



2003

Annual Report



VISION

Facilitating the development of the financial services sector through sound regulatory practices.



MISSION STATEMENT

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.

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BOARD MEMBERS

As at December 31, 2003

Calvin Knowles
Chairman

Alexander Reckley
Deputy Chairman

Tonya Bastian – Galanis
Member

Bernard Bonamy
Member

Roger Brown
Ex-Officio Member
Registrar of Insurance Companies

Jerry Butler
Member

Julian Francis
Ex-Officio Member
Governor of the Central Bank

Eve Poitier
Member

Hillary Deveaux
Ex-Officio Member
Acting Executive Director

Mechelle Albury
Acting Secretary to the Board

CHAIRMAN'S MESSAGE

Assessment

Upon assuming the Office of Chairman of the Board, it was immediately recognised that the structure of the Commission was in need of an overhaul given its image in the market place, of being slow to respond to requests from industry participants. The need for more technical, senior level staff was also identified. Equally, it was determined, after some research, that a structure aimed at improving efficiency was warranted.

Staffing

The most significant appointment to be made in this effort was that of a Deputy Executive Director. In making this appointment, the Commission filled a significant void of both technical and administrative assistance. The level of senior personnel required to effectively head the various departments and to address internal changes needed to ensure that the Commission is able to respond appropriately and comprehensively to the challenges facing the industry was also identified. The recruitments were intended, inter alia, to establish greater expertise within the Commission in order to enable it to carry out its responsibilities while ensuring at the same time that its existing resources are used as effectively and efficiently as possible, fulfilling one of the primary objectives of the restructuring, maximising the use of available resources.

Restructuring

After a period of further consultation with Management, the Board approved a new structure that was implemented on July 1, 2003. The restructuring involved the move from a product to a functional approach.

It would also position the Commission to effectively discharge its mandate, including the additional responsibilities resulting from the new investment funds legislation that would be enacted by the end of 2003.

Whereas, prior to the restructuring there were separate mutual funds and securities departments, these products would now be managed across two functional departments: one providing for the

authorisation of the relevant market participants and the other mandated to pursue the ongoing monitoring of authorised entities.

A Balanced Regulatory Environment

The Commission recognises the importance of maintaining a balance between high regulatory standards which are sensitive to the environment in which the industry operates and domestic policy objectives. Therefore, the Commission works closely with the industry and government in the setting of regulatory standards, including the drafting of legislation to ensure that there is the necessary congruence. In considering new legislation, in some cases, the Commission takes the initiative due to the need to extend or amend the existing regulatory and legislative framework, to ensure compliance with international standards or to ensure access to specific markets. On other occasions, the financial services sector and/or government will identify the need for legislation to advance new business opportunities. In all of its activities and decision-making the Commission takes full account of the costs and other burdens of regulation.

Reputation

The Commission acknowledges that the necessity for international financial centres to develop their comparative advantage leads to the same necessity for the international financial system to enhance the level of its surveillance of such centres. We are aware that everything achieved by a favourable report from international institutions can be quickly undone by one case that receives negative media attention. It is in this context that the Commission has made a priority the fight against financial crime, which includes defrauding investors, money laundering, terrorist financing, corruption and other such crimes.

An international reputation for compliance with international standards, and a known commitment to join in the global fight against financial crime, combined with investor confidence in the quality of the many financial services offered and the probity of the financial institutions providing those services, will remain essential features of the future success of the jurisdiction as a premier international finance centre.

Going forward, the activities of the Commission will continue to focus on ensuring that the jurisdiction is recognised as a quality, well regulated, international finance centre that is responsive through relevant legislation and sound regulatory systems and practices. Maintaining compliance with international standards will continue to constitute a primary objective of the Commission, in conjunction with other constituents of the financial services sector. While the Commission does not promote the securities industry, it is expected that through the effective and efficient discharge of its mandate the Commission would make the jurisdiction more attractive for capital markets activities. To achieve these objectives it is of paramount importance that the Commission is adequately resourced both in terms of financial and human resources.

As noted in the Auditor's report, the Commission's ability to continue to operate as a going concern is contingent on either attaining profitable operations

and/or continued government subvention. The Commission's profitability continued to be challenged by its legislated fee structure and the number of entities it regulates.

The efforts and activities of the Commission in 2003 must be viewed against the objective of both enhancing the perception of the jurisdiction amongst the international community and positioning the jurisdiction for growth in the level and range of capital market activities presently being undertaken. On both counts we have made significant strides. This would not have been possible without the assistance and cooperation of my fellow non-Executive Commissioners along with the Executives of the Commission, for whom I have great respect.

Calvin Knowles
Chairman

MANAGEMENT TEAM

As at December 31, 2003

Hillary Deveaux

Acting Executive Director

Peter Carey

Deputy Executive Director

Mechelle Martinborough

Legal Counsel

L. Alexander Roberts

Authorisations Department

Keith Seymour

Market Surveillance Department

Sally Moss

Policy and Research Department

Peggy Knowles

Public Relations Coordinator

Carolyn Ferguson

Corporate Affairs Department

SECURITIES COMMISSION OF THE BAHAMAS AT A GLANCE

Our Inception

The Commission is a body corporate established pursuant to Section 3 of the Securities Industry Act, 1999 to regulate the securities industry. As such, it is the agency responsible for the general oversight of the capital markets inclusive of market intermediaries, secondary markets and investment funds. The Commission was originally established as the Securities Board in 1995 under the Securities Board Act, 1995.

Our Purpose

The Commission's regulatory activities are not only designed to ensure compliance with the laws and regulations governing the industry, but ultimately to contribute to the development and maintenance of a credible financial environment that is vibrant and competitive and in which the public can have confidence because of its sound corporate governance, prudent business practices and observance of international standards.

In support of our purpose, the Commission aims to ensure that all entities we authorise are fit and proper and are operating within acceptable standards of regulatory practice. Equally, we aim to ensure that our standards are consistent with international best practices and that we are properly accountable to the public and the Ministry.

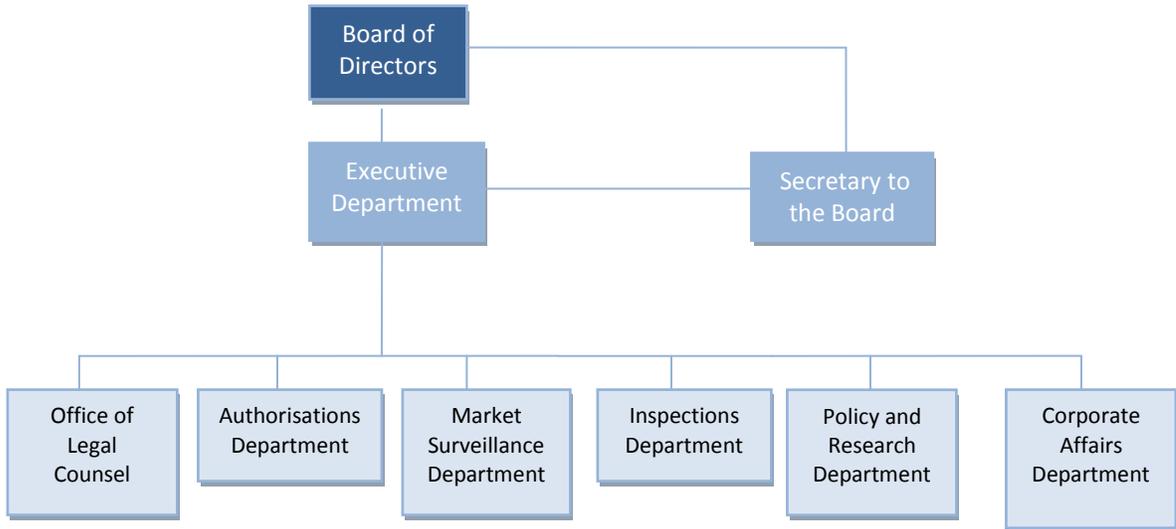
Our Function

- Formulation of principles to regulate and govern all aspects of the securities and capital markets;
- Maintenance of surveillance over the markets ensuring orderly, fair, transparent and equitable dealings;
- Creation and promotion of conditions to ensure the orderly growth and development of the securities and capital markets; and
- Advise the Minister regarding investment funds, securities and capital markets.

Our Structure

As at December 31, 2003 the Commission's staff comprised 35 staff and 9 members.

STRUCTURE OF THE COMMISSION



- **Executive Department** – This department is responsible for the day-to-day management of operations, technical and financial matters.
- **Secretary to the Board** – The Secretary is responsible for managing Board matters and providing technical and administrative support to the Board.
- **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.
- **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.
- **Market Surveillance Department** – This department is responsible for the on-going 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 rules and regulations.
- **Policy and Research Department** – This department is responsible for assisting in the development of legislation, rules, policies and guidelines. It is also responsible for statistical reporting, investor education, the content of the Commission’s website, public relations and the oversight of the Commission’s registry.
- **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.

HIGHLIGHTS OF THE COMMISSION FOR 2003

An essential component of the success of its objective of improved efficiency was the restructuring of the Commission with a view to eliminating duplication and overlap, with particular regard to the processing of applications submitted by potential industry participants. The existing system, which had the application process divided across two distinct departments, imposes an unnecessary burden on institutions applying for more than one licence. Additionally, as a result of this compartmentalisation of related functions, undue delays were created in the consideration of these applications by the Board as the separation gave rise to the presentation of Board Papers which were not uniform and on which the same information was presented in an inconsistent and often unrecognisable manner. A proposal for this restructuring was prepared and involved the employment of senior level staff in three main areas – accounting, financial analysis and law-, in addition to staff at various other levels. Keenly aware of the needs of the Commission, the Board made recommendations to Management and supports the request for increased senior level staff, notwithstanding the level of staff costs. Even with the current proposal, given the imbalance that generally exists, additional strain on the upper management will be inevitable.

Following a complete review of the operations of the Commission upon the appointment of a new Board of Directors on August 29, 2002, it was determined that a comprehensive restructuring of the Commission's operations was necessary to facilitate maximum productivity.

In preparation for these changes, the Commission undertook, towards the end of 2002, a major internal review and restructuring of its operations.

The review identified the following:

- Important areas of the Commission lack the technical expertise necessary to effectively perform essential functions.
- The existing structure encouraged practices and procedures that were time consuming and caused inordinate delays in responding to the needs of market participants and the investing public.
- There was a significant amount of duplication of effort within the Mutual Funds and the Securities Departments.
- The Operations and Administration Department was not structured to support the activities of the Commission.
- The Executive Department lacked the structure and staff to enable it to adequately discharge its supervisory and policy formulating roles.
- The use of a consulting accountant, while benefiting the Commission during the tenure of the individual, is costly and results in the loss of institutional expertise when the contract ends.

The restructuring, which was envisaged, would require the reassignment of staff between and within existing departments, the consolidation of at least two departments, the amalgamation of several functions and the creation of new departments. It was anticipated that these changes would increase efficiency in existing operations and lend more specific focus to certain matters, which at best were receiving cursory attention and in some cases were completely neglected. While maximum use would be made of existing resources, the restructuring process would require the recruitment of additional qualified personnel in disciplines such as economics, financial analysis, law and accounting.

The purpose of the restructuring was to ensure that the Commission had the capacity to execute its mandate as delineated in Section 4 of the Securities Industry Act, 1999 (SIA, 1999). These functions are as follows:

- To formulate principles to regulate and govern mutual funds, securities and capital markets;
- To maintain surveillance over mutual funds, securities and capital markets ensuring orderly, fair and equitable dealings;
- To create and promote conditions to ensure the orderly growth and development of the capital markets; and

- To advise the Minister generally regarding mutual funds, securities and capital markets.

The broad objective of the restructuring exercise was to position the Commission to adequately respond to the needs of the securities industry, and in so doing, enhance the contribution of the industry to the financial services sector, in particular, and the economy as a whole. Specifically, the strategy was intended to cause the Commission to be able to:

- Demonstrate fairness in applying rules to the marketplace;
- Be proactive, innovative and cost effective in the execution of its mandate;
- Promote an effective investment management industry;
- Create a more conducive environment for investors;
- Ensure a stronger and more facilitative regulatory regime which is timely, flexible and both sensible and sensitive in applying its regulatory powers; and
- Provide protection to the investors from unfair, improper or fraudulent practices.

Specific elements of the restructuring process are as follows:

a) Executive Department

Appointment of a Certified Financial Analyst as Deputy Executive Director with responsibility for the overall coordination of the Commission's activities and assisting the Executive Director in all matters related to the functioning of the Commission. An Officer and a Secretary would also be added to this department as support to the Executive Director and the Deputy Executive Director.

b) Policy and Research Department

A Policy and Research Department to contribute to timely regulatory responses to the changes in the capital markets was established. Specifically, it was proposed that such a department would research and analyse issues affecting the economy as a whole, with a focus on those that directly affect the capital markets. A major function of the department would be the timely compilation and dissemination of information, the development of policy proposals and the production of regular publications.

c) Corporate Affairs Division

This division while assuming the functions of the former Operations Department, would require a complete realignment of duties resulting in the establishment of separate Human Resources, and Finance and Administration Units providing for more efficient discharge of these functions. Its role would be to support the Commission's regulatory effectiveness by providing a range of services and ensuring that resources are used in an efficient manner. This Division which would be headed by a Senior Manager for the immediate, would eventually have its staff complement strengthened by a Financial Controller, who would be a qualified accountant.

d) Market Development Division

At the time of the restructuring, there were separate Mutual Funds and Securities Departments, with each of them engaging in their parallel functions separately. In so doing, scarce resources were utilised in the replication of the very similar if not identical activities. The resultant misuse of resources was most evident in delays that arise out of the duplication and repetition of identical processes.

To address this, the complete restructuring of these departments was proposed to provide, inter alia, for a single integrated authorisations process common to all applicants and one that would facilitate a firm seeking authorisation to conduct a number of activities, such as those of a Mutual Fund Administrator, a Broker-Dealer and a Securities Investment Advisor. This was the major feature of the restructuring exercise. The resultant Market Development Division would comprise an Authorisations Department and a Market Surveillance Department where activities would be based on function as opposed to product. Underlying this particular restructuring decision was the consideration that all participants enter the regulatory environment through an authorisation or approval process. The Commission's assessment at entry aims to allow only those firms and individuals satisfying the necessary criteria (including honesty, competence and financial soundness) to participate in the securities industry.

Once authorised to engage in securities related activities within or from The Bahamas, it would be the responsibility of the Commission to ensure that these authorised entities carry on business in a manner compliant with established laws, rules and guidelines.

Accordingly, the Authorisations Department:

- Approves individuals occupying control functions in these firms as being fit and proper for the performance of their duties;
- Authorises firms which satisfy the necessary conditions by licensing or registering them to carry on regulated activities;
- Answers technical questions about whether firms require authorisation or individuals require approval for their desired activities;
- Ensures that financial business is not carried on by unauthorised persons;
- Regulates offerings and issues of securities by public companies, including listing of such securities on the stock exchanges; and
- Regulates take-over and merger transactions.

The Market Surveillance Department:

- Detects irregularities in trading activities that may breach trading rules or securities laws;
- Facilitates the financial reporting programme of the Commission;
- Examines annual audited accounts and interim reports of listed companies for compliance with approved accounting standards and financial reporting requirements;
- Attends to queries pertaining to financial reporting and accounting treatments and monitors submission of audited annual accounts of listed corporations; and
- Monitors developments in the local and international securities markets.

The Legal Officers of the Commission would provide support for all of the activities of this Division on an ongoing basis. In so doing, the need for files to be transferred between departments for the purpose of legal reviews would be eliminated, and with it the inordinate delays in completing the processing of applications in particular which the previous process created.

The realignment of functions and procedures in the Commission was also aimed at ensuring that the

required infrastructure was in place to enable the necessary support to be given to the enforcement of the enhanced regulatory regime of the securities industry brought about by the enactment of the IFA, 2003, which was brought into force on December 15, 2003. This Act and its accompanying Regulations replaced the Mutual Funds Act, 1995 (MFA, 1995) and Mutual Funds Regulations, 1996 (MFR, 1996). The IFA, 2003 gives the industry a significant advantage over its regional competitors through its innovative provisions, while strengthening the regulatory authority of the Commission. An information paper outlining the powers of the Commission was placed on the Commission's website, www.scb.gov.bs. (Appendix 1).

The Commission is confident that the combination of an enhanced structure and improved regulatory environment would contribute to the development of the investments, securities and capital markets and promote the attractiveness of these markets to domestic and international investors, issuers and intermediaries. This would undoubtedly translate into substantive support for the economy.

Investment Funds Act, 2003

This legislation provides a more modern and up-to-date regulatory framework within which investment funds may operate in and from The Bahamas. Specifically, the Act introduces the SMART Fund concept: a flexible structure which may be tailored to the particular investment objectives and designed to facilitate a timelier authorisation process.

The Act also requires that all investment funds, operating in or from this jurisdiction, come under the regulatory oversight of the Commission. This latter provision will result in a significant increase in the activities of the Commission as the category of exempt funds established under the Mutual Funds Act, 1995, which were permitted to operate outside the scope of the Commission's regulatory authority, are now required to be licensed or registered by the Commission.

While there is no way of knowing exactly what the number of such funds is, based on statistics provided by Administrators it is our view that it is significant.

These formerly exempt funds will have to be examined firstly to ensure, that they were properly

categorised and secondly to determine how they will be categorised under the provisions of the IFA, 2003.

The Act provides for a transitional period of nine months during which investment funds licensed or registered under the MFA, 1995 are deemed licensed and may therefore continue to operate, provided that during this period they apply to have their authorisation under that Act harmonised with the requirements of the IFA, 2003, and these applications are not refused.

Staffing

The Commission continued to recruit certain professional staff to complete the complement envisaged in the restructuring process of the Commission. The following positions have been filled:

Financial Controller

- A qualified Accountant

Head of Inspections Department

- A qualified Accountant

Information Systems and Electronic Commerce Specialist

- An individual qualified in Electronic Commerce and Information Technology Specialization.

At December 31, 2003 the staff complement stood at 35 employees. It should be noted that while the number of staff at June 2003 and December 2003 has remained the same, the composition has changed with the departure of certain individuals and the addition of more highly qualified persons as envisaged in the restructuring proposal submitted in mid 2003. Replacements for those persons departing the Commission are being sought.

There remains a need for additional officers in the Authorisations and Market Surveillance Departments. Efforts are now underway to recruit these officers. These individuals were considered in the original structure but their appointments were delayed because of limited financial resources and the need to give priority to hiring more senior level professionally qualified staff.

REVIEW OF OPERATIONS

Throughout the year, the Commission has focused on supervising and developing the capital markets in the following five main areas:

- Refining basic infrastructure for market development through the strengthening of integrity and discipline;
- Enhancing the rules, regulations, and legal framework;
- Supervising and examining securities businesses;
- Investor protection; and
- Promoting international relations.

The various elements of these areas of concentration were reflected in the processes of the several departments and grouped under the rubrics that follow:

1. Securities Industry Act, 1999

Under the Securities Industry Act, 1999, entities and persons engaged in securities activities are

registered as Broker Dealers, Securities Investment Advisors, Securities Exchanges and Facilities. Each type of securities business requires a separate licence which is either issued or authorised by the Commission. The process is centralised in the newly established Authorisations Department.

The process of market regulation is undertaken by examining reports and documents submitted to the Commission in compliance with the law. On-site inspections also constitute a significant element in this supervisory process.

In 2003, the Commission formalised and refined its inspection programme to include all registrants. Inspections take the form of a Routine Examination or Inspections for Cause. A Routine Examination is scheduled based on the Commission's assessment of risk and on a two-three year rotational basis. An Inspection for Cause is conducted based upon some underlying reason such as a customer complaint or some credible information the Commission has been made aware of.

If deficiencies are identified by the Commission, the constituent is given an opportunity to resolve all outstanding matters. In cases where the constituent is unable or refuses to resolve any or all of the matters, the Commission will take the necessary disciplinary measures as noted in the SIA, 1999.

The objective of the inspections is to ensure that securities companies perform in accordance with all related laws and regulations, through the examination of their practices, and evaluating their internal controls.

Should there be any violation or an improper practice uncovered during an inspection, the concerned entity is given an opportunity to respond and to address the agreed deficiencies. Failure to bring operations to compliance within a stipulated time could lead to various sanctions being levied by the Commission.

INDUSTRY DATA

A snapshot of the regulated entities as at December 31, 2003 is provided in the tables and charts that follow:

At the close of 2003 there was slight decrease in the amount of active Broker Dealers from that of the previous year. In total, there were 57 active Broker Dealers, compared to 60 being active within the same period during 2002. There was a net increase of one Securities Investments Advisors, which brought the total to 30.

Table 1: Licensees and Registrants Under the SIA, 1999

Category	Dec. 31 2001	Dec. 31 2002	Dec. 31 2003
Broker-Dealer	37	60	57
Securities Investment Advisors	37	29	30

At December 31, 2003 there were a total of 16 public companies listed on the exchange with a total capitalisation of \$1.7 billion. Three companies (Bahamas Supermarkets, Bank of The Bahamas, and RND Holdings Ltd.) were listed on the over-the-counter market with a total capitalisation of \$137 million.

Table 2: Publicly Traded Companies

Category	Dec. 31 2003	Capitalisation
On Exchange	16	\$1,600,010,391.59
OTC	3	\$137, 502,636.85

The number of mutual funds increased slightly from 706 with a net asset value (NAV) of \$97.30 billion at December 31, 2002 to 721 mutual funds with a net asset value (NAV) of \$129.15 billion at December 31, 2003.

Table 3: Investment (Mutual) Funds Statistics¹

Licence Type	Total Number of Funds	Total NAV (US\$ Billions)
Mutual Fund Licenses		
Section 3.-(1)	365	28.20
Registration (authorised funds)		
Section 3.-(3)	158	19.68
Exempt Mutual Funds		
Sections 3.-(4) & 3.-(6)	198	81.34
Totals	721	\$ 129.22

Table 4 below gives an overview of the Mutual Funds Industry of The Bahamas between December 31, 2000 and December 31, 2003. The amount of funds in 2001 decreased by 84 funds (757 673), however, the amount of active funds have steadily rebounded in 2002 and 2003.

Table 4: Growth of the Mutual Funds Industry in The Bahamas

YEAR	Dec. 31 2000	Dec. 31 2001	Dec. 31 2002	Dec. 31 2003
Number of Investment Funds	757	673	706	721

2. Compliance and Enforcement

The Commission has historically contributed to the development of the Bahamian legislative environment by participating in the preparation of various instruments, rules, guidelines and notices. During 2003, the Commission focused on improving its own legislation by proposing amendments to the Securities Industry Act, 1999 and completing the process for the repeal of the Mutual Funds Act, 1995 and securing the enactment of IFA, 2003.

The purpose of the revision to the capital markets legislation was to provide the Commission with explicit statutory authority to better carry out its regulatory functions and to continue to regulate effectively in a flexible and responsive manner. Specifically, amendments proposed for the Securities Industry Act, 1999 provide, inter alia, for improved regulation of companies trading off-exchange, clarification of functions of market intermediaries and the registration of international business companies as market intermediaries in specified categories.

From its establishment in 1998, the Office of Legal Counsel performed the role of a compliance department and played an integral part in the interpretation and implementation of laws governing the Commission and its registrants and licensees, ensuring that market participants are in compliance with the laws and policies established by the Commission and ensuring compliance by all applicants for licensing with the relevant legislation. The Department also dealt with complaints and queries from the investing public and industry participants.

¹ Statistics gathered in 2003 were still governed by the Mutual Funds Act 1995 as the Investment Funds Act 2003 did not take effect until the end of the year.

As a result of the re-structuring of the Commission, the compliance function was moved from the Office of Legal Counsel to the Market Surveillance Department. Further, Legal Officers were assigned directly to the new Market Development Division with a view to their having direct responsibility for legal issues arising out of the Authorisations and Market Surveillance Departments with indirect supervision from Legal Counsel on these matters when necessary.

The responsibilities of the Legal Counsel were then re-defined to include providing legal advice and opinions on various operational levels of the Commission; assisting in the review of financial sector legislation, particularly those governing the Commission's regulatory responsibilities; providing guidance in drafting contracts and agreements; providing support in litigation matters; identifying and advising on legal risks arising from operations of the Commission; overseeing investigations of fraudulent activities; and providing training on relevant legislation. In addition, Legal Counsel was appointed the Office of Secretary to the Board of the Commission. These duties entail coordinating preparation of papers and agendas for Board and Committee Meetings, recording and distributing minutes of Board and Committee Meetings, advising management / officers of the Boards directives, preparing, maintaining and custody of the Commissions official records, and responding to inquires from the public.

In dealing with the legal interests of the Securities Commission, the Office of Legal Counsel continued to play an integral role in the finalisation of the Commission's self assessment template for the IMF Self Assessment program and other FATF initiatives.

The Office of Legal Counsel continued its work on the Investment Fund Legislation including the finalisation and promulgation of both the Investment Funds Act and the attending Investment Funds Regulations in December 2003. Additional areas of responsibility included working with the Group of Financial Services Regulators as well as participating in various conferences and seminars both locally and internationally.

During 2003 the Department advised the Commission on the following matters:

- Registration and licensing of applications under the Securities Industry Act, 1999 and Mutual Funds Act, 1995;
- The development of the Investment Funds Regulations, 2003;
- Development of Policy Matters;
- Site-Inspections of the Commission's registrants and licensees;
- Preparation of legal opinions regarding the interpretation of Securities Industry Act, 1999 and Mutual Funds Act, 1995; and
- Legal opinions related to the Commission's operations.

The Commission maintains a policy of cooperation with overseas regulatory authorities. A Breakdown of all investigations carried out by enforcement during 2003. The Commission received a total of six requests for assistance from overseas regulators during 2003, all of which were acted on using appropriate statutory gateways.

3. Corporate Affairs

The Administration and Operations Department (now the Corporate Affairs Department as a result of the restructuring) is primarily responsible for the development, coordination and review of the Commission's programmes for personnel and operations management. Further, the Department assists the Executive Director in formulating budget and authorisation requests, maintains the Commission's payment systems, oversees the computer network administration and executes programmes for office services, such as telecommunications, property management and contract administration.

This department is responsible for all human resources matters as well as the general administration of the Commission, including staff training, vacation scheduling and the handling of grievances. This department is also responsible for the finances of the Commission.

A top priority of the Commission is the development and growth of the securities industry in The Bahamas. Our representation at annual meetings hosted by international organisations of which we are members is important, as The Bahamas is given a voice and an ear in the global development of regulators and securities markets.

The Commission therefore continued to place significant emphasis on the training of staff. It considers this activity essential to ensuring that staff remain current in their practices and activities in regulating the industry.

The Commission participated in the following technical programmes during 2003: Enforcement, Investment Management and Market Regulation Program organised by the United States Securities and Exchange Commission (US SEC), the Financial Services Authority of the United Kingdom (FSA); the Toronto Centre Leadership Programme on Securities; the Broker-Dealer Programme of the North American Securities Administrators Associations (NASAA); and the Ontario Securities Commission Securities Investigators Training Programme.

The Commission reserves and spends a large portion of its resources in the quest for continued knowledge and active participation in discussing and propelling The Bahamas in its financial goals as an aspect of fulfilling its mandate. This involves not only training, but also participation in seminars and workshops, both nationally and internationally.

The department also manages all matters relating to the Commission's physical premises and general supplies. In February 1996, the Commission relocated to its current Charlotte House premises, initially renting 2144 square ft. of office space. The Commission continues to grow, and currently leases 12,376 square ft. of office space. This increase in leased office space is due to the growth of staff at the Commission. This growth was particularly noticeable in 2003 where, in addition to focusing on the numbers, equal emphasis was placed on securing highly qualified staff. This increase made it possible for the Commission to begin certain aspects of its mandate, which to this point had not received the required attention due to the shortage in manpower. The growth of the Commission's staff from inception to the present is presented in the chart which follows.



4. Policy Developments and International Affairs

The Board approved during 2003, the revocation of a Policy Directive for the Mutual Funds Act, 1995 which prohibited the use of Corporate Directors for Mutual Funds licensed or registered by the Commission. Additionally, the Board approved an amendment to the policy regarding the “fit and proper” requirements of Corporate Directors. These amendments were warranted as it had become apparent that Corporate Directors are integral to the activities of the investment funds industry. Additionally, the Commission’s policy was found to be in direct conflict with the practice of Unrestricted Mutual Fund Administrators who were licensing funds that appointed Corporate Directors. Since International Business Companies (IBCs) were, in many cases, the vehicle of choice as Corporate Directors, and, under the repealed Act, able to issue bearer shares, there were concerns by the Commission relating to disclosure of beneficial ownership. However, the International Business Companies Act, 2000 (IBC, 2000) which addressed the Commission’s concerns relating to disclosure, made the amendment possible.

The Commission, since its inception in 1995, has attached great importance to the cross-border cooperation and exchange of information with other overseas capital market supervisory agencies.

The Commission recognised the significance of this level of cooperation and coordination in the context of intensified global capital markets linkages and the general trend towards globalisation as a whole. To this end, the Commission continuously facilitates the exchange of information on capital markets supervision and development. This improved level of cooperation was evidenced by amendments to the Mutual Funds Act, 1995 and the Securities Industry Act, 1999 to facilitate the exchange of information with other regulators. It should be noted that with the repeal of the MFA, 1995, all amendments regarding the exchange of information have been incorporated into the Investment Funds Act, 2003.

5. Investor Education Campaign

The educating of investors in The Bahamas is one of the main goals of the Commission. The protection of investors is a key component of the mission statement of the Commission.

Over the years, the Commission’s investor education efforts have been mostly geared to students. In this context, during 2003, the Executive Director visited schools in the jurisdiction, teaching young students the value of saving, investing and planning for their futures and the various benefits of these several activities.

Also during this year, the Commission actively participated in ‘Careers Fest 2003’ held by The Bahamas Financial Services Board (BFSB). This two-day seminar targeted high school students that are interested in pursuing careers in the financial services sector. The Commission provided literature on saving and investing, as well as general information about its mandate and responsibilities and the various functions discharged by staff members. The objective of this exercise was to inform students of how their studies at high school and later in tertiary institutions might secure careers for them in the financial services industry, which is the second largest industry in The Bahamas.

The Securities Commission further realises that the key to the growth of the securities and capital markets involves the continued education of current and potential investors. The Commission therefore seeks to ensure that the public is kept apprised of changes and events that take place in these markets.

Disclosure of information, necessary for investors to assess risks inherent in an investment decision, is emphasised, with such disclosure being made in a standardised, systematic and efficient manner.

FINANCIAL SUMMARY

For the year ended December 31, 2003, the operating deficit of the Commission increased by 37.17% from \$950,410 at the end of the prior year to \$1.304 million. This resulted mainly from a 16% increase in operating expenses from \$2.243 million to \$2.602 million in 2003 while operating income only increased by 0.43% from \$1.293 million in 2002 to \$1.298 million in 2003. Consequently, the accumulated operating deficit increased from \$486,418 in the prior year to \$790,097.

The Commission's cash position declined from a deficit of \$524,990 as at December 31, 2002 to a deficit of \$601,466 as at December 31, 2003, despite an increase in government funding of \$500,000 from \$500,000 during 2002 to \$1 million during 2003. This resulted mainly from an increase in fixed asset purchases.

As noted in the auditor's report, the Commission's ability to continue to operate as a going concern is contingent on either attaining profitable operations and/or continued government subvention. The Commission's profitability continued to be challenged by its legislated fee structure and the number of entities it regulates.

SECURITIES COMMISSION OF THE BAHAMAS

FINANCIAL STATEMENTS OF THE

YEAR ENDED DECEMBER 31, 2003



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AUDITORS' REPORT TO THE MEMBERS

We have audited the accompanying Balance Sheet of the Securities Commission of The Bahamas ("the Commission") as of December 31, 2003 and the related statements of operations, accumulated operating deficit and reserve funds and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. 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 as promulgated by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Commission as of December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with the International Financial Reporting Standards promulgated by the International Accounting Standards Board.

Without qualifying our opinion, we draw attention to note 10 to the financial statements. The Commission incurred an operating deficit for the year of \$1,303,679 (2002 - \$950,410) before Government funding of \$1,000,000 (2002 - \$500,000) and current liabilities exceeded current assets. As at December 31, 2003, the accumulated operating deficit and reserve funds had a net deficit of \$790,097 (2002 - net deficit of \$486,418). The Commission will only be able to continue as a going concern by attaining profitable operations and/or with continued financial support from the Government.

Chartered Accountants

Nassau, Bahamas
February 2, 2006

SECURITIES COMMISSION OF THE BAHAMAS
Balance Sheet

December 31, 2003, with corresponding figures for 2002
(Expressed in Bahamian dollars)

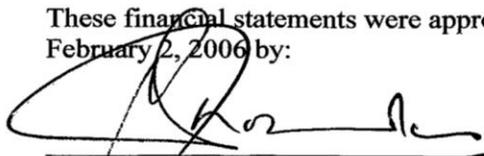
	2003	2002
Assets		
Current assets:		
Petty cash	\$ 46	200
Cash at bank	38,525	40,298
Accounts receivable (note 3)	85,541	118,411
Deposits and prepaid expenses	18,588	34,407
	<u>142,700</u>	<u>193,316</u>
Equipment (note 5)	189,019	134,647
	<u>\$ 331,719</u>	<u>327,963</u>

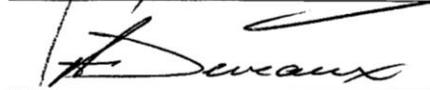
**Liabilities and Accumulated Operating
Deficit and Reserve Funds**

Current liabilities:		
Bank overdraft (note 4)	\$ 640,037	565,488
Deferred revenue	221,370	173,494
Accounts payable and accrued expenses (note 11)	260,409	75,399
	<u>1,121,816</u>	<u>814,381</u>
Accumulated Operating Deficit and Reserve Funds (note 6)	(790,097)	(486,418)
Commitments and contingencies (note 7)		
	<u>\$ 331,719</u>	<u>327,963</u>

See accompanying notes to financial statements.

These financial statements were approved for issue on behalf of the Members of the Board on February 2, 2006 by:


Chairman


Executive Director

SECURITIES COMMISSION OF THE BAHAMAS

Statement of Operations

Year ended December 31, 2003, with corresponding figures for 2002
(Expressed in Bahamian dollars)

	2003	2002
Operating income:		
Mutual fund registration and licence fees	\$ 312,000	286,750
Mutual fund principal office fees	312,000	286,750
Mutual fund application fees	60,200	57,000
Mutual fund administrator licence fees	92,400	78,800
Mutual fund administrator application fees	4,000	39,400
Broker - dealer registration and licence fees	263,500	277,167
Broker - dealer application fees	4,000	16,000
Securities investment advisor registration and licence fees	110,500	107,042
Securities investment advisor application fees	10,300	14,400
Associated person registration and licence fees	3,492	2,600
Associated person application fees	800	450
Securities exchange registration and licence fees	25,000	25,000
Fees from public offerings	11,000	31,500
Penalty fees	61,000	35,200
Miscellaneous income	8,504	16,203
Examination fees	9,795	15,000
Gain on sale of equipment	10,000	3,680
	1,298,491	1,292,942
Operating expenses:		
Salaries, wages and benefits (notes 8, 9 & 11)	1,291,660	1,268,485
Rent for office and parking	328,569	335,713
Professional fees	185,970	103,340
Travel and entertainment (note 11)	140,723	50,394
Utility and property charges	106,045	100,000
Office expenses	95,550	57,436
Depreciation (note 5)	80,430	87,126
Members' honoraria (note 11)	58,650	47,958
Telephone	43,239	37,731
Finance charges (notes 4 & 13)	34,312	8,240
Computer expenses	31,350	37,268
Sundry	25,839	25,537
Membership and publications fees	19,526	17,811
Training and Seminars	19,307	10,585
Advertising	10,359	284
Investor education costs	8,200	—
Examination expenses	7,343	13,164
Printing	1,019	10,180
Bad debts write-off and provision	114,079	32,100
	2,602,170	2,243,352
Operating deficit for the year	\$ (1,303,679)	(950,410)

See accompanying notes to financial statements.

SECURITIES COMMISSION OF THE BAHAMAS

Statement of Accumulated Operating Deficit and Reserve Funds

Year ended December 31, 2003, with corresponding figures for 2002

(Expressed in Bahamian dollars)

	Government Funding	Accumulated Operating Deficit	Total
Balance at December 31, 2001 as restated	2,009,443	(2,045,451)	(36,008)
Government funding	500,000	–	500,000
Operating deficit for the year	–	(950,410)	(950,410)
Balance at December 31, 2002	2,509,443	(2,995,861)	(486,418)
Government funding	1,000,000	–	1,000,000
Operating deficit for the year	–	(1,303,679)	(1,303,679)
Balance at December 31, 2003	\$ 3,509,443	(4,299,540)	(790,097)

See accompanying notes to financial statements.

SECURITIES COMMISSION OF THE BAHAMAS

Statement of Cash Flows

Year ended December 31, 2003, with corresponding figures for 2002
(Expressed in Bahamian dollars)

	2003	2002
Cash flows from operating activities:		
Operating deficit for the year	\$ (1,303,679)	(950,410)
Adjustments for:		
Depreciation	80,430	87,126
Bad debt allowance	114,079	27,100
Gain on disposal of equipment	(10,000)	(3,680)
Cash used in operations before changes in operating assets and liabilities	(1,119,170)	(839,864)
(Increase)/decrease in accounts receivable	(81,209)	3,077
Decrease/(increase) in deposits and prepaid expenses	15,819	(20,915)
Increase in deferred revenue	47,876	35,946
Increase/(decrease) in accounts payable and accrued expenses	185,010	(29,713)
Net cash used in operating activities	(951,674)	(851,469)
Cash flows from investing activities:		
Purchases of equipment (note 5)	(124,802)	(65,140)
Proceeds from disposal of equipment	–	6,800
Net cash used in investing activities	(124,802)	(58,340)
Cash flows from financing activities:		
Government funding	1,000,000	500,000
Net cash provided by financing activities	1,000,000	500,000
Net decrease in cash and cash equivalents	(76,476)	(409,809)
Cash and cash equivalents, beginning of year	(524,990)	(115,181)
Cash and cash equivalents, end of year	\$ (601,466)	(524,990)

Cash and cash equivalents are comprised:

Petty cash	\$ 46	200
Cash at bank	38,525	40,298
Bank overdraft	(640,037)	(565,488)
Cash and cash equivalents, end of year	\$ (601,466)	(524,990)

See accompanying notes to financial statements.

SECURITIES COMMISSION OF THE BAHAMAS

Notes to Financial Statements

Year ended December 31, 2003
(Expressed in Bahamian dollars)

1. General information

The Securities Commission of the Bahamas (“the Commission”) was established on June 20, 1995 under The Securities Board Act, 1995 of The Commonwealth of The Bahamas. The principal place of business is located on the Third Floor, Charlotte House, Shirley and Charlotte Streets, P.O. Box N-8347, Nassau, Bahamas.

The primary function of the Commission is to monitor and regulate the securities market and the mutual funds industry in The Bahamas.

Effective November 2000, licensed banks, trust companies and individuals that are engaged in various aspects of the securities business and that are in good standing with The Central Bank of The Bahamas, must also register with the Commission. As a result, the Commission also earns fee income from broker-dealers, securities investment advisors and associated persons.

The Commission is a body corporate having perpetual succession and a common seal, with the power to purchase, lease or otherwise acquire and hold and dispose of land and other property of whatever kind. The Commission may also sue or be sued in its corporate name.

2. Summary of significant accounting policies

(a) Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) promulgated by the International Accounting Standards Board.

(b) Basis of preparation

The financial statements are presented in Bahamian dollars, the Commission’s functional currency.

The financial statements are prepared on a historical cost basis. The accounting policies have been applied consistently by the Commission and are consistent with those used in the previous year.

(c) Use of estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the year. Actual results could differ from those estimates.

SECURITIES COMMISSION OF THE BAHAMAS

Notes to Financial Statements

Year ended December 31, 2003
(Expressed in Bahamian dollars)

(d) Equipment

Equipment is stated at cost less accumulated depreciation and impairment losses.

Expenditure incurred in the replacement of equipment is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the equipment. All other expenditure is recognized in the statement of operations as an expense as incurred.

Depreciation is charged to the statement of operations on a straight-line basis over the estimated useful lives of the equipment as follows:

Computer equipment	5 years
Furniture and fittings	5 years
Vehicles	5 years

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

(e) Impairment

The carrying amounts of the Commission's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the statement of operations.

An impairment loss in respect of a receivable is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

An impairment loss in respect of equipment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

(f) Operating Leases

Lease rentals relating to office spaces are recognised as an expense in the statement of operations on a straight-line basis over the lease term.

(g) Accounts receivable and accounts payable

Accounts receivable are stated at cost less provision for doubtful accounts and impairment.

Accounts payable is stated at cost.

(h) Cash and cash equivalents

Cash and cash equivalents represent petty cash, demand cash at bank less bank overdraft.

SECURITIES COMMISSION OF THE BAHAMAS

Notes to Financial Statements

Year ended December 31, 2003

(Expressed in Bahamian dollars)

(i) Government grants

Government funding is accounted for when received and credited directly to the statement of accumulated operating deficit and reserve funds.

(j) Income

Fees receivable from mutual funds, mutual fund administrators, broker-dealers, security investment advisors and associated persons are accounted for when they become due.

(k) Defined contribution pension plan

Contributions to the Commission's defined contribution pension plan are recognised as an expense in the statement of operations as incurred.

3. Accounts receivable

	2003	2002
Mutual funds and administrators	\$ 17,000	73,700
Broker-dealers, securities advisors and associated persons	75,540	71,811
	92,540	145,511
Less: allowance for doubtful accounts	(7,000)	(27,100)
	\$ 85,540	118,411

4. Bank overdraft

The Commission has a bank overdraft facility amounting to \$750,000 (2002 - \$750,000) and it bears interest at Bahamian Dollar Prime plus 1% per annum, which is 7% (2002 - 7%).

5. Equipment

	Computer equipment	Furniture & fittings	Vehicles	Total
Cost, December 31, 2002	\$ 290,392	238,560	51,400	580,352
Additions	46,871	48,936	38,995	134,802
Disposals	-	-	(34,900)	(34,900)
Cost, December 31, 2003	\$ 337,263	287,496	55,495	680,254
Accumulated depreciation, December 31, 2002	\$ 181,334	212,971	51,400	445,705
Charge for the year	52,493	20,138	7,799	80,430
Disposals	-	-	(34,900)	(34,900)
Accumulated depreciation, December 31, 2003	\$ 233,827	233,109	24,299	491,235
Net book value, December 31, 2003	\$ 103,436	54,387	31,196	189,019
Net book value, December 31, 2002	\$ 109,058	25,589	-	134,647

SECURITIES COMMISSION OF THE BAHAMAS

Notes to Financial Statements

Year ended December 31, 2003
(Expressed in Bahamian dollars)

During the year the Commission traded-in a vehicle for a price of \$10,000 which was applied towards the purchase of a new vehicle.

6. Reserve Funds

The Commission may from time to time carry surplus funds to a reserve fund, or invest these funds in securities approved by the Minister of Finance ("the Minister"). Any such treatment must be with the prior consent of the Minister.

The reserve fund shall be established by the Commission, and the funds applied only for purposes of the Commission. The Minister, however, may direct the Commission on any matters concerning the establishment and management of the fund and movements to and from the fund. The Minister may also direct surplus or reserve funds to be paid into the Consolidated Fund of The Bahamas Public Treasury.

As the Commission incurred an operating deficit for the year there were no surplus funds available from operations.

7. Commitments and contingencies

(i) The Commission leases office space under two existing lease agreements. The future minimum lease payments are as follows:

	\$
• Within one year	- 322,137
• More than one year and less than five years	- 348,982

Under a lease agreement which commenced February 1, 1999 for a period of 7 years, the Commission has the option to renew the lease for a further 7 years. The annual lease payments will be determined at the time of renewal.

Under a lease agreement which commenced July 1, 2000 for a period of 5 years and 7 months, the annual lease payments, after the first 3 years, were increased by multiplying the base amount by a factor determined during the current period. This factor increase has been reflected in the above minimum lease payments. The Commission has the option to renew the lease for a further 7 years.

(ii) In the normal course of its business, the Commission is involved in various legal proceedings arising out of and incidental to its operations. Management of the Commission does not anticipate that the losses, if any, incurred as a result of these legal proceedings will materially affect the financial position of the Commission.

SECURITIES COMMISSION OF THE BAHAMAS

Notes to Financial Statements

Year ended December 31, 2003
(Expressed in Bahamian dollars)

8. Defined contribution pension plan

The Commission implemented a defined contribution pension plan on January 1, 1999 for all members of staff. Participation in the plan is mandatory and contributions by the Commission and the employees are 10% and 5% of employee salaries, respectively. The pension plan is administered by Colina Financial Advisors. Contributions to the plan by the Commission during the year amounted to \$89,156 (2002 - \$103,729) and are included in salaries, wages and benefits in the statement of operations.

9. Employees

The number of employees at December 31, 2003 was 36 (2002 - 31).

10. Going concern

The Commission incurred an operating deficit for the year of \$1,303,679 (2002 - \$950,410) before Government funding of \$1,000,000 (2002 - \$500,000) and current liabilities exceeded current assets. As at December 31, 2003, the accumulated operating deficit and reserve funds had a net deficit of \$790,097 (2002 - net deficit of \$486,418). The Commission will only be able to continue as a going concern by attaining profitable operations and/or with continued financial support from the Government of the Commonwealth of The Bahamas. These financial statements are prepared on the assumption that the Commission will continue as a going concern.

Subsequent to the year end government funding of \$1,125,000 and \$500,000 was received by the commission in respect of the financial years 2004 and 2005.

11. Related party transactions and balances

Honoraria to members

Included in the statement of operations is \$58,650 (2002 - \$47,958) as honoraria to the members of the board, of which \$5,958 was included in the accounts payable and accrued expenses in the balance sheet.

Travel and entertainment

Included in the statement of operations is \$79,535 (2002 - \$13,974) relating to travel and entertainment incurred by the members of the board during the year.

Executive remuneration and pension contributions

Included in salaries, wages and benefits in the statement of operations is remuneration of \$133,522 (2002 - \$122,213) and pension contributions of \$10,625 (2002 - \$ 18,969) relating to executive members of the board. Included in accounts payable and accrued expenses in the balance sheet is \$17,098 accrued for executive remunerations.

SECURITIES COMMISSION OF THE BAHAMAS

Notes to Financial Statements

Year ended December 31, 2003
(Expressed in Bahamian dollars)

12. Financial instruments and associated risks

Management estimates that the fair values of financial assets and liabilities do not differ materially from their carrying values due to their short-term or liquid nature.

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Commission is exposed to credit risk on accounts receivable and provides for amounts not considered to be collectible.

13. Subsequent event

Effective December 15, 2003, the Investment Funds Act, 2003 (“IFA”) was enacted to replace the existing Mutual Funds Act, 1995. The IFA requires an investment fund to be licenced either as a professional fund, a SMART fund, a standard fund or registered as a recognized foreign fund. The IFA outlines the conditions under which each investment fund should operate and the various fees that they will be subjected to.

14. Corresponding information

Corresponding amounts for bank overdraft interest of \$8,240 have been reclassified from office expenses to finance charges in the statement of operations, to confirm with the current year’s presentation.

APPENDIX 1: The Investment Funds Act and Regulations Overview

Name:

The Mutual Funds Act has been repealed and replaced by the Investment Funds Act.

Objective:

To ensure that any product falling within the definition of an investment fund under the Act will be required to be regulated. This allows The Bahamas the flexibility of regulating different types of investment vehicles. ALL INVESTMENT FUNDS ARE REGULATED IN ONE FORM OR OTHER UNDER THE ACT.

Categorisation of funds:

The type of funds regulated under the Act is:

- The Professional Fund – is a fund which has as its investors a specific type of investor as defined in the Act.
- The SMART Fund – is a flexible fund whose structure is to be approved by the Commission before it can be licensed as a SMART Fund. The Commission is to establish rules on the parameters, class or type of investment fund that can qualify as a SMART Fund.
- The Standard Fund – includes any fund that does not fall under any of the other categories for licensing.
- Recognised Foreign Funds – includes Funds that are Bahamas-based but have a nexus (which is provided for in the Act) to a prescribed jurisdiction. The Recognised Foreign Fund is required to be registered with the Commission.

Non-Bahamas based Fund:

A Non-Bahamas based fund which intends to sell its units or shares in or from The Bahamas is required to appoint a representative approved by the Commission. Qualifications for the representative for a Non-Bahamas based fund can be found in the Regulations. All other Non-Bahamas Based Funds, for example, those whose custodian is in this jurisdiction, are required to notify the Commission in writing of the nature of its nexus to The Bahamas.

Licensing of Funds:

Investment Fund Administrators that hold an Unrestricted Investment Fund Administrator’s licence can still license funds, but can only license Professional Funds and SMART Funds. Unrestricted Investment Fund Administrators can only license funds for which they provide the principal office and for which they are the administrator. The Commission is able to license all types of funds under the Act; and Standard and Self-Administered Funds can only be licensed by the Commission. The Recognised Foreign Fund is to be registered with the Commission.

Closed-end Funds:

Closed-end funds are not required to be regulated under the Act. However, closed-end funds may opt to be regulated under the Act and if so elects, shall from the date of licensing be deemed an investment fund under the Act.

Self-Administered Funds:

A Self-Administered Fund is a fund that is administered by its own operators performing the functions of an Investment Fund Administrator. In such case, a reference to an Investment Fund Administrator shall be deemed to be a reference to the operator of the Self-Administered Fund who is performing the function of an administrator.

Such a fund is still regarded as a regulated investment fund and is required to hold an investment fund license or be registered with the Commission.

Material Change Information:

Any material change to an investment fund or to its investors which an investment fund considers not to require an amendment to the offering memorandum or constitutive documents is required to be reported to the Commission within 21 days of the occurrence of the material change. The Commission may require that details of any material change be reported to the investors.

An investment fund, other than a Recognised Foreign Fund, is also required to submit changes to the Offering Memorandum of a fund to the Commission within 21 days of the changes.

Investment Fund Administrators:

Under the Act, only companies incorporated or registered under the Companies Act, 1992 or international business companies incorporated under the International Business Companies Act, are permitted to be Investment Fund Administrators.

Restricted Investment Fund Administrators:

Restricted Investment Fund Administrators under the Act, in addition to being required to have a registered office in The Bahamas, are also required to have a place in The Bahamas where administration records of the investment funds under its administration are available unless the applicant has a physical place of business in The Bahamas.

Investment Fund Administrators that are also Banks & Trust Companies:

Under the Act, all Investment Fund Administrators, regardless of whether they are also licensees of the Central Bank are required to obtain the prior approval of the Commission before issuing or transferring or otherwise disposing of such shares in the company and before appointing or changing a director or similar senior officer/chief executive officer.

Auditors:

Under the Act, auditors to investment funds and investment fund administrators are required to be approved by the Commission and they are also subject to certain reporting obligations.

Filing of Funds:

Unrestricted Investment Fund Administrators who license investment funds are required to file with the Commission certain documentation including a copy of the investment fund licence within 30 days of the licensing of the investment fund and if such documents are not filed within the specified period of time, the Unrestricted Investment Fund Administrator shall pay to the Commission a fine equal to double the amount of the annual registration fee payable by the investment fund.

On-Site and Off-Site Examinations:

The Act contains express provisions on the Commission's authority to conduct both on-site and off-site examinations of the business of investment funds and parties related to an investment fund.

Supervisory Authority:

The Commission's authority over unregulated funds or administrators is expressly provided for in the Act and is provided to be the same as regards to a regulated fund or administrator.

Specific authority has been given to the Commission to petition the Court to wind-up an unregulated investment fund operating in The Bahamas.

Standard duties of an Administrator:

The Act expressly provides that the various duties imposed on an administrator are applied at a reasonable standard. Thus an administrator shall use reasonable efforts to ensure that the investment fund does not carry on or attempt to carry on business as an investment fund contrary to provisions in the Act.

Penalty for non-payment of annual fee by investment fund or investment fund administrators:

If an investment fund or investment fund administrator fails to pay the prescribed annual fee on or before the 31st day of January, the investment fund or investment fund administrator shall be required to pay an additional fee equal to that annual fee for each month or part of a month during which the annual fee and any additional fee imposed remains unpaid up to the 1st day of April of the relevant year.

Under the Act, where the investment fund or investment fund administrator fails to pay the required fee and any additional fee imposed on or before the 1st day of April of the relevant year, the Commission may revoke the licence or registration of the investment fund or investment fund administrator.

Waiver of Provisions:

The Commission, if satisfied that to do so would not be prejudicial to the public interest has the power to direct that all or any of the provisions in the Act or Regulations shall not apply or will apply subject to such modifications as may be specified to any person or class of person. Also, a direction granted by the Commission may be subject to any conditions as the Commission may see fit to specify and may be revoked at any time at the discretion of the Commission.

Custodian:

The Regulations require an investment fund to appoint one or more persons as custodians of the assets of the investment fund unless the operators of the fund certify in writing that the structure of the investment fund or the nature of the assets of the investment fund are such that they do not require that a custodian be appointed to hold the assets of the investment fund. However, the Commission has the power to determine that an investment fund is required to appoint a custodian.

A custodian of an investment fund is required to be either (i) a bank or trust company with an unrestricted licence issued by the Central Bank of The Bahamas; (ii) such other bank or trust company or financial institution licensed in a prescribed jurisdiction and having paid-up capital as set down in the Regulations or (iii) such other person as approved by the Commission.

Minimum Number of Directors of Companies:

The Regulations require for an investment fund that is a company to have a minimum of two director.

Transitional Provisions:

The transitional provisions of the Act provide as follows:

(a) A mutual fund in existence immediately before the commencement of the Act carrying on business as a licensed or authorised fund under the Mutual Fund Act, 1995 is deemed to have complied with the requirements of licensing under the Act. However, such a mutual fund shall submit to the Commission full details as required by the Commission regarding its classification and structure within nine months of the commencement of the Act.

(b) A mutual fund carrying on business immediately before the commencement of the Act as an exempt fund pursuant to Section 3(4), Mutual Funds Act, 1995 may continue to carry on business for nine months after the promulgation of the Regulations if the mutual fund applies to a licensor in the prescribed manner within 90 days after the promulgation of the Regulations to be licensed as an investment fund and the application is not refused within the nine months period.

(c) A mutual fund carrying on business immediately before the commencement of the Act as an exempt fund pursuant to Section 3(6), Mutual Funds Act, 1995 may continue to carry on business for nine months after the promulgation of Regulations provided that the investment fund applies to the Commission in the prescribed manner within 90 days after the promulgation of the Regulations to be registered as a recognized foreign fund and the application is not refused within the nine month period.

(d) A person who immediately before the commencement of this Act was carrying on business as a licensed mutual fund administrator under the Mutual Funds Act, 1995, is deemed to have complied with the requirements for licensing under the Act save that the mutual fund administrator shall be required to comply with the paid-up capital requirements established in the Regulations and must provide the Commission with evidence of such compliance within nine months of the promulgation of the Regulations.

Surrender of Licence or Registration:

An investment fund shall in the prescribed manner notify the Commission in writing of its intention to surrender its licence or registration, at least fourteen days prior to the effective date of the surrender and shall also surrender to the Commission any certificate issued as evidence of its being licensed or registered.

Transfer to and from the jurisdiction:

An investment fund transferring to The Bahamas from another jurisdiction is required to notify the Commission within seven days of the transfer supplying to the Commission certain information as required under the Act. Such a fund has thirty days within which to obtain an investment fund licence.

An investment fund transferring from The Bahamas to another jurisdiction is required to notify the Commission in the prescribed form at least fourteen days prior to the effective date of the transfer and is required to surrender to the Commission any certificate issued as evidence of it being licensed or registered.

Transfer of Investment Fund Administrator:

An investment fund which transfers from one investment fund administrator to another shall notify the Commission in writing within 14 days of the effective date of the transfer.

Termination of Administration Agreement:

An investment fund administrator shall inform the Commission in writing of its intention to terminate its administration agreement with an investment fund at least 30 days prior to the date of the proposed termination. The Act requires for an investment fund to appoint a new investment fund administrator at least seven days prior to the date of termination and to notify the Commission in writing of such appointment. If a fund fails to appoint a new administrator in the required time, such fund shall be liquidated and have its licence revoked by the Commission.

Dormant Investment Fund:

An investment fund which ceases trading and liquidates its assets without formally liquidating its structure is a dormant fund and such a fund is required to notify the Commission in writing within 14 days of becoming dormant. A dormant fund may re-launch its operations within one year from the date of it becoming dormant which period can be extended by the Commission for a total period not exceeding 18 months.

Winding-up of Investment Fund:

An investment fund is required to notify the Commission in writing that it has commenced winding-up within 14 days of such commencement and upon the conclusion of such winding-up is required to submit to the Commission within 14 days such evidence of winding-up as the Commission may reasonably require.

Annual Declaration for Investment Funds:

An investment fund is required to renew its licence or registration on an annual basis by submitting to the Commission on or before the 31st day of January in each year a written declaration that all information filed with the Commission is current and applicable.

Annual Declaration for Investment Fund Administrators:

An investment fund administrator shall on or before the 31st day of January in each year along with paying its annual licence fee submit to the Commission a written declaration that all information filed with the Commission is current and applicable along with its annual licence fee.

APPENDIX 2: Registrants and Licensees of the Commission as at December 31, 2003

BROKER-DEALERS (Class I) – Companies that recommend, solicit or effect transactions in securities for the account of others, buy and sell securities either on their own behalf or in a fiduciary capacity, manage securities portfolios for others, advise others as to the purchasing, selling or exchanging of securities and underwriting or distributing issues of securities, or purchasing and offering such securities for sale as a dealer, are required to register with the Commission as a Broker-Dealer(Class I).

Companies registered as Broker-Dealers (Class I)

–

Alliance Investment Management Ltd.
Banca del Gottardo
Banco Atlantico (Bahamas) Bank & Trust Limited
BankBoston Trust Company Ltd.
Credit Suisse First Boston (Bahamas) Ltd.
First Bahamas Capital Ltd.
LOM Securities (Bahamas) Limited
Oceanic Bank & Trust Limited
RBC Dominion Securities (Global) Limited
Royal Bank of Canada Trust Company (Bahamas) Limited

BROKER-DEALERS (Class II) – Companies that recommend, solicit or effect transactions in securities for the account of others, buy and sell securities either on their own behalf or in a fiduciary capacity, manage securities portfolios for others and advise others as to the purchasing, selling or exchanging of securities are required to register with the Commission as a Broker-Dealer (class II).

Companies registered as Broker-Dealers (Class II) –

Ansbacher (Bahamas) Limited
Arner Bank & Trust (Bahamas) Ltd.
Banc Agricol (Bahamas) Limited
Banca del Sempione (Overseas) Ltd.
Bank Hofmann (Overseas) Limited
Bank Leu Limited (Nassau Branch)

Banque Privee Edmond de Rothschild Ltd.

Banque SCS Alliance (Nassau) Ltd.
Behring International Asset Management Limited
BNP Paribas Private Bank & Trust Bahamas Ltd.
BSI AG - Nassau Branch
BSI Overseas (Bahamas) Ltd.
BSI Trust Corporation (Bahamas) Limited
Caledonia Corporate Management Group Ltd.
CIBC Trust Company (Bahamas) Limited
Credit Lyonnais Suisse (Bahamas) Limited
Credit Suisse (Bahamas) Ltd.
Darier Hentsch Private Bank & Trust Ltd.
Deltec Bank & Trust Ltd.
Dominion Investments (Nassau) Ltd.
Elco Bank & Trust Company Limited
Euro-Dutch Trust Company (Bahamas) Limited
Ferrier Lullin Bank & Trust (Bahamas) Limited
Hottinger Bank & Trust Limited
J. Safra Bank (Bahamas) Ltd.
Lloyd's TSB Bank & Trust (Bahamas) Limited
MeesPierson (Bahamas) Limited
MMG Bank & Trust Ltd.
National Bank of Canada (International) Limited
Pasche Bank & Trust Limited
Pictet Bank & Trust Limited
Private Investment Bank Limited
Quantum Wealth Management Limited
RIG Investment Advisors Limited
RMF Investment Products (Bahamas) Limited
Safra International Bank & Trust Ltd.
Santander Central Hispano Bank & Trust (Bahamas) Ltd.
SG Hambros Bank & Trust (Bahamas) Ltd.
Syz & Co. Bank & Trust Limited
The Private Trust Corporation Limited

The Winterbotham Trust Company Ltd.
UBS (Bahamas) Ltd.
Union Bancaire Privee (Bahamas) Limited
Union Bancaire Privee (Nassau Branch)
United European Bank & Trust (Nassau)
Limited

SECURITIES INVESTMENT ADVISORS – Any person providing investment management services to clients for a fee is required to register with the Commission as a Securities Investment Advisor.

Companies registered as Securities Investment Advisors –

Alternative Asset Advisors S.A.
Bahamas Securities (1987) Limited
Bearbull International Ltd.
Benchmark Advisors (Bahamas) Ltd.
Black & Associates Limited
Braun & CIE Ltd.
Colina Financial Advisors Limited
Dolphin Capital Management Limited
Emerald Key Advisors Ltd.
Fidelity Merchant Bank & Trust Limited
FTC Asset Management (Bahamas) Limited
Hang Seng Bank Trustee (Bahamas) Limited
Hofschidt Global Select Inc.
Holdun Investment Management Limited
I.C.L. Bahamas Inc.
Leopold Joseph (Bahamas) Ltd.
Moore Park Asset Management Limited
Shayne Davis
Sonja Bethel
Nordica Investment Management Limited
Oceanic Investment Management Limited
Octogone Fund Management Limited
Pearl Investment Management Limited
Sentinel International Asset Management Ltd.
Templeton Global Advisors Limited
Thorand Bank & Trust Ltd.
Van Daalen International Ltd.

UNRESTRICTED INVESTMENT FUND ADMINISTRATORS – Persons carrying on the business of mutual fund administration in respect of an unlimited number of funds that they are also able to license, is required to be licensed as an Unrestricted Mutual Fund Administrator.

Companies licensed as Unrestricted Mutual Fund Administrators –

Ansbacher (Bahamas) Ltd.
Arner Bank & Trust Ltd.
BBA Creditanstalt Bank Ltd.
BBM Bank Limited
BSI Overseas (Bahamas) Ltd.
Banco Atlantic Bank & Trust
Banco del Sempione (Overseas) Limited
Banco Santander Trust & Banking Corp (Bahamas) Limited
Bank of Nova Scotia Trust Co. Ltd.
Banque Privee Edmond de Rothschild Ltd.
Banque SCS Alliance (Nassau) Ltd.
Cardinal International Bank & Trust Co. Ltd.
CIBC Trust Company (Bahamas) Ltd.
Citco Bank & Trust Company (Bahamas) Limited
Citco Fund Services (Bahamas) Limited
Cititrust (Bahamas) Limited
Cardinal International Corp. Ltd.
Credit Suisse First Boston (Bahamas) Limited
Custom House Administration & Corp. Services Ltd.
Deerfield International Administrative Services Limited
Deltec Bank & Trust Ltd.
Dominion Management Services Limited
Fidelity Merchant Bank & Trust Limited
Finter Bank & Trust (Bahamas) Ltd.
Fortis Fund Services (Bahamas) Limited
Genesis Fund Services Limited
Guaranty Trust Bank Limited
HSBC Private Banking (Bahamas) Limited
Hottinger Bank & Trust Ltd.
JP Morgan Chase Private Bank of the Bahamas Limited

Leopold Joseph (Bahamas) Limited
Lloyds TSB Bank & Trust (Bahamas) Limited
Oceanic Bank & Trust (Bahamas) Ltd.
Oceanic Fund Services Limited
Olympia Capital International Inc.
PIB Trust Co. Ltd.
Private Trust Corporation Limited, The
Safra International Bank & Trust Ltd.
Sentinel Bank & Trust Co. Limited
SG Hambros Bank & Trust (Bahamas) Limited
Swiss Financial Services (Bahamas) Limited
Templeton Global Advisors Limited
Thorand Bank & Trust Limited
Trident Corporate Services (Bahamas)
Limited
United European Bank & Trust (Nassau)
Limited
W & P Fund Services Limited
The Winterbotham Trust Company Limited.

RESTRICTED MUTUAL FUND ADMINISTRATORS -
Persons carrying on the business of mutual fund administration in respect of a limited number of funds identified in the license of the administrator is required to be licensed as a Restricted Mutual Fund Administrator.

Companies licensed as Restricted Mutual Fund Administrators –

Amicorp Fund Services N.V.
Ansbacher Investment Management (CI) Ltd.
Derivatives Portfolio Management Limited
Fortis Fund Services (Ireland) Limited
Fortis Fund Services (IOM) Ltd.
Goldman Sachs (Cayman) Trust Limited
Hemisphere Management Limited
Lion Corporate Services Limited
Lombard Odier Darier Hentsch Private Bank & Trust Limited
Management International (Dublin) Limited
Orbitex Management Limited
Royal Bank of Canada Trust Company (Bahamas) Limited
Security Fund Administration Limited

SEI Investments Mutual Fund Services Limited
Sterling Management Limited
Strategic Resources Corporation

MUTUAL FUND ADMINISTRATORS EXEMPTED FROM OBTAINING A LICENCE – Persons carrying on business of mutual fund administration in respect of one mutual fund only are able may be exempted from obtaining a mutual fund administrator’s license.

Companies exempted from having to obtain a mutual fund administrators license -

Colina Financial Advisors Ltd.
Montaque Securities International Ltd.
Votorandim Bank Limited

LICENSING & REGISTRATION OF INDIVIDUALS

The Commission also registers persons under the following categories:

Securities Investment Advisor – An individual that advises others as to the investing in or selling of securities or who is primarily engaged in giving advice regarding the investment of funds and/or manages securities portfolios for clients on a discretionary or non-discretionary basis is required to register as a Securities Investment Advisor.

Principal – The Chief Executive Officer/Managing Director and Compliance Director of a registered Broker-Dealer are required to be licensed as principals. Other senior officials can also be so registered.

Broker/Stockbroker – Any individual who deals and trades in securities and/or supervises the activities of a Broker-Dealer firm must register as a Broker/Stockbroker.

Associated Persons – Any person who is an employee of a Broker-Dealer who performs securities related functions except those specifically reserved for Brokers/Stockbrokers as well as purely clerical staff must be registered as an associated person.



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