

Securities Commission of The Bahamas
Securities Industry Act, 2011 and Investment Funds Act, 2003

Industry Briefing

25 June 2014

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Minister of State for Finance

Opening Remarks

Introduction

Good Morning, Ladies and Gentlemen.

First, I would like to thank the Securities Commission of The Bahamas for inviting me to bring opening remarks at this Industry Briefing.

The Securities Commission of The Bahamas

The Securities Commission is one of the financial services regulators which fall under the portfolio of the Ministry of Finance. Others include the Central Bank, the Compliance Commission, the Insurance Commission, and the Inspector of Financial and Corporate Services.

The Securities Commission is responsible for the administration of the Securities Industry Act, 2011, the Investment Funds Act, 2003, and, since its appointment as the Inspector of Financial and Corporate Services effective January 1st, 2008, the Financial and Corporate Service Providers Act, 2000. Broadly speaking, the Commission's objectives are to protect investors; to ensure that markets are fair, efficient and transparent; and to reduce systemic risk.

Financial Independence

As the Securities Commission seeks to execute its mandate, it is also guided by the objectives and principles of securities regulations articulated by the International Organisation of Securities Commissions (IOSCO), which is the recognised global standard-setter for securities regulation. IOSCO's Principles require the Regulator to be operationally independent and have adequate powers, proper resources and the capacity to perform its functions and exercise its powers.

In this vein, the Commission continues to move to have its operations fully funded through the fees it collects from its registrants and licensees. In 2013, the Commission received subvention from the

Government in the amount of \$1.26 million. Still, there is a need for the Commission to continue its efforts to ensure that the industry it regulates is able to fund the Commission's operations.

The new fee regime introduced under the Investment Funds Act, which took effect January 1st this year, and the Securities Industry (Fee) Rules, 2012, have positioned the Commission for increased revenues. In its capacity as the Inspector of Financial and Corporate Services, the Commission is reviewing the Financial and Corporate Service Providers Act to rationalize its fee schedule to further assist in achieving this overall goal.

Activity in the Local Capital Markets

The investment funds, securities and capital markets are an integral part of the country's financial services industry, which stands as a key pillar undergirding the Bahamian economy. In fact, the financial services industry represents approximately 20% of the country's Gross Domestic Product. In addition, the industry's indirect contribution to GDP is estimated to be around 16%, which is attributable to professional services, such as legal and accounting services, that complement the financial services industry. Financial Services support economic stability and provide a platform for growth.

Statistical information reported by The Bahamas International Securities Exchange (BISX)—a registrant of the Commission—shows a slight increase in market activity in 2013. Average daily trading volume increased to 16,281 shares for the year, compared with 16,146 shares for 2012. However, the average daily trading value over the same period fell from \$74,433 for 2012 to \$69,382 for 2013. Year-on-year, the BISX All-Share Index increased by 9.06%, from 1,346.26 to 1,468.22 for the 12 month period ended December 31st, 2013. Additionally, market capitalization, which had been stagnant for the three years prior, increased from \$2.870 Billion at the end of 2012 to \$2.998 Billion at yearend 2013—an increase of 4.5 percent.

Industry Growth and External Pressure

The number of firms registered under the Securities Industry Act grew from 128 at yearend 2012 to 136 at yearend 2013—an increase of 6.3%. Over the same period, the number of individuals registered under the Act also increased, from 471 to 613—an increase of 142 or 30.1%. The number of investment funds licensed or registered to operate in or from The Bahamas also saw notable growth, increasing from 652 at the end of 2012 to 753 at December 31st, 2013—an increase of 101 or 15.5 percent. As indicated by the Chairman, this developing trend continued into this year, with the number of investment funds climbing to 769 by May 31st, 2014.

The growth in activity in the securities and investment funds sectors has, to some extent, offset the adverse impact on employment in the financial sector resulting from the downsizing of other financial institutions, due to the outsourcing of operational activities to entities in other jurisdictions. However, numerous challenges to the growth and development of the financial services sector lie ahead. Globally, international financial centres remain under mounting pressure, and the expectations on local industries and their regulators are intensifying. For example:

- Information exchange has been a focus of the Organisation for Economic Cooperation and Development (the OECD) for some years now, with the ultimate goal of implementing a standard for automatic exchange of financial account information. In the interim, Tax Information Exchange Agreements, or TIEAs, are required to be concluded to establish effective information exchange between co-signatories to these bi-lateral agreements. The Bahamas has signed TIEAs with 31 jurisdictions to date, and continues to monitor the status of movements toward automatic information exchange by the OECD.
- The EU's Alternative Investment Fund Managers Directive, or AIFMD, sets out various requirements and deadlines to be in compliance with the Directive, or else be excluded from marketing or performing fund management activities for alternative investment funds in European Economic Area jurisdictions.
- The Financial Action Task Force (FATF) has approved a changed methodology for assessing the effectiveness AML/CFT systems. The methodology will not only test technical compliance with 2012 FATF standards, but moves to evaluate the effectiveness of a jurisdiction's AML/CFT systems. The enhanced evaluation methodology imposes more stringent assessment standards.

These evolving conditions call for vision, boldness, creativity and innovation from the industry to develop new products that meet global clients' wealth management needs, as a new regime of tax transparency and information exchange emerges. It also emphasises the importance of collaboration between the industry and regulator, to ensure that new financial products are sound and bolster the reputation of the jurisdiction as a vibrant financial centre. The Bahamas has a cadre of dedicated, talented and innovative professionals that are ready for this challenge.

The development of the ICON Fund, referenced by Chairman Bastian Galanis, is a wonderful example of public/private partnership. The condominium structure is used in other jurisdictions as a vehicle for investment funds, and through the collaboration of the Bahamas Financial Services Board, the Ministry of Financial Services, the Securities Commission, and industry stakeholders, will be incorporated into our legislative landscape very soon.

Conclusion

I wish you a productive briefing this morning, and encourage dialogue with the Commission as we all work together for the orderly growth and development of the investment funds, securities and capital markets.