSPs) for compliance with the Financial and Corporate Service Providers Act, 2000.

For financial and corporate service providers, routine annual examinations are conducted by Inspector’s Agents—public accountants appointed by the Inspector. In its role as the Inspector of Financial and Corporate Services, the Commission conducted the annual seminar for Bahamas Institute of Chartered Accountants (BICA) members wishing to be appointed as Inspector’s Agents to conduct routine on-site examinations of FCSPs on its behalf. The seminar took place on 8 December 2011.

There were five (5) examinations conducted by the Commission itself as the Inspector of FCSPs in 2011. This was the first time that this

sector of the industry underwent such an examination.

During the year, progress was also made on developing a revised protocol for the on-site examination of financial entities jointly regulated by both the Commission and the Central Bank of The Bahamas (the Central Bank), an important step toward the ultimate goal of effectively integrating financial services regulation. The revised Protocol updated the 2008 provisions of the “Protocol for Joint On-site Examinations by the Central Bank of The Bahamas and the Securities Commission of The Bahamas”, in a move to minimise the regulatory burden on licensees while maintaining the regulatory integrity of the broader financial sector. The “Revised Protocol for the On-Site Examinations of Jointly Regulated Financial Institutions” was signed on 31 January 2012.

The Inspections Department continued with training and upgrading the technical skills of its staff, with various employees achieving the following credentials during 2011: the Certified International Risk Manager designation, the Certified Financial Planner designation, the Anti Money Laundering Certified Associate designation and the Certified Fraud Examiner certification. Much of the department’s training efforts were also focused on the SIA, 2011 implementation and a revised programme for the examination of firms coming out of requirements under the new Act.

Examination Types

The Inspections Department conducts two types of examinations—Routine and Inspections-for-Cause. Routine Examinations are performed on a periodic basis while Inspections-for-Cause are based upon some underlying reason or concern. Routine examinations are conducted on a three-to-five year rotational basis. Inspections-for-Cause, however, are conducted as a result of credible information coming to the Commission’s attention, such as from customer complaints.

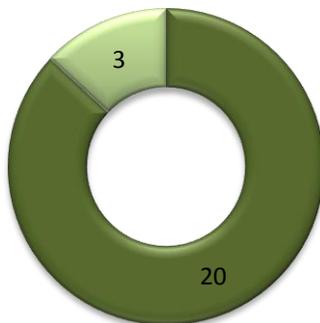
2011 INSPECTIONS ACTIVITY SUMMARY

Charts 4-6 below show the number of on-site examinations conducted over the last three years, with examinations of a single registrant holding multiple licences counted as a single on-site examination. During 2011, there was one (1) Inspection-for-cause and 20 Routine Inspections conducted. Eight (8) of the Routine Inspections were of multiple licence holders, one (1) of which was inspected jointly with another financial regulator. The eight (8) multiple license holder inspections represented 19 different examinations when considered on the basis of the type of licenses held.

For the year, the Inspections Department conducted 32 examinations based on the type of licence held by the registrant, up from 30 examinations in 2010.

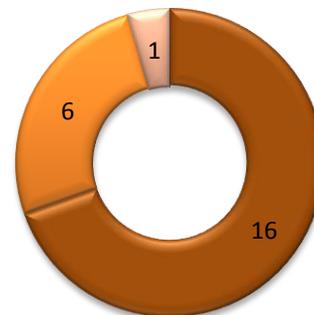
Charts 4 -6: Examinations of Single or Multiple License Holders by Inspection Type for Periods 2009, 2010 and 2011

Chart 4: 2009 Examinations



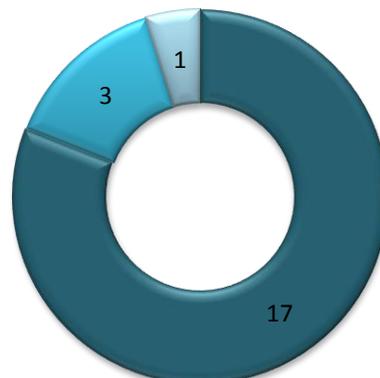
■ Routine Inspections
■ Joint Inspections

Chart 5: 2010 Examinations



■ Routine Inspections
■ Joint Inspections
■ Inspections-for-Cause

Chart 6: 2011 Examinations



■ Routine Inspections ■ Joint Inspections ■ Inspections-for-Cause

Enforcement



ENFORCEMENT REGULATORY DEVELOPMENTS

The Securities Industry Act, 2011 (SIA, 2011) includes numerous new standards and requirements for all participants in the securities and capital market as well as for some persons who are not market participants. Coming into effect on 30 December 2011, the impact resulting from its passing will not be seen until 2012 and subsequent years.

One of the main objectives of the legislation was to strengthen the Commission's ability to act and respond to issues arising within the Bahamian securities markets. The old securities legislation was restrictive with limited tools available to the Commission in disciplinary and enforcement matters. In addition, the disciplinary process was time intensive due to the complex and overly involved disciplinary process established under the SIA, 1999. The new Act, by simplifying the disciplinary structure and expanding the nature and severity of sanctions available to the Commission for breaches of the legislation, addressed the key concerns.

It has been determined that the disciplinary process under the SIA, 2011 will be exercised through the

establishment of a Disciplinary Panel (under section 33 of SIA, 2011), which will be charged with processing and hearing all administrative disciplinary actions taken by the Commission. While taking account of all principles of natural justice in its execution of matters, this 'one' stage process will facilitate efficient and timely execution of matters. The development of the Rules relating to the disciplinary committee commenced in early 2011.

The sanctioning provisions in the SIA, 2011 have been extended to provide very comprehensive disciplinary tools to the Disciplinary Panel in the execution of its function. The additions include: (i) issuing compliance orders or cease trade orders against an issuer or any person; (ii) withdrawing exemptions; (iii) prohibiting someone from acting as a Director, Officer, Auditor or Consultant to any market participant; (iv) requiring or prohibiting publication of information; (v) and appointing a person to assume control of a registrant or advise a market participant on the proper conduct of its business. In addition, power has been given to the Commission to appoint a controller for a regulated person.

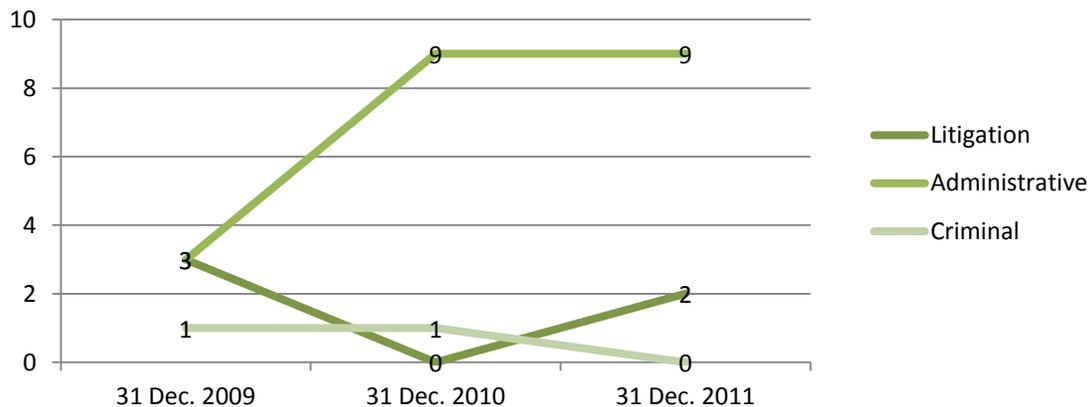
The SIA, 2011 also provides power for the Commission to impose monetary penalties for breaches of the Act. Of particular note, however, is section 135 which establishes an automatic penalty of up to \$1,000 for each day a person is late providing the Commission with a document required to be filed with or delivered to the Commission under the Act.

The passing of the SIA, 2011 also brings new provisions for the sharing of information with international and local financial regulators and law enforcement—bringing the governing legislation up to International Organisation of Securities Commissions' (IOSCO) standards.

2011 ENFORCEMENT ACTIVITY SUMMARY

During 2011, all enforcement matters were conducted under the SIA, 1999. For the period, the Commission took on nine (9) new enforcement matters, closed a total of seven (7) matters, and ended the year with 11 open matters. As in 2010, the bulk of the new matters (67 percent) were administrative in nature, accounting for six (6) of them, with one (1) new criminal matter and two (2) new litigation matters also opened during the year. Of the closed matters, six (6) were administrative in nature and the single new criminal case was transferred to the Office of the Attorney General (OAG) during the year. Once transferred to the OAG, matters are considered closed for the Commission’s record-keeping purposes, although the Commission continues to monitor their progress. Graph 11 below shows the composition of open enforcement matters at the end of the last three years.

Graph 11: Open Enforcement Matters at Year-ends 2009, 2010 and 2011



Most administrative matters related to the filing of required financial statements. The SIA, 2011’s automatic penalty provisions for late-filing, and amendments made to the IFA, 2003 extending the filing period from four to six months are anticipated to change the trend.

The litigation matters are ongoing.

In response to capital market developments, the Commission also suspended trade in BISX-listed AML Foods Limited on 22 February 2011, in an effort to ensure that the market was provided with factual commentary and that there was at all times a fair market in AML’s shares. The suspension was applied pending the outcome of the Commission’s investigation to assess the information provided in the press and the gathering of information having regard for section 54(1) of the SIA, 1999 which provides that no offer to the public to sell or purchase shares can be made unless a prospectus has been registered with the Commission. The suspension was lifted effective 28 February 2011.

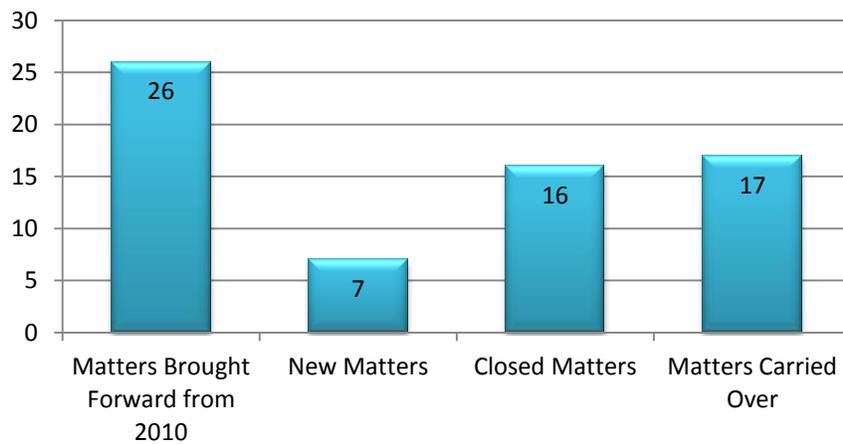
Investigations

2011 INVESTIGATIONS ACTIVITY SUMMARY

Information coming into the Commission will, from time to time, suggest that there may be irregularities or breaches of the securities framework administered by the Commission, thus requiring further investigation of the matter. In such cases the Commission, through its Office of Legal Counsel, may launch an Investigation to ascertain the veracity of such claims and take corrective or remedial measures as appropriate.

The Commission opened 2011 with 26 investigation matters carried over from 2010, opening seven (7) new matters during the year. Sixteen (16) investigation matters were closed and 17 carried over into 2012. Graph 12 below summarises the Investigations activity for 2011.

Graph 12: 2011 Investigations Activity Summary



During the year, the Commission issued a total of seven (7) Notices stemming from Investigations. Each of the investigations related to entities that were reported as being involved in the securities industry in or from The Bahamas, however, the relevant companies were either non-existent or Struck-Off the Companies register. Notices were issued in relation to:

- Crosslands CGMA Brokers;
- Energy Group International;
- Water Investment.Net;
- Progressive Management;
- Life Group International;
- Cornish Willoughby Associates; and
- Tortola Capital.

During 2011, complaints from the general public (overseas) about suspected scams originating from this jurisdiction slowed considerably. However, there was locally heightened awareness related to potential fraudulent or unlicensed securities activity occurring in the Financial and Corporate Service Providers sector and the Commission, in its role of Inspector, fielded many calls in this regard.

INTERNATIONAL, REGIONAL AND LOCAL COOPERATION

Requests For Assistance From International Regulatory Authorities

The Commission received and responded to several requests for assistance from international regulatory authorities during the period under review. Such requests are related to the investigation and prosecution of securities offences. The Office of Legal Counsel bears the responsibility for advising on and coordinating responses to requests and the department works, where necessary, with other institutions to procure the necessary information.

The Commission evaluates every request received to ensure that the request meets minimum information sharing requirements, as set out in legislation. There were 15 open international request matters at the commencement of 2011 with 20 new requests during the year, 17 matters closed and 17 carried over into 2012.

While there were no outright refusals of requests made during the period under review, the Commission had some challenges with respect to one (1) request. In this matter the request was stayed on the basis that the registrant took legal action against the Commission instead of providing the requested information. This matter remains on-going.

Graph 13: 2011 Investigations Activity Summary

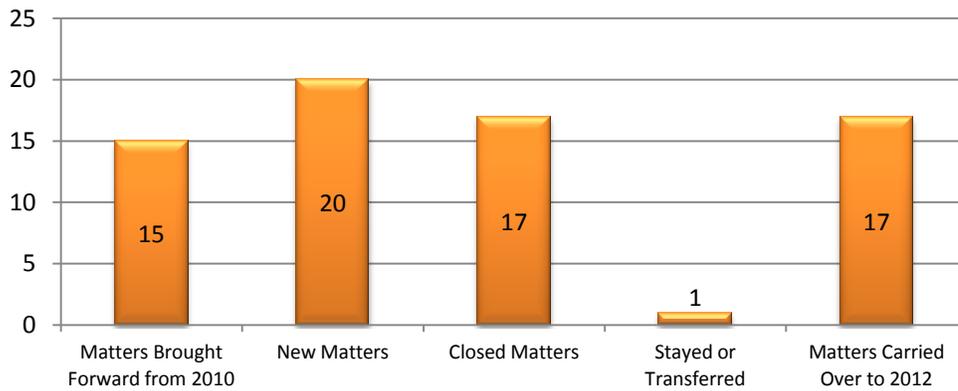
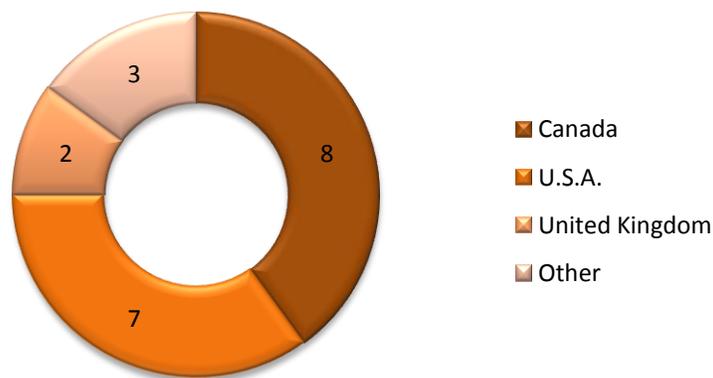


Chart 7: Origin of New International Requests, 2011



MEMBERSHIP

International Organisation of Securities Commissions (IOSCO)

In September 1996, the Commission was granted membership in IOSCO, the international standards setter for securities and capital markets regulation. IOSCO has 115 ordinary and 11 associate members comprised of securities regulators and other similar regulatory agencies from countries throughout the world. The purpose of IOSCO is to enable members to exchange information with a view to developing the securities markets and improving their efficiency, to coordinate the enforcement of securities regulation internationally and to

implement common standards. The Commission regularly participates in IOSCO meetings and conferences.

The Commission attended the 36th Annual Conference in April 2011, held in Cape Town, South Africa. At the Annual Conference, IOSCO resolved to ask all ordinary members and associate members, in pursuit of full implementation of the IOSCO Multi-lateral Memorandum of Understanding (MMoU), to apply to become full signatories to the IOSCO MMoU by 1 January 2013. With the passing of the SIA, 2011 at 30 December 2011, the Commission has marked applying to become an 'A' Signatory to IOSCO's MMoU as a priority item for 2012.

Council of Securities Regulators of the Americas (COSRA)

At COSRA's annual meeting in Santiago, Chile in June 1997, the Commission was confirmed as a member of this group. COSRA, formed in 1992, was created to provide a forum that promoted cooperation and communication amongst its members to enhance the efforts of each country and to develop the growth of sound securities markets that are fair to all investors. Membership in COSRA is open to all securities regulatory authorities of North, South and Central America and the Caribbean. There are 31 members in 26 countries. The Commission is an active participant of this group.

The 8th Annual Meeting, held in Lima, Peru in November 2011, focused on the latest self regulatory trends and actions in the Americas, International Financial Reporting Standards (IFRS) implementation in Latin America, and financial inclusion and investor protection experiences of various members. The new COSRA mandate on small and medium enterprises (SMEs) was presented, as well as results of an OECD survey on corporate governance enforcement relating to preventing abuse of related party transactions.

Caribbean Group of Securities Regulators (CGSR)

The CGSR is an informal group of securities regulators, which was established to strengthen the regulatory framework for securities within the Caribbean. It gives the region a unified voice on the international stage and allows for greater standardisation and coordination of institutional structures. In addition, it articulates the challenges shared amongst regulators within the region, facilitates the sharing of information and promotes the understanding of these

shared challenges to encourage cooperation to reverse the observed deficiencies.

There are four (4) main initiatives currently being addressed by CGSR: (i) a Common Code in Takeovers, which has been developed through the assistance of the Caribbean Regional Technical Assistance Centre (CARTAC), and in early 2011 received a final review by the regional regulators before being tailored to fit into each jurisdiction's regulatory regime; (ii) the drafting of a Multilateral Memorandum of Understanding for the exchange of information and cooperation and consultation in the framework of the regulatory regimes; (iii) focus on mutual recognition arrangements; and (iv) the training needs of the

regional securities regulators. There was also heightened focus on the formalisation of the group and the establishment of membership criteria.

In addition to participation in the above-mentioned initiatives, the Commission attended the 8th Annual CGSR Meeting and International Conference, held in Port of Spain, Trinidad in October 2011 under the theme,

“Regulatory Challenges in a Time of Financial Turbulence: The Way Forward”. The four-day conference addressed a number of regulatory issues including corporate governance practices; the evolving role and responsibilities of the Auditor in the regulatory environment; a review of the IOSCO MMoU and the process and requirements for seeking signatory A status; the role of credit rating agencies in financial regulation and, the impact of the global financial crisis on the Caribbean securities sector and enforcement practices in a Caribbean territory.

Offshore Group of Collective Investment Scheme Supervisors (OGCISS)

OGCISS meetings are designed to provide a forum for the exchange of ideas and information among persons who regulate and supervise collective investment schemes. The Offshore Group of Collective Investment Scheme Supervisors was established in 1997.

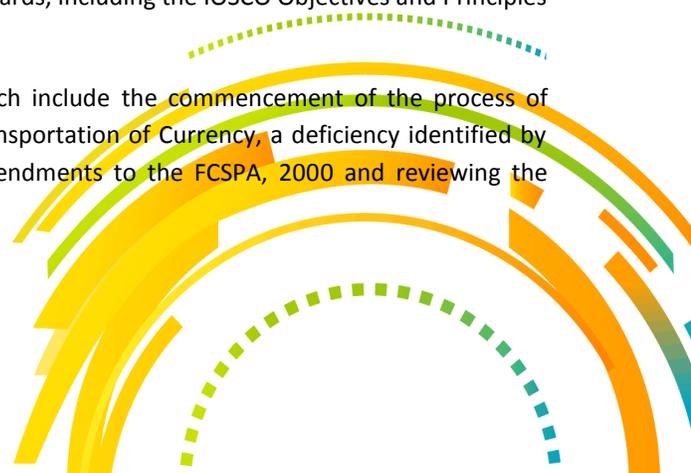
The 14th Annual Meeting of the Offshore Group of Collective Investment Scheme Supervisors was held at the same time as the CGSR conference in Port of Spain, Trinidad and Tobago on 26 October 2011, so as to facilitate the ease of participation in the meeting by regulators. The meeting reviewed the impact of a number of emerging issues such as the United States’ Dodd-Frank Wall Street Reform and Consumer Protection Act and Foreign Account Tax Compliance Act (FATCA), as well as the European Union’s Alternative Investment Fund Managers Directive (AIFMD). Additionally, regulators discussed current initiatives, legislative developments and challenges faced by participating jurisdictions related to collective investment schemes.

Group of Financial Services Regulators (GFSR)

The Commission is a member of the GFSR, which focuses on crosscutting issues that affect the domestic financial services sector. The Chairmanship of the Group rotates between the Securities Commission of The Bahamas and the Central Bank of The Bahamas, the latter being the current chair.

In 2011, efforts continued from the work begun since 2009 and the Group remained focused on a number of important initiatives. Among them are a number of legislative reviews and amendments to remedy deficiencies identified by the Caribbean Financial Action Task Force (CFATF) Mutual Evaluation Report on The Bahamas Anti-Money Laundering (AML)/Combating the Financing of Terrorism (CFT) Regime (2007) and to comply with international standards. Continued from 2010, the Commission, as part of a national effort coordinated by GFSR, remains engaged in the internal self-assessment exercise of its compliance with applicable international standards, including the IOSCO Objectives and Principles of Securities Regulation.

In relation to these projects there were some key developments, which include the commencement of the process of drafting legislation to facilitate the implementation of Cross Border Transportation of Currency, a deficiency identified by CFATF. Additionally, the Group was active in proposing legislative amendments to the FCSPA, 2000 and reviewing the Caribbean-Canada Trade Agreement (CaribCan).



Legislative Updates

The Securities Industry Act, 2011 (SIA, 2011) was passed in both Houses of Parliament during 2011 and the Act was brought into force on 30 December 2011. It was the highlight of the changes to the regulatory and legislative landscape of the securities industry.

The review, which included an assessment of the industry's legislative and regulatory framework against the International Organisation of Securities Commissions' Principles pointed to the need for an overhaul of the framework. The implementation of the SIA, 2011 and the Securities Industry Regulations 2012 (SIR, 2012), gazetted on 9 January 2012, address the key deficiencies raised and deliver a modern, competitive, flexible regulatory framework for the industry.

There were several key changes to the regulatory regime. The categories of registration for firms and individuals have now been simplified and rationalised by function. All public issuers are now subject to the same disclosure requirements under the new Act, the need for a prospectus to be issued is determined by the nature of the transaction rather than by the types of parties involved, and preliminary prospectuses are now required to be filed. There have also been extensive improvements made to the Commission's investigation, examination, information sharing, and enforcement functions under the SIA, 2011. The Commission also now has the authority to set its own fees. The provision is geared to fostering the independence of the regulatory body—one of IOSCO's Principles.

SIA, 2011 IMPLEMENTATION

During 2011, the Commission instituted an 18-month project, designed to fully implement the SIA, 2011, and staffed by a dedicated team with a sole focus. This specialised team approach minimised the impact on the Commission's ongoing processes, allowing for the seamless continuation of the regulatory function.

The SIA, 2011 is structured to provide the Commission with greater regulatory flexibility. While the Act itself sets out key legal obligations, it allows for subordinate legislation in the form of regulations and commission-made rules to define detailed requirements. In October 2011, the Commission released White Papers for industry consultation on (2) two of the more critical rules – the Fees Rule and the Physical Presence Rule. By year's end, both Papers had been closed for public consultation. The Regulatory Capital Rule and the development of the Re-registration/Re-categorisation Process are the next on the Commission's agenda, with other Rules to be generated in order of priority.

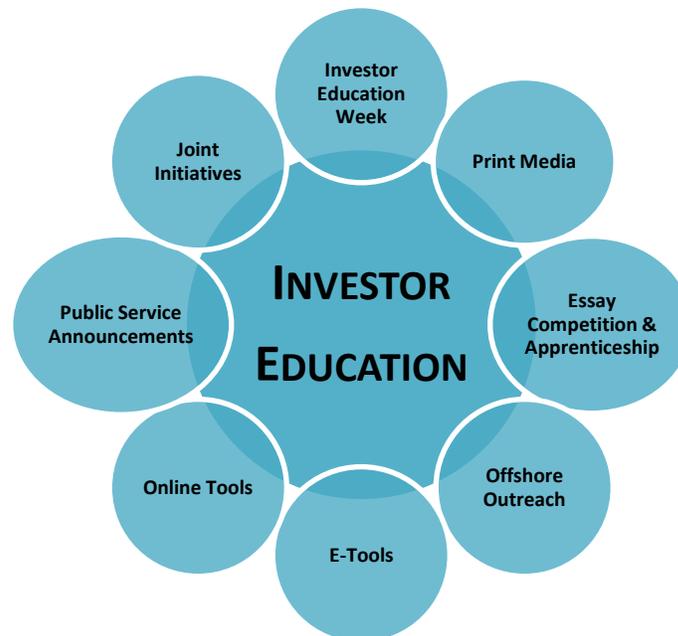
Integral to the implementation plan is the ongoing communication strategy that ensures the industry is up-to-date on relevant developments and has an active role in the formulation of the rules and regulations that will govern it. The strategy employs general and specific focus group meetings, the Commission's website for dissemination of information and collection of feedback, press releases, public notices, and other media avenues including letters to licensees and registrants.

Investor Education

INVESTOR EDUCATION: GETTING MY MONEY RIGHT

Investor education and protection is an important function of the Commission and having the same at the core, results in the efficient execution of its mandate. The new securities legislation includes both investor education and protection as primary functions and responsibilities of the Commission.

Understanding the advantages and necessity of an Investor Education Programme, the Commission, in the Fall of 2008 re-launched a re-energised Investor Education Programme under the theme - *Getting My Money Right*. The modules forming a part of the re-branded programme are represented in the illustration below.



Since the re-launch of the Programme, the Commission has incrementally launched its various modules, expanding its outreach each year. Activities for 2011 included:

JOINT INITIATIVES

The Commission continued with its joint initiatives module, much of which is geared towards increasing the fiscal literacy of students. An international partner was added to The Commission's growing list of local and national partners. Such partnerships realised include:

Commonwealth Secretariat: The Commission partnered with the Commonwealth Secretariat in a Financial Literacy Programme, as a host country agency in its Financial Literacy Workshops for Secondary Schools and Financial Literacy Expo, under the theme, *Promoting the Economic Enfranchisement of Young People*. The Workshops were held in Nassau, The Bahamas on 16 – 18 June 2011. The Commission's participation over the three (3) days

included seven (7) representatives attending training workshops and participating in a Financial Literacy Expo, which was held at the Mall at Marathon on 18 June 2011.

Colina Financial Advisors Ltd. (CFAL): Strengthening its partnership with CFAL's Junior Investor Education Programme, the Commission continued its participation in the in-school lecture series during the Spring and Fall semesters. During this time the Commission gave a total of 15 lectures to schools throughout New Providence. Also, in celebrating the launch of CFAL's Programme in Grand Bahama, the Commission gave remarks at its opening ceremony and provided material for all participating Grand Bahama schools.

Junior Achievement Bahamas (JA Bahamas): Increasing its partnership with the Ministry of

Youth, Sports and Culture's JA Bahamas, the Commission participated in several of the Programme's initiatives, which included hosting six (6) students on JA Bahamas' Job Shadow Day, serving as judges to the Programme's Annual Speech Competition and giving the key note address to approximately 800 Achievers at the 2011 Bahamas Jack Conference.

Bahamas Institute of Financial Services (BIFS): The Chairman of the Commission, gave the commencement address at the graduating ceremonies for the Bahamas Institute of Financial Services' (BIFS) G12 Programme.

College of The Bahamas (COB): Partnering for the first time with the College of The Bahamas, the Commission hosted six (6) COB students and one (1) professor for a regulatory courtesy call. The Commission also participated in the College's Annual Job Fair alongside the Central Bank of The Bahamas. On that day, staff of the Commission answered questions and distributed materials pertaining to the operations and job requirements for hire at the Commission.

E-COMMUNICATIONS

For the first time, the Commission launched the E-Communications module of its Investor Education Programme. This module includes several outlets that allow the Commission to continuously engage the public through its website. Such outlets include: **E-News** – This feature allows persons to subscribe (submit their e-mail address) to an e-mail mailing list to receive information (Press Releases, Public Notices, etc.) through e-blasts, in real time; **E-Complaints** – Through this feature the public and industry professionals now have an avenue to submit, anonymously if they wish to do so, to voice their concerns about anomalies taking place in the industry; and **E-Newsletters** – Launched for the first time in 2010, the Commission rounds out its E-Communications Component with its Semi-Annual Industry Update and Statistical Digest (Statistical Digest). The Statistical Digest highlights and provides updates on the legislative, regulatory and statistical functions of the Commission, along with the strategic planning and enforcement activities.

INVESTOR EDUCATION WEEK 2011

Activities of the 2011 Investor Education Week (November 14-18, 2011) included the following:

Mini Public Service Announcement Campaign

Wanting to duplicate the success from the 2010 Public Service Announcement Campaign and reach a broad audience, the Commission aired radio advertisements on radio stations at four (4) major media houses and placed print advertisements in three (3) of the major dailies. Both radio and print advertisements highlighted the role of the Commission in regulating the capital markets.

Television Appearances

In an effort to promote the activities of Investor Education Week, the Commission made appearances or had stories appear on NB-12's Nightly News, ZNS' The Bahamas Tonight, JCN's Nightly News, and The Counsellors Limited's Bahamas @ Sunrise.

Investor Education Press Articles

Having identified key topics to be communicated with the general and investing public based on current market conditions and the changes to take place in the legislative landscape of the

securities, capital and investment funds markets, the Commission developed a series of articles that were circulated to all the major dailies, to industry participants and more generally circulated via other e-networks. These articles focused on the role of the Securities Commission, the new SIA, 2011 and the regulation of public companies.

Special Edition: Industry Update and Statistical Digest

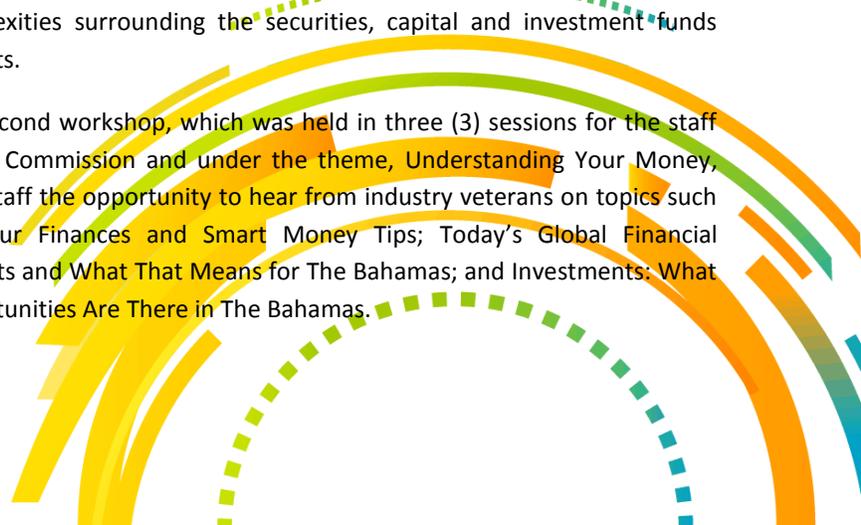
Keeping the industry abreast of legislative, regulatory and statistical updates, the Commission released a special edition of its Industry Update and Statistical Digest to celebrate and highlight its 2011 Investor Education Week. The Digest outlined goals achieved from the Commission's three (3) year strategic plan, the status and implementation of the Securities Industry Act, 2011 along with statistical data (as at 30 June 2011) and other internal updates, and activities of the Week. Articles issued by the Commission during the week were also included in the Digest.

Media Personnel and Staff Workshops

The Commission, during Investor Education Week, hosted two (2) workshops, targeting two (2) groups of stakeholders for the first time. The first workshop, under the theme, Getting to Know the Securities Commission, was geared towards media personnel. The workshop, which was open to all media houses, provided an opportunity for reporters to: become more

knowledgeable about the work of the Commission, receive an overview of the SIA, 2011, and overall, have a better understanding of the complexities surrounding the securities, capital and investment funds markets.

The second workshop, which was held in three (3) sessions for the staff of the Commission and under the theme, Understanding Your Money, gave staff the opportunity to hear from industry veterans on topics such as: Your Finances and Smart Money Tips; Today's Global Financial Markets and What That Means for The Bahamas; and Investments: What Opportunities Are There in The Bahamas.



Capital Markets Overview

INTERNATIONAL CAPITAL MARKETS

The year 2011 experienced volatility across world markets, with the second half of the year reflecting the effects of the Greek debt crisis as markets moved on fears that the Eurozone might not survive its growing debt problem. This issue affected not just western economies, but also Asian and Latin American markets.

United States (US), United Kingdom (UK), Canadian and emerging markets likewise followed this trend with a strong first half

for 2011. The US saw strong performance by private equity and venture capital backed companies, but experienced declines in the third quarter of the year. The decline in equities for the US was the biggest since the fourth quarter of 2008 with the Standard & Poor's (S&P) 500 Index losing 13.87 percent.

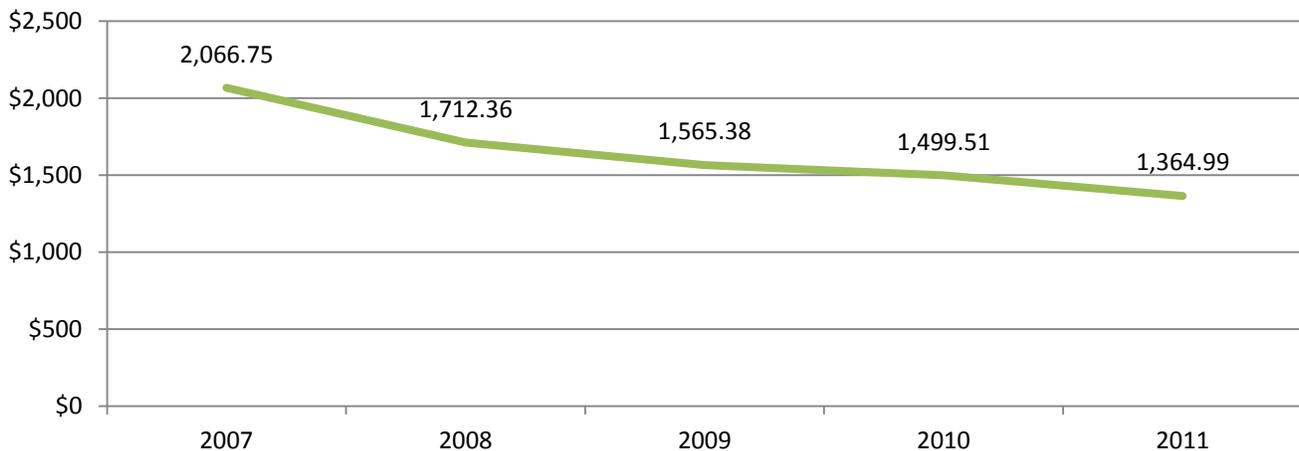
The third quarter of 2011 was especially hectic as the S&P downgraded the US credit-rating from a AAA to AA+ rating and saw investors react cautiously to the possibility of Greece defaulting on its debt.

The fourth quarter of the year rebounded for both the US and international equities and resulted in rallies from third quarter lows.

DOMESTIC CAPITAL MARKET ACTIVITIES

Two Thousand and Eleven was another challenging year for the domestic capital market, however, there were continued indications of recovery. Two of the largest initial public offerings (IPOs) in Bahamian capital markets history were held in 2011. In March, Commonwealth Brewery Limited (CBL) offered approximately \$62.5 million in equity to the public for a 25 percent stake in CBL. The offering closed in April and the shares were listed on the Bahamas International Securities Exchange (BISX) in May. This was the first IPO issued locally since 2001.

BISX All-Share Index 2007-2011



In December, Arawak Port Development Limited offered approximately \$10 million in equity to the public for a 20 percent ownership stake in the company. The IPO remained open at end of year 2011, as the date for closure was set for 31 January 2012. Plans to list the shares on BISX are set for early 2012.

In October 2011, BISX was registered by the United States Securities and Exchange Commission (US SEC) as a Designated Offshore Securities Market (DOSM). The US SEC recognition as a DOSM allows BISX to assist market participants who are eligible for the safe harbour provisions under US Securities legislation when reselling securities using the facilities of BISX. For the period ended 31 December 2011 the BISX All Share Index closed at 1,364.99, which is a 8.97 percent decline from year end 2010, which had recorded a decrease of 4.21 percent from year end 2009. The composition of listed securities increased from 23 primary market listings to 25 as one company was listed and the secondary issue of a public company were added to the Exchange. The 25 primary listings include 19 common share listings, two (2) preference share listings and four (4) tranches of debt. Market capitalisation remained relatively unchanged from 2010 at \$2.9 billion.

The volume of shares traded on BISX decreased from 10.9 million in 2010 to 2.9 million, with a value of \$110.2 million and a value of \$15 million for each respective year. The 2010 trading volume and value included two significant share acquisitions and after adjusting for both transactions, the volume and value were 3.8 million shares with a value of \$22 million. By comparison, using the adjusted figures, the underlying movements in trading volume and value have decreased by 24 percent and 32 percent respectively in 2011.



The audited financial statements that appear on the following pages in this Annual Report represent the financial position of the Commission as at 31 December 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards. Corresponding figures are shown for the year ended 31 December 2010.

During its 2011 fiscal year, the Commission achieved a \$0.2 million increase in fees charged to licensees, registrants and applicants under the Securities Industry Act, 1999, the Investment Funds Act, 2003, and the Financial and Corporate Services Providers Act, 2000. Fees charged are set out in legislation. This was offset by a \$0.2 million reduction in funding received from the Government of The Bahamas (the Government).

Total income for the 2011 fiscal year remained at \$3.8 million and comprised fee income of \$2.7 million (2010 - \$2.5 million), Government subvention of \$1.0 million (2010 - \$1.2 million), and interest and other income of \$0.1 million (2010 - \$0.2 million).

Overall, the Commission experienced a total comprehensive loss of \$351,268 (2010 - \$163,815). The main contributing factor was an increase in total expenses of \$163,041. As a result, the Commission moved from a net asset position of \$274,095 to a net deficit position of \$77,173. The Commission expects that the deficit will be funded by further subvention from the Government and an increase in fee income in the near future. The Commission developed new fee rules and guidelines to support the SIA, 2011 that came into force on 30 December 2011. These changes in the Commission's fee structure are expected to result in increased income and thus resulting in operational independence, which is a requirement of one of the IOSCO Principles relating to securities regulators.

Financial Statements

2011



INDEPENDENT AUDITORS' REPORT

To the Members of the Securities Commission of The Bahamas

We have audited the accompanying financial statements of the Securities Commission of The Bahamas, which comprise the statement of financial position as of 31 December 2011, and the statements of comprehensive income, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Auditors' Responsibility (continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Securities Commission of The Bahamas as of 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

**Chartered Accountants
Nassau, Bahamas**

29 May 2012



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

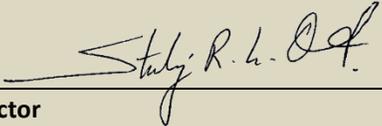
Statement of Financial Position
As of 31 December 2011
(Expressed in Bahamian dollars)

	2011	2010
	\$	\$
ASSETS		
Cash on hand and at banks	282,917	445,773
Accounts receivable (Note 4)	57,630	31,319
Prepaid expenses and other assets	31,683	66,048
Plant and equipment (Note 5)	201,094	202,204
	<u>201,094</u>	<u>202,204</u>
Total assets	<u>573,324</u>	<u>745,344</u>
LIABILITIES		
Accounts payable and accrued expenses	269,936	185,833
Deferred income (Note 6)	230,561	285,416
Advance from the Consolidated Fund	150,000	-
	<u>150,000</u>	<u>-</u>
Total liabilities	<u>650,497</u>	<u>471,249</u>
NET ASSETS/(NET LIABILITIES)	<u>(77,173)</u>	<u>274,095</u>
REPRESENTED BY:		
Surplus/(Deficit)	<u>(77,173)</u>	<u>274,095</u>
	<u>(77,173)</u>	<u>274,095</u>

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



Chairman



Director

29 May 2012
Date

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



The Securities Commission of The Bahamas

Statement of Comprehensive Income For the Year Ended 31 December 2011 (Expressed in Bahamian dollars)

	2011	2010
	\$	\$
INCOME		
Fee income		
Investment funds	1,047,809	1,025,307
Investment fund administrators	501,167	496,500
Financial and corporate service providers	478,563	465,896
Broker-dealers	454,617	422,691
Public offerings	88,625	-
Securities investment advisors	80,417	62,433
Penalties	21,500	7,590
Securities exchange	10,000	10,000
Associated persons	9,717	10,308
Examinations	2,142	1,091
Other	4,500	-
	<hr/>	<hr/>
Total fee income	2,699,057	2,501,816
Government subvention	1,031,675	1,211,695
Interest income	34,280	39,211
Other income	95,626	132,328
	<hr/>	<hr/>
Total income	3,860,638	3,885,050
EXPENSES		
Salaries, wages and employee benefits (Note 7)	3,087,044	2,920,594
Rent	371,414	375,797
Utilities and property charges	162,773	156,770
Professional fees	108,269	121,270
Depreciation (Note 5)	89,809	85,859
Office	83,073	97,043
Training and conferences	68,051	107,973
Repairs and maintenance	62,046	61,043
Advertising	43,671	21,042
Provision for doubtful accounts (Note 4)	33,174	15,412
Membership fees	24,290	21,330
Disciplinary committee fees and related costs	19,500	19,500
Printing and publications	17,652	12,999
Bank charges	6,069	8,592
Investor education	5,028	9,166
Miscellaneous	30,043	14,475
	<hr/>	<hr/>
Total expenses	4,211,906	4,048,865
	<hr/>	<hr/>
Total comprehensive loss	(351,268)	(163,815)

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



The Securities Commission of The Bahamas

**Statement of Changes in Net Assets
For the Year Ended 31 December 2011
(Expressed in Bahamian dollars)**

	Surplus/ (Deficit) \$
Balance as of 1 January 2010	437,910
Total comprehensive loss	<u>(163,815)</u>
Balance as of 31 December 2010	<u>274,095</u>
Balance as of 1 January 2011	274,095
Total comprehensive loss	<u>(351,268)</u>
Balance as of 31 December 2011	<u>(77,173)</u>

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

The Securities Commission of The Bahamas

**Statement of Cash Flows
For the Year Ended 31 December 2011
(Expressed in Bahamian dollars)**

	2011	2010
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Total comprehensive loss	(351,268)	(163,815)
Adjustments for:		
Interest income	(34,280)	(39,211)
Gain on disposal of plant and equipment	-	(16,100)
Depreciation	89,809	85,859
Provision for doubtful accounts	33,174	15,412
Interest received	34,280	39,211
(Increase)/Decrease in operating assets		
Accounts receivable	(59,485)	33,382
Prepaid expenses and other assets	34,365	14,916
Increase/(Decrease) in operating liabilities		
Accounts payable and accrued expenses	84,103	83,903
Deferred income	(54,855)	27,885
Net cash from/(used in) operating activities	(224,157)	81,442
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(88,699)	(96,566)
Proceeds from disposal of plant and equipment	-	16,100
Net cash used in investing activities	(88,699)	(80,466)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from advance from the Consolidated Fund	150,000	-
Net cash from financing activities	150,000	-
Net increase/(decrease) in cash and cash equivalents	(162,856)	976
Cash and cash equivalents as of beginning of year	445,773	444,797
Cash and cash equivalents as of end of year	282,917	445,773
CASH AND CASH EQUIVALENTS		
Cash on hand and at banks	282,917	445,773

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

The Securities Commission of The Bahamas

Notes to the Financial Statements 31 December 2011

1. General Information

The Securities Commission of The Bahamas (the Commission) is established, as a body corporate, under the Securities Industry Act, 2011 (the Act), of the Commonwealth of The Bahamas (The Bahamas). The offices of the Commission are located at Charlotte House, Shirley and Charlotte Streets, Nassau, Bahamas.

The functions of the Commission are to monitor and regulate the securities industry in The Bahamas, the participants of which include: investment funds; investment fund administrators; broker-dealers; securities investment advisors and associated persons. The Commission regulates the industry in accordance with the Act; the Investments Funds Act, 2003; and the related rules and regulations.

In addition, the Commission has responsibility for regulating financial and corporate service providers in accordance with the Financial and Corporate Service Providers Act, 2000, and related regulations.

2. Going Concern

The Commission's ability to continue as a going concern is dependent on financial support from the Government of the Commonwealth of The Bahamas (the Government) and restructuring of its fee structure in order to meet its operating costs. The Commission expects the continued financial support from the Government until its revised fee structure becomes fully effective, and accordingly, prepares its financial statements on a going concern basis.

3. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and under the historical cost convention. The preparation of financial statements in accordance with IFRS requires management to exercise its judgment in the process of applying its 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 Notes 3(d) and 3(g).

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2011

(Continued)

3. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Amendments and interpretations to published standards that became effective for the financial year beginning 1 January 2011 were either 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.

The application of new standards and amendments and interpretations to existing standards that have been published but are not yet effective are not expected to have a material impact on the Commission's accounting policies or financial statements in the period of initial application.

(b) 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.

(c) 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.

(d) Accounts receivable

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Commission will not be able to collect all amounts due according to the original terms of the receivables.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2011

(Continued)

3. Summary of Significant Accounting Policies (Continued)

(d) Accounts receivable (continued)

The amount of provision is the difference between the financial asset's carrying amount and the present value of future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of a provision account, and the amount of the loss is recognised in the statement of comprehensive income. If in a subsequent period, the amount of the provision decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the provision account. When an account receivable is uncollectible, it is written off against the provision for doubtful accounts. Recoveries of amounts previously written off are credited directly to the statement of comprehensive income.

(e) Plant and equipment

Plant and equipment are stated at historical cost, less depreciation. 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 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 – 5 years
Furniture and fittings	3 – 5 years
Vehicles	3 – 5 years
Leasehold improvements	Lesser of lease term and 3 – 5 years

A full year's depreciation charge is made in the year of purchase. The 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.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2011

(Continued)

3. Summary of Significant Accounting Policies (Continued)

(e) Plant 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 the proceeds with the carrying amounts and are included in the statement of comprehensive income.

(f) Accounts payable

Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(g) Income and expense recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when amounts can be reliably measured and it is probable that future economic benefits will flow to the Commission.

Revenue from licensing activities is recognised over the period of the applicable licence, with amounts collected in relation to future periods being deferred in the statement of financial position. Licence application fees are recognised upon completion of the application evaluation process. All licence fees are for fixed amounts.

Appropriations by Parliament (termed Government subvention) received to subsidise operating expenses of the Commission, are deferred and recognised as income in the period in which any conditions attached to them have been satisfied. 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.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2011

(Continued)

3. Summary of Significant Accounting Policies (Continued)

(h) Employee benefits

The Commission has a defined contribution pension plan for its employees, whereby the employees and the Commission make fixed contributions to a privately administered pension plan. The Commission has no further obligations to pay contributions if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods. The Commission's contributions to the defined contribution pension plan are charged to the statement of comprehensive income in the year to which they relate.

Salaries, wages and other employee benefits are recognised on the accrual basis of accounting.

(i) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under the operating lease are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

(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.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2011

(Continued)

4. Accounts Receivable

	2011	2010
	\$	\$
Investment funds and investment fund administrators	18,830	1,934
Financial and corporate service providers	44,383	14,250
Other securities industry registrants and licensees	4,342	150
Other	<u>38,386</u>	<u>30,297</u>
	105,941	46,631
Provision for doubtful accounts	<u>(48,311)</u>	<u>(15,312)</u>
Total	<u>57,630</u>	<u>31,319</u>

Movements in the provision for doubtful accounts comprise:

	2011	2010
	\$	\$
Opening balance	15,312	-
Provision for doubtful accounts	33,174	15,412
Bad debts written off	<u>(175)</u>	<u>(100)</u>
Closing balance	<u>48,311</u>	<u>15,312</u>



The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2011

(Continued)

5. Plant and equipment

	Computer Equipment \$	Furniture and Fittings \$	Vehicles \$	Leasehold Improvements \$	Total \$
For the year ended					
31 December 2011					
Cost					
1 January 2011	417,996	487,719	65,940	-	971,655
Additions	<u>40,607</u>	<u>31,651</u>	<u>-</u>	<u>16,441</u>	<u>88,699</u>
31 December 2011	<u>458,603</u>	<u>519,370</u>	<u>65,940</u>	<u>16,441</u>	<u>1,060,354</u>
Accumulated depreciation					
1 January 2011	327,948	411,892	29,611	-	769,451
Depreciation expense	<u>45,644</u>	<u>30,626</u>	<u>8,065</u>	<u>5,474</u>	<u>89,809</u>
31 December 2011	<u>373,592</u>	<u>442,518</u>	<u>37,676</u>	<u>5,474</u>	<u>859,260</u>
Net book value as of					
31 December 2011	<u>85,011</u>	<u>76,852</u>	<u>28,264</u>	<u>10,967</u>	<u>201,094</u>
For the year ended					
31 December 2010					
Cost					
1 January 2010	387,673	466,471	59,940	-	914,084
Additions	30,323	21,248	44,995	-	96,566
Disposals	<u>-</u>	<u>-</u>	<u>(38,995)</u>	<u>-</u>	<u>(38,995)</u>
31 December 2010	<u>417,996</u>	<u>487,719</u>	<u>65,940</u>	<u>-</u>	<u>971,655</u>
Accumulated depreciation					
1 January 2010	284,685	377,962	59,940	-	722,587
Depreciation expense	43,263	33,930	8,666	-	85,859
Disposals	<u>-</u>	<u>-</u>	<u>(38,995)</u>	<u>-</u>	<u>(38,995)</u>
31 December 2010	<u>327,948</u>	<u>411,892</u>	<u>29,611</u>	<u>-</u>	<u>769,451</u>
Net book value as of					
31 December 2010	<u>90,048</u>	<u>75,827</u>	<u>36,329</u>	<u>-</u>	<u>202,204</u>

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2011

(Continued)

6. Deferred Income

	2011	2010
	\$	\$
Investment fund and investment fund administrator fees	49,400	126,030
Other securities industry registrant and licensee fees	76,750	78,050
Government subvention	73,411	35,086
Financial and corporate service provider fees	31,000	46,250
	<u>230,561</u>	<u>285,416</u>
Total	230,561	285,416

All deferred income is to be recognised in the following year in the statement of comprehensive income, with the exception of \$11,696 (2010: \$23,391) in Government subvention.

7. Employee Benefits

Pension costs recognised in the statement of comprehensive income in the current year total \$230,613 (2010: \$160,414). The Commission's contributions to the pension plan vest 50% with employees upon completion of 5 years of employment, and fully vest upon completion of 10 years of service.

During the year, the Commission received reimbursements totalling \$11,053 (2010: \$28,417) 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 2011, the Commission employed 58 (2010: 56) persons.

8. 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. Balances and transactions with related parties, not otherwise disclosed in the financial statements, include:

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2011

(Continued)

8. Related Party Balances and Transactions (Continued)

	2011	2010
	\$	\$
<i>Assets</i>		
Cash at banks	282,417	445,523
Accounts receivable	13,734	6,544
Prepaid expenses and other assets	1,350	12,058
<i>Liabilities</i>		
Accounts payable and accrued expenses	32,635	13,237
Advance from the Consolidated Fund	150,000	-
<i>Income</i>		
Other income	78,000	80,500
<i>Expenses</i>		
Utilities and property charges	122,316	131,103

Key management personnel is comprised of members of the Commission, the executive director, deputy executive director, secretary to the Commission, manager of corporate affairs and financial controller. Compensation of key management personnel for the year ended 31 December 2011 comprised \$370,496 (2010: \$305,622) for salaries and other short-term benefits and \$21,455 (2010: \$20,783) for pension benefits. Accounts receivable from key management personnel totalled \$4,499 (2010: \$Nil).

The advance from the Consolidated Fund is interest-free and has no set terms of repayment.

9. Commitments and Contingencies

Commitments

The Commission has entered into three year leases, with options to renew for a further three years, relating to office space. Future minimum rental payments required under the operating leases are as follows:

Within one year	\$322,419
Within more than one year and less than five years	\$675,198

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2011

(Continued)

9. Commitments and Contingencies (Continued)

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.

10. 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 capacity to understand and effectively manage these risks.

(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 bank and accounts receivable. 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.

The Commission in its effort to minimise credit risk exposure monitors the accounts receivable balances ensuring that all efforts are expended in order to reduce accounts with long overdue balances. The aged analysis of accounts receivable as of 31 December 2011 is set out below:

	2011	2010
	\$	\$
<i>Days outstanding</i>		
0 – 90 days	48,162	15,090
90 – 180 days	10,798	11,822
> 180 days	<u>46,981</u>	<u>19,719</u>
Total	<u>105,941</u>	<u>46,631</u>

Balances greater than 90 days are considered for impairment.

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2011

(Continued)

10. 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. The Commission maintains a level of liquid assets that mature in the short term to meet cash requirements for normal operating purposes. As discussed in Note 2, the Commission anticipates the continued financial support from the Government, and that such support will be available to meet any shortfalls in funds as financial obligations become due.

As of 31 December 2011, all of the Commission's accounts payable and accrued expenses are due within one year.

(c) Interest rate risk

Interest rate risk is the risk that the future cash flows or fair value of a financial instrument 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; the Commission does not hedge this risk as it is not considered significant. The Commission does not have any significant fair value interest rate risk.

11. Fair Value of Financial Instruments

Financial instruments utilised by the Commission include the recorded financial assets and liabilities, and their estimated fair values approximate their carrying values due to the relatively short term nature of these instruments.

12. Capital Management

The capital of the Commission is represented by its net liabilities. 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.

13. Subsequent Events

Subsequent to 31 December 2011, the Commission has received \$530,000 in Government subvention.



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