

2017 ANNUAL REPORT



**SECURITIES COMMISSION
OF THE BAHAMAS**



REGULATING THE INVESTMENT FUNDS, SECURITIES AND CAPITAL MARKETS SINCE 1995.

FREQUENTLY USED ABBREVIATIONS AND TERMS

AIBT – Association of International Banks and Trust Companies in The Bahamas.

AIFMD – Alternative Investment Fund Managers Directive.

AML/CFT – Anti-money laundering and countering the financing of terrorism.

BICA – The Bahamas Institute of Chartered Accountants.

BISX – The Bahamas International Securities Exchange.

CARTAC – Caribbean Regional Technical Assistance Centre.

Central Bank – The Central Bank of The Bahamas.

CFATF – Caribbean Financial Action Task Force.

CGSR – Caribbean Group of Securities Regulators.

COSRA – Council of Securities Regulators of the Americas.

CRS – Common Reporting Standard of the OECD.

Ex officio member – A member of the Board by virtue of the office he or she holds.

FATCA – Foreign Account Tax Compliance Act.

FCSP – Financial and Corporate Service Provider.

FCSPA – Financial and Corporate Service Providers Act, 2000.

GEMC – Growth and Emerging Markets Committee.

GFSR – Group of Financial Services Regulators.

IARC – Inter-American Regional Committee.

IFA – Investment Funds Act, 2003.

IOSCO – International Organization of Securities Commissions.

IOSCO EMMoU – Enhanced Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information.

IOSCO MMoU – Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information.

IPO – Initial Public Offering.

MLRO – Money Laundering Reporting Officer.

MoE – Ministry of Education.

NRA – National Risk Assessment.

OECD – Organization for Economic Cooperation and Development.

OGCISS – Offshore Group of Collective Investment Scheme Supervisors.

RIFA – Restricted Investment Fund Administrator.

Securities laws – Securities Industry Act, 2011 and Investment Funds Act, 2003

SIA – Securities Industry Act, 2011.

The Commission – The Securities Commission of The Bahamas.

UIFA – Unrestricted Investment Fund Administrator.

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26 June 2018

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 2017. Included in this Report is the Annual Statement of Accounts of the Commission for the year.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Robert V. Lotmore", is positioned above the printed name of the signatory.

Robert V. Lotmore
Chairman

CHAIRMAN'S MESSAGE



Robert V. Lotmore, Chairman

It is my pleasure to present the Securities Commission of The Bahamas' annual report for the 2017 calendar year.

I took up the mantle of Chairman effective 1 July 2017 and come to the Commission from a career in the Bahamas' wealth management industry. As such, I am sensitive to the mammoth tasks ahead for the regulator as the jurisdiction continues to adapt to the constant flow of market and regulatory changes.

I express appreciation and congratulate the Government on its appointments to the Board. Members are of the highest calibre, renowned locally and internationally for their expertise and business acumen. The collective skills and experience of this Board, along with Members' understanding of the Commission's role and their keenness to pursue the Commission's mandate, position the Board well to lead the organisation through the changing financial services landscape and into the future.

Among its challenges, this Board must strategically address ensuring that the Commission leverages its strengths and maximises efficiencies to be "ahead of the curve" and provide the regulatory excellence this jurisdiction deserves. This will require shrewd development of human and technological capacity. It will mean steering the organisation toward greater independence and sustainable self-funding. To be successful, the Commission must improve its understanding of the macro and micro risks in the industries it regulates and focus regulatory resources where they are needed most. It will also require a regulatory framework that reflects the organisation's commitment to international regulatory standards.

The Commission has a key role to play in improving the jurisdiction's recognition for its regulatory effectiveness. Along with other stakeholders, we must shape perceptions of our jurisdiction as one with best-in-class regulation that is open for legitimate financial services business.

The Board also recognises the critical need to improve the effectiveness of the capital markets at channelling savings to viable businesses. This will require, amongst other things, improving public understanding of the capital markets and investing. The potential rewards here would be to increase capital formation, spur employment and real economic growth, and to foster conditions where Bahamians throughout the archipelago are better equipped to harness the markets to improve their personal financial positions.

Finally, I recognise and thank the Executive Director, Management and Staff of the Commission for their role. These are the people "on the ground" interacting with registrants, licensees and other stakeholders, researching and drafting the legislation, staying abreast of shifting global standards, and performing the many activities that go on quietly behind the scenes to make the organisation successful.

There are substantive challenges ahead. I am confident that the Commission is fit for the task.

Robert V. Lotmore
Chairman

MEMBERS OF THE COMMISSION

AS AT 31 DECEMBER 2017



L-R: Gregory Cleare, John Rolle, Michael Paton (Deputy Chairman), Christina R. Rolle (Executive Director), Dawn Patton, Deno Moss, Tonique Lewis, Michele Fields, Robert V. Lotmore (Chairman), Bede Derek Sands.

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 be comprised of a Chairman, a Deputy Chairman, up to seven Members appointed at the discretion of 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.

Members serving on the Board as at 31 December 2017 and their respective appointment dates appear in Table 1. The incoming appointees replaced outgoing, non-ex officio Members, which consisted of Chairman Tonya Bastian Galanis, Deputy Chairman Phillip McKenzie, Marion Bethel, Kimberly Rolle, and Robin Scavella, whose terms ended 30 June 2017.

Table 1: Membership of the Board.

NAME	POSITION	APPOINTMENT
Robert V. Lotmore	Chairman	1 July 2017
Michael Paton	Deputy Chairman	1 July 2017
Christina R. Rolle	Ex officio Member	26 January 2015
Gregory Cleare	Member	1 July 2017
Dawn Patton	Member	1 July 2017
Bede Derek Sands	Member	1 July 2017
Deno Moss	Member	1 July 2017
Tonique Lewis	Member	1 July 2017
John Rolle	Ex officio Member	4 January 2016
Michele Fields	Ex officio Member	1 January 2012

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 investment funds, securities and the capital markets. The Board is also responsible for making policies for the licensing and registration of financial and corporate service providers.

ACTIVITIES OF THE BOARD

The Board held 11 regular meetings during 2017.

AUDIT COMMITTEE

The Board has the authority to establish committees to assist it in the execution of its duties. The incoming Board appointed the Audit Committee to advise and make recommendations on matters relating to corporate governance, including internal financial controls, internal and external audits, and compliance with financial reporting requirements. The Audit Committee also assists the Commission in reviewing remuneration and other related policies for employees of the Commission.

Members: Gregory Cleare – Chair, Dawn Patton, Derek Sands, Christina R. Rolle – Executive Director.
Appointed representative: Monique Sands – Financial Controller.

EXECUTIVE DIRECTOR'S REMARKS



Christina R. Rolle, Executive Director

The Bahamas' financial services industry stands on the brink of an uncharted land - on the one hand, ripe with opportunities to redefine the industry's value proposition; on the other, laden with existential threats, particularly to the offshore segment of the industry. The Securities Commission of The Bahamas' (the Commission's) focus over 2017 reflect its understanding of these risks and opportunities and the organisation's continued commitment to deterring financial crime, reducing systemic risk, ensuring transparent, fair and efficient capital markets, and protecting investors and the consumers of financial and corporate services.

The tools at the Commission's disposal to achieve its goals in this regard include its effective administration, enforcement, and influence over the legislation under its charge. Some of 2017's major achievements in these areas are highlighted below.

Remaking Legislative and Regulatory Frameworks

On the legislative front, the Commission published two key pieces of draft primary legislation for public consultation during 2017. The draft Financial and Corporate Services Providers Bill was disseminated for public consultation on Thursday 20 July 2017, followed by the draft Investment Funds Bill on 27 November 2017.

Both pieces propose to repeal and replace the prevailing legislation for their respective industries and usher in appropriate, well thought-out improvements to the legislative and regulatory framework. They were driven largely by the need to address identified deficiencies in the prevailing legislation vis-à-vis international standards. However, the Commission embraced the overhaul projects with an appreciation of the opportunities they presented to create best-in-class regulatory frameworks, compliant with international standards and conducive to sustainable industry growth.

Investment Funds Bill

The development of the draft Investment Funds Bill has been an exciting and engaging initiative for the Commission. The Bill which the Commission is recommending will address identified regulatory deficiencies, particularly with regard to the International Organisation of Securities Commission's (IOSCO's) principles regarding regulation of collective investment schemes. The changes proposed by the legislation would bring all key parties to an investment fund under appropriate oversight and move the regulatory regime to a greater focus on operational conduct. It brings fund managers under appropriate supervision, and aims to position the jurisdiction for a 'passport' to access European markets under the European Union's Alternative Investment Fund Managers Directive (AIFMD).

I give special recognition to the Investment Funds Act Project Team, the many other industry stakeholders who participated in meetings on the proposed Bill and provided their input to its development, the drafters of the legislation, and, of course, the many Commission employees who have been engaged in various aspects of this major work. We look forward to concluding consultation and the submission of the finalised recommended legislation to the Minister of Finance with a view to its enactment and coming into effect in 2018.

FCSP Bill

The financial and corporate services providers industry may be unique as a component of the financial services sector of The Bahamas in terms of the many opportunities it provides Bahamians to become financial services entrepreneurs. It also provides unique opportunities for Bahamians to participate in the export of services, as many entrepreneurs in this sector cater to international clientele. In summary, it is a strategically important industry, highly complementary to the offshore financial services industry though presenting unique opportunities for local practitioners. It also has long deserved additional attention to improve oversight of financial services to protect consumers of financial services and the overall financial system from abuse.

The draft legislation governing financial and corporate services providers proposes to clearly define the financial services activities falling under its scope. It will include, among other things, a legislative framework to facilitate rules specific to the various financial services activities under the legislation's remit. Importantly, it seeks to strengthen the enforcement regime for financial and corporate services providers to better deter and punish money laundering and terrorist financing offenses.

I commend the Office of Legal Counsel for drafting the legislation internally. The Office of Legal Counsel also successfully drafted the accompanying regulations and completed the Money Lender Rules during 2017. In July 2017, the Commission published its Guidelines on the Management of Accounting Records for Financial and Corporate Services Providers (FCSPs). These guidelines relate to corporate services which FCSPs provide for international business companies and exempted limited partnerships.

Securities Industry Regulatory Framework Improvements

Whilst the Investment Funds Act and Financial and Corporate Service Providers Act overhaul projects took centre-stage on the legislative agenda, the Commission also successfully improved the legislation governing the securities industry. Two Rules came into effect during the year: the Securities Industry (Disciplinary Proceedings) (Hearings and Settlements) Rules, 2017 and the Securities Industry (Fee) (Amendment) Rules, 2017. The former established a Hearing Panel and the procedures by which disciplinary matters will be addressed pursuant to the Securities Industry Act, 2011. It features an informal hearing process that may be abridged by the Hearing Panel, facilitation of pre-hearing conferences where they would expedite hearings, and provisions to facilitate approval of final settlements in cases where they are proposed to dispose of matters. The latter rationalised the fee structure for securities industry registrants.

Demonstrable cooperation in combatting cross border financial crimes

Improving cooperation with the international regulatory community to combat cross-border abuse of the financial system from nefarious activity remains a priority area for the Commission. In 2017, this manifested in several areas. Compliance with international standards has been at the fore of priorities in the Commission's review of each piece of legislation that it administers and particularly those it is in the process of amending, replacing or introducing.

During the review year, the Commission provided substantial input on the securities and financial and corporate service providers' areas of the third draft of The Bahamas' Mutual Evaluation Report (MER) for the Caribbean Financial Action Task Force. Senior-level representatives of the Commission participated in the CFATF plenary held in Trinidad and Tobago 29 May - 1 June 2017 along with other representatives from the jurisdiction in presenting and defending the Bahamas' Report.

Intricately tied up with efforts to combat certain threats is, of course, a proper and ongoing, assessment of the risk such threats pose to the jurisdiction. In this regard, the Commission contributed to the development of a national risk assessment (NRA), with specific input on assessing key money laundering and terrorist financing risk in the securities and financial and corporate service providers' industries.

EMMOU Application

A remarkable signal of the Commission's commitment to international standards is evident in the Commission's determination to be an early adopter of IOSCO's Enhanced Multilateral Memorandum of Understanding Concerning Cooperation, Consultation and Exchange of Information (EMMOU). The Commission recognises that the jurisdiction must improve the narrative about its commitment to collaborate with the international regulatory community. Such collaboration is essential to stamp out market abuse within the global financial system in order for a sustainable 21st century financial services industry to develop and flourish.

On review, the Commission concluded that it has strong legislation that should enable compliance with the key standards of the EMMoU. The Commission's Board approved the application to IOSCO near the end of 2017. We look forward to being amongst the first securities regulators in the world to make formal application to be a signatory to this latest cooperation and information-sharing standard in early 2018, and hope to be among its first adopters.

Risk-Based Supervision

The Commission set the foundation for its initiative to transition from a predominantly rule-based to a predominantly risk-based approach to regulation of the securities industry in 2017. The move is among the key recommendations of international standards setters, and represents an efficient and pragmatic approach to providing the most effective regulatory oversight of industries within the Commission's scope.

During 2017, the Commission's policy and research unit identified the legislative gaps that must be addressed for implementation of a risk-based approach. The unit also identified a world thought-leader on securities industry risk-based supervision to provide technical assistance for the project. The unit prepared a thorough survey designed to provide the Commission with a trove of valuable data. The survey was in the process of being finalised at the end of 2017 with a view to its administration in the first half of 2018.

Supervision and Enforcement

The Commission continued to mature in its overall supervision of the industries it regulates in its authorisations, market surveillance, inspections and enforcement programmes. The progress made in the examination of registrants and licensees in particular saw marked improvements over recent years. In 2017, the Commission saw an increase of 65 percent in the number of financial and corporate service providers examined and increase of 60 percent in the number of investment fund administrators examined as compared with 2016. The number of examinations in the securities industry remained constant from 2016 and 2017.

The Commission saw improvements in its investor protection efforts as well. I commend the Enforcement Department who once again demonstrated their commitment to protecting retail investors from investment fraud. The department should also be recognised for their vigilance in identifying and exposing several investment scams that had gained traction locally.

The Commission's investor education effort, a component of its function to protect investors, realised significant achievements during 2017 as well. The Commission participated in IOSCO's first-ever World Investor Week in October. During the investor-education themed week, the Commission launched its social media presence and successfully held a video competition to promote investor education among teens. The Commission particularly thanks the Prime Minister, the Hon. Hubert A. Minnis, for a proclamation declaring the week "Investor Education Week" in The Bahamas.

A very promising investor education initiative the Commission is spearheading is a financial literacy/investor education pilot programme and study launched in partnership with the Ministry of Education (MoE) as the key initiative of the Commission's World Investor Week celebrations. The ultimate goal of the programme is to ensure that all students completing their matriculation in The Bahamas graduate equipped to make sound financial and investing decisions. The programme launched in October 2017 with selected classes at two junior high schools in New Providence: H. O. Nash Junior High and A. F. Adderley Junior High School. A more restricted pilot was launched at C. W. Sawyer for Grade 6 students as well.

I thank the MoE for collaborating with the Commission on this project. In particular, I thank the Minister of Education the Hon. Jeffrey L. Lloyd, MP for his approval to continue work on the programme, his interest in it and his recommendations. I also recognise and thank Ms. Serethea Clarke, acting under secretary, human resources, who was the Commission's primary liaison on the project during 2017.

I also pause to recognise the MoE officers involved in this project, the principals at each of the participating schools, the financial coach who assisted teachers with preparing to teach the new material, and, of course, the teachers and students participating in this dynamic project. A preliminary test of students' knowledge of various financial literacy/investor education principles was administered as a baseline evaluation tool, and we look forward to retesting the students at the end of the pilot year as a part of our assessment of pilot and to inform where programme improvements are required.

Organisational and Structural Changes

In July 2017, the Commission welcomed a new board of directors, led by Chairman Robert V. Lotmore. I thank the Government of The Bahamas and the Minister of Finance in particular for appointing such a suitably qualified, well-rounded and experienced slate of Members to the Commission. The Board has been engaged in the Commission's work from day one, and we look forward to the Commission's continued development under their leadership.

I thank the former Board of the Commission, led by Chairman Tonya Bastian Galanis, for their contributions to the growth and development of the Commission over the previous five years. Amongst its accomplishments, the Board oversaw the development and execution of the 2015-2017 strategic plan, which is discussed in greater detail later in this Report. Importantly, the successes realised as a result leave the Commission well-positioned to gain even more strategic ground in the coming years.

Capacity Building

Human capital development remains a strategic priority for the Commission. Already, the Commission has reaped tangible time and cost benefits resulting from specific training in legislative drafting for a staff member. We successfully produced internally the first draft of the revamped Financial and Corporate Service Providers Bill. We expect to reap additional rewards from the secondment of one of our managers, Mr. Christian Adderley, to the United States Securities and Exchange Commission where he is assigned to the Office of International Affairs and is involved in various policy matters. From all accounts, Mr. Adderley is representing the Commission and the jurisdiction well. We are very proud of him and look forward to his return and the benefits which would undoubtedly accrue to the Commission as a result of the experience he would have gained.

Conclusion

I thank and recognise the Commission's staff, my "second family", for their commitment to the Commission's work. All of the Commission's successes hinge on the efforts and capacity of our staff to "get it done", and often requires their resourcefulness, endurance and personal sacrifices.

For all the successes of 2017, the Commission looks eagerly to 2018 to cross the finish line in many of the marathon initiatives we have set-out to achieve. We look to the implementation of two substantively new pieces of legislation, to implementing a risk-based approach to supervision to enhance overall industry oversight, and to relocating to our new premises, amongst other things. We also look to set-off on other journeys, as the rate of change that regulators must keep pace with is ever increasing and unrelenting. This team, however, is eager to contribute to the development of the financial services industry and, indeed, The Bahamas through our odyssey with the Commission.

Christina R. Rolle,
Executive Director

MANAGEMENT TEAM

AS AT 31 DECEMBER 2017



Christina R. Rolle
EXECUTIVE DIRECTOR



Christian Adderley
**DEPUTY MANAGER,
POLICY & COMPLIANCE**



Alysia
Archer-Colebrooke
**MANAGER,
ADMINISTRATION**



Omara Bingham
**MANAGER,
AUTHORISATIONS**



John Clarke
**ASSISTANT MANAGER,
INFORMATION
TECHNOLOGY**



Sandra Duncombe
**MANAGER, MARKET
SURVEILLANCE**



Bernadette Gibson
**MANAGER, HUMAN
RESOURCES**



Aisha Lloyd-Minnis
HEAD OF SUPERVISION



Mechelle
Martinborough
LEGAL COUNSEL



Stewart Miller
**DEPUTY MANAGER,
COMMUNICATIONS &
INVESTOR EDUCATION**



Sherinn Munnings
**ASSISTANT MANAGER,
PROJECT MANAGEMENT
& INTERNATIONAL
RELATIONS**



Lesley Pearson
**MANAGER,
INSPECTIONS**



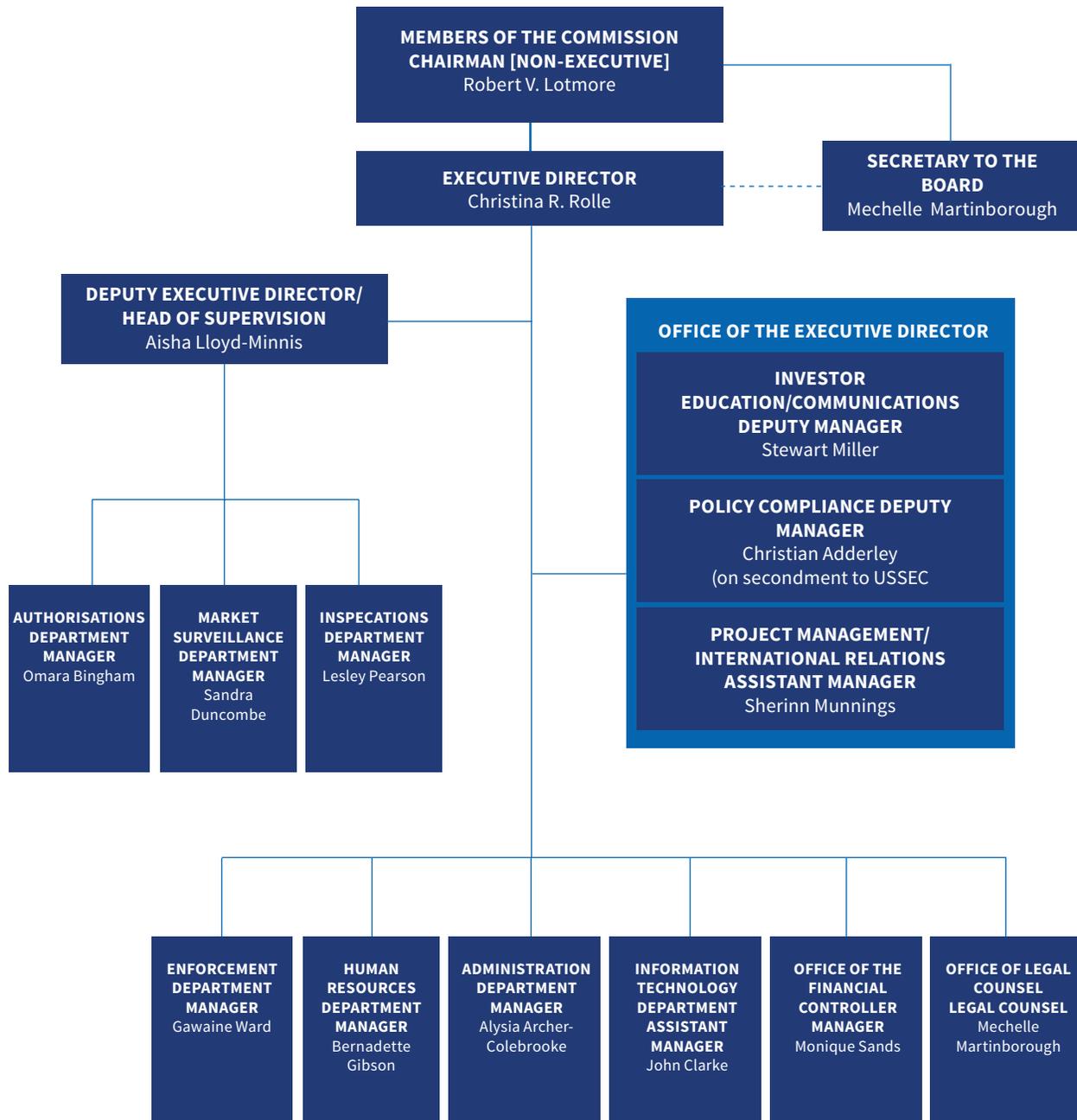
Monique Sands
FINANCIAL CONTROLLER



Gawaine Ward
**MANAGER,
ENFORCEMENT**

ORGANISATIONAL OVERVIEW

AS AT 31 DECEMBER 2017



At 31 December 2017, 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).

ORGANISATIONAL UPDATES

STAFF COMPLEMENT

The staff complement was 79 as at 31 December 2017. Of the 79 staff members, 72 were full-time employees and 7 were temporary/contract employees. The staff count by department/office appears below.

Administration	13
Authorisations	6
Enforcement	6
Human Resources	3
Information Technology	4
Inspections	14
Market Surveillance	12
Office of the Executive Director	12
Office of Legal Counsel	4
Office of the Financial Controller	5

IMPROVING HUMAN CAPITAL

Recruitment and Staffing

The Commission increased its overall staff complement from 78 at 31 December 2016 to 79 at 31 December 2017. Mrs. Aisha Lloyd-Minnis was appointed Head of Supervision and Deputy Executive Director effective 20 February 2017. She is a Certified Public Accountant (CPA) and a Chartered Accountant. Prior to joining the Commission, Mrs. Lloyd-Minnis served as Chief Financial Officer of a local commercial bank and has over 10 years' public accounting experience in audit firms in The Bahamas, United Kingdom and Ireland.

Enhancing Staff's Technical Capacity

In 2017, the Commission continued to provide local and international training to staff as well as support staff undertaking professional designations and certifications in disciplines relevant to the functions of the Commission. During 2017, staff members participated in training programmes with various organisations and agencies including the International Organization of Securities Commissions, Caribbean Regional Technical Assistance Centre, Caribbean Financial Action Task Force, International Development Bank, International Forum for Investor Education, U.S. Securities and Exchange Commission, Bahamas Institute of Chartered Accountants, Bahamas Association of Compliance Officers, Bahamas Human Resources Association, Bahamas Institute of Financial Services, and Florida Institute of CPAs.

Areas of training included securities markets development and oversight, risk-based supervision, financial stability, investor education, compliance and examinations, emerging market issues, financial technology and cyber resiliency as well as other technical and soft skills.

A member of staff commenced a secondment with the Office of International Affairs of the U.S. Securities and Exchange Commission on 11 September 2017. The secondment is expected to last two years.

Staff members also could access financial support from the Commission to pursue professional certifications and designations. The Commission, additionally, facilitated access to Harvard Business Review online resources for staff members to close skills gaps.



Two staff members participated in the U.S. SEC's 27th Annual Institute for Securities Market Growth and Development held in Washington, DC from 27 March – 7 April 2017. (Photo courtesy of the U.S. Securities and Exchange Commission)

IMPROVING EFFICIENCY

Re-structure of the Office of the Executive Director

Effective 3 January 2017, the Office of the Executive Director was restructured to include two units: Communications and Investor Education; and Policy and Compliance. The purpose of this re-structuring was for the Commission to be better able to focus on these critical responsibilities.

Electronic document management system

Work continued on improving the management of the Commission's records through an electronic document management system. The Commission is currently in the process of digitising its non-registrant operational information with an aim to complete by mid-2018. The Commission added a module to the document management system to allow for the electronic processing of documents. The creation and implementation of related workflows are scheduled to commence in 2018.

ELECTRONIC INVENTORY MANAGEMENT SYSTEM

The Commission implemented an inventory management system to introduce greater efficiency and cost-reductions in managing office supplies. The Commission launched the software in December 2017 after conducting relevant training with staff.

HEALTH AND WELLNESS INITIATIVE

The Commission launched its wellness programme on 13 July 2015 to improve the staff's overall health, productivity and morale. The initiative remains strong among staff. Activity levels, in terms of steps taken, have increased during the year and staff have attended more health seminars.

COMMUNITY OUTREACH

In August, the Commission contributed 11 computers to Woodcock Primary School for use in their computer lab. Staff members contributed stationery and school supplies to the school.

The Commission also held its annual blood drive in July which was well supported by staff.

RELOCATION

On 7 November 2016, Poinciana SPV Ltd. completed the purchase of UBS Corporate Centre on East Bay Street, where the Commission will be one of the tenants. The Commission began working with the Renovations Project Management Team in mid-2017 to develop its space. The Commission also formed a committee to organise its move to the new premises and launched an organisation-wide campaign to prepare for the move. Work towards this relocation will continue into 2018.



Commission Executive Director makes presentation to Woodcock Primary School. From left to right: Vice Principal Barbara Duncombe, Executive Director Christina Rolle, Principal Denise Farquarson and Senior Mistress Amathyst Bain-Dennise.



Enforcement Dept Assistant Manager Benson Russell donates blood during the annual blood drive.

STRATEGIC PLAN 2015-2017

This section highlights the Commission's key accomplishments in the execution of its Strategic Plan 2015-2017 (the review period).

GOAL 1: Improve efficiency through enhanced management of systems, processes and resources

The Commission recognised both the need and opportunity to significantly improve how its resources are utilised to achieve greater efficiency.

To improve its surveillance capacity, the Commission procured and began the process of implementing a supervisory software that collects, validates, processes and analyses data from registrants and licensees.

The Commission continued to improve the management of its records through the enhancement of its electronic document management system. The digitisation of all registrant information was completed during the period. Modules to further enhance the effectiveness of the software were also added over the period. These included an autoindexing module for the quick and accurate indexing of files and a module to digitise the incoming mail process; tracking mail from when it is received into the Commission, to when it has been actioned by an officer.

Additionally, the Commission upgraded and better integrated its accounting software to improve billing, fees collection and reconciliation exercises. With this upgrade, various features and tools allow for better synchronisation between the software and other electronic information systems within the Commission.

The Commission rationalised its organisational structure. The Office of the Executive Director was reorganised to include a Policy and Compliance unit, and Communications and Investor Education unit in January 2017. The Policy and Compliance unit was created to set standards and policies for and on behalf of the Commission and the Communications and Investor Education Unit is responsible for the Commission's investor education programme, public relations and communications. The Commission is also in the process of restructuring the supervisory departments (Authorisations, Inspections and Market Surveillance).

To support seamless operational continuity and mitigate against the loss, corruption or compromise of sensitive information, the Commission implemented a data protection solution during the period. The solution includes network, email and mobile security as well as encryption.

Achieving optimal efficiency not only involves the right systems and processes but also competent and engaged staff. Recognising this, the Commission focused on improving staff recruitment, training and retention. Training programmes were reviewed with an aim of closing essential skills gaps. The performance management process was reviewed and strengthened to enhance staff performance. Employee satisfaction levels were evaluated during the period and the Commission began the process of revamping the employee handbook.

The overall staff complement increased by fourteen per cent over the period; improving the Commission's capacity to perform its functions. Efforts to relocate its offices has progressed significantly over the period. The Commission also launched a wellness programme in 2015. In addition to staff receiving pedometers, biometric screenings to identify health issues and consultations, the programme also offers free exercise classes, gym membership discounts, and nutritional seminars.

GOAL 2: Ensure the legislative framework meets international regulatory standards and supports development of the markets

The Commission aims to ensure the regulatory framework complies with global standards of regulation, and is holistic and balanced to support the development of the markets.

A priority area was the development of core Rules and Guidelines for the full implementation of the SIA. The Commission focused on concluding outstanding Rules and conducting technical reviews of the legislation to identify other substantive Rules for development.

The Commission completed the Securities Industry Anti-Money Laundering and Countering the Financing of Terrorism Rules, 2015; the Securities Industry (Amendment) Regulations, 2015; the Securities Industry (Amendment) Act, 2016; the Securities Industry (Registration of Registrar and Transfer Agents) Rules, 2016; the Securities Industry (Fee) (Amendment) Rules, 2017; and the Securities Industry (Disciplinary Proceedings) (Hearings & Settlements) Rules, 2017 over the period.

By the end of the period, the Commission was working on several more Rules such as the Regulatory Capital Rules and Securities Industry (Compliance Officer Rules). Drafting of the Securities Industry (Business Capital) Rules was completed and the draft Rules was issued for public consultation in March 2017. These Rules will provide an alternative method for entrepreneurs to access finance in the capital markets.

Another priority area was developing legislation that meets the prudential standards established by IOSCO Principles of Securities Regulation for collective investment schemes.

The Commission completed the draft Investment Funds Bill and Regulations during the period. The draft Bill seeks to eliminate legislative gaps and regulatory deficiencies and encourage opportunities for the industry's growth and development. The draft Bill was issued for public consultation in November 2017 and an industry meeting for investment funds industry stakeholders was held in December 2017 to provide an overview of the draft legislation.

Legislation that will replace the current FCSPA and enhance and modernise the regulatory regime for financial and corporate service providers was also a priority. To this end, the Financial and Corporate Service Providers Bill was drafted and issued for public consultation. The proposed FCSP legislative regime will also include Rules focusing on and regulating the various types of financial and corporate service activities.

Financial and Corporate Service Providers (Money Lenders) Rules and Financial and Corporate Service Providers (Fees) Rules were drafted and issued for public consultation. The Money Lenders Rule is pending final review and the Fees Rule was finalised and will be issued following the promulgation of the new FCSPA. The Commission also drafted the Financial Service Providers (Corporate Service Providers) Rules, Financial Service Providers (Financial and Consumer Credit) Rule, Financial Service Providers (Money Brokers) Rules, Financial and Corporate Service Providers (Debt Collectors) Rules; which will be issued for public consultation. The Financial and Corporate Service Providers Handbook & Code of Conduct was also drafted.

In reference to the strategic goal, the Commission also issued several guidelines and policies during the period. Guidelines on the Suitability of Clients' Securities Transactions and Management of Accounting Records were issued.

The Assessment of Automatic Administrative Penalties and Filing of Audited Financial Statement policies were also issued during the period with significant progress made on several more policies including Regulatory Capital Calculation for Firms Managing Securities and Advising on Securities, Reclassification and Downgrade of an Unrestricted Investment Fund Administrator Licence and Due Diligence Refresher policies.

Also as a part of ensuring the legislative framework complies with international standards, the Commission engaged in review programmes. Throughout the review period, the Commission participated in the work of the Caribbean Financial Action Task Force (CFATF), which involved contributing to the national self-assessment and the CFATF onsite mission.

The Commission developed Securities Industry (AML/CFT) Rules to bring its regulatory framework into compliance with international standards for anti-money laundering and countering the financing of terrorism. The Rules cover, inter alia, requirements for internal controls, verification of customer identity, record keeping and implementation of a risk-rating framework. These Rules came into force in 2015.

During 2017, the Commission provided substantial input on the securities and financial and corporate service providers areas of the third draft of The Bahamas' Mutual Evaluation Report (MER).

The Commission also supported the compliance of areas under its purview during the fourth round CFATF Peer Review of The Bahamas. In the fourth round, The Bahamas was examined to determine its compliance with new CFATF methodology. This methodology builds upon previous assessments by adding a new element to assess how effectively The Bahamas is combatting money laundering and the financing of terrorism and the proliferation of weapons of mass destruction.

Over the period, the Commission continued work with the National Anti-Money Laundering Group, which is comprised of representatives from financial regulators and the Government of The Bahamas. The Group commenced a National Risk Assessment (NRA) with assistance from the World Bank. The National Risk Assessment was completed and the Commission developed an action plan to address AML/CFT risks identified in its assessment of areas under its supervision.

GOAL 3: Increase financial literacy and expand the reach of the Commission's investor education effort

The Commission recognised the critical need to expand its current investor education programme and be an active driver and participant in financial literacy efforts. The Commission aimed to expand its target audience, and leverage partnership opportunities and social media to reach more persons cost-effectively.

To further this goal, the Commission met with high-level representatives of the Ministry of Education, including the Minister of Education, in 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. A one-year pilot programme was developed, for launch in two junior-high school classes and a more restricted version in a primary school class, to test results, and eventually to launch the programme throughout the curriculum.

The pilot programme launched during IOSCO's World Investor Week in October 2017 and focused on fundamental concepts such as budgeting, the difference between saving and investing, the basics of risk and diversification, basic numeracy, compounding, and the impact of inflation on wealth. It also focussed on the role of a well-regulated capital in the economy and the types of securities available in the Bahamian capital markets. The aim of incorporating within the national school curriculum is to ensure all students

coming through the Bahamian education system would have been taught these essential 21st century life skills, regardless as to their academic focus in school, by the time they graduate.

The Commission also targeted high school students through a number of outreach activities. The Commission delivered presentations to schools participating in CFAL's Junior Investor Education Programme and hosted students from The Bahamas Institute of Financial Services and Junior Achievement's programme at its offices for a day to learn about the Commission and the capital markets. The Commission also participated in several fairs over the period including the Ministry of Education, the University of The Bahamas and BICA to share concepts about saving and investing with students.

In 2015, the Commission published a booklet called "Tips to Avoid Frauds and Scams" outlining practical ways to help investors avoid becoming victims of fraudulent activity. The booklet is available on the Commission's website and was distributed in its offices, social clubs and in the local mall.

The Commission launched a Facebook page. The Commission contracted a video developer to produce videos for the Page which have been well received by Facebook users. Via the Page, the Commission also shares information about saving, investing, and organisational-related news.

The Commission launched its first video competition during the period. The competition invited young adults to develop a video to help their peers to improve their financial wellbeing or avoid becoming the victims of fraud. The competition was successful based on the amount of interest generated in the Commission's website and social media page.

The Commission also provided articles that appeared in a quarterly advocacy insert, "The Consumer Voice". The insert is published in a leading daily newspaper. The articles included "Making your money work for you", "Where to turn for investment help", "Don't be a victim of investment fraud", and "Getting serious about retirement".

Internally, during the period much work was done in developing and updating investor education content on the website.



Commission representatives (centre) joined the Royal Bahamas Police Force Crime Prevention Team at a local mall to educate the public about ways to avoid fraud and to distribute the Commission's "Tips to Avoid Frauds and Scams" booklet.

GOAL 4: Foster compliance with legislation administered by the Commission

Core to the Commission's purpose is the protection of investors. To accomplish this, breaches of the legislation administered must be discovered timeously, pursued aggressively, and violators penalised accordingly. This involves the implementation of protocols to ensure enforcement matters are identified and addressed in a timely manner. To this end, the Commission set several objectives during the period.

Among them was the enhancement of the enforcement programme. One aspect of this was the promulgation of the Securities Industry (Disciplinary Proceedings) (Hearings & Settlements) Rules on 7 February 2017. These Rules allow for a Hearing Panel to be established to address alleged breaches of securities laws. The Rules give the Panel the flexibility and authority to resolve matters through an informal hearing process, allowing for a timelier, efficient and effective disciplinary process.

The Commission implemented two key policies designed to improve registrant and licensee compliance with filing statutory filing requirements under securities laws. The policies, namely the Assessment of Automatic Administrative Penalties Policy and the Filing of Audited Financial Statements Policy, fulfil the statutory requirement for the Commission to prescribe the penalties associated with various administrative infractions. Since the publication of the policies in February 2017, the Commission has observed a marked improvement in compliance with statutory filing requirements by its securities and investment funds registrants and licensees.

The Commission also reviewed the adequacy of the existing surveillance programme for clearing facilities. As a result a new inspections work programme was implemented for clearing facilities in 2016.

GOAL 5: Improve the Commission's brand management to enhance its local and international profile

The Commission aimed to improve on its industry engagement and build relationships with local, regional and international stakeholders.

In 2015, the Commission implemented a courtesy call initiative with registrants and licensees under the Securities Industry Act and the Investment Funds Act. This initiative was started to increase engagement with registrants and licensees. The Commission met with representatives of these firms, where they were introduced to contact persons at the Commission and were given the opportunity to discuss their operations as well as concerns. It was also an opportunity for the Commission to understand the structure, operations and potential red flags of the registrants and licensees. This was useful in fostering communication and interaction between the Commission and registrants and licensees.

The Commission also held focus group meetings and other meetings with industry stakeholders during the planning phases of the overhaul of the Investment Funds Act and Financial and Corporate Service Providers Act.

The Commission made presentations to a number of stakeholder groups, including BACO and BICA, along with jointly hosting a Small and Medium Enterprises (SME) Funding seminar with the Bahamas Chamber of Commerce and Employers' Confederation (BCCEC).

From the Commission's perspective, these closer relationships and a greater appreciation for developments and trends will facilitate greater responsiveness to regulatory matters as they arise.

Internationally, the Commission increased engagement with regional and international bodies to position itself to be more agile in its responses to international developments, and accommodate a better representation of local concerns to international standard setting bodies. In 2015, the Commission was appointed as Chair and Secretariat of CGSR for 2016 and 2017. In 2017, the Commission was reappointed Chair for an additional two years.

The Commission further developed its regional and international profile by hosting the general meetings of IOSCO and COSRA in both 2016 and 2017.



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.

SUPERVISORY UPDATES

RISK-BASED SUPERVISION

In early 2017, the Commission established an internal project team to guide its move from a compliance-based approach to supervision to a risk-based approach. The risk-based approach is expected to result in more efficient and effective monitoring and supervision of the Commission's registrants and licensees. The team's objectives include identifying the components necessary for the move to risk-based supervision and recommending solutions to any existing gaps in legislation that may hinder the transition.

The project team commenced work on a risk assessment questionnaire for the Commission's registrants and licensees to gather pertinent data to inform the transition. The team engaged a consultant at the end of 2017 to assist with the design and implementation of an initial risk-based supervisory framework. The Commission is on track to implement risk-based supervision for all of its registrants and licensees commencing in 2018.

NEW SUPERVISORY SOFTWARE

The Commission is in the process of implementing supervisory software to enhance the collection, storage and processing of registrant and licensee information. The software will assist the Commission in managing the entire supervisory lifecycle from authorisations through offsite and onsite surveillance. Population of the related database is currently underway with completion expected in mid-2018.

GUIDELINE AND POLICIES ISSUED

As a part of its functions, the Commission publishes notices, guidelines, bulletins and policies describing its views on the interpretation, application or enforcement of laws under its administration. In July 2017, the Commission published guidance on registrants' responsibilities regarding the assessment of the suitability of clients' securities transactions.

In February 2017, the Commission issued two policies:

- Filing of Audited Financial Statements Policy
- Assessment of Automatic Administrative Penalties Policy

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

In January 2017, the Commission released an updated list of the examinations it recognises when assessing individuals seeking to be registered to perform securities business or to act as a money laundering reporting officer (MLRO) for a securities firm.

The guideline, policies, and examinations listing are available on the Commission's website (www.scb.gov.bs).

SECURITIES INDUSTRY ACT, 2011

FIRMS

Registration Activity

In 2017, the Commission approved a total of 10 firms to conduct registrable securities business, presenting a decrease of five firms from 2016. Categories for which firms were approved appear in Table 2.

Table 2: Categories for which firms were approved in 2017.

CATEGORY	TOTAL
Dealing as principal or agent	1
Advising on securities	1
Managing securities and Advising on securities	2
Arranging deals in securities, Managing securities and Advising on securities	1
Dealing as principal or agent, Arranging deals in securities, and Managing securities	1
Dealing as principal or agent, Arranging deals in securities, Managing securities and Advising on securities	4
Total	10

Total Registered Firms

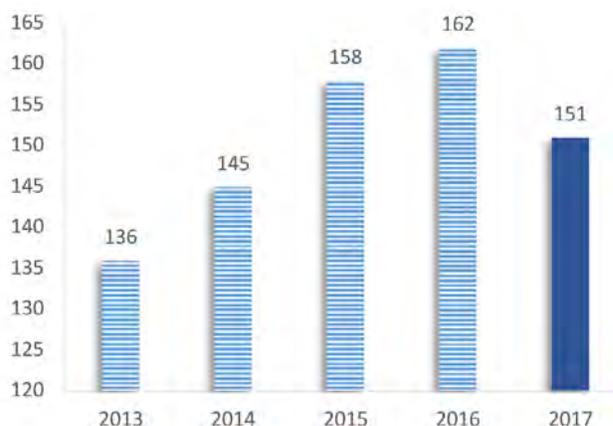
The total number of registered securities firms experienced a net decrease of 6.8%, from 162 at 31 December 2016 to 151 at 31 December 2017. Table 3 shows the total number of registered firms by category as at 31 December 2017.

Table 3: Registered securities firms by category at 31 December 2017.

CATEGORY	TOTAL
Dealing as principal or agent	1
Dealing as agent	8
Managing securities	18
Advising on securities	10
Dealing as agent only and Arranging deals in securities	5
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	48
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	4
Arranging deals in securities, Managing securities and Advising on securities	3
Dealing as principal or agent, Arranging deals in securities and Managing securities	2
Dealing as principal or agent, Arranging deals in securities, Managing securities and Advising on securities	15
Dealing as agent only, Arranging deals in securities, Managing securities and Advising on securities	31
Clearing facilities	1
Marketplaces	1
Total	151

Figure 1 shows the year-end number of registered securities firms from 2013 to 2017.

Figure 1: Total number of registered securities firms from 2013-2017.



INDIVIDUALS

REGISTRATION ACTIVITY

In 2017, 103 individuals were approved under the Securities Industry Act (SIA), a decrease of 24 individuals compared to the previous year. Table 4 shows the approvals of individuals by the functions they were approved to perform.

Table 4: Categories for which firms were approved in 2017.

CATEGORY	TOTAL
CEO	15
Compliance officer	23
Representative – Trading	18
Representative – Discretionary management	7
Representative – Advising	12
CEO and Representative – Trading	1
CEO and Representative – Discretionary management	2
Representative – Trading and Discretionary management	2
Representative – Trading and Advising	2
Representative – Discretionary management and Advising	10
CEO, Representative – Discretionary management and Advising	3
Representative – Trading, Discretionary management and Advising	6
CEO, Representative – Trading, Discretionary management and Advising	2
Total	103

Total Registered Individuals

As at 31 December 2017, there was a total of 948 registered individuals under the SIA, a net increase of 98 individuals (11.5%) compared to year-end 2016 when there were 850 registered individuals (see Figure 3).

Table 5: Total number of registered individuals by category at 31 December 2017

CATEGORY	2017
CEO	138
Compliance officer	176
Representative – Trading	202
Representative – Discretionary management	109
Representative – Advising	150
CEO and Representative – Trading	8
CEO and Representative – Discretionary management	40
CEO and Representative – Advising	8
Representative – Trading and Discretionary management	10
Representative – Trading and Advising	16
Representative – Discretionary management and Advising	46
CEO, Representative – Trading and Advising	1
CEO, Representative – Discretionary management and Advising	18
Representative – Trading, Discretionary management and Advising	20
CEO, Representative – Trading, Discretionary management and Advising	6
Total	948

Figure 2 shows the year-end number of registered individuals from 2013 to 2017.



Figure 2: Total number of registered individuals from 2013-2017

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 37 inspections of securities firms were conducted during 2017, an increase of four over the previous year. Of the 37 inspections conducted, 36 were routine and one was an inspection “for-cause”. Four of the routine inspections were conducted jointly with the Central Bank.

Table 6: Number of inspections of registered firms by category in 2017.

CATEGORY	TOTAL
Managing securities	5
Advising on securities	1
Managing securities and Advising on securities	9
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	1
Arranging deals in securities, Managing securities and Advising on securities	1
Dealing as principal or agent, Arranging deals in securities, Managing securities and Advising on securities	15
Dealing as agent only, Arranging deals in securities, Managing securities and Advising on securities	3
Marketplaces	1
Total	37

LEGISLATIVE AND REGULATORY UPDATES

UPDATES ON ANTI-MONEY LAUNDERING/COUNTERING THE FINANCING OF TERRORISM (AML/CFT) REGIME

The Commission continued to participate 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. The Commission provided input on the third draft of The Bahamas' Mutual Evaluation Report (MER). The 2017 CFATF review of The Bahamas was completed and the resulting MER identified certain deficiencies in the Commission's AML/CFT regime relating primarily to a lack of AML/CFT specific sanctions, and the need for the Commission to implement a risk-based supervision regime.

The Commission has developed action plans to address the issues raised.

IMPLEMENTATION OF THE SIA

Securities Industry (Disciplinary Proceedings) (Hearings & Settlements) Rules came into effect on 7 February 2017. These Rules establish a Hearing Panel (Panel) where alleged breaches of securities laws can be addressed. Refer to the Enforcement Updates on page 42 for more information.

The Commission issued the Securities Industry (Fees) (Amendment) Rules on 28 December 2017 which will bring about an increase in fees of approximately a third for all registration categories as at 1 January 2018.

The Commission expects another rule, the draft Securities Industry (Compliance Officers) Rules, which were submitted to the Office of the Attorney General (OAG) in 2017, to come into effect in 2018.

The draft Securities Industry (Business Capital) Rules were issued for public consultation in April 2017 and are undergoing further reviews before submission to the Office of Attorney General for approval, which is expected in 2018.

The Commission published the Guideline on the duty of registrants for assessing suitability of clients' securities transactions on 31 July 2017. The Commission also published the Assessment of Automatic Administrative Penalties Policy and the Filing of Audited Financial Statements Policy on 17 February 2017. Refer to the Supervisory Updates on page 24 for more information.

On 23 January 2017, the Commission released an updated list of the examinations it recognises when assessing individuals seeking to be registered to perform securities business.

ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD) COMMON REPORTING STANDARD (CRS)

The Automatic Exchange of Financial Account Information Act, passed by the Government of The Bahamas, came 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 Automatic Exchange of Financial Account Information Regulations was also passed in March 2017.

The CRS calls for the exchange of information automatically between Global Forum member countries. The Bahamas elected to implement CRS by way of the Multilateral Convention on the Mutual Administrative Assistance in Tax Matters on a non-reciprocal basis.

Given that The Bahamas elected to implement CRS by way of the multilateral approach, the Government amended the Automatic Exchange of Financial Account Information Act and the Automatic Exchange of Financial Account Information Regulations in December 2017. The Ministry of Finance also issued Guidance Notes for CRS in December 2017.

UNITED STATES FOREIGN ACCOUNT TAX COMPLIANCE ACT (FATCA)

In March 2017, The Bahamas signed a Competent Authority Arrangement with the United States in accordance with the Intergovernmental Agreement (IGA) between The Bahamas and the United States, signed in 2014. This Arrangement establishes procedures for the automatic exchange obligations contained in the IGA.

INDUSTRY ENGAGEMENT

On 23 March, the Commission along with the Bahamas Chamber of Commerce and Employer's Confederation hosted a seminar to introduce the proposed Securities Industry (Business Capital) Rules. The conference was attended by industry representatives and members of the general public.

The Commission held its annual industry briefing for registrants and licensees under the Securities Industry Act, 2011 on 14 September. The briefing highlighted regulatory developments including the proposed changes to the Securities Industry Act, 2011.

Commission representatives gave speeches during the year at several stakeholder events. On 7 June, Executive Director Christina Rolle gave a presentation at the AIBT Regulator's Forum speaking broadly on international and local developments affecting the securities industry. She also spoke at the Bahamas Institute of Financial Services two-day Seminar on 14 June to discuss the Commission's initiative to overhaul the Investment Funds Act and its progress on the initiative.

Chairman Robert Lotmore spoke at The Bahamas Institute of Chartered Accountants' Corporate Governance Accountability Conference held on 17 October on the importance of good corporate governance.

During the year, the Commission issued two proposed Rules for public consultation. These were the draft Securities Industry (Fee) (Amendment) Rules and the draft Securities Industry (Business Capital) Rules.



“Development of Capital Markets in The Bahamas: Opportunities for and Hindrances to Growth” panelists at the Securities Industry Briefing held 14 September 2017. L-R: Mr. Barry Williams, Chief Money Maestro, ALIV; Mr. Richard Coulson, Financial Consultant; Mr. Gowon Bowe, CFO, Fidelity Group; Mr. Keith Davies, CEO, BISX.

CAPITAL MARKETS OVERVIEW

DOMESTIC CAPITAL MARKET REVIEW

The Bahamas International Securities Exchange (BISX) continued to serve as a critical element in the Bahamian capital markets as the only registered securities exchange.

As at 29 December 2017, the market was comprised of 52 primary market listings, which included 20 common share listings with a market capitalisation of \$4.43 Billion (2016: \$4.11 Billion), 13 preference share listings with a market capitalisation of \$327 Million (2016: \$327 Million) and 19 bonds with a face value of \$579 Million (2016: \$579 Million).

For the year 2017, trading volumes posted a decrease while trading values increased compared to 2016. The volume of shares traded on BISX in 2017 was 5.128 million (valued at \$44.59 million) compared to 2016 when volume of shares traded was 5.552 million (valued at \$40.07 million). Additionally, the BISX All-Share Index closed 2017 at 2,063.57 (2016: 1,938.21).

Capital Raising

Private placement offerings totaled approximately \$50 million in 2017, a decrease compared to \$92.97 million in 2016. There were no Initial Public Offerings (IPOs) in 2016 or 2017.

INTERNATIONAL CAPITAL MARKETS OVERVIEW

In 2017, the Dow Jones Industrial Average, NASDAQ and the S&P 500 reached record highs. Continuing the positive trend from the end of 2016, 2017 started strong and kept the pace. This was backed by a solid economy with US third quarter GDP growth at 3.2%, which was the highest quarter in over two years. The economy also showed growth in corporate earnings and a record low interest rate environment which, combined, facilitated a robust macroeconomic outlook. Unemployment experienced a 17-year low of 4.1% and market volatility hit a 24-year low. Consumer confidence in November was the second strongest in 13 years.

The Eurozone's economic growth strengthened during 2017, exceeding expectations. The private sector's confidence soared to levels of the 2000's and unemployment decreased to levels not experienced since early 2009. The Eurozone's GDP growth forecast increased for 2017 to 2.2%, followed by 1.9% in 2018 due to financing costs remaining extremely low. Despite high political uncertainty since August 2017, the private sector activity and sentiment rose.

INVESTMENT FUNDS ACT, 2003

INVESTMENT FUND 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 2017, two restricted investment fund administrators were licensed by the Commission and one was exempted from licensing. This represents an overall increase of one approval over 2016.

Total Licensed Investment Fund Administrators

At 31 December 2017, there were 62 investment fund administrators, a net decrease of two administrators from 2016. Of the total, 31 were UIFAs, 26 were RIFAs and five were exempted from licensing. A year-over-year comparison of total investment fund administrators appears in Table 7.

Table 7: Comparison of total number of investment fund administrators from 2013-2017

CATEGORY	2013	2014	2015	2016	2017
Unrestricted	30	32	32	32	31
Restricted	29	27	30	28 ^R	26
Exempt	3	3	4	4 ^R	5
Total	62	62	66	64^R	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 a registration category for investment funds called the “Recognised Foreign Fund”. Recognised Foreign Funds are investment funds listed on a prescribed securities exchange or licensed or registered in a prescribed jurisdiction.

^R This number was revised and as such differs from the 2016 Annual Report.

Licensing Activity

A total of 87 Bahamas-based investment funds were licensed or registered by the Commission, or licensed by UIFAs and filed with the Commission in 2017. UIFAs filed 67 of the total new licenses, 55 of which were new licences, 8 transferred to new administrators and 4 changed investment fund categories.

Tables 8 and 9 show the categories for which investment funds were licensed or registered by the Commission and those licensed by UIFAs.

Table 8: Categories of Bahamas-based investment funds licensed or registered by the Commission

CATEGORY	2017
Standard Funds	5
Professional Funds	3
Recognised Foreign Funds	4
SMART Fund Model 004	7
SMART Fund Model 007	1
Total	20

Table 9: Categories of Bahamas-based investment funds licensed by UIFAs

CATEGORY	2017
Professional Funds	22
SMART Fund Model 002	13
SMART Fund Model 004	3
SMART Fund Model 005	1
SMART Fund Model 007	28
Total	67

Total Licensed and Registered Investment Funds

The total number of licensed and registered investment funds as at 31 December 2017 was 783, reflecting a net decrease of 76 investment funds (8.8%) from the end of 2016 (see Figure 3).

Figure 3: Total number of investment funds from 2013-2017



The number of Professional, SMART, Standard and Recognised Foreign Funds as at 31 December 2017 appears in Table 10.

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 2017 was 23, a net increase of two from year-end 2016.

Table 10: Total Bahamas-based investment funds by category at 31 December 2017

CATEGORY	2017
Standard Funds	39
Professional Funds	219
Recognised Foreign Funds	31
SMART Fund Model 001	4
SMART Fund Model 002	133
SMART Fund Model 003	9
SMART Fund Model 004	215
SMART Fund Model 005	4
SMART Fund Model 006	1
SMART Fund Model 007	128
Total	783

EXAMINATIONS

The types of examinations of investment fund administrators 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 19 examinations were conducted during 2017, an increase of nine inspections over the previous year. All of the examinations were routine. Two examinations were conducted jointly with the Central Bank.

Table 11: Number of examinations conducted in 2017

CATEGORY	TOTAL
Unrestricted	8
Restricted	10
Exempt	1
Total	19

LEGISLATIVE AND REGULATORY UPDATES

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

Refer to update on page 30.

New Investment Funds Legislation

The Commission completed drafting the Investment Funds Bill and Regulations, which aim to repeal and replace the prevailing investment funds legislation. A team of industry representatives was assembled to review the draft Bill and Regulations. The Bill was subsequently issued for public consultation in November. It is anticipated that the draft Regulations will be issued for public consultation in early 2018. The Commission held an industry briefing in December to provide an overview of the draft legislation.

Amendment to Current Investment Funds Legislation

The Investment Funds Regulations, which amends the fee structure for licensees pursuant to the Investment Funds Act, 2003, was approved by Cabinet and signed by the Minister of Finance. The draft legislation becomes effective on 1 January 2018.

Alternative Investment Fund Managers Directive (AIFMD)

There were no Memoranda of Understanding (MOUs) signed by the Commission in 2017, 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 cosignatory regulators. The list of all AIFMD MoUs may be found at www.scb.gov.bs.

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

Refer to update on page 30.

United States Foreign Account Tax Compliance Act (FATCA)

Refer to update on page 31.

INDUSTRY ENGAGEMENT

The Commission held its annual industry briefing for registrants and licensees under the Investment Funds Act on 14 September. The briefing highlighted regulatory developments including the overhaul of the Investment Funds Act. The Commission also held a special meeting with investment funds industry stakeholders on 7 December to discuss the major legislative changes presented by the draft Investment Funds Bill.

During the year, the Commission issued the Investment Funds Bill and the Investment Funds (Amendment) Regulations for public consultation.



Representatives of the Investment Funds Act Project Team
at the special meeting of investment funds industry
stakeholders held on 7 December 2017.

FINANCIAL AND CORPORATE SERVICE PROVIDERS ACT, 2000

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 22 applicants approved under the FCSPA, representing an increase of 69% from the 13 approvals granted in 2016.

Table 12: Approvals by services provided

CATEGORY	TOTAL
Corporate Services only	20
Financial Services only	1
Financial and Corporate Services	1
Total	22

TOTAL REGISTERED FINANCIAL AND CORPORATE SERVICE PROVIDERS

The number of active licensees at 31 December 2017 increased to 341, a net increase of 16 registrants from 31 December 2016. Year-end totals reflect new licensees, closures and any revocation of licences during the year (see Table 13).

At 31 December 2017, 268 were performing corporate services only, 36 licensees were performing financial services only and 37 were performing financial and corporate services.

Table 13: Number of licensees by services provided as at 31 December 2017

CATEGORY	TOTAL
Corporate Services only	268
Financial Services only	36
Financial and Corporate Services	37
Total	341

EXAMINATIONS

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

During 2017, there were 61 examinations of FCSPs. Forty-four examinations were conducted by authorised agents and 17 were conducted by the Inspector, compared to 2016 when there were 15 conducted by authorised agents and 22 by the Inspector. Of the 61 examinations, 46 were of providers of corporate services, five were of providers of financial services, and 10 were of providers of both corporate and financial services.

LEGISLATIVE AND REGULATORY UPDATES

Updates on Anti-money Laundering/Countering the Financing of Terrorism (AML/CFT) Regime
Refer to update on page 30.

New FCSP Legislation

The Commission's efforts to propose legislation to repeal and replace the Financial and Corporate Services Providers Act, 2000, continued. To this end, the draft Financial and Corporate Service Providers Bill was issued for public consultation in July 2017. Subsequently, the draft Bill has been amended to take into account responses received during the consultation period and is awaiting final internal sign off before it is submitted to the Attorney-General's Office and the Minister of Finance for final technical reviews.

Amendment to the FCSPA

The Commission has proposed amendments to the existing FCSPA to empower the Inspector to issue subsidiary legislation such as Rules, introduce statutory definitions for the activities licensed under the existing FCSPA and strengthen the Inspector's authority under the Act. The proposed changes, via the FCSP (Amendment) Bill, were submitted to Cabinet for review. The Amendment Bill is pending tabling before Parliament.

FCSP draft Rules

It is proposed that the FCSP legislative regime includes Rules focusing on and regulating the various types of activities existing under the FCSPA. These Rules include:

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. During 2017, the Commission reissued the Rules for public consultation and the Money Lender Rules were finalised and will be issued following the promulgation of the new FCSPA.

Fees Rules

The Financial and Corporate Service Providers (Fees) Rules were drafted and issued for public consultation in July. The Fees Rules were finalised and will be issued following the promulgation of the new FCSPA.

Other Rules

The following Rules were drafted and are currently under review by management:

- Financial Service Providers (Corporate Service Providers) Rules;
- Financial Service Providers (Financial and Consumer Credit) Rule;
- Financial Service Providers (Money Brokers) Rules; and
- Financial and Corporate Service Providers (Debt Collectors) Rules.

Management of Accounting Records Guidelines (MARG)

The MARG was issued by the Commission on 1 July. These guidelines, among other things, provide guidance to financial and corporate service providers on the requirement for a company to keep a declaration at its registered office stating that the company is maintaining reliable account records and the records are available through its registered agent.

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

Refer to update on page 30.

United States Foreign Account Tax Compliance Act (FATCA)

Refer to update on page 31.

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 15 February 2017 via live stream on the internet. The purpose of the training was to demonstrate how to execute the onsite examination of a FCSP at the standard expected by the Inspector.

INDUSTRY ENGAGEMENT

The inspector hosted an industry briefing for financial and corporate service providers on 8 August 2017. This briefing featured the need and ongoing strides of the Commission to overhaul and modernise the legislative regime for Financial and Corporate Service Providers.

During the year, the Commission also disseminated draft legislation for public consultation including the Financial and Corporate Services Providers Bill, the Financial and Corporate Service Providers (Money Lenders) Rules, and the Financial and Corporate Service Providers (Fees) Rules. The draft Guideline on the Management of Accounting Records was also issued for public consultation during the year before it was made effective on 1 July.



The Hon. K. Peter Turnquest, M.P. and Minister of Finance, speaks at the Commission's annual FCSP briefing held on 8 August 2017.

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 2017, 17 requests were received and 8 requests were brought forward from previous periods. Of the 17 requests received, 6 originated from the United States, 1 from Italy, 5 from Canada, 3 from France, 2 from Germany. During 2017, 9 requests were closed. At the end of 2017, 16 matters remained open. Of these open requests, 8 were stayed. 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.

EMMOU

Established in 2002 the Multilateral Memorandum of Understanding sets an international benchmark for cross border cooperation and the powers that regulators must be able to exercise to ensure effective enforcement in its own jurisdiction.

It has provided securities regulators with a vital tool for combating cross-border fraud and misconduct. However, capital markets around the world have undergone sweeping changes in recent years, driven by technology and globalisation, presenting fresh challenges to regulators. IOSCO resolved in 2010 to respond to these challenges by developing a standard beyond the existing MMoU to usher in a new era of improved international enforcement cooperation.

IOSCO drafted the text of the new EMMoU, which was approved in May 2016 by its Presidents Committee.

The Commission's board approved the Commission's proposed application to become a signatory of the new EMMoU in late 2017 and the Commission anticipates forwarding it to the Secretary General of IOSCO in early 2018.

ENFORCEMENT

As at 31 December 2017, 17 enforcement matters remained open, of which 11 were administrative and 6 involved litigation. One litigation matter was completed during the year resulting in that matter being closed. The Commission received judgment in its favour in another litigation matter, which is now being appealed by the counterparty.

A Hearing Panel to address alleged breaches of securities laws was established through the promulgation of the Securities Industry (Disciplinary Proceedings) (Hearings & Settlements) Rules on 7 February 2017. These Rules give the Panel the flexibility and authority to resolve matters through an informal hearing process, allowing for a timelier, efficient and effective disciplinary process.

The Rules are posted on the Commission's website (www.scb.gov.bs).

In 2017 the Commission approved the voluntary liquidation of Tillerman Securities Ltd. (TSL) on the basis that it is supervised by the Courts. The liquidation was placed under the supervision of the Courts with effect from 30 March 2017, the date TSL's members resolved to commence voluntary winding up of its operations. As a consequence, the Commission withdrew its Winding Up Petition filed in the Courts on 7 November 2016, and its Preservation Order filed on 11 November 2016 was discharged.

Also in 2017, the Commission filed a petition in the Supreme Court seeking the compulsory liquidation of Biscayne Capital Ltd. (BCL). The Court granted a Preservation Order freezing all account balances of BCL's clients, depositors and customers pending further Order of the Court. The Court also appointed joint provisional liquidators.

The Commission issued notices warning the public against several entities during the year:

- Doctors/Doctor of Wisdom Limited
- Cornerstone Private Capital Group Ltd.
- Jaguar International Investments /International Investments Clearing S. A.
- Prime Bank & Trust Ltd.
- IML/IMARKETS Live – FOREX Trading
- Pineapple Express Asue

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.

INVESTOR EDUCATION

Promoting an understanding of the capital markets and its participants of the benefits, risks and liabilities associated with investing is a function of the Commission (Securities Industry Act, 2011 s.12). Investor Education is the key tool used to achieve this. The Commission also uses investor education as an integral tool to protect investors, as properly informed, financially literate investors are empowered to make sound investment decisions and avoid many of the hazards and pitfalls of investing.

FINANCIAL LITERACY/INVESTOR EDUCATION PILOT PROGRAM AND STUDY

The Commission collaborated with the Ministry of Education (MOE/ the Ministry) to launch a pilot programme to deliver and study the effectiveness of teaching fundamental investor education/financial literacy concepts to junior high and primary school students. The ultimate objective of the programme is to ensure that all students in The Bahamas will be taught these fundamental 21st Century life-skills prior to graduation and leave the secondary education system equipped for a lifetime of financial well-being.

The Ministry selected three schools in New Providence, namely, A.F. Adderley Junior High School, H.O. Nash Junior High School and C.W. Sawyer Primary School to participate in the pilot programme and study. The programme officially launched in October 2017.

The Commission spearheaded the development of the curriculum for the programme. The Commission also undertook ensuring the teachers were trained to effectively deliver the content to students. The Commission also provided the teachers with material to develop lesson plans, and materials for students to use during their classes.

The first phase of the pilot programme and study is scheduled to conclude at the end of the 2017-2018 school year. At the conclusion, the results of participating students and control groups will be evaluated to inform the future development of the programme.

COLINA FINANCIAL ADVISORS LIMITED'S (CFAL) JUNIOR INVESTOR EDUCATION PROGRAMME

The Commission was pleased to accept the invitation to work in partnership once again with CFAL, a registered investment firm, on its Junior Investor Programme. The Commission's invitation was extended to three schools during this period. The students were provided with information and materials to help prepare them to be informed investors, including understanding what the capital markets are, the Commission's role in protecting investors, and the importance of international cooperation amongst securities regulators.

CAPACITY BUILDING/TRAINING

Representatives of the Commission attended IOSCO's 2017 International Forum for Investor Education (IFIE) Global Investor Education Conference in Rio de Janeiro, Brazil from 4-7 June 2017 hosted by the Brazilian Financial and Capital Markets Association (ANBIMA). The theme for the seminar was "A Changing Era in Financial Capability/Investor Education Programming".

The IFIE Americas Chapter Working Group held a face-to-face meeting adjacent to the Conference and a Growth and Emerging Markets Committee (GEMC) workshop preceded the Working Group face-to-face meeting. The meetings mainly focused on both groups working together to develop a financial literacy/investor education toolkit. The toolkit will assist with the implementation of a model to increase and maximise financial capability/investor education amongst securities regulators.

The Commission has also been a participant in the IFIE Americas Chapter Working Group since 2015 and to this end participates in teleconferences with representatives of other Caribbean securities regulators on a regular basis. The meetings have augmented capacity through IFIEs direct initiatives to provide resources to address gaps identified by the group, and through the sharing of knowledge and ideas amongst participants.

WORLD INVESTOR WEEK

The International Organization of Securities Commission (IOSCO) launched its first World Investor Week (WIW) during 2 – 8 October 2017. The campaign promoted greater investor education and protection worldwide. In celebration of World Investor Week, the Commission participated in several activities. Some of the activities conducted by the Commission were:

- proclamation from the Prime Minister, Dr. the Hon. Hubert A. Minnis, declaring WIW in The Bahamas “Investor Education Week”;
- launch of a pilot programme and study for enhancing financial literacy and investor education through the national curriculum;
- launch of a video competition under the theme “Invest In You!”;
- launch of its official social media presence using Facebook; and
- launch of investor education and protection video series.

The Commission ended the week of activities on the 7 October with a literature distribution campaign at the Mall at Marathon. Publications such as “Tips to avoid frauds and scams” and “Making your money grow” were handed out to a wide cross section of the public.

SOCIAL MEDIA

The Commission launched its official social media presence on 2 October using Facebook. Since its launch date the Commission has posted two investor education and protection videos. The informational videos provided tips to identify red flags when investing and tips to encourage savings so people are in a financial position which will allow them to investment in their futures.

WEBSITE

The Commission reviewed and updated the investor education information and resources available on its website in the investor education section. Persons now have easier access to the material via this method.

“INVEST IN YOU!” VIDEO COMPETITION

The Commission launched a video competition under the theme “Invest in You!” targeting young people between the ages 15 and 25. The competition commenced during World Investor Week. The aim of the competition was to raise awareness of financial literacy/investor education among young people by having them develop a video presentation to inform their peers about saving and investing. The Commission participated with other Caribbean jurisdictions through the International Forum for Investor Education (IFIE) Americas Working Group in launching comparable video competitions for WIW.



Executive Director Christina Rolle (right) congratulates the winner of the “Invest in You!” video competition, Ms. Waynisha Saunders (left).

CAREER FAIRS

University of The Bahamas

The Commission participated in the University of The Bahamas Annual Career/Jobs Fair held on 9 February 2017. The Commission's involvement focused on leveraging the opportunity to increase awareness of the Commission and its role in investor protection.

Bahamas Institute of Chartered Accountant (BICA)

The Commission participated in The Bahamas Institute of Chartered Accountants Financial Literacy Fair, held on 11 November 2017. The Commission distributed "Tips to Avoid Frauds and Scams booklets" and introduced the Commission's Facebook site. The Commission also engaged in other interactive activities and games with the students such as a financial word scramble game and a crossword puzzle.



Commission representatives speak to students at BICA Financial Literacy Fair held on 11 November.

OTHER INITIATIVES

The 4th quarter Consumer Voice 2017, published by the Consumer Protection Commission, circulated information about the Commission. The article advised readers about the financial literacy and investor education pilot programme and study launched in the public schools.

AFFILIATIONS AND MEMBERSHIPS

The Commission is a member of various international, regional and local organisations. In addition to the organisations presented 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 ORGANISATION OF SECURITIES COMMISSIONS (IOSCO)

The International Organisation of Securities Commissions (IOSCO) is the global standard setter for securities and capital markets regulators. The Commission has been an ordinary member of IOSCO since September 1996, and became a signatory to Appendix A of its Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMoU) on 27 December 2012.

The Commission is a Member of IOSCO's Inter-American Regional Committee (IARC), and Growth and Emerging Markets Committee (GEMC). The IARC focuses on issues relating to securities regulation in the inter-American region and meets regularly in conjunction with the Council of Securities Regulators of the Americas (COSRA), of which the Commission is also a member. The GEMC is IOSCO's largest Committee which seeks to promote the development and greater efficiency of emerging securities and futures markets.

IOSCO 42ND ANNUAL CONFERENCE

Representatives of the Commission attended IOSCO's 42nd annual conference, which was held 14-18 May 2017 in Montego Bay, Jamaica. The conference welcomed over 400 securities regulators, industry representatives and other financial market participants. Under the theme, "The Role of Markets and Market Regulators in the Post-Crisis World" the discussions were centred on addressing evolving systemic risk and misconduct in global capital markets.

IOSCO EXECUTIVE PROGRAM ON SUPERVISION

The IOSCO Secretariat launched its pilot executive program this year on 4-7 September in Madrid, Spain at the IOSCO headquarters. The programme was launched to assist regulatory personnel in analysing their organisation's supervisory operations and developing strategies that would increase efficiency in operations and further development. The Commission was represented at this intensive training by its Executive Director Christina Rolle.

GROWTH AND EMERGING MARKETS COMMITTEE (GEMC)

Commission representatives attended the GEMC annual meeting and workshop in Colombo, Sri Lanka on 20-21 September 2017. Attendees at this meeting discussed strategies to develop sustainable market based financing in emerging markets. Discussion topics also included liquidity issues in emerging markets and the impact of Fintech in emerging capital markets.

INTER-AMERICAN REGIONAL COMMITTEE (IARC) AND COUNCIL OF SECURITIES REGULATORS OF THE AMERICAS (COSRA)

IARC/COSRA also hosted its members during the IOSCO conference. On 14 May 2017, the committee met to discuss emerging risks specific to the Inter-American region, including transparency in the capital markets.

Additionally, two executive members of the Commission attended the second annual meeting of IARC/ COSRA held 26-27 October 2017 in Cancun, Mexico. This meeting heavily focused on Fintech and associated themes, included cyber security and the use of technology in regulatory efforts.

CARIBBEAN GROUP OF SECURITIES REGULATORS (CGSR)

The CGSR was formed in 2002 with an aim to facilitate information sharing and collaboration between Caribbean securities regulators to enhance regional securities supervision.

On 24-26 April 2017, the Commission, in its capacity as Chair of CGSR, along with the Caribbean Regional Technical Assistance Centre (CARTAC), hosted the 13th annual conference and workshop under the theme "Enhancing Priorities for Effective Capital Market Supervision and Enhanced Financial Stability in the Caribbean". Representatives from over ten Caribbean countries along with industry experts and external advisors attended the conference. The Commission was elected Chair and Secretariat for a further two-year term and will host conferences again in 2018 and 2019.



Delegates and speakers to the Caribbean Group of Securities Regulators (CGSR) 2017 Conference and Workshop hosted by the Commission 24-26 April.

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 2017, 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 2016 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 remained stable with a small increase of 1.2% from \$5.16 million to \$5.22 million in 2017. The Commission utilised funding from the Government in the amount of \$0.82 million to partially fund its operations. Additional Government subvention of \$0.12 million was used for the implementation of Commission's electronic database, a major information technology project. Deferred income in the amount of \$0.50 million was contributed Poinciana SPV Ltd., to partially fund the renovation of Poinciana House North and Poinciana House South, formerly known as UBS Corporate Centre located on East Bay Street.

The Commission experienced a 3.6% decrease in operating expenses from \$6.88 million in 2016 to \$6.65 million in 2017. The decrease was mainly attributed to a reduction in professional fees associated with the overhaul of legislation governing the Investment Fund Industry. Drafts of both the Investment Funds Bill and Investment Funds Regulations were issued for public consultation in 2018.

The Commission expects expenditure will increase in the near term as it continues to pursue strategic objectives including the revamp of legislation governing Financial and Corporate Service Providers, development of new legislation, information, 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 2017**

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 2017, 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 2017;
- 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.

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.

Other information

Management is responsible for the other information. The other information comprises the Securities Commission of The Bahamas Annual Report 2017 (but does not include the financial statements and our auditors' report thereon), which is expected to be made available to us after the date of this auditors' report.

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 when it becomes available 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.



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Email: pwcbbs@bs.pwc.com

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When we read the Securities Commission of The Bahamas Annual Report 2017, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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, 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.

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.

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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.

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.

The logo for PricewaterhouseCoopers, written in a blue, cursive script.

**Chartered Accountants
Nassau, Bahamas**

25 June 2018

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

Statement of Financial Position
As of 31 December 2017
(Expressed in Bahamian dollars)

	2017	2016
	\$	\$
ASSETS		
Cash on hand and at banks	424,985	377,217
Accounts receivable (Note 5)	76,466	113,949
Prepaid expenses and other assets (Note 4)	1,011,265	63,622
Financial assets at fair value through profit or loss (Note 3)	3,057,865	3,057,708
Plant and equipment (Note 7)	348,011	532,140
Total assets	<u>4,918,592</u>	<u>4,144,636</u>
LIABILITIES		
Accounts payable and accrued expenses	408,444	420,046
Other liabilities	733,632	537,414
Deferred income (Note 8)	3,004,767	2,415,427
Total liabilities	<u>4,146,843</u>	<u>3,372,887</u>
NET ASSETS	<u><u>771,749</u></u>	<u><u>771,749</u></u>
REPRESENTED BY:		
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

21 June 2018

Date

The accompanying notes are integral part of these financial statements.

Statement of Comprehensive Income
For the Year Ended 31 December 2017
(Expressed in Bahamian dollars)

	2017	2016
	\$	\$
INCOME		
Fee income		
Securities industry licensees and registrants	1,967,740	1,947,412
Investment funds	1,801,996	1,892,437
Investment fund administrators	725,835	713,217
Financial and corporate service providers	566,854	536,292
Penalties	138,708	48,469
Securities exchange	10,000	10,000
Examinations	4,300	5,714
Other	7,500	7,500
	<hr/>	<hr/>
Total fee income	5,222,933	5,161,041
Government subvention (Note 8)	942,297	1,273,737
Interest income	165,152	124,961
Other income	316,130	323,129
	<hr/>	<hr/>
Total income	<u>6,646,512</u>	<u>6,882,868</u>

Statement of Comprehensive Income
For the Year Ended 31 December 2017
(Expressed in Bahamian dollars)
(Continued)

	2017	2016
	\$	\$
EXPENSES		
Salaries, wages and employee benefits (Note 10)	4,646,686	4,468,069
Rent	414,943	421,831
Training and conferences	344,342	359,499
Office	274,876	239,006
Depreciation (Note 7)	323,174	429,267
Utilities and property charges	145,461	131,530
Professional fees	122,519	473,456
Advertising and public relations	37,179	34,913
Repairs and maintenance	86,930	82,605
Provision for doubtful accounts (Note 5)	129,803	121,628
Printing and publications	28,461	40,660
Membership fees	38,229	37,268
Bank charges	15,969	17,369
Legislative initiatives	26,272	18,955
Investor education	5,590	3,376
Miscellaneous	6,078	3,436
	<u>6,646,512</u>	<u>6,882,868</u>
Total expenses		
	<u>6,646,512</u>	<u>6,882,868</u>
Net income and total comprehensive income	<u>-</u>	<u>-</u>

**Statement of Changes in Net Assets
For the Year Ended 31 December 2017
(Expressed in Bahamian dollars)**

	Surplus \$	Special Purpose Reserve \$	Total \$
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>
Balance as of 31 December 2016	<u>771,749</u>	<u>-</u>	<u>771,749</u>
Balance as of 1 January 2017	<u>771,749</u>	<u>-</u>	<u>771,749</u>
Total comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>
Balance as of 31 December 2017	<u>771,749</u>	<u>-</u>	<u>771,749</u>

Statement of Cash Flows
For the Year Ended 31 December 2017
(Expressed in Bahamian dollars)

	2017	2016
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	-	-
Adjustments for:		
Interest income	(165,152)	(124,961)
Loss/(gain) on disposals of plant and equipment	1,099	(154)
Depreciation	323,174	429,267
Change in provision for doubtful accounts	109,613	77,207
Interest received	164,995	67,253
(Increase)/decrease in operating assets		
Accounts receivable	(72,130)	(99,093)
Prepaid expenses and other assets	(947,643)	(32,881)
Increase/(decrease) in operating liabilities		
Accounts payable and accrued expenses	55,712	50,361
Other liabilities	196,218	339,895
Advance from consolidated fund	-	(150,000)
Deferred income	1,089,340	779,183
Net cash from operating activities	<u>755,226</u>	<u>1,336,077</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease in term deposits with original contractual maturities greater than three months	-	1,031,916
Purchase of financial assets at fair value through profit or loss	-	(3,000,000)
Investment in Poinciana SPV Limited (SPV)	(567,314)	(1,652,319)
Purchases of plant and equipment	(140,174)	(368,612)
Proceeds on disposals of plant and equipment	30	85
Net cash used in investing activities	<u>(707,458)</u>	<u>(3,988,930)</u>
Net increase/(decrease) in cash and cash equivalents	47,768	(2,652,853)
Cash and cash equivalents as of beginning of year	<u>377,217</u>	<u>3,030,070</u>
Cash and cash equivalents as of end of year	<u><u>424,985</u></u>	<u><u>377,217</u></u>
CASH AND CASH EQUIVALENTS:		
Cash on hand and at banks	<u><u>424,985</u></u>	<u><u>377,217</u></u>

The accompanying notes are integral part of these financial statements.

Notes to the Financial Statements 31 December 2017

1. General Information

The Securities Commission of The Bahamas (the Commission) was established in 1995 and operates 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 Note 2(f).

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 2017 were not relevant to the Commission's operations and accordingly did not impact the Commission's accounting policies or financial statements.

Notes to the Financial Statements
31 December 2017
(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) and IFRS 16 *Leases* (IFRS 16), 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 is currently assessing 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 is currently assessing the full impact of adopting IFRS 15.

Notes to the Financial Statements
31 December 2017
(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.

(b) Foreign currency translation

The financial statements are presented in Bahamian dollars, which is the Commission's functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from translation of monetary assets and liabilities at year-end exchange rates are recognised in the statement of comprehensive income.

(c) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, demand deposits with banks and term deposits with banks with original contractual maturities of three months or less.

(d) Accounts receivable

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

Notes to the Financial Statements**31 December 2017****(Continued)****2. Summary of Significant Accounting Policies (Continued)****(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. Management determines the classification of its financial assets at initial recognition.

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.

Recognition and Derecognition

Regular-way purchases and sales of financial assets are recognised on the trade date, the date on which the Commission commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from financial assets have expired or have been transferred and the Commission has transferred substantially all risks and rewards of ownership.

Notes to the Financial Statements
31 December 2017
(Continued)

2. Summary of Significant Accounting Policies (Continued)

(e) Financial assets (continued)

Measurement

At initial recognition, the Commission measures a financial asset at its fair value plus, in case of financial assets not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial asset carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables are subsequently carried at amortised 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 recognised in the statement of comprehensive income in the financial period in which they arise.

(f) Impairment of financial assets

The Commission assesses at each reporting period 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 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.

Notes to the Financial Statements**31 December 2017****(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 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. The amount of the reversal is recognised 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 recognised directly in the statement of comprehensive income.

(g) Plant and equipment

Plant and equipment are carried at historical cost, less accumulated depreciation and any accumulated impairment. 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.

Notes to the Financial Statements
31 December 2017
(Continued)

2. Summary of Significant Accounting Policies (Continued)

(g) Plant and equipment (continued)

Assets subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

Gains and losses on disposals are determined by comparing proceeds with the carrying amounts and are included in the statement of comprehensive income.

(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.

Notes to the Financial Statements**31 December 2017****(Continued)****2. Summary of Significant Accounting Policies (Continued)****(i) Income and expense recognition (continued)**

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.

(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.

Notes to the Financial Statements
31 December 2017
(Continued)

3. Financial Assets 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.

Notes to the Financial Statements
31 December 2017
(Continued)

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

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

	2017 \$	2016 \$
<i>Level 2</i>		
Debt securities	<u>3,057,865</u>	<u>3,057,708</u>
Total financial assets at fair value through profit or loss	<u>3,057,865</u>	<u>3,057,708</u>

Bahamas Government Registered Stock

	2017		2016		
Maturity Date	Interest Rate	Nominal Value	Fair Value \$	Nominal Value	Fair Value \$
25 July 2025	4.4%	3,000,000	3,000,000	3,000,000	3,000,000
Accrued interest			<u>57,865</u>		<u>57,708</u>
Total financial assets at fair value through profit or loss			<u>3,057,865</u>		<u>3,057,708</u>

4. Prepaid Expenses and Other Assets

During the year, the Commission advanced an amount of \$1,002,151 to purchase Bahamas Government Registered Stock which was unsuccessful and this amount was due from the broker and refunded to the Commission subsequent to 31 December 2017. This balance was included in prepaid expenses and other assets in the statement of financial position as of 31 December 2017.

Notes to the Financial Statements
31 December 2017
(Continued)

5. Accounts Receivable

	2017	2016
	\$	\$
Investment funds and investment fund administrators	130,164	73,707
Financial and corporate service providers	142,973	100,223
Securities industry licensees and registrants	24,280	19,072
Other	<u>135,978</u>	<u>168,263</u>
	433,395	361,265
Provision for doubtful accounts	<u>(356,929)</u>	<u>(247,316)</u>
Total	<u>76,466</u>	<u>113,949</u>

Movements in the provision for doubtful accounts comprise:

	2017	2016
	\$	\$
Opening balance	247,316	170,109
Provision for doubtful accounts	129,803	121,628
Bad debts written off	<u>(20,190)</u>	<u>(44,421)</u>
Closing balance	<u>356,929</u>	<u>247,316</u>

6. Investment 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) on behalf of the government of The Bahamas (the Government). The Commission's holding of the shares of Poinciana SPV Ltd. is expected to be temporary.

Notes to the Financial Statements
31 December 2017
(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:

	2017	2016
	\$	\$
Balance at the beginning of the year	-	-
Investment during the year	567,314	1,652,319
Utilisation of subvention and extinguishment of liability to the Government to finance the investment	<u>(567,314)</u>	<u>(1,652,319)</u>
	<u> -</u>	<u> -</u>

Poinciana SPV Ltd. owns real estate located on East Bay Street, Nassau, Bahamas which is comprised of land and two Class A office buildings known as the Poinciana House North and South (formerly, UBS Corporate Center).

Notes to the Financial Statements
31 December 2017
(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:

Summary Statement of Financial Position	2017	2016
	\$	\$
Current assets	1,693,581	1,803,981
Investment Property	<u>17,809,410</u>	<u>18,390,945</u>
Total assets	<u>19,502,991</u>	<u>20,194,926</u>
Current liabilities	1,246,648	1,280,036
Borrowings	<u>14,000,000</u>	<u>14,000,000</u>
Total liabilities	<u>15,246,648</u>	<u>15,280,036</u>
Share capital	2	2
Contributed capital	5,568,603	5,068,603
Accumulated deficit	<u>(1,312,262)</u>	<u>(153,715)</u>
Total equity	<u>4,256,343</u>	<u>4,914,890</u>
Total liabilities and equity	<u>19,502,991</u>	<u>20,194,926</u>
Summary Statement of Comprehensive Income/(Loss)	2017	2016
	\$	\$
Total income	701,098	100,834
Total expenses	<u>(1,859,645)</u>	<u>(254,549)</u>
Net comprehensive loss	<u>(1,158,547)</u>	<u>(153,715)</u>

Notes to the Financial Statements
31 December 2017
(Continued)

7. Plant and Equipment

	Computer Equipment \$	Furniture and Fittings \$	Vehicles \$	Leasehold Improvements \$	Total \$
For the year ended					
31 December 2017					
Cost					
1 January 2017	1,577,919	564,438	34,708	53,830	2,230,895
Additions	135,189	4,985	-	-	140,174
Disposals	(5,415)	(1,797)	-	-	(7,212)
31 December 2017	1,707,693	567,626	34,708	53,830	2,363,857
Accumulated depreciation					
1 January 2017	1,069,122	548,035	27,768	53,830	1,698,755
Depreciation expense	309,551	6,683	6,940	-	323,174
Disposals	(4,961)	(1,122)	-	-	(6,083)
31 December 2017	1,373,712	553,596	34,708	53,830	2,015,846
Net book value as of					
31 December 2017	333,981	14,030	-	-	348,011
For the year ended					
31 December 2016					
Cost					
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)
31 December 2016	1,577,919	564,438	34,708	53,830	2,230,895
Accumulated depreciation					
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)
31 December 2016	1,069,122	548,035	27,768	53,830	1,698,755
Net book value as of					
31 December 2016	508,797	16,403	6,940	-	532,140

Notes to the Financial Statements
31 December 2017
(Continued)

8. Deferred Income

	2017	2016
	\$	\$
Government subvention	2,845,935	2,288,232
Securities industry licensee and registrant fees	63,536	97,088
Financial and corporate service provider fees	22,720	24,907
Investment fund and investment fund administrator fees	<u>72,576</u>	<u>5,200</u>
Total	<u>3,004,767</u>	<u>2,415,427</u>

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

Movements in Government subvention comprise:

	2017	2016
	\$	\$
Opening balance	2,288,232	3,061,969
Government subvention received	2,000,000	2,000,000
Government subvention utilised – operating expenses	(822,614)	(992,539)
Government subvention utilised – investment in SPV	(500,000)	(1,500,000)
Government subvention utilised – specific projects	<u>(119,683)</u>	<u>(281,198)</u>
Closing balance	<u>2,845,935</u>	<u>2,288,232</u>

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 has been established.

Notes to the Financial Statements
31 December 2017
(Continued)

10. Employee Benefits

Pension costs recognised in the statement of comprehensive income in the current year totaled \$315,174 (2016: \$266,469). 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 \$33,687 (2016: \$41,531) 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 2017, the Commission employed 79 (2016: 78) 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:

	2017	2016
	\$	\$
<i>Assets</i>		
Cash at banks	424,235	376,467
Accounts receivable	42,835	18,166
Prepaid expenses and other assets	1,770	1,770
Financial assets at fair value through profit or loss	3,057,865	3,057,708
<i>Liabilities</i>		
Accounts payable and accrued expenses	76,527	123,424
Other liabilities: Due to the Compliance Commission	733,632	537,414
<i>Income</i>		
Interest income	165,152	124,961
Other income	78,000	78,000
<i>Expenses</i>		
Utilities and property charges	90,274	93,291
<i>Other</i>		
Investment in SPV	567,314	1,652,319

Notes to the Financial Statements
31 December 2017
(Continued)

11. Related Party Balances and Transactions (Continued)

Compensation of key management personnel for the year ended 31 December 2017 comprised \$550,717 (2016: \$429,573) for salaries and other short-term benefits and \$24,104 (2016: \$23,630) for pension benefits.

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:

	2017	2016
	\$	\$
Within one year	175,867	270,540

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 the holding of shares of Poinciana SPV Ltd. will be temporary.

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.

Notes to the Financial Statements
31 December 2017
(Continued)

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, accounts receivable, other assets (due from broker) and investment in debt securities. The Commission mitigates the risk associated with cash at banks by placing its deposits with domestic financial institutions in good standing with the Central Bank of The Bahamas, including a related party. The risk associated with accounts receivable is mitigated by the monitoring of payment history before continuing to extend credit to licensees. Transactions in securities are conducted with brokers in good standing with the Commission. The investment security with credit risk consists of a debt security issued by the Government, which currently maintains an investment grade credit rating with a well-known ratings agency.

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 2017 is set out below:

	2017	2016
	\$	\$
<i>Days outstanding</i>		
0 – 90 days	80,978	113,949
90 – 180 days	-	-
> 180 days	<u>352,417</u>	<u>247,316</u>
Total	<u>433,395</u>	<u>361,265</u>

Balances greater than 90 days are considered for impairment.

Notes to the Financial Statements
31 December 2017
(Continued)

13. Financial Risk Management (Continued)

(b) Liquidity risk

The objective of liquidity management is to ensure the availability of sufficient funds to honour all of the Commission's financial commitments as they become due.

As of 31 December 2017, 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 Stock (BGRS) investment, which is at a fixed interest rate. The Commission does not hedge against this risk.

14. Fair Value of Financial Instruments

Financial instruments utilised by the Commission include the recorded financial assets and liabilities disclosed in the financial statements. Their estimated fair values approximate their carrying values due to the relatively short-term nature of the instruments or the instruments being carried at fair value.

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.

Notes to the Financial Statements

31 December 2017

(Continued)

16. Subsequent Events

Subsequent to 31 December 2017, the Commission received subvention of \$1,000,000, to be utilised by the Commission for its general operations and capital expenditure. Further, the Commission obtained permission from the Ministry to establish a reserve fund in accordance with Section 20 (2) of the Securities Industry Act, 2011. The Commission established the fund on 30 April 2018 in the amount of \$3,000,000 which was approved by the members of the Commission.



SECURITIES COMMISSION OF THE BAHAMAS

3RD FLOOR, CHARLOTTE HOUSE
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