

Quincy

**STRONG
CREDIBLE
IMPARTIAL
EFFECTIVE
REGULATORY**



2009/2010

ANNUAL REPORT & FINANCIAL STATEMENTS



Table of CONTENTS

Vision	1
Board of Commissioners.....	2
Executive Management	3
Message from the Chairman.....	4
Corporate Governance.....	7
Report from the Executive's Director.....	10
General Insurance Industry.....	12
Life Insurance Industry.....	16
Securities Industry.....	19
The Pension Industry.....	26
Summary of Key Objectives	27
Regulatory Activities.....	34
Investigations & Enforcement.....	47
Supervision of Financial Institutions.....	53
Public Education.....	60
Capacity Building.....	63
Review of Financial Performance.....	66
Executive Compensation.....	70
FSC Statutes & Regulations.....	71
List of Registered Entities.....	73
Auditors Report and Financial Statements.....	80

VISION

To be a strong, credible, impartial and effective regulator

MISSION

To protect users of financial services in the areas of insurance, securities and pensions by fostering the integrity, stability and health of the financial sector through the efforts of competent and committed employees

CORE VALUES:

ACCOUNTABILITY
COMMUNICATION
CONFIDENTIALITY
EXCELLENCE
SERVICE
INTEGRITY
TEAMWORK
TRANSPARENCY

STATUTORY DUTIES:

For the purpose of protecting customers of financial services, the FSC is mandated, by Section 6 of the Financial Services Commission Act, with the discharge of the following duties:

- Supervise and regulate prescribed financial institutions;
- Promote the adoption of procedures designed to control and manage risk, for use by the management, boards of directors and trustees of such institutions;
- Promote stability and public confidence in the operations of such institutions;
- Promote public understanding of the operation of prescribed financial institutions;
- Promote the modernization of financial services with a view to the adoption and maintenance of international standards of competence, efficiency and competitiveness.

BOARD OF COMMISSIONERS

1. Hon. Emil George OJ, QC

2. Rohan Barnett
Executive Director

3. Dennis Boothe



4. Dayle Blair

5. Roald Henriques OJ, QC

6. David Tennant



7. Shirley Williams

8. Audrey Welds

9. Peter Wilson



Not Pictured Here: Celia Brown-Blake

FINANCIAL
SERVICES
COMMISSION

EXECUTIVE MANAGEMENT



FRONT:

Janet Johnson-Haughton - Director, Compliance and Internal Control
Everton McFarlane - Senior Director, Securities
Janice Holness - Director Investigations & Enforcement
Angela Beckford - Chief Actuary
Nicolette Jenez - Senior Director, Pensions

BACK:

George Roper - Deputy Executive Director
Rohan Barnett - Executive Director
Loretta Reid-Pitt - General Counsel
Sheila Martin - Senior Director, Corporate Services
Leon Anderson - Senior Director, Insurance



MESSAGE FROM THE CHAIRMAN

Hon. Emil George, OJ, QC

In the fiscal year 2009-2010, similar to other economies, the Jamaican economy continued to grapple with the immense negative effects associated with the global recession - a product of the international financial turmoil that began in the United States. While many leaders devised policy actions to improve their country's macroeconomic environment, the Group of Twenty Finance Ministers and Central Bank Governors ("G20") formulated strategies to stimulate the global economy. The G20 also charged the international standard-setting bodies through the Financial Stability Board ("FSB") to promote financial stability by (i) strengthening financial regulation, and (ii) identifying and addressing emerging vulnerabilities in the financial system. Likewise the Government of Jamaica ("GOJ") embarked on a macroeconomic reform programme to create conditions for growth. This programme involves a borrowing relationship with the International Monetary Fund ("IMF") and has three main components, namely:

- i. A fiscal consolidation strategy, focused on streamlining the government's expenditure and reforming the public sector, including the divestment of non-core public bodies;
- ii. A comprehensive debt management strategy that decisively addresses the debt overhang, a component of which was the Jamaica Debt Exchange ("JDX") initiative; and
- iii. Further strengthening of the financial system by reforming the regulatory framework.

Strengthening of the Regulatory Framework

To enhance the regulatory framework, the government has decided to modify the regulatory landscape by (i) rectifying certain deficiencies which had stifled the development of the financial markets in Jamaica and (ii) implementing other measures designed to enhance overall financial system stability.

Recent regulatory changes made in relation to the unit trust industry are an example of the measures that are designed to strengthen the regulatory framework to allow for the development of the Jamaican financial markets. These changes allowed the government to lift a moratorium on the granting of approvals for new unit trusts as well as new unit trust products which had been imposed during the late 1990's. This was announced on the 18th of February, 2010, by the Minister of Finance and the Public Service ("Minister of Finance"). This event was of great significance to the FSC as (i) this announcement was made well in advance of the December 2010 deadline agreed between the IMF and the GOJ, and (ii) a unit trust investor now has a similar level of protection to that afforded an investor in a mutual fund registered under the Securities (Mutual Funds) Regulations ("MFR").¹

However, much more needs to be done in fully developing this sector. With regards to mutual funds, the government has reiterated its commitment to removing structural impediments to the development of a vibrant local mutual fund market. One such proposal that is being examined is the exemption of mutual funds from certain onerous provisions of the Companies Act

¹ Securities Industry Advisory: New Requirements for Unit Trusts, August 21, 2009 SR-ADVI-09/08-0003

of Jamaica by December 2010. The FSC with the assistance of the Caribbean Regional Technical Assistance Centre ("CARTAC") is still conducting technical work towards the development of comprehensive collective investment scheme legislation. The aim is to not only focus on mutual funds, but to also enable the securities industry to accommodate other collective investment vehicles such as hedge funds and private equity funds for more sophisticated investors.

An example of an initiative designed to enhance the overall stability of the financial sector is the strengthening of the regulatory and supervisory framework applicable to the operations of securities dealers. This includes improving capitalization and margin requirements to mitigate against liquidity and operational risks. With these reforms in mind and the need for the securities industry to move away from the dominance of the current repo model and thus diversify their income stream, the FSC has implemented a temporary freeze on the issuance of new licenses for securities dealers whose business models are based on the issuance of repos and other short term liabilities to non-financial clients.

Other plans under the regulatory reforms include the following:

- Amending the Securities Act ("SA") to include provisions that will among other things:
 - o Define, prohibit and sanction Ponzi/pyramid schemes;
 - o Broaden the power of the FSC to effectively investigate violations of the SA; and
 - o Provide the FSC with the power to seek civil monetary penalties for all SA violations.

- The Bank of Jamaica Act and the Financial Services Commission Act will both be amended to further strengthen supervisory tools especially in the area of conducting consolidated supervision.

Whilst these regulatory reforms were listed as part of the conditionalities of the IMF's Stand-By Agreement with the Government of Jamaica, they served as measures to quickly rectify the deficiencies that were identified by the FSC through its own internal reviews and are consistent with FSC's drive to comply with international standards and core principles of regulation established by key standard setting bodies.

Intensified Monitoring and Supervision

Under the Memorandum of Economic and Financial Policies agreed between the IMF and the GOJ, the entire financial system came under more intense surveillance. With regards to the non-deposit-taking sectors – insurance, securities and pensions – the FSC played a significant role enabling in aiding the government to honour its obligations. This was and continues to be done through the following methods:

- In weekly meetings with representatives from both the Ministry of Finance and the BOJ, the FSC provides a weekly update on the non-deposit-taking sectors. These meetings examine the potential adverse impact of local and international macro-economic developments and aim to devise mitigating strategies, if necessary.

- Twelve (12) securities firms, accounting for over 75 percent of the funds under management in the securities industry, submit weekly reports to the FSC.
- The FSC compiles monthly industry reports outlining the financial affairs of the securities and insurance sectors. These reports are used to assess the performance and health of the industries. Stress testing and scenario analysis are also conducted. With regards to the pension sector, an annual report detailing the strength of the industry is also to be submitted to the fund.
- The FSC is currently developing new indicators and refining its existing early warning ratios to provide more insightful information to detect emerging issues.

Protecting Users of Non Deposit-Taking Financial Institutions

The above mentioned initiatives will not only enhance the soundness and health of financial institutions, but also help to protect financial customers by offering a stronger regulatory environment to secure their assets. During the reporting period, on a whole, the insurance securities and pensions sectors continue to be profitable and financially sound. While a few general insurance companies did not achieve the Minimum Asset Test ("MAT") threshold of 135 percent, the MAT results nonetheless indicate that all the companies have more than enough assets to honour their normal claims obligations. The FSC will continue to closely monitor and work with these companies and the industry

with respect to the improvement of their MAT results. The pension industry continues to grow as demonstrated by the increasing number of approved pension service providers and additional pension plans approved during the fiscal year.

Meanwhile, the FSC continues to press on with its campaign to protect the users of financial services on other avenues. These include, but are not limited to:

- (i) Promoting public understanding of the financial system. In addition to the regular forums, seminars and community interactive talks, the FSC has been conducting preliminary work aimed at fostering the implementation of a national financial education programme involving a partnership with other stakeholders in both the public and private sectors. This programme aims to empower Jamaicans with the skills necessary to employ prudent money management in order to save and create wealth while honouring financial obligations and reducing exposure to risk and fraud;
- (ii) Reducing the extent to which it is possible for non-deposit-taking institutions to be used for money laundering. There have been some complaints from policyholders and the players in the general insurance industry that the information which is required to comply with the Proceeds of Crime Act ("POCA") is pervasive, intrusive and also increases administrative expenses. Significantly Jamaica is signatory to "the Vienna Convention" and has membership in international standard setting and regulatory bodies.

The regulators and financial institutions are required under the international commitments made by Jamaica and by laws enacted to give effect to those commitments, to implement measures to detect and report any asset that may have been acquired by illegal activities. The FSC will continue to work with the insurance industry to make these measures less inconvenient while adhering to Jamaican law and international obligations;

- (iii) Advocating greater utilisation of sound corporate governance and risk management practices by financial service providers;
- (iv) Enhancing the regulatory framework by continuing the Pension Phase II reform process and modifying existing Acts, regulations and guidelines. In addition, the FSC continues to work together with the Jamaica Deposit Insurance Company, and the non-deposit taking financial institutions in establishing a compensation scheme for the insurance, securities and pension industries;
- (v) Participating in a number of international initiatives through its membership in bodies such as the International Organisation of Securities Commission ("IOSCO"), International Association of Insurance Supervisors ("IAIS") and the International Organisation of Pension Supervisors ("IOPS"); and
- (vi) Promoting greater cooperation and communication among the members of the Financial Regulatory Council ("FRC") and among regional regulators. The FSC currently serves as

- a. The website administrator for the Caribbean Group of Securities Regulators ("CGSR");
- b. The secretariat for the Caribbean Association of Insurance Regulators ("CAIR"); and
- c. The secretariat and president of the recently established Caribbean Association of Pension Supervisors ("CAPS").

Improving Efficiency

It is customary for both government and private firms to examine their modus operandi in order to seek and gain greater efficiency. Similarly, the FSC has begun an exercise to examine its existing organisational structure, staffing arrangements and compensation policies. The expected outcome is that the FSC will be able to reorganize more effectively to (i) discharge its functions and responsibilities and (ii) continue to recruit, motivate and retain highly qualified and technically competent staff. I believe that this assessment is timely given the current macroeconomic environment. Furthermore, it is consistent with the government's commitment to improve efficiency in the public sector.

I wish to thank the Honourable Audley Shaw, Minister of Finance, for regularly making himself available to me whenever necessary. I would like to also thank the Commissioners, management and staff of the FSC for their tremendous effort and dedication during a very challenging, but productive year. During the year, two of our commissioners resigned. We take this opportunity to express our appreciation to Mrs Celia Brown-Blake and Mrs. Audley Welds for their exceptional service which helped to guide the FSC. Let me also express the FSC's appreciation to the many individuals and organisations for the feedback and other forms of interest shown in our regulatory activities. We regulate: but also facilitate the progress of insurance, securities and pensions in Jamaica.

CORPORATE GOVERNANCE

The FSC is governed by a Board of Commissioners consisting of a Chairman, the Executive Director (ex officio) and up to eight (8) other members. Each Commissioner, with the exception of the Executive Director, is appointed by the Minister of Finance for a term of up to five years and may be reappointed to serve additional terms. The Board of Commissioners appoints the Executive Director and has the basic functions of providing operational oversight to the FSC and making policy and supervisory decisions as it relates to the supervision of the insurance, securities and private pensions industries.

Five committees of the Board have been established to ensure full coverage with the appropriate depth of review of all matters within its purview. Three of these five committees – namely the Securities, Insurance and Pensions Committees - provide oversight and guidance with respect to supervision and regulation pertaining to the respective industries. Another committee is the Human Resources and Administration Committee which has the responsibility to consider, recommend and report on all matters relating to staff including salaries and benefits, personnel policies and procedures, management information systems, procurement contracts, premises and other administrative issues.

The fifth committee is the Finance and Audit Committee and its objective is to consider, recommend and report on all matters relating to the financial affairs of the FSC including the monthly and annual financial statements and the annual budget. This Committee also reviews and recommends the fee structure for the regulatory services provided by the FSC. The members of each committee and the number of meetings for each committee are shown in Tables 1 and 2 respectively. Tables 43 and 44 on page 70 provide information on the remuneration paid to Commissioners and the Executive Management Team.

Table 1: Composition of the Board Committees, 2009-2010

Commissioners	Insurance	Pensions	Securities	Finance & Audit	Human Resources and Administration Committee
Dayle Blair	Chair			*	
Dennis Boothe		*	*	*	Chair
Celia Brown-Blake	*	*	Chair		
Emil George				Chair	
Roald Henriques				*	
Audrey Welds			*		*
David Tennant	*	Chair			
Shirley Williams		*			*
Peter Wilson			*		*

Table 2: Number of Board and Committee Meetings Held in 2009/2010

Committee	Number of Meetings
Full Board	11
Insurance	5
Pension	9
Securities	7
Finance & Audit	3
Human Resources & Administration	4



EXECUTIVE DIRECTOR'S REPORT

Rohan Barnett

After a global decline in late 2008 and early 2009, the global economy began showing signs of recovery in late 2009 which continued into the first quarter of 2010. According to the IMF,

"... global production and trade bounced back in the second half of 2009, and confidence rebounded strongly on both the financial and real fronts, as extraordinary policy support forestalled another Great Depression."²

In addition, the **World Economic Situation and Prospects**, a product of the United Nations ("UN"), has indicated that the **"... global equity markets have also rebounded and risk premiums on borrowing have fallen."**³

However, the IMF and other international institutions continued to warn that despite these encouraging developments, the global economic recovery remains fragile.

For the local economy, in the first quarter of 2009, the stock market main index declined by 9 percent, while the Jamaican dollar came under extreme pressure; consequently, it lost 15 percent of its value. Whilst inflation pressures slightly subsided, interest rates remained high in order to contain instability in the foreign exchange market and hence opportunities were available in the bond and money markets in 2009.

The environment settled down a bit by the end of June as the macroeconomic variables began to demonstrate mixed results. This settling down

was evidenced by the fact that, the exchange rate began to stabilize with the intervention of the BOJ, the Net International Reserves (NIR) was at an adequate level, and there were signs of lower inflationary pressures. With increasing anticipation of inflows from multi-lateral agencies and Balance of Payment support from the IMF, there was less pressure on the dollar and the central bank began to reduce interest rates. Following a successful Jamaica Debt Exchange Initiative, the 180-Treasury bill rate stood at 10.49 percent by the end of March 2010.

Given the reduction in interest rates, investors regained their attraction towards the equities market. The Jamaica Stock Exchange ("JSE") grew by 4 percent in 2009 unlike the 26 percent fall in 2008. The strong appeal to the equities market has also been evident on the JSE's Junior Stock Market where the two offers of shares listed on the Junior Market have been oversubscribed in record time. These developments on the stock exchange provided more investment opportunities for securities firms and their clients alike.

On the other hand, the unemployment rate – another key macro economic indicator – continued on its upward and worsening trend. Table 3 depicts the trend in selected macro indicators.

² World Economic Outlook Update, January 26, 2010. See <http://www.imf.org/external/pubs/ft/weo/2010/update/01/>

³ United Nations World Economic Situation and Prospects (WESP) See <http://www.un.org/esa/policy/wesp/wesp.html>

Table 3: Selected Key Macro Indicators for Jamaica, 2007-2010

Selected Macroeconomic Indicators	Dec-07	Dec-08	Dec-09	Mar-10
Inflation (%) ^A	16.8	16.8	10.2	4.1
T-Bill Yield (6 mths, end of period) (%)	13.3	24.5	16.8	10.5
JSE Market Index (points)	107,968	80,152	83,322	86,011
Unemployment Rate (%) ^B	9.8	10.6	11.6	12.4
Exchange Rate (end of period)	71.2	76.6	89.6	89.7
Net Remittance (US\$'M) (end of period)	1,661.1	1,708.1	1,554.5	401.3
Net International Reserves (US\$'M) (end of period)	1,877.7	1,772.9	1,729.4	1,751.9

Note:

A: For 2007-2009, the inflation rate shown is for the calendar year while for 2010, the rate is for the first quarter of the calendar year.

B: The unemployment rate shown for 2010 is for the 3- month period ending April 2010

THE JAMAICAN FINANCIAL SYSTEM

Aggregate total assets of the regulated Jamaican financial system continue to grow (See Table 4).⁴ The combined total assets of \$1,518.2 billion for the financial system amounted to 139.1 percent of nominal GDP (2008: \$1,431.3 billion or 136.6 percent of GDP). For FSC-regulated institutions⁵, total assets grew by 9.5 percent in 2009 compared to the 15.4 percent in 2008.

⁴ In Table 4, financial institutions are classified according to their regulatory reporting status as: (a) institutions regulated by the FSC, comprising entities offering services related to insurance, securities and pensions; and (b) deposit-taking institutions, which comprise commercial banks, building societies, merchant banks and credit unions. For the purpose of this report, institutions comprising the regulated financial system are shown in Table 4. There are other institutions that are regulated by the BOJ and the FSC and not included in Table 4. See BOJ's website for the complete listing of its regulated entities. The BOJ is awaiting approval of regulations for the supervision of credit unions.

⁵ The data and analysis on FSC-regulated institutions provided in this report do not cover several types of entities that are regulated by the FSC. The entities that are not covered include: individuals licensed as securities dealers, insurance brokers (including, facultative and reinsurance brokers), insurance agents, insurance consultants, insurance loss adjusters, pension fund trustees and pension fund administrators. In Table 4, the assets shown are balance sheet assets as reported at the end of the calendar year and do not include pension fund assets. Pension fund assets are part of the funds under management of licensed securities dealers shown in Table 17.

Table 4: Total Assets by Type of Financial Institution, December 2007 - 2009

Types of Financial Institution	Dec-07		Dec-08		Dec-09	
	Assets (\$ Billion)	Percentage of Total Financial System	Assets (\$ Billion)	Percentage of Total Financial System	Assets (\$ Billion)	Percentage of Total Financial System
FSC-Regulated Institutions						
Life Insurers	108.0	8.4	127.1	8.9	153.9	10.1
General Insurers	40.3	3.1	43.7	3.1	44.7	2.9
Securities Firms	415.7	32.4	478.6	33.5	512.3	33.7
Sub-Total	564.0	44.0	649.3	45.5	710.9	46.8
Deposit-Taking Institutions:						
Banks	504.3	39.3	556.7	39.0	583.1	38.4
Building Societies	122.9	9.6	138.6	9.7	135.8	8.9
Merchant Banks	47.3	3.7	32.6	2.3	31.8	2.1
Credit Unions	44.2	3.4	50.7	3.6	56.6	3.7
Sub-Total	718.8	56.0	778.5	54.5	807.3	53.2
TOTAL	1,282.7	100.0	1,427.9	100.0	1,518.2	100.0

Notes:

The above total asset figures are as at end of each calendar year.

See footnote 5 in the text for a description of the FSC-regulated institutions not included in this table.

Securities licensees are characterized as "securities firms" and "non-securities firms". The former group are licensed securities dealers that engage in securities dealing as a principal activity while the latter group are securities licensees that do not deal in securities as a principal activity but who are, nevertheless, required to obtain a securities dealer's licence in order to conduct some aspects of their business. Securities firms are defined to include unit trust managers. Non-securities firms include several deposit-taking institutions and to avoid double counting non-securities firms are not shown in this table under "FSC-regulated" institutions.

The total asset figures for credit unions for 2008 and 2009 are preliminary.

Source: Data compiled by Bank of Jamaica, Jamaica Co-operative Credit Union League and the FSC

THE GENERAL INSURANCE INDUSTRY

In 2009, while there were 12 registered general or non-life insurance companies, one registrant -Island Heritage Insurance Company ("IHIC") - has decided to stop writing new business and hence is classified as being in "run-off mode"⁶. Total combined assets (excluding IHIC) amounted to \$44.9 billion (2008 December 31: \$43.3 billion). Table 5 shows the trend in selected key indicators for the general insurance industry. Aggregate gross premium written⁷ grew by 5.3 percent to \$24.5 billion. While Table 6 shows the gross premium written ("GPW") by each company, Table 7 displays the GPW by class of business. As seen in table 7, the property and motor classes of business account for over 90 percent of total GPW.

⁶ Run-off mode means the company is not underwriting or assuming any new risk and not making any renewals, however it continues to service its existing policyholders until the insurance policies expire and claims have been settled.

⁷ Gross Premium Written ("GPW") is the sum of gross direct premium written and reinsurance assumed.

Table 5: Selected Key Indicators for General Insurance Companies, 2007 - 2009

Selected Indicators	2007	2008	2009
	\$' Billions		
Total Assets	40.4	43.3	44.9
Investment Assets	25.2	28.4	29.6
Insurance Liabilities	23.6	24.8	26.0
Total Liabilities	26.8	28.6	29.0
Capital Base ¹	11.9	13.2	14.4

Note:

1: This includes capital, retained earnings, investment and capital reserves. The capital displayed in the above table is the statutory or regulatory capital. It excludes certain forms of capital. As a result, capital base plus total liabilities will not be equal to total assets.

Table 6: Premiums Generated By General Insurance Companies For The Years Ended December 31, 2007 - 2009.

Name of Insurance Company	Gross Premium Written (\$ ' M)		
	2007 ^A	2008 ^A	2009 ^A
Advantage General Insurance Company	3,348.4	3,931.1	4,609.6
American Home Assurance Company	1,969.6	1,809.6	1,223.9
British Caribbean Insurance Company	1,885.4	1,819.5	1,943.3
General Accident Insurance Company	1,101.4	1,504.7	1,683.9
Globe Insurance Company of the West Indies	2,197.6	2,391.2	2,412.2
The Insurance Company of the West Indies	1,718.7	1,988.8	2,119.8
Jamaica International Insurance Company	3,810.9	3,467.8	3,612.6
Key Insurance Company	643.7	660.0	598.0
NEM Insurance Company	3,244.1	3,221.2	3,137.2
Victoria Mutual Insurance Company	702.9	809.5	832.8
West Indies Alliance Insurance Company	1,534.7	1,660.2	2,321.1
Total	22,157.2	23,263.6	24,494.4

Notes: Gross written premium is the total of gross direct premium written and reinsurance assumed.

A: Audited data.

Table 7: GPW by Line of Business, General Insurance Industry, 2007-2009.

Class of Business	2007 ^A	2008 ^A	2009 ^A
	\$' Millions		
Liability	1,056.9	970.8	935.4
Property	10,215.9	10,239.5	11,552.4
Motor	10,395.1	11,475.4	11,449.3
Pecuniary Loss	201.3	263.2	165.2
Marine Aviation & Transport	155.8	169.2	237.7
Accident	132.2	145.3	154.5
Total	22,157.2	23,263.6	24,494.4

Profitability

For the calendar year ended 2009, the combined total income⁸ of the general insurance companies grew by 4.7 percent to \$16.8 billion, whilst their total expenses including taxes increased by 11.5 percent to \$15.1 billion. Consequently aggregate net income after taxes was \$1.7 billion. Table 8 shows a three-year trend for main income and expense categories.

As seen in the Table 8, NPE grew marginally by 1.8 percent in 2009 and therefore no real growth occurred as competition intensified among the companies resulting in discounted premiums. The increase in net investment income reflects the rise in the market interest rates with the average 6-month Treasury bill rate moving from 15.9 to 19.9 percent in 2009. Other

income declined by 23 percent in 2009, however, it should be noted that the amount for 2008 was bolstered by gains of \$192.5 million on the disposal of shares in a related company. In 2009, foreign exchange gains accounted for 90 percent (2008: 75 percent) of other income as the Jamaican dollar devaluated against the US.

Acquisition expense for the industry fell significantly as the industry ceded more insurance business to overseas reinsurers (See Figure 1) and hence commission received was greater than commission paid to local insurance agents and brokers. Combined industry operating expenses grew by 12.5 percent due to increased staff benefits.

Table 8: Combined Summary Operations for the General Insurance Companies, 2007-2009

Main Income & Expense Categories	2007 ^A	2008 ^A \$' Millions	2009 ^A
Total Revenue	13,668.1	16,003.0	16,779.6
Of which			
NPE	10,403.0	11,932.6	12,150.2
Net Investment Income	2,538.9	3,073.9	3,902.4
Other Income	726.2	996.5	727.0
Total Expenses	12,053.9	13,554.5	15,121.8
Of which			
Taxes	405.3	728.5	489.4
Acquisition Expenses	357.9	279.8	52.6
Operating Expenses	3,949.2	4,431.1	4,984.4
Claims	7,388.8	8,160.9	9,535.9
Other	(47.2)	(45.8)	59.6
After-tax Income	1,614.2	2,448.5	1,657.8

⁸ Total Revenue is the sum of Net Premium Earned ("NPE"), Net Investment Income, and Other Income. NPE is calculated as GPW less reinsurance ceded minus any increase or plus any decrease in net unearned premiums.

Figure 1: Percentage of Property, Motor & Total GPW ceded to Reinsurers, 2007-2009

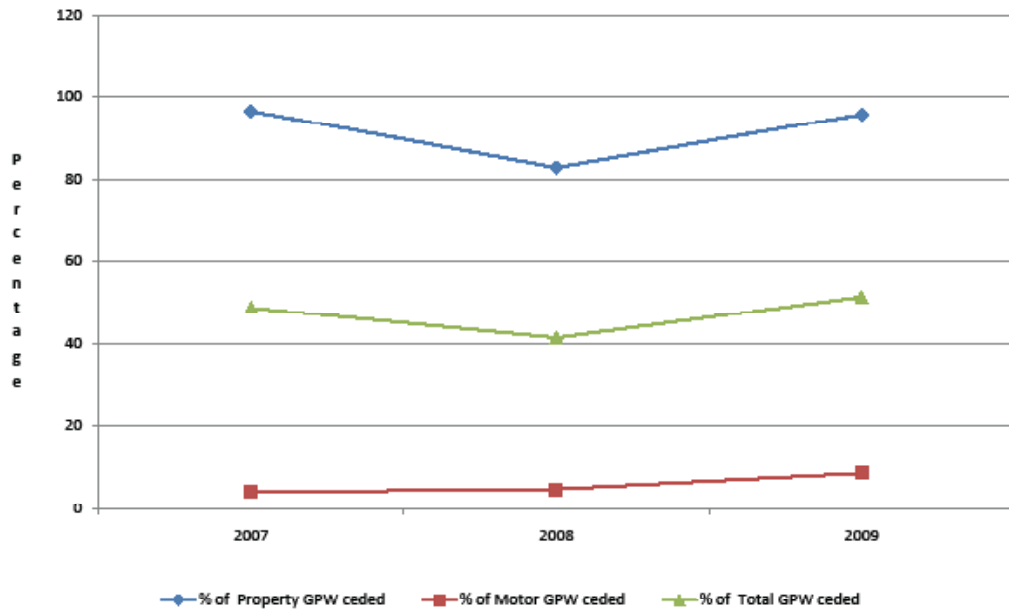
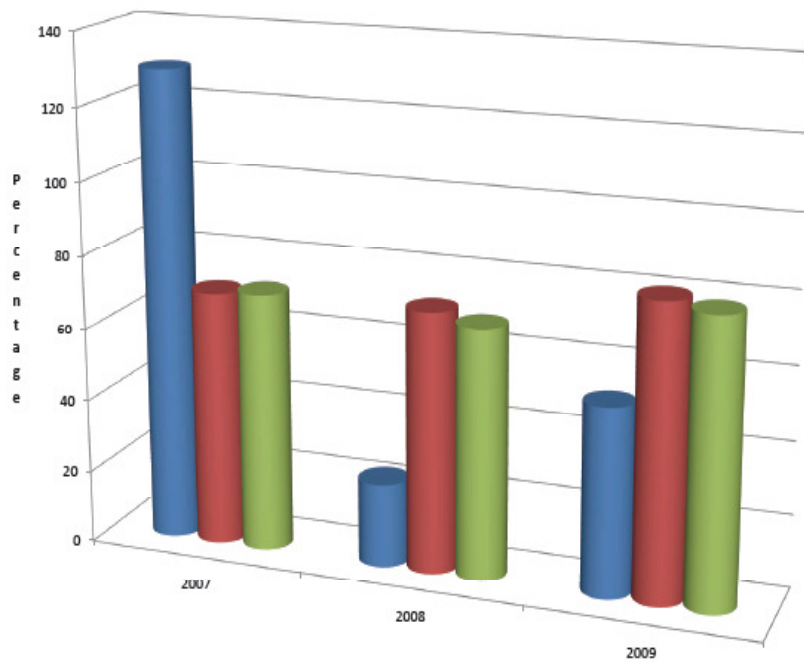


Figure 2: Claims Ratio for Property, Motor & Total Business, 2007-2009



Aggregate claims, which have consistently accounted for over 60 percent of total expenses in 2007-2009, were propelled by an additional \$1.1 billion in motor vehicle claims for the industry in 2009. Figure 2 shows the claims ratios for the two key business segments of the insurance industry.

Capital

With the uptick seen on the JSE, the industry's investment and capital reserves - components of the regulatory capital base for insurance companies - have recovered some \$353.8 million of the \$1 billion lost by the end of 2008. Aggregate retained earnings grew by 12.7 percent to \$8.4 billion; consequently, the combined capital base of insurance companies increased by 9.9 percent to \$14.4 billion.

The main indicator of capital adequacy currently used for general insurance companies is the Minimum Assets Test ("MAT")⁹. In 2008, the benchmark for the industry was raised to 135% from the 120% in 2007. At the end of 2009, the weighted average MAT ratio for all general insurance companies was 138.5 percent, only marginally above the 133.5 percent in 2008. This result indicates that as a group the insurance companies' assets exceeded liabilities by a margin that is over 30 percent, which means that the companies have a considerable buffer of capital to absorb adverse shocks.

THE LIFE INSURANCE INDUSTRY

Aggregate total assets of the life insurance industry, comprising of five (5) life insurance companies, totalled \$153.3 billion (December 2008: \$127 billion); this represents an increase of 20.7 percent over 2008. Table 9 illustrates other key financial indicators. While Table 10 shows the GPW by each company, Table 11 displays the GPW by class of business.

Table 9: Selected Key Indicators for the Life Insurance Companies, 2007 - 2009

Selected Indicators	2007 ^A	2008 ^A	2009 ^A
	\$' Billions		
Total Assets	108.1	127.0	153.3
Investment Assets	92.1	110.0	133.9
Insurance Liabilities	15.0	24.5	31.0
Total Liabilities	79.1	96.5	113.8
Capital Base ¹	27.5	31.5	38.9

Notes:

1: This includes capital, retained earnings, investment and capital reserves. The capital displayed in the above table is the statutory or regulatory capital. It excludes certain forms of capital. As a result, capital base plus total liabilities will not be equal to total assets.

⁹ The MAT establishes a minimum ratio of available assets of a predefined quality to liabilities.

Table 10: GPW Generated By The Life Insurance Companies For The Years Ended December 31, 2007 - 2009.¹⁰

Name of Insurance Company	Gross Premium Written (\$ ' M)		
	2007 ^A	2008 ^A	2009 ^A
Blue Cross of Jamaica	2,175.3	0.0	0.0
Cuna Mutual Insurance Society	663.4	803.7	971.9
Guardian Life	3,834.5	4,767.2	6,439.1
NCB Insurance Company	590.6	418.7	478.6
Sagicor Life Ins Co	9,906.7	18,574.2	15,597.6
Scotia Jamaica Life Ins Co	651.6	764.8	769.6
Total GPW	17,822.2	25,328.6	24,256.8

Profitability

The year ended December 31, 2009 was another profitable year for the life insurance industry. Table 12 highlights the net income generated for the years 2007-2009.

The chief contributor to the decline in NPE was a reduction in premium income for single premium annuities. In one-off transaction, approximately \$6 billion in premium was generated from single premium annuities sold in 2008 to a major client. As seen in Table 11, there was growth in all other lines of business. Net investment income rose by 58.8 percent due to (i) increased yield on GOJ securities during the first quarter of the calendar year, (ii) the recovery made by stock prices on the JSE, and (iii) the growth of assets in the investment portfolio. Other income climbed due to increases in (i) management

Table 11: GPW by Line of Business, Life Insurance Industry, 2007-2009

Line of Business	2007 ^A	2008 ^A	2009 ^A
	\$' Millions		
Life Insurance	10,169.5	11,374.4	12,672.3
Annuity	1,341.8	7,365.2	3,865.3
Sickness & Health	6,311.0	6,589.0	7,719.3
Total	17,822.2	25,328.6	24,256.8

fees on segregated funds and (ii) other fees chargeable to their clients.

The industry seems to have contained operating expenses which was increased by only 1.5 percent in 2009. On the other hand policy benefits grew by some 39 percent. Table 13 shows the movement in the different categories that constitute policy benefits. Figure 3 shows the percentage of NPE consumed by the main expense category.

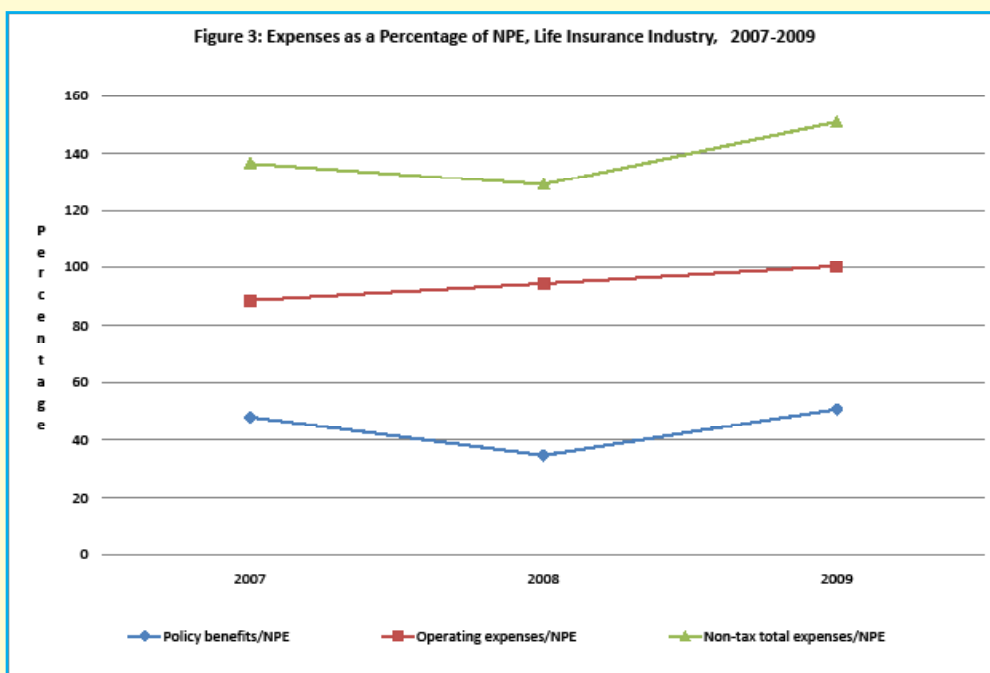
¹⁰ In 2008, Blue Cross of Jamaica (BCJ) was acquired by Sagicor Life Insurance Company. For the 11-month period ended November 2008, total gross premiums written by BCJ amounted to \$1.98 billion.

Table 12: Combined Summary Operations for the Life Insurance Companies, 2007-2009

Main Income & Expense Categories	2007	2008 \$' Millions	2009
Total Revenue	29,170.6	39,964.5	46,764.3
Of which			
NPE	17,308.1	24,961.0	23,826.1
Net Investment Income	10,429.8	12,870.9	20,445.2
Other Income	1,432.6	2,132.6	2,493.0
Total Expenses	24,201.3	32,908.4	36,966.7
Of which			
Taxes	555.3	703.6	964.0
Operating Expenses	15,353.6	23,570.8	23,921.9
Policy Benefits	8,292.3	8,634.0	12,080.8
After-tax Income	4,969.3	7,056.0	9,797.7

Table 13: Aggregate Policy Benefits, Life Insurance Companies, 2007-2009

Policy Benefits	2007	2008 \$ 'Millions	2009
Claims:	6,414.2	6,100.5	8,920.6
Of Which:			
Sickness & Health	4,800.7	3,991.0	6,275.9
Death Claims	1,545.5	2,039.2	2,559.9
Accidental Death Claims	4.0	0.0	0.0
Disability Claims	10.0	24.0	23.6
Matured Endowments	54.0	46.3	61.2
Annuity Payments	840.2	1,286.9	1,797.0
Surrender Values	844.7	964.0	1,072.9
Other	195.2	282.7	290.3
Total Policy Benefits	8,294.3	8,634.0	12,080.8



Capital

In 2009, the life insurance companies recorded improved levels of capital adequacy. For life insurance companies, regulatory capital adequacy is assessed using the Minimum Continuing Capital and Surplus Ratio ("MCCSR")¹¹. At the end of 2009, the weighted average MCCSR for the life insurance sector stood at 798.8 percent, which significantly exceeded both the regulatory benchmark of 135 percent and the weighted average MCCSR level of 512.6 percent recorded in 2008. The combined investment and capital reserves for life

insurers recovered some of the ground that was lost in 2008 and amounted to \$600 million by the end of 2009. Retained earnings grew by 33 percent to \$29 billion. Consequently, the combined total capital base grew by 29.7 percent to \$39.3 billion.

¹¹ In assessing the adequacy of capital in relation to liabilities, the FSC relies on the Minimum Continuing Capital and Surplus Requirement ("MCCSR"). The MCCSR is a risk-based solvency test which determines the capital required based on an assessment of the level of risk embodied in the asset and liability profile of a life insurance company.

THE SECURITIES INDUSTRY

Structure of the Industry

Licensed securities dealers in the securities industry are categorized into two main groups: securities firms and non-securities firms.¹² As at December 31, 2009; forty-eight (48) firms were licensed under the Securities Act (2001) ("Securities Act") and Regulations. (Table 14)

Securities dealers are licensed to engage in securities dealing activities with instruments which fall within the Securities Act's definition of a security. These activities include, but are not restricted to: stock brokering; providing investment advice; and trading in equities, bonds and commercial paper. The major players in the market are engaged in high levels of balance sheet intermediation by way of offering "Repos" to their clients. Repo liabilities account for 57 per cent of the total funds under management ("FUM"). Many of these firms have also acquired cambio licences from the BOJ and are involved in foreign exchange trading. Securities firms represent 62.2 percent of the securities industry by total assets (81.8 percent of FUM); as a result this review concentrates on this group.

Performance of Securities Firms 2009

At the end of 2009, total assets stood at \$512 billion; this represents a 7 percent growth over the year ended December 31, 2008. The securities firms have also recorded an increase in the total FUM during the review period. FUM grew marginally by 2 percent over December 2008 and stood at \$660 billion. Securities firms were required to inject capital to strengthen their capital position. The margin calls experienced in 2008 served as a warning to many firms that a robust capital base remains a critical precondition for firms maintaining their status as going-concerns. The capital base of securities firms grew by 29 percent during 2009. Tables 15 – 17 provide information on the structure and performance of the securities industry in terms of assets, capital and FUM.

Table 14: Number of Securities Dealers by Type of Licensee, 2007-2009

Institution Type	Number of Licensees		
	2007	2008	2009
Securities Dealers	32	30	29
Unit Trust Management Companies	4	4	4
Merchant Banks	1	1	1
Insurance Companies	3	3	3
Commercial Banks & Building Societies	3	3	2
Others	7	8	9
Total	50	49	48

¹² The securities firms as classified include securities dealers, which are those licensed dealers engaged in securities dealing as a principal activity; as well as Unit Trusts Management Companies. The non-securities firms are those dealers that do not deal in securities as a principal activity, but who are required to obtain a securities dealer's licence in order to conduct some aspect of their business.

Table 15: Total Assets of the Securities Industry by Type of Securities Licensee, 2007-2009

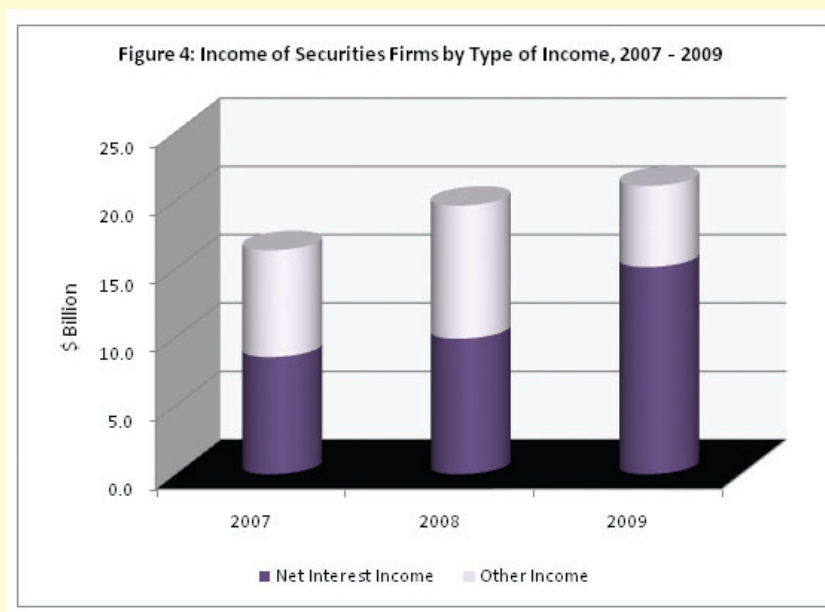
Category of Securities Licensee	Total Assets					
	2007		2008 ^R		2009	
	\$ Billions	% of total	\$ Billions	% of total	\$ Billions	% of total
Securities Firms	415.7	61.0	478.6	60.7	512.0	62.2
Non-Securities Firms	265.8	39.0	310.2	39.3	311.8	37.8
Of which:						
Commercial Banks	66.4	9.7	85.3	10.8	47.3	5.7
Merchant Banks	31.8	4.7	26.2	3.3	27.3	3.3
Building Society	64.2	9.4	71.3	9.0	86.2	10.5
Insurance Companies	81.6	12.0	96.5	12.2	116.9	14.2
Others	21.8	3.2	30.9	3.9	34.0	4.1
Total	681.5	100.0	788.7	100.0	823.7	100.0

Table 16: Total Capital of the Securities Industry by Type of Securities Licensee, 2007-2009

Category of Securities Licensee	Total Capital					
	2007		2008 ^R		2009	
	\$ Billions	% of total	\$ Billions	% of total	\$ Billions	% of total
Securities Firms	43.0	44.2	39.8	42.3	51.4	45.9
Non-Securities Firms	54.3	55.8	54.3	57.7	60.6	54.1
Of which:						
Commercial Banks	8.3	8.6	8.9	9.5	6.8	6.0
Merchant Banks	4.2	4.4	3.6	3.8	4.0	3.6
Building Society	13.2	13.5	11.9	12.6	13.6	12.2
Insurance Companies	19.5	20.0	20.1	21.3	25.0	22.3
Others	9.1	9.4	9.8	10.4	11.2	10.0
Total	97.3	100.0	94.1	100.0	112.1	100.0

Table 17: Total Funds Under Management of the Securities Industry by Type of Securities Licensee, 2007-2009

Category of Securities Licensee	Funds Under Management					
	2007		2008 ^R		2009	
	\$ Billions	% of total	\$ Billions	% of total	\$ Billions	% of total
Securities Firms	517.8	77.8	647.3	83.4	660.2	81.8
Non-Securities Firms	148.1	22.2	128.9	16.6	146.9	18.2
Of which:						
Commercial Banks	6.0	0.9	6.8	0.9	0.0	0.0
Merchant Banks	18.4	2.8	5.5	0.7	13.3	1.6
Building Society	0.0	0.0	0.0	0.0	0.0	0.0
Insurance Companies	105.1	15.8	99.5	12.8	116.0	14.4
Others	18.7	2.8	17.1	2.2	17.6	2.2
Total	666.0	100.0	776.3	100.0	807.1	100.0



Profitability

Despite the turbulent economic climate in Jamaica, the securities industry continued to display signs of resilience. Net income before taxes amounted \$23 billion during 2009, representing an increase of 23 percent relative to the previous year. This growth occurred in the context of a 53 percent increase in net interest income which stood at \$15 billion for the review period (\$10 billion: 2008). Relatively high interest rates offered on GOJ securities, combined with an upward shift of the yield curve, were important factors influencing this performance. Average yields for 2009 stood at approximately 20 percent compared with 16 percent in 2008¹³. Net interest earnings from assets financed by repurchase agreements with retail clients would have particularly benefited from this shift in the yield curve.¹⁴ Firms continue to be heavily reliant on income generated by interest earned

from their Repo business. Net interest income accounted for 72 percent of the firms total income stream, up from 50 percent in 2008; see Figure 4. This remains a concern as firms need to diversify their income mix to mitigate interest rate and credit risks.

Though non-interest income fell by 39 percent, securities firms were able to reign in the growth in their operational expenses by rationalizing their operations to cope with the changing economic realities. This has contributed positively to securities firms' bottom-lines during the review period. Table 18 illustrates the operating results of the securities firms.

¹³ Yields are based on Average 180 day T-bill rates.

¹⁴ Most Repo liabilities are of short-term maturity (less than a year) while a significant share of the assets financed Repos are of significantly longer maturity.

Table 18: : Summary Operating Results for Securities Firms, 2007 - 2009

	2007	2008 ^R	2009
	\$ Billions		
Net Interest Income	8.6	9.9	15.2
<i>of which:</i> Interest income	41.1	51.1	65.7
less: Interest expense	32.6	41.2	50.5
Other Income	7.8	9.7	5.9
Total Income (net of interest expense)	16.4	19.7	21.1
Operating & Other Expenses (taxes excluded)	7.6	9.9	9.3
Net income (before taxes)	8.8	9.8	12.0
	Annual Change (%)		
Net Interest Income	2.0	15.6	52.9
<i>of which:</i> Interest income	0.1	24.2	28.6
less: Interest expense	(0.4)	26.4	22.7
Other Income	22.8	24.7	(39.0)
Total Income (net of interest expense)	10.9	20.0	7.4
Operating & Other Expenses (taxes excluded)	5.2	29.4	(5.5)
Net income (before taxes)	16.5	11.7	22.7

Notes:

R: Revised

Prudential Indicators

The FSC monitors the adequacy of each firm's capital as well as the quality of the assets backing investor liability. The sector is adequately capitalized and has remained robust during the review period. The capital adequacy ratio shows an improvement of 18 percent points over 2008. This is a direct result of a combination of firms' capital injections and an increase in the fair value of assets.

It should be noted that for the industry as a whole, there are adequate assets backing investments made by repo investors, as the low risk asset to repo liabilities ratio remains above the FSC's minimum benchmark. The stock of

low-risk assets on the books of securities firms have increased by 19 percent which indicates that firms have improved the overall quality of the assets on their books.

Securities firms' reliance on their Repo business is evident in the weakening of the intermediation ratio. This resulted from the increase of Repo liabilities outpacing the growth in the total FUM. Nevertheless, the industry as a whole remains below the FSC's maximum requirement. Table 19 summarizes the prudential indicators for the securities firms for the review period.

Table 19: Selected Prudential Ratio for Securities Firms December 2007 - 2009

Ratio	2007	2008	2009	FSC Benchmark
Capital / Risk Weighted Assets	56%	40%	58%	≥ 10%
Capital /Total Assets	10%	8%	10%	≥ 6%
Intermediation Ratio	38%	33%	38%	≤ 50%
Low Risk Assets/Repo Liabilities	124%	128%	138%	≥ 100%

Performance of Unit Trusts and Mutual Funds

Unit Trusts

The Unit Trust sub-sector consists of eight (8) funds which are managed by four (4) fund managers, namely Barita Unit Trust Management Company, Scotia DBG Fund Managers, PanCaribbean Asset Management, and Capital & Credit Fund Managers. The unit trusts portfolios are composed mainly of real estate investments, equities and fixed income securities including GOJ debentures, Local Registered Stocks (LRS), Certificates of Deposit (CD) and Treasury bills.

As at December 31, 2009, total funds managed by unit trusts management companies stood at \$14 billion, a 20 percent increase over December 31, 2008. For the review period, the sub sector experienced net inflows of 11 million units valued at \$267 million. This is a reversal of the net outflows experienced in 2008; see Table 20.

Table 20: Summary of Unit Trusts Funds under Management

	2007	2008	2009
Total FUM (\$ billions)	16.9	11.9	14.3
Activity			
Total Units Sold (million)	10.1	5.7	24.0
Value of Units Sold (\$ millions)	160.9	82.5	485.9
Total Units Redeemed (million)	18.4	25.8	13.3
Value of Units Redeemed (\$ millions)	304.8	378.7	219.3
Net Flows			
Units (million)	(8.4)	(20.1)	10.7
Value (\$ millions)	(144.0)	(296.2)	266.6

Mutual Funds

For the review period, the Mutual Fund sub-sector consisted of eighteen (18) mutual funds available for sale in Jamaica.¹⁵ These mutual funds are managed by four (4) fund managers, namely Manulife (formerly AIC), CI Investments, Scotiabank Canada and JMMB Securities. The mutual fund investment portfolios are composed mainly of equities, fixed income securities and cash.

For the period ended December 31, 2009, the total funds managed by mutual fund companies were USD 8 billion. This represented an increase of USD 4 billion or 79 percent above that of December 31, 2008. As at December 31, 2009, purchases made by Jamaicans in mutual funds amounted to USD 230 million, with a corresponding encashment of USD 149 million; net purchases stood at USD 81 million.

Performance of the Equities and Private Debt Markets

The oversight of the private debt market began in 2006 with the "Private Placement" regime which required institutions when raising funds without making a public offering to register these offers with the Commission. Debt offerings made under this regime were limited to fifty (50) investors. This regime was replaced in 2008

by the "Exempt Distribution" regime which allows for a distribution of securities to be exempt from registration of a prospectus or offering document with the FSC.¹⁶ This initiative was intended to assist in reducing the costs of raising capital and to stimulate the development of the Jamaican capital market. Exemptions may be granted under the following categories:

1. Accredited Investor
2. Minimum Purchase Amount
3. Highly Rated Debt
4. Private Issuer

The private debt market is comprised mainly of short and medium term notes with instruments with tenures exceeding 5 years accounting for just over 1% of total issues. The market saw an increase in the total value of issues of over 100%, between 2007 and 2008 following the introduction of the Exempt Distribution regime. Subsequently a 74% decrease was experienced between 2008 and 2009. See Table 21. The decline in activity in 2009 may have reflected, among other things, a normalization of market activity, as well as the negative effects of the global financial crisis, which may have reduced investor confidence in the creditworthiness of some potential issuers.

Table 21: Summary Private Placements and Exempt Distributions 2007 - 2009

Private Placements and Exempt Distributions registered with the FSC for the period 2007 to 2009			
	2007	2008	2009
Number of Private Placements/Exempt Distributions	33	61	22
Value (\$Billions)	17.8	38.3	9.9

¹⁵ While at the end of 2009, 18 mutual funds were available for sale, there was an additional registered mutual fund but was not in operation. This therefore means that there were actually five fund managers.

¹⁶ For more details, see "Guidelines for Exempt Distributions" (Guidelines SR-GUID-08/05-0016) at <http://www.fscjamaica.org/content.php?action=content&subid=70>

Public offerings of equity securities registered with the FSC in 2007 were comprised solely of preference shares of existing public issuers. However, three (3) of the four (4) issues registered in 2008 and both issues registered with the FSC in 2009 represented issuers new to the public equities market. The JSE launched a Junior

Stock Market in April 2009 to encourage and allow small and medium sized businesses access to equity financing. Of the 2 public offerings for 2009, one represented a listing on the Junior Stock Exchange, Access Financial Services Limited; see Table 22.

Table 22: Summary Public Offerings, 2007 - 2009

Registered Public Offerings 2007 to 2009			
	2007	2008	2009
Number of Public Offerings	5	4	2
Value (\$Billions)	1.7	3.8	1.2

THE PENSION INDUSTRY

The table below shows the number of corporate service providers by category inclusive of the pension assets under management which have grown, year over year by 16 percent.

Table 23: Total Assets under Management of Corporate Service Providers

Service Providers	2008		2009	
	Number of Entities	Asset Values \$'Millions	Number of Entities	Asset Values \$'Millions
Insurance Companies	4	83,167.8	4	97,011.9
Securities Dealers	13	78,658.2	12	94,137.1
Credit Unions/Building Society	3	1,866.7	5	2,442.6
Other	7	32,716.9	7	35,048.7
Total	27	196,409.6	28	228,640.3

SUMMARY OF PERFORMANCE SCOREBOARD 2009-2010

Tables 24 - 26 below outline key strategic objectives for the insurance, pensions and securities industries. Details of the activities undertaken in pursuit of these objectives are presented in the various segments of the Executive Director's report.

The Insurance Division

The main function of the Insurance Division is to protect the interest of policyholders and so in furtherance of this main goal it sets strategies outlined in two main objectives, namely: (i) to strengthen the legal and regulatory framework and improve monitoring in order to enhance risk management; and (ii) ensure a high level of compliance on the part of the insurance industry. The performance against these targets is shown in Table 24.

Table 24: Performance against 2009-2010 Objectives for the Insurance Division

Strategies	Targets	Status
Objective I: To ensure that the legal & regulatory frame work is appropriate for the effective supervision of the insurance industry.		
1. Amendments to Insurance Act and Regulations.	Review provisions of the Average Clause, in consultation with the industry, by March 31, 2010.	Achieved.
	Define by March 31, 2010, the following that require FSC approval: <ul style="list-style-type: none"> • 10% shareholding • Changes in acquisition • Disposal of significant holdings – 5%. 	Guidelines were developed to be circulated in April 2010.
	Review, by March 31, 2010, winding-up requirements, especially providing for the ranking of policyholders above creditors.	Work completed.
	Prepare brief, by March 31, 2010, for regulations requiring companies to have in place contingency plans, market conduct policies and procedures.	Incomplete - guidelines on market conduct drafted and circulated to industry for comment.
	Prepare brief, by March 31, 2010, for amendments to regulations which will relate to the minimum capital of intermediaries and their	Incomplete - exploratory work has commenced.

Table 24: Performance against 2009-2010 Objectives for the Insurance Division cont'd.

Strategies	Targets	Status
	required insurance cover to a component such as premiums or some other component.	
	Prepare brief, by March 31, 2010, for amendment to regulation 45, clarifying investment requirements.	The brief has been drafted and will be sent to the Legal Services, Research and Policy Division for review.
2. Review Solvency Standards in association with the Chief Actuary.	Finalise and issue MCT Guidelines by November 30, 2009.	In the process of finalizing draft Guidelines after lengthy consultation with the industry. Discussions with the industry are still in progress.
	Prepare brief for draft regulations by March 31, 2009.	Not yet commenced. Work will be carried forward transferred to 2010/2011.
	Develop appropriate capital/solvency requirements for Bancassurance products.	The target has already been achieved
3. Improve regulation of risk management in the industry.	In association with the Actuarial, and Legal Services, Research and Policy Divisions, develop guidelines by September 30, 2009 regarding the use of catastrophe models by the general insurance sector.	The guidelines were drafted and circulated to the industry for comment. Finalisation of this project will be postponed until the MCT project is completed in order to have more dialogue with stakeholders.
Objective II: To have full compliance with the Insurance Act and Regulations and IAIS Core Principles.		
1. Annual and Quarterly Desk Reviews.	Complete the summary report on the review of annual filings by the end of September 2009.	Target was achieved.
	Complete the summary report on the review of quarterly filings within two months of the end of the quarter.	The reports for the 1 st quarter were not finalised within the time frame because the annual reports were being finalised. They were completed two weeks after the deadline.
2. On-site Examinations.	Complete at least four on-site	Target was achieved.

Strategies	Targets	Status
	Complete at least 2 follow-up examinations during the year.	Target was achieved.
3. Reinsurance Treaties.	Complete in depth review of the reinsurance programmes of 6 companies by December 31, 2009.	The target has been shifted to March 31, 2010. Amended target achieved.

The Securities Division

The business plan of the Securities Division is aimed at achieving the twin objectives of protecting the interest of investors and the preservation of market integrity. These objectives are achieved through the maintenance of safe and sound market intermediaries through a combination of (i) supervisory programmes (off-site examinations and monitoring) and (ii) regulatory review and development. The performance against these objectives is set out in Table 25

Table 25: Performance against 2009-2010 Objectives for the Securities Division

Strategies	Targets	Status
Objective I: Licensing of entrants to meet our requirements, monitoring of licensees and application of supervisory or enforcement actions when appropriate.		
1. Approvals.	Carry out approvals related to relevant registrants and licensees.	Ongoing
2. Monitoring.	Carry out programme of monitoring related to relevant registrants and licensees.	The scheduled programme was substantially completed within targets. This included: <ul style="list-style-type: none"> ▪ Market Intermediaries-10 onsite examinations completed (targeted amount 10); ▪ 4 CAMEL assessments completed (target amount 10); ▪ Investment Management 2 onsite examination completed (targeted amount was 3); and ▪ Capital Markets 5 onsite examination completed (targeted

Table 25: Performance against 2009-2010 Objectives for the Securities Division con'td

Strategies	Targets	Status
		amount was 6).
Objective II: Continue the improvement in the regulatory infrastructure in order to enhance investor protection.		
Strategies	Targets	Status
1. Amendment to the Securities Act.	Take steps to secure amendments to Securities Act by reviewing draft amendments from the Chief Parliamentary Counsel ("CPC") and deliver comments to Legal Services, Research and Policy Division within 4 weeks of receipt. Such amendments include: amendments to Securities Act in relation to provisions for Investment Clubs, and Unlawful Financial Operations ("UFOs")	Key proposals have been drafted and submitted for consideration by the FSC Board. However, additional subsequent to the preparation of the Government's medium term economic and financial programme during January – March 2010, additional proposals relating to, among other things, reforms to the regulatory framework for Collective Investment Schemes ("CIS"), UFOs and Prudential Supervision, will be developed in FY 2010/2011.
2. Amendment to the Mutual Fund Regulations ("MFR").	Review proposed amendments to MFR by September 30, 2009.	Not completed. Proposed amendments to the MFR are to be taken as part of a larger project for the reforms to the regulatory framework for CIS (see item #3 below).
3. Collective Investment Schemes ("CIS") legislation.	Engage consultant to develop legislative framework by March 31, 2010.	Target met. As a part of the consultancy a paper defining the scope of proposed legislation and detailed proposals for amendments to the Securities Act, MFR, and the Unit Trust Act are currently being reviewed.
4. Amendment to the Unit Trust Regulations.	Take steps to secure amendment to the Unit Trust Regulations by March 31, 2010.	Target met. The Unit Trust Regulations were amended and the new regulations were gazetted during the last quarter of FY 2009/2010. An industry advisory was circulated in

Table 25: Performance against 2009-2010 Objectives for the Securities Division con'td

Strategies	Targets	Status
		February 2010.
5. Amendment to the Guidelines for Margins for Repurchase.	<ul style="list-style-type: none"> ▪ Submit draft amendments to Legal Division by April 30, 2009. ▪ Amend Margin Guidelines to reflect the new framework for computing minimum margin by June 30, 2009. 	Not completed. Agreement has been reached between the FSC and industry representatives such as the Jamaica Securities Dealers Association ("JSDA") on an appropriate framework for risk-based margin requirements. Further progress is expected during FY 2010/2011 as the risk-based model is recalibrated to new market conditions post-JDX and integrated with other proposals for a comprehensive reform of prudential supervision.
6. Amendment to the Conduct of Business Regulations ("COB").	<ul style="list-style-type: none"> ▪ Submit required amendments to Legal Services, Research and Policy Division by August 31, 2009. ▪ Review draft Amendment regulations by December 31, 2009. 	Not completed. Completion is contingent on prior targets being achieved at item #5 above.
7. Rules governing Pooled Pension Plans.	<ul style="list-style-type: none"> ▪ Review industry comments on discussion paper and identify any required changes by June 30, 2009. ▪ Submit draft guidelines to Legal Services, Research and Policy Division by August 31, 2009. ▪ Implement guidelines by December 2009. 	Initial draft paper prepared within targeted time frame. However, project is incomplete as draft paper is to be amended based on the results of an industry survey on current practices. Project to be completed in FY 2010/2011.
8. Guidelines for Continuous Education Requirements with the collaboration of the JSDA.	<ul style="list-style-type: none"> ▪ Submitting draft guidelines to Legal Services, Research and Policy Division by June 30, 2009. ▪ Preparing final guidelines by September 30, 2009. 	Draft guideline not yet finalized. An initial draft of the guidelines has been prepared for internal review and discussion.

Table 25: Performance against 2009-2010 Objectives for the Securities Division con'td

Strategies	Targets	Status
9. Secure Technical Assistance ("TA") to develop Risk Management and Contingency Planning framework for the FSC and its licensees.	<ul style="list-style-type: none"> Develop TOR and procure TA consultant for September 30, 2009 TA consultant to execute project and provide final report by March 30, 2010. 	Target date for the procurement of the TA Consultant was initially revised to March 2010 to reflect budgetary constraints. To account for the length of the procurement process, the project now expected to be completed in FY 2010/2011.

The Pensions Division

The Business Plan of the Pensions Division for the fiscal year 2009/10 included four principal and related objectives for the purpose of protecting pension plan members and their beneficiaries as outlined below:

Table 26: Performance against 2009-2010 Objectives for the Pensions Division

Strategies	Targets	Status
Objective I: Registration and licensing of persons and entities doing business in the Pensions Industry.		
1. Process new and completed submissions for pension plans and trustees.	Process of at least 50% of completed applications by March 30, 2010.	Target achieved; see section on Pension Authorization.
2. Process new and completed submissions for administrators and investment managers.	Conclude 100% of completed applications by March 30, 2010.	Target achieved; see section on Pension Authorization.

Table 26: Performance against 2009-2010 Objectives for the Pensions Division cont'd.

Strategies	Targets	Status
Objective II: Advance progress with Phase II of Pension Reform		
1. Work with the Ministry of Finance and the Public Service and industry. Stakeholders to finalize drafting of amendments to reflect all Phase II reform issues.	Review draft amendments from the CPC.	One draft regulation received from the CPC and reviewed.
	Review feedback on draft regulations and amendments from industry stakeholders.	Other drafts are not yet available from the CPC.
	Prepare and submit recommendations for further drafting instructions to the CPC.	The entire set of drafting instructions sent to the CPC is being reviewed and will be resubmitted to the CPC.
Objective III: Monitoring and supervision of regulated entities		
1. Implement programmes for the analysis of pension plans, administrators and investment managers.	<ul style="list-style-type: none"> ▪ Draft risk appraisal model for pension plans finalized. ▪ Draft risk appraisal model for corporate entities finalized. ▪ Commence desk based reviews and onsite examinations of licensees and registrants. 	<ul style="list-style-type: none"> ▪ Target achieved; see section on Supervision. ▪ Target achieved; see section on Supervision. ▪ Target achieved; see section on Supervision.

Table 26: Performance against 2009-2010 Objectives for the Pensions Division cont'd.

Strategies	Targets	Status
Objective IV: Monitor and review processes for the winding-up of Pension Plans		
1. Review new applications and completed submissions for winding-up and schemes of distributions of surplus.	<ul style="list-style-type: none"> ▪ Review winding-up applications. ▪ Review applications received for scheme of distribution of surplus. ▪ Review winding-up progress reports. 	<ul style="list-style-type: none"> ▪ Target achieved; see section on Pension Authorization. ▪ Target achieved; see Pension Authorization. ▪ Target achieved; see Supervision.

REGULATORY ACTIVITIES ¹⁷

(A) Bulletins and Guidelines

Bulletins and guidelines are used by the FSC to provide information and guidance to licensees, registrants and the general public. These bulletins and guidelines are circulated to relevant industry participants and are also posted on the FSC's website. A summary of the bulletins and guidelines released during the review year for each sector is provided below:

Insurance Industry

The following bulletins and guidelines related to the Insurance Industry were released during the review period:

¹⁷ This and the following sections report on activities that occurred within the fiscal year April 1, 2009 – March 31, 2010.

- **Stress Testing – General Insurance Companies IR-CONSUL-09/04-0004:** This guideline discusses the importance of developing stress testing mechanisms to mitigate the various risks facing insurance companies.
- **Guidelines on Market Conduct for all insurers and intermediaries registered to conduct insurance business in Jamaica IR-CONSUL-09/04-0005:** The purpose of this guideline is to reinforce the provision of the existing laws and regulations in order to ensure that insurers and intermediaries develop and adopt standards that are consistent with industry best practices.
- **Draft Guidelines for Business Plans to be Submitted to the Financial Services Commission on an Annual Basis IR-CONSUL-09/04-0006:** This draft guideline establishes the minimum standard regarding the content of the Business Plan to be provided to the FSC, setting forth how an insurance company intends to manage its business.
- **Information Bulletin: Filing Requirements for an Association of Underwriters IR-GUID-09/04-0011:** The purpose of this bulletin is to provide a listing of information that is required to be filed with the FSC by an association of underwriters, registered to conduct insurance business in Jamaica.
- **Draft Guidelines on the Criteria for Auditors and Actuaries to Function in the Insurance Industry IR-GUID-09/06-0012:** This draft guideline discusses the criteria required by auditors and actuaries to function in the insurance industry and for actuaries and auditors to be approved by the FSC before commencement of duties with an insurance entity.
- **Bulletin on Early Warning Ratios IR-ADVI-09/08-0001:** This bulletin provides an outline of the proposed changes to some of the original early warning ratios so as to improve the FSC's ability to detect the potential risks faced by insurance companies as early as possible.
- **Bulletin: Definition of Persons to be Registered as Sales Representatives IR-ADVI-09/08-0002:** This bulletin discusses specific scenarios under which a person employed to an insurance entity is required to be registered as a 'sales representative', i.e. a person who may lawfully solicit or negotiate insurance business. This guideline further clarifies the FSC's expectations regarding the minimum standards to be adhered to by general insurance companies in seeking registration of their sales representatives.
- **Market Conduct Guidelines on Best Practice for Motor Insurance Claims IR-GUID-09/08-0013:** This guideline clarifies the FSC's expectations regarding the minimum standards to be adhered to by general insurance companies in the settlement of motor vehicle claims.
- **Instructions: Minimum Capital Test for General Insurance Companies and Branches of Foreign Companies Carrying on General Insurance Business in Jamaica AR-GUID-09/11-0011:** This consultative paper provides the general framework for the calculation of the Minimum Capital Test ("MCT") which is based on the Canadian insurance regulator's MCT and assesses the riskiness of assets and policy liabilities by applying various factors and margins. It is an "excess of capital" measure which compares capital available to capital required.

Securities Industry

The following bulletin related to the Securities Industry was released during the review year:

- **Securities Industry Advisory: New Requirements for Unit Trusts SR-ADVI-09/08-0003:** This advisory outlines the new requirements that will come into effect once the regulation governing unit trusts have been promulgated into law.

Pensions Industry

The following bulletins and guidelines related to the Pensions Industry were released during the review period:

- **Bulletin: Accredited Actuarial Associations Recognised by the Financial Services Commission under Section 2 of The Pensions (Superannuation Funds and Retirement Schemes) Act, 2004 and Regulation 11 of The Pensions (Superannuation Funds and Retirement Schemes) (Governance) Regulations, 2006 March 2009 AR-GEN-09/03-0004:** This bulletin provides a list of Actuarial Associations that are recognized by the FSC.
- **Bulletin: Leases PR-GUID-09/04-0013:** This bulletin provides insight to the accounting standards and legislative requirement relating to the treatment of leases.
- **Bulletin: Content of the Business Plan PR-GUID-09/04-0014:** This bulletin establishes the minimum standard regarding the content of the Business Plan to be provided to the FSC setting forth how the applicant intends to manage its pensions business.

- **Information Bulletin: Statutory Filings for Administrators and Investment Managers PR-GUID-09/04-0015:** This guideline serves to alert Administrators and Investment Managers of the timelines for the submission of certain documents to the FSC

- **Information Bulletin: Statutory Filings for Trustees PR-GUID-09/04-0016:** This guideline serves to alert Trustees of the timelines for the submission of certain documents to the FSC. It is intended to assist Trustees in discharging their duty to ensure that actions are taken to achieve compliance with the regulatory requirements.

- **Guideline on Conversion PR-GUID-09/04-0017:** This serves to guide plan conversions from a defined benefit plan to a defined contribution plan and outlines the FSC's expectations regarding the different approaches which may be adopted.

- **Statement of Investment Policies and Principles (SIPP) PR-ADVI-10/02-0001:** This bulletin reviews the basics of an investment policy and should provide some assistance to trustees in understanding the development, implementation and management of the investment policy.

- **Draft Guideline on Trustees acting as Investment Managers of Self-Administered Funds PR-GUID-10/02-0019:** This guideline outlines among other things the responsibilities of trustees of self-administered funds when investing pension fund assets.

- **Guideline on the Submission of Information in lieu of Annual Reports PR-GUID-10/04-0021:** This guideline allows selected companies to provide the FSC with additional information regarding its corporate governance instead of submitting an annual report to the FSC.

- **Guideline on Transfer Plan on Discontinuance of Business PR-GUID-10/02-0019:** This guideline aims to ensure certain principles are followed when the pension business of an Administrator or Investment Manager that discontinues operations are properly and effectively migrated to another Administrator or Investment Manager. These principles include:

- o Compliance with the Pensions (Superannuation Funds and Retirement Schemes) Act, 2004 and the associated Regulations in implementing the transfer of business;
- o Engaging the FSC such that the FSC is able to monitor events and coordinate information flow and activities;
- o Ensuring that trustees are informed of their choices and are provided with sufficient opportunity to secure alternative service arrangements;
- o Avoidance of double transfers whenever possible.¹⁸

- **Bulletin: Auditing of Financial Statements PR-ADVI-10/03-0002:** This bulletin is applicable to superannuation funds and seeks to clarify the calculation of the limit on the fair value of assets and its effect on the criteria for the submission of audited accounts.

General

The following bulletin related to the registration processing was released during the review year:

- **Bulletin: New Requirements Related to Registration Processing and Fit & Proper Assessments GEN-ADVI-10/01-0001:** This bulletin details recent procedural changes made by the FSC which impact the following:

- o Stale-dating of fit and proper documents
- o Persons deemed eligible to verify copies of academic records
- o Information required in relation to character references for applicants.

(B) Anti-Money Laundering

The FSC continued to discharge its functions in compliance with statutory requirements and the Financial Action Task Force ('FATF') principles pursuant to Jamaica being signatory to the 1988 United Nations ("UN") Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances. In this regard, the FSC pursued the following initiatives:

1. Continued Assessment of the Anti-Money Laundering Systems of Licensees

On-site and off-site assessments of the anti-money laundering systems for registrants and licensees within our regulatory ambit in the insurance and securities sectors continued. Deficiencies were identified, noted in writing, and communicated to the entity in breach for the necessary corrective

¹⁸ Double transfers occur where a pension plan is transferred by the Administrator/Investment Manager to a service provider, and then by the Trustees to a different service provider of their own choice

actions to be taken. Follow-up assessments were initiated in order to ensure that appropriate corrective actions were implemented. Such follow up assessments will continue until all deficiencies are satisfactorily addressed.

2. Revision to the Anti-Money Laundering / Counter-Financing of Terrorism Guidelines

Work on the revision of the Anti-Money Laundering/Counter-Financing of Terrorism Guidelines, ("Guidelines"), continued in order to ensure synchrony with the Proceeds of Crime Act, 2007 and its attendant regulations which are the Proceeds of Crime Regulations, 2007, and the Proceeds of Crime (Money Laundering Prevention) Regulations, 2007. The modified Guidelines are to be forwarded to the Minister with responsibility for national security for review and comments.

3. Notices

The FSC continued to circulate notices on a periodic basis in order to keep all stakeholders abreast of international developments, particularly in respect of persons and organizations included on the UN Security Council Consolidated List, and in conjunction with the Ministry of Foreign Affairs and Foreign Trade.

4. Training for Staff

Additionally, the FSC continued to provide staff members with anti-money laundering training opportunities to bolster their skills so as to ensure effective and efficient performance in the discharge of the FSC's functions as a Competent Authority under the Proceeds of Crime Act, 2007.

(C) Authorisations

Under the relevant Acts and the attendant regulations, the FSC is mandated to regulate and supervise the insurance, securities and pensions industries. This includes the registration and licensing of different products, entities and individuals for each sector. This section will review the authorizations issued by the FSC for each industry.

Insurance Authorisations

Of the 350 authorisations for the insurance sector, 322 were for insurance sales representatives; meanwhile, 154 sales representatives voluntarily cancelled their registration resulting partially from movements out of the insurance industry. Consequently, there were 168 more insurance representatives in the industry. Table 27 shows the number of registrants in the insurance industry.

Table 27: Number of Registrants in the Insurance Industry as at March 31, 2010

	Licensed/ Registered At 31/3/09	Additions	Less Terminations/ Cancellations	Less Merged Entities	Licensed/ Registered At 31/3/10
Life Insurance Companies.	5	0	0	0	5
General Insurance Companies.	12	0	0	0	12
Association of Underwriters	1	0	0	0	1
Insurance Brokers	27	1	0	0	28
Facultative Placement Brokers	20	1	0	0	21
Overseas Reinsurance Brokers	2	0	0	0	2
Local Reinsurance Brokers	1	0	0	0	1
Insurance Agents	10	0	0	0	10
Insurance Sales Reps.	1,804	322	154	0	1,972
Loss Adjusters	4	14	0	0	18
Investigators	0	9	0	0	9
Claims Negotiators	0	2	0	0	2
Insurance Consultants	1	1	0	0	2
Total	1,887	350	154	0	2,083

Securities Authorisations

Table 28 shows the number of additions and voluntary cancellations within the securities industry that occurred during the 2009-2010 fiscal year.

Table 28: Number of Licensees and Registrants in the Securities Industry as at March 31, 2010

	Licensed/ Registered At 31/3/09	Additions	Less Terminations/ Cancellations	Less Merged Entities	Licensed/ Registered At 31/3/10
Securities Dealers	63	2	8	0	57
Unit Trust Managers	4	0	0	0	4
Securities Dealers' Representatives	668	111	114	0	665
Investment Adviser	0	0	0	0	0
Investments Adviser's Representative	0	0	0	0	0
Mutual Funds	19	1	0	0	20
Unit Trust Schemes	8	0	0	0	8
Total	762	114	122	0	754

Pensions Authorisations

Under the Pensions (Superannuation Funds and Retirement Schemes) Act ("the Pensions Act") and its attendant regulations,¹⁹ the FSC is mandated to regulate and supervise the pensions industry, the duties for which include: (i) the registration of superannuation funds, retirement schemes, trustees and responsible officers, and (ii) the licensing of administrators and investment managers.

Six applications for licensing and 220 applications for registration were received during the 2009/2010 fiscal year, bringing the total number of applications for licensing and registration of pension entities that have been received since September 29, 2006²⁰ to 72 and 3,067, respectively. Table 29 shows the number of submissions received by categories of registrants and licensees.

¹⁹ The Pensions (Superannuation Funds and Retirement Schemes) Act was passed on the 21st of September 2004, with the appointed day being March 1, 2005. The associated regulations became effective on March 30, 2006.

²⁰ Persons and entities wishing to be registered or licensed had to submit their applications to the FSC within 6 months of the passing of the regulations on March 29, 2006. Therefore the deadline for submission of applications for registration and licensing was September 29, 2006.

Table 29: Number & Types of Applications by Categories of Registrants & Licensees 2006 - 2010

	Number & Types of Applications by Categories of Registrants & Licensees				
	2006/2007	2007/2008	2008/2009	2009/2010	Total
Superannuation Funds	514	11	10	5	540
Retirement Schemes	5	3	3	3	14
Trustees	1,580	333	311	210	2,434
Corporate Trustees	4	0	0	0	4
Responsible Officers	65	5	3	2	75
Administrators	31	2	1	2	36
Investment Managers	30	1	1	4	36
Total	2,229	355	329	226	3,139

The progress made by the FSC in the registration and licensing process of the above-mentioned category of applicants as at March 31, 2010 is as follows:

- **Pensions Plans: Superannuation Funds and Retirement Schemes**

For the review period, 8 additional applications were submitted for registration. Of this amount, 5 were for superannuation funds and 3 were for retirement schemes. Therefore a total of 554 pension plan applications were received up to the end of the 2009/10 financial year, of which 14 were for retirement schemes while the other 540 were for superannuation funds. Of the 554 pension plans for which applications were received, processing was discontinued for 63 plans due to mergers (5); withdrawal of application (1); and winding-up (57). Six pension plans were also wound up subse-

quently to being approved and registered by the FSC. Of the remaining 485 applications, only 336 (69 percent) contained all the requisite documents necessary for processing.

There are four main components to the application review process for pension plans:

1. **Fit and Proper Evaluation:** The individual trustees of each plan must be considered fit and proper as required by the law. By the end of March 2010 (see Table 29), the FSC received a total of 4 applications for corporate trustees and 2,434 for the registration of individual trustees; of which 378 have resigned or withdrawn their application bringing the total net applications received to date to 2,060. Of the 2,060 applicants remaining only

1,686 submitted all the requisite documents. Ninety-seven (97) percent of these have been assessed for fitness and propriety.

2. Business and Financial Appraisal:

The financial health of the plans and the corporate service providers is examined by reviewing the financial statements, actuarial valuation reports and business plans. Thirty-three financial statements and actuarial valuation reports of pension plans were received and reviewed for the 2009/2010 fiscal year while 5 out of 6 reviews were completed for corporate entities.

3. Legal/Technical Review: An evaluation of the constitutive documents (i.e., Trust Deed and Plan Rules) is carried out to ensure compliance with the Act and Regulations. A review of the technical provisions contained in the constitutive documents of 60 pension plans was completed during the fiscal year 2009/2010.

4. Tax Status Assessment: The Tax payer Audit & Assessment Department ("TAAD") inspects the constitutive documents to establish compliance with the relevant laws and to determine whether the plans qualify for tax exemptions. All pension plans with complete applications have been dispatched to the TAAD for simultaneous processing based on an administrative agreement between the TAAD and the FSC.

Of the 336 pension plans containing all the requisite documents necessary for processing 216 (205 superannuation funds and 11 retirement schemes) have been approved and registered; 52 were given 90 days within which to satisfy the stipulated conditions outlined in the Pensions Act and Regulations and the remaining 68 are considered work in progress. During the fiscal year 2009/2010, 339 registrants including 119 pension plans were approved. See Table 30.

Table 30: Number of Licensees and Registrants in the Pensions Industry as at March 31, 2010

	Number of Registrants Approved by Category					
	Superannuation Funds	Retirement Schemes	Individual Trustees	Corporate Trustees	Responsible Officers	Total
Registered as at 31/03/09	95	6	1,154	2	45	1,302
Additions	114	5	210	0	10	339
Terminations/ Cancellations	4	0	41	0	3	48
Less merged entities	0	0	0	0	0	0
Registered as at 31/03/10	205	11	1,323	2	52	1,593

- Administrators and Investment Managers**

For the fiscal year 2009/2010, the FSC approved 5 and 6 applications for licensing of administrators and investment managers, respectively, moving the total applications approved to 56 out of a total of 64 net applications that have been received as shown in the Table 31.

Table 31: Status of Applications for Administrators and Investment Managers as at March 31, 2010

	Received	Withdrawn or discontinued	Net Applications	Incomplete	Complete	Net Approved	Refused	Work In Progress
Administrators	36	6	30	3	27	27	0	0
Investment Managers	36	5	31	4	27	26	1	0
TOTAL	72	11	61	7	54	53	1	0

- Responsible Officers**

Each administrator, investment manager and corporate trustee is required to appoint a responsible officer. A total of 75 applications for registration relating to 47 persons, some of whom perform the function of a responsible officer in a dual capacity, have been received for processing to date. Since 15 of these applications have since been withdrawn or terminated, 60 applications were then left to be processed. Of this amount, 52 have been approved, 1 refused registration and 4 were being reviewed while the submissions received for the other 3 were incomplete.

Winding-Up

The FSC is in receipt of applications for the winding-up of pension plans, as mandated by Section 27 (4) of the Pensions Act. With 26 applications received during the review year, a total of 160 applications have been received to date. Given that three were outside the ambit of section 27(4) of the Pensions Act and another three were not approved by the FSC; there was a total of 154 applications received for processing. Nineteen approvals were granted during the review period, the total approvals granted

up to March 31st, 2010 stands at 112. Of the remaining 42 applications, 38 had outstanding documents to be submitted, 3 were awaiting approval while 1 was being reviewed. The reasons given for the winding-up of the pension plans are shown in the table below, including the number of members and asset values involved. Table 32 shows the reasons for winding up as cited by the plans that fell within the regulatory scope of the FSC.

Table 32: Number of Pension Plan Wind-Ups and Associated Reasons

Reasons Given	Number of Plans	Members Affected	Asset Values (\$' Billion)
Company actions/reduction of membership ²¹	76	5,305	11.2
New defined contribution plans will be established	6	1,255	7.0
Economic hardship/members' requests	8	3,054	0.6
Perceived Cost/Legislative burden	42	742	0.5
Unknown (Information not yet provided)	25	495	3.8
Total	157	10,851	23.1

21

Company Actions / Reduction of Membership	Number of Plans	Members Affected	Asset Values (\$Billions)
Global financial crisis	6	1,956	0.4
Discontinuance of business operations	17	355	5.3
Consolidation of multiple plans	3	508	0.7
Divestment/mergers/insolvency	25	2,258	4.3
Reduction in membership	25	228	0.5
Total	76	5,305	11.2

Impact of Winding-Up

Approximately 26 percent of plans, which were estimated to be active as at March 31, 2004, have been wound up, with asset values representing approximately 23 percent of the total estimated pension portfolio as at the same date. Of these, 9 plans with \$7.68 billion in assets were associated with the consolidations or replacement of defined benefit plans with new defined contribution plans. Consequently, the net asset value of the terminated plans is approximately 16 percent of the estimated portfolio as at March 31, 2004.

Pension coverage, in terms of the estimated number of persons covered by superannuation funds, would have been eroded by 17 percent. However, it is expected that approximately 3 percent represent members who are in consolidated plans or will be re-enrolled in new defined contribution pension plans which will be established. The net erosion in pension coverage as a result of plans being wound up is therefore estimated at 14 percent. This position however is offset by the number of members enrolled in new pension plans.

Surplus Distribution

Trustees are required by Section 32(2) of the Pensions Act to obtain the Commission's approval of the Scheme of Distribution. During the year,

19 of the 112 pension plans whose wind-up had been approved filed applications for approval of schemes of distribution of surplus bringing the total applications received to date to 66. Fourteen of these applications were approved in the year. As at March 31, 2010, a total of 54 applications were approved; consequently, only 12 applications were unapproved

New Products

The FSC is also required by law to approve new products before they can be offered to the public. During the 2009-2010 fiscal year, approval was granted for four new insurance products (see Table 33) and one mutual fund, namely, Unit Trust Corporation (Cayman) SPC Ltd. In addition, approvals were granted to the four retirement schemes listed below:

1. Smart Retirement Scheme (NCB Insurance Company)
2. Guardian Retirement Scheme (Guardian Life)
3. Jamaica National Individual Retirement Scheme (Jamaica National Building Society)
4. Churches Co-operation (Churches Co-operative Credit Union Limited)

Table 33: New Insurance Products approved by the FSC 2009-2010

Company	Plan Name	Product Type
Sagicor Life of Jamaica	Preferred Term Plan - One Year	Term Plan
Sagicor Life of Jamaica	Pension Annuity Contract	Bulk Annuity
Sagicor Life of Jamaica	Ultra Lifeline	Critical Illness
Sagicor Life of Jamaica	Sagicor (Guaranteed) Premium Saver	Interest Sensitive

BOX 1: Name of Entities that Were Registered in the Fiscal Year 2009 - 2010

Securities Dealers

Credit Union Fund Management
Heritage Education Funds International(Jamaica) Ltd

Insurance Broker

Sagicor Insurance Brokers Limited

Facultative Placement Brokers
Zenith Insurance Brokers Limited

Insurance Loss Adjusters

Alert Motor Loss Adjusters and Valuators Ltd
Auto Assessors and Associates Ltd
Axis(Jamaica) Ltd
John Grewcock T/A Talisman Adjusters
Karen Alethea Scarlett T/A KAS Loss Adjusters & Valuators
Lloyd Williams T/A Lloyd's Motor Insurance Adjusters
Matthew John O'Donoghue T/A JMO Adjusters
Maxine Margaret Segree T/A Claims Recovery & Insurance Bureau(CRIB)
Michael Earl Xavier McKenzie T/A Red Line Collision Appraisal Specialist
MSC McKay (Jamaica) Ltd
Pan Caribbean Consultants Ltd
Percival George Stewart T/A Kaution Jamaica
Vision Adjusters Ltd
Toplis & Harding (Jamaica) Ltd

Insurance Consultants

Action & Advice Claims Consultants Ltd

Claims Negotiators

Collin Michael Harley T/A Insight Insurance Services
Natalie Kerr T/A Direct Claims Services

Insurance Investigators

Delroy Anthony Lawson T/A DL Express Investigations & Process Service
Charles Oliver Rodríguez T/A Charles Rodríguez Investigations
Conrad Vaughn Myrie T/A C.I.S. Claims Investigation
Errol Orlando Rattray T/A Quality Adjusters
Focus Investigations Limited
Jones Solomon Jaisingh T/A Network Coordinate
Joseph Clement Messam T/A PROCUR (Professional Procurers)
Latoure DeAvergne Duhaney T/A Genesis Protective Services
Vinel Central Investigation & Security Consultancy Limited

Pension Administrators

Bank of Jamaica
Churches Co-op Credit Union
Credit Union Fund Management Company
IBM
Nestle Jamaica Ltd

Note: The above table only lists changes that occurred within the fiscal year April 2009 - March 2010

INVESTIGATIONS & ENFORCEMENT

The Investigation and Enforcement ("I&E") Division is responsible for (i) carrying out investigations; (ii) resolving complaints against licensees and registrants; (iii) recommending and executing enforcement actions; (iv) fostering a culture of compliance with anti-money laundering, counter-measures to the financing terrorism and anti-fraud protocols within regulated entities; and (v) cooperating and collaborating through information gathering and sharing on

cross-border investigations and enforcement actions involving financial crimes.

The statistics relating to the two main types of investigations - fit and proper reviews, and suspected breaches of statutes and regulations- are outlined in Table 34.

Table 34: Number and Type of Investigations, April 1, 2009 - March 31, 2010

	Fit & Proper Investigations	Breach of Statutes/ Regulations	Total
Unresolved investigations brought forward from March 31, 2009	10	55	65
Total investigations opened in Fiscal Year Ending March 31, 2010	19	25	44
Total investigations conducted Fiscal Year Ending March 31, 2010	29	80	109
Investigations resolved / closed Fiscal Year Ending March 31, 2010	13	60	73
Unresolved investigations carried forward as at March 31, 2010	16	20	36

Complaints Resolution:

For the review period ended March 31, 2010, the division reviewed 246 complaints, 13 more than the previous review period. At March 31, 2010, 209 or 85 percent of the 246 complaints were resolved. Table 35 outlines the complaints against licensees addressed by the division.

Table 35: Analysis of Complaints, 2009 - 2010

	General Insurance	Life Insurance	Securities	Pensions	Total
Total complaints reviewed	188	18	12	28	246
Number of cases closed	165	15	9	20	209
Percentage closed	88	83	75	71	85

Of the 246 complaints reviewed, 83 percent or 172 were against registrants in the insurance (combined life and general industry). For the general insurance industry, 90 percent of these complaints related to delays in claim settlement, while the main complaint for the life insurance industry was related to other concerns. Within the securities industry, most of the complaints were related to the delay in en-cashing units, whilst pension industry complaints were dominated by those relating to the refund of pension contributions.

Fit and Proper Investigation

The FSC conducts fit and proper assessments on the premise that the protection of investors can be significantly improved and risks minimized if an examination into the qualifications and reputations of those seeking positions that involve managing and protecting/safeguarding other people's property or money is conducted. Not all applicants for a fit and proper assessment become the subject of an investigation. One hundred and nine investigations were conducted during the 2009/2010 review period, of which 65 were brought forward from the 2008/2009 review period. These investigations were related to (i) candidates applying for a licence or registration under the Insurance, Pensions and Securities Acts, (ii) individuals recruited or promoted to senior positions or responsibilities within

10 percent or more of the shares of a licensed entity, (iv) licensees or registrants whose fit and proper status was suspected of being compromised. As at March 31, 2010, that is, the end of the review period, 73 of these investigations were completed and 36 remained in progress and will be carried forward to the April 1, 2010 – March 31, 2011 period.

Breach of any Relevant Act

The FSC conducted 80 investigations into suspected breaches of the Insurance and Securities Acts and the respective Regulations during the period April 1, 2009 – March 31, 2010. Most of these breaches occurred within the insurance industry for contravention of Sections 20, 70 and 85 of the Insurance Act.

With the demonstrated fraudulent activities associated with Unlawful Financial Operations (UFOs), it was expected that the prevalence of these entities would have been reduced. While the growth slowed, the FSC continues to receive complaints and inquiries into suspected UFO activities. The number of UFOs currently on the FSC's published watch list stands at 62, as against 58 reported at March 31, 2009. This list is expected to expand upon completion of some 17 ongoing investigations. All UFOs operate in breach of Sections 7 and 26 of the Securities Act while some are also in breach of Sections 8 and 10.

Cross Border Cooperation and Collaboration

The FSC made 3 formal requests for assistance from 2 jurisdictions during the period under review. The assistance of the FSC was sought in 5 instances from 4 jurisdictions. All of the requests made were related to UFOs.

Enforcement Actions

UFO Related:

During the 2008-2009 fiscal year, the FSC employed a number of enforcement measures against number of UFOs. For the reporting period, 2009-2010, two of these UFO continued to be the focus of enforcement actions, albeit from overseas regulators.

- **Capital Blu:**
On April 7, 2009, the U.S. Commodity Futures Trading Commission ("CFTC") in a Florida Federal court charged Capital Blu Management, LLC ("Capital Blu") for operating a fraudulent commodity scheme involving about 100 investors and approximately \$17 million solicited purportedly to invest in foreign currency ("forex") futures and options.²²

Furthermore, on September 18, 2009, the National Futures Association ("NFA") announced that it permanently barred Capital Blu from NFA membership.²³ This action was guided by the NFA's Business Conduct Committee's finding that Capital Blu "failed to cooperate fully and promptly with NFA in its investigation of the firm's operation."

- **OLINT Corp./Overseas Locket/ David Smith:**

Mr. David Smith continues to be the subject of a criminal probe in other jurisdictions and criminal prosecution in the Turks and Caicos Islands. A trial date in this matter is set for June 28, 2010.

Fixed Penalty Payments

Pursuant to section 21 of the FSC Act, the FSC may exercise the discretion to offer anyone or an entity who has breached specified provisions of the related Acts the opportunity to discharge any liability to conviction of that offence by payment of a fixed penalty as outlined in the Fourth Schedule of the FSC Act. For the period under review, the FSC offered 11 insurance intermediaries and companies this opportunity for breaches relating to sections 20, 70 and 85 of the Insurance Acts. The fixed penalty payable amounted to \$1.8 million from these breaches. Proceeds from these penalties are paid over to the Consolidated Fund. At the close of this reporting period, \$525,000 was paid with \$1,325,000 becoming due at a later date.

Litigation

Previous enforcement actions have resulted in litigation in a number of cases, namely:

- a) **Claim No. HCV 0817/2006 - Olint Corporation and David Smith v. The Financial Services Commission**
In this matter, Olint Corporation and David Smith (the Claimants) are claiming the sum of Five Million United States Dollars (USD 5,000,000) against the FSC for damages arising from a search and seizure exercise conducted by the FSC at premises occupied by the Claimants. The suit commenced in 2006, but has since been in abeyance. The Claimants are yet to

²² The full report can be seen at <http://www.nfa.futures.org/basicnet/Case.aspx?entityid=0381906&case=6%3a09-CV-508&contrib=CFTC>

²³ The full text of this release can be found at <http://www.nfa.futures.org/news/newsRel.asp?ArticleID=2356>

set out the claim in detail. The suit is still pending.

b) Claim No. SCCA No. 6/2008 - Olint Corporation/ David Smith v. The Financial Services Commission

Olint Corporation and David Smith (the Applicants) filed an appeal before the Court of Appeal on January 23,

2008. The Notice of Appeal indicated that the Applicants were seeking to challenge the decision of the Supreme Court that was handed down on December 24, 2007 affirming a Cease and Desist Order ("CDO") issued to the Applicants by the FSC in March 2006. The appeal challenged the CDOs on both substantive and procedural grounds.

During the period February 9, 2009 to February 12, 2009 the Court of Appeal heard the appeal. The Court of Appeal reserved judgment on the matter for an unspecified date. At the end of the review period, judgement was still pending.

c) Neil/ Janice Lewis (t/a LewFam Investments) v. The Financial Services Commission

On January 31, 2008, LewFam Investments filed an appeal against the decision of the Supreme Court that was handed down on December 24, 2007 affirming the CDOs issued to the Applicants by the FSC in March 2006. The appeal was not pursued as LewFam withdrew their appeal. The FSC instructed its external counsel to take the necessary steps to enforce the judgment that was granted by Justice McIntosh in the court below.

The issue of costs payable by LewFam to the FSC was brought before the Supreme Court on November 19, 2009. On February 5, 2010, documents were filed and served on the Lewises. The matter was scheduled for hearing on February 15, 2010 but was adjourned to April 19, 2010 to allow the Lewises time to file their Statement of Assets.

d) Claim No. HCV 01975 OF 2009 - World Wise Partners Limited ("WWPL") and Noel Strachan v. The Financial Services Commission

On April 14, 2009, WWPL and Noel Strachan filed a Notice of Appeal in the Supreme Court of Jamaica contesting the CDOs issued by the FSC to them on August 5, 2008 and subsequently varied on March 20, 2009. The challenges were made on both procedural and substantive grounds including allegations of breach of natural justice and procedural fairness by the FSC and assertions that WWPL was not acting in breach of the Securities Act. The matter is scheduled to be heard on July 21, 2010.

Besides these matters relating to UFOs, the FSC was also involved in other matters that resulted from enforcement actions. The details are provided below.

e) Dyoll Insurance Company

On September 8, 2006, charges were filed against Dyoll Insurance Company Limited (a Company in Liquidation). The company was charged with violating section 147(1) of the Insurance Act for its failure to comply with directions of the FSC to provide proof of an injection of \$150 million in capital into the company. Similar charges were brought against four Directors and Officers of Dyoll.

Thereafter the Counsel for the Joint Liquidators of Dyoll made an application to the Supreme Court for an Order to stay the criminal proceedings against Dyoll (In Liquidation). The Hearing of the Application to stay the criminal proceedings against Dyoll was held on November 12, 2007. The court ruled in favour of the FSC.

During the 2007-2008 fiscal year, the four Directors/Officers of Dyoll against whom criminal charges were brought, made applications to the Constitutional Court to stay the criminal charges brought against them contending that the FSC had no power in relation to the insurance industry at the time the offences were committed. The hearing of the applications was held November 26 – 28, 2007.

On December 18, 2008 in favour of the four Applicants stating that the charges against the Applicants under the Insurance Act were null and void, as the FSC had no authority under the Insurance Act to perform any function in relation to the insurance industry, at the time the offences were alleged to have been committed.

The court further directed that on March 6, 2009, the scheduled return date to the criminal court, the Director of Public Prosecutions (DPP) should apply the proper procedure and bring the criminal matter to an end. The criminal charges against the four defendants and the company (Dyoll) were mentioned in the Half Way Tree Resident Magistrate's Court on March 6, 2009. The matter was adjourned sine die. The appeal of the judgment of the Supreme Court is set to be heard in Court of Appeals in May 2010.

f) Lowell Lawrence v. The Financial Services Commission

On October 28, 2005, the Full Court of the Supreme Court of Judicature of Jamaica dismissed the application made by Mr. Lowell Lawrence ("the Appellant") for judicial review of the decision made by the FSC to offer to him a fixed penalty pursuant to section 21 and the Fourth Schedule to the FSC Act. The fixed penalty was offered to the Appellant as an alternative to prosecution for carrying on insurance business as an insurance sales representative without being registered to do so, in contravention of section 70 of the Insurance Act, 2001.

The Appellant filed an appeal against the Full Court's decision. On June 13, 2008, the Court of Appeal affirmed the decision of the Full Court of the Supreme Court. On July 3, 2008, the Appellant filed a Motion in the Court of Appeal for an Order that the Appellant be granted leave to appeal to Her Majesty in Council from the judgement of the Court of Appeal.

On July 21, 2008, the Court of Appeal granted leave to the Appellant to make a further appeal to the Judicial Committee of the Privy Council ("Privy Council") on the basis that the matter concerned a civil proceeding in which a final decision was delivered under, and by virtue of, section 110 (1) (a) of the Constitution of Jamaica. The hearing in the Privy Council was held on October 6, 2009.

On December 14, 2009, the Privy Council delivered its judgement in the appeal brought by Lowell Lawrence against the ruling of the Court of Appeal of Jamaica which held that the fixed penalty notice issued to Lowell Lawrence by the FSC was validated by the Financial Services Commission (Insurance Services) (Validation and Indemnity) Act, 2006 ("Validation Act"), dismissed the substantive appeal and the appeal against an order for costs.

The issues argued before the Privy Council were whether the fixed penalty notice was validated with the enactment of the Validation Act and, if so whether Lowell Lawrence is

entitled to have the fixed penalty notice quashed; and whether the Court of Appeal erred in upholding the order for cost against Lowell Lawrence. On the issue of the validity of the fixed penalty notice, the Privy Council affirmed the decision of the Court of Appeal of Jamaica that it was the intention of the legislature to validate all acts done in good faith by the FSC in the exercise of its functions under the FSC Act and the Insurance Act of 2001, such as the issuing of the notice to Lowell Lawrence. Regarding the issue of whether Lowell Lawrence was entitled to have the fixed penalty notice quashed, the Privy Council also affirmed that the Appellant was not entitled to have the notice quashed because it was validated by the enactment of the Validation Act. With respect to the issue that Court of Appeal erred in upholding the order for cost against the Appellant, the Privy Council ordered that the FSC pays the Appellant's cost before the Full Court of the Supreme Court of Jamaica, the Appellant must bear his own costs both in the Court of Appeal and before the Privy Council, and pay half of the FSC's costs in both of those courts.

SUPERVISION OF FINANCIAL INSTITUTIONS

Insurance Supervision

For the review period, there were 19 off-site examinations and 7 on-site examinations.²⁴ A number of deficiencies were observed during the course of these examinations, some of which included breaches of relevant Acts and regulations, while others were not statutory violations, but were nevertheless of concern to the FSC as they represented departures from what would be considered "best practices." The deficiencies that were not statutory contraventions related mainly to operational management and internal controls. The observed violations and deficiencies were communicated to the management of each company and efforts are being made to ensure that the matters are addressed within the time frames agreed with the companies.

Most of the observed statutory violations can be grouped into three areas, namely, corporate governance, investments and anti-money laundering. Table 36 provides further information on the breaches that were observed under the three headings. Other violations of the Insurance Act and Regulations include:

- Two companies not notifying the FSC of any change in the particulars specified in the application of the company within thirty days of such change;

- Two company's registration certificates not prominently displayed;
- Three companies not maintaining books, records documents and other business records in such order that data regarding all complaints were accessible and retrievable for examination purposes; and
- Unfair trade practises.

Securities Supervision

A total of 10 examinations were conducted, all of which were on-site.²⁵ Table 37 indicates the number and the nature of statutory violations that were observed. The on-site examinations also revealed that several companies were not operating in accordance with the Margin Requirements for Repurchase Agreements ("Margin R Guideline") and the Minimum Requirements for Client – Dealer Repurchase Agreements ("Repo Guideline") Guidelines. The observed violations and deficiencies were communicated to the management of each company and efforts are being made to ensure that the matters are addressed within the time frames agreed with the companies.

²⁴ These numbers do not include the off-site quarterly examinations of all insurance companies and the off-site half-yearly examinations of brokers and agencies. The abovementioned 19 off-site examinations reflect assessment of annual filings. An off-site or desk-top examination involves a review of the financial statements and other selected documents submitted by the licensees and registrants to enable the FSC to monitor their financial health using early warning ratios and other risk indicators. An on-site examination typically involves a team from the FSC going to the company to perform a thorough inspection of the company's records that are deemed relevant to the examination. The decision on the areas targeted in an on-site examination is usually based on issues revealed from off-site examinations as well as other concerns.

²⁵ Securities firms are also subjected to routine off-site examination through the assessment of quarterly and annual filings, including financial statements. These routine assessments are used to monitor the financial health of securities firms on an on-going basis and to facilitate the computation of early warning indicators.

TABLE 36: VIOLATIONS OF THE INSURANCE ACT & REGULATIONS, 2008 - 2010

Type of Deficiencies	Description of Provisions	Number of Violations 2008/2009	Number of Violations 2009/2010
Corporate Governance:			
Regulations 73, 74, & 75	These regulations stipulate the formation of an Audit, Conduct Review, and Loan Committees and their functions.	2	1
Regulations 84 & 85	These regulations outline the power of the Conduct Review Committee to approve or disapprove transactions.	4	0
Regulation 104 (2) (b)	This regulation dictates some of the functions of the Investment and Loan Committee.	1	0
Anti-Money Laundering			
Regulation 5 & 6 of The Proceeds of Crime (Money Laundering Prevention) Regulations, 2007	This regulation specifies the control mechanisms that should be implemented by an institution to prevent and detect money laundering. These mechanisms include but are not limited to, procedure manuals, training of employees and proper record keeping.	6	6
Regulation 7 of The Proceeds of Crime (Money Laundering Prevention) Regulations, 2007	This regulation mandates the procedures to be maintained at each regulated institution for proper identification of customers and prohibits the institution from continuing the business relationship if a customer fails to provide proper identification.	2	6
Investment:			
Regulation 42	This regulation requires that a Company shall not invest more than 5 percent of its total assets in a single counterparty.	1	1
Regulation 44	Directs a local insurer to obtain approval from the board or the appropriate committee before making any investment or loan.	0	1
Regulation 47	Outlines the conditions under which an insurer may invest in instruments issued by corporations.	1	1
Regulation 62	States the requirements that an insurer must satisfy when investing in ordinary shares.	1	0

TABLE 37: VIOLATIONS OF THE SECURITIES ACT & REGULATIONS, 2008/09 & 2009/10

Legal Provision Violated ¹	Description of Provisions	Number of Violations 2008/09	Number of Violations 2009/10
S 9(3)(a)(ii)	Outlines the conditions which officers or members of a company must satisfy for a company to be granted a licence.	2	0
S10	Failure to return certificate of registration as required under Section 10(7) and, failure to notify the FSC when an individual ceases to hold the position of a responsible officer as required by Section 10 (A) (4).	1	2
S38	Section 38(3)(c), which mandates dealers, when dealing as principals in a transaction with a non-licensee, to disclose that they are so acting; Section 38(3)(f), which establishes that the contract note issued must contain the number, amount and a description of the securities that are subject to the transaction.	5	4
S39	Requires that dealers disclose the nature of their interest in the acquisition or disposal of any securities which they recommend by way of written communication.	2	1
S40	Stipulates that a dealer, when dealing as principal in a transaction with a non-licensee, should disclose prior to effecting the transaction that it is dealing as a principal and not as an agent. This information should be reflected on the relevant contract note.	4	4
S59	Stipulates the formation of Audit and Conduct Review Committees	0	1
S60	States that making false or misleading statements is an offence.	1	0
S63	Mandates that every dealer keeps accounting records in such a manner that will correctly record and explain the transactions and financial positions of the securities business carried on by the dealer.	2	3
COB 8	Several licensees used Request for Proposal forms which contravened regulation 8(2)(b),(c) and (d) of the COB by not stating clearly (i) the kind of authority given to the portfolio manager (i.e., full discretion, partial discretion or no discretion) and (ii) the risk appetite of the client (i.e., aggressive, medium or conservative).	6	4
COB 10	Stipulates that dealers must provide their clients with periodic statements of account every month when there is trading activity on the account or every three	6	4

TABLE 37: VIOLATIONS OF THE SECURITIES ACT & REGULATIONS, 2008/09 & 2009/10

Legal Provision Violated ¹	Description of Provisions	Number of Violations 2008/09	Number of Violations 2009/10
	months, if there is no such activity on the account.		
COB 12	Mandates every licensee should maintain certain records, which include, <i>inter alia</i> , daily records of security sales and purchases, cash disbursements and receipts, security ledgers, and client ledgers.	2	5
COB 14	Filing of Quarterly Financial Reports	0	0
COB 16	Anniversary Filings	0	1
DOI 6	Stipulates that a company shall not issue commercial paper except in accordance with these regulations.	0	1
POCA (MLP) 5, 7 -11	Requires that financial institutions establish and implement policies, procedures and controls to detect and prevent money laundering. These include a mechanism to evaluate personal employment and financial history of their employees. These mechanisms must also involve use of identification procedures that will enable businesses to know their customers.	5	7

Notes:

1: References are to the Securities Act and Regulations and the Proceeds of Crime Act ("POCA"). For example; section 38 of the Securities Act is referenced as "\$38"; "COB" refers to the Conduct of Business Regulations; "DOI" indicates the Disclosure of Interest; and "POCA (MLP)" refers to the Proceeds of Crime (Money Laundering Prevention) Regulations.

Pension Supervision

The supervisory activities conducted by the FSC during the year under review are summarised below:

1. **Winding-up Progress Reports**

A total of 3 reports on the progress of the winding-up of pension plans whose applications were approved by the FSC were processed during the year.

2. **Auditors and Actuaries**

The FSC is required to determine the suitability of the actuary and auditor appointed to the pension plans which fall within the ambit of the Pensions Act. Information relating to the appointment of 1 actuary and 19 auditors were reviewed.

3. **Statement of Investment Policies and Principles ("SIPP")**

During the review year 40 SIPPs were received bringing the total for review to 65. Review of 30 SIPPs was completed while 18 were being processed as at 2010 March 31.

4. **Examinations**

- a. An on-site examination of 1 administrator and 1 investment manager was conducted and risk assessment commenced for 6 entities.

- b. 401 preliminary off-site examinations of pension plans were completed during the review period.

5. **Statutory Breaches**

The number and description of statutory provisions which were violated by registrants and licensees (including applicants not yet granted registration or a licence by the FSC) is summarized in Table 38:

TABLE 38: VIOLATIONS OF THE PENSIONS ACT & REGULATIONS, 2008-2010

Legal Provision Violated	Description of Provisions	Number of Violations 2008/09	Number of Violations 2009/10
Pension Plans			
RLR 13 (1) (c)	Failure to submit to the FSC the Information Folder within 120 days after the scheme's year end.	0	4
RLR 13 (1) (d)	Failure to submit to the FSC the List of Persons who sell and distribute the scheme's contracts within 120 days after the scheme's year end.	0	4
RLR 13 (1) (a)	Failure to submit to the FSC Certified Financial Return within 120 days after the fund's or scheme's year end.	0	389
RLR 13 (1) (b)	Failure to submit to the FSC Financial Statements within 120 days after the fund's or scheme's year end.	0	362
RLR 13 (2)	Failure to submit to the FSC the Annual Report within 9 months after the fund's or scheme's year end.	0	227
ACT 10 (3)	Failure to notify the FSC within 14 days of the designation of an Administrator and Investment Manager.	2	1
ACT 27 (4)	Failure to notify FSC within 90 days of their intention to wind-up the pension plan (Voluntary).	8	0
INV 8 (1)	Failure to submit to the FSC within 60 days of the Plan's approval the Statement of Investment Policies and Principles (SIPP).	18	71
INV 37 (a) & (b)	Failure to submit to the FSC within 90 days of approval of the Pension Plan a Statement of Compliance or Transition Plan certified by the Trustees.	18	0
Corporate Trustees			
RLR 14(a)	Failure to submit annual report containing financial statement within 120 days after the Corporate Trustees' year-end.	2	2
RLR 14(b)	Failure to submit certification of tax compliance covering the financial year within 120 days after the Corporate Trustees' year-end.	1	2
Investment Managers			
ACT 5 (3)	Acting as Investment Manager without licence.	1	0
ACT 11(b)	Failure to notify the FSC of the cessation of duties of the Responsible Officer with 7 days of the cessation date	2	2

TABLE 38: VIOLATIONS OF THE PENSIONS ACT & REGULATIONS, 2008-2010 con'td

Legal Provision Violated	Description of Provisions	Number of Violations 2008/09	Number of Violations 2009/10
GOV 9(f)	Failure to notify the FSC of the cessation of duties as Investment Manager of a particular pension plan.	1	0
GOV 30	Failure to notify the FSC of a fund or scheme having no trustees.	0	2
RLR 15(1)c	Failure to submit evidence of renewed professional indemnity and fidelity guarantee insurance within 120 days of the financial year-end.	16	14
RLR 15(1)b	Failure to submit a certification of tax compliance within 120 days of the financial year-end.	17	21
RLR 15(1)a	Failure to submit an annual report containing audited financial statements within 120 days of the financial year-end.	24	19
RLR 15(2)	Failure to submit Form 7 within 60 days of the end of the calendar quarter.	51	42
Administrators			
GOV 9(f)	Failure to notify the FSC of the cessation of duties as Administrator of a particular pension plan.	1	0
GOV 30	Failure to notify the FSC of a fund or scheme having no trustees.	0	1
ACT 11(6)	Failure to notify the FSC of the cessation of duties of the Responsible Officer within 7 days of the cessation date.	2	0
RLR 16(1)c	Failure to submit a certification of tax compliance within 120 days of the financial year-end.	20	26
RLR 16(1)d	Failure to submit evidence of renewed professional indemnity and fidelity guarantee insurance within 120 days of the financial year-end.	21	17
RLR 16(1)b	Failure to submit an Administrator's Return within 120 days of the financial year-end.	22	18
RLR 16(1)a	Failure to submit an annual report containing audited financial statements within 120 days of the financial year-end.	27	21

Notes:

1: References are to the Pensions Act and Regulations. For example, section 10 of the Pensions Act is referenced as "ACT 20"; "INV" refers to the Investment Regulations, and "GOV" refers to Governance Regulations.

PUBLIC EDUCATION

Pensions Exposition

The FSC's 2009 Pension Exposition was attended by hundreds of Jamaicans from all walks of life. Whether young or old, employed, unemployed or entrepreneurial, rural or urban – many came out to hear, to learn, and of course, to share what they could on the topic: ***“Retirement Planning: Don't Wait until It's Too Late.”***

The exposition took place on Tuesday, November 3, 2009 at the Jamaica Pegasus Hotel and began at 10:30 a.m. with the main address on the country's pension system delivered by the Minister of Finance and the Public Service, the Hon. Audley Shaw. His address followed that of the FSC's Executive Director Rohan Barnett who spoke about the FSC's role in pension supervision in his opening remarks.

The event brought together the brightest minds and experts in the pension industry for a full day of invaluable educational and business opportunities. Insight into a wide spectrum of issues ranging from the impact of the global financial crisis on pension and retirement saving in Jamaica, to the latest retirement solutions and future trends, made this unique event the place to be. Other highlights of the event included:

- over 20 educational sessions focused on approved retirement products available in the market;
- leading industry experts sharing knowledge on legal and actuarial issues in simple, “easy to understand” language; and
- licensees displaying new products and services tailored to the individual needs and limits of members of the public.



A packed Jamaica Pegasus ballroom was an indication that the Expo was a resounding success

- licensees displaying new products and services tailored to the individual needs and limits of members of the public.

FSC hosts Regional Pensions Workshop

The FSC in collaboration with the International Association of Pension Supervisors ("IOPS") and the Caribbean Regional Technical Assistance Agency ("CARTAC") hosted a regional workshop on private pension supervision on October 8-9, 2009 at the Half Moon Hotel in Montego Bay.

The workshop addressed a wide range of topics of interest to supervisory agencies in the Caribbean region as well as other countries globally. The application and use of the internationally agreed IOPS principles of private pension supervision were discussed, as well as, the approaches to reinforcing supervisory coordination in the Caribbean region. In particular, Caribbean participants and their global colleagues had an opportunity to discuss the development of a Caribbean Association of Pension Supervisors.

Participants included senior officials from supervisory authorities and agencies in Jamaica, other Caribbean states, Australia, Kenya and South Africa. Presenters, who were aptly selected for their knowledge of and experience in the relevant areas, provided extensive information and generated stimulating and insightful discussions. Upon completion of the workshop, participants gained significant information and also benefited from the interaction among themselves.



Above: Participants direct their full attention to one of the many presentations at the IOPS Caribbean Workshop on Private Pension Supervision



Right: Executive Director Rohan Barnett delivers Opening Remarks to participants representing supervisory agencies from Caribbean, African, European and North American territories at the IOPS Caribbean Workshop on Private Pension Supervision held in Montego Bay from October 8-9, 2009. Also present were (seated from left): Ross Jones, President of the International Organization of Pension Supervisors (IOPS); Nicolette Jenez, Senior Director of Pensions, FSC Jamaica; Aliya Wong Executive Director of Retirement Policy, U.S Chamber of Commerce; and Howard "Skip" Edmonds, Financial Sector Supervision Advisor, Caribbean Regional Technical Assistance Centre ("CARTAC").

Public Education Outreach to Communities, Schools and Colleges

In an effort to strengthen the public awareness of regulatory issues amongst students and the general public, the FSC organised and participated in a series of presentations at schools, financial forums and public meetings. The presentations covered Jamaica's financial system and the role and functions of the FSC. Amongst the schools visited were the College of Arts, Science and Education ("CASE"), Campion College, University of the West Indies, and the University of Technology. The Executive Director was also the main speaker at several events organised by licensees in the Securities, Insurance and Pensions sectors. The topics presented focused on a number of emerging issues in the regulatory environment.

Lunch Hour Discussion - Compensation Schemes

A lunch hour discussion was held with the public in August 2009. This discussion sought to introduce to the public the concept of a compensation scheme for the non-deposit taking segments of Jamaica's financial sector and proposals for how such a scheme could be implemented. Presentations were made by Ms Michelle Parnell, Lantern Corporation, Lead Consultant on Jamaica's proposed compensation scheme plan and Mr George Roper, Deputy Executive Director, FSC. The very interactive session had many questions and concerns on the issue being presented and discussed.



Bernard Richards addressed students at a Financial Education Forum held at the University of Technology on April 1, 2010. Presentations were delivered by Oran Hall, Financial Planning Consultant, Wentworth Graham, Chief Regulatory Officer of the JSE and Nadene Newsome, Communications Manager of the FSC."

MEDIA BRIEFING

The FSC hosted media representatives at a briefing in February 2010 to disclose details pertaining to (i) the lifting of the unit trust moratorium, (ii) the temporary freeze on the issuance of new securities licences to entities with a business model centred on conducting repo transactions, and (iii) a status of the FSC's work programme. The Minister of Finance and the Public Service as well as the FSC's Executive Director addressed the media.

SEMINARS

Insurance Seminar

The FSC engaged the insurance industry professionals in a seminar entitled "The Regulator and You: The Insurance Industry in an Era of Global Change". This forum was designed to sensitize individuals, responsible for the strategic direction and corporate governance of insurance companies and intermediaries, to key

elements of new and revised regulatory standards. The presenters included Miss Shirley Ann Eaton, Attorney-At-Law and Mr. Orville Johnson, Executive Director, Insurance Association of Jamaica.

The following topics were covered:

- Impact of the Global Crisis on the Insurance Industry;
- Updates to the Proceeds of Crime Act and Regulations, 2007;
- Related Party Activities;
- Settlement of Claims; and
- Registration of Sales Representatives.

CAPACITY-BUILDING

During the period under review, approximately 78 percent of the current staff complement participated in forty-three (43) training courses, totalling approximately 2,000 contact hours and accounting for approximately 89 percent of the training budget. The total expenditure for the period is approximately \$8 Million (excluding CDB/IDB funded programs). This represents an increase of approximately 7 percent over the previous period. These courses included in-house, local and overseas training. Table 39 indicates the different topics covered in the training programmes that were undertaken in the review period.



The official press briefing announcing the lifting of the moratorium on new unit trust scheme registration took place at the FSC's headquarters in New Kingston. Participating were: (left) Rohan Barnett, Executive Director, FSC; Hon. Audley Shaw (centre), Minister of Finance and the Public Service; and FSC Chairman Hon. Emil George OJ, QC

Table 39: List of Training Opportunities Accessed by Staff, 2009/2010

Course/Seminar	Provider	No. of Staff Trained
"IFRS in a Changing World"	ICAJ/Jamaica Conference Centre	1
"Stepping Up to Management" Workshop	JIOB/39 Hope Road, Kingston 5	6
1st International Institute on Regulation & Inspection of Investment Advisers	USSEC/Washington D.C.	2
6th Annual Institute on Corporate Securities, etc.	New York City Bar	2
Advanced Records Management	MIND/Old Hope Road	1
Appointed Actuary Seminar	Canadian Institute of Actuaries	1
Banking and Securities Crisis Simulation	Toronto Centre/Canada	1
Business Standard 25999 Business Continuity Planning	Certified Tech. Trainers, Inc./Hilton Kingston Hotel	1
CISCO Certified Network Administrator	Quantum Business Solutions Ltd.	1
Desktop Publishing	CARIMAC/UWI, Mona	1
Ethics in the Jamaican Public Sector	MIND/Old Hope Road	1
Financial Analysis	Fitz Ritson & Associates	2
Graphic Design	Career Development Institute	2
ICAJ CSR & IFRS Changes	ICAJ/Jamaica Conference Centre	3
ICAJ Taxation Seminar	ICAJ/Pegasus Hotel	3
IFRS - The Only Constant is Change	PricewaterhouseCoopers	4
International Institute for Securities Market Development	USSEC/Washington D.C.	1
Introduction to Insurance	College of Insurance & Professional Studies	1
Introductory Financial Analysis	Fitz Ritson & Associates	2
Investment of Pension Fund Assets	Investment of Pension Fund Assets	1
Investment of Pension Fund Assets	CDB/Barbados	1
IOSCO Seminar Training Programme	Madrid, Spain	2
ITIL v3 Foundations	Reborn Trainsulting Ltd/In-house	4
Jamaican Securities Course	Jamaica Institute of Management/Hope Road	4
JASAP Developmental Workshops	Jamaica Conference Centre	2
Legal Principles	College of Insurance & Professional Studies	1
Madoff & Ponzi Scheme Litigation Conference	Web-based	1
Malta Commonwealth Third Country Training Program	Floriana, Malta	1
Managing and Preparing for Disaster	College of Insurance & Professional Studies	1
Mediation Training	DRFJ/Kingston	4
Mona School of Business Roundtable 2010	Mona School of Business	1
Monetary & Financial Statistics	CARTAC/IMF/Trinidad & Tobago	1

Table 39: List of Training Opportunities Accessed by Staff, 2009/2010 con'td.

Motor Insurance	College of Insurance & Professional Studies	1
Network+ 2009 Exam Objectives	dotTech, 59 Knutsford Boulevard, Kingston 5	1
Offshore Group of Collective Investment Schemes Annual Workshop	Cayman Islands Monetary Authority	2
Pension Plan Types & Annuities	PSOJ/Prime Asset Management Limited	14
Pensions Certificate Course	Prime Asset Management/Fitz Ritson & Assoc.	2
Performance Management Workshop	Jamaica Institute of Bankers	45
Principles & Practice of Reinsurance	College of Insurance & Professional Studies	10
Property Insurance	College of Insurance & Professional Studies	1
Quality Service...First Time, Every time	Professional Training & Occupational Svs/In-house	9
Recent Developments in the Pensions Industry	Dunn Cox/Duggan Consulting Ltd/Hilton Hotel	4
Securities Enforcement & Market Oversight	USSEC/Washington D.C.	2
Securities Leadership Programme	Toronto Centre/Canada	2
The Financial Controller Course	B & B Institute of Business	2
World Bank/University of Oxford/Isle of Man & Small States Network	Isle of Man	1

REVIEW OF FINANCIAL PERFORMANCE

The financial statements that appear on pages 82 to 102 in this annual report present the financial position, operating results and cash flows of the FSC in accordance with International Financial Reporting Standards for the financial year ended March 31, 2010. The following comments provide an analysis of the performance during the year and should be read in conjunction with the financial statements.

Income and Expenditure

The Financial Services Commission ("FSC") achieved a net surplus of \$55.6 million compared with the \$17.3 million for the previous year. Highlights of the income and expenditure are presented below:

Income

The FSC is funded mainly through fees charged to the licensed financial institutions and private pension plans, which the FSC regulates and supervises. The amount charged to individual institutions is determined according to the fees formulae set out in regulations. In general, the system is designated to allocate the FSC's costs based on the time spent supervising and regulating each industry.

Costs are then charged to individual institutions within an industry based on the applicable formula. Fees as shown on the Income and Expenditure statement include the following:

• Licensing/Registration fees	\$539.2 million
• Fees from seminars/workshops	\$.9 million
• Foreign exchange gains	\$.7 million
• Miscellaneous Income	\$.2 million
Total	<u>\$541.0 million</u>

Licensing and Registration fees for the 2009/2010 financial year increased by approximately 7% when compared with the previous year. This increase in fees was due to the following:

- A 15% decrease in fees from the securities industry due to significant decline in fees earned from the Stock Exchange and JCSD. The fees earned from the stock exchange/JCSD for 2009/10 was \$12.1 million compared to \$53 million for 2008/2009.
- A 21% increase in fees from the insurance industry due to the full impact of the fee adjustment which became effective in the third quarter of the 2008/2009 financial year and an increase in assets for the life and general insurance companies of 16.4%.
- A 10% increase in fees from the pensions industry due to growth in the pension funds assets being managed by investment managers/administrators.

Tables 40-42 provide details of the sources of fee income from the securities, insurance and pensions industries for 2009/2010 and the comparative 2008/2009.

Table 40: Revenue from the Securities Industry 2009/2010 and 2008/2009

	2008/2009		2009/2010	
Source	Revenue ('000)	% of	Revenue ('000)	% of
		Total		Total
Annual Licensing/Registration Fees– Securities Dealers Mutual Funds	94,889	64	111,724	89
Stock Exchange & JCSD Fees	53,035	35	12,143	10
Application Fees	1,303	1	1,820	1
Commercial Paper	194	0	214	0
Totals	149,421	100	125,901	100

Table 41: Revenue from the Insurance Industry 2009/2010 and 2008/2009

	2008/2009		2009/2010	
Source	Revenue ('000)	% of	Revenue ('000)	% of
		Total		Total
Annual Registration Fees- Life and General Companies	186,522	92	226,657	92
Annual Fees- Intermediaries	15,529	8	16,869	7
Application Fees	260	0	2,632	1
Totals	202,311	100	246,158	100

Table 42: Revenue from the Pensions Industry 2009/2010 and 2008/2009

	2008/2009		2009/2010	
Source	Revenue ('000)	% of	Revenue ('000)	% of
		Total		Total
Annual Licencing Fees- Investment Managers	149,963	99	165,891	99
Application Fees	1,193	1	1,263	1
Totals	151,156	100	167,154	100

Interest Income for 2009/2010 was \$22.4 million or 74% higher than the previous year due to the higher available cash balances during the year.

Grants

- **Technical Assistance – CDB & IADB**
Technical assistance ("TA") grants represent amounts provided by the Government of Jamaica under technical assistance loan/grant agreements with the Caribbean Development Bank ("CDB") and the Inter-American Development Bank ("IADB"). TA grants for the year from CDB were \$12.75 and from IADB \$3.37 million. The amount from IADB was a re-imbursement for expenses (training and conferences) paid by the FSC in 2008/2009.
- **Other**
The building occupied by the FSC, rent-free without a lease agreement, is owned by the National Land Agency ("NLA"). This government grant is based on the average commercial value of rent (per sq ft) in the New Kingston area which for the 2009/2010 financial year was estimated at \$33.8 million. This grant used to off-set the rental expense which would have been incurred for the lease of the building.

The NLA and the FSC are in process of negotiating a lease agreement. The FSC has sought the intervention of the Minister of Finance regarding the lease proposed by the NLA.

Expenses

Total expenses for the 2009/2010 financial year were \$557.8 million, almost in line with the previous year of \$553.4 million. There are however, increase/reductions in some expenses, these include:

- a) Appeal Tribunal**
Expenses relating to the operation of the FSC Appeal Tribunal of \$473,703 for 2009/2010 were almost in line with the amount of \$403,749 for the previous year. The low level of expenses incurred for the Appeal Tribunal was due to the fact that as at the end of the financial year, the fees for the Chairman and members of the Tribunal had not been approved by the Minister of Finance.
- b) Building Maintenance**
Building Maintenance increased by 29% for 2009/2010 when compared with 2008/2009. This increase was due in part to the new janitorial contract which became effective July 2009 resulting in an increase of 41% in the annual cost for janitorial service. In addition to the normal routine maintenance expenses for the building, the FSC also incurred costs to repair the roof on the third floor.
- c) Office Expenses**
Office expenses for the year were \$18.1 million an increase of 18.5% when compared with the previous year of \$15.3 million. This increase was due primarily to inflation (14.8% for the fiscal year) and higher costs (for toners) relating to the number of printers.

- d) Professional Fees**
Professional fees of \$9.3 million were 25.7% lower than the previous year due to a reduction in the use of outside attorneys.
- e) Public Education Expenses**
Public education expenses of \$9.9 million was 38% lower than the previous year due to the assistance received from CARTAC in particular, with the sponsorship of conferences hosted by the FSC.
- f) Project Expenses**
Project expenses for the year were \$12.7 million compared with \$19.4 million for 2008/2009. Project expenses relate to fees for consultancy and training provided under the technical co-operation loan agreement between the Government of Jamaica ('GOJ') and the Caribbean Development Bank and the grant agreement between GOJ and the Inter- American Development Bank. Both technical assistance programmes ended in the 2009/2010 financial year.
- g) The Cost of Utilities**
The costs for utilities for the year were \$17.7 million an increase of 13.7%, due to inflation.

Balance Sheet

- 1) Liquidity**
The FSC ended the year with cash and cash equivalents of \$17.74 compared with the \$37.6 million at the end of the 2008/2009 financial year. Resale agreements (short term investments) were \$242.3 million which was \$103.5 million higher than the previous year. This was due primarily to a more

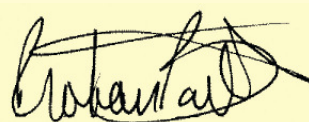
aggressive approach to the collection of licensing/registration fees with the implementation of an invoicing system.

2) Accounts Receivable and Prepayments

Accounts Receivable and Prepayments at \$74.7 million was \$27.9 million lower than the previous year. Accounts receivable was \$68.4 million or 28.7% lower than the previous year of \$96 million (refer to note 4) due to more aggressive approach to the collection of licensing fees. The amount shown as receivable relate to insurance fees which are paid quarterly in arrears. Fees for quarter ending March 31, 2010 would be due for payment in April 2010.

3) Property Plant and Equipment

Property, plant and equipment at the end of the year was \$53.1 million (net of depreciation) or \$12.1 million higher than the previous year due to increases in leasehold improvements and computer equipment.



Executive Director
Rohan Barnett

Table 43: Compensation of Commissioners 2009/2010 (\$ '000)

Name of Commissioner	Fees	Motor Vehicle Upkeep/Travelling or Value of Assignment of Motor Vehicle	Honoraria	All Other Compensation including Non-Cash Benefits as applicable	Total
	\$ '000				
Emil George - Chairman	0.0	0.0	500.0	0.0	500.0
Dayle Blair	0.0	57.6	207.0	0.0	264.6
Roald Henriques	0.0	0.0	171.0	0.0	171.0
Peter Wilson	0.0	0.0	186.0	0.0	186.0
Celia Brown - Blake	0.0	0.0	208.5	0.0	208.5
Audrey Welds	0.0	0.0	87.0	0.0	87.0
Shirley Williams	0.0	0.0	204.0	0.0	204.0
David Tennant	0.0	0.0	228.0	0.0	228.0
Dennis Boothe	0.0	0.0	273.0	0.0	273.0
Total	0.0	57.6	2,064.5	0.0	2,122.1

Table 44: Compensation of Executive Management 2009/2010

1. Basic Salary Range of Executive Management	
a) Director	\$3,836,590 - \$4,795,737
b) Senior Director and General Counsel	\$4,957, 391 - \$6,072,804
c) Chief Actuary	\$5,599,226 - \$7,558,956
d) Deputy Executive Director	\$6,203,821 - \$7,559,681
e) Executive Director	\$10,800,000 per annum
2. Allowances	
Motor Vehicle	
a) Executive Director	Fully maintained company car \$796,500 per annum
b) Other Executive Management	
Housing	
Executive Director	\$4,432,680 per annum
3. Gratuity in Lieu of Pension	
25% per annum basic salary	

NOTE - Executive Management includes the Executive Director, Deputy Executive Director, Senior Directors (4), Chief Actuary (1), Directors (2), and General Counsel (1). Each member of Executive Management is on contract and is therefore not a member of the FSC's pension plan. The members of the Executive Management are, however, eligible for health insurance coverage by the FSC's group health plan.

FSC STATUTES & REGULATIONS

The statutory duties and responsibilities of the FSC and the regulatory provisions governing financial services in the areas of insurance, pensions and securities are stipulated in a number of laws. The following is a brief summary of the laws currently in effect.

The Financial Services (FSC Act) – enacted in 2001 and amended in 2004; it provides for the basic functions and responsibilities of the FSC.

The Financial Services (Overseas Regulatory Authority) (Disclosure) Regulations – promulgated in 2005. The regulations give the FSC the authority to provide information and documents, as the FSC deems appropriate, in response to a request made by an overseas regulatory authority.

The Insurance Act – enacted in 2001; it provides for the regulation of insurance business in Jamaica.

The Insurance Regulations – promulgated in 2001 and last amended in 2004; they provide detailed rules and regulations governing individuals and companies operating in the insurance industry.

The Insurance (Actuaries) (Life Insurance Companies) Regulations – promulgated in 2001; these regulations set out the rules governing the preparation of actuarial reports and the business conduct of actuaries for life insurance companies.

The Insurance (Actuaries) (General Insurance Companies) Regulations – promulgated in 2002; these regulations set out the rules governing the preparation of actuarial reports and the business conduct of actuaries for general insurance companies.

The Insurance (Prescribed Sum) Regulations – promulgated in 2004; these regulations prescribe the amount payable by an insurer to an individual who satisfies the insurer that he is entitled to obtain probate of the will of the deceased person or to take out letters of administration.

The Securities Act – enacted in 1993 and last amended in 2001; the Act provides for the licensing, operation and supervision of entities dealing in securities as well as regulation of the capital markets.

The Securities (Licensing and Registration) Regulations – promulgated in 1996 and amended in 2003 and 2008; these regulations provide for the licensing and registration of dealers, investment advisers, their representatives and responsible officers.

The Securities (Conduct of Business) Regulations – promulgated in 1999 and last amended in 2003; these regulations deal with the dealer/client relationship and guidelines for filing of financial information by licensed dealers.

The Securities (Disclosure of Interest) Regulations – promulgated in 1999; these provide for the disclosure of information relating to public companies as well as issuers of commercial paper.

The Securities (Mutual Funds) Regulations – promulgated in 1999; these regulations stipulate the rules for the business operation and supervision of mutual funds. The regulations also contain specific provisions concerning the protection of investors.

The Securities (Take-Overs and Mergers) Regulations – promulgated in 1999 and amended in 2000; these regulations deal with mergers and acquisitions of public companies.

The Securities (Central Securities Depository) Regulations – promulgated in 2000 and amended in 2002; these regulations deal with the operational procedures of a central securities depository.

The Unit Trusts Act – enacted in 1971 and last amended in 2001; the Act governs the operation of unit trusts.

The Unit Trusts (Nominees) Regulations – promulgated in 2009; these regulations set out the criteria for a prospective nominee to be approved by the FSC.

The Unit Trusts (Registration of Schemes) Regulations – promulgated in 1971 and amended in 2009; these regulations govern the process of registration unit trusts.

The Unit Trusts (Books and Document) Regulations – promulgated in 1973 and amended in 2009; these regulations deal with the books and records which should be maintained by unit trusts.

The Unit Trusts (Amendment of Schedule to Principal Act) Regulations – promulgated in 2009; these regulations outline obligations that any unit trust must satisfy.

The Pensions (Superannuation Funds and Retirement Schemes) Act – enacted in September 2004 and amended in March 2005 and March 2006; the Act provided for the licensing, operation and supervision of entities in the pensions industry.

The Pensions (Superannuation Funds and Retirement Schemes) (Specified Pension Funds and Specified Pensions Scheme) Regulations, 2006 – promulgated on March 11, 2006; these regulations define the meaning of “specified pension fund” or “specified pension scheme”.

The Pensions (Superannuation Funds and Retirement Schemes) (Registration, Licensing and Reporting) Regulations, 2006 – promulgated on March 29, 2006; these regulations describe the conditions for the licensing and registration of schemes, funds, investment managers, administrators and other key persons.

The Pensions (Superannuation Funds and Retirement Schemes) (Governance) Regulations, 2006 – promulgated on March 29, 2006; these regulations outline the operational procedures for those who preside over pensions funds and retirement schemes.

The Pensions (Superannuation Funds and Retirement Schemes) (Investment) Regulations, 2006 – promulgated on March 29, 2006; these regulations provide detailed rules and guidelines for trustees and investment managers to prudently invest and manage the assets that fall under their responsibility.

LIST OF REGISTERED & LICENSED ENTITIES/INDIVIDUALS AS AT MARCH 31, 2010

List of Licensed Securities Entities / Individuals as at March 31, 2010		
	Dealers (Companies)	Dealers (Individuals) 10
1	Alliance Investment Management Limited	Bailey, Lorreston
2	Barita Investments Limited	Berry, Christopher *
3	BPM Financial Limited (formerly Barita Portfolio Management Limited)	Berry, Konrod *
4	Barita Unit Trusts Management Company Limited	Campbell, Ryland *
5	Capital & Credit Fund Managers Limited	Clarke, Oliver *
6	Capital & Credit Merchant Bank Limited	Issa, Christopher
7	Capital & Credit Securities Limited	Lewis, Everton *
8	Capital Solutions Limited	Shirley, Sandra
9	Churches Co-operative Credit Union Limited	
10	Citifinance Limited	
11	City of Kingston Co-operative Credit Union Limited	
12	Credit Union Fund Management Company Limited	
13	CWJ Employees Co-operative Credit Union Limited	
14	E.W. Lewis Investments & Finance Limited	
15	First Jamaica Investments Limited	
16	FirstCaribbean International Bank (Jamaica) Limited	
17	FirstCaribbean International Securities Limited	
18	First Global Financial Services Limited	
19	Gleaner Company Limited	
20	Guardian Asset Management Limited	
21	Guardian Life Limited	
22	Heritage Education Funds International (Jamaica) Limited	
23	Ideal Finance Corporation Limited	
24	Ideal Portfolio Services Limited	
25	Intertrade Finance Corporation Limited	
26	Jamaica Co-operative Credit Union League Limited	
27	Jamaica Money Market Brokers Limited	
28	Jamaica National Building Society	
29	JMMB Securities Limited	
30	JN Fund Managers Limited	
31	Mayberry Investments Limited	
32	MF&G Asset Management Limited	
33	M/VL Stockbrokers Limited	
34	Money Masters Limited	
35	NCB Capital Markets Limited	
36	NCB Insurance Company Limited	
37	Pan Caribbean Financial Services Limited	
38	Prime Asset Management Limited	
39	RBTT Securities Limited	
40	Sagicor Life Jamaica Limited	
41	Scotia DBG Fund Managers Limited	
42	Scotia DBG Investments Limited	
43	Scotia Jamaica Life Insurance Company Limited	

44	Sterling Asset Management Limited	
45	Stocks and Securities Limited	
46	UGI Finance & Investments Limited	
47	Victoria Mutual Wealth Management Limited	
48	West Indies Trust Company Limited	
49	West Indies Union Investment Management Limited	

NOTE - 10 Asterisks indicate individual dealers who are associated with a company that is also licensed as a dealer

List of Registered Securities Entities as at March 31, 2010					
	Mutual Funds		Unit Trusts		
			Management Companies		
1	AIC Advantage Group Fund	1	Barita Unit Trusts Management Company Limited		
2	AIC Balanced Group Fund	2	Capital & Credit Fund Managers Limited		
3	AIC Diversified Group Fund	3	Pan Caribbean Financial Services Limited		
4	AIC Focused Group Fund	4	Scotia DBG Fund Managers Limited		
5	AIC Money Market Corporate Class				
6	AIC Specialty Group Fund		Schemes		
7	CI Sector Balanced Funs	1	Barita Unit Trusts Money Market Fund		
8	CI Sector Diversified Equities Funds	2	Barita Unit Trusts Capital Growth Fund		
9	CI Sector Fixed Income Funds	3	Capital & Credit Income & Growth Fund		
10	CI Sector Focused Equity Funds	4	Capital & Credit Giltedge Fund		
11	Jamaica Select Index Fund ¹	5	Capital & Credit Capital Growth Fund		
12	Scotia US Growth Mutual Fund	6	DB&G Money Market Fund		
13	Scotiabank Canadian Growth Fund	7	DB&G Premium Growth Fund		
14	Scotia DBG Caribbean Home Inc ("SDCIF")	8	Pan Caribbean Asset Management Unit Trust ²		
15	Scotiabank Global Growth Fund				
16	Scotiabank Money Market Fund				
17	Scotiabank US Dollar Bond Fund				
18	Trinidad Select Index Fund				
19	Unit Trust Corporation (Cayman) SPC Limited				

11 Grace Caribbean Fixed Income Fund changed its name to GK Caribbean Fixed Income Fund

12 JMMB Select Index Fund changed its name to Jamaica Select Index Fund

13. This Unit Trust Scheme has three portfolios, namely, Sigma Fixed Income Fund, Sigma Optima Fund and Sigma Real Estate Fund. Therefore there are 10 types of unit trust products being offered.

List of Registered Insurance Entities as at March 31, 2010		
	Life Insurance Companies	General Insurance Companies
1	CUNA Mutual Insurance Society	Advantage General Insurance Company Limited
2	Guardian Life Limited	American Home Assurance Company
3	NCB Insurance Company Limited	British Caribbean Insurance Company Limited
4	Sagicor Life Jamaica Limited	General Accident Insurance Jamaica Company Limited
5	Scotia Jamaica Life Insurance Company Limited	Globe Insurance Company of Jamaica Limited
6		Island Heritage Insurance Company Limited
7		Jamaica International Insurance Company Limited
8		Key Insurance Company Limited
9		NEM Insurance Company (Jamaica) Limited
10		The Insurance Company of West Indies Limited
11		Victoria Mutual Insurance Company Limited
12		West Indies Alliance Insurance Company Limited
	Insurance Agents	Association of Underwriters
1	Associated Owners Insurance (Agents) Limited	Lloyds
2	Chancellor Insurance Agency Limited	
3	Crichton Insurance Agency Limited	
4	Doran Ferguson T/A Apex Insurance Agents	
5	Gersham McLaughlin T/A Global Risk Management Insurance Agents	
6	Mutual Enterprises (Insurance) Agents Limited	
7	Nationwide Insurance Agents and Consultants Limited	
8	NUCS Co-operative Insurance Services Limited	
9	Paul Anthony Simpson, General Insurance Agent	
10	Riviera Insurance Agency Limited	

List of Registered Insurance Entities as at March 31, 2010		
	Insurance Brokers	Facultative Placement Brokers
1	Allied Insurance Brokers Limited	Allied Insurance Brokers Limited
2	Assurance Brokers of Jamaica Limited	Assurance Brokers of Jamaica Limited
3	Billy Craig Insurance Brokers Limited	Billy Craig Insurance Brokers Limited
4	Caribbean Assurance Brokers Limited	Caribbean Assurance Brokers Limited
5	CGM Gallagher Insurance Brokers Jamaica Limited	CGM Gallagher Insurance Brokers Jamaica Limited
6	City Insurance Brokers Limited	City Insurance Brokers Limited
7	Covenant Insurance Brokers Limited	Desmond Mair Insurance Brokers Limited
8	Desmond Mair Insurance Brokers Limited	Excel Insurance Brokers
9	Excel Insurance Brokers	Firm Insurance Brokers Limited
10	Firm Insurance Brokers Limited	Fraser Fontaine & Kong Limited Insurance Brokers
11	Fraser Fontaine & Kong Limited Insurance Brokers	Guardian Insurance Brokers Limited
12	GEM Insurance Brokers Limited	JMMB Insurance Brokers Limited
13	Genesis Insurance Brokers Limited	Lawe Insurance Brokers Limited
14	Guardian Insurance Brokers Limited	Marathon Insurance Brokers Limited
15	Jamaica Citadel Insurance Brokers Limited	Maritime General Insurance Brokers Limited
16	JMMB Insurance Brokers Limited	Mutual Security Insurance Brokers Limited
17	Lawe Insurance Brokers Limited	National Property & General Insurance Brokers Limited
18	Marathon Insurance Brokers Limited	Sagicor Insurance Brokers Limited
19	Maritime General Insurance Brokers Limited	Spectrum Insurance Brokers Limited
20	Mutual Security Insurance Brokers Limited	Thwaites Finson Sharp Insurance Brokers Limited
21	National Property & General Insurance Brokers Limited	Zenith Insurance Brokers Limited
22	Orion Insurance Brokers Limited	
23	Progressive Insurance Brokers Limited	
24	Sagicor Insurance Brokers Limited	
25	Solid Life and General Insurance Brokers Limited	
26	Spectrum Insurance Brokers Limited	
27	Thwaites Finson Sharp Insurance Brokers Limited	
28	Zenith Insurance Brokers Limited	
	Overseas Reinsurance Brokers	Local Reinsurance Broker
1	Benfield Limited	CGM Gallagher Insurance Brokers Jamaica Limited
2	J.B. Boda	

List of Registered Insurance Entities as at March 31, 2010		
	Insurance Investigators	Insurance Loss Adjusters
1	Delroy Anthony Lawson T/A DL Express Investigation & Process Service	Alert Motor Loss Adjusters & Valuers Limited
2	Charles Oliver Rodriguez T/A Charles Rodriguez Investigations	Auto Assessors and Associates Limited
3	Conrad Vaughn Myrie T/A C.I.S Claims Investigation	Axis (Jamaica) Limited
4	Errol Orlando Rattray T/A Quality Adjusters	Caribbean Loss Adjusters Limited
5	Focus Investigations Limited	Evan Evans T/A Evans Insurance Consultants Limited
6	Jones Solomon Jaisingh T/A Network Coordinate	Innovative Consulting Services Limited T/A International Claims Services
7	Joseph Clement Messam T/A PROCUR (Professional Procurers)	John Grewcock /A Talisman Adjusters
8	Latoure DeAvergne Duhaney T/A Genesis Protective Services	Karen Alethea Scarlett T/A KAS Loss Adjusters and Valuers
9	Vinel Central Investigation & Security Consultancy Limited	Lloyd Williams T/A Lloyd's Motor Insurance Adjusters
10		Mathew John O'Donoghue T/A JMO Adjusters
11		Maxine Margaret Segree T/A Claims Recovery & Insurance Bureau (CRIB)
12		Michael Earl Xavier McKenzie T/A Red Line Collision Appraisal Specialist
13		MSC McKay (Jamaica) Limited
14		Pan Caribbean Consultants Limited
15		Percival George Stewart T/A Kaution Jamaica
16		Vision Adjusters Limited
17		Toplis & Harding (Jamaica) Limited
18		Trans Jam Loss Adjusters Limited
	Insurance Consultants	Claims Negotiators
1	Nicholas James Wood	Collin Michael Harley T/A Insight Insurance Services
2	Action & Advice Claims Consultants	Natalie Kerr T/A Direct Claim Services

List of Licensed Pensions Entities as at March 31, 2010		
	Pensions Administrators	Pensions Investment Managers
1	ATL Group Pension Fund Trustees Nominee Limited	ATL Group Pension Fund Trustees Nominee Limited
2	Bank of Jamaica	Bank of Jamaica
3	Bank of Nova Scotia	BPM Financials Limited
4	BPM Financials Limited	Capital & Credit Securities Limited
5	Capital & Credit Securities Limited	Churches Co-operative Credit Union Limited
6	Churches Co-operative Credit Union Limited	City of Kingston Co-operative Credit Union Limited
7	Credit Union Fund Management Company Limited	Credit Union Fund Management Company Limited
8	Development Bank of Jamaica Limited	Development Bank of Jamaica Limited
9	Employee Benefits Administrator Limited	FirstCaribbean International Securities Limited
10	FirstCaribbean International Bank (Jamaica) Limited	First Global Financial Services Limited
11	FirstCaribbean International Securities Limited	Guardian Asset Management Limited
12	First Global Financial Services Limited	Guardian Life Limited
13	Guardian Life Limited	Investment Nominees Limited
14	Guardian Pension Funds Limited	Jamaica Co-operative Credit Union League Limited
15	IBM	Jamaica Money Market Brokers Limited
16	Investment Nominees Limited	Jamaica National Building Society
17	Jamaica Co-operative Credit Union League Limited	JN Fund Managers Limited
18	Jamaica Money Market Brokers Limited	Mayberry Investments Limited
19	JN Fund Managers Limited	MF&G Asset Management Limited
20	Mayberry Investments Limited	NCB Insurance Company Limited
21	MF&G Asset Management Limited	Prime Asset Management Limited
22	NCB Insurance Company Limited	RBTT Securities Limited
23	Nestle Jamaica Limited	Sagikor Life Jamaica Limited
24	Prime Asset Management Limited	Scotia DBG Investments Limited
25	Scotia DBG Investments Limited	Scotia Jamaica Life Insurance Company Limited
26	Scotia Jamaica Life Insurance Company Limited	Limited
27	Veritat Nominees Limited	Veritat Nominees Limited

AUDITOR'S REPORT & FINANCIAL STATEMENTS

2009/2010



KPMG
Chartered Accountants
The Victoria Mutual Building
6 Duke Street
Kingston
Jamaica, W.I.

P.O. Box 76
Kingston
Jamaica, W.I.
Telephone +1 (876) 922-6640
Fax +1 (876) 922-7198
+1 (876) 922-4500
e-Mail firmmail@kpmg.com.jm

INDEPENDENT AUDITORS' REPORT

To the Members of
FINANCIAL SERVICES COMMISSION

Report on the Financial Statements

We have audited the financial statements of Financial Services Commission (Commission) set out on pages 82-102, which comprise the balance sheet as at March 31, 2010 the statements of comprehensive income, changes in reserves and cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and consistently applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether or not the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence relating to the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

KPMG, a Jamaican partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Elizabeth A. Jones
Caryl A. Fenton
E. Terun Hanga
Patrick A. Chin
Patricia O. Dailey-Smith

Leroy J. Marshall
Cynthia L. Lawrence
Rajni Trehan
Norman O. Rainford
Nigel R. Chambers



To the Members of
FINANCIAL SERVICES COMMISSION

Report on the Financial Statements, cont'd

Opinion

In our opinion, proper accounting records have been maintained and the financial statements, which are in agreement therewith, give a true and fair view of the financial position of the Commission as at March 31, 2010, and of its financial performance, changes in reserves and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

A handwritten signature in dark ink, appearing to read 'WNR'.

Chartered Accountants
Kingston, Jamaica

September 23, 2010

FINANCIAL SERVICES COMMISSION


Statement of Financial Position

March 31, 2010

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
CURRENT ASSETS			
Cash and cash equivalents		17,743,434	37,597,721
Resale agreements	3	242,303,271	138,815,810
Accounts receivable and prepayments	4	74,744,439	102,676,434
Taxation recoverable	5	<u>15,003,416</u>	<u>11,958,179</u>
		<u>349,794,560</u>	<u>291,048,144</u>
CURRENT LIABILITIES			
Accounts payable	6	47,424,521	40,601,324
Deferred fees		<u>192,866,415</u>	<u>183,960,436</u>
		<u>240,290,936</u>	<u>224,561,760</u>
NET CURRENT ASSETS		109,503,624	66,486,384
NON-CURRENT ASSETS			
Intangible assets	7	11,247,462	10,748,584
Property, plant & equipment	8	<u>53,099,971</u>	<u>40,975,027</u>
		<u>\$173,851,057</u>	<u>118,209,995</u>
Financed by:			
RESERVES	9	<u>\$173,851,057</u>	<u>118,209,995</u>

The financial statements on pages 82-102 were approved by the Board of Commissioners on September 23, 2010, and signed on its behalf by:


Hon. Emil George O.J. Q.C. Chairman


Rohan Barnett Executive Director

The accompanying notes form an integral part of the financial statements.

FINANCIAL SERVICES COMMISSION

Statement of Comprehensive Income

Year ended March 31,2010

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
INCOME			
Fees		541,072,435	505,608,601
Interest income		<u>22,437,874</u>	<u>12,870,123</u>
		<u>563,510,309</u>	<u>518,478,724</u>
EXPENSES			
Advertising		3,241,714	3,019,701
Appeal Tribunal		473,703	403,749
Audit		1,530,000	1,350,000
Bad debt expense		-	8,937,684
Bank charges		452,399	56,423
Building maintenance		6,090,562	4,721,709*
Commissioners' fees		2,367,738	2,519,376
Depreciation and amortisation		23,796,735	26,297,255
Motor vehicle and parking expenses		7,183,197	7,785,798
Office expenses		18,117,328	15,279,755
Printing and stationery		2,934,390	2,530,121
Professional fees		9,293,633	12,513,264*
Project expenses		12,752,876	19,411,394
Public education		9,879,984	15,959,561
Rent	10(ii)	33,800,000	30,800,000*
Staff costs		385,040,402	362,800,095
Subscriptions		8,914,970	7,602,034
Training and conferences		14,242,174	15,882,520
Utilities		<u>17,679,571</u>	<u>15,547,809</u>
		<u>557,791,376</u>	<u>553,418,248</u>
Surplus/(deficit) for the year		5,718,933	(34,939,524)
OTHER COMPREHENSIVE INCOME			
Grants	10	<u>49,922,129</u>	<u>52,267,651*</u>
Total comprehensive income for the year		<u>\$ 55,641,062</u>	<u>17,328,127</u>

*Reclassified to conform to 2010 presentation.

The accompanying notes form an integral part of the financial statements.

FINANCIAL SERVICES COMMISSION

Statement of Changes in Reserves

Year ended March 31, 2010

	<u>General</u>	<u>Capital Reserve (Note 9)</u>	<u>Total</u>
Balances at March 31, 2008	<u>99,803,304</u>	<u>1,078,564</u>	<u>100,881,868</u>
Total comprehensive income for the year			
Deficit for the year	(34,939,524)	-	(34,939,524)*
Other comprehensive income	<u>52,267,651</u>	<u>-</u>	<u>52,267,651*</u>
Total comprehensive income for the year	<u>17,328,127</u>	<u>-</u>	<u>17,328,127</u>
Balances at March 31, 2009	<u>117,131,431</u>	<u>1,078,564</u>	<u>118,209,995</u>
Total comprehensive income for the year			
Surplus for the year	5,718,933	-	5,718,933
Other comprehensive income	<u>49,922,129</u>	<u>-</u>	<u>49,922,129</u>
Total comprehensive income for the year	<u>55,641,062</u>	<u>-</u>	<u>55,641,062</u>
Balances at March 31, 2010	<u>\$172,772,493</u>	<u>1,078,564</u>	<u>173,851,057</u>

*Reclassified to conform to 2010 presentation.

The accompanying notes form an integral part of the financial statements.

FINANCIAL SERVICES COMMISSION

Statement of Cash Flow

Year ended March 31, 2010

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus/(deficit) for the year	5,718,933	(34,939,524)*
Adjustments for:		
Depreciation and amortisation	23,796,735	26,297,255
Gain on disposal of property, plant & equipment	(60,000)	-
Interest income	(22,437,874)	(12,870,123)
	7,017,794	(21,512,392)
(Increase)/decrease in current assets:		
Resale agreements	(103,487,461)	(48,815,810)
Accounts receivable and prepayments	26,501,694	(16,012,720)
Taxation recoverable	(3,045,237)	1,867,602
Increase in current liabilities:		
Accounts payable	6,823,197	10,535,757
Deferred fees	<u>8,905,979</u>	<u>63,047,991</u>
Net cash used by operating activities	(57,284,034)	(10,889,572)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant & equipment	(35,817,211)	(27,111,470)
Additions to intangible assets	(603,346)	(1,533,975)
Proceeds from disposal of property, plant & equipment	60,000	-
Interest received	<u>23,868,175</u>	<u>11,366,991</u>
Net cash used by investing activities	(12,492,382)	(17,278,454)
CASH FLOWS FROM FINANCING ACTIVITIES		
Grants, being		
net cash provided by financing activities	<u>49,922,129</u>	<u>52,267,651*</u>
Net (decrease)/increase in cash and cash equivalents	(19,854,287)	24,099,625
Cash and cash equivalents at beginning of the year	<u>37,597,721</u>	<u>13,498,096</u>
Cash and cash equivalents at end of the year	\$ <u>17,743,434</u>	<u>37,597,721</u>

*Reclassified to conform to 2010 presentation.

The accompanying notes form an integral part of the financial statements.

1. The Commission

The Financial Services Commission (Commission) is a statutory, not-for-profit organization established under the Financial Services Commission Act, 2001 (Act). It is domiciled in Jamaica and its principal place of business is located at 39 - 43 Barbados Avenue, Kingston 5.

The principal functions of the Commission are as stated in Section 6 (1) of the Act, which states:

For the purpose of protecting customers of financial services, the Commission shall:

- a) supervise and regulate prescribed financial institutions;
- b) promote the adoption of procedures designed to control and manage risk, for use by the management, boards of directors and trustees of such institutions;
- c) promote stability and public confidence in the operations of such institutions;
- d) promote public understanding of the operation of prescribed financial institutions;
- e) promote the modernisation of financial services with a view to the adoption and maintenance of international standards of competence, efficiency and competitiveness.

On August 2, 2001, all assets, rights and liabilities of the Securities Commission in existence on that date were transferred to and vested in the Commission which commenced operations on that day. On the same date the Commission assumed responsibility for Unit Trusts under the Unit Trusts (Amendment) Act, 2001. With the passing of the Insurance Act 2001, the Commission also assumed regulatory responsibility for the insurance industry, on the appointed day (December 21, 2001).

During the previous years, the Government of Jamaica (GOJ) through its agencies, the Superintendent of Insurance and the Financial Sector Adjustment Company, donated certain property, plant and equipment to the Commission. These assets were brought in at valuation which was subsequently deemed to be cost on first-time adoption of IFRS in year ended March 31, 2004.

At March 31, 2010 the Commission had in its employment 116 (2009:116) employees, out of a Board approved establishment of 120 (2009:129) employees.

2. Statement of compliance, basis of preparation and accounting policies

- (a) Statement of compliance:

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), and their interpretations, issued by the International Accounting Standards Board.

New standards and interpretations effective during the year

The following relevant new standards, amendments to standards and interpretations become effective during the year as follows:

2. Statement of compliance, basis of preparation and accounting policies (cont'd)**(e) Property, plant & equipment and intangible assets:****(i) Owned assets:**

Items of property, plant & equipment and intangible assets are stated at cost, less accumulated depreciation and impairment losses [note 2(n)].

Intangible assets include computer software and security system software.

(ii) Subsequent costs:

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the entity and its cost can be measured reliably. The cost of the day-to-day servicing of property, plant and equipment are recognised in the comprehensive income statement.

(f) Depreciation and amortisation:

Property, plant & equipment and intangible assets are depreciated/amortised on the straight-line basis at annual rates to write down the assets to their estimated residual values over their expected useful lives. The depreciation rates are as follows:

Motor vehicles	20%
Office furniture and equipment	10% & 25%
Computer equipment and software	25%

The depreciation methods, useful lives and residual values are reassessed at each reporting date.

(g) Capital expenditure:

Amounts utilized from government grants for the purchase of property, plant & equipment, including donated assets and advances to secure future purchases, are transferred to capital reserve. An amount equivalent to the annual depreciation charge on the relevant property, plant & equipment is transferred from capital reserve to the general fund.

(h) Cash and cash equivalents:

Cash and cash equivalents comprise cash and bank balances.

(i) Resale agreements:

Resale agreements (reverse repo) are short-term transactions whereby the Commission buys securities and simultaneously agrees to resell the securities on a specified date and at a specified price. Title to the security is not actually transferred, unless the counterparty fails to comply with the terms of the contract.

2. Statement of compliance, basis of preparation and accounting policies (cont'd)**(c) Use of estimates and judgments:**

The preparation of the financial statements to conform to IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, contingent assets and contingent liabilities at the balance sheet date and the income and expenses for the year then ended. Actual amounts could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Management has exercised judgement in the application of IFRS that has significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are discussed below:

(i) Allowance for impairment losses on receivables:

In determining amounts recorded for impairment losses in the financial statements, management makes judgement regarding indicators of impairment, that is, whether there are indicators that suggest that there may be a measurable decrease in the estimated future cash flows from receivables, for example, default and adverse economic conditions. Management also makes estimates of the likely estimated future cash flows from impaired receivables as well as the timing of such cash flows. Historical loss experience is applied where indicators of impairment are not observable on individual significant receivables with similar characteristics, such as credit risks.

(ii) Contingencies:

In the ordinary course of operations, the Commission may encounter suits and/or counter-suits in the performance of its functions. Such actions may, or may not, result in liability to the Commission and management assesses the potential for liability in conjunction with legal counsel and provision is made accordingly.

It is reasonably probable, based on existing knowledge, that outcomes within the next financial year that are different from these assumptions could require a material adjustment to the carrying amount reflected in the financial statements.

(d) Grants:

Monetary grants are accounted for on the cash basis. Grants in kind are accounted for when the services or assets are received by the Commission.

2. Statement of compliance, basis of preparation and accounting policies (cont'd)**(e) Property, plant & equipment and intangible assets:****(i) Owned assets:**

Items of property, plant & equipment and intangible assets are stated at cost, less accumulated depreciation and impairment losses [note 2(n)].

Intangible assets include computer software and security system software.

(ii) Subsequent costs:

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the entity and its cost can be measured reliably. The cost of the day-to-day servicing of property, plant and equipment are recognised in the comprehensive income statement.

(f) Depreciation and amortisation:

Property, plant & equipment and intangible assets are depreciated/amortised on the straight-line basis at annual rates to write down the assets to their estimated residual values over their expected useful lives. The depreciation rates are as follows:

Motor vehicles	20%
Office furniture and equipment	10% & 25%
Computer equipment and software	25%

The depreciation methods, useful lives and residual values are reassessed at each reporting date.

(g) Capital expenditure:

Amounts utilized from government grants for the purchase of property, plant & equipment, including donated assets and advances to secure future purchases, are transferred to capital reserve. An amount equivalent to the annual depreciation charge on the relevant property, plant & equipment is transferred from capital reserve to the general fund.

(h) Cash and cash equivalents:

Cash and cash equivalents comprise cash and bank balances.

(i) Resale agreements:

Resale agreements (reverse repo) are short-term transactions whereby the Commission buys securities and simultaneously agrees to resell the securities on a specified date and at a specified price. Title to the security is not actually transferred, unless the counterparty fails to comply with the terms of the contract

2. Statement of compliance, basis of preparation and accounting policies (cont'd)**(i) Resale agreements (cont'd):**

Reverse repos are accounted for as short-term collateralised lending. Reverse repos are classified as originated loans and receivables and measured at amortised cost.

The difference between the sale and repurchase considerations is recognised on the accrual basis over the period of the transaction and is included in interest income.

(j) Accounts receivable:

Accounts receivable are stated at their cost, less impairment losses.

(k) Accounts payable:

Accounts payable are stated at amortised cost.

(l) Provisions:

A provision is recognised in the balance sheet when the Commission has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(m) Fees:**i. Securities**

Application fees for registration as dealers, dealers' representatives, responsible officers, investment advisers and mutual funds, which are payable on application along with fees from commercial paper, are taken to income on receipt. Annual license fees from dealers, dealers' representatives, responsible officers, investment advisers and mutual funds are deferred and recognized as income in the period to which they relate. Fees from traders on the stock exchange are recognized as income in the year to which they relate.

2. Statement of compliance, basis of preparation and accounting policies (cont'd)**(m) Fees (cont'd):****i. Securities (cont'd)**

In accordance with the Securities (Licensing and Registration) (Amendment) Regulations 2008 which came into effect on October 1, 2008, fees are calculated using “the greater of:

- (i) \$500,000; or
- (ii) The aggregate of
 - 5 basis points on the 1st \$5 billion of total assets; and
 - 1.5 basis points on the next \$25 billion of total assets; and
 - 75/100 basis points on total assets over \$30 billion.”

For the purpose of the fee calculation, items (i) or (ii) “assets” is taken to mean:

- (a) the “aggregate total of a dealer’s balance sheet assets as at the 31st December of the year immediately prior to the anniversary of the grant of the licence taken without the netting of its liabilities plus the aggregate value, at that date, of securities or other investment instruments held or managed on behalf of clients whether on a discretionary or non discretionary basis; or
- (b) in the case of a unit trust and overseas mutual funds, the net value of securities sold by or through the dealer during the year ending on the 31st December immediately prior to the anniversary of the grant of its licence”.

ii. Insurance

Fees for new registrations for insurance companies, agents, brokers, sales representatives and other insurance intermediaries are taken to income on receipt. Renewal fees from insurance companies are recognized as income in the year to which they relate.

Previously, in accordance with the amended 20th schedule, which came into effect on October 1, 2003, renewal fees for Intermediaries were the greater of the fee indicated on the amended 20th schedule or 0.5% of earned commissions. Fees for General & Life Insurance companies were based on assets as outlined in the amended 20th schedule.

Renewal Fees – Insurance Companies**(1) Jamaican and CARICOM Life/Sickness & Health Insurance Companies**

A fee of \$1 million, or the sum of:
First \$5 billion of total assets at 0.14%;
Second \$5 billion of total assets at 0.07%; and
Total assets in excess of \$10 billion at 0.04%, whichever is greater.

2. Statement of compliance, basis of preparation and accounting policies (cont'd)**(m) Fees (cont'd):****ii. Insurance (cont'd)****Renewal Fees – Insurance Companies (cont'd)****(2) Jamaican and CARICOM General Insurance Companies**

In accordance with the amended 20th schedule which came into effect on November 1, 2008, the new fee structure for Jamaican and CARICOM General Insurance Companies are the aggregate of a fixed amount of \$4.7 million and an amount equivalent to 0.20% of total assets.

(3) Foreign Companies – Life/Sickness & Health and General Insurers

The fee will be charged on the above bases at (1) and (2), as amended, but on assets relating to liabilities in Jamaica only.

For the purpose of the fee computation, “Total Assets” are as shown in the annual statements as at December 31, of the previous year.

iii. Pension

The licensing fee payable by Investment Managers and Administrators is one tenth of one percent of the total assets under management as at December 31 of the previous year.

For the purpose of the fee computation, “total assets” are as shown in the annual statements as at December 31, immediately prior to the renewal date.

(n) Impairment:

The carrying amounts of the Commission’s assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset’s recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the comprehensive income statement.

2. Statement of compliance, basis of preparation and accounting policies (cont'd)**(n) Impairment (cont'd):****(i) Calculation of recoverable amounts:**

The recoverable amount of the Commission's receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment:

An impairment loss in respect of receivables is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. For all other assets, an impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, if no impairment loss had been recognised.

(o) Foreign currencies:

Foreign currency balances outstanding at the balance sheet date are translated at the rates of exchange ruling on that date. Transactions in foreign currencies are converted at the rates of exchange ruling at the dates of those transactions. Gains and losses arising from fluctuations in exchange rates are included in the comprehensive income statement.

(p) Financial instruments:

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. For the purpose of the financial statements, financial assets have been determined to include cash and cash equivalents, resale agreements, accounts receivable and prepayments. Similarly, financial liabilities include accounts payable and deferred fees.

2. Statement of compliance, basis of preparation and accounting policies (cont'd)**(q) Related parties:**

A party is related to an entity if:

- (i) directly or indirectly, the party:
 - controls, is controlled by, or is under common control with the entity;
 - has an interest in the entity that gives it significant influence over the entity; or
 - has joint control over the entity.
- (ii) the party is an associate of the entity;
- (iii) the party is a joint venture in which the entity is a venturer;
- (iv) the party is a member of the key management personnel of the entity. Such personnel are persons having authority and responsibilities for planning, directing and controlling the activities of the entity whether directly or indirectly and whether through an executive or non-executive role;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged. The Commission has a related party relationship with the Government of Jamaica and its agencies, Commissioners and other key management personnel.

(r) Determination of fair value:

Fair value amounts represent estimates of the arm's length consideration that would be currently agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. Where quoted market prices are not available, the fair values of financial instruments have been determined, where practicable, using a generally accepted alternative method.

However, considerable judgment is required in interpreting market data to develop estimates of fair value and even greater judgment where there is no public or over-the-counter market. Accordingly, the estimates presented below are not necessarily indicative of the amounts that the company would receive on realisation of its financial assets or would pay to settle its financial liabilities in a current market exchange.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements (Continued)

March 31, 2010

3. Resale agreements

Resale agreements represent purchases of Government of Jamaica Local Registered Stocks by the Commission from a broker under agreement to resell them on specified dates (within a year), at specified amounts.

The interest rates on resale agreements were 9 %and 9.5% (2009: 17.25% and 12%) as at the year-end. The market value of the underlying securities as at March 31, 2010 was approximately \$251,429,173 (2009: J\$139,800,000).

The Commission's exposure to credit and currency risks relating to resale agreements are disclosed in note 14.

4. Accounts receivable

	<u>2010</u>	<u>2009</u>
Trade receivables, net [note 14(b)(i)]	68,484,341	96,071,300
Prepayments and deposits	5,574,415	4,395,842
Other receivables	108,978	202,286
Interest receivable	<u>576,705</u>	<u>2,007,006</u>
	<u>\$74,744,439</u>	<u>102,676,434</u>

Trade receivables are shown net of an allowance for impairment losses of \$Nil (2009: \$4,121,000).

The Commission's exposure to credit and currency risks and impairment losses relating to trade and other receivables are disclosed in note 14.

5. Taxation recoverable

Taxation recoverable represents tax withheld by financial institutions on interest income earned on balances held with those institutions. Taxation recoverable is shown net of a provision for impairment loss of \$Nil (2009: \$4,816,684).

6. Accounts payable

	<u>2010</u>	<u>2009</u>
Trade and other payables	19,020,444	16,248,442
Employee benefits –accrued vacation and gratuities	<u>28,404,077</u>	<u>24,352,882</u>
	<u>\$47,424,521</u>	<u>40,601,324</u>

The Commission's exposure to liquidity and currency risks relating to trade and other payables are disclosed in note 14.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements (Continued)

March 31, 2010

7. Intangible assets

These represent software cost capitalized as follows:

	<u>2010</u>	<u>2009</u>
Cost:		
At beginning of year	33,224,010	31,690,035
Additions	<u>603,346</u>	<u>1,533,975</u>
At end of year	<u>33,827,356</u>	<u>33,224,010</u>
Amortisation:		
At beginning of year	22,475,426	16,416,366
Charge for the year	<u>104,468</u>	<u>6,059,060</u>
At end of year	<u>22,579,894</u>	<u>22,475,426</u>
Net book value	<u>\$11,247,462</u>	<u>10,748,584</u>

8. Property, plant & equipment

	<u>Motor vehicles</u>	<u>Office furniture, equipment and leasehold improvements</u>	<u>Computer equipment</u>	<u>Total</u>
At cost:				
March 31, 2008	5,291,781	52,151,560	37,593,633	95,036,974
Additions	<u>291,846</u>	<u>21,973,560</u>	<u>4,846,064</u>	<u>27,111,470</u>
March 31, 2009	5,583,627	74,125,120	42,439,697	122,148,444
Additions	-	25,767,422	10,049,789	35,817,211
Disposals	<u>(173,043)</u>	<u>-</u>	<u>-</u>	<u>(173,043)</u>
March 31, 2010	<u>5,410,584</u>	<u>99,892,542</u>	<u>52,489,486</u>	<u>157,793,612</u>
Depreciation:				
March 31, 2008	2,062,246	23,316,221	35,556,755	60,935,222
Charge for year	<u>1,040,379</u>	<u>13,782,375</u>	<u>5,415,441</u>	<u>20,238,195</u>
March 31, 2009	3,102,625	37,098,596	40,972,196	81,173,417
Charge for year	753,317	15,802,408	7,136,542	23,692,267
Eliminated on disposals	<u>(173,043)</u>	<u>-</u>	<u>-</u>	<u>(173,043)</u>
March 31, 2010	<u>3,682,899</u>	<u>52,901,004</u>	<u>48,108,738</u>	<u>104,692,641</u>
Net book values:				
March 31, 2010	<u>\$1,727,685</u>	<u>46,991,538</u>	<u>4,380,748</u>	<u>53,099,971</u>
March 31, 2009	<u>\$2,481,002</u>	<u>37,026,524</u>	<u>1,467,501</u>	<u>40,975,027</u>
March 31, 2008	<u>\$3,229,535</u>	<u>28,835,339</u>	<u>2,036,878</u>	<u>34,101,752</u>

Office furniture and equipment and computer equipment donated by the Government of Jamaica (see note 1) were valued as at February 25, 2002 at a fair market valuation of \$3,205,766 and \$593,000, respectively, by Delano Reid & Associates Limited, Management Consultants, Engineers and Appraisers.

9. Capital reserve

Capital reserve represents property, plant and equipment, valued at \$1,078,564, taken over from the Securities Commission at the commencement of operations (note 1). These assets were donated by the United States Agency for International Development through the Ministry of Finance for use by the Commission.

10. Grants

	<u>2010</u>	<u>2009</u>
GOJ revenue grants (i)		19,411,394
GOJ grant (ii)	<u>33,800,000</u>	<u>30,800,000</u>
	33,800,000	50,211,394
Other grants – IADB (iii)	16,122,129	-
- CARTAC (iv)	<u>-</u>	<u>2,056,257</u>
	<u>\$49,922,129</u>	<u>\$2,267,651</u>

(i) The Commission is a beneficiary of the Caribbean Development Bank (CDB)/GOJ loan agreement through the Ministry of Finance and Planning. The grants represent project expenses such as professional fees and training expenses paid by the CDB amounting to \$Nil (2009: \$19,411,394) and \$Nil (2009: \$Nil), respectively.

(ii) The Commission occupies a building owned by the Government of Jamaica (through the Ministry of Lands and Environment) at a nominal "pepper corn" rent, without a lease agreement.

This Government grant represents the commercial value of the annual rental which management estimates at \$33,800,000 (2009: \$30,800,000) [see note 15(c)].

(iii) The Commission is a beneficiary of the Inter-American Development Bank (IADB)/GOJ funding agreement through the Ministry of Finance and Planning. Funds received during the year were used to finance professional fees and training expenses aggregating \$12,752,876 (2009: \$Nil) to cover institutional strengthening of the Commission.

(iv) CARTAC is a regional resource centre, based in Barbados, which provides technical assistance and training in core areas of economic and financial management at the request of its participating countries. The Caricom Council of Ministers of Finance and Planning took the decision to establish the centre in September 1999 and the centre became operational in November 2001.

11. Taxation

Under Section 14 of the Financial Services Commission Act, 2001, the Commission is not subject to income tax.

12. Pension scheme

Effective June 1, 1996, the Securities Commission commenced operations of a contributory pension scheme for employees who are eligible in accordance with the rules of the Plan. On August 2, 2001, the Commission assumed responsibility for the Plan (see note 1). The Pension Plan portfolio was transferred from Sagicor Life to Prime Asset Management Limited as at November 30, 2009.

The scheme is a defined-contribution plan which is set up under trust and is administered by a life insurance company.

Contributions by the Commission for the year amounted to \$9,348,878 (2009: \$9,327,284).

The scheme is subject to periodic actuarial reviews at intervals of not more than three years. The last actuarial review at May 31, 2008, disclosed Total Assets of \$90.8 million and past service liabilities of \$79.9 million resulting in a surplus of \$10.9 million. The next valuation should be done no later than May 31, 2011.

13. Insurance Licence Deposit

In accordance with Section 21 of the Insurance Act 2001, insurance companies, which operate in Jamaica, are required to deposit a prescribed amount with the Commission.

As stated in Regulation 8 (1) of the Insurance Regulations, 2001, the minimum asset required to be deposited with the Commission by a registered insurer from commencement of operations in or from within Jamaica shall be:

- (a) in respect of an entity which proposes to carry on life or sickness and health insurance business, or both, ninety million dollars (\$90,000,000);
- (b) in respect of an entity which proposes to carry on general insurance business, forty-five million dollars (\$45,000,000).

Regulation 9 (1) states that the value of securities deposited shall be estimated at their market value, not exceeding par, at the time they are deposited.

In February 2010, the Government of Jamaica introduced the Jamaica Debt Exchange (JDX), as a result of which the Commission had to return all securities to the Insurance Companies for them to participate in this exercise. The Insurance companies do not currently receive physical securities from the Bank of Jamaica but, instead, the information is received electronically. Hence, as at March 31, 2010, the Commission did not have any security deposits in its possession. In a letter, dated August 5, 2010, from the Bank of Jamaica, the Commission was advised as follows:

1. Arrangements are being made for the interest of the Commission to be recorded in a JamClear-CSD account at the Bank of Jamaica (BOJ). Insurance companies will be allowed to retain ownership of the securities, with the JamClear-CSD account reflecting the Commission's interest in the said securities.

13. Insurance Licence Deposit (contd)

2. This will be accomplished through the use of the JamClear-CSD pledge functionality, for registration of an interest in the instruments. This approach will provide the necessary assurances to the Commission that licensees are continuously in compliance with the regulatory requirements, while highlighting any default risks that may emerge through the reporting options available.

In order to facilitate this process, the insurance company must either be a JamClear-CSD Participant or a client of a JamClear-CSD Participant. In addition, the Commission must be a client of the Bank of Jamaica to allow for the security interest to be reflected in the Commission's JamClear-CSD account held in the BOJ. As at March 31, 2010, securities so air marked amounted to \$1,376 million and the securities remaining in the possession of the Commission amounted to \$210.9 million (2009: \$1,379 million)

14. Financial instruments**(a) Fair values:**

The fair values of cash and cash equivalents, resale agreements, accounts receivable and prepayment, and accounts payable are assumed to approximate their carrying value due to their short-term nature.

(b) Financial risk management:

Exposure to various types of financial instrument risks arises in the ordinary course of the Commission's business. The Board of Commissioners has overall responsibility for the establishment and oversight of the Commission's risk management framework. Key management has responsibility for monitoring the Commission's risk management policies.

Exposure to credit risk, liquidity risk and market risk arises in the ordinary course of the Commission's business. No derivative instruments are presently used to manage, mitigate or eliminate exposure to financial instrument risks.

(i) Credit risk:

Credit risk is the risk that one or both parties to the financial instruments will fail to discharge an obligation resulting in financial loss to one or both parties.

The Commission maintains cash and short-term investments with one reputable financial institution and investments are made in repurchase agreements involving Government of Jamaica securities.

At the balance sheet date, credit risk is concentrated in cash and cash equivalents, resale agreements and accounts receivable and the maximum exposure to credit risk is represented by the carrying amount of the financial assets as follows:

14. Financial instruments (cont'd)

(b) Financial risk management (cont'd):

(i) Credit risk (cont'd):

	<u>Carrying amount</u>	
	<u>2010</u>	<u>2009</u>
	\$	\$
Cash and cash equivalents	17,743,434	37,597,721
Resale agreements	242,303,271	138,815,810
Accounts receivable (see note 4)	<u>74,744,439</u>	<u>102,676,434</u>
	<u>\$334,791,144</u>	<u>279,089,965</u>

The Commission generally does not require collateral in respect of trade receivables. Trade receivables relate mainly to the amounts due from customers. Management does not have a formal credit policy in place as the customer has been determined by entities that are registered under the relevant legislation administered by the Commission

The aging of trade receivables at balance sheet date was:

	<u>2010</u>	<u>2009</u>
	\$	\$
Past due 0-30 days	65,416,369	66,773,852
Past due 30-60 days	350,000	1,601,400
Past due 60-90 days	2,717,971	375,400
Past due over 90 days	<u>-</u>	<u>31,441,648</u>
	68,484,341	100,192,300
Allowance for impairment losses	<u>-</u>	<u>(4,121,000)</u>
Trade receivables, net (note 4)	<u>\$68,484,341</u>	<u>96,071,300</u>

(ii) Liquidity risk:

Liquidity risk also referred to as funding risk, is the risk that the Commission will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at, or close to, its fair value. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities. The Commission manages this risk by maintaining a substantial portion of its financial assets in liquid form and is not authorised to borrow.

14. Financial instruments (cont'd)

(b) Financial risk management (cont'd):

(iii) Market risk:

Market risk is the risk that changes in market prices, such as interest rate, foreign exchange rates and equity prices will affect the value of the Commission's assets, the amounts of its liabilities and/or the Commission's income. At the balance sheet date, the Commission did not have any significant exposure to foreign currency risk or equity price risk.

- Interest rate risk:

Interest rate is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Commission invests mainly in fixed interest rate bearing instruments and does not have any borrowings (See note 3).

Fair value sensitivity analysis for fixed rate instruments

The Commission does not account for any fixed rate financial assets at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

- Foreign currency risk:

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Commission incurs foreign currency risk primarily on amounts held in United States dollars (US\$). At March 31, 2010, foreign currency assets amounted to US\$47,656.49 (2009: US\$132,372).

The exchange rate for US\$1, in terms of Jamaica dollars, at balance sheet date, was \$89.51 (2009: \$87.95).

The exchange rate at September 23, 2010 is \$86.05.

(c) Capital management:

The Commission is not subject to any externally imposed capital requirements.

The Commissioners and management monitor the return on capital, which is defined as reserves. The Commission's policy is to maintain adequate capital to sustain future development of the entity.

15. Contingent liabilities

As at March 31, 2010, the Commission is contingently liable in respect of the following:

- (a) There are various outstanding lawsuits filed against the Commission. One such suit is a claim for damages aggregating approximately \$445million (US\$5 million) and another for \$8 million [2009: \$440 million (US\$5 million) and \$8 million]. Subject to the immunity conferred by the Act, these suits may have financial implications for the Commission in the event the applications are successful.
- (b) There is an outstanding claim regarding the Commission's collection of Investment Managers license fees for funds and schemes which commenced their winding-up prior to September 29, 2006. The Commission is taking steps to resolve the matter, however, the amounts involved have not been quantified.
- (c) The terms of occupancy of the building currently occupied by the Commission [note 10(n)] are under negotiations which may affect past years.

The eventual outcome of these matters cannot be determined at this time and no provision has been made in the financial statements in these regards.

16. Capital commitment

At balance sheet date, the Commission is committed to capital expenditure of approximately \$57,400,000 (2009: \$71,400,000).

17. Key Management Personnel

The Commission has a related party relationship with its Commissioners. Key Management personnel comprise the Commissioners and Senior Managers of the Commission.

- (a) Transactions with related parties during the year in the ordinary course of business are as follows:

	<u>2010</u> \$	<u>2009</u> \$
Key Management Personnel compensation		
Commissioners	2,367,738	2,519,376
Salaries	66,838,885	57,053,153
Gratuity	15,835,411	11,075,355
Pension Contributions	<u>101,779</u>	<u>164,305</u>