

SECURITIES COMMISSION OF THE BAHAMAS

# ANNUAL REPORT

2016





# MISSION

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

# FUNCTIONS

The functions of the Commission are to:

- advise the Minister on all matters relating to the capital markets and its participants;
- maintain surveillance over the capital markets and ensure orderly, fair and equitable dealings in securities;
- foster timely, accurate, fair and efficient disclosure of information to the investing public and the capital markets;
- protect the integrity of the capital markets against any abuses arising from financial crime, market misconduct and other unfair and improper practices;
- promote an understanding by the public of the capital markets and its participants and the benefits, risks, and liabilities associated with investing;
- create and promote conditions that facilitate the orderly development of the capital markets; and
  - perform any other function conferred or imposed on it by securities laws or Parliament.

- Section 12, Securities Industry Act, 2011

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30 June 2017

The Hon. K. Peter Turnquest, MP  
Minister of Finance  
Ministry of Finance  
Cecil Wallace-Whitfield Centre  
West Bay Street  
Nassau, The Bahamas

Dear Minister Turnquest:

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 2016. 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 "Tonya Bastian Galanis". The signature is fluid and cursive, with a small dot at the end.

Tonya Bastian Galanis  
**Chairman**



“

Increased engagement enhances both the Commission’s ability to respond to global developments impacting securities regulation and its capacity to represent local regulatory concerns to international standard setters.

”

*Tonya Bastian Galanis*, Chairman

## Chairman’s Message

The Securities Commission of The Bahamas (the Commission) progressed its strategic agenda significantly during 2016, the second year of the 2015-2017 strategic plan. I am pleased to present this annual report, which provides an overview of the progress of many initiatives over the year, as well as the Commission’s audited financial statements for the period.

### The Capital Markets

The capital markets in The Bahamas saw advances in 2016, despite continued sluggishness in the Bahamian economy generally. The Bahamas International Securities Exchange (BISX) recorded increased trading volumes and values for 2016 compared with the previous year. The volume of shares traded increased to 5,553 million for the twelve-month period ending 30 December 2016, while the trading value nearly doubled to \$40.07 million. The trading volume and value for the corresponding twelve-month period for 2015 were 3.223 million and \$21.89 million, respectively.

The BISX All-Share Index increased from 1,823.95 for the twelve-month period ending 31 December 2015 to 1,938.21 for the twelve-month period ending 30 December 2016. Market capitalisation at 31 December 2016 comprised shares with a market capitalisation of \$4.437 billion and bonds with a face value of \$579 million.

### International Engagement

The Commission’s strategic goals under its three-year plan included increasing its engagement with regional and international securities regulatory bodies. An increased engagement enhances both the Commission’s ability to

respond to global developments impacting securities regulation and its capacity to represent local regulatory concerns to international standard setters.

This commitment was evident in the Commission hosting, in November 2016, a meeting of the Inter-American Regional Committee (IARC) of the International Organization of Securities Commissions (IOSCO) and the second general meeting for 2016 of the Council of Securities Regulators of the Americas (COSRA). The meetings brought together high-level executives from securities regulators from 18 jurisdictions in the Americas to discuss cross-cutting securities regulatory matters.

By hosting the IARC/COSRA meetings, the Commission underscored its commitment to international best practices and global regulatory standards. Simultaneously, the meeting provided the leaders of these regulatory bodies the opportunity to learn first-hand about The Bahamas’ capital markets, financial services industry, and their impact on our economy.

Executive Director Christina Rolle and I represented the Commission at IOSCO’s 41<sup>st</sup> Annual Conference, held in Lima, Peru, 8-12 May 2016. The conference facilitated timely, high-level discussions on regulatory matters of particular interest to the Commission, including on new ways for small and medium enterprises to access capital market funding, the challenges involved with regulating crowdfunding, and the risks and opportunities presented by Fintech.

### Legislative and Enforcement Developments

The Securities Industry (Amendment) Act, 2016 came into effect on 22 December 2016. The Act enhances the

Commission's enforcement powers, particularly regarding its authority to conduct investigations, to cause regulatory hearings to be held, and to impose sanctions. These important changes set the stage for the introduction of the Securities Industry (Disciplinary Proceedings) (Hearings and Settlements) Rules, 2017 (the "Disciplinary Rules"), which commenced 7 February 2017. The amendments and the Disciplinary Rules support the strategic objective of fostering and enforcing compliance with legislation administered by the Commission.

The Securities Industry (Registration of Registrar and Transfer Agents) Rules, 2016 commenced on 20 July 2016, requiring for the first time any person who acts as a registrar and transfer agent for a public issuer in The Bahamas to register with the Commission. Further, all persons engaged in the regulated activity must establish themselves as a corporate structure which has a CEO and no fewer than two directors, and must not be registered under the Financial and Corporate Service Providers Act, 2000 (FCSPA), or as an investment fund administrator under the Investment Funds Act, 2003.

Another strategic goal identified in the Commission's strategic plan was the overhaul of the Investment Funds Act, 2003 and the Financial and Corporate Service Providers Act, 2000. A summary of the progress of these initiatives is contained elsewhere in this report. Both pieces of legislation will undergo public consultation during 2017 and the Commission aims to recommend the new legislation to the Minister of Finance for Cabinet's consideration in the second half of the year.

The Commission, in its capacity as the Inspector of Financial and Corporate Services, also developed draft rules for money lenders, which underwent a near three-month consultation period during 2016. It is envisaged that the Rules will be brought into force once requisite amendments to the FCSPA have been effected in 2017.

#### Board Updates

In January 2016, the Commission welcomed Mr. John A. Rolle, as an ex-officio Member, in his capacity as Governor of the Central Bank of The Bahamas replacing former Governor, Mrs. Wendy Craigg. Mr. Rolle's experience and exposure, locally and internationally, are welcomed additions to the Board's capacity.

The Board bade adieu to Mr. Jerry Butler, who served as deputy chairman from 1 July 2012 through 30 June 2016. I thank Mr. Butler for his many contributions to the Commission over those years, during which he also served as chair of the Audit Committee and represented the Commission at various events. Members were pleased to welcome their colleague Mr. Philip McKenzie to the deputy chairman's position.

#### Conclusion

The Commission will be in a concerted press over 2017 to finalise its strategic initiatives under the 2015-2017 strategic plan. Progress thus far has been strong. I thank Executive Director Rolle and the management team, and of course the dedicated cadre of professionals at the Commission who provide unstinting service and support, for the progress made during the year.

# Members of the Commission

As at 31 December 2016



Tonya Bastian Galanis  
Chairman



Christina Rolle  
Ex-Officio Member  
Executive Director



Michele Fields  
Ex-Officio Member  
Superintendent,  
Insurance Commission  
of The Bahamas



John Rolle  
Ex-Officio Member  
Governor, Central Bank  
of The Bahamas



Sharmie Austin  
Member



Marion Bethel  
Member



Arinthia Komolafe  
Member



Phillip McKenzie  
Member



Kimberley Rolle  
Member



Robin Scavella  
Member



### Structure and Membership of the Commission

Part II of the Securities Industry Act, 2011 (SIA) establishes the Commission as a body corporate and requires that the membership consist of a Chairman, a Deputy Chairman, up to seven Members appointed at the discretion of the responsible minister (the Minister of Finance) and three ex-officio Members: the Executive Director of the Commission, the Governor of the Central Bank of The Bahamas and the Superintendent of the Insurance Commission of The Bahamas. Members are appointed by the Minister based on their experience or demonstrated capacity in matters relating to industry and the disciplines of commerce, law, finance, economics and administration.

The SIA provides for the Chairman to hold office for a period of five years, and for the Deputy Chairman and other Members to hold their offices for a period not to exceed four years. All members, including the Chairman, are eligible for reappointment.

The current Members were appointed effective 1 July 2013, with the exception of the Board's ex-officio members. The ex-officio members took office as follows: Mr. John Rolle, Governor of the Central Bank, on 4 January 2016; Mrs. Michele Fields, Superintendent of Insurance Commission of The Bahamas, on 1 January 2012; and the Commission's Executive Director, Ms. Christina Rolle, on 26 January 2015.

During 2016, the term of Mr. Jerry Butler ended on 30 June. The Commission is grateful to Mr. Butler for his contribution to the work of the Board.

### Role of the Board

Members of the Commission have responsibility for the policy matters and governance of the organisation. The duties of the Board include overseeing the strategic focus of the organisation, as well as establishing Rules and Guidelines applicable to the investment funds, securities and capital markets.

### Activities of the Board

The Board held 12 regular meetings and 1 extraordinary meeting during 2016. In addition, Members used a round robin process 3 times to expedite the approval of matters requiring immediate action.

### Committees of the Board

The Board has appointed three committees to assist it in the execution of its duties: the Legislative Committee, the Audit Committee, and the Human Resources Committee. The Chairman and the Executive Director serve as ex-officio members on all committees.

During the year, the Legislative Committee held six meetings, the Audit Committee held four meetings and the Human Resources Committee held six meetings.

The *Legislative Committee* reviews existing and proposed legislation pertinent to the industries regulated or supervised by the Commission. It also provides input and assistance on other significant legal issues.

Members: Mr. Philip McKenzie—Chair; Mrs. Kimberley Rolle; and the Commission's appointed representative, Ms. Mechelle Martinborough, Legal Counsel.

The *Audit 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.

Members: Mrs. Michele Fields—Chair; Mrs. Arinthia Komolafe; Mrs. Kimberley Rolle; and the Commission's appointed representative, Mrs. Monique Sands, Financial Controller.

The *Human Resources Committee* assists the Commission in establishing and reviewing remuneration and other related policies for employees of the Commission.

Members: Mrs. Arinthia Komolafe—Chair; Mrs. Sharmie Austin, Ms. Marion Bethel and the Commission's appointed representative Mrs. Bernadette Gibson, Human Resources Manager.



“

In many ways, 2016 was a resetting of the Commission's foundation—new foundation for what the Commission will become.

”

*Christina Rolle*, Executive Director

## Executive Director's Remarks

Two thousand sixteen was a pivotal year for the Securities Commission of The Bahamas (the Commission) with much of the year focused on the Commission's long term vision and objectives. The hallmark of the year, however, is how our progress on these efforts is transforming the regulation of the investment funds, securities and capital markets, as well as the oversight of financial and corporate service providers.

### Operational Efficiency

Over the years, priorities for the Commission have included enhancing its systems and processes, and deepening resources to improve efficiency and effectiveness. Efforts to automate the organisation's document management process neared completion at the end of 2016 and the review and consolidation of databases progressed according to schedule. We are redefining how data and information is gathered, shared, processed, and stored within the Commission. This is key to deepening our understanding of the markets we regulate and positioning the Commission to implement an effective risk-based supervision programme. Hand in hand with data collection, however, is the risk of cyber-attacks and in recognition of the increasing global threats, the Commission underwent a comprehensive vulnerability and penetration testing with a view to enhance its data security and reduce cyber risks.

The Commission also implemented audit software to support on-site examinations and encryption software to enhance data security. Accounting software was upgraded to enhance integration of financial information with other electronic systems, automate invoicing, and bring new efficiencies to the reconciliation of registrant accounts.

To further enhance our effectiveness, there were several organisational changes made. Notably, the Office of the Executive Director was reorganised to comprise two separate units, one focusing on communications and investor education, the other on policy and compliance. Further, a working group was established to lead the effort on implementation of the risk-based approach to supervision for all sectors we regulate. These restructuring initiatives are facilitating a greater focus on critical elements of the Commission's work.

Of course, systems and processes are meaningless without properly skilled, qualified and engaged human resources. To this end, the Commission continues its commitment to capacity building with strong focus on leadership development and succession planning, development of thought leadership and technical capacity. To realise this enhanced capacity, the Commission developed staff through exposure to international discussions and training, promoting and financially supporting the CPA, CFA, FRM, CFE, ICA and other professional designations, as well as organising robust in-house training on a range of technical as well as managerial topics.

### Enhancing the Regulatory Framework

Chairman Bastian Galanis would have reported on the changes that have been realised in securities laws and laws governing financial and corporate service providers during 2016.

In addition to these, the Commission also launched major legislative initiatives during the year. With the launch of a project to completely overhaul the Investment Funds Act in July 2016, two top-tier law firms were engaged to act as drafting and technical consultants for the development of

the legislation. The Commission also assembled a project team for the overhaul, consisting of a small group of leading industry professionals. The new Act is being designed to meet International Organization of Securities Commissions (IOSCO) and other international standards and best practices for the regulation of collective investment schemes.

The Commission also substantively progressed the overhaul the Financial and Corporate Service Providers Act. In this regard, the Commission convened a number of focus groups during the year with representatives of various financial or corporate services operators. Extensive drafting work on the proposed legislation was completed in-house and we are anticipating draft legislation being issued for Consultation in the summer of 2017.

#### CGSR Chairmanship

In its capacity as the Chair and Secretariat of the Caribbean Group of Securities Regulators (CGSR) for the 2016-2017 period, the Commission was pleased to host the annual CGSR Conference and Workshop in The Bahamas, 20 – 22 April 2016. The workshop focused discussions on the development, regulation and support of Caribbean capital markets in order that they can better fulfil their vital roles in funding the real economy and contribute to desired national development.

World-class speakers and thought-leaders presented on timely topics including the role securities regulators play in maintaining market confidence and financial stability, the risks and opportunities presented by technological developments and the shared challenges and experiences of Caribbean securities supervisors. Representatives from financial regulators of more than 15 Caribbean countries attended the event, which was co-sponsored by the Caribbean Regional Technical Assistance Centre (CARTAC).

#### Investor Education

Adjacent to the CGSR conference and workshop, the Commission hosted the International Forum for Investor Education (IFIE), Americas Chapter's first meeting of its working group for content development and delivery. Financial education experts joined representatives from Caribbean securities regulators for the workshop. The training focused on providing technical expertise to assist with content development and delivery, kick-starting investor education initiatives, communication strategies as well as the use of social media, among other things.

As a potential game changer for investor education in The Bahamas, the Commission has launched a project to imbed a comprehensive financial literacy programme in the national curriculum of the public school system. A proposal for an initial yearlong pilot programme was reviewed with representatives from the Ministry of Education, including the Minister of Education, and as a result, the Commission received the greenlight and support in order to proceed. Though incorporation of financial literacy in the curriculum will not solve all of the investor education issues we face, we see this as avenue to consistently reach thousands of young Bahamians across our archipelago.

#### Relocation

The Commission has long been pursuing a solution to its physical space challenges, having outgrown its current premises in Charlotte House. The effort to find a suitable alternative came to fruition on 7th November 2016, with the closing of the purchase of UBS Corporate Centre on East Bay Street. We are now looking forward to transitioning to these new premises which will facilitate the Commission's present size and continued growth into the foreseeable future.

#### Conclusion

In many ways, 2016 was a resetting of the Commission's foundation—new foundation for what the Commission will become. The Management and staff have once again ploughed on with passion and drive, proving their belief in, and deep commitment to, the Commission's core mandate. This type of commitment is invaluable and I feel blessed and honoured to lead such a team.

As we look to 2017, the fruits of our labours will become evident. New challenges will no doubt be pursued. I have no doubt, though, that the Commission is prepared to face these challenges and to fully embraced its purpose which is to contribute to the develop of The Bahamas and its people.

# Management Team

As at 31 December 2016



Christina Rolle  
Executive Director



Christian Adderley  
Deputy Manager,  
Policy & Compliance



Alysia Archer-Colebrooke  
Manager, Administration



Omara Bingham  
Manager, Authorisations



Sandra Duncombe  
Manager, Market  
Surveillance



Bernadette Gibson  
Manager, Human  
Resources



Mechelle Martinborough  
Legal Counsel



Stewart Miller  
Deputy Manager,  
Communications &  
Investor Education



Lesley Pearson  
Manager, Inspections

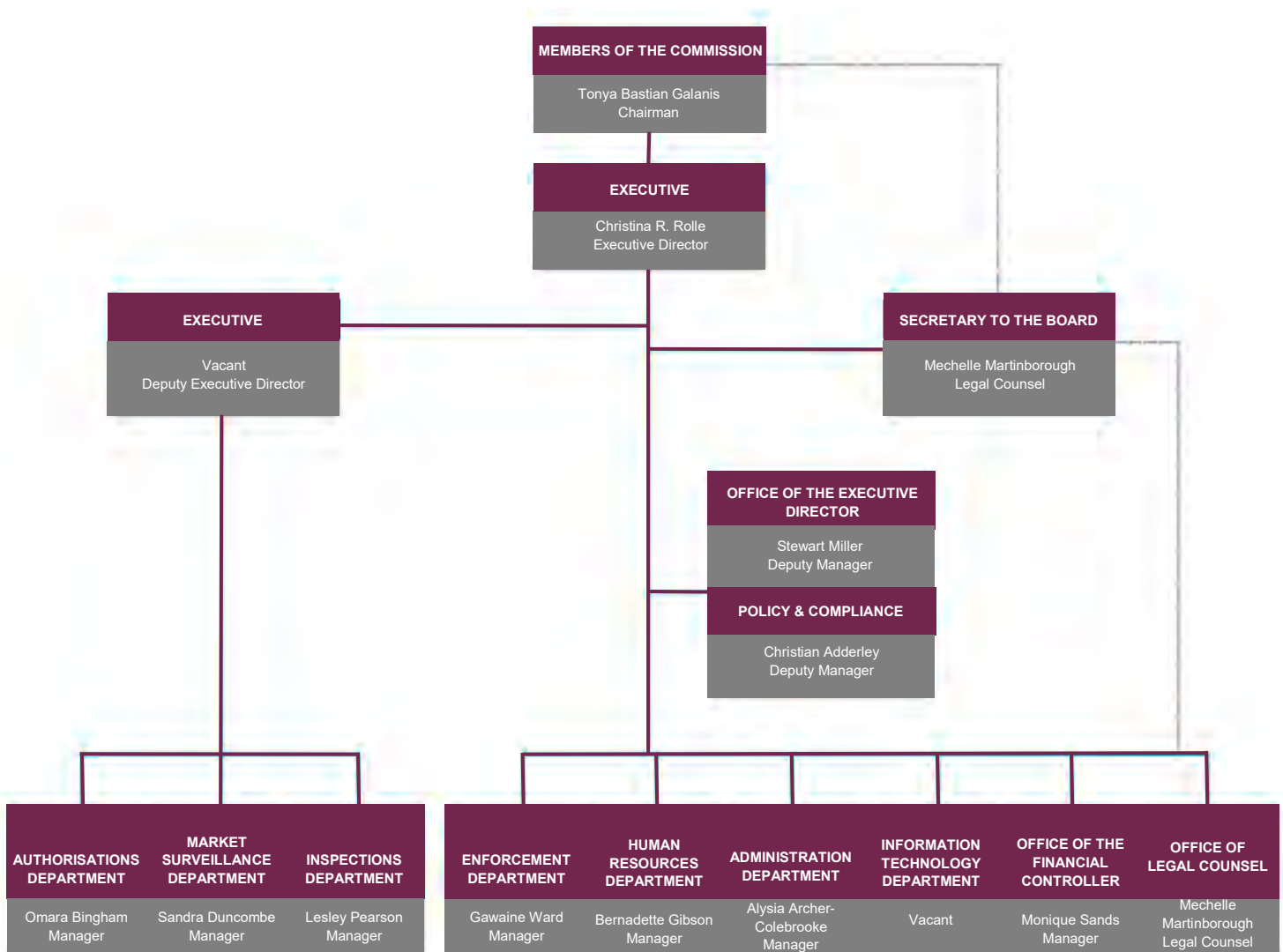


Monique Sands  
Financial Controller



Gawaine Ward  
Manager, Enforcement

# Organisational Overview



At 31 December 2016, the Commission was comprised of 10 departments/offices. These included 3 supervisory departments (Authorisations, Inspections and Market Surveillance), 2 non-supervisory departments (Enforcement and the Office of Legal Counsel) and 5 operational departments (Administration, Human Resources, Information Technology, Office of the Executive Director and Office of the Financial Controller).

## Staff Complement

The staff complement rose from 75 at the end of 2015 to 78 at the end of 2016, an increase of 4%. Of the 78 staff members, 72 were full-time employees and 6 were temporary/contract employees. Staff qualifications included 43 bachelor's degrees, 15 master's degrees and 9 professional designations at 31 December 2016. The staff count by department appears below.

Administration	13	Inspections	14
Authorisations	9	Market Surveillance	11
Enforcement	5	Office of the Executive Director	11
Human Resources	4	Office of Legal Counsel	4
Information Technology	3	Office of the Financial Controller	4

## Organisational Updates

### Improving Human Capital

The Commission recognises the relationship between its human capital and its ability to effectively discharge its mandate. Over the year, the Commission remained focused on procuring and developing skills necessary for an increasingly complex regulatory and supervisory environment.

#### *Recruitment and Staffing*

The Commission increased its overall staff complement by 4%, from 75 at 31 December 2015 to 78 at 31 December 2016. During the year, nine persons were recognised and promoted to various levels in areas of Authorisations, Inspections, Administration, Information Technology and Office of the Executive Director.

In March, Ms. Lesley Pearson joined the Commission as Manager of the Inspections Department. Ms. Pearson is a Certified Public Accountant with a background in audit, tax and private client accounting.

The search for a candidate to fill the position of Deputy Executive Director was underway in 2016. At yearend, the Commission was in the final stages of the selection process.

#### *Enhancing Staff's Technical Capacity*

The Commission continued to provide local and international training to staff as well as support to staff undertaking professional designations and certifications in disciplines germane to the functions of the Commission. In 2016, staff members participated in training programmes with various organisations and agencies including the International Organization of Securities Commissions, the Caribbean Regional Technical Assistance Centre, the Financial Transactions and Reports Analysis Centre of Canada, the U.S. Securities and Exchange Commission, the Association of Certified Fraud Examiners (Bahamas Chapter), the International Forum for Investor Education, and the Bahamas Institute of Financial Services.

Areas of training included risk-based supervision, small and medium enterprises (SME) financing through the capital markets, securities market growth and development, suspicious transactions reporting, investor education content development and delivery, fraud detection as well as other technical and soft skills training.

In addition, two staff members were provided study leave to obtain postgraduate degrees and those pursuing professional certifications and designations were provided with financial support. Further, the Commission facilitated staff access to Harvard Business Review online resources to allow them to close skills gaps.

### Improving Efficiency

Improving the efficiency of day-to-day operations is a top priority for the Commission. Work continued on improving the management of the Commission's records through the

use of a document management system. The digitisation of registrant information was completed during 2016 and the digitisation of all non-registrant information commenced. Additionally, the Commission added several modules to the document management system to further enhance the effectiveness of the software, including an autoindex module to assist with the quick and accurate indexing of files. In 2017, the Commission intends to introduce modules to manage workflow and automatically index documents using barcodes.

In November, relevant staff members underwent training in an inventory management software which tracks and provides reports on office supplies. The software is expected to come on stream in early 2017.

#### *Electronic Database System*

The Commission also continued working to implement a new software application that can collect, validate, process and analyse data from registrants and licensees. The design of the related database was completed in August and a team was organised to populate the database with historic information. This population of the database is expected to be completed in 2017.

### Health and Wellness Initiatives

The Commission's health and wellness programme is now in its second year and continues to be well-received by staff. During the year, the Commission's health care provider and its team of professionals commended the staff on meeting the recommended daily steps count and improving on other health markers. The Commission launched this programme in 2015 with a view of improving staff well-being and increasing productivity. In the interest of protecting staff's emotional well-being the Commission invited a prominent psychologist to speak to staff on coping with stress and loss, after the devastating effects on some staff members from Hurricane Matthew in early October.

Previously, in July, the Commission also arranged and executed a blood drive to build camaraderie among staff and support a good cause.

### Relocation

Plans to relocate the Commission's offices progressed significantly during the year. The purchase of UBS Corporate Centre on East Bay Street by Poinciana SPV Ltd. was completed on 7 November 2016. The Commission is relocating to accommodate the increased number of staff members required to effectively carry out its mandate. The Commission would be a tenant in this space along with other financial regulatory institutions.

## Supervisory Updates

### Draft Policies Issued for Public Consultation

The Commission publishes notices, guidelines, bulletins, and policies describing its views on the interpretation, application, or enforcement of laws in the discharge of its function. In 2016, the Commission issued two policies for public consultation and comment:

- assessment of automatic administrative penalties
- filing of audited financial statements

With these policies the Commission sets out the daily automatic administrative penalties for persons delinquent in their filing requirements.

Both policies are expected to come into effect in the first quarter of 2017.

### Updates to Inspections Programme

In September, the Commission implemented a work programme for clearing facilities. This programme addresses the Bahamas Central Securities Depository (BCSD) specifically as it is the only registered clearing facility at the time of this report.

The work programme largely focuses on assessing:

- compliance and risk management systems for combatting money laundering, and the financing of terrorism;
- the segregation of duties of key personnel;
- the company's risk profile;
- adherence to the Commission's financial reporting obligations;
- adherence to the Commission's registration requirements; and
- the company's adherence to internal procedures concerning its registrar and transfer agent services.

BCSD underwent its first inspection at the launch of this work programme.

### New Audit Software

A new audit management system was implemented during the first quarter of 2016. This software has brought about improved efficiency in conducting on-site examinations by centralising information, integrating workflow, reducing paper costs and providing comprehensive tracking, recording and risk-based planning.

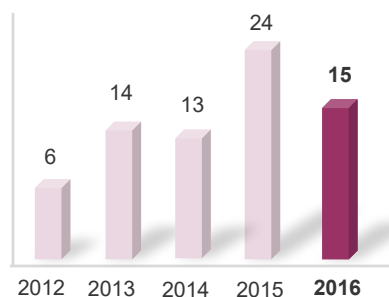
# Securities Industry Act, 2011

## Firms

### Registration Activity

In 2016, the Commission approved 15 firms to conduct registrable securities business, representing a decrease of nine from 2015. Categories for which these firms were approved appear in the Table 1.

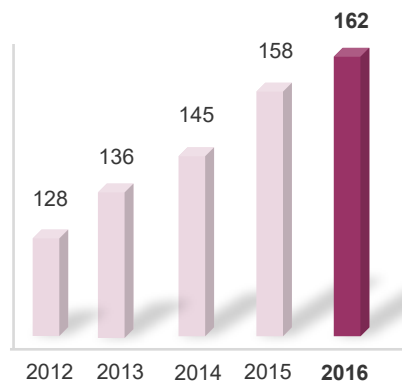
**Figure 1: Total number of approvals each year from 2012-2016**



### Total Registered Firms

The total number of registered securities firms in the industry experienced a net increase of 2.5%, from 158 at 31 December 2015 to 162 at 31 December 2016. Table 2 shows total registered firms by category as at 31 December 2016.

**Figure 2: Total number of registered firms from 2014-2016**



**Table 1: Categories for which firms were approved in 2016**

Category	Total
Dealing as agent only	2
Advising on securities only	2
Managing securities and Advising on securities	8
Managing securities only	1
Dealing as Principal or Agent and Arranging deals in securities	1
Dealing as Principal or Agent, Managing securities and Advising on securities	1
<b>Total</b>	<b>15</b>

**Table 2: Registered securities firms by category at 31 December 2016**

Category	Total
Dealing as principal or agent	1
Dealing as agent only	8
Arranging deals in securities only	1
Managing securities only	22
Advising on securities only	10
Dealing as agent only and Arranging deals in securities	4
Dealing as agent only and Advising on securities	1
Arranging deals in securities and Managing securities	1
Arranging deals in securities and Advising on securities	1
Managing securities and Advising on securities	55
Dealing as principal or agent, Arranging deals in securities and Advising on securities	1
Dealing as principal or agent, Managing securities and Advising on securities	3
Arranging deals in securities, Managing securities and Advising on securities	3
Dealing as principal or agent, Arranging deals in securities, Managing securities and Advising on securities	16
Dealing as agent only, Arranging deals in securities, Managing securities and Advising on securities	33
Clearing facilities	1
Marketplaces	1
<b>Total</b>	<b>162</b>



## Individuals

### Registration Activity

In 2016, 127 individuals were approved under the Securities Industry Act (SIA), a decrease of 63 individuals compared to the previous year. Table 3 shows the approvals of individuals by the functions they were approved to perform.

**Table 3: Categories for which individuals were approved in 2016**

Category	Total
CEO	15
Compliance Officer	43
Representative – Trading	12
Representative – Discretionary management	2
Representative – Advising	15
CEO and Representative – Discretionary management	3
CEO and Representative – Advising	1
Representative – Trading and Advising	5
Representative – Discretionary management and Advising	15
CEO, Representative – Discretionary management and Advising	6
Representative – Trading, Discretionary management and Advising	9
CEO, Representative – Trading, and Advising	1
<b>Total</b>	<b>127</b>

### Total Registered Individuals

As at 31 December 2016, there was a total of 850 registered individuals under the SIA, a net increase of 34 individuals (4%) compared to the end of 2015 when there were 816 registered individuals (see Figure 4).

**Figure 4: Total number of registered individuals each year from 2014-2016**

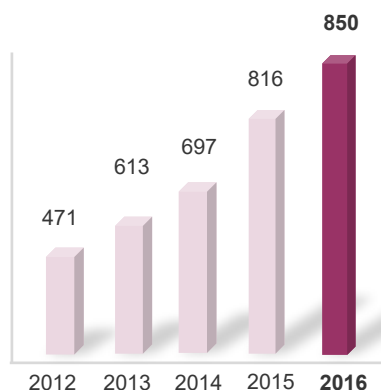


Table 4 breaks down the number of registered individuals by category as at 31 December 2016.

**Table 4: Total number of registered individuals by category at 31 December 2016**

Category	Total
CEO	123
Compliance Officer	153
Representative – Trading	184
Representative – Discretionary management	102
Representative – Advising	138
CEO and Representative – Trading	7
CEO and Representative – Discretionary management	38
CEO and Representative – Advising	8
Representative – Trading and Discretionary management	9
Representative – Trading and Advising	14
Representative – Discretionary management and Advising	37
CEO, Representative – Trading and Advising	1
CEO, Representative – Discretionary management and Advising	18
Representative – Trading, Discretionary management and Advising	14
CEO, Representative – Trading, Discretionary management and Advising	4
<b>Total</b>	<b>850</b>

## Inspections

The types of inspections conducted by the Commission are typically categorised as routine and “for-cause”. Routine inspections are performed with an average frequency of four years. Inspections ‘for-cause’ are based upon credible information coming to the Commission’s attention and are performed on an “as needed” basis.

In cases where banks and trust companies fall under the regulatory scope of both the Commission and the Central Bank of The Bahamas (the Central Bank), inspections may be conducted jointly with the Central Bank.

A total of 33 inspections were conducted during 2016, an increase of nine inspections from the previous year.

Of the 33 inspections conducted, 31 were routine and two were inspections “for-cause”. Four of the 31 routine inspections were conducted jointly with the Central Bank.

**Table 5: Total number of inspections of registered firms by category in 2016**

Category	Total
Dealing as agent only	1
Managing securities only	3
Managing securities and Advising on securities	14
Dealing as principal or agent, Managing securities and Advising on securities	1
Dealing as principal or agent, Arranging deals in securities, Managing securities and Advising on securities	13
Clearing facilities	1
<b>Total</b>	<b>33</b>

## Legislative and Regulatory Updates

### Updates on Anti-money Laundering/Countering the Financing of Terrorism (AML/CFT) Work

Throughout 2016, the Commission participated in the work of The Bahamas' Caribbean Financial Action Task Force (CFATF) Group that focused on matters related to the country's anti-money laundering and countering of terrorist financing regimes. This Group consists of representatives from financial regulators and the Government of The Bahamas. A draft National Risk Assessment (NRA), was completed and remains only to be formalised. An action plan to address the key risks and vulnerabilities stemming from deficiencies identified in the NRA for the securities market was also concluded. This action plan is scheduled to be reviewed by the Vulnerabilities sub-committee of the Group by its next meeting in 2017.

The Commission was also involved as an integral participant in the fourth round CFATF Peer Review of The Bahamas, which occurred between 29 December 2016 and 15 January 2017.

### Implementation of the SIA

#### RTA Rules and SIA (Amendment) Act

In exercise of its powers under section 58 of the SIA, the Commission developed Securities Industry (Registration of Registrar and Transfer Agents) Rules (RTA Rules), which sets out registration requirements for persons seeking to perform registrar and transfer agent services in or from The Bahamas. The RTA Rules were made effective on 20 July 2016.

The Securities Industry (Amendment) Act came into effect on 22 December 2016 and the Commission expects that the previously drafted Securities Industry (Disciplinary Proceedings) (Hearing & Settlements) Rules will be implemented in 2017. The Commission further proposed amending the SIA to allow, among other things, for the creation of a Hearing Panel, which is required under the Securities Industry (Disciplinary Proceedings) (Hearing & Settlements) Rules.

The Commission also issued the Assessment of Automatic Administrative Penalties Policy and the Filing of Audited Financial Statements Policy for public consultation and comment. Refer to the Supervisory Updates on page 15 for more information.

### Regulatory Capital Rule

The Commission continued to make progress toward developing a regulatory capital framework, a component of bringing the SIA closer to full effect. In 2016, reporting models under the Basel risk-based approach and input received from industry were added to the discussion. The Commission is in the process of drafting Regulatory Capital Rules and would be issuing a white paper for review internally by the Legislative Committee in 2017.

### Crowdfunding

The Commission is in the process of developing Crowdfunding and Small and Medium Enterprises Rules which are designed to provide an alternative method for entrepreneurs to access finances via the capital markets and to reduce the requirements associated with a traditional IPO. In December, the Commission met with a number of industry participants to solicit input on the draft Rules. Review of the draft Rules by the Legislative Committee is expected to conclude by June 2017.

### Organisation for Economic Co-operation and Development (OECD) Common Reporting Standard (CRS)

The Government of The Bahamas passed the Automatic Exchange of Financial Account Information Act, in December 2016, which will come into force on 1 January 2017. This Act provides the legal framework needed to implement the OECD's Common Reporting Standard (CRS) for the Automatic Exchange of Financial Information in 2018.

The CRS calls for the exchange of information automatically between Global Forum member countries. Members have the option to adopt a multilateral or bilateral approach to sharing tax information with each other. On 21 December 2016, The Bahamas announced that it had elected to use the bilateral approach to implementation, which would allow The Bahamas to enter into agreements with countries on a country-by-country basis; however, this approach is still open to consideration by The Bahamas. A final determination is expected by summer 2017.

## Industry Engagement

The Commission communicates with stakeholders and the public at large in a number of forms including industry briefings, courtesy calls, press releases, public consultations, the Commission's website, speeches and special presentations.

An industry briefing held for registrants under the SIA and Investment Funds Act (IFA) on 28 July. The briefing highlighted regulatory developments that impacted the capital markets, securities and investment funds industries in The Bahamas. The format of the briefing was also

expanded this year to include panel discussions on cyber security and crowdfunding. The discussions focused on opportunities, threats and current trends regarding both cyber security and crowdfunding in the securities and investment funds markets as well as potential regulatory and oversight issues.

The Commission continued its courtesy call initiative into 2016. This initiative was started to increase engagement with registrants. During these visits, registrants were introduced to contact persons in the Commission and had the opportunity to discuss any concerns, the legislation and the industry in general. The Commission also used these visits to understand registrants' business models and operations better.

The Commission also made presentations at a number of stakeholders events, including BACO and BICA and participated in an interview with the Bahamas Investor on the Commission's role in the capital markets among other topics.

## Capital Markets Overview

The Bahamian economy remained sluggish in 2016. Economic growth of the country continued to be negatively impacted by the bankruptcy of the Baha Mar Resort project and hurricane related costs. Further, Moody's Investors Service downgraded the bond and issuer ratings of the Government of The Bahamas from Baa2 to Baa3. The key drivers of the downgrade were prospects of low medium-term growth and the continued rise in the government's debt-to-GDP ratio; which would have a ripple effect on any potential investor wanting to trade or invest in the local capital markets. In order for the credit rating to improve, Moody's stated that "a strengthening of budgetary processes, including expenditure controls and improvements in revenue collections that lead to a rapid deficit reduction would be credit positive."

The Bahamas International Securities Exchange (BISX) continued to serve as a critical element in the development of the Bahamian capital markets. On 21 November 2016, BISX launched its new website which was designed to be user friendly and provide more information on exchange related activities and listed companies.

At 31 December 2016, the market was comprised of 52 primary market listings which included 20 common share listings with a market capitalisation of \$4.11 billion (2015: \$3.82 billion), 13 preference share listings with a market capitalisation of \$327 million (2015: \$327 million) and 19 bonds with a face value of \$579 million (2015: \$505 million).

For the year 2016, trading volumes and values posted an overall increase when compared to 2015. The volume of shares traded on BISX in 2016 was 5.552 million (valued at \$40.07 million) compared to 2015 when volume of shares traded was 3.223 million (valued at \$21.89 million). Additionally, the BISX All-Share Index closed at 1,938.21 (2015: 1,823.95).

### Capital Raising

Private placement offerings totaled \$92.97 million in 2016, a decrease compared to 2015 (\$106 million). There were no Initial Public Offerings (IPOs) in 2015 or 2016.

### International Capital Markets Review

The global economy has been faced with a number of uncertainties, such as the United Kingdom's decision to leave the European Union (Brexit), deflationary pressures in Europe and the increase in corporate debt in China. As a result, the World Economic Outlook (WEO) has estimated that global GDP growth was 3.1% in 2016. Nonetheless, the WEO is projecting global GDP growth to increase to 3.3% in 2017 and to around 3.5% in 2018.

U.S. stock markets hit record highs in December 2016. This was a positive ending to a year that began in a downward spiral with the decline in energy prices and continued due to uncertainty around geopolitical events such as the Brexit and U.S. elections. At yearend 2016, the US finished with strong economic indicators: unemployment was at its lowest at 4.6% while fourth quarter GDP rose at a 1.9% annual rate. As a result of the improved performance in the U.S. economy, the Federal Reserve raised the benchmark interest rate range to 50-75 basis points in December and indicated three possible rate increases in 2017, consequently, this drove activity in the debt market with the proposed future rate increases.

The economy in the Eurozone has remained strong despite the political uncertainty from the Brexit and the consequences of the failed constitutional referendum in Italy. The Eurozone GDP increased by 0.4% in Q4 of 2016 which was due to the increase in private consumption and public spending. Further during the first half of 2017, it is expected that employment, nominal wages and capital formation will increase. However, political uncertainty is not expected to decrease as a result of the upcoming elections being held in France, Germany and the Netherlands.

According to the Asian Development Bank (ADB), in its Asia Development Outlook, Asia expanded by 5.6% despite a downgrade to the ADB's 2016 forecast for the region. In East Asia, China grew by 6.7%. The key drivers of the growth were private consumption and services, which was supported by increases in both the nominal wage and employment. China stock markets had a poor performance in 2016, as at year end, Shanghai Composite Index was down 12.5% and Japan's Nikkei 300 fell by 2.2%. South China Morning Post stated that the poor stock performance is due to the "lack of policy clarity from regulators and the weakness of the nation's currency pushing investors overseas."

## Investment Funds Act

### Investment Funds Administrators

Investment Fund Administrators are licensed as either Unrestricted Investment Fund Administrators (UIFAs), or Restricted Investment Fund Administrators (RIFAs). UIFAs have the authority to license Professional and Specific Mandate Alternative Regulatory Test (SMART) Funds and may oversee the administration of an unlimited number of investment funds. RIFAs can only provide administrator services to investment funds licensed or registered by the Commission. The Commission may exempt an investment fund administrator from licensing if it is satisfied that the administrator would otherwise be granted a RIFA licence, will administer no more than one specified investment fund, and complies with prescribed financial requirements.

#### Licensing Activity

During 2016, two unrestricted investment fund administrators were licensed by the Commission.

#### Total Licensed Investment Fund Administrators

At 31 December 2016, there were 62 investment fund administrators, a net decrease of four administrators from 2015. Of the total, 32 were UIFAs, 27 were RIFAs and three were exempted from licensing. A year-over-year comparison of total investment fund administrators appears in Table 6.

**Table 6: Comparison of total number of investment fund administrators from 2012-2016**

Category	2012	2013	2014	2015	2016
Unrestricted	32	30	32	32	32
Restricted	28	29	27	30	27
Exempt	3	3	3	4	3
Total	63	62	62	66	62

### Investment Funds

There are three licensing categories for investment funds operating in The Bahamas: the Professional Fund, the SMART Fund and the Standard Fund.

The Professional Fund is available only to accredited investors. The SMART Fund is a flexible asset management product designed to cater to the specific needs of investors. In this category of investment fund, both the operational and regulatory structure of the investment fund are specifically designed by industry participants, subject to approval by the Commission. The Standard Fund can only be licensed by the Commission and is generally for retail investors.

There is also one registration category for investment funds called Recognised Foreign Fund. Recognised Foreign Funds are investment funds listed on a prescribed securities exchange or licensed or registered in a prescribed jurisdiction.

#### Licensing Activity

A total of 112 investment funds were licensed or registered by the Commission, or licensed by UIFAs and filed with the Commission in 2016. UIFAs filed 102 of the total new licenses, 99 of which were new licences, two transferred to new administrators and one changed fund categories. The Commission licensed or registered another 10 investment funds.

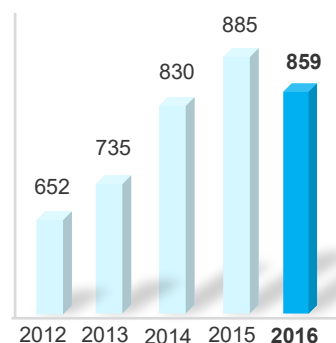
Of the investment funds licensed or registered in 2016 by the Commission, 2 were licensed as Standard Funds, 4 were licensed as Professional Funds, 3 were licensed as SMART Funds (1 SMART Fund Model 002, 2 SMART Fund Models 007) and 1 was registered as a Recognised Foreign Fund.

Of the investment funds licensed in 2016 by UIFAs, 22 were licensed as Professional Funds and 80 were licensed as SMART Funds (1 SMART Fund Model 001, 25 SMART Fund Models 002, 14 SMART Fund Models 004, 1 SMART Fund Model 005, 39 SMART Fund Models 007).

#### Total Licensed and Registered Investment Funds

The total number of licensed and registered investment funds as at 31 December 2016 stood at 859, reflecting a net decrease of 26 funds or 2.9% versus the 885 funds at the end of 2015 (see Figure 5).

**Figure 5: Total number of investment**



The number of Professional, SMART, Standard and Recognised Foreign Funds as at 31 December 2016 appears in Table 7.

Investment funds that do not meet the criteria to be categorised as Bahamas-based investment funds but have some nexus to The Bahamas are referred to as non-Bahamas-based investment funds in the IFA. These

investment funds must appoint a representative approved by the Commission. The overall number of representatives of non-Bahamas-based investment funds registered with the Commission as at 31 December 2016 is 21, a net increase of 8 from year end 2015.

**Table 7: Total Bahamas-based investment funds by category at 31 December 2016**

Category	Total
Standard Funds	35
Professional Funds	221
Recognised Foreign Funds	35
SMART Fund Model 001	4
SMART Fund Model 002	158
SMART Fund Model 003	10
SMART Fund Model 004	276
SMART Fund Model 005	3
SMART Fund Model 006	1
SMART Fund Model 007	116
<b>Total</b>	<b>859</b>

## Examinations

The types of examinations conducted by the Commission are typically categorised as routine and “for-cause”. Routine examinations are performed with an average frequency of four years. Inspections ‘for-cause’ are based upon credible information coming to the Commission’s attention and are performed on an “as needed” basis.

In cases where banks and trust companies fall under the regulatory scope of both the Commission and the Central Bank of The Bahamas (the Central Bank), examinations may be conducted jointly with the Central Bank.

A total of 10 examinations were conducted during 2016, an increase of three inspections over the previous year.

Of these examinations, nine were routine and one was an examination “for-cause”.

## Legislative and Regulatory Updates

### *New Investment Funds Legislation*

Significant progress was made in 2016 toward overhauling the existing investment funds legislation. Two consultants were contracted and substantial portions of the draft investment funds legislation was completed. A team assembled by the Commission, consisting of a small group of industry participants and a legislative drafter selected by the Attorney General, also reviewed and provided input to the draft legislation at various stages of the drafting process.

The proposed investment funds legislation is expected to address the oversight of investment fund operators, investment fund managers, and custodians. It is also expected to rationalise the obligations placed on the various parties primarily by ensuring the appropriate level of

fiduciary duties, ongoing reporting obligations and investigation and enforcement authority is aligned to appropriate parties and activities.

Other areas of focus will be ensuring the legislation meets the standards to enable non-European Union (non-EU) Alternative Investment Fund Managers in The Bahamas access to the Alternative Investment Fund Managers Directive (AIFMD) passport; establishing the minimum standards for the management and valuation of investment funds’ assets; and appropriately defining the criteria to determine when a nexus for regulation exists for non-Bahamas-based investment funds.

### *Alternative Investment Fund Managers Directive (AIFMD)*

There were no Memoranda of Understanding (MOUs) signed by the Commission in 2016, leaving the total number of MoUs entered into by the Commission at 27. These MoUs allow Bahamas-based alternative investment fund managers (AIFMs) to manage and market alternative investment funds (AIFs) in markets supervised by co-signatory regulators. The list of all AIFMD MoUs may be found at [www.scb.gov.bs](http://www.scb.gov.bs).

## Industry Engagement

The Commission held an industry briefing for registrants under the IFA and Securities Industry Act (SIA) on 28 July 2016. The briefing highlighted regulatory developments that impact the capital markets, securities and investment funds industries in The Bahamas.

The Commission continued its courtesy call initiative into 2016. This initiative was started to increase engagement with registrants and licensees. During these visits, registrants and licensees are introduced to contact persons in the Commission and have the opportunity to discuss any concerns, the legislation and the industry in general. The Commission also uses these visits to better understand registrants and licensees’ business models and operations.

# Financial and Corporate Service Providers Act

## Registration Activity

An applicant under the Financial and Corporate Service Providers Act (FCSPA) may be licensed as an individual, unincorporated body, partnership, or company. During 2016, there were 13 applicants approved under the FCSPA, representing a decrease of 19 per cent from the 16 approvals granted in 2015 (see Figure 6).

## Total Registered Financial Corporate Service Providers

The number of active licensees at 31 December 2016 increased to 325, a net increase of three registrants from 31 December 2015. Yearend totals reflect new licensees, closures and any revocation of licences during the year (see Figure 7).

At 31 December 2016, 249 were performing corporate services only, 40 licensees were performing financial and corporate services, 36 were performing financial services only (see Figure 8).

## Examinations

For Financial and Corporate Service Providers (FCSPs), routine examinations are conducted by both the Inspections Department and agents appointed by the Commission in its capacity as the Inspector of Financial and Corporate Services (Inspector). One of the requirements to be an agent is licensure by the Bahamas Institute of Chartered Accountants (BICA).

During 2016, there were 37 examinations of FCSPs. Fifteen examinations were conducted by agents and 22 were conducted by the Inspector, compared to 2015 when there were 38 conducted by agents and two by the Inspector.

Of the 37 examinations, 14 were of companies, 18 were of individuals, four were of partnerships and one was an unincorporated body.

## Legislative and Regulatory Updates

### New FCSP legislation

During 2016, significant progress was made in completing the new FCSP legislation, which involved the creation of new principal and subsidiary legislation. The Commission took a consultative approach to drafting the legislation and early in the process organised focus group meetings with industry participants to gather their input and gain a comprehensive view of the various operations and issues in the financial and corporate services sectors.

Meetings were held with a wide range of industry participants, including, money lenders, collection agencies,

Figure 6: Total number of approvals each year from 2012-2016

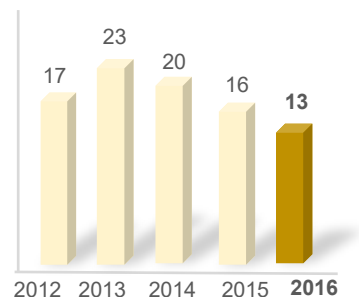


Figure 7: Total number of licensees from 2012-2016

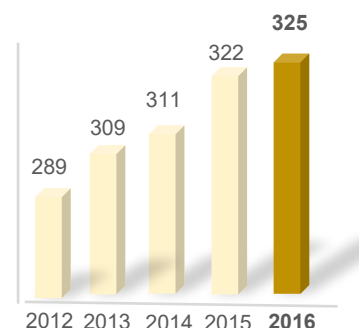
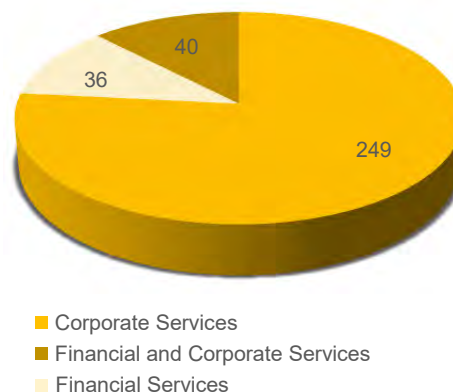


Figure 8: Comparison of services provided as at 31 December 2016



corporate service providers, pawn brokers and in-house financing representatives from furniture and used car businesses. The legislation was drafted internally and is currently under review by management.

#### *Amendment to the FCSPA*

Pending passage of the new FCSP legislation, the Commission proposed changes to the existing FCSPA primarily to allow the issuance of subsidiary legislation such as Rules, introduce statutory definitions for the activities licensed under the existing FCSPA, and to also to strengthen the Inspector's authority under the Act. The proposed changes, via the FCSP (Amendment) Bill, were issued for public consultation from 11 October to 15 November 2016 and is currently with Cabinet for approval.

#### *Money Lender Rules*

The Commission drafted Money Lender Rules to enhance consumer protection in the FCSP sector by clarifying the definition of, and enhancing the regulation of money lending activity by non-bank lenders. The draft Rules were issued for public consultation from 23 August to 16 November 2016 and are currently with Cabinet for approval.

#### *Management of Accounting Records*

The International Business Companies (Accounting Records) Order was gazetted on 21 October 2016. The Order, among other things, requires a company to keep a declaration at its registered office stating that the company is maintaining reliable accounting records and that the accounting records are available through its registered agent. As this Order has effect upon entities licensed under the FCSPA, the Commission as Inspector of Financial and Corporate Services has finalised Guidelines on the Management of Accounting Records, taking into account the provisions of the Order. Final review of these Guidelines is pending by the Commission's Legislative Committee.

### Agent Training

The Inspector provides annual training to BICA licensees who desire to be agents of the Inspector. Agent training was held in conjunction with the Compliance Commission on 18 February 2016 in Nassau. Agents in Freeport were provided with a web link to live stream the training via the internet. The purpose of the training was to demonstrate how to execute the on-site examination of a FCSP at the standard expected by the Inspector.

### Industry Engagement

For FCSPs, the Inspector hosted an industry briefing in New Providence on 3 March. The briefing highlighted ongoing issues and developments relating to the financial and corporate service industry. The topics addressed at the briefings highlighted information pertinent to the operations of FCSPs including services requiring licensing, the registration process for MLROs, legislative developments, and continuing obligations. The Financial Intelligence Unit was invited to participate and to reinforce fundamental concepts related to anti-money laundering/countering the financing of terrorism (AML/CFT) as well as to provide updates. Licensees located outside of New Providence were provided with a web link to live stream the briefing via the internet.

## International Requests Overview

Pursuant to Sections 34 and 36 of the Securities Industry Act, 2011 (SIA), the Commission is authorised to exchange information with its international counterparts for administrative, supervisory and enforcement purposes including criminal proceedings related to securities laws.

Being signatory 'A' to the International Organization of Securities Commissions' (IOSCO) Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMoU), where the Commission receives a request from an international counterpart that is also an 'A' signatory to the MMoU, information is exchanged in accordance with the terms of the MMoU. The Commission evaluates every request received to ensure that it meets minimum information sharing requirements, as set out in legislation and where applicable, the terms of the IOSCO MMoU. International requests for information must be related to securities laws and are mainly in relation to administrative and supervisory actions of overseas regulatory authorities.

In 2016, 17 requests were received and 21 requests were brought forward from previous periods. Of the 17 requests received, 7 originated from the United States, 3 from Italy, 1 from Canada, 1 from France, 1 from Germany and 4 from other jurisdictions. During 2016, 34 requests were closed and 6 requests were "stayed" during the year. Requests are categorised as 'stayed' in circumstances where the matter is being litigated, or where the Commission determines that a request is deficient but allows the requesting authority the opportunity to address any deficiencies. Stayed requests are not considered open requests, although the Commission continues to monitor the progress of such requests through to their final disposition. At the end of 2016, 4 matters remained open.

## Enforcement

As at 31 December 2016, 17 enforcement matters remained open, of which 11 were administrative and 6 involved litigation. The Commission received judgments in two of the litigation matters during the year resulting in one of the matters being completed. The Securities Industry (Amendment) Bill was passed by Parliament on 22 December 2016. This allows for the proposed Securities Industry (Disciplinary Proceedings) (Hearing & Settlements) Rules (the Rules) to come into effect, which is expected in early 2017. Because the Rules are required to address administrative hearings, none were addressed during the year.

On 30 November 2016, the Commission notified clients and custodians of Tillerman Securities Ltd. (TSL) of a petition filed in the Supreme Court on 7 November 2016 seeking the compulsory liquidation of TSL and the appointment of a provisional liquidator. The Commission enclosed a copy of the Preservation Order granted by the judge freezing all account balances of clients, depositors and customers of TSL pending further Order by the Court. The Commission further advised that a hearing is scheduled for 23 January 2017.

The full text of public notices, investor alerts and press releases issued by the Commission, along with copies of judgments may be found on the Commission's website [www.scb.gov.bs](http://www.scb.gov.bs).



## Investor Education

Investor education is one of a securities regulator's primary investor protection tools. The Commission has a statutory charge to promote an understanding by the public of the capital markets and its participants and the benefits, risks and liabilities associated with investing (Securities Industry Act, 2011 s. 12). Further, Principal 3 of IOSCO's *Methodology for Assessing Implementation of the IOSCO Objectives and Principals of Securities Regulation* states that the regulator should play an active role in the education of investors.

Accordingly, the highlights of the Commission's investor education initiatives follow:

### Financial Literacy/Investor Education in the School Curriculum

Increasing the reach and scope of the Commission's investor education initiatives is a strategic priority. To further this goal, the Commission met with high-level representatives of the Ministry of Education, Science and Technology (MOEST), including Minister of Education, the Hon. Jerome Fitzgerald, on 19 May 2016 to discuss the introduction of financial literacy and investor education in the school curriculum.

The Ministry subsequently 'green-lighted' the Commission to commence development of a pilot programme with its support. The Commission is working to produce a one-year pilot, initially for launch in two junior-high school classes, to test results, and eventually to launch the programme throughout the curriculum.

The pilot program will focus on fundamental concepts such as budgeting, understanding the difference between saving and investing, understanding the basics of risk and diversification, the role of well-regulated capital markets in the economy, basic numeracy, compounding, the types of securities available in the Bahamian capital markets and the impact of inflation on wealth. The training will aim to effect behavioral changes with regard to saving and budgeting specifically, both of which are foundational behaviors for people who would be investors.

Although such a programme would not reach Bahamians already past the junior-high school level, incorporation within the school curriculum at the junior-high level would ensure that all students coming through the Bahamian education system would have been taught these essential 21<sup>st</sup> century life skills, regardless as to their academic focus in school by the time they graduate.

### CFAL's Junior Investor Education Programme

For another consecutive year, the Commission collaborated with Colina Financial Advisors Limited (CFAL) to deliver investor education content to high school students participating in its Junior Investor Education Programme (JIEP). In the programme, students at various schools participate in an investing competition trading a virtual portfolio of securities available in the Bahamian capital markets.

Using this programme, the Commission discussed with students the Commission's role in protecting investors and ensuring fair and efficient capital markets, and underscored the importance of financial planning. The Commission also provided CFAL with copies of its "Tips to Avoid Fraud and Scams" and "Making Your Money Grow" booklet for participating students at Central Andros High School and North Andros High School to help prepare them to be informed investors.

### J.A. Bahamas' College Bound Programme

The Commission supplemented Junior Achievement (J.A.) Bahamas' College Bound programme with investor education packets in March. The Commission's packets included the "Tips to Avoid Fraud and Scams" booklet and "Making Your Money Grow" booklet, which provide useful financial information about protecting yourself from being a victim of investment fraud, and other important concepts for college-aged students, such as about financial planning, and compounding of interest.

### Capacity Building

The Commission continued to enhance its capacity to deliver effective investor education programmes with available resources during the year. In 2016, the investor education team had a unique opportunity for training when the Commission hosted the first face-to-face meeting of the International Forum for Investor Education (IFIE) Americas Chapter Working Group in The Bahamas. The event was held 22-23 April 2016, adjacent to the Caribbean Group of Securities Regulators Conference and Workshop.



IFIE Americas Working Group members at the first face-to-face meeting held 22-23 April 2016.

The meeting focused on strategies to improve investor education content, content delivery methods and measuring the success of investor education initiatives. Amongst the trainers was Aflatoun, a financial education content delivery organization specialising in teaching children and young people. Participants also engaged in special training about repurposing investor education content to serve various initiatives for greater efficiency, among other things.

The working group facilitates regional securities regulators collaborating and pooling resources, shared experiences and lessons learnt for the development and execution of investor education programmes in the region. Further, group members have been able to tap into resources such as webinars presented by world leaders in the investor education/financial literacy realm through IFIE.

The Commission started work with the IFIE Americas Chapter Working Group in December 2015.

#### Other Initiatives

Representatives of the Commission made presentations at a number of seminars and engagements. These events allowed the Commission the opportunity to remind industry participants of their legislative obligations, which underpins the protection of investors and the orderly development of the capital markets. In 2016, these events included:

- SIA and Investment Funds Act (IFA) Briefing
- Financial and Corporate Service Providers Industry Briefing
- Bahamas Institute of Chartered Accountants (BICA) Accountants' Week
- Bahamas Association of Compliance Officers' MLRO Day
- ComplianceAid's Caribbean Basin Anti-Money Laundering and Financial Crimes Conference

Internally, much work was done in developing and updating investor education content for use in various publications, public service announcements, and on the Internet during 2016.

The Commission also gave its annual presentation to law students at Eugene Dupuch Law School. Further, the Commission participated in several career fairs, leveraging the opportunity to increase awareness of the Commission and its role in protecting investors.

## Affiliations and Memberships

The Commission is a member of various international, regional and local organisations. In addition to the organisations listed below, the Commission is also a member of the Offshore Group of Collective Investment Scheme Supervisors (OGCISS) and the Group of Financial Services Regulators (GFSR).

### International Organization of Securities Commissions (IOSCO)

Commission representatives attended IOSCO's 41st Annual Conference held 8-12 May 2016 in Lima, Peru. The conference focused on small and medium enterprise (SME) financing, investor protection and education, and the opportunities and challenges presented by new financial technologies, such as Fintech. The conference also explored initiatives to strengthen securities market resilience and ensure that securities markets continue to be sustainable sources of finance.

Members of the Commission also attended IOSCO's Asia Pacific Regional Training Seminar 3-5 February 2016, in Mumbai, India. The theme for the seminar was "Enforcement, Cooperation and the IOSCO MMoU". A number of topics were addressed including securities enforcement, investigations and deterrence, and the Enhanced MMoU (or "EMMoU"). The EMMoU is expected to give members enhanced powers, for e.g. to retrieve audit papers, compel attendance/testimony, freeze funds/assets where necessary, and obtain internet and telephone records. It was noted that the requirements may necessitate amendments to local legislation for many members.

Other events and training attended by the Commission included the Growth and Emerging Markets Committee Annual Meeting and Conference 12-22 January 2016, in Bali, Indonesia. The theme for this meeting and conference focused on cyber resilience and navigating the risk associated with an increasingly digitised financial system. Members of the Commission also attended IOSCO's Africa/Middle-East Regional Committee (AMERC) Training Seminar on "Risk-based Supervision and SME Financing through Capital Markets" held 26-28 January 2016, in Doha, Qatar. The topics discussed included systemic risk management from a capital markets perspective and compliance-based approach to risk-based supervision.

### Inter-American Regional Committee (IARC)/Council of Securities Regulators of the Americas (COSRA)



Securities regulators from 18 jurisdictions in the Americas, representatives of IOSCO, the IDB and a private bitcoin company at the IARC/COSRA meetings hosted by the Commission from 3 – 4 November 2016.

As a part of the Commission's initiative to enhance its international profile as an engaged regulator, the Commission served as host of the second of two 2016 general meetings of IOSCO's IARC and COSRA from 3-4 November 2016 in Nassau, The Bahamas. The Commission used the opportunity of hosting the meeting to have international counterparts and representatives from various standards setters interact with the Commission and its management team, and learn firsthand about the Bahamian capital markets and financial services industry. Securities regulators from 18 jurisdictions in the Americas, representatives of IOSCO and the International Development Bank (IDB) participated in the IARC/COSRA meetings.

### Caribbean Group of Securities Regulators (CGSR)

The Commission was appointed Chair and Secretariat of CGSR for 2016-2017 at the CGSR Conference and

Annual Meeting on 23 April 2015 in Runway Bay, Jamaica. CGSR was established to create a forum for regional securities regulators to discuss issues facing Caribbean securities and financial markets. It also facilitates the high-level discourse essential for regional regulators to present a strong, unified voice on shared regulatory concerns to international standards setters.

As Chair, the Commission hosted the 12<sup>th</sup> annual CGSR Conference and Workshop from 20–22 April 2016 in Nassau, The Bahamas. Representatives from more than 15 Caribbean countries were in attendance.

The conference and workshop was held under the theme "Regional Capital Market Development and Regulation". Speakers and workshop facilitators presented on timely topics including the role securities regulators play in maintaining market confidence and financial stability, the risks and opportunities presented by technological developments and the shared challenges and experiences of Caribbean securities supervisors.

### Caribbean Financial Action Task Force (CFATF)

The Commission attended the CFATF Plenary Meeting held in Montego Bay, Jamaica from 6-10 June 2016. The Bahamas submitted its comments to the 1<sup>st</sup> draft of the CFATF Mutual Evaluation Report (MER) at this Plenary. The Bahamas subsequently provided comments to the 2<sup>nd</sup> draft of the MER and is now awaiting the 3<sup>rd</sup> draft of the MER from the CFATF Secretariat.



## Financial Summary

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 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards. Comparative figures for the year ended 31 December 2015 are shown.

The Commission's income is mainly generated from fees charged to licensees, registrants and applicants under the Securities Industry Act, 2011 (the SIA), the Investment Funds Act, 2003, and the Financial and Corporate Services Providers Act, 2000 as well as funding from the Government of The Bahamas (the Government).

The Commission's fee income decreased by 7.3% from \$5.57 million to \$5.16 million in 2016. This resulted mainly from a reduction in penalty fees of \$0.25 million and a reduction of \$0.11 million in fees from securities industry licensees and registrants, with the latter resulting from a reduction of new applications for licences during 2016 as compared to 2015.

The Commission utilised funding from the Government in the amount of \$0.99 million to partially fund its operations in 2016. Additional Government subvention of \$0.28 million was used for the implementation of Commission's electronic database, a major information technology project.

The Commission continued to advance its strategic projects resulting in an increase in expenses of 19.9% from \$5.74 million in 2015 to \$6.88 million in 2016. Some key human resource deficiencies were filled in 2016 with a consequent 7.8% increase (\$0.32 million) in personnel expenses. The Commission progressed in the overhaul of the investment funds legislation, the implementation of its electronic database solution and other information technology initiatives, hence a \$0.33 million increase in professional fees. As part of its assessment of information technology resources, the Commission changed the estimated useful lives of computer hardware and software from five years to three years. This change was the major contributing factor to the \$0.27 million increase in depreciation expense.

The Commission expects expenditure will continue to increase in the near term as it continues to pursue strategic objectives revamping existing legislation, development of new legislation, information technology initiatives, recruitment of key human resources, and the relocation of its offices. Funding from Government subvention will be required to supplement operations to advance these projects.

**THE SECURITIES COMMISSION  
OF THE BAHAMAS**

**Financial Statements  
31 December 2016**



## Independent auditors' report

To the members of the Securities Commission of The Bahamas

### Our opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of the Securities Commission of The Bahamas (the Commission) as of 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### What we have audited

The Commission's financial statements comprise:

- the statement of financial position as of 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in net assets for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report.

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

### Independence

We are independent of the Commission in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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### Other information

Management is responsible for the other information. The other information comprises the annual report (but does not include the financial statements and our auditors' report thereon).

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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**Responsibilities of management and those charged with governance for the financial statements**

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

In preparing the financial statements, management is responsible for assessing the Commission's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management, as directed by the Government of The Bahamas, either intends to liquidate the Commission or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Commission's financial reporting process.

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**Auditors' responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Commission's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commission's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Commission to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



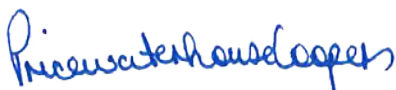
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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**Other Matter**

This report, including the opinion, has been prepared for and only for the Commission in accordance with the terms of our engagement letter and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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**Chartered Accountants  
Nassau, Bahamas**

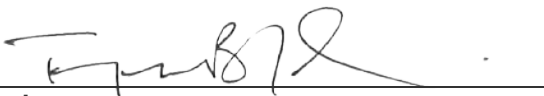
**30 June 2017**

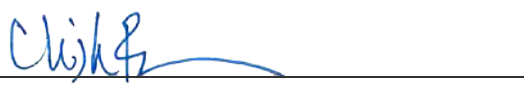
**The Securities Commission of The Bahamas**  
**(Established under the laws of the Commonwealth of The Bahamas)**

**Statement of Financial Position**  
**As of 31 December 2016**  
**(Expressed in Bahamian dollars)**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>		
Cash on hand and at banks	377,217	1,475,836
Term deposits (Note 4)	-	2,586,150
Accounts receivable (Note 5)	113,949	92,063
Prepaid expenses and other assets	63,622	30,741
Financial assets at fair value through profit or loss (Note 3)	3,057,708	-
Plant and equipment (Note 7)	532,140	592,726
	<u>4,144,636</u>	<u>4,777,516</u>
<b>Total assets</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	420,046	522,004
Other liabilities (Note 11)	537,414	197,519
Advance from the Consolidated Fund	-	150,000
Deferred income (Note 8)	2,415,427	3,136,244
	<u>3,372,887</u>	<u>4,005,767</u>
<b>Total liabilities</b>		
	<u><u>771,749</u></u>	<u><u>771,749</u></u>
<b>NET ASSETS</b>		
<b>REPRESENTED BY:</b>		
Surplus	771,749	771,749
Special purpose reserve (Note 9)	-	-
	<u><u>771,749</u></u>	<u><u>771,749</u></u>

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

  
 \_\_\_\_\_  
**Chairman**

  
 \_\_\_\_\_  
**Director**

30 June 2017  
 \_\_\_\_\_  
**Date**

The accompanying notes are integral part of these financial statements.

**The Securities Commission of The Bahamas**

**Statement of Comprehensive Income  
For the Year Ended 31 December 2016  
(Expressed in Bahamian dollars)**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>INCOME</b>		
Fee income		
Securities industry licensees and registrants	1,947,412	2,058,514
Investment funds	1,892,437	1,886,894
Investment fund administrators	713,217	778,333
Financial and corporate service providers	536,292	523,792
Penalties	48,469	298,104
Securities exchange	10,000	10,000
Examinations	5,714	4,175
Other	7,500	7,500
	<hr/>	<hr/>
Total fee income	5,161,041	5,567,312
Government subvention (Note 8)	1,273,737	109,825
Interest income	124,961	77,171
Other income	323,129	239,104
	<hr/>	<hr/>
<b>Total income</b>	<b>6,882,868</b>	<b>5,993,412</b>

The accompanying notes are integral part of these financial statements.

**The Securities Commission of The Bahamas**

**Statement of Comprehensive Income  
For the Year Ended 31 December 2016  
(Expressed in Bahamian dollars)  
(Continued)**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>EXPENSES</b>		
Salaries, wages and employee benefits (Note 10)	4,468,069	4,143,093
Rent	421,831	415,241
Training and conferences	359,499	269,565
Office	239,006	181,603
Depreciation (Note 7)	429,267	162,234
Utilities and property charges	131,530	147,653
Professional fees	473,456	146,669
Advertising and public relations	34,913	55,644
Repairs and maintenance	82,605	54,077
Provision for doubtful accounts (Note 5)	121,628	45,848
Printing and publications	40,660	40,888
Membership fees	37,268	29,877
Bank charges	17,369	16,483
Legislative initiatives	18,955	14,230
Investor education	3,376	9,463
Miscellaneous	3,436	10,126
	<u>6,882,868</u>	<u>5,742,694</u>
<b>Total expenses</b>		
	<u>6,882,868</u>	<u>5,742,694</u>
<b>Net income and total comprehensive income</b>	<u>-</u>	<u>250,718</u>

The accompanying notes are integral part of these financial statements.

The Securities Commission of The Bahamas

Statement of Changes in Net Assets  
For the Year Ended 31 December 2016  
(Expressed in Bahamian dollars)

	Surplus \$	Special Purpose Reserve \$	Total \$
Balance as of 1 January 2015	<u>521,031</u>	<u>-</u>	<u>521,031</u>
Total comprehensive income	<u>250,718</u>	<u>-</u>	<u>250,718</u>
<b>Balance as of 31 December 2015</b>	<b><u>771,749</u></b>	<b><u>-</u></b>	<b><u>771,749</u></b>
Balance as of 1 January 2016	<u>771,749</u>	<u>-</u>	<u>771,749</u>
Total comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>
<b>Balance as of 31 December 2016</b>	<b><u>771,749</u></b>	<b><u>-</u></b>	<b><u>771,749</u></b>

The accompanying notes are integral part of these financial statements.

The Securities Commission of The Bahamas

Statement of Cash Flows  
For the Year Ended 31 December 2016  
(Expressed in Bahamian dollars)

	2016	2015
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	-	250,718
Adjustments for:		
Interest income	(124,961)	(77,171)
Gain on disposals of plant and equipment	(154)	(21,290)
Depreciation	429,267	162,234
Provision for doubtful accounts	121,628	45,848
Interest received	67,253	54,261
<b>(Increase)/Decrease in operating assets</b>		
Accounts receivable	(143,514)	(92,486)
Prepaid expenses and other assets	(32,881)	14,191
<b>Increase/(Decrease) in operating liabilities</b>		
Accounts payable and accrued expenses	(101,958)	75,008
Other liabilities	339,895	197,519
Advance from consolidated fund	(150,000)	-
Deferred income	931,502	664,300
<b>Net cash from operating activities</b>	<b><u>1,336,077</u></b>	<b><u>1,273,132</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net decrease in term deposits	1,031,916	-
Purchase of financial assets at fair value through profit or loss	(3,000,000)	-
Purchase of investments in SPV	(1,652,319)	-
Purchases of plant and equipment	(368,612)	(292,322)
Proceeds on disposals of plant and equipment	85	790
<b>Net cash used in investing activities</b>	<b><u>(3,988,930)</u></b>	<b><u>(291,532)</u></b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(2,652,853)</b>	<b>981,600</b>
Cash and cash equivalents as of beginning of year	<u>3,030,070</u>	<u>2,048,470</u>
<b>Cash and cash equivalents as of end of year</b>	<b><u><u>377,217</u></u></b>	<b><u><u>3,030,070</u></u></b>

The accompanying notes are integral part of these financial statements.

The Securities Commission of The Bahamas

Statement of Cash Flows  
 For the Year Ended 31 December 2016  
 (Expressed in Bahamian dollars)  
 (Continued)

	2016	2015
	\$	\$
<b>CASH AND CASH EQUIVALENTS</b>		
Cash on hand and at banks	377,217	1,475,836
Term deposits	-	2,586,150
Term deposits with contractual maturities greater than three (3) months	-	(1,022,315)
Accrued interest	-	(9,601)
	<u>377,217</u>	<u>3,030,070</u>

The accompanying notes are integral part of these financial statements.

## The Securities Commission of The Bahamas

### Notes to the Financial Statements

31 December 2016

#### 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 Act establishes the structure, governance and funding of the Commission; accordingly, the Commission is not deemed to have a parent. 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: entities and individuals dealing in securities, arranging deals in securities, managing securities and advising on securities; investment funds; and investment fund administrators. 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. 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), under the historical cost convention and on a going concern basis. 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 2(f) and 2(g).

##### *New standards, amendments and interpretations adopted by the Commission*

Standards and amendments and interpretations to published standards that became effective for the Commission's financial year beginning on 1 January 2016 were not relevant to the Commission's operations and accordingly did not impact the Commission's accounting policies or financial statements.



## The Securities Commission of The Bahamas

### Notes to the Financial Statements 31 December 2016 (Continued)

#### 2. Summary of Significant Accounting Policies (Continued)

##### (a) Basis of preparation (continued)

###### *New standards, amendments and interpretations not yet adopted by the Commission*

With the exception of IFRS 9 *Financial Instruments* (IFRS 9), IFRS 15 *Revenue from Contracts with Customers* (IFRS 15), IFRS 16 *Leases* (IFRS 16) and IAS 7, *Cash flow statements* (IAS 7), 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 financial period of initial application.

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities, and replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income. The determination is made at initial recognition, and the basis of classification depends on the Commission's business model for managing its financial assets and the contractual cash flow characteristics of the financial asset. In addition, IFRS 9 will require the impairment of financial assets to be calculated using an expected credit loss model that replaces the incurred loss impairment model required by IAS 39. For financial liabilities, there are no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income for financial liabilities designated at fair value through profit or loss. The Commission has not yet assessed the full impact of adopting IFRS 9, which is effective for financial periods beginning on or after 1 January 2018.

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with its customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard is effective for annual periods beginning on or after 1 January 2018, and replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts* and related interpretations. The Commission has not yet assessed the full impact of adopting IFRS 15.

## The Securities Commission of The Bahamas

### Notes to the Financial Statements 31 December 2016 (Continued)

#### 2. Summary of Significant Accounting Policies (Continued)

##### (a) Basis of preparation (continued)

*New standards, amendments and interpretations not yet adopted by the Commission (continued)*

IFRS 16 defines a lease as a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. Lessees are required to recognise a lease liability reflecting future lease payments and a 'right-of-use' asset for most leases, with an optional exemption for certain short-term leases and leases of low value assets. The asset will be amortised over the term of the lease, and the lease liability measured at amortised cost. Accounting for lessors does not substantially differ from IAS 17 *Leases*. The Commission has not yet assessed the full impact of adopting IFRS 16, which is effective for financial periods beginning on or after 1 January 2019.

IAS 7 *Cash flow statements* (IAS 7) amendment introduces an additional disclosure requirement that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. This includes changes arising from; a) cash flows, such as drawdowns and repayments of borrowings; and b) non-cash changes, such as acquisitions, disposals and unrealized exchange differences. The Commission has not yet assessed the full disclosure impact of adopting the amendment of IAS 7, which is effective for financial periods beginning on or after 1 January 2017.

##### (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, and demand deposits and term deposits with banks with original contractual maturities of three months or less.

## The Securities Commission of The Bahamas

### Notes to the Financial Statements 31 December 2016 (Continued)

#### 2. Summary of Significant Accounting Policies (Continued)

##### (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 amount of the impairment loss is the difference between the asset's carrying amount and the present value of future cash flows, discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income. If in a subsequent period, the amount of the impairment loss 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 allowance account. When an account receivable is uncollectible, it is written off against the related allowance account. Recoveries of amounts previously written off are credited directly to the statement of comprehensive income.

##### (e) Financial assets

###### *Classification*

The Commission classifies its financial assets into the following categories: loans and receivables (accounts receivables and other assets) and financial assets at fair value through profit or loss (investments in debt securities). Management determines the classification of its financial assets at initial recognition and re-evaluates this at each reporting date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market, other than those that the Commission intends to sell in the short term or that it has designated as at fair value through profit or loss.

A financial asset is classified into the financial assets at fair value through profit or loss category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated by management. Financial assets designated as at fair value through profit or loss at inception are those that are managed and whose performance is evaluated on a fair value basis, and are intended to be held for an indefinite period of time but may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Information about these financial assets is provided internally on a fair value basis to the Commission's key management personnel. All of the Commission's investments in debt securities classified as at fair value through profit or loss have been so designated by management.

## The Securities Commission of The Bahamas

### Notes to the Financial Statements 31 December 2016 (Continued)

#### 2. Summary of Significant Accounting Policies (Continued)

##### (e) Financial assets (continued)

###### *Recognition and Derecognition*

Regular-way purchases and sales of financial assets are recognized on the trade date, which is the date that the Commission commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs, except for financial assets at fair value through profit or loss where transaction costs are expensed as incurred. Financial assets are derecognized when the rights to receive cash flows from them have expired or when they have been transferred and the Commission has also transferred substantially all risks and rewards of ownership.

###### *Measurement*

Loans and receivables are carried at amortized cost using the effective interest method, less any provision for impairment.

Financial assets at fair value through profit or loss are subsequently carried at fair value based on quoted prices for financial assets traded in active markets or valuation techniques, including recent arm's length transactions, discounted cash flow analyses and other valuation techniques commonly used by market participants for financial assets not traded in active markets.

Gains and losses arising from sales or changes in fair value of financial assets are recognized in the statement of comprehensive income in the financial period in which they arise.

##### (f) Impairment of financial assets

The Commission evaluates at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. By comparison, the amount of loss on financial assets at fair value through profit or loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of interest for a similar financial asset.

## The Securities Commission of The Bahamas

### Notes to the Financial Statements 31 December 2016 (Continued)

#### 2. Summary of Significant Accounting Policies (Continued)

##### (f) Impairment of financial assets (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of comprehensive income. When a financial asset is uncollectible, it is written off against the related allowance account. Recoveries of accounts previously written off are recognized directly in the statement of comprehensive income.

##### (g) Plant and equipment

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

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.

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 proceeds with the carrying amounts and are included in the statement of comprehensive income.

## The Securities Commission of The Bahamas

### Notes to the Financial Statements 31 December 2016 (Continued)

#### 2. Summary of Significant Accounting Policies (Continued)

##### (h) Accounts payable

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

##### (i) 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 financial 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 and specific projects of the Commission, are deferred and recognised as income in the financial period in which any conditions attached to them have been satisfied and by reference to the financial period in which the Commission recognises as expenses the related costs that the Government subvention is intended to compensate. 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.

##### (j) Employee benefits

The Commission has a defined contribution pension plan for all eligible employees, whereby the Commission makes contributions to a privately administered pension plan. The Commission has no legal or constructive obligations to pay further contributions if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior years. The Commission's contributions to the defined contribution pension plan are recognised in the statement of comprehensive income in the financial period to which they relate.

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

##### (k) 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 operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

## The Securities Commission of The Bahamas

### Notes to the Financial Statements 31 December 2016 (Continued)

#### 2. Summary of Significant Accounting Policies (Continued)

##### (l) 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.

##### (m) Corresponding figures

Where necessary, corresponding figures are adjusted to confirm with changes in presentation in the current year.

#### 3. Investments at Fair Value through Profit or Loss

The Commission ranks its investments in financial assets at fair value through profit or loss based on the hierarchy of valuation techniques required by IFRS, which is determined based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Commission's market assumptions. These two types of inputs lead to the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Commission considers relevant and observable market prices in its valuations where possible.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset.

The determination of what constitutes 'observable' requires significant judgment by the Commission. The Commission considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The fair value of financial instruments traded in active markets is based on quoted market prices as of the reporting date. A market is regarded as active if quoted prices are readily and regularly available from the exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in Level 1.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2.

The Securities Commission of The Bahamas

Notes to the Financial Statements  
31 December 2016  
(Continued)

3. Investments at Fair Value through Profit or Loss (Continued)

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently.

	2016 \$	2015 \$
<i>Level 2</i>		
Debt securities	<u>3,057,708</u>	<u>-</u>
<b>Total financial assets at fair value through profit or loss</b>	<b><u>3,057,708</u></b>	<b><u>-</u></b>

***Bahamas Government Registered Stock***

	2016		2015		
Maturity Date	Interest Rate	Nominal Value	Fair Value \$	Nominal Value	Fair Value \$
25 July 2025	4.4%	3,000,000	3,000,000	-	-
Accrued interest			<u>57,708</u>		<u>-</u>
<b>Total financial assets at fair value through profit or loss</b>			<b><u>3,057,708</u></b>		<b><u>-</u></b>

4. Term Deposits

The term deposits at 31 December 2015 earned interest of 2.00% to 2.25% per annum and matured within three (3) months of the year end.



The Securities Commission of The Bahamas

Notes to the Financial Statements  
31 December 2016  
(Continued)

5. Accounts Receivable

	<b>2016</b>	<b>2015</b>
	\$	\$
Investment funds and investment fund administrators	73,707	52,064
Financial and corporate service providers	100,223	49,765
Securities industry licensees and registrants	19,072	30,272
Other	<u>168,263</u>	<u>130,071</u>
	361,265	262,172
Provision for doubtful accounts	<u>(247,316)</u>	<u>(170,109)</u>
<b>Total</b>	<b><u>113,949</u></b>	<b><u>92,063</u></b>

Movements in the provision for doubtful accounts comprise:

	<b>2016</b>	<b>2015</b>
	\$	\$
Opening balance	170,109	124,261
Provision for doubtful accounts	121,628	45,848
Bad debts written off	<u>(44,421)</u>	<u>-</u>
<b>Closing balance</b>	<b><u>247,316</u></b>	<b><u>170,109</u></b>

6. Investments in SPV

In September 2016, the Commission agreed to hold 100% of the shares of Poinciana SPV Ltd. (a special purpose vehicle (SPV) incorporated in The Bahamas). The Commission's holding of the shares of Poinciana SPV Ltd. is expected to be temporary.

## The Securities Commission of The Bahamas

### Notes to the Financial Statements 31 December 2016 (Continued)

#### 6. Investment in SPV (Continued)

The Commission evaluated if it controls or exerts significant influence over Poinciana SPV Ltd. based on the guidance in *IFRS 10-Consolidated financial statements* and *IAS 28 - Investments in associates and joint ventures* respectively and concluded that it does not have controlling power or significant influence over Poinciana SPV Ltd. (See Note 12 for further information)

Movements in the investment in the SPV is as follows:

	2016 \$
Balance at the beginning of the year	-
Investment during the year	1,652,319
Utilisation of subvention to finance the investment	<u>(1,652,319 )</u>
	<u><u>-</u></u>

Poinciana SPV Ltd. owns real estate located on East Bay Street, Nassau, Bahamas which is composed of land and two Class A office buildings known as the UBS Corporate Center.

The Securities Commission of The Bahamas

Notes to the Financial Statements  
31 December 2016  
(Continued)

6. Investment in SPV (Continued)

The following table summarises the unaudited financial information of Poinciana SPV Ltd. as at or for the year / period ended 31 December:

<b>Summary Statement of Financial Position</b>	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Current assets	1,803,981	-
Investment Property	18,390,945	-
<b>Total assets</b>	<b>20,194,926</b>	<b>-</b>
Current liabilities	1,280,036	-
Borrowings	14,000,000	-
<b>Total liabilities</b>	<b>15,280,036</b>	<b>-</b>
Share capital	2	-
Contributed capital	5,068,603	-
Retained earnings	(153,715)	-
<b>Total equity</b>	<b>4,914,890</b>	<b>-</b>
<b>Total liabilities and equity</b>	<b>20,194,926</b>	<b>-</b>
<b>Summary Statement of Comprehensive Income</b>	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Total income	100,834	-
Total expenses	(254,549)	-
<b>Net comprehensive loss</b>	<b>(153,715)</b>	<b>-</b>

The Securities Commission of The Bahamas

Notes to the Financial Statements

31 December 2016

(Continued)

7. Plant and Equipment

In 2016 management reviewed the rate of decommission of computer equipment due to failure or malfunction. Management determined that the estimated useful life should be changed from five years to three years to more accurately reflect actual use and prospectively adjusted depreciation expense to reflect the same.

	Computer Equipment \$	Furniture and Fittings \$	Vehicles \$	Leasehold Improvements \$	Total \$
<b>For the year ended</b>					
<b>31 December 2016</b>					
<b>Cost</b>					
1 January 2016	1,213,142	564,446	34,708	53,830	1,866,126
Additions	364,777	3,835	-	-	368,612
Disposals	-	(3,843)	-	-	(3,843)
<b>31 December 2016</b>	<b><u>1,577,919</u></b>	<b><u>564,438</u></b>	<b><u>34,708</u></b>	<b><u>53,830</u></b>	<b><u>2,230,895</u></b>
<b>Accumulated depreciation</b>					
1 January 2016	656,400	542,344	20,826	53,830	1,273,400
Depreciation expense	412,722	9,603	6,942	-	429,267
Disposals	-	(3,912)	-	-	(3,912)
<b>31 December 2016</b>	<b><u>1,069,122</u></b>	<b><u>548,035</u></b>	<b><u>27,768</u></b>	<b><u>53,830</u></b>	<b><u>1,698,755</u></b>
<b>Net book value as of</b>					
<b>31 December 2016</b>	<b><u>508,797</u></b>	<b><u>16,403</u></b>	<b><u>6,940</u></b>	<b><u>-</u></b>	<b><u>532,140</u></b>
<b>For the year ended</b>					
<b>31 December 2015</b>					
<b>Cost</b>					
1 January 2015	934,802	555,805	79,703	53,830	1,624,140
Additions	287,181	8,641	-	-	295,822
Disposals	(8,841)	-	(44,995)	-	(53,836)
<b>31 December 2015</b>	<b><u>1,213,142</u></b>	<b><u>564,446</u></b>	<b><u>34,708</u></b>	<b><u>53,830</u></b>	<b><u>1,866,126</u></b>
<b>Accumulated depreciation</b>					
1 January 2015	523,662	528,631	58,879	53,830	1,165,002
Depreciation expense	141,579	13,713	6,942	-	162,234
Disposal	(8,841)	-	(44,995)	-	(53,836)
<b>31 December 2015</b>	<b><u>656,400</u></b>	<b><u>542,344</u></b>	<b><u>20,826</u></b>	<b><u>53,830</u></b>	<b><u>1,273,400</u></b>
<b>Net book value as of</b>					
<b>31 December 2015</b>	<b><u>556,742</u></b>	<b><u>22,102</u></b>	<b><u>13,882</u></b>	<b><u>-</u></b>	<b><u>592,726</u></b>

## The Securities Commission of The Bahamas

### Notes to the Financial Statements 31 December 2016 (Continued)

#### 8. Deferred Income

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Government subvention	2,288,232	3,061,969
Securities industry licensee and registrant fees	97,088	25,338
Financial and corporate service provider fees	24,907	16,437
Investment fund and investment fund administrator fees	<u>5,200</u>	<u>32,500</u>
<b>Total</b>	<b><u>2,415,427</u></b>	<b><u>3,136,244</u></b>

All deferred income is eligible to be recognised in the following year in the statement of comprehensive income.

Movements in Government subvention comprise:

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Opening balance	3,061,969	2,171,794
Government subvention received	2,000,000	1,000,000
Government subvention utilised – operating expenses	(992,539)	-
Government subvention utilised – investment in SPV	(1,500,000)	-
Government subvention utilised – specific projects	<u>(281,198)</u>	<u>(109,825)</u>
<b>Closing balance</b>	<b><u>2,288,232</u></b>	<b><u>3,061,969</u></b>

#### 9. Special Purpose Reserve

Section 22(3) of the Act requires that administrative fines levied by the Commission be used for the sole purpose of promoting public understanding of the financial system. Accordingly, the Commission established a special purpose reserve for this purpose.

The special purpose reserve is comprised of fines totalling \$55,000, however, a provision for doubtful accounts of an equal amount is also required.

## The Securities Commission of The Bahamas

### Notes to the Financial Statements

31 December 2016

(Continued)

#### 10. Employee Benefits

Pension costs recognised in the statement of comprehensive income in the current year total \$266,469 (2015: \$232,740). The Commission's contributions to the pension plan vest 50% with employees upon completion of 5 years of employment, incrementally vesting annually, with full vesting upon completion of 10 years of service.

During the year, the Commission received reimbursements totalling \$41,531 (2015: \$42,916) 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 2016, the Commission employed 78 (2015: 75) persons.

#### 11. 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, including members of the Commission. Balances and transactions with related parties, not otherwise disclosed in the financial statements, include:

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<i>Assets</i>		
Cash at banks	376,467	1,475,086
Term deposits	-	2,586,150
Accounts receivable	18,166	26,340
Prepaid expenses and other assets	1,770	1,770
Investments	3,057,708	-
Investment in SPV	1,652,319	-
<i>Liabilities</i>		
Accounts payable and accrued expenses	123,424	100,161
Other liabilities: Due to the Compliance Commission	537,414	197,519
Advance from the Consolidated Fund	-	150,000
<i>Income</i>		
Interest income	124,961	77,171
Other income	230,319	78,000
<i>Expenses</i>		
Utilities and property charges	93,291	116,597

## The Securities Commission of The Bahamas

### Notes to the Financial Statements

31 December 2016

(Continued)

#### 11. Related Party Balances and Transactions (Continued)

Compensation of key management personnel for the year ended 31 December 2016 comprised \$429,573 (2015: \$552,306) for salaries and other short-term benefits, \$23,630 (2015: \$22,908) for pension benefits and \$nil (2015: \$78,942 ) for termination benefits.

As of 31 December 2016, accounts receivable from key management personnel totalled \$nil (2015: \$67).

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

#### 12. Commitments and Contingencies

##### *Lease commitments*

The Commission was previously party to operating lease agreements, with options to renew for further periods, relating to office space. The Commission has not entered into any extended lease agreements and future minimum payments required under the operating leases are as follows:

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Within one year	270,540	177,049

##### *Other commitments*

During 2015, the Commission acted as executing agent on behalf of the Government in relation to a purchase agreement for land and buildings. Initial funding was provided by the Government. During 2016, the Ministry of Finance (the Ministry) decided to acquire that land and buildings through Poinciana SPV Ltd., the special purpose vehicle referred to in Note 6. The Ministry subsequently decided that the Commission would hold the shares of Poinciana SPV Ltd. The Commission expects that ownership of the Poinciana SPV Ltd. will be temporary.

## The Securities Commission of The Bahamas

### Notes to the Financial Statements 31 December 2016 (Continued)

#### 12. 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.

#### 13. 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 capability 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 banks, term deposits and accounts receivable. The Commission mitigates the risk associated with cash at banks and term deposits 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 2016 is set out below:

	2016 \$	2015 \$
<i>Days outstanding</i>		
0 – 90 days	113,949	64,230
90 – 180 days	-	14,231
> 180 days	<u>247,316</u>	<u>183,711</u>
<b>Total</b>	<b><u><u>361,265</u></u></b>	<b><u><u>262,172</u></u></b>



## The Securities Commission of The Bahamas

### Notes to the Financial Statements 31 December 2016 (Continued)

#### 13. Financial Risk Management (Continued)

##### (a) Credit risk (continued)

Balances greater than 90 days are considered for impairment.

##### (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.

As of 31 December 2016, all of the Commission's accounts payable and accrued expenses and other liabilities are due within one year.

##### (c) Interest rate risk

Interest rate risk is the risk that the future cash flows or fair values of financial instruments 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, which is not considered significant as amounts earned on these balances are minimal. Accordingly, the risk is not hedged and is considered a profit opportunity.

The Commission is exposed to fair value interest rate risk on its Bahamas Government Registered Stocks (BGRS) investment. However, as the interest rates on this investment is fixed, the Commission does not have significant fair value interest rate risk.

#### 14. 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.

The fair value hierarchy of financial instruments is principally Level 2.

#### 15. Capital Management

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

#### 16. Subsequent Events

Subsequent to 31 December 2016, the Commission received subvention of \$2,000,000, to be utilised by the Commission for its general operations and capital expenditure.







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